Confidential

TREND AND PROGRESS OF BANKING IN INDIA

1967

TREND AND PROGRESS OF BANKING IN INDIA

Report of the Reserve Bank of India for the year 1967. Submitted to the Central Government in terms of Section 36 (2) of the Banking Regulation Act, 1949.

1967

CONTENTS

CHAPTER I

Credit Policy and Banking Trends

CHAPTER II

Banking legislation and Organisation

Page

APPENDIX II

CHAPTER I

CREDIT POLICY AND BANKING TRENDS

The Indian Economy in 1967

The strains to which the Indian economy was subjected during 1966 continued during the greater part of 1967; however, the latter part of the year held out promise of a transition towards economic revival mainly due to an improvement in agricultural performance and prospects and the consequent easing of the acute pressure on prices.

2. Agricultural production, which had suffered a sharp decline in 1965-66 (crop year ending June 1966), failed to show any perceptible improvement in 1966-67; the output of foodgrains at 75 million tonnes showed only a nominal rise of 3 million tonnes over 1965-66 and was far short of the level of 89 million tonnes attained in 1964-65. Despite the import of about 9 million tonnes during the calendar year 1967, the availability of foodgrains fell short of requirements leaving scarcity conditions practically unabated. The shortfall in agricultural output affected not merely the availability of foodgrains but also cash crops, such as raw cotton, oilseeds, sugarcane, etc. providing industrial raw materials. The impact of a continued low level of agricultural output was felt by a wide range of agriculture-based industries which in part accounted for a slowing down of industrial production. The adverse developments in commodity production also reduced the demand for transport services resulting in a slackening of production in transport-oriented industries. Apart from the direct incidence of agricultural outturn on the pace of industrial activity, the pruning of plan outlays in the public sector and sagging private investment in the face of the continued depressed conditions in the capital market, reduced the demand for many types of capital goods and engineering industries. Some industries, notably in the metallurgical and engineering sectors, were faced with the problem of growing inventories owing to a decline in demand for their products, while the restricted availability of imported raw materials and components affected output in some of the engineering and chemical industries. Altogether there was a further deceleration in the rate of industrial growth noticed since 1965, industrial production recording a rise of only 1.3 per cent in 1967 as compared with 2.6 per cent and 5.6 per cent in 1966 and 1965, respectively.

3. The continuing strains arising from the low agricultural output and slowing down of industrial production were reflected in the pressure on prices. The wholesale price index (*base* : 1952-53=100) recorded a rise of 13 per cent in the first nine months of the year, which compared with a rise of 11 per cent in the corresponding period of the previous year. The rise in the general price level was virtually the result of an increase in the prices of agricultural commodities, particularly of foodgrains; on the other hand, prices of manufactured articles were relatively stable. The disquieting nature of the price situation stemmed from the fact that the rise occurred against the background of an almost continuous increase in prices since 1965 which pushed up the general price level at an annual average rate of about 11-12 per cent in the preceding two years and by about 18 per cent in the fifteen months following the devaluation of the rupee in June 1966.

4. The situation on external payments, too, remained difficult during the year. The continuing trend of sharply rising prices over the greater part of the period associated with yet another round of abnormally low agricultural production hampered export efforts by weakening the competitiveness of primary products and manufactures dependent on agricultural raw materials. Besides, despite the emergence of slackness in domestic demand and the existence of idle capacity in certain sectors, particularly engineering and chemicals, advantage could not be taken of export opportunities owing to the inevitable delays in the exploration of potential foreign markets and the adaptation of products and qualities to match their requirements. The normalisa-

tion of trade relations after the transitional difficulties caused by the devaluation of the rupee and the follow-up efforts made by the Government and industry did impart a favourable turn to exports in the latter part of the year. However, the improvement in export earnings was far from adequate to cover payments for essential imports and the growing burden of debt service obligations so that the balance of payments continued to be under pressure. Towards the end of 1967 a drawing of $ 90 million was made from the I.M.F. under the compensatory financing scheme.

5. During the third quarter of 1967, some measures of credit liberalisation were undertaken to promote exports and higher capacity production for the domestic market. The monsoon turned out to be favourable after two consecutive years of drought. Foodgrains production for the agricultural year ending June 1968 has been estimated at 95 million tonnes or 27 per cent higher than in 1966-67. National income at constant prices is estimated to have risen by nearly 11 per cent in 1967-68 (April-March) as against a meagre rise of less than 2 per cent in 1966-67 and a fall of about 5 per cent in 1965-66. Reflecting the improvement in supply conditions, the uptrend in prices was reversed, the index of wholesale prices registering a decline of 6 per cent in the last quarter of 1967. In the context of the favourable agricultural situation, the objective of Government policy was to build buffer stocks designed to regulate food prices for the consumers, but at the same time maintaining incentives to the farmers. Consistent with this objective, procurement prices were increased somewhat in 1967-68.

6. In the industrial sector, although the slackness in production generally persisted till the end of 1967, in the last quarter there appeared signs of revival in several industries. The improvement in supplies of raw materials such as raw cotton, raw jute and oilseeds helped to stimulate output in many agriculture-based industries. Some of the capital goods and engineering industries which were earlier affected by recession (e. g. machinery manufactures, transport equipment, iron and steel and basic metal industries) seemed to show a better performance. With the prospects of an improvement in agricultural incomes, several consumer goods industries also were poised for a rising level of activity. On the whole, there appeared to be, towards the close of the year, a favourable setting for a steady revival of industrial activity in the coming year. Governmental efforts in this context have largely been directed towards facilitating a smooth and speedy transition to recovery through a policy of providing appropriate reliefs and incentives, while maintaining restraint on aggregate demand.

Monetary and Credit Situation in 1967

7. The monetary and credit situation in 1967 reflected, by and large, the underlying trends in the Indian economy during the year. As a result of monetary expansion being in excess of the real growth rate, considerable degree of liquidity had been built up in the economy, particularly in the last two years. The rate of overall expansion of monetary resources (money supply with the public plus quasi-money) had proceeded at an annual rate of about 10-11 per cent during the period 1965-67 (April-March). This had occurred in the face of a continued stagnancy in agricultural production and slowing down of industrial growth with the result that there was a persistent pressure on prices leading in turn to further monetary expansion. During the year 1967 also, overall monetary resources as well as money supply showed an increase of the order of 9 per cent. The significance of net bank credit to private sector in contributing to the expansion in money supply during 1967 was considerably larger than in 1966. Net bank credit to the private sector rose during 1967 by Rs. 215 crores or 22.0 per cent against the comparable figures of Rs. 93 crores or 10.5 per cent in 1966, whereas net bank credit to Government increased by only Rs. 249 crores or 6 per cent as against Rs. 304 crores or 8.2 per cent.

8. In this context, while the continued need for keeping overall monetary expansion broadly within the limits set by the rise in real output was constantly kept in view, credit policy was increasingly oriented towards helping revival of industrial production, particularly those industries facing recessionary conditions, and for stimulating the flow of credit to priority sectors. Towards the close of the year, the prospective increase in agricul-

tural production for 1967-68 and the favourable setting thus provided for a revival of industrial growth necessitated the action of adapting credit policy to meet the larger needs both of production and of exports. The changes in credit policy and in banking trends during the year are reviewed in greater detail in the following paragraphs.

The 1966-67 Busy Season

9. During the 1966-67 busy season, the increase in bank credit was much larger at Rs. 425 crores or 20 per cent as compared with Rs. 309 crores or 15 per cent in the 1965-66 busy season (Table 1). The larger expansion in credit in the 1966-67 busy season was accounted for by advances against non-seasonal securities which rose by Rs. 260 crores as compared with Rs. 53 crores in the 1965-66 busy season. The expansion in seasonal advances was much smaller—Rs. 171 crores as against Rs. 217 crores in the previous busy season(Table 4). Advances against sugar among seasonal commodities showed a considerably smaller rise (Rs. 25 crores as against Rs. 79 crores in 1965-66) reflecting the substantial fall in sugar production. Advances against foodgrains also showed a considerably smaller increase (Rs. 3.4 crores as against Rs. 35.6 crores). Advances against other seasonal commodities, namely, oilseeds, vegetable oils, gur, cotton and kapas and raw jute showed a larger expansion than in the previous busy season. In the case of raw cotton, in particular, the expansion was markedly higher reflecting to some extent the sharp rise in prices and larger imports. Of advances against non-seasonal securities, those against manufactures and minerals recorded an increase of Rs. 129 crores in contrast to a decline of Rs. 11 crores in the preceding busy season. Engineering and metal products, chemicals and cotton textiles mainly accounted for the change. Unsecured advances, after rising from Rs. 345 crores in October 1966 to Rs. 375 crores in January 1967 declined to Rs. 337 crores in April 1967 showing a net decline of Rs. 8 crores as against the rise of Rs. 41 crores during the previous busy season.

TABLE 1.—SEASONAL VARIATIONS IN SCHEDULED COMMERCIAL BANKS' DATA

(Rs. Crores)

	Busy Season		Slack Season		Last Friday of	
	1965-66	1966-67	1966	1967	December 1966 over October 1966	December 1967 over October 1967
	1	2	3	4	5	6
1. Aggregate Deposits	+216·5	+165·7	+266·2	+194·3	+ 81·1	+105·8
(i) Demand	+122·9	+108·0	+ 85·3	+ 65·2	+ 54·7	+ 80·1
(ii) Time	+ 93·6	+ 57·7	+180·9	+129·1	+ 26·4	+ 25·7
2. Borrowings from the Reserve Bank of India	+ 28·4	+ 40·7	— 29·7	— 36·0	+ 5·4	+ 0·8
3. Cash in Hand and Balances with the Reserve Bank of India	+ 5·7	+ 13·1	+ 9·9	+ 22·8	+ 50·2	+ 41·9
4. Investments in Government Securities	— 27·0	—198·9	+298·3	+217·7	—175·7	—140·6
5. Money at Call and Short Notice	— 9·8	— 32·5	+ 7·2	+ 29·6	— 8·2	— 5·6
6. Total Bank Credit	+309·2	+424·7	— 85·7	—100·5	+189·6	+158·5

Note : Data are based on monthly returns submitted by banks on Form XII (Form XIII upto June 1965) except in respect of borrowings from the Reserve Bank of India which are based on weekly returns submitted by banks.

TABLE 2.—SEASONAL PATTERN OF PRINCIPAL RATIOS OF SCHEDULED COMMERCIAL BANKS

(Rs. Crores)

	April 29, 1966		Oct. 28, 1966		April 28, 1967		Oct. 27, 1967		Dec. 30, 1966		Dec. 29, 1967	
	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*
1. Aggregate Deposits	3031·1	*100·0*	3297·3	*100·0*	3463·0	*100·0*	3657·3	*100·0*	3378·4	*100·0*	3763·1	*100·0*
(i) Demand ..	1442·6	*47·6*	1527·9	*46·3*	1635·9	*47·2*	1701·1	*46·5*	1582·6	*46·8*	1781·2	*47·3*
(ii) Time ..	1588·5	*52·4*	1769·4	*53·7*	1827·1	*52·8*	1956·2	*53·5*	1795·8	*53·2*	1981·9	*52·7*
2. Borrowings from the Reserve Bank of India	31·8	—	2·1	—	42·8	—	6·8	—	7·5	—	7·6	—
3. Cash in Hand and Balances with the Reserve Bank of India	188·9	*6·2*	198·8	*6·0*	211·9	*6·1*	234·7	*6·4*	249·0	*7·4*	276·6	*7·4*
4. Investments in Government Securities	829·4	*27·4*	1127·7	*34·2*	928·8	*26·8*	1146·5	*31·3*	952·0	*28·2*	1005·9	*26·7*
5. Money at Call and Short Notice ..	64·9	*2·1*	72·1	*2·2*	39·6	*1·1*	69·2	*1·9*	63·9	*1·9*	63·6	*1·7*
6. Total Bank Credit	2330·3	*76·9*	2244·6	*68·1*	2669·3	*77·1*	2568·8	*70·2*	2434·2	*72·1*	2727·3	*72·5*

Note :—(1) Figures are based on Form XII of the Banking Regulation Act, 1949. (2) The percentages are ratios to aggregate deposits.

TABLE 3.—PEAK LEVELS OF SCHEDULED COMMERCIAL BANKS' BORROWINGS FROM THE RESERVE BANK

(Rs. Crores)

Date	Amounts borrowed at various rates of interest							Total Borrowings Outstanding	Weighted Average Rate of Interest (Per cent)
	4%	4·5%	5%	6%	6·5%	7%	Over 7%		
	1	2	3	4	5	6	7	8	9
March 17, 1962 (1961-62 Busy Season) ..	23·34	—	14·43	29·92	—	—	—	67·69	5·10
March 8, 1963 (1962-63 Busy Season) ..	—	26·05	—	11·98	45·37	—	—	83·40	5·80
March 6, 1964 (1963-64 Busy Season) ..	—	59·86	—	47·08	—	—	—	106·94	5·16
April 2, 1965 (1964-65 Busy Season)@ ..	—	—	—	26·03	4·67	8·22	124·00	162·92	7·86
May 7, 1965	—	—	—	29·15	—	3·64	131·66	164·45	8·14
March 11, 1966 (1965-66 Busy Season) ..	—	—	—	89·82	—	2·70	14·13	106·65	6·38
March 31, 1967 (1966-67 Busy Season) ..	—	—	—	133·88	—	—	5·84	139·72	6·46

@ The maximum was in fact recorded on May 7, 1965 when borrowings amounted to Rs. 165 crores.

10. While credit expansion during the busy season was thus higher, deposit growth at Rs. 166 crores was much less than in the 1965-66 busy season (Rs. 217 crores). The financing of credit expansion therefore necessitated substantial drawing down of banks' investments and recourse to borrowings from the Reserve Bank. Liquidation of investments in Government securities amounted to Rs. 199 crores (Rs. 27 crores in 1965-66) while borrowings from the Reserve Bank increased by Rs. 41 crores (Rs. 28 crores in 1965-66) (Table 1). At their peak, borrowings from the Reserve Bank in the 1966-67 busy season touched Rs. 140 crores on March 31, 1967 compared with Rs. 107 crores on March 11, 1966. There was also a net inflow of funds from abroad to the tune of Rs. 21 crores as against a net outflow of Rs. 11 crores in the 1965-66 busy season (see Table 5 for details of sources and uses of funds). Reflecting these developments, the credit-deposit ratio rose from 68.1 per cent at the end of October 1966 to 77.1 per cent at the end of April 1967. The investment-deposit ratio declined by 7.4 percentage points to 26.8 per cent by the close of April 1967. The rising demand for funds and the strain on banks' resources were reflected in high call money rates during the 1966-67 busy season, particularly during March 1967, when on occasions the rate touched 12 per cent in Bombay and 15 per cent in Calcutta.

11. Credit policy for the busy season of 1966-67 aimed at enlarging refinance facilities from the Reserve Bank to meet the increase in genuine productive needs of the economy based on expectations regarding agricultural recovery and larger quantum of imports. As the busy season progressed, the prospects for agricultural production worsened; against earlier estimates of over 80 million tonnes, foodgrains output was placed at 75 million tonnes for the 1966-67 agricultural year, which was only marginally higher than the output in 1965-66. Import estimates were also revised downwards. On the other hand, the pace of credit expansion appeared to be more than was warranted by the supply position. Between end-October 1966 and end-February 1967, bank credit had risen by Rs. 319 crores (or by 14 per cent), as against Rs. 166 crores (or by 8 per cent) in the corresponding period of 1965-66 busy season. It was also noticed that a sizeable part of the increase in bank credit in January 1967 was accounted for by clean advances. Early in March 1967, therefore, the Reserve Bank emphasised the need for banks to exercise care in extending credit and particularly in sanctioning clean advances. Simultaneously, the Bank also strongly discouraged banks from seeking accommodation over and above their Bank rate entitlement. But, credit expansion continued at a rapid pace even during March 1967 with increasing recourse by banks to borrowing from the Reserve Bank. In the circumstances, towards the close of the month, banks were again called upon to make a careful review of their credit portfolio and exercise stricter control over unsecured advances as well as advances against commodities in short supply. The Bank also reiterated its earlier mandate (directive of October 28, 1966) to the larger banks that at least 80 per cent of the increase in their credit during the busy season should be to industrial borrowers and/or against import and export bills. With a view to discouraging banks from borrowing in excess of their Bank rate entitlement, they were advised that the penalty rate of 10 per cent would be levied even on small and occasional borrowings from the Reserve Bank upto one week and for continuous excess beyond a week, the penal rate would be raised by 1 per cent in respect of a shortfall of every 1 point or a fraction thereof in a bank's net liquidity ratio below 30 per cent.

12. Soon after the busy season ended, in early May 1967, banks were also advised to limit their commitments by way of unsecured guarantees in such a manner that 20 per cent of a bank's outstanding unsecured guarantees plus the total of its outstanding unsecured advances did not exceed 15 per cent of its total outstanding advances. Banks were asked to conform to this norm within a period of 12 months. The Reserve Bank has, however, from time to time indicated the types of advances which could be excluded in applying the norm prescribed above, so that clean advances granted to finance production and movement of commodities were not inhibited. In anticipation of the continuous demand for credit even beyond the conventional end of the busy season, likely to arise mainly due to larger requirements of import financing, the facility of additional Bank rate tranche was continued

TABLE 4.—SEASONAL TRENDS IN BANK CREDIT: SECURITY-WISE CLASSIFICATION

(Rs. Crores)

Security	Busy Season		Slack Season		November-December 1966	November-December 1967	Calendar Year		Outstanding as on	
	1965-66	1966-67	1966	1967			1966	1967	December 30, 1966	December 29, 1967
Seasonal Advances ..	**+217·4**	**+171·0**	**—203·9**	**—199·8**	**+ 38·6**	**+ 78·6**	**+ 15·0**	**+ 11.2**	**348·5**	**359·7**
Paddy and rice	+ 35·2	+ 0·1	— 30·6	— 12·3	— 4·4	+ 9·3	— 0·9	+ 1·5	15·0	16·6
Wheat	— 4·7	— 6·5	+ 3·0	+ 7·6	— 0·5	+ 11·6	— 4·1	+ 13·2	11·5	24·7
Other foodgrains	+ 5·1	+ 9·8	— 5·1	— 4·7	+ 1·5	— 4·8	+ 3·0	— 1·3	16·1	14·8
Sugar	+ 78·5	+ 25·0	— 60·2	— 67·0	— 4·6	+ 30·5	+ 10·3	— 6·9	64·9	58·0
Gur	+ 5·0	+ 6·1	— 4·7	— 5·9	+ 1·3	+ 0·6	+ 0·9	— 0·5	2·4	1·9
Groundnuts	+ 11·9	+ 18·1	— 13·0	— 17·5	+ 19·1	+ 7·4	+ 6·1	— 11·0	20·7	9·7
Other oilseeds	+ 15·6	+ 20·6	— 15.4	— 21·2	+ 3·9	+ 0·5	+ 1·4	— 4·0	12·8	8·8
Vegetable oils	+ 2·2	+ 10·5	— 4·8	— 10·0	+ 7·9	+ 6·3	+ 2·8	— 1·1	18·3	17·2
Cotton and kapas ..	+ 52·1	+ 78·0	— 70·5	— 65·1	+ 11·6	+ 14·7	— 25·6	+ 16·0	79·3	95·3
Raw jute	+ 9·3	+ 16·0	— 5·6	— 13·8	+ 13·6	+ 5·9	+ 11·7	— 5·5	37·0	31·5
Tea	— 4·7	— 13·4	+ 8·4	+ 17·3	— 10·2	— 3·3	+ 1·4	+ 10·7	45·8	56·5
Non-Seasonal Advances	**+ 52·8**	**+260·4**	**+ 89·9**	**+ 76·2**	**+128·5**	**+ 71·9**	**+233·1**	**+280·0**	**1716·7**	**1996·6**
Cotton textiles	— 16·6	+ 6·5	+ 9·2	+ 12·8	+ 2·1	+ 11·4	— 3·4	+ 28·6	182·0	210·5
Jute textiles	— 3·8	— 0·7	+ 8·4	+ 3·3	+ 5·4	+ 1·9	+ 13·7	— 0·9	56·7	55·8
Iron, steel and engineering goods	+ 13·8	+ 44·6	+ 54·2	+ 54·7	+ 27·1	+ 24·7	+ 78·6	+ 96·9	400·5	497·4
Chemicals, dyes, paints, drugs and pharmaceuticals	+ 5·3	+ 21·9	+ 1·0	+ 12·1	+ 13·4	+8·8	+ 15·8	+ 29.4	82·2	111.6
Electrical goods	— 0·7	+ 18·4	+ 9·6	— 1·7	+ 9·6	+5·0	+ 17·7	+ 12.2	61·3	73·4
Assets of industrial concerns —fixed or floating ..	+ 8·0	+ 23·1	— 3·6	+ 0·5	+ 2·4	—0.9	+ 5·2	+ 20·2	164·2	184·4
Shares of joint stock companies	+ 3·1	+ 7·4	— 8·9	— 7·7	+ 4·9	+2·0	— 2·2	— 3·2	85·4	82·1
Government and other Trustee Securities	— 4·8	— 5·1	+ 4·7	+ 3·1	— 2·0	—2·5	— 0·3	— 2·5	24·9	22,4
Gold and silver bullion and ornaments	— 1·2	+ 1·1	+ 3·2	+ 2·4	+ 2·1	+2·0	+ 4·2	+ 3·3	25·1	28·4
Total Secured Advances	**+270·2**	**+431·4**	**—114·0**	**—123·6**	**+167·1**	**+150·5**	**+248·1**	**+291·2**	**2065·2**	**2356·3**
Unsecured Advances ..	**+ 41·5**	**— 7·9**	**+ 27·1**	**+ 27·8**	**+ 19·4**	**— 2·0**	**+ 80·0**	**— 1·5**	**364·7**	**363·2**

Source: Fortnightly Survey of Bank Advances.

TABLE 5.—CHANGES IN SOURCES AND USES OF SCHEDULED COMMERCIAL BANKS' FUNDS

(Rs. Crores)

	Slack Season 1966	Busy Season 1966-67	Slack Season 1967	Busy Season			
				1966-67 (Upto end-December)	1967-68 (Upto end-December)	1966 (January-December)	1967 (January-December)
	1	2	3	4	5	6	7
I. Main Items							
A. SOURCES							
1. Increase in Aggregate Deposits	266·2	165·7	194·3	81·1	105·8	491·4	384·7
2. Increase in Borrowings from R.B.I.	—	40·7	—	5·4	0·8	—	0·1
3. Decrease in Cash and Balances with R.B.I.	—	—	—	—	—	—	—
4. Decrease in Bank Credit ..	85·7	—	100·5	—	—	—	—
5. Decrease in Investments in Government Securities ..	—	198·9	—	175·7	140·6	—	—
6. Increase in Other Liabilities ..	18·6	4·2	25·4	16·5	—	45·0	7·7
7. Inflow of funds from abroad@	—	20·6	3·4	N.A.	N.A.	—	42·1
8. Residual*	—	7·7	—	—	—	16·2	—
Total I-A	**370·5**	**437·8**	**323·6**	**278·7**	**247·2**	**552·6**	**434·6**
B. USES							
1. Decrease in Aggregate Deposits	—	—	—	—	—	—	—
2. Decrease in Borrowings from R.B.I.	29·7	—	36·0	—	—	11·9	—
3. Increase in Cash and Balances with R.B.I.	9·9	13·1	22·8	50·2	41·9	45·2	27·6
4. Increase in Bank Credit ..	—	424·7	—	189·6	158·5	328·6	293·1
5. Increase in Investments in Government Securities ..	298·3	—	217·7	—	—	125·8	53·9
6. Decrease in Other Liabilities	—	—	—	—	5·4	—	—
7. Outflow of funds@	15·1	—	—	N.A.	N.A.	41·0	—
8. Residual*	17·5	—	47·1	38·9	41·4	—	60·0
Total I-B	**370·5**	**437·8**	**323·6**	**278·7**	**247·2**	**552·6**	**434·6**
II. Inter-bank Items							
A. SOURCES							
1. Increase in Deposits	24·1	—	19·8	26·3	15·2	40·6	—
2. Increase in Borrowings ..	—	—	14·2	—	1·2	—	11·4
3. Increase in Borrowings from S.B.I./Notified Banks ..	—	4·6	0·9	—	—	16·4	6·1
4. Decrease in Due from Banks ..	—	4·0	—	0·2	9·7	—	3·1
5. Decrease in Money at Call ..	—	32·5	—	8·2	5·6	—	0·3
6. Decrease in Balances with other banks in current account ..	—	—	—	—	—	1·2	—
7. Residual*	—	1·9	6·1	—	—	—	—
Total II-A	**24·1**	**43·0**	**41·0**	**34·7**	**31·7**	**58·2**	**20·9**
B. USES							
1. Decrease in Deposits	—	25·0	—	—	—	—	16·3
2. Decrease in Borrowings ..	0·4	17·9	—	13·9	—	18·8	—
3. Decrease in Borrowings from S.B.I./Notified Banks ..	3·8	—	—	2·6	2·0	—	—
4. Increase in Due from Banks ..	8·5	—	10·4	—	—	4·6	—
5. Increase in Money at Call ..	7·2	—	29·6	—	—	8·3	—
6. Increase in Balances with other banks in current account ..	—	0·1	1·0	5·2	5·6	—	1·5
7. Residual*	4·2	—	—	13·0	24·1	26·5	3·1
Total II-B	**24·1**	**43·0**	**41·0**	**34·7**	**31·7**	**58·2**	**20·9**

Note: Figures are based on Form XII of the Banking Regulation Act, 1949, except those relating to borrowings from the Reserve Bank which are based on weekly returns submitted by scheduled commercial banks in terms of Section 42(2) of the Reserve Bank of India Act, 1934.

@ Based on Exchange Control records. Figures in respect of 1967 are available only upto September 1967.

* Derived Figures.

until June 30, 1967, i.e. until the date the Bill Market Scheme itself was kept open.

13. The framework of selective credit controls as it obtained during 1966, continued without significant changes for the greater part of the 1966-67 busy season. The low level of paddy and rice output during the year 1966-67 and the unseasonal rise in paddy and rice prices in the early part of 1967, however, indicated the need for a further tightening of control on bank advances against these commodities well in advance of the lean season months. Also, the State Governments had undertaken procurement operations with a view to ensuring more equitable distribution of stocks and checking the price rise. Since this had resulted in a sizeable part of the transactions relating to the marketable surplus being hand led by the State Governments and their agencies like the Food Corporation of India, the proportion to be handled by private operators had been correspondingly reduced. Accordingly, through a directive issued on April 13, the bi-monthly ceilings on advances of individual banks against paddy and rice, which were related to the actual levels maintained by them during the corresponding period of 1964-65 (March-February) were reduced from 75 per cent to 55 per cent in the case of Andhra Pradesh, and from 100 per cent to 65 per cent in respect of all other States taken together excluding Maharashtra, for which the earlier level of 50 per cent was maintained. The banks were also required to maintain within the overall ceilings, separate ceilings for non-warehouse advances. In January 1967 with a view to encouraging the production of hybrid seeds of foodgrains, advances against stocks of such seeds were exempted from credit restrictions. The shortage of raw cotton and kapas and the sharp rise in their prices necessitated firmer control on the level of bank advances through stipulation of ceilings in respect of advances against these commodities. Advances to mills and trade against indigenous cotton and kapas were restricted beginning from April-May 1967 to 85 per cent of the average level in each two-month period of the earlier year and only such stocks as were covered by permits for purchase/movement issued by the Textile Commissioner, Government of India, were eligible for such advances. Advances in respect of pre-shipment credit for cotton exports were, however, exempted from these restrictions. The current position of selective credit controls with all exemptions and concessions is shown in Annexure II. Similar restrictions were placed on advances granted by State and central co-operative banks

The 1967 Slack Season : Policy

14. Credit policy for the 1967 slack season period had to reckon with the continuing pressure on prices; the index of wholesale prices at the end of April 1967 was about 15 per cent higher than a year ago and the rise in prices in the 1966-67 busy season period was about 8 per cent. Banks were, therefore, advised to secure a significant reduction in bank advances against seasonal commodities and to exercise a strict control over advances against domestic commodities in short supply and unsecured advances. However, about June-July 1967, it became quite evident that some action to correct the recessionary trends in some of the domestic engineering industries, especially those having export potentialities, was urgently needed. Besides, the flow of bank credit to certain priority sectors such as agriculture, exports and small industries had also to be enlarged. In view of the continuing pressure on prices, however, only some selective liberalisation was undertaken by the Bank in the package of measures announced in August 1967.

15. Refinance was made available from the Reserve Bank at a preferential rate of $4\frac{1}{2}$ per cent in respect of scheduled commercial banks' packing credit advances to exporters of engineering and metallurgical products. In regard to packing credits to exporters of other products and post-shipment export bills denominated in foreign currencies and Indian rupees, refinance was made available at the Bank rate. Simultaneously, ceilings were prescribed for the rates charged by banks to the ultimate borrowers at 6 per cent in respect of packing credit advances to exporters of engineering and metallurgical products and at 8 per cent in the case of other packing credits and post-shipment finance; for rupee usance export bills a ceiling rate of 7.5 per cent was already operative. These ceilings applied irrespective of whether or not a bank sought refinance from the Reserve Bank in regard to these transactions. In order to en-

courage maximum use of refinancing facilities under the packing credit scheme, several procedural liberalisations were made by waiving certain conditions of the scheme, details of which are given in Chapter II. The Industrial Development Bank also liberalised its refinancing facilities, details of which are also given in Chapter II. To mitigate the impact of advances to priority sectors on the net liquidity ratio of banks, as also the impact of ceiling rates on banks' earnings; the Reserve Bank advised that the increase in a bank's advances to the priority sectors over the average of such advances during the period July to October 1966 for the slack season, and November 1966 to April 1967 for the busy season, would be taken into account as part of its liquid assets for the purpose of computing the net liquidity ratio.

16. In the field of selective credit controls, advances relating to exportable varieties of cotton or kapas were completely exempted in May 1967 from the purview of controls. In June 1967, banks' advances against the security of certain varieties of cotton (ISC 67 and Andrews) were completely exempted from the provisions of the existing directive on cotton and kapas. Again on September 2, 1967, the existing stipulation that banks should not extend advances to mills or traders against stocks of cotton, unless such stocks were covered by the permits/letters of authorisation by the Textile Commissioner, was withdrawn. In addition, advances against stocks of non-edible vegetable oils excepting castor oil and linseed oil were exempted on September 14, 1967 from the purview of the minimum margin restrictions and credit limits stipulated in the earlier directives.

17. The existing control on scheduled commercial banks' advances against groundnuts and 'other oilseeds' (excluding cotton-seeds) was tightened on July 6, 1967 in response to the need to curb the rising trend of oilseeds prices. The ceilings for advances against 'other oilseeds' were reduced from 90 per cent of 1964-65 levels to 75 per cent of the actual levels in 1964. Advances to vanaspati manufacturers were, however, exempted from minimum margin restrictions. Certain concessions were given to exporters (including integral oil expeller mills) of oilseeds excluding groundnuts, de-oiled and defatted cakes and oil extractions. Advances against werehouse receipts covering the above commodities, which were hitherto exempted from credit control were made subject to ceilings and margin requirements as the sharp rise in advances against warehouse receipts indicated that traders were taking advantage of the exemption granted to bank advances against warehouse receipts for speculative stock-holding.

The 1967 Slack Season: Banking Trends

18. The overall resources position of scheduled commercial banks was much less comfortable during the 1967 slack season than in the 1966 season. Despite the larger credit contraction of Rs. 101 crores as compared with Rs. 86 crores in the 1966 slack season, the credit-deposit ratio stood at 70.2 per cent on October 27, 1967, which was 2.1 percentage points higher than a year ago (Table 2). Both demand and time deposits recorded a smaller growth during the 1967 slack season than in the previous slack season, the former showing a rise of Rs. 65 crores as compared with Rs. 85 crores and the latter Rs. 129 crores as compared with Rs. 181 crores (Table 1). The cash ratio moved up from 6.1 per cent to 6.4 per cent during the slack season as against a decline from 6.2 per cent to 6.0 per cent during the previous slack season. The banks also reduced their borrowings from the Reserve Bank by Rs. 36 crores as compared with Rs. 30 crores in 1966 slack season. On balance, the banks could step up their investments in Government securities by only Rs. 218 crores as compared with Rs. 298 crores during the 1966 slack season (see Table 5 for details of sources and uses of funds). The investment-deposit ratio at 31.3 per cent on October 27, 1967 was 2.9 percentage points lower than on October 28, 1966.

19. The slack season contraction of Rs. 101 crores in credit was brought about by a reduction in seasonal advances by Rs. 200 crores, an increase of Rs. 76 crores in non-seasonal advances and of Rs. 28 crores in unsecured advances (Table 4). Although the decline in seasonal advances was somewhat

smaller than in the 1966 slack season, it was Rs. 29 crores larger than the expansion in the 1966-67 busy season, mainly owing to the substantial reduction in the sugar advances in 1967 slack season, reflecting a sharp fall in sugar output (in 1966-67 sugar season) and the consequent running down of stocks with mills. Advances against sugar recorded a contraction of Rs. 67 crores as against an increase of Rs. 25 crores in 1966-67 busy season. The decline in advances against foodgrains in the 1967 slack season was also larger than the expansion in the preceding busy season, indicating the rapid depletion of official stocks of foodgrains in the lean months of 1967. The reduction in advances against groundnuts and other oilseeds was more or less equal to the increase in 1966-67 busy season. As regards raw cotton and kapas, the contraction in credit was smaller than the preceding season's expansion, as the reduction in stocks of raw cotton with mills was lower than the increase in the preceding busy season. In fact, the level of stocks of imported cotton with mills was maintained throughout the slack season at the end-April level. In respect of raw jute also, the reduction in advances was less than the increase in 1966-67 busy season, mainly because of the arrival of the new crop which was much larger than the previous year's output.

20. As regards non-seasonal advances, the increase considerably slowed down in the 1967 slack season, being only Rs. 76 crores as compared with Rs. 260 crores in 1966-67 busy season. It was also less than the increase in 1966 slack season (Rs. 90 crores). While some of the non-seasonal securities (e.g. cotton textiles, jute textiles and iron and steel and engineering goods) showed a larger expansion than in 1966-67 busy season, others such as chemicals, dyes, electrical goods, assets of industrial concerns and shares of joint stock companies had either recorded a smaller increase or a reduction. The continued increase in advances against cotton textiles, and iron and steel and engineering goods reflected the accumulation of stocks. Unsecured advances recorded an increase of Rs. 28 crores as against a fall of Rs. 8 crores in 1966-67 busy season. In the 1966 slack season also, these advances had increased by an equal amount.

Policy for the 1967-68 Busy Season

21. The major determinants of credit policy in the context of the 1967-68 busy season were the enhanced financial requirements for marketing of a much larger agricultural output than in 1967, the provision of larger bank credit to State Governments for stepping up procurement operations towards building buffer stocks and the increased reliance by State Governments on the banking system for financing the storage and distribution of chemical fertilisers necessitated under the modified arrangements for Central Government assistance for the purpose. Besides, there was a continuing need for facilitating a steady revival on the industrial front. These factors indicated a much larger increase in the demand for bank credit compared to the preceding busy season which appeared to be beyond the resources potential of the banking system. However, the behaviour of prices and the budgetary situation and prospects emphasised the need for caution in ensuring that the flow of credit was not excessive.

22. The basic policy of the Reserve Bank, of making refinance available at the Bank rate to scheduled commercial banks so long as a bank's net liquidity ratio was above 30 per cent remained unchanged. Besides, the Bank continued the existing special schemes of refinance under which banks could borrow from the Reserve Bank at the Bank rate or below and further extended the scope of refinance at the Bank rate to cover specific purposes. These were food procurement/storage/distribution by State Governments/their agencies/ the Food Corporation of India and financing of the distribution of fertilisers and pesticides, including the sales operations of manufacturers of these products. Throughout, the emphasis of policy in making refinance available to banks beyond what they would get on the basis of their net liquidity ratios, was increasingly on positive directional flow of credit.

23. In the sphere of export credit, the Bank continued the refinance schemes which were introduced in August 1967 and effected further reductions in the cost of export credit. The ceiling rate was reduced from 8 to 7.5 per cent in January 1968 in respect of packing credit to products other than engineering and metallurgical ones and all post-shipment bills

excepting rupee usance export bills for which a ceiling of 7.5 per cent was already operative.* A further liberalisation towards priority sectors was made when towards the close of January 1968 the Bank also announced that the total increase in commercial banks' advances over the base period in respect of both post-shipment and packing credit, agricultural inputs (chemical fertilizers and pesticides) and small scale industries guaranteed by the Credit Guarantee Organisation would also be eligible for refinance at a concessional rate of $4\frac{1}{2}$ per cent.

24. The operation of credit policy also provided for making available to banks refinance on a discretionary basis. Thus, the Reserve Bank indicated that it would be prepared to extend refinance at the Bank rate for limited periods to banks which experienced severe strains on their liquidity as a result of their constituents having to make large tax payments at particular times of the year or arising out of the bunching of imports of raw cotton, soyabean oil, maize, starch, etc. To ensure that production was on no account impeded, the Bank also agreed to provide discretionary accommodation at the Bank rate to those banks which experienced genuine financial difficulties in aiding production ; banks were advised to bring to the notice of the Reserve Bank cases where they could not sanction loans to agricultural borrowers and manufacturing units, big or small, solely because of paucity of resources despite the borrowers satisfying other banking criteria.

25. In the provision of refinance by the Reserve Bank, the level of net liquidity ratio of a bank forms the basis on which the cost of borrowing from the Reserve Bank is determined. The effect of any borrowing is to bring about a reduction in the net liquidity ratio. When the net liquidity ratio falls below 30 per cent, banks are normally required to pay penal rate on the borrowings in excess of Bank rate entitlement. But refinance under all the special schemes enumerated above is provided by the Bank at the Bank rate or below irrespective of the effect such borrowings have in impairing their net liquidity ratios. The Bank also sought to minimise the impairment of net liquidity ratio as a result of borrowing under the special schemes by providing for suitable exemptions in the computation of the net liquidity ratio. First, the entire increase in refinance over the level as on October 27, 1967 in respect of food procurement operations are excluded from the total Reserve Bank borrowings by a bank in computing the net liquidity ratio. Second, since August 1967, relief has been provided to banks in respect of their net liquidity ratios by including as part of their liquid assets an amount equivalent to the increases in their lendings over the base period to agriculture (distribution of chemical fertilizers and pesticides), exports and small scale industries (guaranteed by the Credit Guarantee Organisation).

26. The system of higher interest rates applicable in respect of borrowings from the Bank above the Bank rate entitlement was also liberalised. Thus, if the borrowing in excess of the Bank rate entitlement was only for temporary periods, *i.e.* upto a maximum of one week, no higher rate would be charged. If the excess borrowings continued beyond a week, a higher rate commencing from a minimum of 8 per cent would begin to apply, the actual rate being determined by the level of net liquidity ratio. A shortfall of every one point or fraction thereof in a bank's net liquidity ratio below 30 per cent would involve raising of the penal rate by 1 per cent per annum above the level of 6 per cent subject to a minimum of 8 per cent per annum. The penal rate would be chargeable only in respect of excess borrowings over the Bank rate entitlement.

27. In the field of selective credit controls, the Bank gradually relaxed controls on advances against some of the seasonal commodities. Thus, advances against paddy and rice granted to millers and wholesale dealers appointed as procuring agents by State Governments were exempted from credit restrictions. With a view to encouraging the production and export of oil cakes, advances against oils and oilseeds to solvent extraction plants and/or integral oil expeller mills with solvent extraction plants manufacturing oil cakes were exempted from ceiling ; a preferential margin of 25 per cent was also fixed in respect of such advances.

* The ceiling rate was further reduced to 6·0 per cent following the reduction in the Bank rate announced on March 2, 1968. For details see paragraph 32.

Taking into account the expected bumper groundnut crop in 1967-68 and also the increase in the production of other oilseeds, especially mustard seeds, the Bank relaxed its control on advances against some of the vegetable oils and oilseeds in January 1968 mainly in favour of the manufacturing sector and advances against official warehouse receipts. In respect of advances against vegetable oils a concessional margin of 35 per cent was prescribed for advances to the manufacturing sector while on trade advances the minimum margin continued to be 60 per cent. A ceiling equivalent to 100 per cent of the 1967 level was fixed in respect of advances against vegetable oils to the vanaspati manufacturers and registered oil mills. A separate ceiling was prescribed for trade advances on the same basis. Earlier, the ceilings were 90 per cent of the 1964-65 levels. In respect of advances against groundnuts also, the minimum margin requirement for registered oil mills and in respect of warehouse advances was reduced from 50 per cent to 35 per cent while the minimum margin requirement of 50 per cent for trade advances remained unchanged. The ceilings in respect of advances against groundnuts were prescribed at 100 per cent of the 1967 levels operating separately for warehouse and non-warehouse advances.

28. As regards advances against indigenous raw cotton and kapas, ceilings were fixed in November 1967 at 85 per cent of outstanding levels in the corresponding month or the month immediately following the corresponding month in the previous year, the option to choose the base being left to the banks. A minimum margin of 25 per cent on advances to mills and 35 per cent for trade advances was fixed. Where genuine difficulties were experienced for want of credit limits, appropriate additional limits were also granted. Taking into account the decline in cotton prices, the Bank further relaxed the control effective April 2, 1968; the ceiling was revised to 110 per cent of the peak level during the corresponding three-month period in 1967 commencing with April-June 1967 or the prevailing ceiling together with additional limits granted, whichever was higher. The minimum margin for trade advances was lowered and a uniform margin of 25 per cent was thus prescribed for all parties. In the case of State and Central co-operative banks a minimum margin of 40 per cent for hypothecation and 25 per cent for pledge advances as well as ceiling limits of 10 per cent and 20 per cent of the total liabilities of the State and Central co-operative banks as of the last Friday of October 1967 were imposed. However, in December 1967, minimum margins in regard to advances to co-operative cotton mills were lowered to 20 per cent and 10 per cent for hypothecation and pledge advances respectively, provided such advances were guaranteed by State Governments. In November 1967, advances against gur by scheduled commercial and co-operative banks were brought under control for the first time, in view of the phenomenal rise in gur prices noticed at that time.

29. The Reserve Bank also provided certain guidelines in regard to bank advances against shares towards creating a better climate in the capital market. Banks were advised to continue to extend credit against shares as part of their normal service to the community. In cases where action to recall advances was to be taken after a careful consideration of the merits and circumstances of each case, it was pointed out that such recall should be suitably phased so as to avoid unnecessary damage to genuine investment. Overdrafts to sharebrokers should be left undisturbed so long as they were within reasonable limits in relation to normal turnover. It was also emphasised that reasonable credit to sharebrokers to finance *badla* operations and to finance their own stocks of shares should not be denied. The legitimate credit needs of investment companies were to be recognised so long as there was no evidence of funds being used for speculation or acquiring control over an undertaking. As regards advances to managing agents and holding companies, banks were asked to take into account the genuine difficulties of the parties in securing finance considering the present conditions in the capital market and to meet liberally the financial needs for genuine productive purposes, such as project implementation and working capital requirements. Further, the Reserve Bank detailed the cases where banks need not draw up a repayment programme as well as cases where a bank has to fix the repayment programmes and obtain the Reserve Bank's approval. As regards advances to individual

investors (including firms and companies) the Reserve Bank left it to the discretion of banks to decide whether a repayment programme should be fixed or not for advances upto Rs. 5 lakhs. However, where advances were over Rs. 5 lakhs and were spread over 5 years as also in cases where the bank did not intend to fix a repayment programme, the Reserve Bank's approval was necessary. The Reserve Bank also emphasised the need for encouraging investment in Government securities and advised the banks that advances against Government securities could be given more liberally and sympathetically.

30. On November 8, 1967, the Reserve Bank allowed certain types of unsecured advances to be excluded from the total of unsecured advances in applying the norm relating to unsecured advances and guarantees indicated in the Bank's letter of May 3, 1967. On March 11, 1968, the Reserve Bank also advised banks that purchases and discounts of export bills may be excluded while determining a bank's credit-deposit ratio. It was hoped that with this relaxation banks with high credit-deposit ratios which were otherwise reluctant to undertake further credit expansion, would be able to take full advantage of the Reserve Bank's refinancing facilities and provide larger credit to various productive sectors, including exports.

31. As the busy season of 1967-68 advanced, the improvement in the output of foodgrains and oilseeds resulted in easing the persistent upward pressure on prices. Between the middle of October 1967 and the end of February 1968, wholesale prices declined by about 9 per cent. The pace of credit expansion slowed down, the seasonal expansion in bank credit upto the end of February 1968 being Rs. 309 crores as compared with Rs. 319 crores during the corresponding period of the busy season in 1966-67. More significantly, credit expansion for purposes other than financing food procurement operations by the State Bank of India and its subsidiaries was even lower at Rs. 251 crores as against Rs. 323 crores. Important sections of industry continued to experience recessionary conditions. This suggested that the earlier liberalisation measures needed to be carried a step further so as to provide a more positive stimulus towards economic recovery. Accordingly, the Bank rate was lowered on March 2, 1968 from its level of 6 per cent to 5 per cent. This is the first downward revision of the Bank rate in the last three decades. In the post-war period, the first change was made in November 1951 when the Bank rate was raised from 3 per cent to 3.5 per cent. From time to time the rate was raised since then in order to exercise a restraining influence in an environment of serious imbalance in the economy giving rise to inflationary pressures. Along with the changes in the Bank rate appropriate adjustments have also been brought about in recent years in the interest rate structure in the economy through official measures. These have contributed to increasing the efficacy of the interest rate as an instrument for influencing business activity, an instrument that, as the Reserve Bank stressed in its announcement, has to be used flexibly, with a view, especially to correction of short term fluctuations.

32. Simultaneously with the reduction in the Bank rate the maximum rate to be charged by the larger Indian scheduled commercial banks and foreign banks on their advances was reduced from 10 per cent per annum to 9.5 per cent per annum. The Reserve Bank also prescribed a ceiling of 6 per cent (as stated earlier) for packing credit and post-shipment credit for exports (in respect of bills denominated both in foreign currencies and Indian rupees). The Reserve Bank also amended the directive on deposit rates applicable to all scheduled commercial banks; the maximum rate for 15-45 day deposits was reduced from 1.50 per cent to 1.25 per cent per annum and that for 46-90 day deposits from 3.00 per cent to 2.50 per cent per annum. The maximum rate for one year deposits was reduced from 6.00 per cent to 5.50 per cent per annum and that for savings bank deposits from 4.00 per cent to 3.50 per cent per annum. Consequent upon these changes, the State Bank of India and the scheduled commercial banks which have agreed to quote prescribed rates under the All-India Inter-Bank Agreement, lowered the rates on various categories of term deposits by one-half of one per cent. All banks were also required by the Reserve Bank to reduce the interest rates on at least 80 per cent of their lendings by one-half of one per cent effective April 1, 1968.

Banking Trends in the 1967-68 Busy Season: November-December 1967

33. As stated earlier, the banking system began the busy season with a somewhat less comfortable resources position than a year ago, as indicated by the lower average of net liquidity ratio (37.4 per cent as against 39.3 per cent.) However, despite the indications of a larger increase in seasonal credit demands than in the preceding busy season, the assurance of larger availability of refinance from the Reserve Bank obviated the apprehensions of any resources constraint developing in the course of the season.

34. During the first two months of 1967-68 busy season (November and December), credit extended by scheduled commercial banks recorded a smaller increase of Rs. 159 crores than during the corresponding period in 1966-67 busy season(Rs. 190 crores)(Table 1). Aggregate deposits rose by Rs. 106 crores in November-December 1967, which were Rs. 25 crores higher than the corresponding period in 1966.* The credit-deposit ratio rose during the two months by 2.3 percentage points to 72.5 per cent, as against a rise of 4 percentage points in the corresponding period of 1966. Over the year, however, the ratio remained around 72.4 per cent. With a smaller credit expansion and a somewhat higher deposits increase, banks' disinvestments in Government securities were also less, amounting to Rs. 141 crores as compared to Rs. 176 crores in November-December 1966. As, however, the addition to Government securities during the year was less than in 1966, the investment-deposit ratio moved down over the year from 28.2 per cent to 26.7 per cent. Since the banks meet the credit demand out of their own resources during the initial months of the busy season, their recourse to the Reserve Bank for accommodation is generally small during the first two months of the busy season. Thus, borrowings of scheduled commercial banks from the Reserve Bank stood at Rs. 7.6 crores at the end of December 1967, as compared to Rs. 7.5 crores a year ago. Reflecting the easy money conditions, the inter-bank call money rate in Bombay and Calcutta generally ruled lower than in November-December 1966. The closing rate at Bombay was $5\frac{1}{4}$ per cent as compared to $5\frac{1}{2}$ per cent a year ago, while the rate at Calcutta closed at $3\frac{1}{2}$-4 per cent as compared to 5-$5\frac{1}{2}$ per cent at the end of 1966.

35. The smaller credit expansion in the first two months of 1967-68 busy season was the result of the lower order of increase in credit against non-seasonal securities and a reduction in unsecured advances as against a rise in 1966-67 busy season (November-December 1966). The data on security-wise classification of advances indicate that the increase in seasonal advances during November-December 1967 amounted to Rs. 79 crores which was nearly twice the increase in November-December 1966 (Table 4). Non-seasonal advances, on the other hand, rose by only Rs. 72 crores as compared to Rs. 129 crores in the corresponding two month period in 1966, and unsecured advances showed a decline of Rs. 2.0 crores as against a rise of Rs. 19.4 crores in November-December 1966. The sharp increase in seasonal advances during the two month period of 1967-68 busy season was mainly due to the substantial rise in advances against sugar, as against a decline in November-December 1966. This was attributable to the rise in stocks with sugar mills, following the early start of the crushing season in 1967-68 and the smaller releases of stocks by Government from mills in the current season than during the corresponding period in 1966-67 season. Advances against paddy and rice, as well as against wheat, recorded a sharp increase as against a fall in the corresponding period in 1966, reflecting the larger quantity procured by official agencies. On the other hand, advances against raw jute and oilseeds showed a much smaller expansion than in November-December 1966. The factors responsible for the smaller increase in credit

* During the 1967-68 busy season, according to preliminary figures credit expansion practically upto the end of March 1968 was either lower or about the same as in the 1966-67 busy season. Thereafter, bank credit was running ahead of the last season. By April 12, 1968, bank credit had expanded by Rs. 485 crores as compared to Rs. 428 crores during the corresponding period of the preceding busy season. However, excluding advances of State Bank of India and its subsidiaries for food procurement operations, the seasonal expansion in bank credit upto April 12, 1968 was Rs. 384 crores as against Rs. 478 crores during the corresponding period of the 1967-68 busy season. Deposit growth, on the other hand, continued to be generally larger throughout the 1967-68 busy season as compared with the preceding busy season. By April 12, 1968, deposits had grown by Rs. 181 crores as against Rs. 138 crores during the corresponding period of last year.

against oilseeds are mainly the delayed arrivals of crop in the terminal markets and the expectation of a fall in price in view of the anticipated bumper crop. As regards raw jute, the smaller order of credit expansion may be mainly attributed to the significant improvement in supplies and the steep fall in prices which discouraged the building up of stocks by trade and industry.

36. The slowing down of credit expansion against non-seasonal securities stemmed from the drop in production in certain industries particularly, the iron and steel and engineering industries, resulting in running down of stocks with some of the units in this sector. Advances against cotton textiles, however, recorded a much larger increase than in November-December 1966, owing to the rise in stocks with cotton textile mills. Advances against shares of joint stock companies showed a smaller increase of Rs. 2 crores compared with Rs. 5 crores in November-December 1966, presumably reflecting the adjustments made by some banks in their advances against shares, following the guidelines issued by the Reserve Bank early in November 1967. The fall of Rs. 2 crores in unsecured advances as against a rise of Rs. 19 crores in November-December 1966 is partly attributable to greater control exercised by banks over such advances following the Reserve Bank's guidelines in this regard. The outstanding level of unsecured advances at Rs. 363 crores at the end of December 1967 showed a fall of Rs. 2 crores over the year, and formed 13.4 per cent of the total bank credit as against 15.0 per cent a year ago and 13.6 per cent at the end of 1965.

Increase in Deposits

37. The rate of growth of bank deposits decelerated in 1967 as compared with 1965 and 1966. Adjusted for the transfers of P.L. 480 funds from the State Bank of India to the Reserve Bank of India, the rate of deposit accretion worked out to 11.0 per cent in 1967 as against 16.1 per cent in 1966 and 14.2 per cent in 1965. The absolute amounts of increase adjusted for P.L. 480 funds and the rate of increase in deposits since 1961 are given below :

Year	Increase in deposits (Rs. crores)	Percentage increase
1961	+ 27·4	+ 1·5
1962	+152·2	+ 8·0
1963	+235·9	+11·5
1964	+263·2	+11·5
1965	+362·0	+14·2
1966	+470·4	+16·1
1967	+372·7	+11·0

Deposits Structure

38. At the end of December 1967, current deposits at Rs. 899.1 crores formed 23.9 per cent of total deposits (Table 6). The share of current deposits to total deposits has shown a continuous decline from 56.0 per cent in 1951, to 28.4 per cent in 1962 and further to 23.9

TABLE 6.—COMPOSITION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS, 1962-67

(Rs. Crores)

Last Friday of December	Aggregate Deposits	Demand Deposits (Excluding inter-bank deposits)	*Percentage*	Time Deposits (Excluding inter-bank deposits)	*Percentage*	Distribution by Type of Deposits: Current Deposits		Savings Deposits		Fixed Deposits		Cash Certificates and Recurring Deposits	
						Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1962	2038·9	816·9	*40·1*	1222·0	*59·9*	578·9	*28·4*	379·1	*18·6*	1035·1	*50·8*	45·8	*2·2*
1963	2252·8	997·2	*44·3*	1255·6	*55·7*	623·3	*27·7*	457·4	*20·3*	1129·4	*50·1*	42·7	*1·9*
1964	2524·0	1178·3	*46·7*	1345·7	*53·3*	687·7	*27·2*	560·3	*22·2*	1237·2	*49·0*	38·8	*1·5*
1965	2887·0	1367·2	*47·4*	1519·8	*52·6*	770·1	*26·7*	673·5	*23·3*	1410·5	*48·9*	33·0	*1·1*
1966	3378·4	1582·6	*46·8*	1795·8	*53·2*	822·9	*24·3*	820·4	*24·3*	1699·3	*50·3*	35·9	*1·1*
1967	3763·1	1781·2	*47·3*	1981·9	*52·7*	899·1	*23·9*	944·7	*25·1*	1880·6	*50·0*	38·7	*1·0*

Note : (1) Figures are based on Form XII of the Banking Regulation Act, 1949.
(2) The percentage ares ratios to aggregate deposits.

per cent in 1967. Fixed deposits stood at Rs. 1880.6 crores as of December 1967 and formed 50.0 per cent of total deposits. The percentage share of fixed deposits to total deposits has remained around this level since 1962. The share of savings deposits to total deposits showed a further improvement from 24.3 per cent at the end of December 1966 to 25.1 per cent at the end of December 1967. The proportion of savings deposits to total deposits has increased steadily from 17.0 per cent in 1951 to 18.6 per cent in 1962 and further to 25.1 per cent in 1967. Cash certificates and recurring deposits have generally remained insignificant and at the end of December 1967, they amounted to Rs. 38.7 crores forming just 1.0 per cent of the total deposits. As of April 1967, the pattern of interest paid on bank deposits showed that no interest was paid on 24.7 per cent of deposits, while those bearing interest of less than 3½ per cent and between 3½ -4 per cent constituted 4.5 per cent and 23.3 per cent, respectively. A rate of over 4 per cent but not exceeding 6 per cent was payable on 31.7 per cent of deposits. The share of deposits earning over 6 per cent formed 15.3 per cent.

Ownership Pattern of Deposits

39. Personal deposits with banks have shown a steady uptrend largely as a result of branch expansion and the resulting extension of banking facilities. Their share in total deposits increased from 55.1 per cent at the end of March 1966 to 56.8 per cent at the end of March 1967 (Table7). The share of business deposits which had fallen from 28.5 per cent in March 1965 to 25.7 per cent in March 1966 suffered a further marginal fall to 25.3 per cent at the end of March 1967. On the other hand, both in absolute amounts and as a share of total deposits, deposits of Government and quasi-Government bodies showed a decline ; the amount of deposits declined from Rs. 226 crores in March 1966 to Rs. 185 crores in March 1967 while its proportion to total deposits declined from 7.3 per cent at the end of March 1966 to 5.2 per cent at the end of March 1967.

TABLE 7.—OWNERSHIP PATTERN OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS, 1965, 1966 AND 1967

(Accounts in thousands ; Rs. Crores)

	March 31, 1965			March 31, 1966			March 31, 1967@		
Number of reporting banks	75			75			70		
	Accounts	Amounts		Accounts	Amounts		Accounts	Amounts	
		Amount	*Percentage*		Amount	*Percentage*		Amount	*Percentage*
	1	2	3	4	5	6	7	8	9
I. Business	8,18	773·3	*28·5*	8,79	800·9	*25·7*	8,78	894·6	*25·3*
(a) Industry	90	243·6	*9·0*	85	225·1	*7·1*	1,46	321·7	*9·1*
(b) Trading	6,78	299·5	*11·0*	7,39	325·3	*10·5*	6,74	305·0	*8·6*
(c) Financial	33	208·8	*7·7*	32	226·9	*7·3*	40	246·3	*7·0*
(d) Others	17	21·4	*0·8*	23	23·6	*0·8*	18	21·6	*0·6*
II. Personal (Individuals)* ..	90,67	1398·7	*51·5*	108,15	1714·2	*55·1*	123,63	2012·7	*56·8*
III. Professional	95	36·4	*1·3*	88	36·1	*1·2*	1,89	50·4	*1·4*
IV. Governments and Quasi-Government bodies	32	195·0	*7·2*	31	226·3	*7·3*	28	184·9	*5·2*
V. Others	2,22	310·3	*11·5*	2,43	334·8	*10·7*	5,50	398·3	*11·3*
VI. Grand Total	**102,34**	**2713·9**	*100·0*	**120,56**	**3112·3**	*100·0*	**140,08**	**3540·9**	*100·0*

* Unclassified savings deposits accounts are included under 'Personal' for the years 1965 and 1966.
@ Provisional

Credit Expansion

40. The total of credit extended by scheduled commercial banks increased by Rs. 293 crores or by 12.0 per cent. The rate of growth in credit during 1967 was smaller than in the three preceding years.

Year	Increase in Bank credit (Rs. crores)	Percentage increase
1961	+147·0	+13·0
1962	+144·8	+11·3
1963	+159·1	+11·2
1964	+230·1	+14·6
1965	+294·6	+16·3
1966	+328·6	+15·6
1967	+293·1	+12·0

Security-wise Distribution of Advances

41. At the end of December 1967, the total secured advances of scheduled commercial banks at Rs. 2356 crores were 14.1 per cent higher than a year ago (Table 4). The total secured advances formed 86.4 per cent of the total outstanding credit. Among secured advances, advances against seasonal commodities increased by 3.2 per cent, while those against non-seasonal commodities rose by 16.3 per cent. Advances against seasonal and non-seasonal securities formed 15.3 per cent and 84.7 per cent, respectively of the total secured advances. Unsecured advances showed a marginal decline from Rs. 364.7 crores at the end of December 1966 to Rs. 363.2 crores at the end of December 1967 following the advice given by the Reserve Bank to observe certain norms relating to the total unsecured advances of banks. The bulk of advances (excluding bills purchased and discounted) were charged interest at rates ranging over 8½ per cent but not exceeding 10½ per cent. About 30 per cent of advances carried interest at rates ranging over 6½ per cent but not exceeding 8½ per cent, while about 44 per cent were in the range of 8½-9½ per cent. Rates exceeding 9½ per cent were payable only on 24 per cent of advances.

Purpose-wise Pattern of Bank Advances

42. Of the total increase in bank credit of Rs. 369.7 crores between end-March 1966 and end-March 1967, advances to industries accounted for Rs. 270.3 crores or 73.1 per cent (Table 8). Consequently, the share of advances to industries to total bank credit improved further from 62.7 per cent in March 1966 to 64.3 per cent in March 1967. The secular increase in the share of advances to industry has thus been maintained, its proportion to total advances having risen from 34.0 per cent in 1951 to 50.8 per cent in 1961 and further to 64.3 per cent in 1967. The number of accounts in respect of advances to industry also registered an increase of about 14 per cent in 1967 over 1966.

TABLE 8.—ADVANCES OF SCHEDULED COMMERCIAL BANKS ACCORDING TO PURPOSE, 1965, 1966 AND 1967

(Amounts Rs. Crores)

	March 31, 1965			March 31, 1966			March 31, 1967@		
Number of reporting banks	75			75			72		
	Accounts	Amounts: Amount	Amounts: *Percentage*	Accounts	Amounts: Amount	Amounts: *Percentage*	Accounts	Amounts: Amount	Amounts: *Percentage*
	1	2	3	4	5	6	7	8	9
I. Industry**	63,691	1246·20	*59·5*	65,093	1470·97	*62·7*	74,443	1747·25	*64·3*
II. Commerce	174,124	536·78	*25·2*	160,671	572·97	*24·4*	1305,84	526·50	*19·4*
III. Financial	15,340	94·23*	*4·5*	10,990	77·59	*3·3*	11,286	96·82	*3·6*
IV. Agriculture	61,098	58·26	*2·8*	47,496	56·54	*2·4*	46,685	56·64	*2·1*
V. Personal	728,206	109·22	*5·2*	671,485	107·79	*4·6*	602,932	114·78	*4·2*
VI. Governments and Local Authorities	N.A.	N.A.	*N.A.*	N.A.	N.A.	*N.A.*	425	13·10	*0·5*
VII. All Others	83,938	50·05	*2·4*	63,148	60·94	*2·6*	189,324	161·38	*5·6*
VIII. Total	**11,26,397**	**2094·74**	*100·0*	**10,18,883**	**2346·80**	*100·0*	**10,55,679**	**2716·47**	*100·0*

** For the years 1965 and 1966 advances reported against "Professional" have been included under "Industry" and advances to plantations have been excluded from "Industry" and included under "Agriculture".

* Adjusted to include 'due from banks' with a view to making the figures comparable with subsequent years.

@ Provisional.

43. The share of advances to commerce, on the other hand, which remained around 40.0 per cent during the period 1951-60 and declined to 31.3 per cent in 1961 and 24.4 per cent in 1966, showed a further sizeable fall to 19.4 per cent by March 1967. The number of accounts for commercial advances showed a substantial decline of 18.7 per cent in 1967 over the previous year. Advances to agriculture, including those to plantations but excluding those to the co-operative sector, showed a marginal increase of Rs. 10 lakhs between March 1966 and March 1967; the share of these advances to total credit went down from 2.4 per cent in March 1966 to 2.1 per cent in March 1967. Advances to agriculture other than plantations declined by Rs. 35 lakhs between March 1966 and March 1967.

44. Personal advances showed a marginal decline as a proportion of total credit from 4.6 per cent in March 1966 to 4.2 per cent in March 1967; more importantly, there was a sizeable decline in the number of personal accounts from 6.71 lakhs to 6.0 lakhs. Advances to Governments and local authorities, the data for which are available for the first time, stood at Rs. 13.1 crores which accounted for less than 1 per cent of the total credit as of March 31, 1967. Advances to 'all others' showed a sizeable increase from Rs. 60.9 crores to Rs. 161.4 crores, their share to total bank credit increasing from 2.6 per cent in March 1966 to 5.9 per cent in March 1967. Further, the number of accounts in respect of 'all others' showed a sharp increase from about 63,000 to about 189,000.

45. Advances of scheduled commercial banks to small-scale industries doubled between March 1966 and March 1967 from Rs. 90.8 crores to Rs. 177.9 crores; the share of advances to small-scale industries in total scheduled commercial bank credit improved from 3.9 per cent in March 1966 to 6.6 per cent in March 1967. Advances to small-scale industries formed 10.2 per cent of total scheduled commercial bank advances to industry in March 1967 as against 6.2 per cent in March 1966.*

46. Medium-term loans (*i.e.* loans originally sanctioned for a period exceeding one year) extended by scheduled commercial banks amounted to Rs. 226.3 crores as on March 31, 1967 and formed 13.0 per cent of total advances to industry and 8.3 per cent of the total scheduled commercial bank credit.

Deposit-wise Classification of Banks

47. Table 9 gives the percentage shares in banking business of banks classified on the basis of the size of their deposits. At the end of December 1967, the largest category of banks numbering 8—banks with deposits over Rs. 100 crores, accounted for about 63 per cent of total

TABLE 9.—PERCENTAGE SHARES OF GROUPS OF BANKS IN TOTAL SCHEDULED COMMERCIAL BANK DEPOSITS AND CREDIT

(As on last Friday)

Indian Scheduled Commercial Banks with deposits of	Number of Banks		Aggregate Deposits		Bank Credit	
	1966	1967	1966	1967	1966	1967
	1	2	3	4	5	6
Over Rs. 100 crores	8	8	61·3	62·3	62·5	63·1
,, Rs. 50 — 100 crores ..	6	6	13·3	13·0	12·5	11·8
,, Rs. 15 — 50 crores	10	10	9·6	9·3	8·1	8·5
,, Rs. 5 — 15 crores	14	15	3·4	3·6	2·9	3·1
Below Rs. 5 crores	23	19	1·5	1·2	1·3	1·0
Foreign Banks	15	15	10·9	10·6	12·7	12·5
All Scheduled Commercial Banks ..	76	73	100·0	100·0	100·0	100·0

Note: Figures are based on Form XII of the Banking Regulation Act, 1949.

* It should be mentioned that part of this increase has resulted from a change in the classification of advances owing to the revised definition of small-scale industries referred to in Chapter II.

credit and 62 per cent of total deposits. Banks with deposits of Rs. 50-100 crores, which numbered 6, accounted for 12 per cent of total bank credit and 13 per cent of total deposits. Banks with deposits between Rs. 15-50 crores numbering 10, accounted for about 9 per cent each of total deposits and credit. Banks with deposits below Rs. 15 crores numbering 34, accounted for about 4 per cent of the total credit and about 5 per cent of the total deposits. Foreign banks numbering 15, accounted for 12.5 per cent of the credit and about 11 per cent of deposits.

Distribution of Investments of Banks

48. Investments of scheduled commercial banks showed a smaller rise in 1967 as compared with 1966. The absolute amounts of increase and the rates of increase since 1961 are given below :—

Year	Increase in Investments (Rs. crores)	Percentage Increase
1961	— 41·9	— 6·0
1962	+ 85·7	+13·1
1963	+ 92·1	+12·5
1964	+ 75·1	+ 9·1
1965	+ 85·4	+ 9·4
1966	+163·9	+16·6
1967	+ 79·4	+ 6·9

49. At the end of March 1967, the share of Government securities in total investments of scheduled commercial banks stood at 82.4 per cent which was same as at the end of March 1966 (Table 10). Other domestic investments showed a decline from 15.7 per cent to 15.0 per cent. The share of foreign securities continued to be negligible (0.4 per cent). The share of Indian offices in total investments, however, declined from 98.4 per cent to 97.8 per cent, with a corresponding increase in the share of investments of foreign offices, reflecting mainly the devaluation of Indian rupee in June 1966.

50. The maturity-wise pattern of investments in Government securities of Indian offices of scheduled commercial banks at the end of March 1967 showed some important shifts (Table 11). The share of short-term securities (maturing within five years) declined sharply from 67.5 per cent of the total at the end of March 1966 to 58.3 per cent at the end of March 1967. On the other hand, medium-dated ones (maturing within 5-10 years) showed an impressive increase from 21.0 per cent to 31.4 per cent over the year. The share of medium longs (10-15 years) declined from 6.3 per cent to 5.6 per cent over the year. Long dated securities also formed a lower proportion of 2.6 per cent at the end of March 1967 as compared with 2.8 per cent

TABLE 10.—INVESTMENTS OF SCHEDULED COMMERCIAL BANKS, 1964-1967

(Rs. Crores)

	March 31, 1964		March 31, 1965		March 31, 1966		March 31, 1967	
Number of reporting banks	79		75		76		73	
	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*
	1	2	3	4	5	6	7	8
I. Investments of Indian Offices in								
(*a*) Indian Government Securities (including Treasury Bills)	669·14	*81·9*	755·12	*81·7*	820·27	*82·4*	916·33	*82·4*
(*b*) Other Domestic Investments	123·94	*15·2*	148·40	*16·1*	156·84	*15·7*	166·84	*15·0*
(*c*) Foreign Securities	2·80	*0·3*	2·97	*0·3*	2·89	*0·3*	4·32	*0·4*
Total of I	**795·93**	*97·4*	**906·49**	*98·1*	**980·00**	*98·4*	**1087·49**	*97·8*
II. Investments of Foreign Offices..	21·27	*2·6*	17·10	*1·9*	15·92	*1·6*	23·99	*2·2*
III. **Total of I and II**	**817·15**	*100·0*	**923·59**	*100·0*	**995·92**	*100·0*	**1111·48**	*100·0*

Note: 'Other Domestic Investments' exclude investments in real estate and bullion.

TABLE 11.—MATURITY-WISE INVESTMENTS IN GOVERNMENT SECURITIES OF INDIAN OFFICES OF SCHEDULED COMMERCIAL BANKS, 1964-1967

(Rs. Crores)

	March 31, 1964		March 31, 1965		March 31, 1966		March 31, 1967	
	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*	Amount	*Percentage*
	1	2	3	4	5	6	7	8
I. Treasury Bills	19·37	*2·9*	5·31	*0·7*	20·09	*2·4*	19·07	*2·1*
II. Securities maturing*								
1. Within 5 years	282·72	*42·3*	426·90	*56·6*	552·57	*67·5*	534·28	*58·3*
2. Between 5 & 10 years ..	304·58	*45·5*	255·50	*33·8*	172·59	*21·0*	287·81	*31·4*
3. Between 10 & 15 years ..	40·96	*6·1*	43·31	*5·7*	51·67	*6·3*	51·26	*5·6*
4. After 15 years	21·51	*3·2*	24·10	*3·2*	23·35	*2·8*	23·91	*2·6*
III. Total of I and II	**669·14**	*100·0*	**755·12**	*100·0*	**820·27**	*100·0*	**916·33**	*100·0*

* Amount represents face value.

a year ago. The share of Treasury bills which was less than 1 per cent at the end of March 1965 had improved to 2.4 per cent at the end of March 1966, but was fractionally lower at 2.1 per cent as of end-March 1967.

Bank Profits

51. The level of profits@ which remained the same as in 1965 and 1966 at Rs. 15 crores showed a modest increase to Rs. 16 crores in 1967 in respect of 37 reporting Indian scheduled commercial banks which accounted for about 87 per cent of deposits and 85 per cent of credit of all scheduled commercial banks. The increase in profits has been primarily brought about by the higher average rate on advances earned on an increased level of credit in 1967. Total earnings rose by Rs. 41 crores to Rs. 277 crores and total expenses by Rs. 40 crores to Rs. 261 crores. Interest and discounts earned on credit and investments rose by 17.5 per cent and other earnings increased by 16.7 per cent while interest paid on deposits and borrowings moved up by 15.5 per cent and establishment expenses by 24 per cent. The major factors responsible for the substantial rise in establishment expenses of banks were the larger payments on account of wages and salaries following the bi-partite agreement between the Indian Banks' Association and All India Bank Employees' Association and the continued rise in the dearness allowance paid to employees on the basis of the cost of living index.

Trends in Co-operative Banking

52. It was indicated in the last Report that data relating to co-operative banks were not available for the entire period of the Report and that the time-lag in receiving data was rather long. The last Report, therefore, reviewed the operations of apex banks only. There has been substantial, improvement in this position in that; besides 28 out of 29 apex banks, 366 out of 367 central co-operative banks* have furnished data for the entire period.

53. As at the end of 1967, there were 29 apex co-operative banks (including 3 apex industrial co-operative banks), 367 central co-operative banks (including 25 district industrial co-operative banks) and 1,117 primary co-operative banks under the purview of the Banking Regulation Act, 1949 (as applicable to co-operative societies). The primary co-operative banks include 534 salary earners' societies most of which would cease to be governed by the provisions of the Banking Regulation Act, as and when they restrict their activities to members only. During the year, deposits (excluding inter-bank deposits) of State co-operative banks increased from Rs. 82.2 crores to Rs. 87.3 crores while those of central co-operative banks rose from Rs. 205.9 crores to Rs. 234.2 crores. The number of State co-operative banks on the Second Schedule to the Reserve Bank of India Act, remained unchanged at 12.

54. During the year under review, short-term credit limits aggregating Rs. 349.69

@ After making usual and necessary provisions including taxes, in most cases.

* Data for one State co-operative bank i. e. West Bengal State Housing Finance Co-operative Society and one Central co-operative bank i. e. Ambala Industrial Co-operative Bank are not available.

TABLE 12.—PRINCIPAL LIABILITIES AND ASSETS OF SCHEDULED COMMERCIAL BANKS, 1956-67

(Rs. Crores)

Last Friday of December	No. of Reporting Banks	Demand Deposits (Excluding inter-bank deposits)	Time Deposits (Excluding inter-bank deposits)	Aggregate Deposits	Borrowings from Reserve Bank	Cash in hand and Balances with Reserve Bank	*Percentage of (6) to (4)*	Total Bank Credit*	*Percentage of (8) to (4)*	Investments: Govern-ment-Securities†	Investments: Others	Investments: Total Invest-ments	*Percentage of (10) to (4)*
	1	2	3	4	5	6	7	8	9	10	11	12	13
1956 ..	89	603·4	449·1	1052·5	79·1	90·5	*8·6*	744·9	*70·8*	364·2	30·6	394·8	*34·6*
1957 ..	91	658·9	638·7	1297·5	23·6	107·6	*8·3*	819·5	*63·2*	432·9	50·8	483·7	*33·4*
1958 ..	93	649·8	866·4	1516·2	11·0	119·4	*7·9*	830·6	*54·8*	637·0	54·9	691·9	*42·0*
1959 ..	94	668·9	1097·9	1766·9	11·8	113·9	*6·4*	921·9	*52·2*	787·4	67·6	855·0	*44·6*
1960 ..	93	721·0	1086·4	1807·3	61·5	162·0	*9·0*	1130·0	*62·5*	630·3	63·4	693·7	*34·9*
1961 ..	82	732·6	1102·1	1834·7	18·7	155·8	*8·5*	1277·0	*69·6*	577·0	74·8	651·8	*31·4*
1962 ..	80	816·9	1222·0	2038·9	20·7	132·7	*6·5*	1421·8	*69·7*	646·2	91·3	737·5	*31·7*
1963 ..	79	997·2	1255·6	2252·8	8·1	141·4	*6·3*	1580·9	*70·2*	707·2	122·4	829·6	*31·4*
1964 ..	76	1178·3	1345·7	2524·0	35·4	160·3	*6·4*	1811·0	*71·8*	764·4	140·3	904·7	*30·3*
1965 ..	76	1367·2	1519·8	2887·0	19·4	203·8	*7·1*	2105·6	*72·9*	826·2	163·9	990·1	*28·6*
1966 ..	76	1582·6	1795·8	3378·4	7·5	249·0	*7·4*	2434·2	*72·1*	952·0	202·0	1154·0	*28·2*
1967 ..	73	1781·2	1981·9	3763·1	7·6	276·6	*7·4*	2727·3	*72·5*	1005·9	227·5	1233·4	*26·7*

Note : (1) Figures are based on Form XII of the Banking Regulation Act, 1949 except those in Column 5 which are based on weekly returns submitted by scheduled commercial banks in terms of Section 42(2) of the Reserve Bank of India Act, 1934.

(2) Figures from December 1961 are on a revised basis and consequently are not strictly comparable with those for the earlier years.

* Includes inland and import bills purchased and discounted upto December 1960 and all bills purchased and discounted thereafter.

† Includes Treasury Bills and Treasury Deposit Receipts.

crores were sanctioned by the Reserve Bank of India to 18 State co-operative banks for financing seasonal agricultural operations and marketing of crops at the concessional rate of interest of 2 per cent below the Bank rate. The outstandings in respect of drawals of these limits amounted to Rs. 189.20 crores as on December 31, 1967 which exceeded the outstanding amount as on December 31, 1966 by Rs. 30.71 crores. Separate credit limits for special agricultural production programmes were discontinued after June 1967 and the requirements of these programmes were included in the normal requirements of the central co-operative banks. The Reserve Bank of India also sanctioned to 10 State co-operative banks credit limits aggregating Rs. 38.00 crores at the Bank rate for financing the purchase and distribution of chemical fertilizers. The total drawals against these limits amounted to Rs. 27.65 crores and the outstandings as on December 31, 1967 were Rs. 15.49 crores.

55. Short-term credit limits to State co-operative banks for financing the production and marketing activities of handloom weavers' societies during 1967 aggregated Rs. 8.6 crores in respect of 9 State co-operative banks. Drawals on these limits amounted to Rs. 7.1 crores and outstandings as on December 31, 1967 were Rs. 3.9 crores. This accommodation was granted at the concessional rate of 1½ per cent below the Bank rate. In addition, credit limits aggregating Rs. 1.1 crores were sanctioned to 3 State co-operative banks at the Bank rate on behalf of 4 apex weavers' co-operative societies for financing the purchase and distribution of yarn by them. Drawals on these limits amounted to Rs. 1.8 crores and the outstandings on December 31, 1967 amounted to Rs. 0.19 crore.

56. Besides short-term credit limits, the Reserve Bank sanctioned during the year under review medium-term credit limits aggregating Rs. 16.83 crores to 16 State co-operative banks at the concessional rate of 1½ per cent below the Bank rate for financing approved agricultural purposes. In addition, medium-term loans of Rs. 25.0 lakhs were sanctioned to 2 State co-operative banks for financing the purchase of shares in co-operative sugar factories at the Bank rate. The total outstandings against the two limits mentioned above, were Rs. 13.26 crores as at the end of December 1967.

57. Due to the recurrence of drought in some parts of the country, short-term loans aggregating Rs. 7.45 crores repayable to the Reserve Bank of India from State co-operative banks had to be converted during the year into medium-term loans by drawing upon the National Agricultural Credit (Stabilisation) Fund. Rephasing of the repayment programme in respect of loans converted in the earlier year was also allowed to the extent of Rs. 1.38 crores. The outstandings in respect of loans from the National Agricultural Credit (Stabilisation) Fund were Rs. 7.63 crores at the end of 1967 as compared to Rs. 3.80 crores, a year ago.

58. During the year, loans were sanctioned to 14 State Governments from the National Agricultural Credit (Long-term Operations) Fund to the extent of Rs. 6.69 crores for contributing to the share capital of apex and central co-operative banks, co-operative land development banks and primary agricultural credit societies.

59. Loans for non- agricultural purposes of State and central co-operative banks were outstanding at Rs. 190.9 crores at the end of 1967, which included Rs. 37.6 crores for industrial purposes. The Reserve Bank has constituted in June 1967 a Working Group under the Chairmanship of one of its Deputy Governors to study the problem of ensuring an adequate flow of funds for industrial financing through co-operative banks.

CHAPTER II

BANKING LEGISLATION AND ORGANISATION

Social Control over Commercial Banks

60. During the last several years, the Reserve Bank has taken a number of steps to consolidate and strengthen the banking system through re-construction of weaker units and exercise of more effective control and supervision over the working of banks in order to ensure soundness of their operations. The year under review was marked by the adoption of measures to attune the operations of banks to a more purposeful and equitable distribution of credit for the promotion of basic social and economic objectives. The main features of the social control over banks, as enunciated by the Deputy Prime Minister, on December 14, 1967 in the *Lok Sabha*, are as follows.

61. In order to help achieve an equitable and purposeful distribution of credit, the setting up of a high level body at the all-India level called the National Credit Council was proposed. The Council would comprise representatives from large, medium and small scale industries, agriculture, co-operative sector, trade and bankers and professional groups such as economists, chartered accountants, etc. The Minister of Finance would be the Chairman and the Governor of the Reserve Bank, Vice-Chairman of the Council. The deliberations of the Council would help the Government and the Reserve Bank in budgeting and planning of overall credit.

62. Each bank would have a professional banker and not an industrialist as a full time chairman. The Reserve Bank would have the power to appoint its own nominee as chairman if the bank's nominee is not acceptable to it and also would have the power to remove him, if considered necessary. The Board of Directors of banks would be re-constituted and the majority of the directors would be non-industrialists and persons from sectors such as agriculture, small scale industries, co-operatives and others whose knowledge and experience would be useful to the banking company. The Reserve Bank would have the power to appoint a director or observer on the board of a commercial bank. In the initial stages, these powers would be exercised in the case of major banks with deposits of over Rs. 25 crores and gradually over a period of time, these would be extended to all banks.

63. All advances or guarantees to directors and the concerns in which they are interested as directors, partners, managers, employees or managing agents or substantial shareholders would be prohibited. Borrowers of a bank would not be represented on local or advisory committees set up by commercial banks which scrutinise loan applications and make recommendations to the Board.

64. Each foreign bank would be expected to set up an advisory board consisting of Indians and following more or less the same pattern as that prescribed in respect of Board of Directors for Indian banks. It would be expected to conduct its lending policies and practices in the light of the guidance of the advisory board.

65. The Government would be empowered to acquire the business of a particular bank if there is persistent default by it in complying with the provisions of law or directives issued thereunder or if it is considered necessary for better provision of banking facilities to particular sectors or particular areas.

66. Banks have already initiated action to fall in line with the objective of social control and are reconstituting the Boards of Directors in the case of Indian banks and setting up advisory boards in the case of foreign banks.

67. The Banking Laws (Amendment) Bill, 1967 was introduced in the *Lok Sabha* on December 23, 1967 in order to amend the Banking Regulation Act, 1949 so as to provide for the extension of social control over banks, and has been referred to a Select Committee of the Parliament.

68. The Deputy Prime Minister and the Minister of Finance also announced in the *Lok Sabha* on December 14, 1967 that a Banking Commission would be set up to study matters which affect the developments of the banking industry on the right lines.

69. The inaugural meeting of the National Credit Council which was held in Bombay on March 16, 1968 was presided over by the Deputy Prime Minister. The list of members of the Council who attended the meeting is given in Annexure III of the Report. The Chairman in his opening remarks stated, *inter alia*, that while an equitable and purposeful distribution of credit was the immediate problem before the Council, no less important was the need for mobilising more resources for the organised banking system and he drew attention, in particular, to the scope provided by the increase in agricultural incomes this year. The Chairman also indicated that co-ordination between different credit agencies was vital and the role of the co-operative and commercial banks should be regarded as complementary to each other. In the course of the general discussion among the members, there was general agreement that the main issues before the Council were the problem of deposit mobilisation and of credit allocation with a view, in particular, to ensuring adequate credit to priority sectors. The general view regarding credit allocation was that filling in credit gaps in some sectors should not lead to credit gaps elsewhere. There was general agreement that commercial banks should go in for more agricultural credit. As the Chairman indicated that the various issues needed detailed consideration, it was decided to have a Standing Committee which could then go into specific issues and formulate concrete proposals for consideration by the Council at its next meeting scheduled to be held in Bombay towards the end of June 1968.

Non-Banking Companies

70. It was mentioned in the last Report that on October 29, 1966 two new directives *viz.* (1) Non-Banking Financial Companies (Reserve Bank) Directions, 1966 and (2) Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966 were issued extending the Bank's control to all : (*i*) non-banking financial companies and (*ii*) non-banking non-financial companies accepting deposits, and that the directions were brought into force with effect from January 1, 1967. The directives provided, *inter alia*, for restricting acceptance of deposits to 25 per cent of paid up capital and free reserves in the case of both non-banking financial and non-banking non-financial companies (other than housing finance and hire-purchase finance companies).

71. After the issue of the above directives, a number of representations were received to the effect that in view of the recessionary trends in the economy, some relief should be granted to non-banking companies regarding the acceptance of deposits from the public. The Bank, on a review of the position, came to the conclusion that no basic changes in the framework of the control were necessary or desirable. However, to obviate hardships, particularly to industrial undertakings, in complying with the provisions of the directives within the specified time limit, the Bank made certain modifications in the directives on August 23, 1967 as follows : (1) In the case of all non-banking companies, financial or non-financial, the Bank decided that any amount held in the statutory development rebate reserve, created under Section 34(3) of the Income-Tax Act, 1961, may (notwithstanding the fact that the period of eight years specified in that section might not have been completed in respect of all the assets) be counted as a free reserve and (2) in the case of industrial concerns as defined in the directives which (*a*) have paid dividends on their equity shares at six per cent or more per annum in the five years or in five out of six or seven years immediately preceding January 1, 1967 or (*b*) have unencumbered fixed assets of a book value in excess of twice the amount of the deposits and the unsecured loans, the time-limit of two years, for the adjustment of the deposits already received in excess of twenty-five per cent of the paid-up capital and free reserves including the development rebate reserve, will be increased to five years, *i.e.* upto the end of December 1971. (A company, which has already received deposits in excess of this limit, will however not be permitted to receive any additional deposits).

72. In terms of paragraph 9 of the directives, non-banking companies are precluded from paying interest on the premature repayment of deposits. The proviso to this paragraph permits the Reserve Bank to authorise, by general or special order in the case of any class or classes of depositors, the payment of interest on such terms and conditions as the Bank may specify. Several representations

were received from time to time from non-banking companies requesting for permission to repay certain deposits before maturity with accrued interest. The Bank, therefore, issued two orders in April 1967 in pursuance of the provisions contained in the proviso to paragraph 9 of the directives, regarding the payment of interest on the premature withdrawal of deposits. In terms of these orders, no interest was payable on deposits which were withdrawn before the expiry of a period of six months from the date of receipt in the case of hire-purchase finance companies, and twelve months in respect of other financial and non-financial companies. In case of premature repayment of deposits which were initially accepted for longer periods, maximum rates of interest varying from 4 per cent to 6 per cent in the case of hire-purchase finance companies, and from 5 per cent to 6 per cent in respect of all other financial and non-financial companies, depending on the period for which a deposit had run at the time of its repayment, were prescribed. In August 1967 these orders were replaced by fresh orders which permit in the case of premature withdrawal of deposits before the expiry of a period of 6 months in the case of hire-purchase finance companies and 12 months in the case of other financial and non-financial companies, the payment of interest at the rates which commercial banks are paying for similar periods and in the case of premature withdrawal of deposits after a period of 6 months from the date of receipt in the case of hire-purchase finance companies and 12 months in the case of other financial and non-financial companies, the payment of interest at the contracted rate less one per cent per annum.

73. A study was also made of the working of *nidhis* or mutual benefit and permanent funds. It revealed that consequent upon the Supreme Court decision to the effect that *nidhis* are not mutual benefit companies and that their income, profits and gains are, therefore, subject to income-tax, the operational costs of *nidhis* have increased considerably. The *nidhis* seem to provide personal loans on rates of interest which are slightly higher than the rates which are currently charged for personal overdrafts by commercial banks. The loans given by them are reportedly used for house construction or expenses on marriages, education or other family obligations. With the increase in their operational costs and the availability of alternative avenues of finance, the possibility of further growth and expansion of *nidhis* or mutual benefit and permanent funds seem to be restricted. In the competitive present day set-up, *nidhis* will, therefore, have to diversify their objects, increase their membership and take to modern methods of working in order to perform useful functions and prove to be viable units.

74. During the year, a survey of the deposits of non-banking companies, based on the returns received from them was conducted as on March 31, 1966. It revealed that at the end of March 1966, there were 3,67,300 accounts with total deposits of Rs. 283 crores in the non-banking corporate sector. During the twelve months ended March 1966 the total number of companies accepting deposits increased by about 450, the total number of deposit accounts by about 86,000 and the amount of deposits by about Rs. 74 crores (Table No. 13). The significant growth in deposits by 35.5 per cent during the year ended March 1966 as compared to the rise which ranged between 12.5 per cent to 20.8 per cent during the earlier three years is not surprising in the context of the stringent credit conditions, which prevailed throughout this year. The restrictions imposed by the Reserve Bank in respect of advertisements by companies seeking public deposits were operative only for a period of less than three months during this period. The ceiling limits on deposits were imposed only after the end of the period under review (with effect from January 1, 1967) and the requirements as to the deduction of tax at source under the new Section 194 A of the Income Tax Act, 1961 came into force only with effect from October 1, 1967, in respect of the interest paid on the deposits on or after this date. It is believed that in view of the restrictions on the total volume of deposits imposed by the Reserve Bank, the general liberalisation of credit and the voluntary restraint which has been exercised by the leading industrial and commercial companies even within the permissible limits upto which deposits could still be obtained by them, the rate of growth of deposits in the non-banking corporate sector has since slowed down.

TABLE 13.—DEPOSITS WITH NON-BANKING COMPANIES (INCLUDING BRANCHES OF FOREIGN COMPANIES) MARCH 1962 TO MARCH 1966

(Rs. crores)

	End of March									
	1962		1963		1964		1965		1966	
	No. of companies accepting deposits	Total amount of the deposits	No. of companies accepting deposits	Total amount of the deposits	No. of companies accepting deposits	Total amount of the deposits	No. of companies accepting deposits	Total amount of the deposits	No. of companies accepting deposits	Total amount of the deposits
Hire-purchase finance companies	113 *(100)*	10·9 *(7·1)*	136 *(122)*	12·1 *(8·5)*	140 *(126)*	14·8 *(11·1)*	112 *(99)*	14·1 *(9·8)*	123 *(108)*	14·4 *(8·7)*
Other financial companies..	221 *(126)*	27·1 *(9·7)*	232 *(139)*	29·8 *(10·6)*	254 *(157)*	35·5 *(12·1)*	228 *(138)*	34·8 *(11·9)*	270 *(155)*	40·5 *(12·6)*
Non-financial companies ..	1208 *(570)*	97·5 *(31·3)*	1309 *(624)*	112·0 *(33·8)*	1395 *(664)*	135·6 *(37·6)*	1569 *(782)*	160·2 *(47·0)*	1964 *(987)*	228·5 *(65·7)*
Total	**1542** *(796)*	**135·5** *(48·1)*	**1677** *(885)*	**153·9** *(52·9)*	**1789** *(947)*	**185·9** *(60·8)*	**1909** *(1019)*	**209·1** *(68·7)*	**2357** *(1250)*	**283·4** *(87·0)*

Note : Figures within brackets indicate the number of private limited companies and the deposits accepted by them (included in the figures outside the brackets).

Bank Mergers

75. The efforts made to consolidate the banking structure through a process of voluntary amalgamation or the transfer of liabilities and assets were continued during the year and the total number of banks absorbed in this manner was 9 in 1967 as compared to 7 in 1966 (Table 14). The total number of commercial banks operating in the country at the end of 1967 was 90* of which 73* were scheduled banks.

TABLE 14.—BANK MERGERS, AMALGAMATIONS AND TRANSFERS OF ASSETS AND LIABILITIES

Year	Voluntary Amalgamations under Section 44A of the Banking Regulation Act, 1949	Compulsory Mergers under Section 45 of the Banking Regulation Act, 1949	Other Mergers@	Transfer of assets and liabilities under Section 293 (i) (a) of the Companies Act, 1956	Total
1960 ..	2	—	—	5	7
1961 ..	1	30	2	3	36
1962 ..	3	1	2	5	11
1963 ..	2	1	4	15	22
1964 ..	7	9	1	62	79
1965 ..	5	4	3	21	33
1966 ..	—	—	2	5	7
1967 ..	—	—	3	6	9
Total ..	**20**	**45**	**17**	**122**	**204**

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

* Excluding the Habib Bank Ltd. and the National Bank of Pakistan whose assets have been vested in the Custodian of Enemy Property and the Amrit Bank Ltd. which was granted moratorium with effect from December 2, 1967.

76. Transfers of agreed assets and liabilities continued to be the most popular method of merging weaker units with stronger ones. Six banks (one each in Mysore, Bihar, West Bengal and Kerala States and two in Madras State) transferred their liabilities and assets to other banks under Section 293(i) of the Companies Act, 1956 ; there were 5 such transfers in 1966.

77. The State Bank of India acquired the business of the Bengal Duars Bank Ltd., Jalpaiguri, the Raikut Industrial Bank Ltd., Jalpaiguri and the Kamla Bank Ltd., Cooch-Behar, with effect from January 14, 1967 in accordance with the scheme sanctioned by the Government of India under Section 35 of the State Bank of India Act, 1955.

78. As in the previous year, there was no case of compulsory merger under Section 45 of the Banking Regulation Act, 1949. During 1967, one bank was granted moratorium under Section 45 of the Banking Regulation Act, 1949 bringing the total number of banks granted moratoria since September 1960 to 57 with deposits amounting to Rs. 26.15 crores. The bank has subsequently been amalgamated with the State Bank of Patiala.

79. Of the remaining 56 banks which were granted moratoria, 45 were amalgamated with other banks. Among these, depositors of 27 banks were given full credit for the entire deposits in the books of the transferee banks at the very commencement of the relative schemes of amalgamation. The depositors of 10 other banks received credits in the books of the transferee banks in proportion to the readily realisable assets in addition to the preferential payment made to each depositor of the sum standing to his credit or Rs. 250 whichever was less. Of these 10 banks, the depositors of 3 banks have since received full payment. In respect of the remaining 8 banks, which were merged with other banks after the establishment of the Deposit Insurance Corporation, the depositors received pro rata credits to the extent of the readily realisable assets to the transferor banks ; besides, in cases where the amount of pro rata credit was short of Rs. 1,500 or the balance in the depositor's account whichever was less, the difference was made good by the Deposit Insurance Corporation as provided for in the relative schemes. The depositors of one of these banks have also since received full payment.

80. Out of the remaining 11 banks which were granted moratoria but were not amalgamated with other banks, Government have (as indicated in the last year's Report) framed schemes of administration in respect of two foreign banks *viz.* the Habib Bank Ltd. and the National Bank of Pakistan whose assets had been vested in the Custodian of Enemy Property in India. According to these schemes, payments are being made to the depositors/creditors at stipulated rates. One bank was allowed to go into voluntary liquidation and 3 banks were finally ordered to be wound up on an application made by the Reserve Bank under Section 38 of the Banking Regulation Act, 1949. One bank was allowed to amalgamate voluntarily with another bank under Section 44A of the Banking Regulation Act, 1949, while in respect of another a scheme of arrangement was sanctioned by the Court and an order was passed for its dissolution. Government allowed moratoria to lapse in the case of 2 banks on their directors giving a guarantee undertaking to make payments from their personal asssets, if necessary, while in the case of one bank the moratorium was allowed to lapse on its expiry and simultaneously the bank was refused licence under Section 22 of the Banking Regulation Act, 1949.

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

Schemes of Arrangement

82. The petition filed on April 29, 1966 by the Punjab and Kashmir Bank Ltd., Delhi seeking permission of the High Court of Punjab to negotiate with the State Bank of Patiala for acquisition of the former's New Fund business is still pend-

ing and the next date of hearing of the petition which was fixed for January 22, 1968 has been postponed to April 10, 1968. The Commercial Bank Ltd., Kolhapur was granted by the High Court at Bombay further extension of time upto March 31, 1968 to pay the remaining balance of $7\frac{1}{2}$ per cent of the fifth and final instalment payable to the depositors under the scheme of arrangement sanctioned to it on March 20, 1953. Out of this instalment the bank declared on August 16, 1967 an instalment of $2\frac{1}{2}$ per cent. The Gauhati Bank Ltd. which had been working under a scheme of arrangement since May 1951, declared payment of final instalment of 10 per cent of the deposits in the Closed Fund and thereby fully satisfied the scheme. The High Court of Assam thereupon, issued an order on January 19, 1967 terminating the scheme of arrangement. The High Court of New Delhi had, by its order dated December 8, 1966 declared that the scheme of arrangement sanctioned to the Traders' Bank Ltd., New Delhi in June 1948 has been satisfied and directed the final closure of its Closed Fund. The Trinity Bank Ltd., Tiruchirapalli was notified under Section 36A(2) of the Banking Regulation Act, 1949 on March 11, 1967 as a result of which the bank ceased to be a banking company within the meaning of the said Act with effect from that date.

Liquidation of Banks

83. During the year 6 non-scheduled banks went into liquidation of which 2 were ordered to be wound up by the High Courts while the other 4 went into voluntary liquidation after obtaining a certificate from the Reserve Bank under Section 44(1) of the Banking Regulation Act, 1949. Of the two banks wound up by the High Courts, one had transferred its liabilities and equivalent assets to another bank in 1965 and was wound up on an application made by some of its shareholders; the other bank was working under a scheme of arrangement sanctioned by the High Court and was wound up on an application made by its Board of Directors. The Bank scrutinised the returns submitted by the liquidators of 159 banks under Section 45R of the Banking Regulation Act, 1949 with a view to ensuring that the legal requirements were complied with and that the liquidation proceedings were not unduly delayed.

Licensing of Banks

84. During the year, licences granted to 2 scheduled banks were cancelled consequent on their merger with other banks. One scheduled bank and 6 non-scheduled banks were also refused licences after they had transferred their liabilities and assets to other banks. At the and of 1967, the number of licensed banks was 57 (51 scheduled and 6 non-scheduled) including 2 banks which have transferred their liabilities and assets to other banks as at the end of 1967 but the licences granted to them have yet to be cancelled. Applications of 31 banks for the grant of licences were pending as at the end of the year including that of one bank which has transferred its liabilities and assets to another bank but a licence to it has yet to be refused. The banks so far licensed and the banks not requiring a licence *i.e.*, the State Bank of India and its subsidiaries, accounted for 98 per cent of the deposits of commercial banks in India at the end of 1967 *i.e.* the same as in 1966.

85. In respect of the co-operative banks, licences were issued to commence banking business to one State Co-operative Bank, two Central Co-operative Banks and one primary co-operative bank in 1967.

Bank Inspections

86. Under Section 35 of the Banking Regulation Act, 1949, the Reserve Bank inspected 57 scheduled banks and 18 non-scheduled banks during the year. Following the inspections, 11 banks were called upon to submit their representations, if any, in regard to the issue of directions proposed to be issued to them by the Bank and/or to the deputation of an Observer.

87. As regards the co-operative sector, 15 State Co-operative Banks, 279 Central Co-operative Banks and 242 primary co-operative banks (which included 90 banks inspected by the officers of the State Co-operative Banks on behalf of the Reserve Bank) were inspected during the year 1967.

Deposit Insurance

88. The number of insured banks declined from 100 at the end of 1966 to 91 at the end of 1967, as a result of the transfer of their deposit liabilities and equivalent assets to other banks. No liability

in respect of insured deposits arose during the year. From its inception in 1962 to the end of 1967, the Corporation met claims aggregating Rs. 57.21 lakhs in respect of 11 banks as against Rs. 57.31 lakhs in respect of the same number of banks at the end of 1966 on account of a minor revision of claims. During the same period, repayments received by the Corporation in respect of claims met totalled Rs. 33.03 lakhs. As on the last Friday of September 1967, the latest date for which data are available, the total number of deposit accounts with insured banks was 155.26 lakhs, of which 118.67 lakhs (with balances not exceeding Rs. 1,500), or 76.4 per cent of the total number of accounts, were fully insured by the Corporation.

89. As a result of the increase in the amount of assessable deposits during 1967, the accretion to the Deposit Insurance Fund during the year was higher at Rs. 2.1 crores as compared with Rs. 1.8 crores in 1966. The Fund, which amounted to Rs. 6.5 crores as at the end of 1966 increased to Rs. 8.6 crores as at the close of the year.

90. The Corporation increased with effect from January 1, 1968 the limit of insurance cover in respect of the amounts due to any one depositor from a registered commercial bank from Rs. 1,500 to Rs. 5,000 ; however, the existing rate of premium at five paise per hundred rupees per annum would continue.

91. With a view to extending the scheme of deposit insurance to cover State and Central Co-operative Banks and larger primary non-agricultural credit societies *i.e.* urban co-operative banks with paid-up capital and reserves of Rs. 1 lakh or more, the Deposit Insurance Corporation (Amendment) Bill, 1967, was introduced in the *Lok Sabha* on July 17, 1967.

Branch Expansion

92. During the year, the Reserve Bank granted permission to commercial banks to open 279* offices of which 135 were at unbanked centres. The number of offices actually opened was 223 at banked centres and 182 at unbanked centres, as compared to 289 and 189 respectively in 1966. Of the new offices opened in 1967, the State Bank of India and its subsidiaries opened 44 offices at banked centres and 101 offices at unbanked centres, as compared to 63 and 91 respectively during 1966. Scheduled commercial banks opened 402 offices in 1967 as compared to 461 in 1966. Allowing for the change in the number of offices due to amalgamations, mergers, transfers of assets and liabilities, closure of offices etc., the number of offices of scheduled commercial banks increased by 400 in 1967 as compared to 481 in 1966; offices of non-scheduled banks, however, declined by 12 in 1967, *i.e.* same as during 1966. At the end of 1967, the total number of offices of scheduled commercial banks and non-scheduled commercial banks stood at 6,816 and 209 respectively, compared to 6,416 and 221 in the previous year (Table 15).

TABLE 15—VARIATIONS IN THE NUMBER OF OFFICES OF SCHEDULED AND NON-SCHEDULED COMMERCIAL BANKS IN 1966 AND 1967

	Scheduled Commercial Banks		Non-Scheduled Commercial Banks		All Commercial Banks	
	1966	1967	1966	1967	1966	1967
1. New offices opened	+ 461 (+114)	+ 402 (+ 83)	+ 17	+ 3	+ 478	+ 405
2. Changes due to amalgamations, mergers, transfers of assets and liabilities and inclusion in and exclusion from the Second Schedule to the R. B. I. Act, 1934	+ 28	+ 10	— 28	—14	—	— 4
3. Existing offices closed	— 8 (— 1)	— 12 (— 2)	— 1	— 1	— 9	— 13
4. Overall variation in the number of offices ..	+ 481	+400	— 12	—12	+ 469	+ 388
5. Number of offices at the end of the year ..	6,416	6,816	221	209	6,637	7,025

Note :— 1. Figures within brackets relate to the State Bank of India.
2. Data exclude administrative, seasonal, temporary, non-banking offices and offices outside India.
3. Figures for 1966 are revised and those for 1967 are provisional.

* Includes 1 mobile office. Excluding permission granted for opening offices outside India, temporary and seasonal offices, for the change of location of existing offices and taking over the business of other commercial banks.

— State Bank and its Subsidiaries

93. The State Bank of India and its subsidiaries have a special role in extending banking facilities in the country. As indicated in the last year's Report even with the overfulfilment by opening 309 branches as against the target of 300 branches under their programme for branch expansion by the State Bank of India and its subsidiaries covering the period July 1960-June 1965, the State Bank was asked to proceed further with branch expansion in order to ensure the continuity of the programme without any slackening of pace. With the opening of 4 more branches during the year, the State Bank opened 145 branches at the end of 1967. It had, however, been advised that no additional centres would be approved under this programme and that it should open branches at the centres so far approved by December 31, 1968. Under its third programme for opening 319 branches at non-banking treasury and sub-treasury centres within five years period commencing from January 1, 1964, the State Bank of India had opened 214 branches (including 51 in 1967) upto the end of December 1967 leaving 105 branches to be opened in the last year of the programme. In addition, the State Bank opened 18 branches in 1967 outside the expansion programme, in pursuance of its policy of expanding banking facilities in metropolitan cities and big towns. Under their expansion programme for the period July 1965-June 1970, the subsidiaries of the State Bank of India had opened 118 branches by the end of 1967 (including 57 in 1967). They also opened 12 branches in 1967 outside the expansion programme. As on December 31, 1967 the total number of Indian offices of the State Bank and its subsidiaries stood at 1457 and 762 as compared to 1377 and 701 respectively at the end of 1966.

— Other Banks

94. The two year second branch expansion programme intended for commercial banks in the private sector referred to in the last Report, concluded on July 31, 1967. Under this programme the Bank had approved the opening of 669 offices of which 241 were to be at unbanked centres. Upto the end of 1967, licences were issued for 552 new offices, of which 195 were for unbanked centres. As against these licences, banks opened 514 offices including 182 at unbanked centres. In pursuance of the Bank's policy of promoting systematic expansion of banking facilities to areas devoid of or deficient in such facilities, the second expansion programme referred to above was followed by another programme covering a period of 2 years ending July 31, 1969. Keeping in view the imperative need for larger expansion of branches in rural and semi-urban centres and curbing the general tendency of banks to open offices in urban centres, it has been considered desirable to allow the banks to open a larger number of offices in rural and semi-urban centres. Under the third programme, the Bank has approved upto the end of 1967 the opening of 308 offices by 21 banks ; of these 178 are in rural and semi-urban places of which 145 are at unbanked centres.

Clearing Houses

95. Further progress was made during the year, in widening the clearing house facilities at all centres with a population of one lakh and above as a part of the larger programme of extension of banking facilities in the country. With the establishment of 4 clearing houses in 1967 including one at a place with a population of less than one lakh, the total number functioning in the country rose to 91 ; of these 7 are managed by the Reserve Bank, 69 by the State Bank of India and 15 by the subsidiaries of the State Bank of India.

Indian Banks' Business Abroad

96. While the number of Indian banks operating abroad remained unchanged at 7, their offices declined from 61 to 58 during the year consequent on the closure of 4 offices in Tanzania and partly offset by the opening of one office in the United Kingdom. At the end of 1967, the largest number of foreign offices of Indian banks continued to be in Malaysia (11). Till Indian banks' offices in Pakistan were taken over by the Government of that country at the outbreak of hostilities in September 1965, India had the largest number of offices in Pakistan. The next in line were Kenya and United Kingdom with 9 and 8 offices respectively. Total liabilities of Indian banks abroad declined from Rs. 216 crores to Rs. 186 crores or by 14 per cent during the year. Total deposits

of Indian banks abroad stood at Rs. 145 crores at the end of 1967, as against Rs. 157 crores a year earlier. Loans and advances dropped from Rs. 63 crores to Rs. 58 crores, bills purchased and discounted from Rs. 40 crores to Rs. 31 crores, and money at call and short notice from Rs. 26 crores to Rs. 22 crores ; investments were, however, maintained at Rs. 22 crores. As liquid assets* decreased during the year by Rs. 11 crores to Rs. 70 crores, their ratio to deposits fell from 52 per cent to 49 per cent.

Export Finance Facilities

97. The operation of the special schemes of the Reserve Bank of India and the Industrial Development Bank of India under which refinance facilities have been made available on preferential terms for exports may now be referred to. It may be recalled that in the matter of cost of export credit, the first step taken by the Reserve Bank was the introduction of the Rupee Export Bills Scheme in March 1963 which reduced the cost of credit to the exporter. Irrespective of the cost of borrowing from the Reserve Bank for other purposes, the banks were allowed to borrow against holdings of rupee usance export bills at the Bank rate on condition that they did not charge the exporters more than $1\frac{1}{2}$ per cent above the Bank rate. This facility has continued ever since. In August 1967, the Reserve Bank introduced major changes in its policy to bring about substantial reductions in the cost of export credit. The Reserve Bank announced that eligible scheduled commercial banks could get refinance, irrespective of their net liquidity ratio, at a preferential rate of interest of $4\frac{1}{2}$ per cent per annum in respect of packing credit advances for export of engineering and metallurgical products and at the Bank rate in respect of packing credit advances for export of products other than engineering and metallurgical and in respect of post-shipment credit. Simultaneously, the Reserve Bank also fixed ceiling rates of interest on export credit extended by banks. Whether or not commercial banks availed themselves of the refinance facilities from the Reserve Bank, they were obliged to charge rates not higher than the ceiling rates fixed by the Reserve Bank. In August 1967, banks were advised not to charge more than 6 per cent in respect of packing credit advances to exporters of engineering and metallurgical products and not more than 8 per cent in respect of packing credit advances to other exporters and post-shipment finance. The ceiling rate on packing credit advances to other exporters and post-shipment finance was subsequently reduced to 7.5 per cent towards the close of January 1968 and further to 6 per cent early in March 1968. Packing credits are credits granted by banks to exporters on the strength of letters of credit opened in their favour by buyers abroad or firm export orders. Such credits are expected to be extinguished by negotiation of the relative export bills. In order to widen the benefits of the scheme the Reserve Bank has adopted a flexible definition of packing credits and procedural requirements have been modified suitably from time to time. Thus, banks have been advised that exporters who do not have letters of credit or firm export orders in their own names, such as suppliers to the Minerals and Metals Trading Corporation and State Trading Corporation through whom certain exports are channellised may be given packing credits, provided they produce a letter from the MMTC or STC that a portion of order has been allotted to them and that the MMTC or STC does not wish to seek for a packing credit in respect of such portion. The same facility is given to sub-contractors supplying goods for exports under a consortium arrangement. In the case of commodities, which are exported on a consignment basis, *e.g.* tea, packing credit granted on the basis of past experience in regard to the proportion of exports to the total output of the exporting unit concerned are treated as eligible for the concession. It is recognised that such credits have to remain outstanding for sometime after the goods have been exported.

98. In order to simplify borrowing formalities, a suitable amendment to Section 17(3A) of the Reserve Bank of India Act is being promoted to facilitate borrowings by banks for periods not exceeding 180 days against the declaration of packing credit advances, on the lines of the existing provision for lending against usance export bills.

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

99. Under the Export Credit Bill Scheme of the Reserve Bank of India, introduced in March 1963, total advances made by the Reserve Bank to banks in 1963 amounted to Rs. 43.58 crores of which Rs. 11.48 crores was against declaration of foreign currency bills and Rs. 32.1 crores against declaration of Rupee Export Bills. The outstanding amount of export bill advances by the Reserve Bank at the end of 1967 was Rs. 3.98 crores of which Rs. 1.15 crores was in respect of rupee export bills.

100. The Industrial Development Bank of India which also provides refinancing facilities in respect of medium-term export credits given by the eligible banks, liberalised its scheme in this regard on August 22, 1967. The maximum period of export credit was extended in respect of capital goods from 5 years to 7 years in deserving cases and upto 10 years in exceptionally deserving cases. The facility was also extended to cover finance for the overall cost of construction projects executed by Indian concerns abroad where the bulk of the contracts constituted equipment, material and services of Indian origin. The scheme was also extended to exporters in the public sector. The facility under the scheme is now provided at a uniform rate of 4 per cent and the financing institutions are required to charge the exporters not more than 6 per cent. The total number of applications sanctioned since the inception of the scheme in January 1963 upto the end of 1967 was 10 and the amount sanctioned Rs. 1.60 crores ; disbursements upto the end of December 1967 amounted to Rs. 1.47 crores of which Rs. 0.26 crore was outstanding at the end of 1967.

101. The role of the State Bank of India in the provision of export finance may also be briefly referred to. The State Bank of India Act was amended in September 1962 in order to enable it to provide medium term credits to the exporters other than industrial companies. The subsidiaries of the State Bank were also permitted to extend such credit. In 1964, the State Bank of India Act was further amended to provide for the granting of advances to industry and exports upto 10 years. An amendment to the State Bank of India Act already introduced in the Parliament on December 23, 1967 will also enable the State Bank to discount bills upto a maturity of 10 years, which should facilitate the discounting of medium term export bills.

Refinance of Term Loans to Industrial concerns

102. The Industrial Development Bank of India continued to provide refinance to banks also in respect of their medium-term loans to industrial concerns for expansion and modernisation of plant and machinery and for the establishment of new units. While the amount of sanction for refinance to commercial banks declined sharply from Rs. 14.38 crores in 1966 to Rs. 6.74 crores in 1967 (constituting about 61 per cent of the sanctions during 1967 as against 67 per cent during 1966), the disbursal of refinance, however, rose slightly from Rs. 11.44 crores in 1966 to Rs. 11.74 crores in 1967; the total outstanding for refinance disbursed to commercial banks at the end of 1967 stood at Rs. 52.62 crores compared to Rs. 50.54 crores a year ago.

103. In the sphere of refinance, an important change was the reduction in the rate of refinance for industrial loans from 6½ per cent to 6 per cent, effective July 1, 1967, provided the institution availing of refinance did not itself charge on its corresponding loan more than 8½ per cent per annum.

104. The scope of IDBI's scheme for rediscounting of usance bills arising out of sales of indigenous machinery on deferred payment basis, introduced in April 1965, was also widened in August 1967 and its terms were liberalised in the context of the recessionary tendencies in the economy. The scheme was widened to cover assistance for financing capital equipment in agriculture and small industries as well as meeting capital needs, where requirements of capital goods were obtained from indigenous sources. The minimum amount of a transaction covering a set of bills was abolished in the case of agricultural implements and reduced from Rs. 50,000 to Rs. 10,000 in the case of other machinery ; the maximum limit of Rs. 25 lakhs stipulated in respect of bills relating to any single purchaser, over a year, was raised to Rs. 50 lakhs. The maximum period of deferred payment covered under the scheme was also extended from 5 years upto 7 years in deserving cases. The rate of rediscount for bills having unexpired usance period of more than

60 months was fixed at 5 per cent and in respect of bills with an unexpired usance of over 3 and upto 5 years, at 5½ per cent. (The rate of rediscount on bills with an unexpired usance of 3 years or less is 6 per cent). The borrowing institutions should not charge their customers more than 2 per cent above the respective rediscount rates. As against rediscount of bills of the face value of Rs. 4.89 crores in respect of 7 banks during 1966, bills of the face value of Rs. 9.83 crores in respect of 12 banks were rediscounted during 1967; of this, bills of the face value of Rs. 3.1 crores related to sales of indigenous machinery to 9 concerns where the amount of bills rediscounted for a single purchaser exceeded or would exceed the previous limit of Rs. 25 lakhs. Assistance disbursed (rediscounted value of bills) during 1967, amounted to Rs. 8.47 crores as against Rs. 4.24 crores in 1966. The face value of bills outstanding under the scheme as at the end of December 1967 was Rs. 12.86 crores.

105. Reference was made in the last year's Report of the introduction on April 1, 1966 of the IDBI's scheme for participation in industrial loans and guarantees. Under this scheme, the amount of loan assistance sanctioned aggregated Rs. 1.73 crores to 2 units in 1967 as compared to Rs. 4.85 crores to 4 units in 1966. The total sanctions under the scheme have thus aggregated Rs. 6.58 crores, of which IDBI accounted for Rs. 4.54 crores. The extent of IDBI's participation varied from 56 per cent to 80 per cent of the total assistance. Disbursements under the scheme amounted to Rs. 3.34 crores upto the end of the year.

106. In view of the special problems of the transport industry, a new scheme was introduced in September 1967 to facilitate the sale of new commercial road transport vehicles. The scheme formulated pertains to rediscounting promissory notes arising out of sales of new trucks, jeeps and passenger buses on the basis of credit sales or on hire purchase business. The scheme is intended to assist road transport operators in the private sector by enabling them to secure commercial vehicles on hire purchase or conditional sale and re-sale basis from automobile manufacturers or hire purchase finance companies. Promissory notes of such operators in favour of any of the manufacturers of commercial vehicles or in favour of any hire purchase finance company approved for this purpose by the IDBI can be discounted by certain scheduled and the State Co-operative banks. The approved banks in turn will be given rediscounting facilities by the IDBI which will rediscount the promissory notes at a rate of 6 per cent per annum, provided the banks do not charge by way of discount more than 9 per cent per annum to the manufacturing or hire purchase finance company and in turn, try to ensure that the latter charge the road transport operator a rate not exceeding 7½ per cent flat. The minimum amount of a transaction for this purpose has been fixed at Rs. 10,000; arrangements involving rediscounting for more than Rs. 10 lakhs in respect of a single road transport operator, over a year, will require prior clearance with the IDBI. Under the scheme, limits aggregating Rs. 2.55 crores were sanctioned to 4 banks upto the end of December 1967.

Credit Guarantee Scheme for Small-Scale Industries

107. As observed in the earlier Reports, the Reserve Bank, on behalf of the Government of India has been administering since July 1960, the scheme for the guarantee of advances granted to small-scale industries by specified banks and financial institutions.

108. With effect from March 1, 1967, the revised definition of small-scale industries, *viz.* those having original investment in plant and machinery of a value not exceeding Rs. 7.5 lakhs (as against investment in land, building, plant and machinery including the capitalised value of rented premises, if any, but excluding the amount spent on housing and amenities for workers of a value not exceeding Rs. 5 lakhs, previously) was made applicable for the purposes of receiving facilities under the scheme. As expected, recourse to the scheme showed a further significant rise during the year. Thus during 1967, a total of 19,382 guarantees were issued for Rs. 84.19 crores as compared to 14,210 guarantees for Rs. 52.74 crores in 1966. From the introduction of the scheme in July 1960 to the end of the year under review, 62,798 applications were received for an amount of Rs. 268.61 crores and guarantees were issued in respect of 56,325 applications for a total sum of Rs. 228.40 crores and the guarantee obligation arose in respect

of 109 advances, the Government's share of the amount in default being Rs. 11.40 lakhs in respect of 87 advances. Of the above guarantees issued in respect of 56,325 applications, 27,308 guarantees for an aggregate sum of Rs. 123.89 crores were in respect of industrial units engaged in the manufacture of a variety of products like chemicals and chemical products, metal products, machinery including electrical machinery, apparatus, appliances and supplies, transport equipment and parts and basic metal industries. These industries accounted for 48.39 per cent and 54.39 per cent of the total number and amount respectively of the guarantees issued upto the end of 1967 ; the corresponding percentages for 1966 were 46.03 per cent and 40.34 per cent respectively. This indicates that the facility under the scheme has been availed of largely for extending credit to modern and sophisticated small industries. Till the end of 1967, 44 credit institutions including the State Bank of India and its subsidiaries have availed themselves of the guarantee facilities.

109. In the last quarter of 1967, revised forms of application for guarantee were introduced with a view to expeditious disposal of guarantee applications. Further, the work relating to the scheme was decentralised during the year under review by opening offices of the Industrial Finance Department at three more centres *viz.* Calcutta, Madras and New Delhi, besides Bombay. It is intended that the Regional Offices will provide a liaison between the Reserve Bank/Industrial Development Bank of India and the credit institutions as well as Government and other agencies concerned with the financial and other needs of industry, especially in the small-scale sector.

110. In view of lack of adequate intelligence relating to small-scale units functioning in the country and consequently the difficulty of assessing correctly their requirements of institutional credit, the Reserve Bank has undertaken to conduct an all-India survey of small-scale industrial units on a sample basis. A detailed questionnaire devised by the Bank for this purpose has been mailed to 13,577 selected small-scale industrial units and the work of the survey is in progress.

Bank Finance for Small-Scale Industries

111. As stated earlier, credit extended by scheduled commercial banks to small-scale industries showed a sharp rise during the year ended March 1967. The change in the definition of a small-scale industry, effective March 1, 1967, could have, to some extent, contributed to the increase. The number of accounts relating to small-scale industries increased from 28,472 to 51,050 and the average amount per account rose from Rs. 31,876 to Rs. 35,316. Among individual groups of small-scale industries, the largest share of bank credit, Rs. 24.74 crores or 13.7 per cent was claimed at the end of March 1967 by the textiles group thereby displacing the light engineering group from that position and which accounted for Rs. 18.53 crores or 10.3 per cent of the total outstandings of Rs. 180.3 crores as at the end of March 1967. Next in importance was the manufacture of metal products group (including metal pipes, tubes, etc. but excluding machinery and transport equipment) which claimed Rs. 17.42 crores or 9.7 per cent.

Refinance of Term Loans for Agricultural Development

112. The establishment of the Agricultural Refinance Corporation in 1963, provided encouragement to commercial banks in extending their interest in medium and long-term financing of agricultural development schemes, particularly the development of plantations, for which refinance from the Corporation is available to scheduled banks, State Co-operative Banks and Central Land Mortgage Banks.

113. During the year 1967, the Corporation approved 48 schemes of agricultural development and sanctioned refinance facilities for Rs. 22.45 crores as against 15 schemes involving refinance to the extent of Rs. 10.11 crores sanctioned in 1966. Out of the 48 schemes, 32 are to be financed by the land mortgage/development banks, 4 by State Co-operative Banks and 12 by scheduled commercial banks involving refinance to the extent of Rs. 20.63 crores, Rs. 0.63 crore and Rs. 1.19 crores respectively. From its inception to the end of 1967, the Corporation has sanctioned refinance for Rs. 53.8 crores, against which total disbursements have amounted to Rs. 8.3 crores.

The Unit Trust of India

114. The Unit Trust of India declared during 1967 its third dividend to the unit holders at 7 per cent—the same as that for the previous year. The initial capital contributors received a smaller dividend rate—3.75 per cent as against 4.25 per cent last year. A feature of the Trust's operations during the year ended June 30, 1967 was the appreciable recovery in sales of units—Rs. 9.24 crores as against Rs. 2.15 crores in the preceding year. The improvement in the sales of units in the face of the continued difficult conditions which characterised the economy during the year reflected the growing investor confidence in the Unit Trust. Of the total resources of Rs. 33.9 crores at the end of June 1967, investments in ordinary shares amounted to Rs. 14.0 crores, preference shares Rs. 4 crores and debentures Rs. 13.9 crores. The composition of the Trust's portfolio of investments did not show any significant change during the year. The emphasis of the Trust's investment policy continued to be on securities of companies which pay interest/dividend regularly. In the current year which began on July 1, 1967, sales have recorded a further marked rise, sales during the half year ended December 1967 being over Rs. 13.46 crores.

115. Under the Reinvestment Plan of the Trust (reference to which was made in the last year's Report), which provides for an automatic reinvestment facility to the unit holders in respect of the income distribution due to them, new applications received during the year ended June 30, 1967 amounted to 3,058 covering 9,18,820 units as compared with 4,063 applications covering 10,42,220 units in the preceding year.

Credit Information

116. As mentioned in the earlier Reports, the Reserve Bank maintains a credit information division which receives quarterly statements from banks and other notified financial institutions in respect of credit facilities allowed by them to individual customers and furnishes the information in a consolidated form to banks and other notified financial institutions which apply for it. During the year, credit information in respect of 2367 applications was furnished to 33 applicant banks.

Bankers' Training College

117. During 1967, the Bankers' Training College conducted two Senior Courses, four Intermediate Courses and one course each in foreign exchange, industrial finance and personnel and organisation. The total number of bank officials who received training in the college was 252 (including six officials from foreign countries). Since the inception of the College, 2685 candidates have received training in the different courses. The Bank also continued to arrange courses in banking for the managerial staff of co-operative banks. Two courses were conducted for the managerial staff of State and Central co-operative banks during the year under review in the college in which 55 officials participated, bringing the total number of officials who have received training in this course to 134.

118. Two new courses were started in the college during 1967. An agricultural finance course for a period of seven weeks commencing from December 18, 1967 was instituted with a view to providing intensive training in farm finance to the managerial staff of commercial banks and 33 trainees including some senior officials attended this pilot course. A course for the managerial staff of the urban co-operative banks has been introduced with a view to equipping the key personnel of these banks with knowledge of practices and procedures of modern banking.

119. In addition to the Bankers' Training College for commercial banks personnel, the Bank had set up in Madras, in 1963 a second College mainly for the training of its own junior supervisory staff. In order to meet the increasing requirements of banking institutions for training facilities, the Bank has decided to set up another College for banking personnel at Poona.

Employer-Employee Relations

120. In view of the established policy of the Government over the last two decades and more to operate through Tripartite machinery in the field of labour, an Industrial Committee on Banking Industry has been set up with the Union Minister of Labour and Rehabilitation as the Chairman. The Committee, apart from advisers, will consist of delegates from (*a*) Government, com-

prising of Ministry of Finance, Ministry of Labour, Employment and Rehabilitation and State Governments, (b) Employers, comprising of the State Bank of India, Indian Banks' Association and the Bombay Exchange Banks' Association and (c) Workers comprising of All-India Bank Employees' Federation, All-India Bank Employees' Association, National Organisation of Banks' Workers and Employees' Association of the State Bank of India.

121. Reference was made in the last year's Report to the settlement dated October 19, 1966 regarding scales of pay, allowances and other service conditions of employees arrived at between the management of commercial banks and their workmen ; however, the State Bank of India and their workmen were not parties to the above settlement. Consequent upon the expiry at the end of July 1965 of the Award of the National Industrial Tribunal (Bank Disputes) in respect of commercial banks to which the State Bank of India was a party, scales of pay of workmen employees in the State Bank of India were revised with effect from August 1, 1965 as a result of agreement reached between the representatives of the management and their staff Federation. Subsequently, bipartite discussions were held between the representatives of the management of the State Bank of India and their staff Federation to consider the demands of the workmen employees in their scales of pay, allowances and other service conditions. The main features of the two agreements arrived at on March 31, 1967 and July 29, 1967 are similar to those in the commercial banks' settlement dated October 19, 1966 referred to above.

122. It was also mentioned in the last year's Report that certain specific issues such as scales of pay and special pay, dearness allowance, leave rules, age of retirement etc. pertaining to workmen other than subordinate staff of the Reserve Bank of India have been referred to Shri T. L. Venkatarama Aiyar, for arbitration. The hearings before the Honourable Arbitrator commenced on March 15 and concluded on October 20, 1967.*

123. Some progress was also made during the year in the conduct of the survey of employer-employee relations in the banking industry referred to in the last year's Report.

124. The National Labour Commission constituted in December 1967 a Study Group on banking under the Chairmanship of Shri B. N. Adarkar, Deputy Governor of the Reserve Bank of India and consisting of representatives of banks and employees to review and report to it on industrial relations in the banking industry.

* The award has since been published. It prescribes higher scales of pay to all categories of workmen staff. The Arbitrator has linked the payment of dearness allowance to workmen employees in Classes II and III with the All-India Average Consumer Price Index Number for Urban Non-Manual Employees (*Base:* 1960=100) (Middle Class Index) instead of the existing All-India Average Working Class Consumer Price Index (*Base* : 1949=100). The award provides neutralisation for the rise in the Middle Class Index at 90% when the pay is Rs. 500/- per mensem or less, and when it is above that figure, for the pay upto and inclusive of Rs. 500/- per mensem as above, and for the balance at 75%.

TREND AND PROGRESS OF BANKING AT A GLANCE

(Rs. Crores)

	1951	1956	1961	1964	1965	1966	1967*
1. No. of Scheduled Commercial Banks (End-Dec.) ..	92	89	82	75	76	76	73
2. Paid-up Capital and Reserves („ „) ..	62	60	71	88	93	97	99
3. Ratio of Paid-up Capital and Reserves to Deposits („ „) ..	10	7	4	4	3	3	3
4. No. of offices of 1 above .. („ „) ..	2647	2966	4390	5499	5902	6416	6816
5. Total Earnings .. .. („ „) ..	45	65	124	190	243	297	N.A.
6. Total Expenses .. .. („ „) ..	32	51	96	155	208	258	N.A.
7. No. of Bank Employees (in 000s) („ „) ..	NA.	79	115	143	155	170	N.A.
8. Aggregate Deposits .. („ „) ..	N.A.	N.A.	1835	2524	2887	3378	3763
Of which (*a*) Current Deposits	N.A.	N.A.	539	688	770	823	899
(*b*) Savings Deposits	N.A.	N.A.	313	560	674	820	945
(*c*) Fixed Deposits	N.A.	N.A.	937	1237	1411	1699	1881
9. Ownership Pattern of Deposits—Total	822	1075	1015	2370	2714	3112	3541
Of which (*a*) Personal	389	521	887	1166	1399	1714	2013
Per cent of 9..	47	49	46	49	52	55	57
(*b*) Business	302	338	566	675	773	801	895
Per cent of 9..	37	31	30	29	29	26	25
10. Bank Credit .. (End-Dec.) ..	581	745	1277	1811	2106	2434	2727
11. Credit-Depsoit Ratio .. („ „) ..	73	71	70	72	73	72	73
12. Security-wise Advances—Total („ „) ..	N.A.	586	1286	1814	2102	2430	2720
Of which (*a*) Seasonal	N.A.	157	245	262	334	349	360
Percent of 12	N.A.	27	19	14	16	14	13
(*b*) Non-seasonal	N.A.	423	869	1255	1483	1717	1997
Percent of 12	N.A.	72	68	69	71	71	73
(*c*) Clean	N.A.	N.A.	172	297	285	365	363
13. Purpose-wise Advances—Total	585	770	1306	1865	2095	2347	2717
Of which (*a*) Industry	199	284	664	1073	1246	1471	1747
Per cent of 13	34	37	51	58	60	63	64
(*b*) Commerce	236	316	408	487	537	573	527
Per cent of 13	40	41	31	26	26	24	19
(*c*) Agriculture@	12	16	41	53	58	57	57
Per cent of 13	2	2	3	3	3	2	2
14. Bank credit for—							
(*a*) Small Industries	N.A.	N.A.	32	N.A.	74	91	180
(*b*) Medium Term loans	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	227
15. Investments — Total .. (End-Dec.) ..	328	395	652	905	990	1154	1233
Of which (*a*) In Government Securities	306	364	577	764	826	952	1006
Per cent of 15	93	92	89	85	83	83	82
(*b*) Others	22	31	75	141	164	202	227
Per cent of 15	7	8	12	16	17	18	18
16. Investment—Deposit Ratio	38	35	31	30	29	28	27
17. Cash and Reserves .. (End-Dec.) ..	89	91	156	160	204	249	277
Cash Ratio	11	9	9	6	7	7	7

Note :—The figures of individual items are not strictly comparable with each other and over the years on account of changes in coverage, periodicity and compositions. The table is intended to give only a broad idea of the banking trends. Data relate to all scheduled commercial banks except item Nos. 2 and 3 which relate to Indian scheduled banks.

@ Including Plantations.

* Provisional.

N.A.=Not Available

ANNEXURE I

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

The up-to-date position (as of March 2, 1968) of the refinance facilities available from the Reserve Bank of India and the Industrial Development Bank of India is brought out below :

(i) Refinance at Bank rate

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

(*a*) In respect of packing credit for exports of products other than engineering and metallurgical and post-shipment credit, refinance is made available since August 1967 at Bank rate. Banks are eligible to borrow at this rate irrespective of their net liquidity ratios. Banks are required to charge a rate not exceeding 6 per cent on their lending for such exports whether or not they avail themselves of the refinance facilities. Refinance against rupee usance export bills is made available at Bank rate, subject to the condition that the lending bank's rate to the borrower does not exceed 6 per cent.

(*b*) Refinance is also provided at Bank rate irrespective of the net liquidity ratio (*i*) for the entire advances granted by banks for purposes of foodgrains procurement/distribution/storage to the State Governments/their agencies/the Food Corporation of India, and (*ii*) in respect of credit extended by scheduled commercial banks for financing the distribution of chemical fertilizers and pesticides, including credit extended to manufacturers of these products for financing their sales.

(*c*) Since September 1967, the Industrial Development Bank of India provides rediscounting facility at 6 per cent against hire purchase credits in respect of sales of new trucks, jeeps and passenger buses on deferred payment basis, provided the banks do not charge more than 9 per cent to their customers.

(*d*) Since July 1967, the IDBI refinances medium-term industrial loans at 6 per cent, provided the banks do not charge more than 8½ per cent to their customers.

(ii) Refinance at concessional rates

(*a*) Since August 1967, the Reserve Bank provides refinance at 4½ per cent in respect of packing credit for exports of engineering and metallurgical products. Banks may borrow this amount at the concessional rate irrespective of their net liquidity ratios. Banks are required to charge a rate not exceeding 6 per cent on such export credit whether or not they avail themselves of the refinances facilities.

(*b*) Further, the total increase in commercial banks' advances over the base period in respect of both post-shipment and packing credit, agricultural inputs (chemical fertilisers and pesticides) and small scale industries guaranteed by the Credit Guarantee Organisation is also eligible for refinance at the concessional rate of 4½ per cent, irrespective of a bank's net liquidity ratio.

(*c*) It may also be mentioned that the Industrial Development Bank of India (which refinances medium term export credit at 4½ per cent subject to the condition that banks should not charge more than 6 per cent) liberalised its scheme in August 1967 by agreeing to refinance export credits in respect of capital goods upto 7 years and even upto 10 years in deserving cases.

(*d*) Since August 1967, the IDBI rediscounts bills covering sales of indigenous machinery on deferred payment basis at 5 per cent in respect of bills with an unexpired usance of more than

5 years and at $5\frac{1}{2}$ per cent in respect of bills with an unexpired usance of over 3 and upto 5 years (The rate of rediscount on bills with an unexpired usance of 3 years or less is 6 per cent). The borrowing institutions should not charge their customers more than 2 per cent above the respective rediscount rates.

(iii) **Discretionary accommodation at the Bank rate**

The Reserve Bank has also indicated, in November 1967 as well as in January 1968, that discretionary accommodation will be provided at the Bank rate for meeting temporary stringency because of bunching of imports of raw cotton, soyabean oil, maize starch etc. and tax payments. Such discretionary accommodation would also be available to banks experiencing genuine financial difficulties in aiding production.

(iv) **Relief in respect of net liquidity ratio**

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

Refinance obtained from the Reserve Bank whether against the special schemes mentioned above or for general purposes normally impairs the net liquidity ratio. The advantage of the special schemes is that irrespective of the impairment, refinance is available at fixed rates without limit, as long as the lending by the bank which avails of the refinance conforms to the schemes. In the measures currently in force an added concession has been given in that the reduction of the net liquidity ratio can be offset in the following cases : (*a*) refinance obtained in respect of credit for financing food procurement operations over and above the level of refinance on October 27, 1967 ; (*b*) increases in the lending of a bank over the base period to agriculture, exports and small scale industries (only for advances guaranteed by the Credit Guarantee Organisation).

ANNEXURE II

CURRENT POSITION REGARDING SELECTIVE CREDIT CONTROL ON ADVANCES OF SCHEDULED COMMERCIAL BANKS AGAINST SEASONAL COMMODITIES.

Commodity	Margin	Ceiling	Exemptions
1. **Paddy and Rice** (Directive of 13-4-1967 as amended from time to time)	1. For advances against official warehouse receipts .. 40% 2. In respect of advances to licensed dealers and millers in Punjab and Haryana .. 25% 3. Advances to the duly appointed agents of Food Corporation of India .. 25% 4. Advances to wholesale dealers and fair price shop dealers in Kerala who are authorised by the Kerala Government to deal in paddy and rice .. 25% 5. Others .. 50%	Separate ceilings for Andhra Pradesh, Maharashtra and others as follows :— (1) Andhra Pradesh — 55% of 1964-65 (March-February) (2) Maharashtra — 50% of 1964-65 (March-February) (3) Other States — 65% of 1964-65 (March-February) Further, within these overall ceilings secondary ceilings for non-warehouse advances have been prescribed for Andhra Pradesh, Maharashtra and other States on the same basis. Over and above these levels each new office (i.e. branch opened on or after 1-1-1965) is allowed to maintain an additional level of credit which should not exceed Rs. 50,000 per office. In addition, offices and branches in the States of Punjab & Haryana are allowed to maintain a level of credit equal to 15 per cent of the outstanding advances in 1964-65 (March-February).	1. Advances granted to the following agencies are exempt from *margin* and *ceiling* restrictions: (a) State Governments (For food procurement operations) (b) Food Corporation of India. (c) Co-operative marketing and processing societies. (d) Agents appointed by the State Governments and dealing exclusively on Government account. 2. Advances against demand documentary bills are exempted both from *ceiling* and *margin* restrictions. 3. Advances against high yielding/hybrid paddy seeds certified either by a State Government or the National Seeds Corporation Ltd., Delhi, are exempted both from *ceiling* and *margin* restrictions. 4. Advances against official warehouse receipts of those warehouses established on or after 1-1-1961 and those established before 1-1-1961 but which have increased their warehousing capacity by 100 per cent or more by their own construction are exempted from *margin* and *ceiling* except in the State of Maharashtra. 5. Advances to wholesalers and fair price shop dealers in Kerala, who are duly authorised by the Kerala Government to deal in paddy and rice are exempted from *ceiling*.
2. **Wheat** (Directive of 5-8-1965 as amended from time to time.)	1. For advances against official warehouse receipts .. 40% 2. Others .. 50%	Separate ceilings for the Punjab State and other States as follows :— Punjab — 100% of 1964-65 (August-July) Other States — 100% of 1964-65 (August-July) Further, banks' new offices (i.e., offices opened on or after 1-1-1963) are given the following additional limits : 1. In respect of offices at centres without banking facility Rs. 1 lakh per office. 2. In respect of offices at banked centres a limit equivalent to three times the level of credit maintained by such offices during the corresponding two-month period of 1964-65 (August-July).	1. Advances to following categories are exempted from *ceiling* and *margin* control : (a) Co-operative marketing and processing societies. (b) Roller Flour Mills. (c) Demand documentary bills. 2. Advances against official warehouse receipts are exempted from *ceiling* control only. 3. Advances against hybrid seeds which bear certification of the National Seeds Corporation Ltd., Delhi, are exempted from *margin* and *ceiling* control.

Commodity	Margin	Ceiling	Exemptions
3. **Other foodgrains** (Directive of 5-8-1965 as amended from time to time.)	1. For advances against official warehouse receipts .. 40% 2. Others .. 50%	Separate ceilings are prescribed for Maharashtra, Madhya Pradesh, Uttar Pradesh and other States as follows :— Maharashtra—65% of 1964-65 (August-July) M. P.—100% of 1964-65 (August-July) U. P.—100% of 1964-65 (August-July) Other States — 100% of 1964-65 (August-July) Further, within these overall ceilings secondary ceilings for non-warehouse advances have been prescribed for Maharashtra, M. P., U. P., and other States on the same basis. Further, banks' new offices (i.e. offices opened on or after 1-1-1963) are given the following additional limits : 1. In respect of offices at centres without banking facility Rs. 1 lakh per office. 2. In respect of offices at banked centres a limit equivalent to three times the level of credit maintained by such offices during the corresponding two-month period of 1964-65 (August-July).	1. Advances to co-operative marketing and processing societies are exempted from *margin* and *ceiling*. 2. Advances against demand documentary bills are exempted both from *margin* and *ceiling* control. 3. Advances against hybrid seeds which bear the certification of the National Seeds Corporation Ltd., Delhi, are exempted from *margin* and *ceiling* control.
4. **Groundnuts** (Directive of 13-1-1968)	1. Solvent extraction plants and/or integral oil expeller mills with solvent extraction plants .. 25% 2. Registered oil mills .. 35% 3. Official warehouse receipts .. 35% 4. Others .. 50%	Two separate ceilings beginning from January-February 1968 : (i) 100% for non-warehouse advances in the corresponding two-month period of the calendar year 1967 and (ii) 100% for warehouse advances in the corresponding two-month period of the calendar year 1967.	1. Solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants are exempt from *ceiling*. 2. Vanaspati manufacturers are exempt from *margin*. 3. Credit limits in favour of exporters of groundnuts, de-oiled and/or de-fatted cakes in respect of groundnuts and/or extractions of groundnuts in respect of specific firm export contracts and/or against export bills are exempt from *margin* and *ceiling*. 4. Demand documentary bills are exempt from *margin* and *ceiling*.
5. **Gingelly Seeds** (Directive of 13-1-1968)	1. Solvent extraction plants and/or integral oil expeller mills with solvent extraction plants .. 25% 2. Registered oil mills .. 35% 3. Official warehouse receipts .. 35% 4. Others .. 50%	Two separate ceilings beginning from January-February 1968 : (i) 100% for non-warehouse advances in the corresponding two-month period of the calendar year 1967 and (ii) 100% for warehouse advances in the corresponding two-month period of the calendar year 1967.	1. Solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants are exempt from *ceiling*. 2. Vanaspati manufacturers are exempt from *margin*. 3. Credit limits in favour of exporters of gingelly seeds, de-oiled and/or de-fatted cakes in respect of gingelly seeds and/or extractions of gingelly seeds in respect of specific firm export contracts and/or against export bills are exempt from *margin* and *ceiling*. 4. Demand documentary bills are exempted from *margin* and *ceiling*.

Commodity	Margin	Ceiling	Exemptions
6. **Other Oilseeds** (Other than groundnuts, gingelly seeds and cotton seeds) (Directive of 13-1-1968)	1. Solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants .. 25% 2. Others .. 50%	75% of the average of advances maintained *inclusive* of advances against warehouse receipts, during the corresponding two-month period of 1964-65 (from July to June)	1. Solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants are exempt from *ceiling*. 2. Vanaspati manufacturers are exempt from *margin*. 3. Credit limits in favour of exporters of 'other oilseeds', de-oiled and/or de-fatted cakes in respect of 'other oilseeds', and/or extractions of 'other oilseeds' in respect of specific firm export contracts and/or against export bills are exempt from *margin* and *ceiling*. 4. Non-edible oilseeds other than linseeds and castorseeds are exempted from *margin* and *ceiling*. 5. Cottonseeds are exempted from *margin* and *ceiling* (by definition of 'other oilseeds'). 6. Demand documentary bills are exempted from *margin* and *ceiling*.
7. **Vegetable Oils** (including vanaspati) (Directive of 13-1-1968)	1. Solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants .. 25% 2. Vanaspati manufacturers and registered oil mills .. 35% 3. Others .. 60%	Two separate ceilings beginning from January-February 1968: (i) For vanaspati manufacturers and registered oil mills, 100% of the average level of advances maintained during the corresponding two-month period of 1967 and (ii) For all others, 100% of the average level of advances maintained during the corresponding two-month period of 1967.	1. Solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants are exempt from *ceiling*. 2. Vanaspati manufacturers against the stocks of soyabean oil and cottonseed oil imported under the P.L. 480 Agreement are exempt from *margin* and *ceiling*. 3. Vanaspati manufacturers against the stocks of sunflower oil imported as a gift from the U.S.S.R. are exempt from *margin* and *ceiling*. 4. Indigenous cottonseed oil is exempt from *margin* and *ceiling*. 5. Non-edible vegetable oils excluding castor oil and linseed oil are exempt from *margin* and *ceiling*. 6. Exporters of de-oiled and/or de-fatted cakes in respect of specific firm export contracts and/or against export bills are exempt from *margin* and *ceiling*. 7. Vanaspati manufacturers against the stocks of vanaspati for being delivered to the Army Purchase Organisation in the Ministry of Food and Agriculture, Government of India are exempt from *margin* and *ceiling*. 8. Demand documentary bills are exempted from *margin* and *ceiling*.

Commodity	Margin	Ceiling	Exemptions
8. **Sugar** (Directive of 27-4-1963 as amended on 30-8-1963)	45% in the case of (*a*) parties other than sugar mills (*b*) sugar mills in respect of stocks which have left mill premises and on which excise duty has been paid.	No ceiling control	Consumers' co-operative stores are exempted from *margin* and *ceiling*.
9. **Cotton and kapas** (Directive of 1-11-1967 as amended on 2-4-1968)	All parties : 25%	Ceiling is equivalent to 110 per cent of the peak level during the corresponding three-month period in 1967 commencing with April-June or 85% of the average aggregate level of advances against cotton and kapas during the corresponding month *or* in the month immediately following the corresponding month in the year 1966-67 (November to October) together with additional limits granted, whichever is higher.	The following are exempted from both *margin* and *ceiling* :— (1) Advances against imported cotton and kapas. (2) Exportable varieties of cotton. (3) Pre-shipment credit for cotton exports. (4) Export bills relating to the export of cotton or kapas from India. (5) Demand documentary bills drawn in connection with the movement of cotton and kapas. (6) ISC 67 cotton and Andrews cotton.
10. **Gur** (Directive of 2-11-1967)	All parties : 50%	70% of the average aggregate level of advances during the corresponding two-month period of 1966-67 (November-October).	Demand documentary bills are exempted from *margin* and *ceiling*.

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

Commodity	Margin	Ceiling	Exemptions
1. **Cotton and kapas** (Directive of November 16, 1967 as amended on 20-12-1967)	1. In respect of credit limits to co-operative cotton mills which are fully guaranteed by the State Government with regard to repayment of principal and payment of interest thereon: (*a*) against hypothecation of stocks : 20% (*b*) against pledge of stocks : 10% 2. In respect of credit limits to other parties: (*a*) against hypothecation of stocks : 40% (*b*) against pledge of stocks : 25%	The level of advances should not exceed 1. for a State Co-operative Bank not operating in a Union Territory, 10 per cent of its total liabilities in India as of last Friday of October 1967 2. for a State Co-operative Bank operating in a Union Territory or a central co-operative bank, 20 per cent of its total liabilities in India as on last Friday of October 1967.	A. The following advances are *completely* exempted : 1. Advances against imported cotton and kapas. 2. Advances in respect of preshipment credit made in respect of firm export order. 3. Advances against exportable varieties of cotton. 4. Advances against export bills relating to export of cotton and kapas. 5. Advances against ISC 67 cotton and Andrews cotton. B. Advances to any co-operative marketing society where it acts merely as agent on behalf of its members shall be completely exempt from *margin* control only.
2. **Gur** (Circular letter dated November 10, 1967)	1. For advances against hypothecation of stocks : 40% 2. For advances against pledge of stocks : 25%	The maximum outstandings during the current year (1967-68) should not exceed 75 per cent of the maximum level of outstandings reached during the previous year.	

ANNEXURE III

LIST OF MEMBERS WHO ATTENDED THE FIRST MEETING OF THE NATIONAL CREDIT COUNCIL HELD IN BOMBAY ON MARCH 16, 1968

Members of the Council:

Shri Morarji R. Desai
Deputy Prime Minister—*Chairman*

Shri L. K. Jha
Governor, Reserve Bank of India—*Vice-Chairman*

Shri P. N. Damry
Chairman, Agricultural Refinance Corporation

Shri I. G. Patel
Special Secretary, Ministry of Finance

Shri P. C. Barooah
Shri C. H. Bhabha
Shri K. T. Chandy
Shri V. T. Dehejia
Shri P. N. Dhar
Shri B. K. Dutt
Shri M. Y. Ghorpade
Shri A. K. Kader Kutty
Shri P. S. Lokanathan
Shri E. K. Madhavan
Shri Arvind N. Mafatlal
Shri B. Majumdar
Shri Biren Mookerjee
Shri R. R. Morarka
Shri R. Venkataswammy Naidu
Shri P. Natesan
Shri T. A. Pai
Shri Maganbhai R. Patel
Shri H. S. Sandhu
Shri M. Somappa

Others:

Shri B. N. Adarkar
Shri A. Baksi
Shri J. J. Anjaria
Shri V. G. Pendharkar
Shri M. Narasimham
} Reserve Bank of India

Shri V. A. Pai Panandikar
Ministry of Finance, Government of India.

Special Invitees

Shri K.C. Pant - Minister of State in the Ministry of Finance
Shri J. Pahadia - Deputy Minister in the Ministry of Finance

APPENDIX I

PARTICULARS IN RESPECT OF BANKS GRANTED MORATORIUM DURING 1967 UNDER SECTION 45 OF THE BANKING REGULATION ACT, 1949

Name of the bank	No. of offices	Name of the proposed transferee bank	Period of moratorium
Amrit Bank Ltd., Amritsar	4	State Bank of Patiala	From the close of business on the 2nd December 1967 upto and inclusive of the 2nd April 1968.

APPENDIX II

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

No. of places in respect of which applications were received during 1967 and those pending at the end of 1966	No. of places in respect of which licences were granted/refused for opening new offices		For opening temporary/seasonal offices		For changing the location of existing offices		Applications treated as withdrawn by banks	Total	
	Granted	Rejected	Granted	Rejected	Granted	Rejected		Granted	Rejected
455@	318*	16	23	—	4	—	9	345	16
(3)	(2)	(1)							

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

@ Applications in respect of 66 offices of banks in private sector and 19 offices of the State Bank of India and its subsidiaries were under consideration as on the 31st December 1967.

* Include 37 licences issued to banks in order to enable them to take over the existing offices of other banks and 1 conditional licence.

2. STATEMENT SHOWING THE NUMBER OF OFFICES OPENED OR CLOSED IN FOREIGN COUNTRIES BY INDIAN BANKS DURING 1967

	United Kingdom	Tanzania
No. of offices opened	1	—
No. of offices closed	—	4

APPENDIX III

PARTICULARS IN RESPECT OF AMALGAMATIONS AND TRANSFERS OF LIABILITIES AND ASSETS OF BANKING COMPANIES IN 1967

Name of the bank	No. of offices	Name of the transferee bank	Date of amalgamation or transfer
I. List of banks amalgamated under section 44A of the Banking Regulation Act, 1949		NIL	
II. List of banks which have transferred their liabilities and assets to other banks			
1. Jaya Laxmi Bank Ltd., Mangalore	18*	Vijaya Bank Ltd., Mangalore ..	27-5-1967 (Close of business)
2. Universal Bank of India Ltd., Dalmianagar (Bihar)	5**	Punjab National Bank Ltd., New Delhi ..	5-8-1967
3. Jalpaiguri Banking & Trading Corporation Ltd., Jalpaiguri (West Bengal)	1@	United Commercial Bank Ltd., Calcutta ..	15-9-1967
4. Tiruchi United Bank Ltd., Tennur, Tiruchirapalli	6	Indian Bank Ltd., Madras ..	28-12-1967 (Close of business)
5. Sri Venkateswara Bank Ltd., Salem ..	2	Indian Overseas Bank Ltd., Madras ..	29-12-1967 (Close of business)
6. Martandam Commercial Bank Ltd., Trivandrum	8	Federal Bank Ltd., Alwaye ..	30-12-1967
III. List of banks amalgamated under section 45 of the Banking Regulation Act, 1949		NIL	
IV. List of banks, the business of which has been acquired by the State Bank of India under section 35 of the State Bank of India Act, 1955 or by its subsidiaries under section 38 of the State Bank of India (Subsidiary Banks) Act, 1959.			
1. Bengal Duars Bank Ltd., Jalpaiguri ..	1@	State Bank of India	14-1-1967
2. Kamala Bank Ltd., Cooch Behar	1	State Bank of India	14-1-1967
3. Raikut Industrial Bank Ltd., Jalpaiguri ..	1@	State Bank of India	14-1-1967

* 17 offices taken over by the transferee bank.
** 4 offices taken over by the transferee bank.
@ merged with the existing office of the transferee bank.

APPENDIX IV

VARIATIONS IN THE NUMBER OF OFFICES OF STATE AND CENTRAL CO-OPERATIVE BANKS IN 1966 AND 1967

Sr. No.		Scheduled State Co-operative Banks		Non-Scheduled State Co-operative Banks		Central Co-operative Banks		All State and Central Co-operative Banks	
		1966*	1967	1966*	1967	1966*	1967	1966*	1967
1.	New offices opened	—	3	5	5	163	173	168	181
2.	Overall changes due to amalgamations, mergers, transfers and taking over of offices etc.	—	—	—	—	—	—	—	—
3.	Existing offices closed	—	— 2	— 2	— 1	— 9	— 7	—11	—10
4.	Overall variation in the number of offices	—	+ 1	+ 3	+ 4	+154	+166	+157	—171
5.	Number of offices at the end of the year ..	70	71	81	85	2576	2742	2727	2898

* Data for 1966 are available from March 1, 1966 only.

Note: 1. Data include regional offices of co-operative banks.
2. Figures for 1967 are provisional.

APPENDIX V

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

No. of places in respect of which applications were received during 1967 and those pending at the end of 1966	No. of places in respect of which licences were granted/refused for opening new offices		For opening temporary/seasonal offices		For changing the location of existing offices		No. of applications treated as withdrawn by banks	Total	
	Granted	Rejected	Granted	Rejected	Granted	Rejected		Granted	Rejected
36@	22	3	1 (Seasonal Office)	—	2	—	1	25	3

Note : @Applications in respect of 7 offices of co-operative banks were under consideration as on December 31, 1967

APPENDIX VI

LIST OF CIRCULARS INCLUDED IN THE APPENDIX

	CIRCULAR NO.	DATE	SUBJECT
1.	DBOD. No. Sch. 317/C. 96-67	March 8, 1967	Governor's letter (Restriction on clean credit)
2.	DBOD. No. Sch. 341/C. 96-67	March 13, 1967	Amendment : Widening of the term industrial concern
3.	DBOD. No. Sch. 469/C. 96-67	March 31, 1967	Governor's letter (Levy of penalty rates)
4.	DBOD. No. Sch. 479/C. 96-67	April 1, 1967	Calculation of excess borrowings
5.	DBOD. No. Sch. 548/C. 96-67	April 13, 1967	Press note on trade credit
6.	DBOD. No. Sch. 576/C. 96-67	April 19, 1967	Amendment : Widening of the term industrial concern
7.	DBOD. No. Sch. 642/C. 96-67	April 28, 1967	Credit policy for the 1967 slack season
8.	DBOD. No. Sch. 666/C. 96Z-67	May 3, 1967	Governor's letter (Guarantee business)
9.	DBOD. No. Sch. 914/C. 96-67	June 15, 1967	Amendment : Maximum interest on loans
10.	DBOD No. Sch. 983/C. 96-67	June 27, 1967	Credit facilities to hire—purchase companies
11.	DBOD No. Sch. 1069/C. 96Z-67	July 11, 1967	Amendment : Guarantee business
12.	DBOD. No. Sch. 1236/C. 96-67	August 9, 1967	Governor's letter (Assistance to priority sectors)
13.	DBOD. No. BM. 388/C. 297A-67	August 16, 1967	Refinancing packing credit advances relating to exports
14.	DBOD. No. BM. 390/C. 297K-67	August 16, 1967	Export Bills Credit Scheme
15.	DBOD. No. Sch. 1288/C. 96Z-67	August 17, 1967	Amendment: Guarantee business
16.	DBOD No. Sch. 1296/C. 96Z-67	August 21, 1967	Amendment : -do.
17.	DBOD. No. Sch. 1385/C. 96-67	September 9, 1967	Net liquidity ratio
18.	DBOD No. BM. 485/C. 297A-67	October 19, 1967	Refinance against packing credit advances

19.	DBOD. No. Sch. 1671/C. 96-67	November 2, 1967	Governor's letter (Credit policy for the 1967-68 busy season)
20.	DBOD. No. Sch. 1693/C. 96S-67	November 8, 1967	Norms relating to unsecured advances & guarantees
21.	DBOD. No. Sch. 1713/C. 96-67	November 11, 1967	Rates of interest on excess borrowings
22.	DBOD. No. Sch. 1717/C. 96S-67	November 13, 1967	Clarification : Advances against shares
23.	DBOD. No. EFS. 1102/C. 450-67	November 18, 1967	Repayment of advances against shares
24.	DBOD. No. BM. 683/C. 297A-67	November 25, 1967	Amendment : Refinancing packing credit advances relating to exports
25.	DBOD. No. Sch. 1794/C. 96Z-67	November 29, 1967	Amendment : Guarantee business
26.	DBOD. No. BM. 767/C. 297A-67	December 6, 1967	Procedure : Refinancing packing credit advances relating to exports
27.	DBOD. No. Sch. 1850/C. 96Z-67	December 7, 1967	Amendment : Guarantee business
28.	DBOD. No. Sch. 1884/C. 96-67	December 13, 1967	Net liquidity ratio
29.	DBOD. No. BM. 913/C. 297A-67	December 21, 1967	Modification : Refinancing packing credit advances relating to exports
30.	DBOD. No. Cre. 69/C. 218-67	January 25, 1967	Advances against foodgrains : hybrid seeds
31.	DBOD. No. Cre. 266/C. 218-67	April 13, 1967	Advances against Paddy & Rice
32.	DBOD. No. Cre. 2128/C. 218-67	October 16, 1967	-do-
33.	DBOD. No. Cre. 2467/C. 218-67	December 9, 1967	-do-
34.	DBOD. No. Cre. 259/C. 218 (F)-67	April 12, 1967	Advances against Cotton & Kapas
35.	DBOD. No. Sch. 261/C. 96-67	April 12, 1967	-do-
36.	DBOD. No. Cre. 262/C. 218 (F)-67	April 13, 1967	-do-
37.	DBOD. No. Cre. 325/C. 218 (F)-67	May 4, 1967	-do-
38.	DBOD. No. Cre 336/C. 218 (F)-67	May 6, 1967	-do-
39.	DBOD. No. Cre. 762/C. 218 (F)-67	June 6, 1967	-do-

40.	DBOD. No. Cre. 1770/C. 218 (F)-67	September 2, 1967	Advances against Cotton & Kapas
41.	DBOD. No. Cre. 2224/C. 218 (F)-67	November 1, 1967	-do-
42.	DBOD. No. Cre. 2451/C. 218(F)-67	December 7, 1967	-do-
43.	DBOD. No. Cre. 2227/C. 218(R)-67	November 2, 1967	Advances against Gur
44.	DBOD. No. Cre. 1096/C. 218(H)-67	July 6, 1967	Advances against Oilseeds
45.	DBOD. No. Cre. 1874/C. 218(H)-67	September 14, 1967	Advances against Vegetable Oils (including vanaspati)
46.	DBOD. No. Cre. 2246/C. 218(H)-67	November 9, 1967	Advances against Oilseeds
47.	DBOD. No. Cre. 2247/C. 218(H)-67	November 9, 1967	Advances against Vegetable Oils (including vanaspati)

APPENDIX VI

DBOD. NO. Sch. 317/C. 96-67—March 8, 1967—To all Scheduled Commercial Banks

GOVERNOR'S LETTER

Scheduled bank credit in the current busy season (upto February 24, 1967) has risen by Rs. 319 crores. The increase has been particularly sharp since the end of December and has taken place against a markedly adverse change in our expectations regarding agricultural output. Imports are coming in but even allowing for this factor the rate of credit expansion appears to be somewhat more than is warranted by the availability of real goods. It has been noticed that of the increase in scheduled bank credit in the month of January, clean advances accounted for a sizeable portion. In a situation where it continues to be necessary to maintain some control on both the dimension of credit expansion and its direction, both the rate of expansion so far and the fact that clean advances have risen as sharply as they have are matters for some concern.

2. Some part of the clean credit increase would no doubt be normal, as happens during the busy season in respect of industrial borrowers. But the sharp increase could indicate that the need to conform to the requirements of the directive regarding the allocation of at least 80 per cent of the seasonal expansion in credit to the industrial sector and against import/export bills is being met not by observing a restraint in respect of other types of credit but by allowing industrial borrowers facilities not normally given. In any case, the increase in clean advances at this juncture needs to be controlled and I would request banks once again to exercise care in sanctioning clean limits.

3. At the time I announced the liberalised credit policy, I had indicated that the Reserve Bank would charge a penal interest rate of 10 per cent on any small and occasional excesses of borrowings from the Reserve Bank by any bank over and above what it is entitled to do at the Bank Rate. I had also stated that if the excess of such borrowings was either continuous or of a large order the Reserve Bank would retain the discretion to charge a special penalty rate warranted by the circumstances. I would like to reiterate this point and indicate that not merely would the special penalty rate be a very high rate but the Bank would view with disfavour any commercial bank applying for accommodation beyond what it is entitled to borrow at the Bank Rate.

4. In the light of the altered circumstances regarding agricultural output, I would once again urge commercial banks to exercise due caution in extending their credit commitments in order that credit expansion does not further widen the imbalance between money supply and real goods with the inevitable consequence of an accentuation of the pressure on prices.

DBOD. NO. Sch. 341/C. 96-67—March 13, 1967

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Sch. 1539/C. 96-66 dated October 28, 1966, as amended by the directive DBOD. No. Sch. 1782/C. 96-66 dated December 24, 1966 shall further be amended in the following manner :—

> *In the said directive, for clause (iii) of the Explanation, the following clause shall be substituted namely :—*
>
> "(iii) 'industrial concern' means any concern engaged in the manufacture of goods or shipping or mining or the transport of passengers or goods by road or by water or by air or the generation or distribution of electricity or any other form of power or the cultivation or processing of *the following* plantation crops, *namely*, tea, coffee, rubber, cocoa, cashew, cardamom, cinchona, arecanut, coconut, geranium and spices."

DBOD. NO Sch. 469/C. 96-67—March 31, 1967—To all Scheduled Commercial Banks

GOVERNOR'S LETTER

In a communication I addressed to you on March 8, 1967, I had indicated that the growth in scheduled bank credit (upto the end of February) of Rs. 319 crores constituted a rate of expansion somewhat more than was warranted by genuine productive needs. Since then, credit expansion has continued to grow and by March 17, 1967 had amounted to as much as Rs. 411 crores. This increase in the credit portfolio of banks has taken place at a time when deposit growth so far in the busy season has been no more than Rs. 66 crores ; banks have therefore reduced their investment in Government securities by Rs. 235 crores and have been taking increasing recourse to borrowing from the Reserve Bank to finance the credit expansion.

2. I had indicated in my letters of October 28, 1966 and March 8, 1967 that the Reserve Bank would charge a penal interest rate of 10 per cent on any small or occasional excess of borrowing from the Reserve Bank by any bank over and above what it could borrow at the Bank Rate. I would like to clarify that the Reserve Bank would regard any excess which does not last beyond a week as casual or occasional. If, however, any bank continues to have excess borrowings for more than one week continuously, the Reserve Bank proposes to charge a deterrent penal rate on the excess which will apply from the second week onwards. The Bank would, however, be prepared to exempt any bank from the application of the special penalty rate in respect of excess borrowing beyond one week in cases where, in its judgement, special circumstances warrant such an exemption. On the other hand, the Reserve Bank also reserves the right to levy the special penalty rate despite a short break in the continuity of such excess borrowings beyond a week ; in other words, should a bank break the continuity of excess borrowing for what the Reserve Bank considers to be an inconsequential period it will be liable to pay the special penalty rate. The calculation of the penalty rate will be based on the bank's net liquidity ratio at the time of the excess borrowing and will be such that for a shortfall of every one point or fraction thereof in the bank's net liquidity ratio below 30 per cent as on the Friday of the week concerned, the rate will be raised by 1 per cent per annum above the level of 10 per cent per annum. The special penalty rate will apply to the entire amount of the excess borrowings and will be calculated on the usual basis from the beginning of the second week of such excess.

3. The mode of calculating the excess borrowings is described in the Annexure to this letter, which is being forwarded separately.

4. I would also refer to the need for banks to conform to the requirements of the directive DBOD. No. Sch. 1539/C. 96-66 dated October 28, 1966 to those scheduled commercial banks incorporated in India and having aggregate demand and time liabilities of Rs. 50 crores or above as on September 30, 1966 and all scheduled commercial banks incorporated outside India that at least 80 per cent of the increase in their credit portfolio between the last Friday of October 1966 and the last Friday of April 1967 should be to industrial borrowers and/or against import and export bills. As regards the banks not covered by this directive the Reserve Bank had advised such banks to strive towards the same objective to the extent possible. We had also written to the banks covered by the directive on February 7, 1967 asking them to indicate to us what action they had taken or proposed to take to conform to the requirements of the directive. From the replies received it appears that the action taken or proposed to be taken by a number of banks is not such as would ensure that they reach the proportion set in the directive in respect of credit to the industrial sector and/or against import and export bills. I wish to emphasise that this directive has the same binding force as any other obligation imposed by the Banking Regulation Act and is not to be treated as only a target and that failure to conform to the directive would attract the provisions of Section 46 of the Banking Regulation Act. I hope that banks will make a careful review of their credit portfolio and take appropriate steps in time such as preventing any further increase in outstanding credit to sectors other than industry and/or against import/export bills by not sanctioning fresh

limits to them or cancelling unutilised limits so as to be able to comply with the requirements of the directive. In the current inflationary situation I have to request you to exercise strict control over unsecured advances as well as advances against all domestic commodities in short supply and keep them to the minimum level required to meet the genuine needs of trade and industry.

DBOD. NO. Sch. 479/C. 96-67—April 1, 1967—All Scheduled Commercial Banks

Please refer to paragraph 3 of Governor's circular letter DBOD. No. Sch. 469/C. 96-67 dated the 31st March 1967. The Annexure to the above letter is forwarded herewith.

ANNEXURE

Calculation of Excess Borrowings

1. The excess borrowings of a bank on any day will be calculated as under:

2. The SUM of special categories of Bank Rate borrowings comprising the whole of the bank's Additional Bank Rate Tranche (ABRT) and the borrowings, if any, from the Reserve Bank of India in respect of Rupee Export Bills Scheme (REBS) and Food Procurement (FP) will first be worked out. If the actual borrowing from the Reserve Bank of India is less than this *sum*, then the bank's borrowings will be considered as not having any excess borrowings. If, however, the actual borrowings from the Reserve Bank of India are greater than this sum, then the difference will be worked out. This will be called DIFFERENCE I.

3. For a bank which had a net liquidity ratio below 30% on 28-10-1966 DIFFERENCE I will represent the excess borrowings on which a penalty rate of interest will be charged.

4. If the bank had a net liquidity ratio equal to or above 30% on 28-10-1966, then another figure called DIFFERENCE II will be calculated as follows :

(*i*) To the actual net liquid assets of the bank on the date in question the SUM mentioned in 2 above will be added.

(*ii*) As on that date the level of net liquid assets appropriate for a 30% net liquidity ratio will be worked out. If this figure is equal to or smaller than that in (*i*), then the bank will be considered as *not* having any excess borrowings. If this figure is larger, then the difference between the two will be worked out and will be called DIFFERENCE II.

(*iii*) DIFFERENCE I AND DIFFERENCE II will be compared and the *lower* of the two will be regarded as the excess for purpose of the penalty rate.

The following examples show how the excess is to be worked out for different types of cases ;

Rs. crores

	Bank 'A'		Bank 'B'		Bank 'C'	
	28-10-66	17-3-67	28-10-66	17-3-67	28-10-66	17-3-67
Aggregate Demand & Time Liabilities ..	100.00	105.00	100.00	105.00	100.00	105.00
Net Liquid Assets	25.00	21.00	35.00	26.00	35.00	21.00
NLR %	25.0	20.0	35.0	24.7	35.0	20.0
ABRT	2.50	2.50	3.50	3.50	3.50	3.50
Total Borrowing from the Reserve Bank ..	0.50	4.00	0.50	8.00	0.50	9.00
Of which against :						
REBS	0.50	0.75	0.50	0.75	0.50	0.75
F.P.	..	..	..	..	..	..
Calculation of Difference I						
Sum of Special categories of Bank Rate Borrowings						
ABRT		2.50		3.50		3.50
Borrowings against REBS		0.75		0.75		0.75
Borrowings against FP		—		—		—
SUM		3.25		4.25		4.25
Difference I equal total borrowings from R. B. I. minus SUM		0.75		3.75		4.75
Calculation of Difference II						
SUM	Not applicable as NLR on 28-10-66 was less than 30 %			4.25		4.25
NLA on 17-3-1967				26.00		21.00
Total				30.25		25.25
NLA Appropriate for 30 % NLR				31.50		31.50
Difference II equals 30 % NLA minus (SUM + actual NLA)				1.25		6.25
Excess being the lower of Difference I and Difference II		0.75		1.25		4.75
Penalty Rate for 1st week % per annum ..		10		10		10
Penalty Rate if this amount of excess borrowing continues beyond first week & the level of NLR remains unchanged		20		16		20

DBOD. NO. Sch. 548/C. 96-67—April 13, 1967—All Scheduled Commercial Banks

We enclose, for your information, a copy of the Press Note on Trade Credit issued by us the 12th April 1967.

Press Note on Trade Credit

The Reserve Bank has received several representations from trade and business interests to the effect that the commercial banks have taken action to freeze with immediate effect unutilised credit limits in respect of all trade accounts and also to reduce outstanding advances to the trade sector as well as against shares. It has been represented to the Bank that this action has dislocated trade activity.

2. The Reserve Bank would like to clarify the position by stating that its recent communication to commercial banks drew attention to the requirements of the Directive issued on October 28, 1966, to the larger Indian and all foreign banks that at least 80 per cent of the increase in their credit portfolios between the end of October 1966 and the end of April 1967 should be to industrial borrowers and/or against import and export bills. Banks were also requested to exercise strict control over unsecured advances as well as advances against all domestic commodities in short supply and keep them to the minimum level required to meet the genuine needs of trade and industry. No fresh directive has been issued recently.

3. It was the Reserve Bank's expectation that the banks would make the necessary adjustments in their credit portfolios over the entire busy season commencing from the end of October when the Directive was issued and ensure that the adjustments would be equitable as between different customers. Several banks, however, after allowing their trade advances to grow at a higher pace than warranted by the Directive, have now attempted to correct the situation by freezing the limits for such advances at the level of actual outstandings as on a specified date. This has had the effect of penalising customers who have not so far used their limits, while allowing those who have made the maximum use of their limits to retain their advantage.

4. The Reserve Bank has discussed the matter with some leading banks and suggests that all banks which have frozen their trade limits as above with reference to a specified date should instead effect the necessary reduction by imposing a percentage cut in the sanctioned limits. Each bank is expected to review its credit portfolio and, taking into account the probable utilisation of limits and other relevant factors, decide what percentage reduction in limits is necessary, overall or to individual sectors, to comply with the Reserve Bank's directions. This may entail recalling of advances where the actual outstandings are in excess of the reduced limits. The Reserve Bank believes that action on these lines by banks should minimise the inconvenience to their trade customers, although, where banks have allowed such customers over the last few months more than their proportionate share of credit in terms of the Reserve Bank's Directive, some inconvenience may become unavoidable.

DBOD. NO. Sch. 576/C. 96-67—April 19, 1967

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Sch. 1539/C. 96-66 dated October 28, 1966 as amended by the directives DBOD. Nos. Sch. 1782/C. 96-66 dated December 24, 1966 and 341/C. 96-67 dated March 13, 1967 shall be further amended in the following manner :—

In the said directive, for the existing Explanation, the following Explanation shall be substituted namely:—

"*Explanation* : For the purpose of this directive—

(1) 'credit' means all loans, advances and bills purchased and discounted ;

(2) 'industrial concern' means any concern engaged in the manufacture of goods or shipping or mining or the transport of passengers or goods by road or by water or by air or the generation or distribution of electricity or any other form of power or providing cold storage facilities or construction or structural engineering or the cultivation or processing of the *following* crops, *namely*, tea, coffee, tobacco, rubber, cocoa, cashew, cardamom, cinchona, arecanut, coconut, geranium and spices or any other processing activity ;

(3) 'liabilities' shall have the same meaning as given in clause (*c*) of the Explanation to sub-section (1) of Section 42 of the Reserve Bank of India Act, 1934 ;

(4) "processing activity" means any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation, and includes cotton ginning and pressing, oil crushing and milling, blending of tea, curing of tobacco, tanning of hides and skins, and milling of rice, dal or pulses ;

(5) For the purpose of computation of credit against export or import bills—

(*i*) Advances against Trust Receipts for financing imports shall be treated as credit against import bills provided the duration of such advances does not exceed 90 days ;

(*ii*) Advances to textile mills or traders for financing cotton imports against trust receipts or the security of the stocks of imported cotton shall be treated as credit against import bills provided the duration of such advances does not exceed a period of 180 days;

(*iii*) Packing credit advances to merchant-exporters in respect of exports of any commodity shall be treated as credit against export bills provided such credit is (*a*) given in connection with a firm export contract, and (*b*) is discharged by the negotiation of an export bill relating to the same transaction ;

(6) in calculating the increase in credit, advances to State Governments/their agencies for food procurements/storage/distribution will be excluded from the total of credit as on the last Friday of October 1966 and as on the last Friday of April 1967".

DBOD. NO. Sch. 642/C. 96-67—April 28, 1967—All Scheduled Commercial Banks

Scheduled bank credit in the busy season just ending has increased (upto 14th April 1967) by Rs. 435 crores. Although this is less than what was anticipated at the outset of the season, the expansion has occurred against the background of the adverse turn in agricultural output. The impact of import financing needs has been delayed and the indications presently are for a continuance of a demand for credit largely arising out of import financing needs even beyond the conventional end of the busy season. The Reserve Bank wishes to impress upon commercial banks that they should seek to finance the possible continuing high level of credit demand from out of their own resources as far as possible. However, to take into account any unforeseen difficulties, the facility now available for borrowing under the Bill Market Scheme will be continued until June 30, 1967 as will also the facility of borrowing from the Reserve Bank in terms of the additional Bank rate tranche, referred to in para 3(*ii*) of the Governor's letter DBOD. No. Sch. 1538/C. 96-66 dated 28th October 1966. In view of the decision to terminate the Bill Market Scheme as well as of the additional Bank rate refinance facility on June 30, 1967, banks should aim at bringing about an orderly reduction of their outstanding borrowings from the Reserve Bank. The Reserve Bank also advises banks to use their deposit accretion for meeting essential credit needs such as import financing, for repaying their borrowings from the Reserve Bank and for adding to their investment portfolio.

2. The Directive DBOD. No. Sch. 1539/C. 96-66 dated 28th October 1966 issued by the Reserve Bank in respect of the distribution of credit expansion of the larger Indian and all foreign banks will cease to operate as from 28th April 1967, but the Reserve Bank would like to impress upon banks the importance of so conducting their credit operations as to abide by the spirit of that Directive even in the slack season months. In view of the likely pressure on prices that would develop in the lean season for agricultural supplies, it is of utmost importance that banks should keep under strict control and attempt to reduce wherever possible their advances against domestic commodities in short supply as well as their clean advances. The Reserve Bank is considering further measures to tighten credit in respect of such sensitive commodities of domestic origin as foodgrains, cotton, oilseeds, vegetable oils, raw jute, sugar and gur which are in short supply. Meanwhile, banks should endeavour to reduce advances in these sectors even where selective credit controls now operate to levels below those permissible under the existing selective credit control regulations.

3. The reduction of credit against seasonal commodities and of clean credit is necessary from the point of view of exerting a salutary effect on prices in a period of reduced supplies. It would also enable banks to meet the essential needs, mentioned in para 1 above, to the maximum extent out of their own resources.

DBOD. No. Sch. 666/C. 96Z-67—May 3, 1967—All Scheduled Commercial Banks

GOVERNOR'S LETTER

In recent years there has been a rapid growth in the amount of guarantees executed by commercial banks on behalf of their constituents. At the end of September 1965, such guarantees of the 21 large banks operating in India amounted to Rs. 412 crores or 60 per cent more than in September 1962. Of this, guarantees executed in favour of Government and other public authorities in India amounted to Rs. 171 crores while guarantees to foreign sellers in respect of imports on deferred payments basis accounted for Rs. 154 crores (a figure which would now need an upward revision on account of devaluation). This growth in guarantee business has occurred both in absolute terms and, more importantly, in relation to the growth of banks' overall resources. The oustanding guarantees in September 1965 of the 21 banks referred to above amounted to 17 per cent of their deposit liabilities and, in respect of 18 Indian banks covered, to over five times the total of their capital funds. The guarantees executed by banks comprise both performance guarantees and financial guarantees ; guarantees also show wide variety in terms of security, maturity and purpose.

2. With a view to assessing the implications for the banking system of this increase in the guarantee business and examining the need for regulation in this respect, I had appointed an Informal Advisory Committee, sometime ago, consisting of Sarvashri B. N. Adarkar (Deputy Governor, Reserve Bank of India), C. H. Bhabha (Vice-Chairman, Central Bank of India), R. N. Chettur (Managing Director, State Bank of India), B. K. Dutt (Managing Director, United Bank of India), T.D. Kansara (General Manager, Bank of India), K.M. Nanjappa (General Manager, Indian Overseas Bank), R. L. Tuli (since replaced by S.C. Trikha, General Manager, Punjab National Bank) and D. R. Joshi (since replaced by M. Narasimham, Deputy Economic Adviser, Reserve Bank of India). This Committee has now submitted its unanimous Report to me.

3. The Committee has discussed the various types of guarantee business and has provided factual information on the growth of guarantees executed by commercial banks with details regarding purpose, maturity, security and the rates charged. The Committee refers to the circum-

stances that have led to the increasing magnitude of guarantees, namely, the growth of investment activity, the growing volume of Governments' commercial transactions, the larger role of the public sector in infrastructural investment and expansion of industrial capacity with imported machinery obtained on the basis of suppliers' credit. The Committee is of the opinion that as an important criterion for judging the soundness of a banking institution is the size and character, not only of its assets portfolio but also of its contingent liability commitments, it is necessary to evolve guidelines on the extent to which banks may, with due regard to the safety of their depositors' interests, undertake this business. The guidelines, according to the Committee, should take into account the varying degrees of risk in guarantee business and provide for a measure of selectivity. The guidelines have, therefore, been evolved by the Committee with reference to the purpose of the guarantee, the period of maturity, the security offered and the distribution of risk. The Reserve Bank has accepted the Committee's suggestions and enjoins on commercial banks that they should follow the guidelines suggested by the Committee in the conduct of their guarantee business. The guidelines are indicated below :

4.(i) As regards the *purpose* of the guarantee, commercial banks should, as a general rule, limit themselves to the provision of financial guarantees and exercise due caution with regard to their performance guarantee business.

(ii) As regards *maturity*, as a rule, it would be advisable for banks to guarantee shorter maturities and leave longer maturities to be guaranteed by other institutions. No bank guarantee should normally have a maturity of more than 10 years.

(iii) As regards *security*, banks should limit their commitments by way of unsecured guarantees in such manner that 20 per cent of a bank's outstanding unsecured guarantees plus the total of its outstanding unsecured advances should not exceed 15 per cent of its total outstanding advances. Banks are expected to conform to this norm within a period of twelve months.

(iv) For the purpose of conforming to the above norm, guarantees covered by counter-guarantees of the Central Government and the State Governments, public sector financial institutions and insurance companies will be regarded as secured guarantees ; however, in respect of deferred payment guarantees banks are advised that such guarantees should be backed by adaquate tangible security or by counter-guarantees of the Central Government or the State Governments or public sector financial institutions, or by counter-guarantees of insurance companies or other banks provided the counter-guarantees of insurance companies and banks are themselves backed by adequate tangible security. In exceptional cases, banks may give deferred payment guarantees on an unsecured basis for modest amounts to first class customers who have entered into deferred payment arrangements in consonance with Government policy, but such unsecured guarantees should be accommodated within the limits suggested in paragraph 4(iii) above.

(v) As regards the total volume of guarantee business of individual banks, each bank should so restrict its credit and/or guarantee commitments as to allow sufficient scope for a contingent rise in its credit-deposit ratio to take place without impairment of its liquidity. The Reserve Bank will review individual bank's performance in this regard in the course of its annual inspection.

(vi) Banks should, as a rule, avoid giving unsecured guarantees in large amounts and for medium and long terms and should avoid undue concentration of guarantee commitments to particular groups of customers and/or trades.

(vii) Unsecured guarantees on account of any individual constituent should be limited to a reasonable proportion of a bank's total unsecured guarantees. Guarantees executed on behalf of any individual constituent should bear a reasonable proportion to the constituent's equity.

5. The Reserve Bank believes that if commercial banks follow the broad guidelines set out above, they will be able to continue rendering this valuable service to Indian trade and industry without incurring undue risks in regard to the safety or liquidity of their funds. It is essential that banks, like all other agencies concerned, should realise that guarantees contain inherent risks and that it would not be in their interest or in the public interest generally, to encourage parties to over-extend their commitments and embark upon enterprises solely relying on the easy availability of guarantee facilities.

DBOD. No. Sch. 914/C. 96-67—June 15, 1967

In exercise of the powers conferred by section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, hereby directs that its directive DBO. No. Sch. 216/C. 96-65 dated the 17th February 1965 shall be amended with effect from the 15th June 1967 as follows :—

In the said directive, before the Explanation, the following proviso shall be inserted, namely:

"Provided that where under the terms and conditions relating to any such credit facility, the scheduled bank is entitled in case of default, to charge additional or penal interest over and above the normal rate chargeable if no default had been committed, the scheduled bank may charge such additional or penal interest for the period of default notwithstanding that thereby the rate of interest actually charged exceeds 10 per cent per annum."

DBOD. No. Sch. 983/C. 96-67—June 27, 1967—All Scheduled Commercial Banks

The Reserve Bank of India has received representations from several companies engaged in providing hire purchase finance for commercial vehicles, and associations of such companies, that as a result of the Reserve Bank's Directive DBOD. No. Sch. 1539/C. 96-66 dated October 28, 1966, banks have been restricting their credit facilities to such companies. Apart from the fact that the aforesaid Directive, whereby not less than 80% of the credit expansion during the busy season was required to be allocated to industry and the financing of import/export bills is no longer applicable, the Reserve Bank is of the view that provision of adequate credit facilities to hire purchase companies would help the offtake of commercial vehicles and thereby assist the motor vehicle manufacturing industry which is currently in a state of recession, besides promoting the development of the transport industry. The scheduled banks are accordingly advised that requests for credit facilities from hire purchase companies for financing sales of commercial vehicles should not be treated as of lower priority than those from manufacturing industry, provided such requests are found satisfactory by the usual banking criteria.

DBOD. No. Sch. 1069/C. 96Z-67—July 11, 1967—All Scheduled Commercial Banks

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

2. On a further consideration of the matter, the Reserve Bank would like to modify slightly the guidelines contained in paragraph 4(iv) of the above letter so that counter-guarantees by commercial banks which themselves are backed by adequate tangible securities will be treated as secured guarantees not only for purposes of deferred payment guarantees but in respect of all guarantees.

3. Further, the guideline contained in pargraph 4(vi) may be amended to read as follows:—

'(vi) Banks should, as a rule, avoid giving unsecured guarantees in large amounts and for medium and long-terms and should avoid undue concentration of such unsecured guarantee commitments to particular groups of customers and/or trades.'

DBOD. No. Sch. 1236/C. 96-67—August 9, 1967—All Scheduled Commercial Banks

GOVERNOR'S LETTER

At a meeting which I had with the Chairmen and/or Chief Executives of the larger Indian and foreign banks on July 31, 1967, I indicated to them the need for scheduled commercial banks enlarging their assistance to priority sectors like agriculture, exports, small industries and, in the context of the current recessionary trends, to the domestic engineering industries, especially those having export potentialities. To this end, I mentioned that the Reserve Bank of India and the Industrial Development Bank of India would introduce certain measures to facilitate an increase in the flow of commercial bank credit at lower rates of interest to these sectors. I enclose a Memorandum which sets out the measures which the Reserve Bank is now bringing into effect. A separate communication will follow regarding the steps to be taken by the Industrial Development Bank of India.

2. The point had been raised at the meeting referred to above that during the slack season banks would find it more advantageous to use their own resources, currently earning less than the rate at which refinance is proposed to be offered by the Reserve Bank, to finance the sectors mentioned above rather than have recourse to the Reserve Bank. I had indicated that banks could approach the Reserve Bank for accommodation whenever they felt the need for such assistance in relation to their credit operations in respect of these sectors, but since the prime object of the Bank is to bring about a reduction in the level of interest rates charged to the sectors mentioned in paragraph 1 to the levels indicated in the Memorandum attached, the Bank believes that ceiling rates in respect of advances to these sectors should be observed by banks irrespective of whether or not banks seek refinance from the Reserve Bank in respect of any of these classes of transactions on the concessional terms indicated above.

3. The question of relief in respect of the net liquidity ratio had also been raised at the meeting referred to above as it was felt that lending to the sectors mentioned above at the rates suggested (and indicated in the Memorandum attached) would mean banks working on low differential margins and that the impact of making such advances even though refinanced at the rates indicated would otherwise be to lower banks' net liquidity ratio. It has been decided that for the purpose of computing the net liquidity ratio, the *increase* in a bank's advances to each of the sectors mentioned in the preceding paragraphs and those in respect of small-scale industry which are guaranteed by the Credit Guarantee Organisation over the average of such advances during the period July to October 1966 inclusive (for the slack season) and November 1966 to April 1967 inclusive (for the busy season) will not be taken into account. Whether a bank has any borrowing from the Reserve Bank outstanding or not, the rate at which it can borrow from the Bank will be determined as if an equivalent amount of advances had not been made. In view of the relief now being afforded in respect of the computation of the net liquidity ratio, banks should have no resource constraint in enlarging considerably the volume of their assistance to the sectors for which the concessional refinance terms are being offered.

4. As already indicated by me at the meeting, it has also been decided to exclude from the application of the norm (referred to in the Bank's letter DBOD. No. Sch. 666/C. 96Z-67 dated May 3, 1967) relating to the total of unsecured guarantees and unsecured advances; (*i*) packing credit advances, (*ii*) Export D/A bill advances, (*iii*) advances in respect of machinery supply bills which have been accepted by the purchaser's bank, (*iv*) advances to finance, on hire purchase or deferred payment basis, sales of machinery/equipment for agriculture, dairying or fisheries as well as of trucks/commercial vehicles and (*v*) advances granted to exporters against their deferred receivables by way of cash subsidies, excise duty drawbacks, etc. Further modifications in the policy towards unsecured advances will be announced when the Working Group now examining this question has made its recommendations.

5. A number of points relating to the distribution of banks' advances were also clarified at the meeting on July 31, 1967. It was made clear that the Directive issued last October requiring that not less than 80 per cent of the incremental advances in the busy season should be to industry and against export/import bills was no longer in force and should not be invoked to restrict credit to any sector. As regards the current slack season, while banks should continue to effect a sizeable reduction in their credit against seasonal commodities in short supply, the advice contained in the Bank's letters to the larger banks in this regard need not apply to advances against raw jute whether to mills or trade in view of the larger market arrivals of the new crop. Similarly, advances against sugar to mills and to the I.S.M.A.'s Export Division need not be subject to reduction beyond what is indicated by the releases ordered by Government. Advances against gur, however, need to be drastically curtailed.

6. In the face of a slowing down in the rate of deposit accretion and the emergence of heavy credit demands on the banking system, it is necessary to have purposive planning of credit expansion. Banks should keep in close touch with the Reserve Bank regarding their credit plans both for the busy season and for the near future. Such contacts could also help to draw attention to cases where genuine productive activity may be hampered by lack of adequate credit.

7. I would like to take this opportunity of impressing upon banks once again the need to increase their assistance either directly or indirectly to the agricultural sector for production, marketing and development. It is proposed to discuss, in greater detail, with representatives of commercial banks the manner in which they could enlarge their assistance to the agricultural sector.

MEMORANDUM

The Reserve Bank is reintroducing with immediate effect the facilities of the Bill Market Scheme under Section 17(4) (*c*) of the Reserve Bank of India Act ; the Scheme for the present will be restricted to the refinancing of credit granted to the sectors mentioned in the following paragraphs.

2. The Reserve Bank will be prepared to provide refinance, irrespective of a bank's net liquidity ratio, at a preferential rate of $4\frac{1}{2}\%$ per annum in respect of packing credit advances made by scheduled commercial banks to exporters of engineering and metallurgical products. This facility which will be available in respect of both manufacturer-exporters and merchant-exporters, will be subject to the following conditions :—

(*a*) The bank's advance will carry a rate of interest not exceeding 6% per annum.

(*b*) There should be a firm export order or a letter of credit in favour of the domestic exporter. However, in special cases and to take into account traditional trading practices in respect of certain export commodities, the Reserve Bank will be prepared, on a representation being made to it, to waive this requirement. Such waiver will be considered at the time of approving the bill limits in respect of these transactions.

(*c*) The bills to be lodged with the Reserve Bank in respect of such packing credit advance should not be of more than 90 days' maturity. However, in appropriate cases, the Bank will be prepared to make one more fresh advance against a fresh set of bills.

3. The Reserve Bank will be prepared also to provide refinance, irrespective of a bank's net liquidity ratio, at Bank rate in respect of packing credit advances made by scheduled commercial banks to exporters of products other than engineering and metallurgical. This facility, which will be available in respect of both manufacturer-exporters and merchant-exporters, will be subject to the following conditions :—

(*a*) The bank's advance will carry a rate of interest not exceeding 8% per annum.

(*b*) There should be a firm export order or a letter of credit in favour of the domestic exporter. However, in special cases and to take into account traditional trading practices in respect of certain export commodities, the Reserve Bank will be prepared, on a representation being made to it, to waive this requirement. Such waiver will be considered at the time of approving the bill limits in respect of these transactions.

(*c*) The period of the packing credit advance to the exporter should not exceed 90 days prior to shipment in respect of any single transaction for which refinance is availed of.

4. Refinance will also be available to scheduled commercial banks, irrespective of their net liquidity ratio, at Bank rate under Section 17 (3A) of the Reserve Bank of India Act in respect of post—shipment export bills denominated in currencies other than Indian rupees and they will be expected to lend to their customers at a rate not exceeding 8% per annum.

5. The Rupee Export Bill scheme will continue to operate as at present.

DBOD. No. B.M. 388/C. 297A-67—August 16, 1967—All eligible Scheduled Commercial Banks. Extension of the Bill Market Scheme for refinancing packing credit advances relating to exports

Please refer to Governor's letter No. Sch. 1236/C. 96-67 dated the 9th August 1967. As stated therein, we are re-introducing with immediate effect, the facilities under the Bill Market Scheme, for refinancing of credit granted by the eligible scheduled commercial banks in respect of packing credit advances to exporters of engineering and metallurgical products and other products. For availing of the facilities, it would be necessary for the banks to grant advances under a separate account each for packing credit advances for export of engineering and metallurgical products and for export of other products, and to convert such advances into eligible usance promissory notes as is being done in other cases under the Bill Market Scheme. These promissory notes will be accepted as security by the Reserve Bank for advances at the concessional rates *i.e.*, $4\frac{1}{2}$ per cent per annum in respect of the packing credit advances made by scheduled commercial banks to exporters of engineering and metallurgical products and at the Bank Rate in respect of packing credit advances relating to products other than engineering and metallurgical. The procedure to be followed by banks will be the same as already in force under the Bill Market Scheme but certain additional requirements as detailed in the Annexure will have to be complied with.

2. We shall be glad to furnish any clarification you may require in the matter.

ANNEXURE

PROCEDURE AND REQUIREMENTS

(*i*) **Packing credits for export of engineering and metallurgical products**

(*ii*) **Packing credits for export of other products**

1. Applications for availing of refinance facility from the Reserve Bank of India should be in the usual form as in the case of other advances under the Bill Market Scheme and should be made to the office of the Reserve Bank of India, where the bank is maintaining its principal account. The bank will, no doubt, as in other cases, ensure that the party concerned is creditworthy and that his signature on the usance promissory note could be considered as 'good' and also that safeguards are taken to effectively secure the advances/loans.

2. The usance promissory notes must be supported by consideration and it should also be ensured by the bank that its borrowings from the Reserve Bank against the usance promissory

notes are not in excess of the dues owed to it from time to time by each of the makers thereof in the relative account/s.

3. The bank, wishing to avail itself of refinance facility in respect of its advances under the two categories mentioned above would have to execute a demand promissory note separately for its anticipated total borrowings under each head and, for this purpose, it should advise us a limit based on the average outstandings during a period of one year separately in respect of advances falling under each of the two categories. It should also furnish a consent letter as in the form enclosed, duly signed by the officials authorised to execute loan documents for borrowings under the Bill Market Scheme.

4. It should be ensured by the bank that the total outstanding borrowings in respect of refinance obtained under each of the two categories are fully covered by the value of the usance promissory notes.

5. A bank can avail itself of refinance facility from the Reserve Bank in respect of finance provided by it by way of packing credit subject to the following conditions :

(*a*) The packing credit facility should be granted to bonafide exporters.

(*b*) The credit should be granted on the strength of letters of credit established by the banks of standing abroad in favour of local exporters or a firm export order. However, in special cases and to take into account traditional trading practices in respect of certain export commodities, the Reserve Bank will be prepared, on a representation being made to it, to waive this condition. A request for such waiver should be made by the bank at the time of applying for the bill limits in respect of these transactions, giving reasons in support of the request.

(*c*) The bank should ensure that the relevant sale contracts and/or the relative letters of credit are lodged with it.

(*d*) The usance promissory notes should have a maturity of not more than 90 days. However, in appropriate cases, the Reserve Bank will be prepared to make one more fresh advance against a fresh set of bills.

(*e*) The bank should certify at the time of lodgement of the usance promissory notes with the Reserve Bank that the relative advances have been made to the parties concerned for financing packing credit for the purpose of exports, that it holds the necessary documents and that it will continue to comply with the prescribed requirements until the advance taken from the Reserve Bank is repaid. If the export relates to engineering and metallurgical products, the certificate should specifically state so.

(*f*) The outstandings in the accounts should be extinguished by negotiation of the relative export bills. Where the borrower is unable to entinguish his liability to the bank by the due date, by tender of export bills of sufficient value, the bank should intimate all the facts of the case to the Reserve Bank. In such cases, interest on the shortfall (*i.e.*, the amount not covered by tender of export bills) will be charged not at the concessional rates but at such rates as may be applicable for the borrowings of the bank other than those financed by the Reserve Bank at the concessional rates. However, in special cases and to take into account traditional trading practices in respect of certain export commodities, the Reserve Bank will be prepared, on a representation being made to it, to waive this condition. A request for such waiver should be made by the bank at the time of applying for the bill limits in respect of these transactions, giving reasons in support of the request.

(g) Before availing itself of refinance facilities from the Reserve Bank, the bank concerned will communicate its agreement in writing to the effect that it will not charge interest exceeding 6 per cent per annum on all packing credit advances relating to export of engineering and metallurgical products and 8 per cent per annum on those relating to export of other products.

Enclosure :

To

The Manager

Reserve Bank of India

____

Name of the Bank=______

(Place)____________

(Date)____________

Dear Sir,

Advances under section 17(4) (c) of the Reserve Bank of India Act, 1934—Bill Market Scheme

Please refer to your Central Office Circular letter DBOD. No. B. M. 388/C. 297A-67 dated the 16th August 1967. We agree to abide by your requirements stated therein. We further agree that notwithstanding your granting to our bank under section 17(4) (*c*) of the Reserve Bank of India Act, 1934, advances against the security of bills mentioned in your above letter only through a separate loan account opened in our bank's name for that purpose, the loan documents already executed or which may be executed hereafter on behalf of our bank in respect of the loan account relating to other advances under the said section in terms of the Bill Market Scheme will also hold good for the amount due from our bank from time to time in the aforesaid separate loan account as though the balances in that account had arisen out of advances made through the existing loan account, except that the references in the said loan documents to the rate of interest payable by us on the amounts due by us shall, in relation to advances through the separate loan account referred to above, be construed as references to the Bank Rate* for the time being in force. We also agree to execute such further or other documents which you may consider necessary to effectively apply the said loan documents to the separate loan account.

Yours faithfully,

Note :— In the case of refinance against packing credit advances to exporters of engineering and metallurgical products, the words "the Bank Rate for the time being in force" will be substituted by "$4\frac{1}{2}$% p. a."

DBOD. No. B. M. 390/C. 297 (K)-67—August 16, 1967. All eligible scheduled commercial banks which are authorised dealers in foreign exchange. Export Bills Credit Scheme

Please refer to paragraphs 4 and 5 of the Memorandum attached to Governor's letter dated the 9th August 1967. As set out therein, apart from continuing the Rupee Export Bills Credit Scheme, the Reserve Bank will now make available to eligible scheduled commercial banks which are authorised dealers in foreign exchange, irrespective of their net liquidity ratio, refinance at the Bank Rate under section 17(3A) of the Reserve Bank of India Act in respect of post-shipment export bills denominated in currencies other than Indian rupees. The banks will have to obtain suitable limits from the Reserve Bank as at present. The procedure for applying for limits and for borrowing from the Reserve Bank under the Export Bills Credit Scheme will continue to be as at present. However, a bank availing itself of the facility under the Export Bills Credit Scheme in respect of bills in currencies other than Indian rupees will have to communicate its agreement in writing to the Reserve Bank that it shall not charge interest/commission/discount exceeding 8 per cent per annum on such bills.

DBOD. No. Sch. 1288/C. 96Z-67.—August 17, 1967. All foreign banks in India.

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

2. It has been decided that guarantees issued by the branches of foreign banks in India on behalf of their Head Offices may not be taken into account for the purpose of the norm suggested in paragraph 4(iii) of the above letter.

DBOD. No. Sch. 1296/C. 96Z-67.—August 21, 1967. All Scheduled Commercial Banks.—Bank Guarantees

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

2. It has been decided that a guarantee counter-guaranteed by another bank need not be taken into account for the purpose of the norm of 15 per cent suggested in sub-paragraph (iii) of paragraph 4 of the above letter. It may be recalled that in this sub-paragraph, banks were advised to limit their commitments by way of unsecured guarantees in such a manner that 20 per cent of a bank's outstanding unsecured guarantees plus the total of its outstanding unsecured advances should not exceed 15 per cent of its total outstanding advances.

DBOD. No. Sch. 1385/C. 96-67.—September 9, 1967. All Scheduled Commercial Banks.—Net Liquidity Ratio

Please refer to paragraph 3 of Governor's circular letter DBOD. No. Sch. 1236/C. 96-67 dated the 9th August 1967 in which it was indicated that for the purpose of computing the net liquidity ratio, the *increase* in a bank's advances to the priority sectors, *viz.*, agriculture, exports and to those in respect of small-scale industries which are guaranteed by the Credit Guarantee Organisation, over the average of such advances during the period July to October 1966 (for the slack season) and November 1966 to April 1967 (for the busy season) will not be taken into account. In order to have a bench mark data for the purpose, it has been decided that the average of the advances referred to above should be calculated with reference to the outstanding figures of the advances to these sectors (except advances to agriculture in respect of which a separate advice will be sent) as on the last Friday of every month during the above periods. We shall, therefore, be glad if you will kindly forward to the concerned office of the Reserve Bank of India, as in the attached form, the figures of your bank accordingly in respect of exports and advances to small scale industries which are guaranteed by the Credit Guarantee Organisation.

2. As regards the current data required for the purpose of calculating the increase in the bank's advances to the priority sectors (except agriculture), the banks are requested to furnish the figures of outstanding advances to each of the categories, under these sectors, as on each Friday, along with the weekly statement submitted by them under section 42(2) of the Reserve Bank fo India Act, 1934.

3. The question of relief in respect of the net liquidity ratio on account of increases in advances to "agriculture" is being examined and you will be advised in the matter in due course.

Outstanding balances in respect of advances (in lakhs of rupees)

As on the last Friday of		For exports	To small scale industries guaranteed by the Credit Guarantee Organisation
July	1966		
August	,,		
September	,,		
October	,,		
	TOTAL		
	AVERAGE		

As on the last Friday of		For exports	To small scale industries guaranteed by the Credit Guarantee Organisation
November	1966		
December	,,		
January	1967		
February	,,		
March	,,		
April	,,		
	TOTAL		
	AVERAGE		

DBOD. No. B. M. 485/C. 297A-67—October 19, 1967—All scheduled commercial banks—Advances to scheduled banks under Section 17(4) (c) of the Reserve Bank of India Act, 1934—Re-finance against packing credit advances

Please refer to the Governor's circular letter DBOD. No. Sch. 1236/C. 96-67 dated the 9th August 1967. It was indicated therein that the banks should charge a rate of interest not exceeding

6% p.a. in respect of packing credit advances relating to metallurgical and engineering products and not exceeding 8% in respect of packing credit advances relating to other products. It was also indicated that these ceilings should be applied irrespective of whether or not a bank sought refinance from the Reserve Bank. Some banks have enquired as to the date from which the above ceiling rates would be applicable. We, therefore, clarify the position as follows :

(*i*) For all packing credit advances granted on or before the 9th August 1967 by way of fixed loans, the rates of interest already agreed to between the bank and the borrowers may continue to be charged till the relative loans are adjusted. Similarly, in cases where a cash credit or over-draft limit was sanctioned on or before the 9th August 1967 in order to finance a *specific export transaction* the agreed rate of interest may continue to be charged in the account even on drawings allowed after the 9th August 1967 till the outstanding balance is adjusted by negotiation of export bills on completion of the relevant export transaction.

(*ii*) If on the other hand, a general limit (not related to specific export transactions) was sanctioned on or before the 9th August 1967 and the intention was that packing credit advances would be granted up to a maximum of the amount of the aforesaid limit, the rates of interest for packing credit advances granted/drawings allowed after the 9th August 1967 should not exceed the ceilings indicated in the Governor's circular dated the 9th August 1967.

(*iii*) Subject to what is stated in item (*i*) above, interest on all packing credit advances made or packing credit limits sanctioned after the 9th August 1967 should not exceed the relevant ceiling indicated in the Governor's circular.

2. It is noticed that some of the banks have not yet brought their rates of interest in line with those indicated in the Governor's letter referred to above. We shall, therefore, be glad if you will please issue appropriate instructions to all your branches, if this has not already been done, and confirm that the relevant rates have been brought within the stipulated limits. If a higher rate has been charged in any case after the 9th August 1967, where a lower rate should have been charged, we would suggest that the excess interest charged be refunded to the party concerned.

DBOD. No. Sch. 1671/C. 96-67—November 2, 1967. All Scheduled Commercial Banks

GOVERNOR'S LETTER

I have had occasion earlier this week to discuss with the Chairmen and Chief Executives of the larger Indian and foreign banks the prospective credit situation in the next few months. The expansion in agricultural output and the expected recovery in industrial production is likely to create a larger demand for credit compared to last year. The stepping up of official procurement and allied operations in foodgrains is also expected to increase credit requirements over and above normal seasonal needs.

2. The experience in the last busy season indicated that although a high target of credit expansion was adopted and banks were assured of an additional Bank Rate tranche, the actual credit expansion was much smaller and a substantial portion of the additional Bank Rate tranche remained unutilised, while many sectors engaged in productive activity complained of inadequacy of bank finance. I have, therefore, felt that instead of making a pro rata allocation of additional Bank Rate finance on the basis of estimates which have been prepared for the banking system as a whole, banks may be given a qualitative, rather than a quantitative indication of the additional refinance which would be available to them. For the current busy season, therefore, such refinance will be provided to banks on a selective basis related to their credit to certain preferred sectors.

The need for a selective approach is reinforced by the consideration that despite the increase in production and the expectation that the upward trend in prices would be halted, if not reversed, the actual experience in recent weeks does not give room for complacency so as to permit a general rather than a selective expansion of credit. Some measures of selective liberalisation were announced by the Reserve Bank of India and the Industrial Development Bank of India last August and September. At the meeting referred to above, I indicated that over and above these measures, the Reserve Bank would be prepared to provide Bank Rate refinance for certain additional categories of preferred credit and to adopt certain other measures to ease the pressure on banks' resources as outlined in the following paragraphs.

3. The Reserve Bank has discussed with representative interests the programme of food procurement operations and its likely impact in terms of credit requirements from the banking system. In the light of these discussions and on an assessment of banks' liquidity positions, the Reserve Bank has decided that advances for the purpose of foodgrains procurement/distribution/storage to the State Governments/their agencies/Food Corporation of India would be eligible for refinance at Bank Rate. Further, the entire increase in such refinance over the level of October 27, 1967 will be excluded from the total of borrowings from the Reserve Bank for purposes of computing the Net Liquidity Ratio of banks.

4. I had appointed sometime ago a Working Group under the Chairmanship of Prof. D. G. Karve to examine the availability of adequate credit for distribution of agricultural inputs. The Report of the Working Group has now become available and taking into account the recommendations of the Working Group relevant to credit policy for the current year, the Reserve Bank has decided to provide Bank Rate refinance in respect of credit extended by scheduled commercial banks for financing the distribution of chemical fertilisers and pesticides, including credit extended to manufacturers of these products for financing their sales. For purposes of computing the Net Liquidity Ratio of banks, such refinance will be treated on par with that provided for foodgrains procurement.

5. Refinance in respect of credit for foodgrains procurement and allied operations as well as for distribution of fertilisers and pesticides can be availed of by scheduled banks in terms of the procedures obtaining under the Bill Market Scheme. The facilities of the Scheme have been reintroduced from November 1, 1967.

6. The Reserve Bank recognises that individual banks may be exposed to severe strain on their liquidity as a result of their clients having to make large tax payments at particular times of the year or arising out of a bunching of imports of raw cotton, soyabean oil, maize starch, etc. To meet this problem the Reserve Bank would be prepared to extend Bank Rate refinance for limited periods in cases where the Bank is satisfied about the need for such assistance.

7. Such discretionary accommodation would also be available in respect of genuine financial difficulties in aiding production. Scheduled commercial banks are requested to send a statement at the end of each month to the Reserve Bank of loans/advances which they are not in a position to sanction owing to paucity of resources although in their judgement the borrowers satisfy the usual banking criteria and genuinely need the loans/advances applied for, for the purposes stated. Separate data on such loan applications from manufacturing industry, both big and small, as well as from agricultural borrowers may be furnished so that the Reserve Bank could take a view as to what special arrangements, if any, would be needed to satisfy genuine credit needs. The Reserve Bank is anxious that production should on no account be impeded for want of adequate credit. In giving its assistance for such purposes, however, the Bank will take into account the scheduled commercial bank's own deposit resources, the pattern of deployment of its own funds and in particular the magnitude of its lending to preferred sectors like exports, agriculture, small industries etc. Considering that, even for their own use, banks should have at any time an upto date picture of their lending operations, I would suggest that they may make arrangements, where such arrangements do not already exist, to prepare a monthly consolidated statement showing the sector-wise

and security-wise distribution of the new and increased limits granted by them since the commencement of the busy season.

8. The above facilities for refinance at Bank Rate in place of the additional Bank Rate tranche available last year should enable the banking system to operate with greater flexibility. As regards the system governing the application of higher interest rate, the Reserve Bank has liberalised it as follows :—

Banks would be entitled to obtain Bank Rate refinance in respect of the *full* excess of their Net Liquidity Ratio over the basic minimum of 30 per cent in addition to such Bank Rate refinance as they might get under the special schemes. In other words, any borrowing under the packing credit scheme etc. would not lead to the application of a rate higher than Bank Rate in respect of borrowing against approved securities or bills under the Bill Market Scheme if the reduction in the Net Liquidity Ratio below 30 per cent arises out of the increase in the packing credit and other special refinance schemes. Further, if a bank exceeds its Bank Rate entitlement for temporary periods *i.e.*, upto maximum of one week, no higher rate will be charged. If, however, the excess borrowing continues beyond a week, a higher rate not less than 8 per cent, will begin to apply based on the Net Liquidity Ratio. The higher rate would be charged only in respect of the *excess* borrowings over the Bank Rate entitlement and not on the entire amount of refinance. The manner of computing the higher rates will be explained in a separate communication from the Department of Banking Operations and Development.

9. The Reserve Bank had appointed some time ago a Working Group to go into the question of categorisation of unsecured advances and the application of norms relating to such advances as well as on the treatment of share advances. The Working Group has indicated that many types of unsecured advances are made for productive purposes. The Reserve Bank has accepted the major recommendations of the Working Group in this regard and has decided that for purposes of credit policy and the application of norms relating to unsecured advances as specified in the Reserve Bank's letter No. DBOD. Sch. 666/C. 96Z-67 dated May 3, 1967, that several specified categories of advances now classified as unsecured advances may be excluded from the total of unsecured advances. A detailed communication to banks in this regard will follow separately. The exclusion of certain categories of advances for purpose of credit regulation and the application of norms should give banks additional flexibility in extending unsecured credit for production, trade and exports.

10. In the field of selective controls the Reserve Bank has decided to introduce margin restrictions in respect of advances against indigenous raw cotton while continuing the present ceiling restrictions on such advances. It is proposed to prescribe a minimum margin of 25 per cent in respect of the advances to manufacturing units against indigenous raw cotton and 35 per cent in respect of advances to trade. To facilitate the movement of raw cotton, advances against D. D. Bills will be exempted from ceiling and margin restrictions. Banks will be given a certain latitude in choosing the base period for the purpose of determining the credit ceiling in order to relieve difficulties arising from the early arrival of the cotton crop in some areas. In respect of advances against gur, a ceiling of 70 per cent of last year's outstanding level is being imposed while minimum margins of 50 per cent are being prescribed. Advances against sugar, so far as trading stocks are concerned, will continue to be subject to a minimum margin of 45 per cent. The credit restrictions on advances against vegetable oilseeds and oils are being relaxed in favour of solvent extraction plants with a view to promoting exports of their products. The Reserve Bank has received representations from time to time that in conforming to the requirements relating to ceiling restrictions, banks enforce a cut on a pro rata basis on their individual customers in all areas regardless of the situation in different areas and the needs of different classes of customers. The Reserve Bank would like to clarify that to ensure compliance with the directives, it would be adequate if the overall ceilings are observed and that within these ceilings, banks remain free to allocate credit as between different customers on individual merits. Detailed letters in regard to changes in selective credit controls are being issued to banks separately.

11. The liberalised refinance now available should meet in substantial measure the expected increase in credit demand in the next few months and banks therefore should be able to meet all genuine needs for production. It is, however, proposed to review the position taking into account any new developments that might take place and I propose to have another meeting with the larger Indian and foreign banks in the latter half of January 1968. Meanwhile, banks may proceed on the assumption that refinance facilities now available would be maintained throughout the busy season and plan their operations accordingly.

DBOD. No. Sch. 1693/C. 96S-67—November 8, 1967.—All Scheduled Commercial Banks

The Reserve Bank of India has been considering for some time the question of definition and classification of unsecured advances in view of the differences in practices of various banks in this regard. Accordingly, in July 1967 the Governor of the Reserve Bank constituted a Working Group to look into this question and to evolve uniform concepts in the matter of unsecured advances with particular reference to the present regulations governing unsecured advances.

2. The Working Group has recommended that for the purposes of the norms relating to unsecured advances and guarantees, certain types of unsecured advances may be excluded from the total of unsecured advances. After a careful consideration of the Working Group's recommendations, the Reserve Bank of India has decided that while applying the norms relating to unsecured advances and guarantees indicated in the Bank's letter DBOD. No. Sch. 666/C. 96Z-67 dated May 3, 1967 the following types of unsecured advances should be excluded from the total of unsecured advances.

(*i*) Advances backed by guarantees of the Central Government, State Governments, public sector financial institutions, insurance companies, banks and, in respect of credit to small industries, the Credit Guarantee Organisation. However, guarantees furnished by insurance companies in connection with deferred payment arrangements should themselves be backed by adequate tangible security.

(*ii*) Advances against supply bills drawn on the Central Government and State Governments, which are accompanied by duly authorised inspection notes and provided the bank holds an irrevocable power of attorney registered with the concerned authorities.

(*iii*) Advances in the form of packing credits for exports.

(*iv*) Advances against trust receipts.

(*v*) Advances against Export D/A bills.

(*vi*) Advances against inland D/A bills drawn under letters of credit.

(*vii*) Advances against bills drawn for machinery supplied on deferred payment terms which have been accepted by the purchaser's bank and advances to finance sales on hire/purchase or deferred payment terms of machinery and equipment for agriculture, dairy farming and fishing as well as trucks/commercial vehicles.

(*viii*) Cheques and D/Ds purchased.

(*ix*) Advances against truck/lorry receipts issued by operators approved by the Indian Banks' Association.

(*x*) Advances against deferred receivables such as excise drawbacks, cash subsidies to exporters and dividends receivable from the Coffee Pool, provided the amounts are due from Government or under export promotion schemes or commodity marketing schemes approved by Government, and advances to exporters for payment of export duty.

(*xi*) Advances to farmers against hypothecation of crops.

(*xii*) Bad and doubtful debts fully provided for.

(*xiii*) The secured portion of a partly secured advance.

The Reserve Bank's decision with regard to the treatment of advances against book debts will be advised to banks in due course. The views expressed by the Working Group on the special treatment to be accorded to certain types of unsecured advances in applying credit policy measures will be given due consideration while formulating such measures. Suitable action will also be taken in regard to certain ancillary recommendations made by the Working Group.

3. As recommended by the Working Group, the Reserve Bank will deal, on merits, with any special problems which may arise as a result of advances backed by guarantees of foreign companies being treated as unsecured advances. The Working Group has emphasized that while certain types of unsecured advances may be excluded from the total of such advances for the purposes of norms stipulated by the Reserve Bank, the safety of deposits must remain the prime concern of a bank and that it is primarily for the bank to decide how far it should allow its portfolio of unsecured advances (including the exempted categories), to grow without detriment to the interests of its depositors. The Reserve Bank endorses this view.

4. The Working Group was also requested to look into the question of evolving suitable norms for advances by commercial banks against shares. The Working Group has suggested the following guidelines for advances against shares which the Reserve Bank endorses :—

(*i*) The present statutory restrictions on advances against shares embodied in Sections 19(2) and (3) and 20(1) (*a*) of the Banking Regulation Act may continue. Similarly, the ban on bank financing of *budla* transactions may also be maintained.

(*ii*) The most important precautions which banks must take with respect to advances against shares are to satisfy themselves about the marketability of the shares and the net worth position of the company whose shares are offered as security and to ensure that the requirements regarding proper transfer are fulfilled. Banks should be particularly careful while making advances against shares known to be subject to speculative activity. Adequate margins should, in all cases, be maintained.

(*iii*) Banks should scrutinise carefully the purpose for which an advance against shares is sought. While there can be no objection to banks providing finance to a reasonable extent against the security of shares for purposes such as the functioning and expansion of productive enterprise, banks should ensure that the advance is not being used for speculative purposes or for enabling the borrower to acquire or retain a controlling interest in the company. Advances against shares to companies have also to be scrutinised carefully to see that such advances are not used to facilitate or retain intercorporate investments.

(*iv*) Banks should exercise particular care in making an advance against a large block of shares both from the point of view of its effect on the borrower's ability to repay such advances and because advances against large blocks of shares are liable to be used for other than short-term productive purposes. Advances against shares should not be made for long periods for apart from the strain this imposes on banks' resources, such long-term advances against shares might represent a misapplication of bank loans for other than productive purposes. Where a bank has already made such advances on a long-term basis, a suitable repayment programme should be drawn up. In the case of advances exceeding Rs. 5 lakhs, banks should obtain the Reserve Bank's approval for the repayment schedule.

(*v*) Advances to managing agents against shares of the managed companies should be examined on merits and in the light of prevailing conditions in the industry and be sanctioned only if the funds are required to accommodate the companies for short periods and for overcoming temporary or contingent difficulties which would affect production or hold up the implementation of a project. Banks should also watch the operations of such accounts to ensure that they are being used for the purpose for which the advances were sanctioned. The same considerations should apply in respect of advances against shares to promoters of new companies. All such advances should in any case be allowed only against marketable shares and should be subject to a repayment programme. In the case of advances exceeding Rs. 5 lakhs, banks should obtain the Reserve Bank's approval for the repayment schedule.

(*vi*) As regards advances to stock brokers for whom shares constitute the stock in trade, banks should exercise the closest scrutiny to ensure that the advances are not availed of for the brokers' own speculative or investment purposes. Similarly, banks should ensure that accommodation granted to brokers does not help the latter to finance their *budla* operations.

(*vii*) To ensure a degree of liquidity to investment in shares and thus to encourage investment in shares and securities, banks may allow loans or overdrafts to individual customers against shares provided they are for short periods and/or are subject to a repayment programme. Similarly, banks might take a more liberal view regarding the grant of advances against Government securities.

DBOD. No. Sch. 1713/C. 96-67—November 11, 1967—All Scheduled Commercial Banks

Please refer to paragraph 8 of the Governor's circular letter DBOD. No. Sch. 1671/C. 96-67 dated the 2nd November 1967 where it was stated that the manner of computing the higher rates of interest on excess borrowings from the Reserve Bank would be explained in a separate communication. In pursuance thereof we have to advise that if the excess borrowing continues beyond one week a higher rate not less than 8 per cent will begin to apply from the date on which the excess borrowing started ; however, for a shortfall of every one point or a fraction thereof in the bank's net liquidity ratio below 30 per cent as on the Friday of the week concerned, the penal rate will be raised by 1 per cent per annum above the level of 6 per cent per annum subject to a minimum of 8 per cent per annum. Accordingly, the penal rate that will be charged will be 8 per cent when the net liquidity ratio falls from 30 per cent to 29 per cent, and will continue to be 8 per cent even when the net liquidity ratio falls from 29 per cent to 28 per cent. For a 3 per cent fall in the net liquidity ratio, the penal rate will be 3 per cent above the Bank Rate and so on. The mode of calculating the excess borrowings and the penal rate of interest thereon is given in the Annexure. As will be seen therefrom, a penal rate will be charged on the excess borrowings, based on the net liquidity ratio adjusted for the increase in the advances to preferred sectors indicated in paragraph 3 of the Governor's circular letter DBOD. No. Sch. 1236/C. 96-67 dated the 9th August 1967.

ANNEXURE

Calculation of Excess Borrowings

1. The excess borrowings of a bank on any day will be calculated as under.

2. The SUM of special categories of Bank rate borrowings from the Reserve Bank of India in respect of (1) post-shipment export bills denominated in Indian rupees and in currencies other

than Indian rupees, (2) Packing Credit Advances (Export Credit Refinance Schemes), (3) advances for the purpose of foodgrains procurement/distribution/storage to the State Governments/ their agencies/the Food Corporation, (4) advances for the purpose of distribution of chemical fertilizers and pesticides and (5) advances for such other purposes as may be indicated by the Reserve Bank of India from time to time will first be worked out. If the actual borrowing from the Reserve Bank of India is less than this *SUM*, then the bank's borrowings will be considered as not having any excess borrowings. If however, the actual borrowings from the Reserve Bank of India are greater than this SUM, then the difference will be worked out. This will be called DIFFERENCE I.

3. Then another figure called DIFFERENCE II will also be calculated as follows :

(*i*) The SUM mentioned in 2 above will be added to the net liquid assets as on the date in question and adjusted for increase in lending to preferred sectors indicated in paragraph 3 of August 9, 1967 circular.

(*ii*) As on that date the level of net liquid assets appropriate for a 30 per cent net liquidity ratio will be worked out. If this figure is equal to or smaller than that in (*i*), then the bank will be considered as *not* having any excess borrowings. If this figure is larger, then the difference between the two will be worked out and will be called DIFFERENCE II.

4. DIFFERENCE I AND DIFFERENCE II will be compared and the *lower* of the two will be regarded as the excess. A penal rate will be charged on this excess, based on the net liquidity ratio adjusted for increase in lending to preferred sectors indicated in paragraph 3 of August 9 circular. The examples indicated below show how the excess is to be worked out for different types of cases.

(Rs. Crores)

	Bank 'A'		Bank 'B'		Bank 'C'	
	October 27, 1967 (1)	December 29, 1967 (2)	October 27, 1967 (3)	December 29, 1967 (4)	October 27, 1967 (5)	December 29, 1967 (6)
1. Aggregate Demand and Time Liabilities	100.00	105.00	100.00	105.00	100.00	105.00
2. Net Liquid Assets	28.00	26.00	35.00	27.00	35.00	25.00
3. Net Liquidity Ratio %	28.0	24.8	35.0	25.7	35.0	23.8
4. Increase in NLR (%) on account of increase in lending to preferred sectors in terms of paragraph 3 of August 9 circular		1.0		1.0		1.0
5. Increase in NLA corrected for 4 above (approximately)		1.00		1.00		1.00
6. NLR adjusted for 4 above		25.7		26.7		24.8
7. NLA adjusted for 5 above		27.00		28.00		26.00
8. (*a*) Total borrowing from Reserve Bank of India	0.75	3.75	0.75	4.25	0.75	5.00
(*b*) *Of which against*						
(*i*) Export Refinance Scheme ..	0.25	2.00	0.25	2.00	0.25	2.00
(*ii*) Food Procurement	0.15	0.75	0.15	0.75	0.15	0.75
(*iii*) Fertiliser/Pesticides	0.10	0.50	0.10	0.50	0.10	0.50
(*iv*) Other special schemes ..	—	—	—	—	—	—

	(1)	(2)	(3)	(4)	(5)	(6)
9. *Calculation of DIFFERENCE I*						
(*a*) SUM of special categories of Bank rate borrowings [8(*b*) (*i*) (*ii*) (*iii*) (*iv*)]		3.25		3.25		3.25
(*b*) Total Borrowing from Reserve Bank of India minus SUM [8(*a*) -9(*a*)=DIFFERENCE I] ..		0.50		1.00		1.75
10. *Calculation of DIFFERENCE II*						
(*a*) SUM (9(*a*) above)		3.25		3.25		3.25
(*b*) Adjusted NLA on December 29, 1967 (7 above)		27.00		28.00		26.00
(*c*) Total (a+b)		30.25		31.25		29.25
(*d*) NLA Appropriate for 30% NLR		31.50		31.50		31.50
(*e*) NLA appropriate for 30% NLR minus (SUM plus adjusted NLA on December 29)=DIFFERENCE II		1.25		0.25		2.25
11. Excess borrowing being the lower of DIFFERENCE I and DIFFERENCE II		0.50		0.25		1.75
12. Penalty Rate if this amount of excess borrowing continues beyond first week		11		10		12

DBOD. No. Sch. 1717/C. 96S—67—November 13, 1967—All Scheduled Commercial Banks

Please refer to paragraph 4 of our circular letter DBOD. No. Sch. 1693/C. 96S-67 dated the 8th November 1967 setting out certain guide-lines for advances against shares. As regards the advances to stock brokers referred to in sub-paragraph (*vi*) thereof, we would like to clarify that banks may continue to make finance available to stock brokers to enable them not only to conduct their operations as intermediaries but also to finance their own holdings of shares to a reasonable extent provided that the same principles as are applicable to other advances against shares are adhered to. With regard to *budla* operations, it is not our intention to ban bank finance to stock brokers for such operations altogether but to discourage the excessive use of bank finance for that purpose. While the existing ban on banks' direct financing of such operations will continue, banks may grant advances to stock brokers to finance the latters' *budla* operations provided such advances are made within reasonable limits and with adequate margins.

DBOD. No. EFS. 1102/C. 450-67—November 18, 1967—All Scheduled Commercial Banks

In continuation of our letters DBOD. No. Sch. 1693/C. 96/S-67 dated November 8, 1967, and DBOD. No. Sch. 1717/C. 96/S-67 dated November 13, 1967, regarding guide-lines for advances against shares, the Reserve Bank wishes to clarify the cases in which banks should obtain its approval for the repayment schedules which they may arrange with their customers in respect of such advances.

2. The approval of the Reserve Bank should be obtained (*a*) for the repayment schedule arranged by a bank in respect of any long-term advance against shares exceeding Rs. 5 lakhs (in terms of the amount drawn and outstanding as distinct from the sanctioned limit) if such schedule

extends beyond a period of 5 years and (*b*) where in respect of such long-term advance exceeding Rs. 5 lakhs, the bank does not consider it immediately feasible to determine a repayment schedule. A long-term advance in this context means an advance initially granted for a term of 2 years or longer or one which has remained outstanding for a similar period.

3. The Reserve Bank recognises that share advances granted to stock brokers for their normal business may remain outstanding for long terms, and it might not be appropriate or feasible to fix repayment programmes in such cases. However, banks should take care to ensure that advances to stock brokers are reasonable in relation to the normal turnover in their accounts. If, in the course of inspection of banks or otherwise, it is found that these facilities are being used to an excessive degree, the Reserve Bank will require the repayment of such advances to be effected within a short period.

4. Where a borrower having an outstanding advance in respect of which a repayment schedule has been fixed is granted a fresh advance against shares, the principles stated above will apply in determining the cases to be referred to the Reserve Bank for approval. That is, if the aggregate of advances against shares granted to such a party exceeds Rs. 5 lakhs (even though the individual amount of advances may be less) and the repayment schedule extends beyond 5 years, the Reserve Bank's approval should be obtained. In such cases, the bank should satisfy itself that the fresh advance is needed for a productive operation distinct from the one for which the original advance was granted, so that no rolling over of the same advance is involved.

5. The Reserve Bank recognises that a review of the existing portfolios of share advances to conform to the guidelines now recommended by the Bank may take time ; however, the Reserve Bank would like the first priority to be given to a review of the particular cases where, following an inspection, the Bank has already asked for a repayment schedule to be fixed and where applications have to be made for the Bank's approval in terms of this letter.

6. Applications for approval of repayment schedules or a waiver in regard to such schedules should provide full facts about the purpose of the advance, the reasons why repayment has to be spread over a longer period than 5 years, and, where it is not considered immediately feasible to determine a repayment schedule, the reasons therefor, with full details in every case as to how and when the funds required for repayment, are expected to be obtained.

7. The above procedure is without prejudice to the Reserve Bank's powers to ask a bank to fix a repayment schedule with respect to any advance without any limitation as to the category or size of such advance.

DBOD. No. B. M. 683/C. 297A-67—November 25, 1967.—All eligible scheduled commercial banks—Extension of the Bill Market Scheme for refinancing packing credit advances relating to exports

Please refer to our circular letter No. DBOD. No. B. M. 388/C. 297A-67 dated August 16, 1967. It was stated in paragraph 5(*b*) of the annexure to the letter that the Reserve Bank would be prepared to waive the condition regarding submission of letters of credit/firm orders by the exporters if the prevalence of special trading practices in respect of any commodity warranted such a waiver. As it would not always be possible for banks to fulfil the stipulation regarding the letter of credit or a firm export order in respect of packing credit advances to exporters of tea, it has been decided to waive these conditions in respect of tea exports. Packing credit advances may be made available by banks to the manufacturer/merchant exporters of tea on the basis of the limits made available to them in the preceding year (April to March), as explained below. Taking into account the seasonal pattern of, and the regional variations in, tea exports, the limits for each quarter may be in the following proportions :

2. *As a proportion of the credit limits sanctioned in the preceding year for each of the manufacturer-exporters :*

	North Indian Tea*	South Indian Tea@
April—June	4%	24%
July—September	36%	33%
October—December	45%	26%
January—March	15%	17%

Covers tea grown in Assam, West Bengal, Bihar, Tripura, Uttar Pradesh, Punjab and Himachal Pradesh.

@ Covers tea grown in Kerala, Madras and Mysore.

Merchant exporters who purchase tea from the market for export, including purchases for blending and exports, would also be eligible for packing credits upto the limits available to them in the preceding year for financing their tea exports but in their case the limits need not necessarily be split up on a quarterly basis. Any request for reasonable increases in limits over the limits of the last year for financing increased exports may be allowed by the banks on the merits of each case. If the limits are so increased, the above proportions may apply to the increased limits.

3. The new entrants in the field of exports may be asked to provide advance estimates of their likely exports during each quarter if they are manufacturers, and during the year if they are merchant exporters, which may be used for sanctioning appropriate credit limits to them at the concessional rate.

4. The Reserve Bank would be prepared to consider proposals for refinance of packing credit advances for tea exports up to the limits indicated above at the *Bank Rate* provided :

(*a*) the bank undertakes to charge a rate not exceeding 8 per cent per annum,to the borrowers ;

(*b*) these advances are given under a separate account. (A separate packing credit account may be opened for each quarter in case of manufacturer-exporters) ;

(*c*) each such packing credit advance is allowed to remain outstanding in a separate account till exports are effected. At that stage the packing credit advance should be extinguished by negotiation of export bills. Where no bills are drawn, the advance may be extinguished by remittances from abroad, not later than the tender of shipping documents to the bank ; where advance remittances are not so received by the time the exports take place, the packing credit advance may be extinguished by transfer of the outstandings to a special account so as to bring the pre-shipment character of the advance to an end. However, before adjustment of the advance, the bank should satisfy itself that exports have been effected and the documents handed over to it for recovery of the proceeds from the importer/consignee abroad. The bank should also withdraw the usance promissory notes relating to that account which may have been lodged with the Reserve Bank, against proportionate repayment, if necessary. The bank should simultaneously report to the Reserve Bank the mode of adjustment and certify in due course that the export proceeds have been realised from abroad within the period permitted under the Exchange Control Regulations and credited to the special account ;

(*d*) in April-May, the bank will review in respect of each packing credit advance relating to tea export, whether the value of tea exported from the crop for the year ended 31st March was sufficient to liquidate the packing credit advances granted during that year. If the value of tea exported was not sufficient the value of the actual exports relating to the crop of that year should be set off against the amount of packing credit advances granted in respect of the crop of that year, the advance being set off in the chronological order, the oldest being adjusted first. The bank may charge its usual rate of interest on that part of the packing credit advances which was not adjusted by exports relating to the relevant year (April to March). To illustrate the point, let us suppose that a bank gave the following packing credit advances to a tea estate.

Quarter	(*Rs. in lakhs*)
April-June	4.00
July-September	36.00
October-December	45.00
January-March .. .. .. (Next year)	15.00
	100.00

Further, let us assume that the total exports during the period April-March ultimately turn out to be only Rs. 56 lakhs. This amount fully covers the advances given in the two quarters April-June and July-September and Rs. 16 lakhs out of the advances made during October-December. Interest on Rs. 29 lakhs (*i.e.*, Rs. 45 lakhs minus Rs. 16 lakhs) advanced during October-December and on Rs. 15 lakhs advanced during January-March may be charged at the bank's usual rates from the respective dates of the advances. In such cases, the bank should intimate all the relevant facts to the Reserve Bank without delay. Interest on the shortfall (*i.e.*, the amount not covered by exports) may be charged by the Reserve Bank not at the Bank Rate but at such rates as may be applicable in respect of the borrowings of the bank other than those financed by the Reserve Bank at the concessional rates. In other cases where the value of exports relating to a year (*i.e.*, April-March period) fully covers the packing credit advances given during that year, the bank should send to the Reserve Bank a certificate to that effect in due course.

5. The Special account referred to in paragraph 4 will be eligible for refinance from the Reserve Bank under the Bill Market Scheme. The rate of interest charged by the Reserve Bank on refinance provided against such advances will be the Bank Rate provided the bank agrees to charge a rate not exceeding 8 per cent per annum to the borrowers and these advances are ultimately adjusted by the relevant proceeds from abroad of tea exports.

6. The Reserve Bank will provide refinance against packing credit advances relating to export of tea on usance promissory notes having a maturity of not more than 90 days but will be prepared to make one more fresh advance against a fresh set of bills of maturity not exceeding 90 days.

DBOD. No. Sch. 1794/C. 96Z-67—November 29, 1967.—All scheduled commercial banks.—Bank Guarantees

Please refer to the Governor's circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May 1967. In this connection, we have to advise that bid bonds and guarantees executed by banks in respect of contracts secured by Indian firms in foreign countries and guarantees relating to exports may not be taken into account for the purpose of the norm stipulated in paragraph 4(*iii*) of the above letter.

DBOD. No. B. M. 767/C. 297A-67.—December 6, 1967—All eligible scheduled commercial banks.—Extension of the Bill Market Scheme for refinancing packing credit advances relating to exports.

Please refer to our circular DBOD. No. B. M. 388/C. 297A-67 dated the 16th August 1967 on the above subject. Under the existing procedure, banks availing of the refinance facility in respect of their packing credit advances are required to maintain separate accounts in respect of packing credit advances and to convert the relative demand promissory notes obtained by them from their constituents into usance promissory notes maturing not later than ninety days for lodging them with the Reserve Bank as security for advances under the scheme. It has since been represented to us that in respect of such packing credit advances as are given for short periods and in respect of certain export contracts, where a number of packing credit advances have to be granted, it would be administratively cumbersome to maintain separate accounts in respect of every individual advance and to obtain separate usance promissory notes from the borrowers in respect of those accounts. In order to mitigate these difficulties, it has since been decided that for availing themselves of refinance from the Reserve Bank in respect of their packing credit advances, banks should henceforth adopt the following procedure :

2. An eligible bank may grant packing credit advances to an exporter approved by the Reserve Bank either in a single packing credit account or in several separate accounts as may be convenient. It may also tender either a single or more usance promissory notes of each of its constituents of maturity not exceeding 90 days and for amounts, not exceeding in aggregate, the amount of the limit sanctioned by the Reserve Bank in respect of the constituent, as security for advances under the scheme. However, if a constituent is exporting both engineering and metallurgical products and other products, separate packing credit accounts may be maintained and separate usance promissory notes tendered in respect of either of these categories of products. According to the present procedure, a bank is required to convert a part of the outstandings in the overdraft or cash credit account of an approved party into a usance promissory note and discount that note before lodging it with the Reserve Bank as security for advances under the Bill Market Scheme. In respect of packing credit advances, a bank may take a single usance promissory note upto the full amount of the limit sanctioned by the Reserve Bank in respect of a constituent and may make packing credit advances from time to time on the basis of that promissory note ; but it need not discount the note in its books. There is no objection to the outstandings in the packing credit account being less than the amount of the usance promissory note at the time of its lodgement with the Reserve Bank ; but a promissory note on which no packing credit advance has been made should not be lodged with the Reserve Bank. As it will be necessary to establish that the usance promissory note in respect of the relative packing credit account of its maker has arisen out of bonafide commercial or trade transactions, the forms of the certificates to be lodged by a bank with the usance promissory note in such cases have been slightly amended vide Annexures 'B' and 'C'. Banks will have to furnish the certificates in the revised forms. The concerned bank will also have to give an undertaking as in Annexure 'A' not to borrow from the Reserve Bank at any time, under either of the above two categories, more than what it itself has lent to all its constituents whose usance promissory notes may have been lodged by it with the Bank as security for advances under the scheme under that category. If at any time, the aggregate outstandings in the accounts covered by the usance promissory notes fall below the amount borrowed from the Reserve Bank, the bank will have to immediately adjust such excess. In order to ensure compliance with this undertaking, it will be necessary for the bank to maintain an appropriate record as in the specimen form given in Annexure 'D' separately in respect of packing credits for export of engineering and metallurgical products and those for export of other products showing from day to day the relevant particulars. At the time of every borrowing under the Scheme, the bank will also have to submit to the Reserve Bank a declaration, in duplicate, as in the form given in Annexure 'E'. It will also be necessary for the bank to submit to the concerned Manager of the Reserve Bank, in triplicate, a fortnightly statement as in the form given in Annexure 'F' as at the close of business on the second and the last Friday of each month so as to reach by the following

Monday, giving the position of its outstanding borrowings from the Bank *vis-a-vis* the outstanding balances in the accounts covered by the usance promissory notes lodged with the Bank as security.

3. It will be permissible for a bank to accept part repayments in respect of any particular usance promissory note lodged with the Reserve Bank and to credit the relevant amounts to the packing credit account of the concerned constituent. Such repayments should not, however, be in the form of cash, but should be either by way of proceeds of export bills negotiated by the bank in respect of the export transactions financed by it by packing credit advances or in such other form as may be approved by the Reserve Bank.

4. The bank will have to withdraw from the Reserve Bank the usance promissory notes on their due dates against proportionate repayments of its borrowings, if necessary. If, however, the limit in respect of a party is still in force, the bank may lodge a fresh usance promissory note of the party with a maturity not exceeding 90 days and may repeat this procedure so long as the limit in favour of the party is in force.

5. A doubt has been raised by a bank whether clean packing credit advances are eligible for refinanced from the Reserve Bank at the concessional rates of interest. We take this opportunity to clarify that packing credit advances whether on a secured or on an unsecured basis would be eligible for refinance subject to our usual criteria and the various stipulations laid down in our circular letters DBOD. No. Sch. 1236/C. 96-67 and DBOD. No. B. M. 388/C. 297A-67 dated the 9th and 16th August 1967, respectively.

ANNEXURE 'A'

Form of undertaking to be given by a bank availing itself of refinance facilities from the Reserve Bank under Section 17(4) (c) of the Reserve Bank of India Act, 1934 in respect of its packing credit advances, by lodging bills of the approved parties to the full extent of the limits sanctioned by the Reserve Bank in respect of those parties.

To

The Reserve Bank of India,

____

Dear Sirs,

In consideration of your agreeing to make from time to time, advances under section 17(4)(c) of the Reserve Bank of India Act, 1934 against eligible usance promissory notes of our constituents whose packing credit accounts have been approved by the Reserve Bank for conversion, notwithstanding the fact that usance promissory notes in question at the time of lodgement with the Reserve Bank may not have been backed by *full* consideration thereon having been passed on to the concerned parties' accounts, we agree as follows :

(1) Our outstanding borrowings from the Reserve Bank under either of the two categories *i.e.* in respect of packing credit advances for export of engineering and metallurgical products and those for export of other products will not at any time exceed the aggregate amount of balances outstanding in the packing credit accounts of the parties whose usance promissory notes may have been lodged with the Reserve Bank for the time being as security for our borrowing under the relative category. If, at any time, the aggregate of balances outstanding in the packing credit accounts of the approved parties in either of the above two categories goes below the amount of our outstanding borrowing from the Reserve Bank under the relevant category, we shall immediately adjust the excess borrowings in that category.

(2) We shall from time to time and whenever required by the Reserve Bank to do so, furnish to the Reserve Bank with such information regarding parties' packing credit accounts and in such form as the Reserve Bank may indicate.

(3) As directed in the circular letter DBOD. No. B. M. 767/C. 297A-67 dated the 6th December 1967, we undertake to maintain requisite records in connection with the packing credit accounts in question and to submit to the Reserve Bank promptly the declarations/statements indicated in the said circular.

(4) The Reserve Bank may at any time verify the correctness of the contents of the declarations/statements submitted by us, if necessary, by an inspection/scrutiny of the records.

Yours faithfully,

For and on behalf of ____________________

(Name of the bank)

(Signature of authorised official) ____________________

(Designation) ____________________

ANNEXURE 'B'

Form of certificate to be obtained from the scheduled bank as to the character of the accommodation provided by it

To

Reserve Bank of India

____

We..(name of the borrowing bank) hereby certify that the promissory note/bill specified in the schedule hereto, executed and/or endorsed in our favour and endorsed this day by us in your favour, has arisen in connection with packing credit advances already made by us to the drawer/maker thereof and as may be made by us from time to time in respect of export of....................(products) and thus, the promissory note/bill has arisen out of *bona fide* commercial or trade transactions and is as such eligible for purchase and rediscount by you under Section 17(2) (*a*) of the Reserve Bank of India Act, 1934, that the signatures on such promissory notes/bills are the genuine signatures of the parties thereto, and that where a bill or note is signed or endorsed by a person purporting to act under an authority, such person is duly authorised to do so and that to the best of our knowledge and belief each such party is financially sound, solvent and creditworthy and, as such, good for the purposes of the said sub-section, and we further agree that on the faith of the correctness of the contents of this certificate you will make and/or continue advances to us under Section 17(4)(c) of the said Act.

Dated at...................., this...................... day of.............

For and on behalf of....................

....

(name of the scheduled bank)

(Signature) ....

(Designation) ....

Form of Schedule referred to in the above Annexure

Serial No	Date	Name of the drawer or maker	Amount	Usance
			Rs.	
		Total		
		Total		

———————— (Place)

———————— (Date) .... (Signature)

ANNEXURE 'C'

Form of certificate to be obtained from the borrower by the scheduled bank

To

....

(Name of the scheduled bank)

I/We .... (Name of the borrower) hereby certify that the promissory note/bill, specified in the Schedule hereto, executed/endorsed by us in your favour has arisen in connection with a limit of Rs. ....sanctioned by you for purposes of packing credit advances in respect of export of................................ (products). *[The said amount has since been disbursed to me/us.] *[Out of the said limit a sum of Rs....... ....has already been advanced to me/us and the balance, which may be advanced to me/us from time to time, will be required by me/us as packing credit in respect of such exports, having regard to the volume of our exports in the past and to our definite expectations for the future.] Thus the promissory note/bill has arisen out of *bona fide* commercial or trade transactions and I/we further agree that on the faith of the correctness of the contents of this certificate, you may negotiate the said promissory notes/bills** to the Reserve Bank of India.

Dated at........................this ....day of..................196

————————

(Signature of the borrower)

(If a company) for and on behalf of...

————————

(Name of the company)

(Signature) ....

(Designation) ....

* Delete whichever is inapplicable.

** *Note :* In case the scheduled banks do not desire to specify the Reserve Bank of India in the certificate, the words "to the Reserve Bank of India" may be omitted.

Form of schedule referred to in the above Annexure

Serial No.	Date	Name of the drawer or maker	Amount	Usance
			Rs.	
		Total		

———————— (Place)

———————— (Date)

.... (Signature)

DBOD. No. Sch. 1850/C. 96Z-67—December 7, 1967—All scheduled commercial banks—Bank Guarantees

Please refer to the Governor's circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May 1967. We have to advise that the guarantees in respect of which the Export-Credit and Guarantee Corporation Ltd. would be issuing its Export Performance Guarantee need not be taken into account for the purpose of the norm stipulated in paragraph 4(*iii*) of our circular letter referred to above.

DBOD. No. Sch. 1884/C. 96-67—December 13, 1967—All scheduled commercial banks—Net Liquidity Ratio

Please refer to paragraph 3 of our circular letter DBOD. No. Sch. 1385/C. 96-67 dated the 9th September 1967 in which it was indicated that the question of relief in respect of the net liquidity ratio on account of increase in advances to 'agriculture' was being examined and that our decision in this regard would be conveyed to you in due course.

2. In this connection we have to advise that the concession allowed to scheduled commercial banks for computation of the net liquidity ratio in terms of paragraph 3 of Governor's circular letter DBOD. No. Sch. 1236/C. 96-67 dated the 9th August 1967 in respect of 'agriculture' will relate to the *increase* in a bank's advances for financing the distribution of chemical fertilisers and pesticides, including credit extended to manufacturers of these products for financing their sales operations, as distinct from the credit extended to the manufacturers for financing production and their own storage of these products, over the average of such advances during the corresponding periods as mentioned therein. You are, therefore, requested to forward to the concerned office of the Reserve Bank of India, the figures of your bank in respect of advances to 'agriculture' as defined above, in the form attached to our circular dated the 9th September 1967. The current data may also please be furnished along with the weekly statement submitted under section 42(2) of the Reserve Bank of India Act, 1934 as required in paragraph 2 of the above circular.

3. In this connection we would also like to add, in partial modification of paragraph 4 of our circular letter dated the 2nd November 1967, that for the purpose of determining the net liquidity ratio, the entire increase in a bank's advances to 'agriculture' as defined in paragraph 2 above, will be taken into account.

4. It has been decided for the present to limit the concession in respect of computation of the net liquidity ratio to only two categories of agricultural inputs (mentioned in paragraph 2 above)

and to the finance needed for their distribution because it is only in the case of these categories that on present indications the demand for credit seems likely to increase during the current busy season to such an extent that banks may find it difficult to meet it fully out of their own resources without unduly restricting credit to other important sectors. However, as indicated by the Governor at his meeting with representatives of major banks held on the 30th October 1967, the credit trends during the busy season will be reviewed at another such meeting to be held in January next and the review will include trends in respect of all categories of agricultural advances.

DBOD. No. B. M. 913/C. 297A-67—December 21, 1967—All eligible scheduled commercial banks.—Extension of the Bill Market Scheme for refinancing packing credit advances relating to exports

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

(*a*) The minimum amount that can be borrowed by an eligible bank at any one time under the Bill Market Scheme as extended to packing credit advances, will henceforth be Rs. 1 lakh (Rupees one lakh only) instead of Rs. 5 lakhs as at present. The borrowings in excess of the minimum should, however, be made in multiples of Rs. 10,000/-.

(*b*) The minimum amount of an individual usance promissory note to be accepted as security for advances under the scheme as extended to packing credit advances will henceforth be Rs. 0.25 lakh (Rupees twenty-five thousand only) instead of Rs. 0.50 lakh as at present.

(*c*) The usance promissory notes to be lodged with the Reserve Bank should as at present, mature not later than ninety days from the date of lodgement. However, the limits sanctioned to banks in respect of individual parties for refinancing packing credit advances will be valid from the 1st October to the 30th September of the following year. Although the limits would lapse on the 30th September, a bank will not be required to repay on that date its outstanding borrowings under the liberalised Bill Market Scheme as extended to packing credit advances. The outstanding borrowings will be allowed to continue beyond the 30th September till the maturity of the usance promissory notes which may have been lodged on or before the 30th September and which are held as security against the said outstandings on that date. No fresh advances will, however, be granted to a bank after the 30th September, until the relative limits are renewed or fresh limits are sanctioned by the Reserve Bank. Applications for renewal of the limits should be furnished to us before the end of July every year.

DBOD. No. Cre. 69/C. 218-67—January 25, 1967—Advances against foodgrains

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directives (1) DBOD. No. Cre. 177/C. 218-65 of May 27, 1965 relating to advances against foodgrains, (2) DBOD. No. Cre. 280/C. 218-65 of August 5, 1965 relating to advances against "other foodgrains" (i.e. other than paddy and rice and wheat) and (3) DBOD. No. Cre. 281/C. 218-65 of August 5, 1965 relating to advances against wheat, as amended from time to time, be further amended as follows:-

In Clause IV of *each* of the aforesaid three directives, insert the following as the first sentence of the said clause, namely:—

"Advances made against the security of hybrid seeds in cases where the borrower has produced a certificate from the National Seeds Corporation Ltd., Delhi, or from the concerned State Government to the effect that the borrower has been duly authorised to deal in the hybrid seeds shall be completely exempt from the provisions of this directive."

DBOD. No. Cre. 266/C. 218-67—April 13, 1967—Advances against paddy and rice

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949 and in supersession of the directive DBOD. No. Cre. 177/C. 218-65 dated May 27, 1965, as amended from time to time, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, directs that—

I. Margin : every scheduled commercial bank shall maintain in respect of each credit limit against the security of paddy and rice, a margin which shall not be less than 50 per cent of the value of the relative stocks:

Provided that in respect of credit limits granted against warehouse receipts issued by the warehouses established by the Central and State Warehousing Corporations covering stocks of paddy and rice to parties other than the State Governments, the Food Corporation of India, Co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in paddy and rice in the State of Maharashtra, and co-operative marketing and/or processing societies, the margin maintained shall not be less than 40 per cent of the value of the relative stocks :

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

Provided also that in respect of credit limits granted to the duly appointed agents of the Food Corporation of India in so far as such limits are against the stocks of paddy and rice dealt with by them as such agents, the margin maintained shall not be less than 25 per cent of the value of the relative stocks :

Provided further that in respect of credit limits granted by offices or branches in the State of Kerala against stocks of paddy and rice to the wholesale dealers and fair price shop dealers in the State of Kerala, who are duly authorised by the Government of Kerala to deal in these commodities, the margin maintained shall not be less than 25 per cent of the value of the relative stocks ;

II. Average Aggregate Levels of Credit : Every scheduled commercial bank shall maintain in respect of offices or branches opened before January 1, 1965 in each two-month period commencing from March-April 1967—

1. a general ceiling of average aggregate level of credit against the security of paddy and rice which shall not—

(*i*) in respect of its offices and branches in the State of Andhra Pradesh, exceed 55 per cent of the average aggregate level of credit maintained by such offices or branches in the corresponding two-month period during the year 1964-65 (from March 1964 to February 1965) ;

(*ii*) in respect of its offices and branches in the State of Maharashtra exceed 50 per cent of the average aggregate level of credit maintained by such offices or branches in the corresponding two-month period during the year 1964-65 (from March 1964 to February 1965);

(*iii*) in respect of its offices and branches in all other States taken together exceed 65 per cent of the average aggregate level of credit maintained by such offices or branches in the corresponding two-month period during the year 1964-65 (from March 1964 to February 1965) :

Provided that *in addition* to the level of credit permitted under sub-clause (*iii*) above, (*a*) offices and branches in the States of Punjab and Haryana may maintain, during each two-month period commencing from March—April 1967, an average aggregate level of credit equal to 15 per cent of the actual level of such credit allowed to licensed dealers and millers, in the corresponding two-month period during the year 1964-65 (from March 1964 to February 1965) provided the additional credit is given to such licensed dealers and millers ;

(*b*) Offices and branches in the State of Orissa may maintain, during each two-month period commencing from March—April 1967, an average aggregate level of credit, which may be allowed only to rice mills and traders in paddy and rice within that State, and which shall not exceed a limit calculated at the rate of Rs. 1 lakh per branch or office within that State ;

2. Within the general ceiling under Clause II(1) above, a further ceiling of average aggregate level of credit against paddy and rice other than against the pledge of warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed in the case of Andhra Pradesh 55 per cent, in the case of Maharashtra 50 per cent, and in the case of all other States taken together 65 per cent, of the average aggregate level of such credit actually maintained in the corresponding two-month period during 1964-65 (from March 1964 to February 1965) in relation to advances other than advances against such warehouse receipts.

III. New Offices or Branches : *In addition* to the level of credit permitted to be maintained under Clause II above, every scheduled commercial bank may maintain in each two-month period commencing from March—April 1967 a further level of credit against the security of paddy and rice, at its new offices, *i.e.* offices or branches opened on or after January 1, 1965, which shall not exceed Rs. 50,000 per such office ; but any excess of such level of credit over the permitted level under this sub-clause shall be taken into account for computing the average aggregate level of credit for the purpose of this directive.

IV. Prohibition against advances in Maharashtra : Notwithstanding anything contained in Clauses I, II and III above, no scheduled commercial bank shall grant or maintain, in the State of Maharashtra, a credit limit against the security of paddy and rice, and the provisions of those clauses shall be applied accordingly :

Provided that the prohibition contained in this clause shall not apply to advances made by offices and branches of scheduled commercial banks to traders dealing in foodgrains who are licensed by the Government of Maharashtra for distribution of paddy and rice in the State of Maharashtra, and such advances shall be subject to the restrictions contained in Clauses I, II and III above.

Explanation : For the purposes of this clause, "credit limit" includes credit provided by way of purchase or discount of demand documentary bills drawn in connection with the movement of paddy and rice, and also includes credit provided against warehouse receipts covering paddy and rice.

(Note : The amount of permitted level for purposes of Clause II will be intimated to each bank).

V. Exemptions: Advances against pledge/hypothecation of paddy and rice to State Governments for procurement/distribution and for allied operations shall be completely exempt from the provisions of this directive. Advances against paddy and rice granted to the Food Corporation of India (excluding advances granted to its duly appointed agents) as also to co-operative marketing and/or processing societies shall also be completely exempt from the provisions of this directive. Advances against paddy and rice granted in the State of Maharashtra to co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in the above commodities shall be completely exempt from the provisions of this directive. Advances against hybrid paddy seeds which bear the certification of the National Seeds Corporation Ltd., Delhi shall also be completely exempt from the provisions of this directive. Advances against warehouse receipts of (*i*) those warehouses which were established by the Central and State Warehousing Corporations *on or after January 1, 1961*, and (*ii*) those warehouses which were established by the Central and State Warehousing Corporations before January 1, 1961 but which have increased their original warehousing capacity since January 1, 1961 to an extent exceeding 100 per cent by way of their own fresh or additional construction and not by acquisition of warehouses already existing, shall be exempt from the provisions of Clause II of this directive except in the State of Maharashtra. Further, advances granted by offices or branches in the State of Kerala to the wholesale dealers and fair price shop dealers in the State of Kerala who are duly authorised by the Government of Kerala to deal in paddy and rice, shall be exempt from the provisions of Clause II of this directive :

VI. **Definitions :** For the purposes of this directive.

(*a*) "two-month period" means successive two months commencing from March-April 1967 ;

(*b*) "Credit" or "credit limit" includes credit provided by way of (1) loans or advances, (2) cash credit or overdraft or (3) purchase or discount of bills but does not include, except for the purposes of Clause IV above as set out in the Explanation to that Clause, purchase or discount of demand documentary bills drawn in connection with the movement of paddy and rice ;

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

(*d*) "*licensed* dealers and millers" in the Punjab and Harayana refers to dealers and millers licensed under the Punjab Rice Dealers Licensing Order, 1957 and the Punjab Rice Mills (Licensing and Control) Order, 1958, respectively, or any other corresponding law in force in Haryana.

VII. **Explanation :** Reference in this directive to "average aggregate level of credit" shall be construed as reference to the level *inclusive* of advances outstanding against the pledge of warehouse receipts (issued by warehouses established by the Central and State Warehousing Corporations) made to parties other than the Food Corporation of India, State Governments, co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in paddy and rice in the State of Maharashtra and co-operative marketing and/or processing societies. Accordingly, in computing the general limit of average aggregate level of advances against paddy and rice outstanding in the corresponding two-month period in the year March 1964-February 1965, advances outstanding against warehouse receipts to parties other than the Food Corporation of India, State Governments, co-operative societies duly registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in paddy and rice in the State of Maharashtra and co-operative marketing and/or processing societies shall be taken into account. The permitted ceilings under this directive will be, (*a*) a general ceiling of average aggregate level of credit as stated under clause II which shall not exceed in the case of Andhra Pradesh 55 per cent, in the case of Maharashtra 50 per cent, and in the case of all other States taken together 65 per cent, of such level of credit actually maintained in the corresponding two-month period in the year March 1964-February 1965 in relation to advances including those against warehouse receipts and (*b*) the *further* ceiling of credit in relation to advances other than advances against the pledge of the specified warehouse receipts, which shall not exceed, in the case of Andhra Pradesh 55 per cent, in the case of Maharashtra 50 per cent and in the case of all other States taken together 65 per cent, of average aggregate level of such credit actually maintained in the corresponding two-month period during the year 1964-65 (from March 1964 to February 1965) in relation to advances other than advances against the pledge of such warehouse receipts.

VIII. Composite Advances: Where credit limits have been sanctioned against the security of paddy and rice and against any other type of security (that is composite credit limits), the credit limits against paddy and rice shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

DBOD. No. Cre. 2128/C. 218-67—October 16, 1967—Advances against paddy and rice

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 266/C. 218-67 of April 13, 1967 relating to advances against paddy and rice, shall be amended as follows :—

In Clause V of the said directive, for the words "Advances against hybrid paddy seeds which bear the certification of the National Seeds Corporation Ltd., Delhi shall also be completely exempt from the provisions of this directive", the following words shall be substituted, *namely :—*

"Advances against high yielding/hybrid paddy seeds produced under contract with the National Seeds Corporation Ltd., Delhi or a State Government *or which bear the certification of the said Corporation or as the case may be, the concerned State Government* shall be completely exempt from the provisions of this directive."

DBOD. No. Cre. 2467/C. 218-67—December 9, 1967—Advances against paddy and rice

In exercise of the powers conferred by section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 266/C. 218-67 dated April 13, 1967 relating to advances against paddy and rice as amended by the directive DBOD. No. Cre. 2128/C. 218-67 dated October 16, 1967 shall be further amended as follows :

In clause V of the said directive the following may be inserted as the second sentence thereof, namely :

"Advances against pledge/hypothecation of paddy and rice granted to millers and wholesale dealers who are appointed as procuring agents by a State Government subject to the condition that such procuring agents are required to act exclusively as agents of the concerned State Government and are precluded from purchasing/distributing paddy or rice or converting paddy into rice on behalf of themselves or other parties, shall be completely exempt from the provisions of this directive."

DBOD. No. Cre. 259/C. 218 (F)-67—April 12, 1967—Advances against cotton and kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directive DBOD. No. Cre. 283/C. 218(F)-65 dated August 5, 1965, as amended from time to time, the Reserve Bank of India, being satisfied that it is in the public interest so to do, hereby directs that every scheduled commercial bank :

I. Average aggregate level of credit: (*a*) shall maintain in each two-month period commencing from April-May 1967 a ceiling of average aggregate level of credit against the security of cotton and kapas grown in India, which shall not exceed 85 per cent of the average aggregate level of such credit actually maintained by the bank in the corresponding two-month period in the year 1966-67 (April to March);

Prohibition of advances to mills or trade except against purchase/movement permits: (*b*) shall not grant or maintain a credit limit in favour of a cotton mill or an individual, a firm or a company engaged in trading in cotton against the security of cotton and kapas grown in India other than such cotton and kapas covered by the purchase/movement permits issued by the Textile Commissioner, Government of India.

II. Exemptions: Advances against the security of stocks of imported cotton and kapas shall be completely exempt from the provisions of this directive. Similarly, advances in respect of pre-shipment credit for cotton exports will be exempted provided the advance is made in respect of a firm export order and is repaid on negotiation of the relevant export bill on shipment.

III. Definitions: For the purpose of this directive :—

(*i*) 'Credit' or 'credit limit' includes credit provided by way of loans or advances, cash credit or overdraft or purchase or discount of bills, including demand documentary bills drawn in connection with the movement of cotton and kapas ;

(*ii*) 'Average Aggregate Level of Credit' means the average of the outstanding advances as on the four Fridays during the two-month period with reference to which the return on Forms 7A and 7B is to be furnished, namely, the Second and Fourth Friday, when there are four Fridays in a month or the third and fifth Friday when there are five Fridays in a month :

(*iii*) 'Two-month period' means the successive two months commencing from April-May 1967.

IV. Composite Advances: Where credit limits have been sanctioned against the security of cotton and kapas grown in India and any other type of security (*i.e.* composite credit limits,) the credit limits against such cotton and kapas shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

DBOD. No. Sch. 261/C. 96-67.—April 12, 1967—All Scheduled Commercial Banks

The Reserve Bank has decided that in view of the bunching of cotton imports in the next few months it would be prepared to treat advances granted to mills or trade to finance cotton imports even beyond the Trust Receipt period but not exceeding a further period of 90 days as equivalent to advances against import bills for the purpose of the Directive of October 28, 1966. Similarly, in respect of export bills, the Reserve Bank would be prepared to treat packing credit advances to merchant-exporters as falling within the priority sector (*i.e.* 80 per cent category) provided such credit is (*a*) given in connection with a firm export contract and (*b*) is extinguished by the negotiation of an export bill relating to the same transaction.

DBOD. No. Cre. 262/C. 218 (F)-67—April 13, 1967.—All Scheduled Commercial Banks—Advances against cotton and kapas

Please refer to our directive DBOD. No. Cre. 259/C. 218F-67 dated 12th April 1967 on the above subject.

2. With respect to any advances to mills or the trade against cotton or kapas outstanding as at the close of business on 12th April, 1967, which are not in conformity with paragraph I(b)

of the directive (whereby advances to mills or the trade against stocks not covered by the purchase/movement permits issued by the Textile Commissioner, Government of India are prohibited), banks are requested to take immediate steps so as to bring such advances into conformity with that paragraph within 15 days from the date of this letter.

3. The Textile Commissioner has been requested to deal expeditiously with all applications for purchase/movement permits which may be made by mills or the trade in connection with such advances.

4. While granting advances against indigenous cotton and kapas to mills or the trade and covered by the purchase/movement permits issued by the Textile Commissioner, banks may please ensure that the necessary particulars of the relevant permits are recorded by them.

DBOD. No. Cre. 325/C. 218 (F)-67—May 4, 1967—Advances against Cotton and Kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is in the public interest so to do, hereby directs that the directive Ref. DBOD. No. Cre. 259/C. 218(F)-67 dated April 12, 1967 shall with immediate effect be amended as follows :—

In clause II (*i.e.* Exemptions) of the said directive, insert the following as the third sentence thereof:

"Further, (*i*) advances against the security of stocks of cotton or kapas of exportable varieties like Bengal Deshi, Assam Comillas, Yellow Pickings, Zodas, Sweepings etc. and (*ii*) advances against the security of, or by way of purchase or discount of, export bills relating to the export of cotton or kapas from India shall be exempt from the provisions of this directive."

DBOD. No. Cre. 336/C. 218 (F)-67—May 6, 1967—All Scheduled Commercial Banks.—Advances against Cotton and Kapas.

Please refer to clause I(*b*) of our directive DBOD. No. Cre. 259/C. 218 (F)-67 dated the 12th April 1967, prohibiting advances to mills or trade, against the security of cotton and kapas grown in India, except against purchase/movement permits issued by the Textile Commissioner, Government of India. It has been represented that, in many cases stocks held by mills and traders, which are financed by banks are unsold and also there are stocks which are sold but not delivered. It has further been represented that such stocks have not yet been covered by the purchase/movement permits. The Textile Commissioner has, therefore, in a Press Note issued on the 5th May 1967, agreed that in such cases, the mills/traders may apply to him in the prescribed form giving details of the stocks held by them, mentioning names of their bankers and particulars of the loans advanced to enable him to advise the concerned banks suitably. Any letter to banks in this connection from the Textile Commissioner, issued in pursuance of his Press Note referred to above whereby the Textile Commissioner agrees to the borrower continuing to hold the stocks should be treated as a "permit" for the purpose of our above directive.

DBOD. No. Cre. 762/C. 218 (F)-67—June 6, 1967—Advances against Cotton and Kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is in the public interest so to do, hereby directs that the directive Ref. DBOD. No. Cre. 259/C. 218 (F)-67 dated April 12, 1967 as amended by the Directive DBOD. No. Cre. 325/C. 218 (F)-67 dated May 4, 1967 shall with immediate effect be further amended as follows :—

In clause II (*i.e.* Exemptions) of the said directive, insert the following as the fourth sentence thereof :

"Also, advances against the security of stocks of ISC 67 cotton and Andrews cotton shall be exempt from the provisions of this directive."

DBOD. No. Cre. 1770/C. 218 (F)-67—September 2, 1967—Advances against Cotton and Kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 259/C. 218 (F)-67 dated April 12, 1967, as amended by the directive DBOD. No. Cre. 325/C. 218 (F)-67 dated May 4, 1967 and the directive DBOD. No. Cre. 762/C. 218 (F)-67 dated June 6, 1967, shall, with immediate effect, be further amended as follows:—

Clause I(*b*) (*i.e.* on 'prohibition of advances to mills or trade except against purchase/ movement permits') of the said directive, shall be deleted.

DBOD. No. Cre. 2224/C. 218 (F)-67—November 1, 1967—Advances against Cotton and Kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directive DBOD. No. Cre. 259/C. 218 (F)-67 dated April 12, 1967 as amended from time to time, the Reserve Bank of India, being satisfied that it is in the public interest so to do, hereby directs that every scheduled commercial bank :

I. Margin: Shall maintain in respect of each credit limit against the security of cotton and kapas, a margin which shall not be less than 35 per cent of the value of the relative stocks ;

II. Average Aggregate Level of Credit: Provided that in respect of credit limits granted to cotton mills against the security of cotton and kapas the margin maintained shall not be less than 25 per cent of the value of the relative stocks ; shall maintain in each month, commencing from November 1967 a ceiling of average aggregate level of credit against the security of cotton and kapas grown in India, which shall not exceed 85 per cent of the average aggregate level of such credit actually maintained by the bank either in the corresponding month *or* in the month immediately following the corresponding month (hereinafter referred to as the "base month") in the year 1966-67 (November to October);

A bank may exercise the option in regard to the base month separately in respect of each office;

III. Exemptions: Provided that the option once exercised shall not be altered.

Advances against the security of stocks of imported cotton and kapas shall be completely exempt from the provisions of this directive. Similarly, advances in respect of pre-shipment credit for cotton exports will be exempted provided the advance is made in respect of a firm export order and is repaid on negotiation of the relevant export bills on shipment. Further, (*i*) advances against the security of stocks of cotton or kapas of exportable varieties like Bengal Deshi, Assam Comillas, Yellow Pickings, Zodas, Sweepings, etc. and (*ii*) advances against the security of, or by way of purchase or discount of, export bills relating to the export of cotton or kapas from India shall be exempt from the provisions of this directive. Also, advances against the security of stocks of ISC 67 cotton and Andrews cotton shall be exempt from the provisions of this directive.

IV. Definitions: (*i*) 'Credit' or 'credit limit' includes credit provided by way of loans or advances, cash credit or overdraft or purchase or discount of bills other than advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of cotton and kapas ;

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

V. Composite Advances: Where credit limits have been sanctioned against the security of cotton and kapas grown in India and any other type of security (*i.e*, composite credit limits), the credit limits against such cotton and kapas shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

DBOD. No. Cre. 2451/C. 218 (F)-67—December 7, 1967—All Scheduled Commercial Banks—Advances against cotton and kapas

Please refer to our directive DBOD. No. Cre. 2224/C. 218 (F)-67 dated the 1st November 1967 issued in supersession of the directive dated the 12th April 1967, on the above subject. In this connection we have to advise that credit facilities allowed by you to the borrowers under the additional limits sanctioned to your bank under our old directive should be so re-adjusted as to ensure compliance with the recent directive now in force, irrespective of the period for which such limits had been sanctioned earlier. This is to ensure that no bank exceeds the credit level of 85% stipulated under clause II of the current directive (dated the 1st November 1967). Every effort should, therefore, be made to meet the requirements of the parties within your permissible limit, by making adjustments of limits, wherever necessary, between different borrowers (old or new) and branches. In case, your bank is unable to accommodate a party within the permissible limit stipulated in the directive and worked out on the basis indicated in clause II of the latest directive, you may approach us in each case, indicating the specific amount of additional limit required for granting advances to the party, stating clearly that your bank has no permissible limit available to it to meet the party's requirement. Each such request for an additional limit will then be considered by us on merits.

DBOD. No. Cre. 2227/C. 218 (R)-67—November 2, 1967—Advances against Gur

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is in the public interest so to do, hereby directs that every scheduled commercial bank:

I. Margin: Shall maintain in respect of each credit limit against the security of *gur* a margin which shall not be less than 50 per cent of the value of the relative stocks;

II. Ceilings: Average aggregate level of credit: Shall maintain during each two-month period commencing from November-December 1967 an average aggregate level of credit against the security of gur, which shall not exceed 70 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1966-67 (November 1966-October 1967).

III. Definitions: For the purpose of this directive :

(*a*) 'two-month period' means the successive two months commencing from November-December 1967,

(*b*) 'credit' or 'credit limits' includes credit provided by way of loans or advances, cash credit or overdraft or purchase or discount of bills other than advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of gur,

(*c*) 'average aggregate level of credit' means the average of the outstanding advances as on the four Fridays during the two-month period with reference to which the returns in Forms 7A and 7B are to be furnished to the Reserve Bank of India, namely the second and the fourth

Friday when there are four Fridays in a month or the third and the fifth Friday when there are five Fridays in a month.

IV. **Composite Advances:** Where credit limits have been sanctioned against the security of gur and against any other type of security (that is composite credit limits), the credit limits against gur shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

DBOD. No. Cre. 1096/C. 218 (H)-67—July 6, 1967—Advances against Oilseeds

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directives DBOD. No. Cre. 250/C. 218 (H)-65 dated July 21, 1965 and DBOD. No. Cre. 284/C. 218 (H)-65 dated August 5, 1965 as amended by the directive DBOD. No. Cre. 657/C. 218 (H)-65 dated December 13, 1965, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled bank other than a State Co-operative Bank—

Groundnuts Margin : I. (1) *shall* maintain in respect of each credit limit against the security of groundnuts a margin which shall not be less than 50 per cent of the value of the relative stocks;

Ceilings: Average aggregate level of credit: (2) (*i*) *shall* maintain, during the two-month period July-August 1967,

(*a*) an average aggregate level of credit against the security of groundnuts, exclusive of such credit against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 100 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1964 and (*b*) an average aggregate level of credit covering groundnuts, against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 130 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1964;

(*ii*) *shall* maintain during each two-month period commencing from September-October 1967, an average aggregate level of credit against the security of groundnuts *inclusive* of such credit against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 100 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1964 ;

Additional Credit limit: (3) *may,* in addition to the level of credit permitted under sub-clause (2) above, maintain in each two-month period commencing from July-August 1967, a further level of credit against the security of groundnuts extended to any integral oil expeller mill and/or mills using the solvent extraction process, which shall not exceed 25 per cent of the f. o. b. value of the de-oiled or de-fatted groundnut cake actually exported by such mill/s in the corresponding two-month period in 1964.

'Other Oilseeds' Margin: II. (1) *shall* maintain in respect of each credit limit against the security of 'other oilseeds' a margin which shall not be less than 50 per cent of the value of the relative stocks ;

Ceiling: Average aggregate level of credit: (2) (*i*) *shall* maintain, during the two-month period July-August 1967,

(*a*) an average aggregate level of credit against the security of 'other oilseeds', exclusive of such credit against warehouse receipts issued by warehouses established by the Central and State

Warehousing Corporations, which shall not exceed 75 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1964 ; and

(*b*) an average aggregate level of credit covering 'other oilseeds' against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 100 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1964 ;

(*ii*) *shall* maintain during each two-month period commencing from September-October 1967 an average aggregate level of credit against the security of 'other oilseeds' *inclusive* of such credit against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 75 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period in the year 1964-65 (from July to June).

III. Exemptions: (1) The provisions relating to margin in Clauses I(1) and II(1) above do not apply to credit limits in favour of vanaspati manufacturers;

(2) The provisions relating to margin and ceiling in Clause II above do not apply to credit limits in favour of exporters of 'other oilseeds', de-oiled and/or de-fatted cakes in respect of 'other oilseeds' and/or extractions of 'other oilseeds', in respect of specific firm export contracts and/or against export bills.

IV. Definitions: For the purpose of this directive—

(*i*) 'Average Aggregate Level of Credit' means the average of the outstanding advances as on the four Fridays during the two-month period with reference to which the returns in Forms 7A and 7B are to be furnished, namely, the second and fourth Friday, when there are four Fridays in a month or the third and fifth Friday when there are five Fridays in a month ;

(*ii*) 'Credit' or 'Credit Limit' includes credit provided by way of loans or advances, cash credit or overdraft or purchase or discount of bills other than advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of groundnuts and 'other oilseeds' ;

(*iii*) 'other oilseeds' means all oilseeds other than groundnuts and cottonseeds.

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

DBOD. No. Cre. 1874/C. 218 (H)-67—September 14, 1967—Advances against vegetable oils (including vanaspati)

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 282/C. 218 (H)-65 dated August 5, 1965, as amended by directives DBOD. No. Cre. 380/C. 218 (H)-65 dated September 20, 1965, DBOD. No. Cre. 656/C. 218 (H)-65 dated December 13, 1965, DBOD. No. Cre. 2/C. 218 (H)-66 dated January 3, 1966 and DBOD. No. Cre. 249/C. 218 (H)-66 dated April 20, 1966 shall be further amended in the following manner :—

In Clause II after sub-clauses (1) and (2), the following sub-clause shall be inserted, namely:—

"(3) The provisions relating to *margin* in Clause I(1) above and the provisions relating to *restrictions on credit* in Clause I(2) above do not apply to credit limits granted against the stocks of non-edible vegetable oils excluding castor oil and linseed oil, subject to verification by the bank of necessary documents in this respect."

DBOD. No. Cre. 2246/C. 218 (H)-67—November 9, 1967—Advances against Oilseeds

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive Ref. DBOD. No. Cre. 1096/C. 218 (H)-67 dated July 6, 1967, shall be amended in the following manner :

(1) In Clause I(1), the followg provisionshall be inserted, namely :—

"Provided that in respect of credit limits granted to the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants, the margin maintained shall not be less than 25 per cent of the value of the relative stocks."

(2) Sub-clause (3) of Clause I(*i.e.* Additional Credit limit) shall be deleted ;

(3) In Clause II(1), the following proviso shall be inserted, namely:—

"Provided that in respect of credit limits granted to the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants, the margin maintained shall not be less than 25 per cent of the value of the relative stocks;

(4) For Clause III, the following shall be substituted namely :—

III. "**Exemptions :** (1) The provisions relating to margin in Clauses I(1) and II(1) above do not apply to credit limits in favour of vanaspati manufacturers ;

(2) The provisions relating to ceiling in Clauses I and II above do not apply to credit limits in favour of the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants;

(3) The provisions relating to margin and ceiling in Clause II above do not apply to credit limits in favour of exporters of 'other oilseeds', de-oiled and/or de-fatted cakes in respect of 'other oilseeds' and/or extractions of 'other oilseeds', in respect of specific firm export contracts and/or against export bills."

DBOD. No. Cre. 2247/C. 218 (H)-67—November 9, 1967—Advances against vegetable oils (including vanaspati)

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 282/C. 218 (H)-65 dated August 5, 1965, as amended by directives DBOD. No. Cre. 380/C. 218 (H)-65 dated September 20, 1965, DBOD. No. Cre. 656/C. 218 (H)-65 dated December 13, 1965, DBOD. No. Cre. 2/C. 218 (H)-66 dated January 3, 1966, DBOD. No. Cre. 249/C. 218 (H)-66 dated April 20, 1966, and DBOD. No. Cre. 1874/C. 218 (H)-67 dated September 14, 1967 shall be further amended in the following manner :

(1) In Clause I, the following proviso shall be inserted as the third proviso, namely :—

"Provided further that in respect of credit limits granted to the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants, the margin maintained shall not be less than 25 per cent of the value of the relative stocks;"

(2) In Clause II, after sub-clauses (1), (2) and (3), the following sub-clauses shall be inserted, namely :—

"(4) The provisions relating to *restrictions on credit* in Clause I(2) above do not apply to credit limits granted against the stocks of vegetable oils (including vanaspati) in favour of the solvent extraction units and/or the integral oil expeller mills having solvent extraction plants ;

(5) The provisions relating to *margin* in Clause I(1) above and the provisions relating to *restrictions on credit* in Clause I(2) above do not apply to credit limits granted against the stocks of vegetable oils (including vanaspati) in favour of exporters of de-oiled and/or de-fatted cakes in respect of specific firm export contracts and/or against export bills."

APPENDIX VII

Notifications issued to Non-Banking Financial Companies and Non-Banking Non-Financial Companies.

DNBC. No. 6973/MRC. 95-66/67—April 24, 1967—All Non-Banking Financial Companies—Directions to Non-Banking Companies—Premature Repayment of Deposits

The Reserve Bank of India has received from time to time representations from non-banking companies asking for permission to repay certain deposits in advance of the dates of their maturity, with accrued interest at the rates which were originally specified when the deposits were accepted. In this connection please refer to the proviso to paragraph 9 of the Bank's Notification No. DNBC. 1/ED (S)-66 dated October 29, 1966. In pursuance of the said proviso, the Bank has made an Order DNBC. No. 2929/ED (S)-67 on April 4, 1967 regarding the payment of interest in respect of the deposits returned or repaid in advance of the dates on which they are due to be repaid. A copy of the Order is enclosed for your information and guidance. It will be seen from the Order that while no interest can be paid on deposits which are withdrawn before the expiry of a period of six months in respect of hire-purchase finance companies, and twelve months in the case of other financial companies, from the date of receipt or the last renewal thereof, deposits for longer periods can be repaid before maturity with interest at reduced rates. The maximum rate at which interest can be paid on the premature withdrawal of a deposit ranges between 4% and 6% in the case of hire-purchase finance companies, and between 5% and 6% in respect of other financial companies. In this connection it may be added that if any company pays interest on deposits at stipulated intervals, say once in three, six or twelve months, then in the event of the premature withdrawal of any of its deposits, interest thereon should be calculated at a rate not exceeding the maximum rate prescribed in the Order mentioned above, depending on the period for which the deposit has run and, from the amount of the interest so calculated, the total amount of the interest already paid, if any, at periodical intervals should be deducted, the balance only being payable to the depositor. In case the total amount of interest already paid exceeds the amount of interest calculated in the manner stated above, the excess amount should be recovered from the principal amount of the deposit to be repaid.

2. In this connection we have to advise that non-banking companies should not, in their own interest, allow the premature withdrawal of deposits as a matter of routine ; such withdrawals may be permitted only under special circumstances, viz. when the denial of such a facility is likely to cause undue hardship to the party, and funds are urgently required by him for meeting some unavoidable commitments on account of illness, daughter's marriage, son's education or any other obligatory expenditure.

ANNEXURE

DNBC. No. 2929/ED(S)-67—April 4, 1967—Premature Repayment of Deposits by Non-Banking Financial Companies

In pursuance of the proviso to paragraph 9 of the Non-Banking Financial Companies (Reserve Bank) Directions, 1966, the Reserve Bank of India hereby makes the following order regarding the payment of interest in respect of the deposits returned or repaid in advance of the dates on which they are due to be repaid, namely :—

(*i*) No interest shall be payable, in respect of any deposit which is returned or repaid before the expiry of six months from the date of receipt of the said deposit in the case of hire-purchase finance companies or twelve months from the date of receipt of such deposit in the case of other non-banking financial companies :

(*ii*) Non-banking financial companies may, in respect of any deposit which is returned or repaid, on or after the expiry of six months from the date of receipt of such deposit in the case of hire-purchase finance companies and twelve months from the date of receipt of such deposit in the case of other financial companies, if the said deposit is returned or repaid before maturity, pay interest at a rate which shall not exceed the relevant rate specified hereunder :

		Maximum permissible rate per cent, per annum
(*a*)	on any deposit returned or repaid on or after the expiry of six months but before the expiry of nine months from the date of receipt of the deposit (in the case of hire-purchase finance companies only)	4
(*b*)	on any deposit returned or repaid on or after the expiry of nine months but before the expiry of one year from the date of receipt of the deposit (in the case of hire-purchase finance companies only)	4½
(*c*)	on any deposit returned or repaid on or after the expiry of one year but before the expiry of two years from the date of receipt of the deposit (in the case of all non-banking financial companies)	5
(*d*)	on any deposit returned or repaid on or after the expiry of two years but before the expiry of three years from the date of receipt of the deposit (in the case of all non-banking financial companies)	5¼
(*e*)	on any deposit returned or repaid on or after the expiry of three years but before the expiry of five years from the date of receipt of the deposit (in the case of all non-banking financial companies)	5½
(*f*)	on any deposit returned or repaid on or after the expiry of five years from the date on which the deposit was received but before the expiry of the period for which the deposit was originally accepted (in the case of all non-banking financial companies)	6

This order supersedes any previous instructions issued in this regard.

DNBC. No. 6974/MRC. 95-66/67—April 24, 1967—All Non-Banking Non-Financial Companies —Directions to Non-Banking Companies—Premature Repayment of Deposits

The Reserve Bank of India has received from time to time representations from non-banking companies asking for permission to repay certain deposits in advance of the dates of their maturity, with accrued interest at the rates which were originally specified when the deposits were accepted. In this connection please refer to the proviso to paragraph 9 of the Bank's Notification No. DNBC. 2/ED(S)-66 dated October 29, 1966. In pursuance of the said proviso, the Bank has made an Order DNBC. No. 2930/ED(S)-67 on April 4, 1967 regarding the payment of interest in respect of the deposits returned or repaid in advance of the dates on which they are due to be repaid. A copy of the Order is enclosed for your information and guidance. It will be seen from the Order that while no interest can be paid on deposits which are withdrawn before the expiry of a period of twelve months from the date of receipt or the last renewal thereof, deposits for longer periods can be repaid before maturity with interest at reduced rates. The maximum rate at which interest can be paid on the premature withdrawal of a deposit ranges between 5% and 6%. In this connection it may be added that if any company pays interest on deposits at stipulated intervals, say once in three, six or twelve months, then in the event of the premature withdrawal of any of its deposits, interest thereon should be calculated at a rate not exceeding the maximum rate prescribed in the Order mentioned above, depending on the period for which the deposit has run and, from the amount of the interest so calculated, the total amount of the interest already paid, if any, at periodical intervals should be deducted, the balance only being payable to the depositor. In case the total amount of interest already paid exceeds the amount of interest calculated in the manner stated above, the excess amount should be recovered from the principal amount of the deposit to be repaid.

2. In this connection we have to advise that non-banking companies should not, in their own interest, allow the premature withdrawal of deposits as a matter of routine ; such withdrawals may be permitted under special circumstances only, *viz.*, when the denial of such a facility is likely to cause undue hardship to the party, and funds are urgently required by him for meeting some unavoidable commitments on account of illness, daughter's marriage, son's education or any other obligatory expenditure.

ANNEXURE

DNBC. No. 2930/ED(S)-67—April 4, 1967—Premature Repayment of Deposits by Non-Banking Non-Financial Companies

In pursuance of the proviso to paragraph 9 of the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966, the Reserve Bank of India hereby makes the following order regarding the payment of interest in respect of the deposits returned or repaid in advance of the dates on which they are due to be repaid, namely :—

(*i*) No interest shall be payable in respect of any deposit which is returned or repaid before the expiry of twelve months from the date of receipt of the said deposit ;

(*ii*) Non-banking Non-financial companies may, in respect of any deposit which is returned or repaid on or after the expiry of twelve months from the date of receipt of such deposit, if the said deposit is returned or repaid before maturity, pay interest at a rate which shall not exceed the relevant rate specified hereunder :—

		Maximum permissible rate per cent, per annum
(*a*)	on any deposit returned or repaid on or after the expiry of one year but before the expiry of two years from the date of receipt of the deposit	5
(*b*)	on any deposit returned or repaid on or after the expiry of two years but before the expiry of three years from the date of receipt of the deposit	$5\frac{1}{4}$
(*c*)	on any deposit returned or repaid on or after the expiry of three years but before the expiry of five years from the date of receipt of the deposit	$5\frac{1}{2}$
(*d*)	on any deposit returned or repaid on or after the expiry of five years from the date on which the deposit was received but before the expiry of the period for which the deposit was originally accepted	6

This order supersedes any previous instructions issued in this regard.

DNBC. No. 631/MRC. 95/67-68—September 4, 1967—All Non-Banking Financial Companies —Directions to Non-Banking Companies

Please refer to our Circular letter DNBC. No. 5833/MRC. 95-66 dated December 23, 1966 forwarding a copy of our Notification No. DNBC. 1/ED(S)-66 dated October 29, 1966. Section 2(1) (g) of the above Notification has since been amended by our Notification No. DNBC. 3/ED(S)-67 dated August 23, 1967, a copy of which is enclosed. In terms of the amendment referred to above, the Statutory Development Rebate Reserve created under sub-section (3) of Section 34 of the Income-tax Act, 1961, will be deemed to be a 'free reserve' and, as such, it can be taken into consideration while calculating the ceiling in respect of total deposits prescribed in Section 3(*c*) of our Notification dated October 29, 1966.

2. We also enclose a copy of our Order No. DNBC. 101/ED(S)-67 dated August 23,1967 regarding payment of interest on premature repayment of deposits issued in pursuance of the proviso to Section 9 of our Notification dated October 29, 1966 and in supersession of our Order No. DNBC. 2929/ED(S)-67 dated April 4, 1967 (a copy of this Order was forwarded to your company with our Circular letter DNBC. No. 6973/MRC. 95-66/67 dated April 24, 1967). In terms of the revised Order it is now open to non-banking financial companies to pay interest in the case of withdrawal of any fixed deposit before the date of maturity but on or after the expiry of a period of six months from the date of receipt/last renewal of such deposit in the case of hire-purchase finance companies and 12 months from the date of receipt/last renewal of the relative deposit in the case of other financial companies, at a rate not exceeding the contracted rate per annum less one per cent. In the case of such withdrawal of deposits before the expiry of the periods aforesaid, interest may now be paid at reduced rates ranging between $\frac{1}{2}\%$ and $4\frac{1}{2}\%$ depending on the period for which the deposit has run at the time of its repayment. It should, however, be noted that if a deposit is returned within 14 days from the date of receipt or last renewal, no interest should be paid thereon. The provisions contained in the revised Order are applicable in the case of deposits repaid on or after August 23, 1967.

Encl: 2

DNBC. 3/ED(S)-67—August 23, 1967

In exercise of the powers conferred by Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934, and of all the powers enabling it in this behalf, the Reserve Bank, being satisfied that it is necessary in the public interest so to do, hereby directs that the Non-Banking Financial Companies (Reserve Bank) Directions, 1966 shall be amended in the following manner, namely :—

In clause (*g*) of sub-section (1) of section 2 for the words "but shall not include depreciation, development rebate and renewal reserves", the words "and any statutory development rebate reserve created under sub-section (3) of Section 34 of the Income Tax Act, 1961, but shall not include depreciation and renewal reserves" shall be substituted.

DNBC. 101/ED(S)-67—August 23, 1967—Premature Repayment of Deposits by Non-Banking Financial Companies

In pursuance of the proviso to paragraph 9 of the Non-Banking Financial Companies (Reserve Bank) Directions, and in supersession of its earlier order No. DNBC. 2929/ED(S)-67 dated the 4th April 1967, the Reserve Bank of India hereby makes the following order regarding the payment of interest in respect of the deposits returned or repaid in advance of the dates on which they are due to be repaid, namely, non-banking financial companies may :—

(*a*) in respect of any deposit which is returned or repaid, on or after the expiry of six months from the date of receipt of such deposit in the case of hire-purchase finance companies and twelve months from the date of receipt of such deposit in the case of other financial companies, pay interest at any rate not exceeding the contracted rate per annum less one per cent ; and

(*b*) in respect of any deposit, which is returned or repaid before the expiry of the periods aforesaid, pay interest at rates not exceeding the relevant rates specified hereunder :

		Maximum permissible rate per cent, per annum
(*i*)	if the deposit is returned within a period of 14 days from the date of receipt	NIL
(*ii*)	if the deposit is returned after a period of 14 days but within a period of 45 days from the date of receipt	½
(*iii*)	if the deposit is returned after a period of 45 days but within a period of 90 days from the date of receipt	2
(*iv*)	if the deposit is returned after a period of 90 days but within a period of six months from the date of receipt	3½
(*v*)	if the deposit is returned after a period of six months but within a period of nine months from the date of receipt	4
(*vi*)	if the deposit is returned after a period of nine months but before the expiry of twelve months from the date of receipt	4½

DNBC. No. 632/MRC. 95/67-68.—September 4, 1967.—All Non-Banking Non-Financial Companies—Directions to Non-Banking Companies

Please refer to our circular letter DNBC. No. 5832/MRC. 95-66 dated December 23, 1966 forwarding a copy of our Notification No. DNBC. 2/ED(S)-66 dated October 29, 1966. Section 2(1)(*g*) and Section 4(3) of the above Notification have since been amended by our Notification

DNBC. 4/ED(S)-67 dated August 23, 1967, a copy of which is enclosed. In terms of the amendments referred to above, the Statutory Development Rebate Reserve created under sub-section (3) of Section 34 of the Income tax Act, 1961, will be deemed to be a 'free reserve' and, as such, it can be taken into consideration while calculating the ceiling in respect of total deposits prescribed in section 3(b) of our Notification dated October 29, 1966. Further, in respect of non-banking non-financial companies which fall under the category of industrial concerns as defined in Section 2(1)(j) of our Notification dated October 29, 1966, and which satisfy either of the two conditions mentioned hereunder, a period of five years (as against two years prescribed in the earlier notification) from the date of commencement of the directions *viz.*, January 1, 1967 will be allowed for bringing the deposits outstanding as on January 1, 1967 within the ceiling of 25 per cent of the paid-up capital and free reserves :

(*i*) if they have paid dividends on their equity shares at the rate of 6% or more per annum during the last five years or for a period of five years out of six or seven years immediately preceding January 1, 1967 or

(*ii*) they have unencumbered fixed assets as on January 1, 1967 of a book-value which is not less than twice the amount of the deposits and unsecured loans outstanding as on that date.

2. We also enclose a copy of our Order No. DNBC. 102/ED(S)-67 dated August 23, 1967 regarding payment of interest on premature repayment of deposits issued in pursuance of the proviso to Section 9 of our Notification dated October 29, 1966 and in supersession of our earlier Order No. DNBC. 2930/ED(S)-67 dated April 4, 1967 (a copy of this Order was forwarded to your company with our Circular letter DNBC. No. 6974/MRC. 95-66/67 dated April 24, 1967). In terms of the revised order, it is now open to non-banking non-financial companies to pay interest in the case of withdrawal of any fixed deposit before the date of maturity but on or after the expiry of a period of 12 months from the date of receipt/last renewal of the relative deposit, at a rate not exceeding the contracted rate per annum less one per cent. In the case of such withdrawal of deposits before the expiry of a period of 12 months from the date of receipt/last renewal, interest may now be paid at reduced rates ranging between $\frac{1}{2}$% and $4\frac{1}{2}$% depending on the period for which the deposit has run at the time of its repayment. It should, however, be noted that if a deposit is returned within 14 days from the date of receipt or last renewal, no interest should be paid thereon. The provisions contained in the revised Order are applicable in the case of deposits repaid on or after August 23, 1967.

Encl: 2

DNBC. 4/ED(S)-67—August 23, 1967.

In exercise of the powers conferred by Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934, and of all the powers enabling it in this behalf, the Reserve Bank, being satisfied that it is necessary in the public interest so to do, hereby directs that the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966 shall be amended in the following manner, namely :—

1. In clause (*g*) of sub-section (1) of section 2 for the words "but shall not include depreciation, development rebate and renewal reserves", the words "and any statutory development rebate reserve created under sub-section (3) of Section 34 of the Income Tax Act, 1961, but shall not include depreciation and renewal reserves" shall be substituted.

2. In sub-section (3) of section 4, the following proviso shall be added :

"Provided that any such company, which is an industrial concern, may comply with the requirements of this clause within a period of five years instead of two years from the date of such commencement, if it satisfies either of the following conditions, namely :—

(*i*) it has paid dividends on its equity shares at a rate of not less than six per cent for a period of five years immediately preceding the date of such commencement or for at least five out of the six or seven years immediately preceding the date of such commencement ; or

(*ii*) it has fixed assets, the book value of which,

(*a*) as shown in its last audited balance-sheet filed with the Registrar of Companies before the date of such commencement, or

(*b*) where no such balance-sheet has been so filed, as on the date of such commencement and as certified by the company's manager,

after reducing from such book value in either case any amount borrowed on the security of the said assets or the value of any encumbrance created thereon, is more than twice the aggregate of the amounts of the deposits and the unsecured loans as shown under the head "unsecured loans" in the said balance-sheet or as so certified by the manager."

DNBC. 102/ED(S)-67—August 23, 1967—Premature Repayment of Deposits by Non-Banking Non-Financial Companies

In pursuance of the proviso to paragraph 9 of the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966, and in supersession of its earlier order No. DNBC. 2930/ED (S)-67 dated the 4th April 1967, the Reserve Bank of India hereby makes the following order regarding the payment of interest in respect of the deposits returned or repaid in advance of the dates on which they are due to be repaid, namely, non-banking non-financial companies may :—

(*a*) in respect of any deposit which is returned or repaid, on or after the expiry of twelve months from the date of receipt of such deposit, pay interest at any rate not exceeding the contracted rate per annum less one per cent ; and

(*b*) in respect of any deposit, which is returned or repaid before the expiry of the aforesaid period, pay interest at rates not exceeding the relevant rates specified hereunder :

		Maximum permissible rate per cent, per annum
(*i*)	if the deposit is returned within a period of 14 days from the date of receipt	NIL.
(*ii*)	if the deposit is returned after a period of 14 days but within a period of 45 days from the date of receipt	½
(*iii*)	if the deposit is returned after a period of 45 days but within a period of 90 days from the date of receipt	2
(*iv*)	if the deposit is returned after a period of 90 days but within a period of six months from the date of receipt	3½
(*v*)	if the deposit is returned after a period of six months but within a period of nine months from the date of receipt	4
(*vi*)	if the deposit is returned after a period of nine months but before the expiry of twelve months from the date of receipt	4½