Report on Trend and Progress of Banking in India for the year ended June 30, 1996 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

RESERVE BANK OF INDIA

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गवर्नर
GOVERNOR

LETTER OF TRANSMITTAL

February 3, 1997
Magha 14, 1918 (Saka)

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

Dear Finance Secretary,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I transmit herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 1996.

Yours faithfully,

(C. Rangarajan)

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ABBREVIATIONS

ACU - Asian Clearing Union
ADB - Asian Development Bank
ADFI - Agricultural Development Finance Institution
ALPMs - Advanced Ledger Posting Machines
ARDR Scheme - Agricultural Rural Debt Relief Scheme
ARF - Asset Reconstruction Fund
ATM - Automated Teller Machine
BFS - Board for Financial Supervision
BIFR - Board for Industrial and Financial Reconstruction
BOB - Bank of Baroda
CACS - Capital Adequacy, Assets Quality, Compliance and Systems
CAMEL - Capital Adequacy, Assets Quality, Management, Earnings, and Liquidity
CCBs - Central Co-operative Banks
CDs - Certificates of Deposits
CD Ratio - Credit-Deposit Ratio
CFSF - Credit and Financial Services Fund
CPs - Commercial Papers
CRAR - Capital to Risk Assets Ratio
CRISIL - Credit Rating Information Services of India Ltd.
CRL - Capital Restructuring Loan
CRR - Cash Reserve Ratio
DAP - Development Action Plan
DBOD - Department of Banking Operations and Development
DFHI - Discount and Finance House of India Ltd.
DICGC - Deposit Insurance and Credit Guarantee Corporation
DPG - Derivatives Policy Group
DRIP - District Rural Industries Project
DRI Scheme - Differential Rate of Interest Scheme
DRS - Debt Relief Scheme
DTL - Demand and Time Liabilities
DVP - Delivery Versus Payment
ECBs - External Commercial Borrowings
ECGC - Export Credit Guarantee Corporation
ECS - Electronic Clearing Service
EDP - Electronic Data Processing
EFT - Electronic Fund Transfer
EL & HP - Equipment Leasing and Hire Purchase
EOU - Export Oriented Unit
Exim Bank - Export-Import Bank of India
FCNR(B) - Foreign Currency Non-Resident Accounts (Banks)
FCON - Foreign Currency (Ordinary) Non-Repatriable
FIIs - Foreign Institutional Investors
FRN - Floating Rate Notes
GLC - General Line of Credit
HDFC - Housing Development Finance Corporation
IAIS - International Association of Insurance Supervisors
IBA - Indian Banks' Association
IBFCDs - Inter-Bank Foreign Currency Deposits
ICAI - Institute of Chartered Accountants of India
ICD Ratio - Investment plus Credit to Deposit Ratio
ICDS - India Clearing and Depository Services Ltd.
ICICI - Industrial Credit and Investment Corporation of India
IDBI - Industrial Development Bank of India
IDFC - Infrastructure Development Finance Company
IDRBT - Institute for Development and Research in Banking Technology
IFCI - Industrial Finance Corporation of India
IOSCO - International Organisation of Securities Commissions
IRBI - Industrial Reconstruction Bank of India
IRDP - Integrated Rural Development Programme
JRY - Jawahar Rozgar Yojana
KVIC - Khadi and Village Industries Commission
LAB - Local Area Bank
LAN - Local Area Network
LBR - Lead Bank Return
LBS - Lead Bank Scheme
LDBs - Land Development Banks
MBFC - Mutual Benefit Financial Company
MLR - Minimum Lending Rate
MFs - Mutual Funds

MMMF	- Money Market Mutual Fund
MoU	- Memorandum of Understanding
MPBF	- Maximum Permissible Bank Finance
NABARD	- National Bank for Agriculture and Rural Development
NBC	- Net Bank Credit
NBFC	- Non-Banking Financial Company
NB-SDC Promotional Fund	- National Bank-Swiss Development Corporation Promotional Fund.
NCBI	- National Co-operative Bank of India
NCCs	- National Clearing Centres
NDTL	- Net Demand and Time Liabilities
NGOs	- Non-Governmental Organisations
NHB	- National Housing Bank
NIC(LTO) Fund	- National Industrial Credit (Long-Term Operations) Fund
NOF	- Net Owned Fund
NPA	- Non-Performing Asset
NRC(LTO) Fund	- National Rural Credit (Long-Term Operations) Fund
NRE Accounts	- Non-Resident External Accounts
NRNR	- Non-Resident Non-Repatriable Rupee Deposit
NR(E)RA Scheme	- Non-Resident (External) Rupee Accounts Scheme
NSE	- National Stock Exchange
OTCEI	- Over-the-Counter Exchange of India
PACSs	- Primary Agricultural Credit Societies
PCs	- Personal Computers
PCARDBs	- Primary Co-operative Agricultural and Rural Development Banks
PCBs	- Primary (Urban) Co-operative Banks
PDs	- Primary Dealers
PEXSEM	- Preparing Ex-Servicemen for Self-Employment
PLDBs	- Primary Land Development Banks
PLR	- Prime Lending Rate
PMIUPEP	- Prime Minister's Urban Poverty Eradication Programme
PMRY	- Prime Minister's Rozgar Yojana
PSCFC	- Post-Shipment Export Credit in Foreign Currency
PSR	- Prudential Supervisory Reporting
PSTN	- Public Switch Telephone Network
RBI/ Reserve Bank/The Bank	- Reserve Bank of India
RCTC	- Risk Capital and Technology Finance Corporation Ltd.
RFC	- Resident Foreign Currency
RIDF	- Rural Infrastructure Development Fund
ROA	- Return on Assets
RPCF	- Rural Promotion Corpus Fund
RRBs	- Regional Rural Banks
SAA	- Service Area Approach
SAMIS	- Service Area Monitoring and Information System
SAP	- Swift Access Point
SAO	- Seasonal Agricultural Operations
SBI	- State Bank of India
SCs/STs	- Scheduled Castes/Scheduled Tribes
SCARDBs	- State Co-operative Agricultural and Rural Development Banks.
SCBs	- State Co-operative Banks
SDs	- Satellite Dealers
SDC	- Swiss Development Corporation
SEBI	- Securities and Exchange Board of India
SEEUY	- Self-Employment Scheme for Educated Unemployed Youth
SES	- Self-Employment Scheme
SFCs	- State Financial Corporations
SGL	- Subsidiary General Ledger
SHGs	- Self-Help Groups
SIDBI	- Small Industries Development Bank of India
SIDCs	- State Industrial Development Corporations
SLBC	- State Level Bankers' Committee
SLDB	- State Land Development Bank
SLR	- Statutory Liquidity Ratio
SPNS	- Shared Payment Network System
SSI Units	- Small-Scale Industrial Units
STCI	- Securities Trading Corporation of India Ltd.
SUME	- Scheme of Urban Micro-Enterprises
SUS	- Shelter Upgradation Scheme
SWIFT	- Society for World-wide Inter-bank Financial Telecommunications
TDICI	- Technology Development and Information Company of India
TFCI	- Tourism Finance Corporation of India
UCBs	- Urban Co-operative Banks
UTI	- Unit Trust of India
VSAT	- Very Small Aperture Terminal
WAN	- Wide Area Network
YTM	- Yield to Maturity

CHAPTER I

BANKING DEVELOPMENTS AND POLICY PERSPECTIVES

The Indian banking system faced several tests and challenges in 1995-96. The process of financial sector reforms continued to unfold, with the links between the domestic financial markets and foreign exchange markets growing markedly. While the deposit resources of banks grew moderately, credit growth was strong. Nevertheless the mismatch between the demand for and supply of funds led to high interest rates, and as this coincided with subdued inflation, the real interest rates rose sharply.

1.2 The events of the year underscored, yet again, the need on the part of commercial banks to clean their balance sheets, strictly follow the prudential norms and put in place a reliable system of financial reporting and accounts with transparency. The year also witnessed two constraints on the banking system's profitability. One was the depreciation of the value of Government securities in their portfolios with the successive increases in the yields to maturity besides increasing the mark to market proportion (current investment) of approved securities. The second factor was the sharp increase in the wage bill following the accord with the unions which included payments of arrears as well. If allowance is made for these two factors which, to a large extent, were exogenous to the working of the banks, the overall financial performance of the banks showed considerable improvement in 1995-96. Out of the 27 public sector banks, as many as 24 recorded operating profit during 1995-96. Overall, public sector banks as a whole recorded operating profit of Rs.7,568.9 crore in 1995-96 as compared with Rs.5,520.5 crore in 1994-95. Net profit after provisioning, however, turned negative.

1.3 One of the significant aspects of 1995-96 was that there was reduction in overdues from the agricultural sector despite very low agricultural growth. With the strengthening of the NABARD's capital base and the increase in the General Line of Credit from the Reserve Bank, the institutional support to this sector is poised for a sharp improvement in the short to medium term.

1.4 An important area in which reforms progressed during 1995-96 related to further deregulation of interest rates, especially on the deposits side for banks as well as non-banking financial companies (NBFCs) which met certain criteria. With several of the NBFCs performing the functions of banks and the distinction between the two getting increasingly blurred, the deregulation of deposit rates in the case of NBFCs has posed serious challenges for banks to improve their customer services and economic efficiency. In order to provide a level playing field, the regulatory framework for both banks and non-banks has been moving towards greater convergence, and in this context, the need for a continued review of the pre-emption of banks' lendable resources in the form of cash reserve ratio requirements is being widely recognised as critical. Some of the other major reform measures undertaken during the year included the issue of guidelines regarding Local Area Banks, the deregulation of interest rates of Regional Rural Banks (RRBs), the increase of loan component for delivery of bank credit for working capital purpose, the increase in proportion of 'mark to market' in respect of investments in approved securities made by banks, strengthening of the supervision of NBFCs, the provision of funds for capital restructuring of select RRBs and the introduction of Ombudsman for banking sector at major centres. Details concerning the initiatives undertaken in banking and related areas are highlighted in this chapter together with an analytical perspective of the policies required for the development of the financial sector over the medium term. For quick reference, a chronological comparative picture of reforms in the financial sector in the current year so far and in the preceding four years is given in the Annexure I.

2. Rural Credit

1.5 Strengthening the multi-agency rural credit system aimed at greater flow of institutional credit has been a crucial element of the on-going financial sector reforms. During 1995-96, the Reserve Bank enhanced its General Line of Credit (I and II) for NABARD to Rs.5,250 crore which was raised further to Rs.5,500 crore in 1996-97. Besides, NABARD's capital base is to be strengthened from Rs.500 crore in 1995-96 to Rs.1,000 crore in 1996-97 with a contribution of Rs.400 crore from the Reserve Bank and Rs.100 crore from the Government of India. As against the Rural Infrastructure Development Fund (RIDF) of Rs.2,000 crore, a sum of Rs.1,991 crore was sanctioned by NABARD to 21 State Governments upto June 1996. An additional amount of Rs.2,500 crore for financing rural infrastructure through the RIDF is proposed in 1996-97. Besides, the Union Budget for 1996-97 has announced a significant institutional innovation - the idea of Local Area Banks with area of operation in two or three contiguous districts. With a capital base of Rs.5 crore, these new Local Area Banks can build asset portfolio of Rs.75-80 crore. The Reserve Bank has already granted its 'in principal' approval on January 15, 1997 for establishment of two Local Area Banks. As per the recommendation of the Basu Committee, 70 Regional Rural Banks have been identified during 1995-96 for revamping which could restore to some extent the health of this segment of the rural credit system. With increased financial support to the apex financial institution, institutional credit flows to the rural sector are expected to be strengthened considerably.

3. Financial Sector Reform Measures

Rates on Domestic Bank Term Deposits

1.6 As part of the interest rate reforms, scheduled commercial banks were allowed (effective October 1, 1995) freedom to fix their own interest rates on domestic term deposits of maturity of over two years. Effective July 2, 1996, the minimum maturity structure subject to such regulation was reduced to one year. Also, the minimum period of term deposits was reduced from 46 days to 30 days with the maximum interest rate on term deposits lowered to 11.0 per cent per annum. Effective October 21, 1996 this maximum rate was reduced further to 10.0 per cent.

Rates on Non-Resident Bank Deposits

1.7 In order to maintain the differential between the interest rates on domestic term deposits and Non-Resident (External) Rupee (NRE) term deposits, the maximum interest rate on NRE term deposits for maturity of six months to three years and above was raised twice, from 8.0 per cent to 10.0 per cent effective October 1, 1995, and further to 12.0 per cent effective October 31, 1995. With a view to bringing about a better alignment of the maturity structure of NRE term deposits with that of domestic term deposits, interest rate on NRE term deposits of over two years was freed from April 4, 1996. The NRE deposit rates for maturity over two years have since veered within a range of 14.0 per cent to 16.0 per cent for the public sector banks.

1.8 Interest rates on Foreign Currency Non-Resident Rupee Accounts (B) [FCNR(B)] continued to be administered keeping in view the macroeconomic fundamentals in the domestic economy and interest rates in the world economy.

Deposit Rates of NBFCs and Nidhis

1.9 The Reserve Bank deregulated on July 24, 1996 the deposit rates of non-banking financial companies (NBFCs) viz., Equipment Leasing and Hire Purchase Companies (EL&HP) and Loan and Investment Companies, which fully comply with its directions and prudential guidelines as well as fulfill the credit rating requirement. NBFCs including EL&HP which do not fully comply with the Reserve Bank directions and prudential norms would remain subject to deposit rate regulation. Effective August 24, 1996, the Reserve Bank has also freed deposit rate of Mutual Benefit Financial Companies (MBFCs) or Nidhis whose financial base is sound and which adhere to the Bank's guidelines. The details of the reforms are discussed in Chapter IV.

Lending Rates

1.10 Effective October 18, 1994 commercial banks were free to determine their interest rate on advances of over Rs.2 lakh; consequently majority of banks revised their Prime Lending Rates (PLRs). This measure has considerably helped banks to improve their interest rate margins, profitability and funds position. With reduction in Cash Reserve Ratio (CRR) effected on April 27, May 11, 1996 and July 6, 1996, the liquidity position of banks was strengthened further. Besides, the monetary policy as announced in October 1996, envisaged a two percentage point cut in CRR to 10.0 per cent in four stages as also a reduction in the maximum term deposit rate to 10.0 per cent per annum in order to help the commercial banks to reduce the real interest rates to more appropriate levels. As a result, there has been softening of PLRs across a broad spectrum of banks. Most of the major banks have already announced a cut in PLR by 50 to 150 basis points and with increased liquidity on account of CRR cuts, the downward pressure on PLR is expected to continue. In order to impart transparency in lending, and to ensure that the spread over PLR does not reach unduly high levels, the Reserve Bank has asked banks to announce their PLRs and maximum spread over PLRs. The spread, however, is not applicable to certain purposes like consumer credit. Also different rates for cash credit and demand loans are permissible. The maximum spread over the PLR in the case of most banks was 3.5 to 4.0 percentage points.

Cash Reserve Requirements

1.11 The Cash Reserve Ratio (CRR) reduction has been an integral part of the medium term agenda of financial sector reforms. In the context of the developments in the foreign exchange markets, liabilities under the FCNR(B) and NRNR schemes were exempted during the second half of 1995-96 in phases from CRR prescription while the CRR on NRE deposits was reduced till its withdrawal in April 1996. Besides, the average CRR was reduced with a view to increasing the lendable resources of banks, from 15.0 per cent to 14.5 per cent from the fortnight beginning November 11, 1995 and further to 14.0 per cent from the fortnight beginning December 9, 1995. The total resources released by the CRR reductions in the second half of 1995-96 amounted to Rs.7,525 crore in contrast to the previous year when the reserve requirement was increased by Rs.5,405 crore.

1.12 With a view to augmenting the lendable resources of banks, CRR was again reduced by one percentage point in two phases: from 14.0 per cent to 13.5 per cent from the fortnight beginning April 27, 1996 and further to 13.0 per cent from the fortnight beginning

May 11, 1996. CRR was further reduced from 13.0 per cent to 12.0 per cent from the fortnight beginning July 6, 1996. In October 1996, a further CRR reduction by 2 percentage points to 10.0 per cent was announced in four stages. As at the end of November 1996, the average CRR stood at 11.0 per cent. At the same time, the threshold limit of export refinance has been reduced to 20.0 per cent from 45.0 per cent. The CRR-export refinance trade off is a major feature of the recent monetary policy, as it signals a shift from a high CRR and a high refinance system to a low CRR and a low refinance regime. As envisaged, CRR was reduced to 10.5 per cent from the fortnight beginning January 4, 1997 and further to 10.0 per cent from January 18, 1997.

Statutory Liquidity Ratio

1.13 Another crucial element of financial sector reforms is the gradual reduction in the pre-emption of resources by way of Statutory Liquidity Ratio (SLR). The overall effective SLR which was around 37.4 per cent at the end of March 1992, declined to 28.0 per cent at the end of March 1996. The SLR prescription was further rationalised with its reduction from 30.0 per cent to 25.0 per cent on outstanding NRE deposits from the fortnight beginning April 13, 1996. The banks continued to hold Government securities in excess of the SLR stipulation.

Primary Dealers

1.14 One of the constraints in having effective monetary management based on indirect instruments has been the weak institutional structure in respect of Government securities transactions. It is in this context that six Primary Dealers (PDs) were given 'in principle' approval on November 13, 1995. The Discount and Finance House of India (DFHI) and the Securities Trading Corporation of India (STCI) were the first of the Primary Dealers to come into operation in March 1996. Four more institutions became operational subsequently in June 1996. They are SBI Gilts, PNB Gilts, Gilts Securities Corporation and ICICI Securities and Finance Co. To encourage Primary Dealers to be active in the market, a structure of commissions on purchases (including the underwriting commitment) through subscriptions in all floatations in the primary market amounting 25 paise (since reduced to 12.5 paise effective August 23, 1996) on 91-day Treasury Bills, 50 paise on 364-day Treasury Bills and one rupee on Government of India dated securities was announced for PDs effective July 10, 1996. With the arrival of PDs, the volume of Government securities traded in secondary markets has improved considerably. Besides, effective September 6, 1996, PDs have also been allowed to access the Commercial Paper (CP) market and thereby increase their level of activity in the securities market, the details of which are given in Chapter II. The Reserve Bank introduced in July 1995 Delivery Versus Payments (DVP) system at its Mumbai office in respect of Government securities transactions. The system has been extended to other public debt offices of the Bank since May 1996.

Satellite Dealers

1.15 The Reserve Bank has announced on December 31, 1996 the guidelines for setting up of Satellite Dealers (SDs) with the aim of strengthening the infrastructure in the Government securities market, enhancing liquidity and turnover, providing a retail outlet and encouraging voluntary holding of Government securities among a wider base. The SDs would be required to have minimum net owned funds of Rs.5 crore and a standing arrangement with the Bank based on the execution of an undertaking covering, *inter alia*, commitments (a) to generate outright turnover of Central Government securities, including Treasury Bills of not less than Rs.30 crore in a year; (b) to achieve an annual turnover of not less than five times in Government securities including Treasury Bills; and (c) to achieve a portfolio of not less than 20.0 per cent in Government securities in relation to total assets before the end of the first year of operations after registration.

Prudential Accounting Standards

1.16 The prudential accounting norms introduced since 1992-93 were further strengthened during 1995-96. All member banks including the leader of a consortium are required to treat their advances as non-performing assets (NPAs) once any member bank treats its advance as NPA. Government guaranteed advances are treated as NPAs on revocation of the guarantee by the concerned Government. Depreciation on securities transferred from the 'current' category to 'permanent' category has to be immediately provided for. Provisioning requirement for advances with balances below Rs.25,000 was raised from 7.5 per cent to 10.0 per cent of the aggregate outstanding amount for the year ended March 1996 and further to 15.0 per cent for the year ended March 1997.

1.17 The 'mark to market' proportion of the approved securities was enhanced from 30.0 per cent to 40.0 per cent for the year ended March 1996 and further to 50.0 per cent for the year 1996-97 in a move towards the international practice of marking all investments to the market.

Capital Adequacy Measures

1.18 With a view to attaining the prescribed Capital to Risk Assets Ratio (CRAR), seven public sector banks raised a sum of Rs.1,145.74 crore during 1995-96 through subordinated debt instruments qualifying for Tier II capital.[1] 19 out of the 27 public sector banks (as against 13 in the preceding year) have attained the benchmark of eight per cent capital adequacy at the end of March 1996 (Table I.1).

Table I.1 : Frequency Distribution of CRAR : Public Sector Banks

Banks	1994-95				1995-96			
	Below 4 per cent	Between 4-8 per cent	Between 8-10 per cent	Above 10 per cent	Below 4 per cent	Between 4-8 per cent	Between 8-10 per cent	Above 10 per cent
1. SBI	-	-	-	1	-	-	-	1
2. SBI Associates	2	4	1	-	-	-	6	1
3. Nationalised Banks	2	6	8	3	5	3	7	4
Total	4	10	9	4	5	3	13	6

1.19 In order to enable the banks to tap the capital market, the Government provided a sum of Rs.1,506.21 crore during 1995-96 towards writing down of the capital base of the Bank of India (by Rs.1,369.92 crore) and the Dena Bank (by Rs.136.29 crore) for adjustment of their losses. In the Union Budget for 1996-97, a further provision of Rs.1,532 crore has

1. The amounts raised by the banks were as under:Bank of Baroda (Rs. 500 crore), Dena Bank (Rs. 92.13 crore), Punjab National Bank (Rs. 199.93 crore), State Bank of Bikaner & Jaipur (Rs. 80 crore), State Bank of Hyderabad (Rs. 119.42 crore), State Bank of Saurashtra (Rs. 50 crore) and State Bank of Travancore (Rs. 104.26 crore).

been made for similar writing down of capital in respect of Indian Bank, Vijaya Bank and Indian Overseas Bank. However, four more nationalised banks[2] are set to return to the Government, a part of their respective capital infusion, amounting to a total of Rs.841.93 crore during 1996-97.

4. Profitability of Banks

1.20 The banking sector in general is showing improvement as a result of the wide ranging reform measures. This is evident from their relatively clean balance sheets, reduction in non-performing assets, improvement in operating profit, and considerable progress in attaining capital adequacy ratio and other prudential norms.

1.21 The financial results of public sector banks for 1995-96 showed a marked improvement : operating profit increased by Rs.2,048.34 crore (37.10 per cent) to Rs.7,568.88 crore during 1995-96 as compared with the operating profit of Rs.5,520.54 crore during 1994-95 inspite of sharp increase in wage bill due to wage accords (Table I.2). Due to higher provisions and other contingencies primarily on account of 'mark to market' of Government securities in their portfolio and the substantial loss suffered by one bank, public sector banks as a group recorded a net loss of Rs. 371.37 crore in 1995-96 in contrast to a net profit of Rs.1,115.79 crore in 1994-95. Consequently, the return on assets (ROA)[3] recorded a 'negative' figure of - 0.07 per cent in 1995-96 as compared with a 'positive' figure of 0.25 per cent during 1994-95. In the case of the State Bank Group, ROA was positive in 1995-96 (0.42 per cent) but lower than the rate of 0.54 per cent in 1994-95. The ROA of the nationalised banks group, however, showed a significant decline from a 'positive' figure of 0.10 per cent in 1994-95 to a 'negative' figure of -0.36 per cent in 1995-96.

1.22 The interest income as a percentage to working funds of public sector banks increased by 0.60 percentage points to 9.22 per cent in 1995-96. Interest expended as a proportion of working funds also rose to 6.12 per cent in 1995-96 but the order of increase was relatively low (by 0.42 percentage points). Consequently, the spread between 'interest income' and 'interest expended' rose from 2.92 percentage points in 1994-95 to 3.10 percentage points in 1995-96. In the case of State Bank Group, the spread increased marginally from 3.27 percentage points in 1994-95 to 3.34 percentage points in 1995-96, while in the case of nationalised banks group, the spread showed an increase from 2.73 percentage points in 1994-95 to 2.95 percentage points in 1995-96.

5. New Private Sector Banks

1.23 The banking system continued to be subject to greater competition with the introduction of new players in the market. With the functioning of four more banks (including the Development Credit Bank Ltd.), the total number of new private sector banks[4] in operation has gone up to 10. Having commenced with a minimum capital of Rs.100 crore, all the new banks continued to meet the capital adequacy requirements during 1995-96. The major financial indicators of private sector banks are reported in Table I.3.

2. Bank-wise return of capital is as under: Bank of Baroda (Rs. 381.0 crore), Canara Bank (Rs. 336.96 crore), Bank of India (93.97 crore) and Corporation Bank (Rs. 30 crore).

3. ROA = Net profit to total assets.

4. These banks are : (1) UTI Bank Ltd., (2) IndusInd Bank Ltd., (3) ICICI Banking Corporation Ltd., (4) Global Trust Bank Ltd., (5) HDFC Bank Ltd., (6) Centurion Bank Ltd., (7) Development Credit Bank Ltd., (8) Bank of Punjab Ltd., (9) Times Bank Ltd., and (10) IDBI Bank Ltd.

Table I.2
Working Results of Public Sector Banks : Some Important Financial Indicators

(Rs.crore)

	State Bank Group				Nationalised Banks				Public Sector Banks			
	1992-93	1993-94	1994-95	1995-96	1992-93	1993-94	1994-95	1995-96	1992-93	1993-94	1994-95	1995-96
1. Operating Profit	2,264.00 (1.82)	2,035.39 (1.44)	2,583.19 (1.65)	3,923.22 (2.10)	805.00 (0.38)	1,719.49 (0.72)	2,937.35 (1.04)	3,645.66 (1.14)	3,069.00 (0.91)	3,754.88 (0.99)	5,520.54 (1.26)	7,568.88 (1.50)
2. Net Profit	280.00 (0.22)	356.03 (0.25)	846.47 (0.54)	793.14 (0.42)	-3,648.00 (-1.72)	-4,705.00 (-1.98)	269.32 (0.10)	-1,164.51 (-0.36)	-3,368.00 (-1.00)	-4,348.97 (-1.15)	1,115.79 (0.25)	-371.37 (-0.07)
3. Income	13,963.00 (11.21)	13,908.56 (9.87)	15,947.71 (10.20)	20,566.77 (11.01)	22,126.00 (10.46)	23,390.94 (9.84)	26,999.68 (9.56)	33,098.32 (10.37)	36,089.00 (10.73)	37,299.50 (9.85)	42,947.39 (9.79)	53,665.09 (10.61)
4. Interest income	12,166.00 (9.77)	11,900.85 (8.45)	13,862.07 (8.87)	17,114.45 (9.16)	19,945.00 (9.43)	20,554.19 (8.64)	23,984.09 (8.49)	29,505.82 (9.25)	32,111.00 (9.55)	32,455.04 (8.57)	37,846.16 (8.62)	46,620.27 (9.22)
5. Other Income	1,797.00 (1.44)	2,007.71 (1.42)	2,085.64 (1.33)	3,452.32 (1.85)	2,181.00 (1.03)	2,836.75 (1.19)	3,015.59 (1.07)	3,592.50 (1.13)	3,978.00 (1.18)	4,844.46 (1.28)	5,101.23 (1.16)	7,044.82 (1.39)
6. Expenditure	13,683.00 (10.98)	13,552.53 (9.62)	15,101.24 (9.66)	19,773.63 (10.59)	25,774.00 (12.18)	28,095.94 (11.82)	26,730.36 (9.46)	34,262.83 (10.74)	39,457.00 (11.74)	41,648.47 (11.00)	41,831.60 (9.53)	54,036.46 (10.68)
7. Interest Expended	8,416.00 (6.76)	8,119.27 (5.76)	8,751.17 (5.60)	10,871.79 (5.82)	15,696.00 (7.42)	15,388.16 (6.47)	16,260.00 (5.76)	20,089.00 (6.30)	24,112.00 (7.17)	23,507.43 (6.21)	25,011.17 (5.70)	30,960.79 (6.12)
8. Operating Expenses	3,283.00 (2.64)	3,753.90 (2.66)	4,613.35 (2.95)	5,771.76 (3.09)	5,625.00 (2.66)	6,283.29 (2.64)	7,802.33 (2.76)	9,363.66 (2.93)	8,908.00 (2.65)	10,037.19 (2.65)	12,415.68 (2.83)	15,135.42 (2.99)
9. Wage Bill	2,363.23 (1.90)	2,518.30 (1.79)	3,339.68 (2.14)	4,307.52 (2.31)	3,916.76 (2.08)	4,276.55 (2.01)	4,668.07 (1.65)	6,828.90 (2.14)	6,279.99 (2.01)	6,794.85 (1.92)	8,007.75 (1.82)	11,136.42 (2.20)
10. Provisions & Contingencies	1,984.00 (1.59)	1,679.36 (1.19)	1,736.72 (1.11)	3,130.08 (1.68)	4,453.00 (2.10)	6,424.49 (2.70)	2,668.03 (0.94)	4,810.17 (1.51)	6,437.00 (1.91)	8,103.85 (2.14)	4,404.75 (1.00)	7,940.25 (1.57)

Note : Figures in brackets are percentages to Total Assets.

Table I.3 : New Private Sector Banks : Major Financial Indicators

(Amount in Rs.crore)

	As at the end of		
	March 1995	Sept. 1995	March 1996
1	2	3	4
1. Number of banks*	6	8	9
2. Number of branches	30	47	76
3. Paid-up Capital	675.25	995.25	1,095.25
4. Deposits	2,654.91	4,191.28	5,427.79
5. Advances	1,780.03	3,125.27	4,890.12
6. Investments	839.00	1,678.75	1,741.50
7. Credit-deposit ratio	67.04	74.56	90.09
8. Net Profit	42.30	84.94	165.49

*Excluding Development Credit Bank Ltd.

6. Non-Performing Assets

1.24 The non-performing assets (NPAs) of public sector banks at Rs. 39,583.94 crore constituted 17.3 per cent of their total advances as on March 31, 1996 as against 19.5 per cent as on March 31, 1995 (Table I.4).

1.25 The number of public sector banks with NPAs exceeding 20 per cent remained unchanged at 10 at end-March 1996. However, those with NPAs between 10 per cent and 20 per cent have declined to 14 from 15 whereas the number of public sector banks with NPAs below 10 per cent increased to 3 from 2 in the preceding year (Table I.5).

7. Modernisation and Revival Package for Banks

1.26 As mentioned in the previous year's Report, under the World Bank's Financial Sector Development Project of US $ 700 million, the Government of India released Rs.924.58 crore to six nationalised banks in March 1995 against the Capital Restructuring

Table I.4 : Classification of Loan Assets : Public Sector Banks

(As at end-March)

(Amount in Rs. crore)

	Nationalised Banks		SBI & Associates		Total	
	1995	1996	1995	1996	1995	1996
1	2	3	4	5	6	7
1. Standard Assets	1,00,554.58 (80.0)	1,16,899.27 (81.5)	58,462.83 (81.5)	72,748.56 (84.7)	1,59,017.41 (80.6)	1,89,647.83 (82.7)
2. Sub-standard Assets	4,876.44 (3.9)	6,320.79 (4.4)	2,881.06 (4.0)	2,978.38 (3.5)	7,757.50 (3.9)	9,299.17 (4.1)
3. Doubtful Assets	14,428.75 (11.5)	16,638.41 (11.6)	8,484.59 (11.8)	8,068.50 (9.4)	22,913.34 (11.6)	24,706.91 (10.8)
4. Loss Assets	2,221.55 (1.8)	2,391.84 (1.7)	1,510.54 (2.1)	1,959.44 (2.3)	3,732.09 (1.9)	4,351.28 (1.9)
5. Advances with balance less than Rs. 25,000 classified as NPAs	3,587.76 (2.9)	1,113.00 (0.8)	394.49 (0.6)	113.58 (0.1)	3,982.25 (2.0)	1,226.58 (0.5)
6. Total NPAs (2 to 5)	25,114.50 (20.0)	26,464.04 (18.5)	13,270.68 (18.5)	13,119.90 (15.3)	38,385.18 (19.5)	39,583.94 (17.3)
7. Total Advances (1+6)	1,25,669.08 (100.0)	1,43,363.31 (100.0)	71,733.51 (100.0)	85,868.46 (100.0)	1,97,402.59 (100.0)	2,29,231.77 (100.0)

Note : Figures in brackets are percentages to total advances.

Table I.5 : Frequency Distribution of NPAs : Public Sector Banks

(No. of Banks)

NPAs	End-March 1994	1995	1996
1	2	3	4
1. Upto 10 per cent	1	2	3
2. Above 10 and upto 20 per cent	8	15	14
3. Above 20 per cent	18	10	10

Loan (CRL) of US $ 350 million and obtained retroactive finance of US $ 70 million from the World Bank. During 1995-96, the Government has further drawn a sum of US $ 80 million against the CRL. Besides, five nationalised banks are set to avail the modernisation and institutional development loan of US $ 150 million.

1.27 As mentioned in the previous year's Report, consultants appointed by the Bank to go into the problems of four weak nationalised banks, *viz.*, the Central Bank of India, the Bank of Maharashtra, the UCO Bank and the United Bank of India, have since submitted their reports. The major recommendations of the consultants of the banks in question, that are common, have been to let the banks focus on a drastic reduction of NPAs, further recapitalisation by the Government, substantial increase in fee-based activities, downsizing of staff strength, restructuring of loss-making branches, improvement in Management Information Service (MIS) and computerisation. In addition, an Asset Reconstruction Fund (ARF) has been advocated for the UCO Bank and United Bank of India. Based on the recommendations, turnaround packages for UCO Bank and United Bank of India are under finalisation while the turnaround strategy for Central Bank of India is under preparation. As regards Bank of Maharashtra, the bank has since moved into 'A' category, reporting operating and net profits during 1995-96. More recently, the Indian Bank has been identified as a weak bank and ICRA Ltd. has been appointed to study and suggest turnaround strategy for the bank. An interim report on the bank has been received in December 1996 and is under scrutiny. At the request of the Indian Bank, the Reserve Bank gave its no objection to formation, with effect from January 1, 1997, of a Settlement Advisory Committee headed by a retired Justice of the High Court to examine and advise on compromise/one-time settlement proposals. The final decisions on compromises would have to be taken by the Board of the Indian Bank. This step is intended to help reducing NPAs of the bank.

8. Technology in Banking

1.28 Technological upgradation is a crucial element of the strategy to improve productivity in the banking system in India. The Saraf Committee on Technology Issues relating to Payments System, Cheque Clearing and Securities Settlement in the Banking Industry had given a time frame of three years for implementation of its recommendations. A Steering Committee was also set up to periodically review the status of technology in the banking industry. Some of the major recommendations which have already been put in place include the setting up of Electronic Funds Transfer (EFT) System, the introduction of Delivery Versus Payment (DVP) System for SGL transactions in Government securities, the introduction of Electronic Clearing Services for repetitive or low-value transactions, the extension of MICR clearing to non-metropolitan centres, the extensive use of RBINET and the promotion of credit card culture in India.

1.29 As a follow-up of the recommendations of Saraf Committee on Technology Issues in the Banking Industry, the Reserve Bank has taken a number of steps to initiate action to set up a Very Small Aperture Terminal (VSAT) Network to provide reliable communication backbone for the exclusive use of banking and financial sectors. The VSAT network will be a single Closed User Group (CUG) network covering all banks and financial institutions to serve a number of tasks like Management Information Service (MIS), data warehousing, transaction processing (Government securities trading and settlements), currency chest accounting, ATMs, smart/credit cards, EFT, EDI, etc. The Reserve Bank will set up the hub and network management system in the Institute for Development and Research in Banking Technology at Hyderabad. The VSAT network is expected initially to cover 2,800 centres.

9. Committee for Legislation on EFT

1.30 It was mentioned in the previous year's Report that the Committee for Proposing Legislation on Electronic Funds Transfer and other Electronic Payments had studied the issues relating to legal framework necessary for large scale computerisation. The Committee has suggested measures that are to be implemented in the short-term and long-term. The Committee underscored the need to amend the different Acts in existence to take care of new ways of doing business. However, pending the amendments to certain relevant Acts such as the Reserve Bank of India Act, 1934, Bankers Books Evidence Act, 1891, and the proposed Acts, namely, the Electronic Fund Transfer Act, and Computer Misuse Act, the Reserve Bank is framing regulations under Section 58 of the RBI Act, 1934, to implement the Electronic Funds Transfer System.

10. Regulation and Supervision

Supervisory System for Financial Intermediaries

1.31 The process towards a consolidated supervisory framework for the financial system received a major impetus with the Board for Financial Supervision (BFS) extending its supervisory jurisdiction over the all-India financial institutions from April 1995 and the financial companies from July 1995. As an integral part of the new strategy for supervision, a new Prudential Supervisory Reporting system (PSR) for the purpose of off-site monitoring was introduced effective September 1995.

Expert Group on Supervision of NBFCs

1.32 In view of the emergence of non-banking financial companies (NBFCs) as important players of the financial system, the need for instituting a prudential supervisory system alongside the existing regulatory framework was crystallised with the submission of a report by the Expert Group for Designing a Supervisory Framework for NBFCs (Chairman : Shri P.R. Khanna) in April, 1996. The Group recommended a comprehensive supervisory framework for regulation and supervision of the NBFCs. All the major recommendations made by the Group have since been accepted by the BFS with some modifications.

1.33 As announced in the Union Budget for 1996-97, the Government of India has promulgated an Ordinance in January 1997 amending the Reserve Bank of India Act, 1934, in order to strengthen the regulatory powers of the Bank over different kinds of NBFCs.

11. Perspectives

1.34 The first stage of the banking sector reform is coming to an end and we are now moving on to the next stage of the reform. In the years to come, the Indian financial system will grow not only in size but also in complexity as the forces of competition gain further momentum and the financial markets acquire greater width and depth. While the policy environment will remain supportive of healthy growth and development with accent on greater operational flexibility as well as greater prudential regulation and supervision, the thrust of the second phase of reform would have to be on improvement in the organisational effectiveness of banks and other financial entities.

1.35 Banks have to prepare themselves to grapple with these challenges and convert them into opportunities which call for critical introspection and intelligent anticipation. In the changed context, several imperatives merit attention.

i) Banks would have to move away from excessive concentration on asset management and adopt a more general approach of asset-liability management aimed at modifying their liability structure in consonance with the desired asset structure.

ii) Management of credit risks would have to be accorded a very high priority. Banks will have to evolve appropriate mechanisms and procedures to evaluate credit risk.

iii) Banks would have to equip themselves to be operative in an increasingly deregulated interest rate environment. As a consequence, the various markets will become increasingly integrated. The freedom given to the banks in the determination of the interest rates must be used by them judiciously. Obviously, the lending rate will have a relationship to the cost of raising funds. Too high a lending rate is not necessarily an advantage to banks. Very high lending rates may be associated with higher risks resulting in what the literature calls 'adverse selection'. In effect, extremely high interest rates can affect the viability of borrowers' capacity to repay. Besides, they would be unsustainable as they may eventually result in increasing the non-performing assets of banks. In fact, the major objective of the financial sector reform is to improve the efficiency of the system. Banks have to consciously work towards reducing the spread between cost of raising funds and the rate at which funds are lent and banks must pass on the greater part of the efficiency gains to the borrowers in the form of lower lending rates.

iv) A significant improvement in customer service by banks can no longer be ignored. Technology will have to play an important role in this regard.

v) Finally, house-keeping issues within would have to be addressed in a proactive and innovative manner.

1.36 Success in the second phase of reforms will depend primarily on the organisational effectiveness of banks for which the initiatives will have to come from banks themselves. Imaginative corporate planning combined with organisational restructuring is a necessary prerequisite to achieve results. Public sector banks need to address urgently the task of organisational restructuring for achieving greater efficiency.

1.37 In order to effectively compete in the new situation, the public sector banks need to initiate a number of steps expeditiously. There is a need to focus on improving customer services and introducing new facilities relating to fund remittances, electronic credit/debit systems, and ATM cards.

1.38 While the NPAs of the public sector banks as percentage to their total advances came down at the end of March 1996, their volume, however, remained constant at around Rs.40,000 crore. Vigorous efforts at recovery and upgradation of loans must be the chief concern of banks, particularly of those banks where the NPA proportion is very high. A transparent settlement procedure must be established where write-offs are involved.

1.39 With the deregulation of interest rates on deposits of NBFCs and Mutual Benefit Financial Companies (MBFCs) which adhere to prudent norms, the competition for deposits especially for those in the medium and long-term maturities has intensified. In response to the monetary policy initiatives in October 1996, the deposit rates of NBFCs are slowly coming down. The initial volatility in interest rates on deposits of NBFCs has come down and greater competition for household savings should pave the way for more efficient financial intermediation.

1.40 The gradual movement away from the cash credit system, is expected to bring about greater discipline in the credit delivery system. The recent initiative by some banks in the form of lower margin over Prime Lending Rate for demand loans is a step in the right direction. Delinking the issuance of Commercial Paper (CP) from cash credit component will also bring flexibility to borrowers in their credit planning. With gradual movement towards a loan-based lending system and with the introduction of capital adequacy and other prudential norms, the concept of 'maximum permissible bank finance' would itself have to undergo a change.

1.41 The process of cleaning the bank balance sheet cannot be complete without the valuation norms for approved securities brought at par with the prudential standards. Over time, the banks have to brace up to larger proportion of their approved security portfolio to be marked to market than the 50 per cent requirement at present. It is, therefore, essential that banks develop and enhance their treasury management skills. This has become all the more important in the emerging deregulated interest regime wherein interest rate risk could be a major factor. They should also work towards developing expertise in the secondary market in Government securities which is vital for the management of liquidity.

1.42 Provision of adequate flow of institutional credit to the priority sectors continues to be a major policy thrust. Agricultural advances as a percentage of net bank credit of public sector banks continue to be lower than the stipulated sub-target as in the previous year although there has been increase in outstanding credit from Rs.23,513 crore in 1994-95 to Rs.26,351 crore in 1995-96. The rural credit system cannot be sustained if the low level of loan recovery rates continue. In the case of IRDP loans, the recovery rate is as low as 30 per cent. The experience of Bangladesh Grameen Bank and our own Self-Employment for Women Association (SEWA) demonstrate that recoveries can be very high if there is adequate commitment even when the level of interest is not subsidised. Local Area Banks (LABs) in the private sector are being set up. They would help in mobilisation of rural savings and, at the same time, make them available for investments locally. They would provide credit to agriculture and other allied activities on normal banking principles in the areas of their operation.

1.43 A major catalyst in the dispersal of rural credit could be the Non-Governmental Organisations (NGOs) and Self-Help Groups (SHGs). The NGOs and SHGs would help to reduce information asymmetries in the credit market and supplement the insights and experience already gained by the banks with their involvement in the priority sector and rural lending over the years. However, three inter-related issues remain to be addressed by those involved with rural credit and economic management. First, it needs to be recognised that the poor are not homogeneous; the extremely poor and illiterate people not having experience of handling assets or lacking the necessary skills may need to be covered under wage employment schemes while the slightly better-off could be put on the self-employment route with thrust on asset creation. Secondly, an important issue in the priority sector dispensation is making the requisite credit available on a timely basis. Finally, the rural credit delivery system would need to reduce transaction costs, enhance monitoring of the use of credit and ensure timely recovery and recycling of funds.

1.44 In the recent period, bank supervision has assumed considerable importance in the context of maintaining the stability and soundness of the country's financial system. With the setting up of the Board for Financial Supervision (BFS) in 1994, undivided and intensive focus is now being provided to prudential supervision. The three expert groups set up in 1995 focusing on different aspects and segments of the financial system have submitted their Reports. The Padmanabhan Working Group to review the system of on-site supervision over banks has recommended far reaching changes in the approach, thrust and style of inspections as well as follow up, proposing bank rating on the lines of the widely adopted CAMEL (capital adequacy, asset quality, management, earnings, and liquidity) model. The Jilani Working Group to review the internal control and inspection/audit system in banks has made a number of recommendations to bring in uniformity in the system of internal inspection/ audit in banks. The major recommendations of the Khanna Expert Group for designing a supervisory framework for NBFCs include definitions of scope and coverage of the on-site inspections and a system of off-site surveillance and supervisory rating for NBFCs. Besides, a new Working Group has been set up by the Reserve Bank to examine the various regulatory and supervisory aspects of NBFCs. The new inspection strategy together with the inputs available under the prudential supervisory reporting system, would provide early warning signals to the Reserve Bank.

CHAPTER II

DEVELOPMENTS IN COMMERCIAL BANKING

Overview

The scheduled commercial banks continued to record impressive expansion of credit as in the previous two years, notwithstanding the subdued growth of bank deposits in 1995-96. The credit expansion was largely facilitated by sharp reduction in cash reserve ratio. The ongoing financial sector reforms helped to further strengthen the capital base of banks and clean up their balance sheets and as a consequence, their non-performing assets declined substantially in relative terms, improving thereby, the process of recycling of funds. Banks had to exercise caution in regard to their investment portfolios, even though the yields on the Government securities were relatively high, in view of their resources position. In retrospect, this proved to be helpful, since the high yield to maturity had led to depreciation of their asset values under the 'mark-to-market' mechanism. Given the large Government borrowing from the market and the subdued deposit accretion, some banks tried to match the demand for credit with recourse to money market, thereby pushing up the nominal rates of interest. The real rates of interest also turned out to be high, with the inflationary pressures showing a marked slowdown over the year. Faced with the sharper challenges of managing their assets and liabilities, the responses of individual banks were markedly different than in the recent past.

2.2 This chapter provides an account of the developments on the asset and liability side of commercial banks as also on some of the specific policies that impacted on their working during 1995-96.

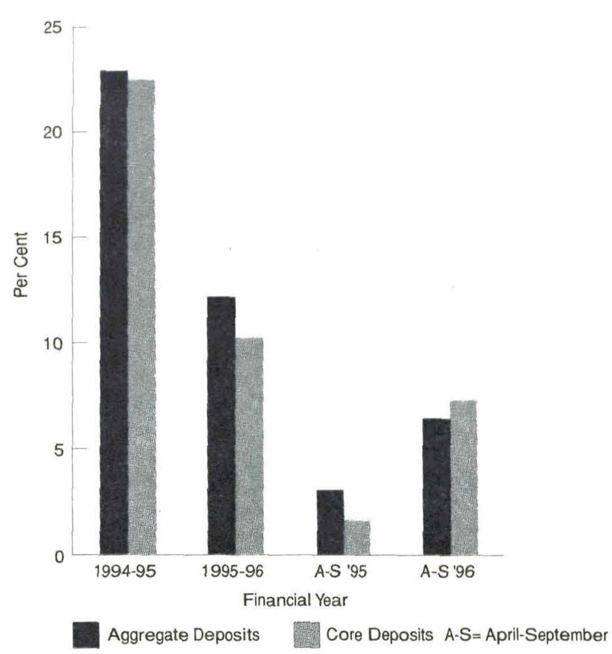
2. Liabilities and Assets Structure of Banks

Deposits

2.3 Deposits with scheduled commercial banks form a predominant proportion of their liabilities. Aggregate deposits expanded by Rs.46,960 crore (12.1 per cent) between March 31, 1995 and March 29, 1996. While this order of increase was substantially lower than that of Rs.71,727 crore (22.8 per cent) recorded in the previous financial year, it must be recognised that because the base date i.e. March 31, 1995 turned out to be the last reporting Friday of the year as also the closing date of bank accounts, there were considerable data distortions. As such, growth of banking aggregates in 1995-96 should be viewed with caution. If one were to take the preceding reporting Friday i.e., March 17, 1995 as the base, the growth in aggregate deposits in 1995-96 would work out to Rs.67,121 crore (18.3 per cent). The share of time deposits in the accretion of bank deposits for 1995-96 was at 92.1 per cent on March 31 base (78.0 per cent on March 17 base) as compared with 71.7 per cent in 1994-95 (Table II.1). It is noteworthy that banks had increasing recourse to Certificate of Deposits (CDs) during 1995-96; CDs mobilised by banks more than doubled during 1995-96 (from Rs.8,017 crore on March 31, 1995 to Rs. 16,316 crore on March 29, 1996). The cost of mobilising CDs which was in the range of 10.0 to 15.0 per cent during the fortnight ended March 31, 1995 increased to 12.0 to 22.3 per cent by March 29, 1996.

Excluding CDs, the core deposits of scheduled commercial banks recorded a lower rise of Rs.38,661 crore (10.2 per cent) during 1995-96 which was less than one - half of the rise of Rs.69,281 crore (22.4 per cent) in 1994-95 (Chart II.1).

CHART II.1:
Aggregate Deposits of Scheduled Commercial Banks - Rate of Growth : 1994-95 to 1995-96



2.4 The growth in deposits was sluggish at the beginning of 1995-96 but picked up momentum in the second half of the year, reflecting in part, the impact of the hike in ceiling interest rate for term deposits (of less than two years of maturity) and complete deregulation of interest rates for term deposits above two years of maturity. Besides, the accelerated inflow of funds through foreign institutional investors (FIIs) also contributed to increase in deposits in the last quarter of 1995-96; the net investment by FIIs during January-March 1996 amounted to Rs.3,637.8 crore.

2.5 During the first half of 1996-97 (between March 29, 1996 and September 27, 1996), aggregate deposits increased by Rs.27,926 crore (6.4 per cent), despite a fall in demand deposits. In the corresponding half of the previous year, aggregate deposits had recorded an increase of Rs.11,740 crore (3.0 per cent) (Table II.1). Excluding CDs, the growth of aggregate deposits was Rs.30,482 crore (7.3 per cent) in April-September 1996 as compared with the increase of Rs.5,884 crore (1.6 per cent) in the corresponding period last year.

Bank Credit

2.6 Bank credit expanded during 1995-96 by Rs.42,454 crore (20.1 per cent) on top of a rise of Rs.47,144 crore (28.7 per cent) recorded in the previous year, whereas it expanded by Rs.51,322 crore (25.3 per cent) between March 17, 1995 and March 29, 1996. Food credit registered a decline of Rs.2,484 crore (20.2 per cent) as against an expansion of Rs.1,368 crore (12.5 per cent) during the previous year. Contemporaneously, there was a phenomenal expansion in non-food credit of scheduled commercial banks of the order of Rs.44,938 crore (22.5 per cent) with March 31 as the base (by as much as Rs.54,684 crore or an expansion of 28.9 per cent over March 17, 1995). While this was attributable to the continued acceleration in industrial activity, its occurrence on top of Rs.45,776 crore (29.8 per cent) during 1994-95 was an issue of critical importance in the monetary management for subserving the objective of growth (Chart II.2). In incremental terms, the credit-deposit ratio and the non-food credit-deposit ratio reached peak levels of 90.4 per cent and 95.7 per cent, respectively in 1995-96. The credit expansion was facilitated by a series of cuts in cash reserve ratio (CRR), amounting to Rs.7,525 crore in the four month period - October 1995 to January 1996. Furthermore, the volatility witnessed in the foreign exchange markets and the subsequent intervention by the Reserve Bank impacted on the domestic liquidity but as the forex market stabilised, the Reserve

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

(Amount in Rs.crore)

Items	Outstanding as on					Variations during the financial year		Variations during the period April-September	
	March 18, 1994	March 31, 1995	March 29, 1996	Sept 29, 1995	Sept 27, 1996*	1994-95 over March 18	1995-96 over March 31	1995-96 over March 31	1996-97 over March 29
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
1. Total Demand and Time Liabilities @	**3,48,894**	**4,28,254**	**4,80,613**	**4,45,498**	**5,10,472**	**79,360**	**52,359**	**17,244**	**29,859**
2. Aggregate Deposits (a+b)	**3,15,132**	**3,86,859**	**4,33,819**	**3,98,599**	**4,61,745**	**71,727 (22.8)**	**46,960 (12.1)**	**11,740 (3.0)**	**27,926 (6.4)**
a) Demand Deposits	56,572	76,903	80,614	71,857	78,909	20,331 (35.9)	3,711 (4.8)	-5,046 (-6.6)	-1,705 (-2.1)
b) Time Deposits	2,58,560	3,09,956	3,53,205	3,26,742	3,82,836	51,396 (19.9)	43,249 (14.0)	16,786 (5.4)	29,631 (8.4)
2.1 Certificate of Deposits	5,571	8,017	16,316	13,873	13,760	2,446 (43.9)	8,299 (103.5)	5,856 (73.0)	-2,556 (-15.7)
2.2 Aggregate Deposits (Excluding Certificate of Deposits)	3,09,561	3,78,842	4,17,503	3,84,726	4,47,985	69,281 (22.4)	38,661 (10.2)	5,884 (1.6)	30,482 (7.3)
3. Borrowings from RBI	1,813	7,415	4,847	5,575	1,823	5,602 (309.0)	-2,568 (-34.6)	-1,840 (-24.8)	-3,024 (-62.4)
4. Liability to Banks	11,283	15,327	17,648	20,180	18,290	4,044 (35.8)	2,321 (15.1)	4,853 (31.7)	642 (3.6)
5. Bank Credit (a+b)	**1,64,417**	**2,11,561**	**2,54,015**	**2,21,789**	**2,50,950**	**47,144 (28.7)**	**42,454 (20.1)**	**10,228 (4.8)**	**-3,065 (-1.2)**
a) Food Credit	10,907	12,275	9,791	12,606	8,436	1,368 (12.5)	-2,484 (-20.2)	331 (2.7)	-1,355 (-13.8)
b) Non-food Credit	1,53,510	1,99,286	2,44,224	2,09,183	2,42,514	45,776 (29.8)	44,938 (22.5)	9,897 (5.0)	-1,710 (-0.7)
6. Investments (a+b)	**1,32,523**	**1,49,254**	**1,64,782**	**1,56,218**	**1,77,027**	**16,731 (12.6)**	**15,528 (10.4)**	**6,964 (4.7)**	**12,245 (7.4)**
a) Government Securities	1,01,201	1,17,685	1,32,227	1,23,863	1,45,301	16,484 (16.3)	14,542 (12.4)	6,178 (5.2)	13,074 (9.9)
b) Other Approved Securities	31,321	31,568	32,555	32,355	31,726	247 (0.8)	987 (3.1)	787 (2.5)	-829 (-2.5)
7. Cash Balances (a+b)	**50,043**	**63,001**	**53,780**	**60,843**	**55,688**	**12,958 (25.9)**	**-9,221 (-14.6)**	**-2,158 -3.4**	**1,908 3.5**
a. Cash in hand	2,283	2,972	3,113	2,833	3,083	689 (30.2)	141 (4.7)	-139 (-4.7)	-30 (-1.0)
b. Balances with RBI	47,760	60,029	50,667	58,010	52,605	12,269 (25.7)	-9,362 (-15.6)	-2,019 (-3.4)	1,938 (3.8)
Memorandum Items :									
A. Credit-Deposit Ratio	52.2	54.7	58.6	55.6	54.3				
B. Incremental Credit-Deposit Ratio	26.7	65.7	90.4	87.1	-11.0				
C. Reserves-Deposit Ratio	15.9	16.3	12.4	15.3	12.1				
D. Investment/Deposit Ratio	42.1	38.6	38.0	39.2	38.3				
E. Investment+Credit/ Deposit Ratio	94.2	93.3	96.5	94.8	92.7				

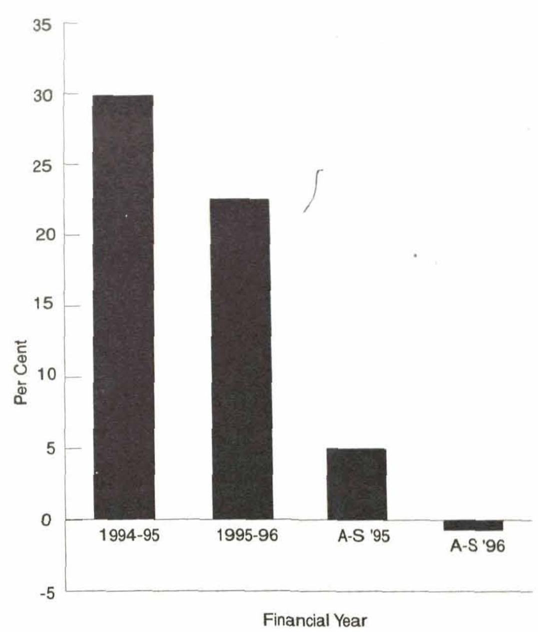
@ Excluding borrowings from RBI/IDBI/NABARD. * Provisional.

Notes : 1. Figures in brackets are percentage variations.

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

3. No sign is indicated for positive variations.

CHART II.2:
Non-Food Bank Credit of Scheduled Commercial Banks - Rate of Growth: 1994-95 to 1995-96



A-S = April-September

Bank took measures to ease the pressures in the money market. Consequently, call money rates which had ruled relatively high during the period, September through December 1995, declined thereafter. The large credit expansion which took place at very high real interest rates, and mobilisation of funds at relatively high costs, especially from CDs, are matters of concern, since this could mean that a significant number of borrowers tend to be less credit-worthy, sowing in the process the seeds of non-performing assets (NPAs). In other words, the adverse selection of loan making would be conspicuously present during this part of the credit cycle.

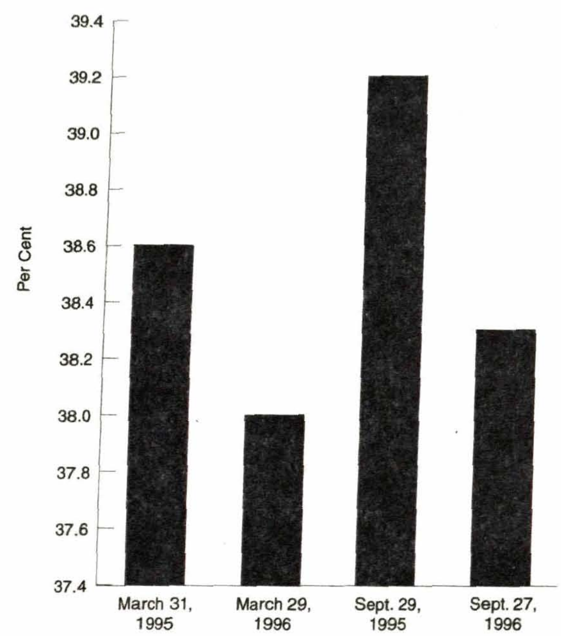
2.7 Although the liquidity position in the first half of 1996-97 was comfortable, bank credit declined by Rs.3,065 crore (1.2 per cent) as compared with the increase of Rs.10,228 crore (4.8 per cent) during the corresponding period of 1995-96 (Table II.1). Food credit recorded a decline of Rs.1,355 crore (-13.8 per cent). Similarly, non-food credit also, declined by Rs.1,710 crore (-0.7 per cent) reflecting essentially the slack seasonal demand during the first half of 1996-97. Despite the slowdown in the inflation rate and the substantial increase in the liquidity, the reduction in prime lending rates of banks was marginal and stubbornly confined only to a few banks. It was in this context that a number of measures were announced on October 19, 1996 which included a phased reduction of CRR by 2 percentage points in four phases, allowing access by corporates to foreign currency loans and a number of other measures to ease bank finance. The details of these measures are provided in Annexure I.

2.8 An important element in the agenda for financial sector reform has been the relaxation of external constraints on banks. A major component in this process was the gradual reduction of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR). In mid-1991, the pre-emption in the form of CRR and SLR requirements on incremental deposits amounted to 63.5 per cent. The effective CRR has come down from 15.7 per cent as at end-March 1995 to 11.5 per cent by end-June 1996 and is on the path to 10 per cent. Similarly, SLR has been brought down on an incremental basis to 25 per cent.

Investments

2.9 With the reduction in SLR on NRE deposits (details provided in Annexure I) and the increase in liquidity in the secondary market for Treasury Bills and Government securities (both in terms of SGL transactions at the Reserve Bank including those settled through the National Stock Exchange), scheduled commercial banks' investments in Government and other approved securities increased by Rs.15,528 crore (10.4 per cent) as against a rise of Rs.16,731 crore (12.6 per cent) in the previous year. Their investments in approved securities which stood at 38.6 per cent of aggregate deposits as on March 31, 1995 declined marginally to 38 per cent on March 29, 1996 (Chart II.3). Nevertheless, banks' holding of Government securities continued to be in excess of the SLR stipulation as in the previous year. During the first half of 1996-97, banks stepped up their investments by Rs.12,245 crore (7.4 per cent), as against the rise of Rs.6,964 crore (4.7 per cent) during the comparable period of the previous year.

CHART II.3:
Scheduled Commercial Banks - Investment Ratio* : 1994-95 to 1995-96

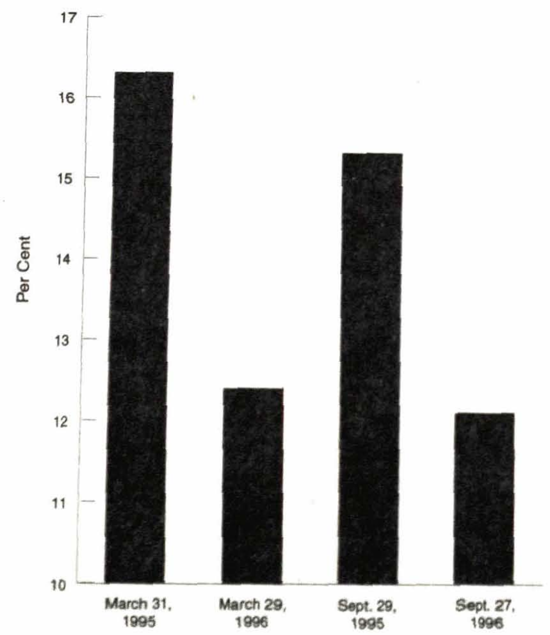


* Investment to Aggregate Deposits Ratio

Cash Reserves

2.10 As part of the measures to ease the external constrains on the banking system, the Reserve Bank has been lowering the cash reserve ratio. Consequently, scheduled commercial banks' cash in hand and balances with the Reserve Bank declined by Rs.9,221 crore or 14.6 per cent during 1995-96 in contrast to an increase of Rs.12,958 crore or 25.9 per cent in the preceding year. Cash balances as a proportion of deposits fell from 16.3 per cent on March 31, 1995 to 12.4 per cent on March 29, 1996 (Chart II.4). During 1995-96 the liquidity released on account of CRR reduction worked out at Rs.7,525 crore. The average CRR was reduced again by one percentage point to 13.0 per cent in two phases of 0.5 percentage point each, effective April 27 and May 11, 1996; these augmented the lendable resources of banks by about Rs.3,800 crore. The average CRR was further reduced to 12.0 per cent from the fortnight beginning July 6, 1996 augmenting the lendable resources of the banks by Rs.4,100 crore. Furthermore, the exemption of NRE deposits from CRR prescription released Rs.1,400 crore. A further reduction of one percentage point in CRR in two phases effective October 26, 1996 and November 9, 1996 augmented the lendable resources of banks by about Rs.4,275 crore. The lendable resources further increased by Rs.4,275 crore with the two phase reduction in CRR by one percentage point, effective January 4, 1997 and January 18, 1997.

CHART II.4:
Scheduled Commercial Banks - Reserves Ratio* : 1994-95 to 1995-96

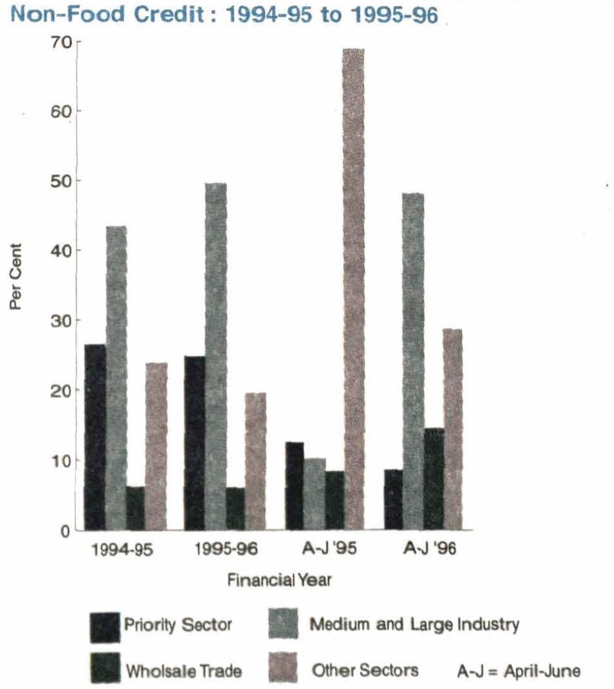


* Reserves to Aggregate Deposit Ratio

Sectoral Deployment of Credit

2.11 The sectoral deployment of non-food gross bank credit during 1995-96 (April-March) showed that in incremental terms, the share of credit to medium and large (ML) industry in the total improved from 43.4 per cent in 1994-95 to 49.6 per cent in 1995-96 (Table II.2 and Chart II.5). Industry-wise deployment of bank credit showed notable increases in respect of engineering industries, chemicals group, and metal products (Appendix Table II.1). During the first quarter of 1996-97, there was an overall decline in non-food bank credit with medium and large industry and trade sector contributing major share to this decline. Except for iron and steel and petroleum industries, the flow of bank credit to most of the other industries declined or was of a lower order.

CHART II.5:
Sectoral Deployment of Gross Bank Credit of Scheduled Commercial Banks - Share in Incremental Non-Food Credit : 1994-95 to 1995-96



3. Export Credit

Export Credit

2.12 Export credit outstanding stood at Rs. 29,692 crore accounting for 13.0 per cent of net bank credit (NBC) as on March 29, 1996 as against Rs. 25,051 crore or 13.0 per cent of NBC as on March 31, 1995 (Table II.2). By June 28, 1996, this proportion declined to 11.9 per cent.

2.13 During 1995-96 (April-March), export credit refinance limits of scheduled commercial banks increased significantly by Rs.4,747 crore (50.5 per cent) from Rs.9,395 crore as at end-March 1995 to Rs.14,142 crore as on March 29, 1996 (Appendix Table II.2). In respect of Export Credit (Rupee) refinance, the limits registered almost four-fold increase from Rs.2,726 crore to Rs.10,080 crore. Consequent upon the sharp fluctuations in the spot and forward exchange markets and the resultant negative effective interest rates, it was decided to terminate the Post-Shipment Export Credit denominated in US dollars (PSCFC), effective February 8, 1996.

2.14 The utilisation of export credit refinance during 1995-96 was tardy; the peak utilisation rate of 78.4 per cent as at the end-March 1995, declined to 16.0 per cent by end-September 1996. The utilisation of export credit refinance has been found to be linked with interest rates in the call money market; going up when call money market rates are high.

Policy Changes in respect of Export Credit

2.15 Substantial changes were brought about in the interest rate structure governing the export credit. The following changes in respect of interest rates on export credit were effected.

(a) The interest rate on "export credit not otherwise specified for Post-Shipment Credit Denominated in Foreign

Table II.2 : Sectoral Deployment of Gross Bank Credit by Major Sectors

(Amount in Rs.crore)

Sectors	Outstanding as on					Variations during			
						Financial year		April - June	
	March 18, 1994	March 31, 1995	March 29, 1996	June 30, 1995	June 28, 1996	1994-95	1995-96	1995-96	1996-97
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
(I) Gross Bank Credit(1+2)	**1,56,857**	**1,96,985**	**2,31,697**	**1,97,828**	**2,27,236**	**40,128**	**34,712**	**843**	**-4,461**
1. Public Food Procurement Credit	10,907	12,275	9,791	15,952	11,666	1,368	-2,484	3,677	1,875
2. Non-Food Gross Bank Credit (A+B+C+D)	1,45,950	1,84,710	2,21,906	1,81,876	2,15,570	38,760 (100.0)	37,196 (100.0)	-2,834 (100.0)	-6,336 (100.0)
(A) Priority Sectors $	**53,880**	**64,161**	**73,391**	**63,808**	**72,853**	**10,281 (26.5)**	**9,230 (24.8)**	**-353 (12.5)**	**-538 (8.5)**
(i) Agriculture	21,208	23,983	27,085	23,768	26,824	2,775 (7.2)	3,102 (8.3)	-215 (7.6)	-261 (4.1)
(ii) Small Scale Industries	22,617	27,638	31,884	27,323	31,342	5,021 (13.0)	4,246 (11.4)	-315 (11.1)	-542 (8.6)
(iii) Other Priority Sectors	10,055	12,540	14,422	12,717	14,687	2,485 (6.4)	1,882 (5.1)	177 (-6.2)	265 (-4.2)
(B) Industry (Medium & Large)	**57,865**	**74,672**	**93,108**	**74,383**	**90,054**	**16,807 (43.4)**	**18,436 (49.6)**	**-289 (10.2)**	**-3,054 (48.2)**
(C) Wholesale Trade (Other than food procurement)	**7,330**	**9,749**	**11,993**	**9,515**	**11,072**	**2,419 (6.2)**	**2,244 (6.0)**	**-234 (8.3)**	**-921 (14.5)**
(i) Cotton Corporation of India	50	354	381	234	253	304 (0.8)	27 (-0.1)	-120 (4.2)	-128 (2.0)
(ii) Food Corporation of India (for fertiliser distribution)	0	0	0	0	0	0 (-)	0 (-)	0 (-)	0 (-)
(iii) Jute Corporation of India	8	0	0	0	0	-8 (-)	0 (-)	0 (-)	0 (-)
(iv) Other Trade	7,272	9,395	11,612	9,281	10,819	2,123 (5.5)	2,217 (6.0)	-114 (4.0)	-793 (12.5)
(D) Other Sectors	**26,875**	**36,128**	**43,414**	**34,170**	**41,591**	**9,253 (23.9)**	**7,286 (19.6)**	**-1,958 (69.0)**	**-1,823 (28.8)**
(II) Export Credit [included under item I(2)]	**17,086**	**25,051**	**29,692**	**24,269**	**26,714**	**7,965**	**4,641**	**-782**	**-2,978**
(III) Net Bank Credit (including inter-bank participations)	**1,52,501**	**1,92,424**	**2,28,583**	**1,94,688**	**2,24,121**	**39,923**	**36,159**	**2,264**	**-4,462**
Memorandum Items :									
A. Priority Sector Credit as % to NBC*	35.3	33.3	32.1	32.8	32.5				
B. Agricultural Credit as % to NBC*	13.9	12.5	11.8	12.2	12.0				
C. Export Credit as % to NBC*	11.2	13.0	13.0	12.5	11.9				

Data are Provisional. * Net Bank Credit.

$ The data on priority sector differ from the final data on priority sector as presented in Appendix Table II.11.

Notes :
1. Data relate to 47 scheduled commercial banks which account for about 90-95 per cent of bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank, other approved financial institutions and inter-bank participations. Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.
2. Figures in brackets are proportions to incremental non-food gross bank credit.
3. See also Appendix Table II.1.

Currency (PSCFC)" was freed effective October 31, 1995.

(b) The interest rate on PSCFC (against usance bills) for a period of over 90 days and upto 6 months from the date of shipment was hiked from 7.5 per cent to 9.5 per cent and made applicable from the date of advance, effective October 31, 1995. Subsequently from January 16, 1996 the interest rate on PSCFC (against demand bills for transit period as also usance bills) for a period upto 90 days was increased from 7.5 per cent to 9.5 per cent. Besides, interest rate under the scheme for usance bills for a period beyond 90 days and upto 6 months from the date of shipment, was freed. The PSCFC scheme was terminated effective February 8, 1996.

(c) The interest rate on post-shipment export rupee credit for a period over 90 days and upto 6 months from the date of shipment was also freed effective February 8, 1996.

2.16 In November 1992, scheduled commercial banks were advised to reach a level of export credit equivalent to 10 per cent of the bank's net bank credit. Recognising the paramount need to promote exports, the target for export credit was raised on October 19, 1996 to 12 per cent of net bank credit to be achieved by end-March 1997.

2.17 Following the switchover to dollar denominated trade with the member countries of Asian Clearing Union (ACU), banks were permitted, effective January 1, 1996, to extend pre- and post-shipment credit in foreign currency for trade transactions with ACU countries.

4. Working Results of Commercial Banks

2.18 With the completion of the first stage of financial sector reforms, the banking system consolidated its position during 1995-96 as reflected in the significant reduction in its non-performing assets in relative terms. While a few banks turned the corner by declaring net profit, several profit making banks have shown improved operational performance in terms of both profitability and productivity.

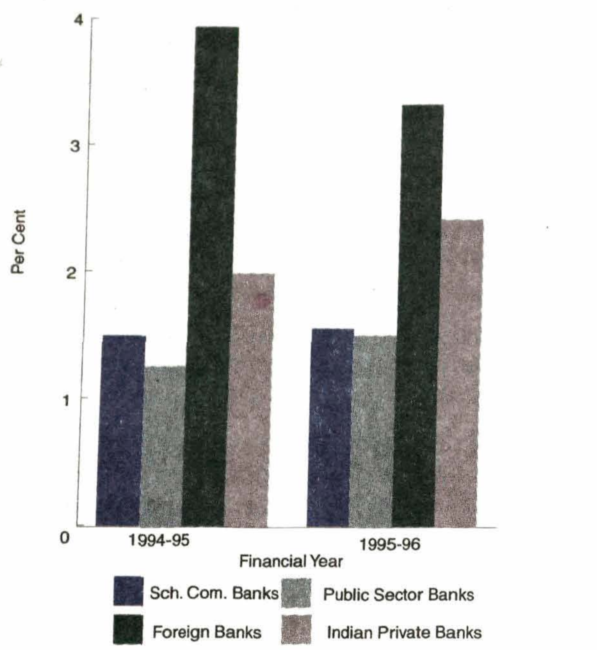
Scheduled Commercial Banks

2.19 During 1995-96, the scheduled commercial banks demonstrated considerable progress in their financial performance. Notwithstanding a hefty increase in wage bill by around 39 per cent following the recent wage accord in banks, the operating profit of scheduled commercial banks increased from Rs.7,694.2 crore during 1994-95 to Rs.10,205.4 crore during 1995-96 recording a growth of 32.6 per cent and as a proportion to total asset, operating profit increased from 1.5 per cent in 1994-95 to 1.7 per cent in 1995-96 (Appendix Table II.3 and Chart II.6). The net profit, however, declined by Rs.1,241.9 crore (57.7 per cent) from Rs.2,154.3 crore to Rs.912.3 crore during the same period. The decline in net profit can be attributed to the following factors. Firstly, there was sizeable increase in the provisions due to depreciation on Government securities at Yield to Maturity (YTM) prescribed higher for 1995-96. Secondly, the massive loss of Rs.1,336 crore by Indian Bank in 1995-96 (as compared with a net profit of Rs.14.26 crore in 1994-95) also distorted the net profitability picture in 1995-96. As a result, the Return on Assets (ROA) declined from 0.42 per cent in 1994-95 to 0.15 per cent in 1995-96.

Public Sector Banks

2.20 The financial results of public sector banks for the year 1995-96 showed considerable improvement. The operating profits of public sector banks as a group, showed a sizeable increase of Rs.2,048.3 crore

CHART II.6:
Operating Profits to Total Assets - Bank Group-wise : 1994-95 to 1995-96



(37.1 per cent) from Rs.5,520.5 crore in 1994-95 to Rs.7,568.9 crore during 1995-96. However, the net profit of Rs.1,115.8 crore turned into a net loss of Rs.371.4 crore during the same period (Appendix Table II.4). This was again due to higher provisions on account of depreciation booked on Government securities and the massive loss of Indian Bank in 1995-96. Consequently, ROA, turned negative at 0.07 per cent during the period under review.

2.21 The State Bank group, posted a total operating profit of Rs.3,923.2 crore during 1995-96 as compared with Rs.2,583.2 crore during the previous year, recording a growth of Rs.1,340.0 crore (51.9 per cent) (Appendix Table II.5). The net profit, on the other hand, declined by 6.30 per cent from Rs.846.5 crore during 1994-95 to Rs.793.1 crore during 1995-96. Consequently, the ROA declined from 0.54 per cent to 0.42 per cent during the same period. The decline in the financial performance of State Bank group in terms of net profit during 1995-96 is mainly attributable to a quantum jump in its provisions and contingencies by 80 per cent.

2.22 The performance of nationalised banks as a group indicated deterioration during 1995-96. The nationalised banks reported a total operating profit of Rs.3,645.7 crore during 1995-96 as compared with Rs.2,937.4 crore posted during the previous year, recording an increase of Rs.708.3 crore (24.1 per cent) (Appendix Table II.6). On the other hand, the net profit deteriorated by Rs.1,433.8 crore (532.4 per cent) from Rs.269.3 crore in 1994-95 turned into a net loss of Rs.1,164.5 crore during 1995-96. Here again, a substantial increase in provisions led to a fall in ROA from 0.1 per cent in 1994-95 to a negative ROA of 0.4 per cent during the period under review.

Foreign Banks in India

2.23 During 1995-96, foreign banks operating in India reported a much improved performance (Appendix Table II.7). The operating profit increased by Rs.86.1 crore (5.8 per cent) from Rs.1,489.9 crore during 1994-95 to Rs.1,576.0 crore during 1995-96, while the net profit increased by Rs.51.1 crore (7.3 per cent) from Rs.697.2 crore during 1994-95 to Rs.748.3 crore during 1995-96.

Indian Private Sector Banks

2.24 The Indian private sector banks, as per the available information on 23 out of 35 such banks, have exhibited a spectacular performance both in terms of operating and net profit. The operating profit increased by Rs.212.5 crore (40.2 per cent) from Rs.528.9 crore during 1994-95 to Rs.741.4 crore during 1995-96 (Appendix Table II.8). Consequently, ROA increased from 1.2 per cent to 1.5 per cent during the period under review. A brief analysis of the performance of new private sector banks *vis-a-vis* other banking groups is provided in Box II.1.

BOX II.1:
PERFORMANCE OF NEW PRIVATE SECTOR BANKS

Following the recommendations of Narsimham Committee (1991), a number of measures were put in place by the Reserve Bank to reform the financial sector. Allowing new Private Sector Banks was a crucial part of the measures taken to improve the competitiveness of the banking system.

The introduction of new private sector banks which possess up-to-date technology and managerial skills is expected to impart competition and foster efficiency in the banking industry. The performance of new private sector banks vis-a-vis other banking groups during 1995-96 is presented below :

FINANCIAL RATIOS* 1995-96

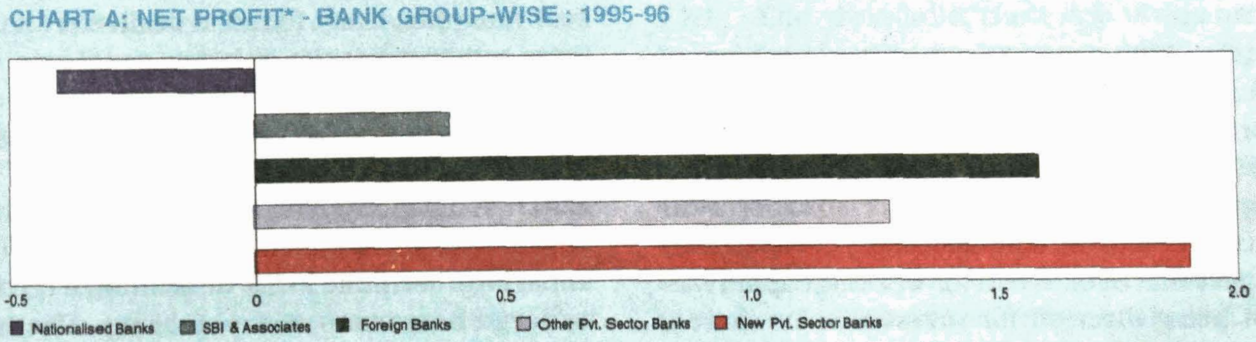
Particulars	New Private Banks	Other Private Banks	Foreign Banks	SBI & Assoc.	Nationalised Banks
1	2	3	4	5	6
1. Operating Profit	2.8	2.3	3.3	2.1	1.1
2. Net Profit	1.9	1.3	1.6	0.4	-0.4
3. Income	11.0	12.1	12.8	11.0	10.4
4. Interest income	9.3	10.2	10.4	9.2	9.2
5. Other income	1.8	1.9	2.3	1.8	1.1
6. Expenditure	9.1	10.8	11.2	10.6	10.7
7. Interest expended	6.4	7.4	6.7	5.8	6.3
8. Other operating expenses	1.9	2.5	1.8	0.8	0.8
9. Provisions and Contingencies	0.9	1.0	1.7	1.7	1.5
Memorandum Items					
(i) Wage bill	0.3	1.6	1.0	2.3	2.1
(ii) Spread	2.9	2.9	3.8	3.3	2.9

* Ratios to Total Assets.

Notes : 1. The above data includes : 9 New Private Sector Banks, 14 out of 26 Other (excluding new) Private Banks, 30 out of 36 foreign banks, 8 SBI and Associates and 19 Nationalised Banks.

2. Spread = Interest income minus Interest expended.

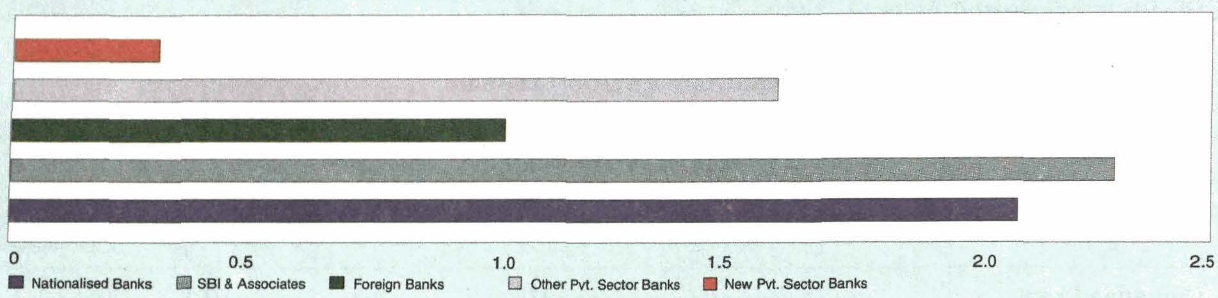
CHART A: NET PROFIT* - BANK GROUP-WISE : 1995-96



* As a proportion to Total Assets

The table given above gives a snapshot of the performance of the private sector banks in 1995-96 vis-a-vis other banking groups. The new private sector banks recorded one of the highest operating profit; its operating profit as a proportion of total assets at 2.8 per cent in 1995-96 was higher than the similar figure for other private sector banks (i.e., excluding new private sector banks), SBI group and nationalised banks, but was marginally lower than that for foreign banks (i.e., 3.3 per cent). But in terms of net profit, the new private sector banks' performance was far superior than that of all other banking groups including foreign banks (Chart A). The higher net profit of new private sector banks at 1.9 per cent has to be seen in the light of lower required provisions made by these banks.

CHART B: WAGE BILL* - BANK GROUP-WISE : 1995-96



* As a proportion to Total Assets

The new private sector banks also enjoyed a relatively lower spread between cost of mobilising deposits and interest earned on their assets as compared with foreign banks and other banking groups. Among the banking groups, foreign banks had the highest spread (3.8 percentage points). Another interesting aspect of the performance of new private sector banks is their relatively very low wage bill; wage bill was a marginal 0.3 per cent of total assets as compared with 1.6 per cent of other private sector banks and 1.0 per cent of foreign banks (Chart B). In this connection it may be noted that most of the public sector banks had to bear a brunt of centralised wage setting processes; payment to employees for nationalised banks was a staggering 2.1 per cent of total assets and that for SBI group it was 2.3 per cent. Given the superior financial performance of the private sector banks, this segment is likely to be a torch bearer of technological change and efficiency in the banking industry.

5. Credit Delivery

2.25 With a view to preventing diversion of bank credit sanctioned for working capital, commercial banks were advised in February 1996 to review their existing systems for appraisal, sanction and monitoring of borrowal accounts and to take necessary measures to ensure that bank credit for working capital was not being diverted for investment in shares, debentures, inter-corporate deposits, etc. Furthermore, banks were also advised to recall such amounts, if any, found to be diverted into these activities besides charging penal rate.

Loan System for Delivery of Bank Credit

2.26 A Loan System for delivery of bank credit was introduced in April 1995 for imparting discipline in the utilisation of credit by large borrowers and enforcing effective control over credit flows in general, the details of which were presented in the previous year's Report. Initially, the system was made mandatory for borrowers with assessed maximum permissible bank finance (MPBF) of Rs.20 crore and above, with the cash credit component fixed at 75 per cent. The cash credit component was brought down in stages to 60 per cent effective September 29, 1995, 40 per cent effective April 18, 1996 and further to 25 per cent of the MPBF effective October 19, 1996. The Scheme was also extended, effective April 18, 1996, to borrowers with MPBF of less than Rs.20 crore and upto Rs.10 crore. The cash credit component initially restricted to 60 per cent was reduced to 40 per cent effective October 19, 1996. Besides, banks were also allowed to renew/roll over the loan component in the case of all borrowers and to carve the bills limit for inland sales out of the loan component instead of cash credit component as earlier. As regards export credit, they were advised in November 1996 to exclude export credit limits (pre-shipment and post-shipment) from the MPBF for the purpose of bifurcation of the credit limit into loan and cash components.

Bridge Loans/Interim Finance

2.27 The bridge loans/interim finance scheme in respect of banks was withdrawn effective April 17, 1995; in respect of financial institutions it was withdrawn in September 1994. On a review of the policy, the bridge loan scheme has been revived with some modifications. Under the modified scheme which came into effect from October 16, 1995, banks and financial institutions were permitted to sanction bridge loans against the commitment made by another bank or financial institution subject to the following conditions :

(a) The bank extending bridge loan/interim finance must obtain prior approval of the other bank and/or financial institution, which has sanctioned the term loan;

(b) The sanctioning bank must also obtain a commitment from the other bank and/or financial institution that the latter would directly remit the amount of term loan to it at the time of disbursement;

(c) Such bridge loan/interim finance would be sanctioned for periods not exceeding four months and banks should not allow any extension of time for repayment of bridge loan/interim finance; and

(d) Banks should ensure that bridge loan/ interim finance sanctioned and disbursed is utilised strictly for the purpose for which the term loan has been sanctioned by another bank and/ or a financial institution.

Term Finance by Banks

2.28 Considering the need for faster development of infrastructure, effective December 22, 1995, the ceiling on term loan for a single project by the banking system was doubled from Rs.500 crore to Rs.1,000 crore for power generation projects, subject to the overall fund-based limit from the banking system not exceeding Rs.400 crore. The ceiling limit includes all fund-based and non-fund-based credit facilities like term finance, deferred payment guarantees and acceptance facilities.

Simplification of Consortium Arrangements

2.29 The threshold limit for obligatory consortium lending was raised to Rs.50 crore in October 1993. Effective October 19, 1996, the ground rules of consortium arrangements namely, the number of participants, the minimum share of each bank, the entry/exit framework in the consortium, the sanction of additional/ad hoc limit in emergent situations/ contingencies by lead bank/other banks, the fee to be charged by lead bank for the services rendered, and the grant of a facility by a non-member bank, etc, will be framed by the participating banks in the consortium themselves. This measure is expected to impart higher operational maneuverability to banks in consortia.

Surcharge on Import Finance

2.30 In order to moderate use of bank credit for financing imports, effective October 31, 1995 an interest rate surcharge of 15 per cent (since raised to 25 per cent from February 8, 1996), was imposed on the outstanding bank credit for imports barring the export packing credit for imported inputs. Effective March 1, 1996, import of capital goods under the Export Promotion Capital Goods Scheme, all imports including import of capital goods by Export-Oriented Units and units from the Export Processing Zones, and all imports under Advance Licences were exempted from the said levy before its withdrawal on July 23, 1996.

Investment in Shares and Debentures by Banks

2.31 Scheduled commercial banks were allowed to subscribe to shares and debentures in the primary market inclusive of underwriting devolvement and investment in mutual funds upto 5 per cent of incremental deposits of the previous year. However, banks were not allowed to purchase shares and debentures in the secondary market.

2.32 Effective October 19, 1996, banks have been allowed to trade in shares and debentures in the secondary market upto 5 per cent of their previous year's incremental deposits. This measure is expected to increase institutional participation in the secondary market.

Foreign Currency Denominated Loans

2.33 As part of the initiative to ease the liquidity situation in the banking sector and to provide greater flexibility to borrowers engaged in productive activities, the Reserve Bank has permitted banks, effective October 31, 1996, to provide foreign currency denominated loans from Foreign Currency Non-Resident Deposits [FCNR(B)]. This facility is expected to ease considerably the liquidity situation in the market and at the same time provide an avenue for the bankers to deploy their FCNR(B) deposits profitably in the country. Besides, it is expected to relieve the banks of exchange rate risk which hitherto used to be borne by them.

Hedging of Loan Exposures

2.34 Till recently in India the only hedging product available in the domestic market is the forward contract. Effective August 5, 1996, authorised dealers have been permitted to offer, without prior approval of the Government or the Reserve Bank, hedging instruments like interest rate swaps, currency swaps, coupon swaps, interest rate caps/collars, and forward rate agreements to Indian corporates. The corporates are also permitted to freely unwind from hedge transactions. In order to monitor the use of these instruments, the Reserve Bank has asked the corporates to submit the following reports/certificates :

(a) a report showing complete details of the transactions concluded (booked as well as cancelled) duly countersigned by the authorised dealer to the Regional Office of the Reserve Bank under whose jurisdiction they are situated, within a week from the date of conclusion of the transaction;

(b) a quarterly report to the corporate's Board furnishing details of all such transactions, its copy alongwith a copy of the Board's resolution, and

(c) an annual certificate from the statutory auditors that the company has complied with all the prescribed terms and conditions.

Box II.2 provides a discussion of capital standards for derivatives.

Treasury Operations

2.35 As already mentioned, effective October 19, 1996 scheduled commercial banks have been allowed to purchase shares and debentures in the secondary market as well, within the existing ceiling of 5 per cent of incremental deposits. The monetary limit for advances against the security of shares and debentures which is required to be transferred in the lending bank's name has been raised from Rs.5 lakh to Rs.10 lakh with effect from September 6, 1996. Further, shares lodged as security by the share and stock brokers were required to be transferred in the bank's name only if they were held beyond a period of nine months instead of three months as prescribed earlier. In view of reported switching of shares at the time of transfer and issue of unauthorised duplicate shares by certain companies, banks were advised to verify the authenticity of scrips while accepting them for making advances. Besides, shares already held by banks either in investment account or in their capacity as pledges for advances against shares should be the same as the shares originally lodged for transfer and not those for which unauthorised shares were issued. Irregularities, if any, are required to be reported to the Reserve Bank. Effective September 30, 1995, a minimum period of three days was stipulated for ready forward (repo) transactions in Treasury Bills and certain Central Government dated securities in order to ensure proper use.

6. Money Market Instruments

Certificate of Deposits (CDs)

2.36 During the year under review, there was a spurt in the issue of certificates of deposits (CDs) by banks, against the backdrop of the sharp increase in demand for non-food credit. The outstanding amount of CDs raised by commercial banks increased to a level of Rs.16,316 crore (3.8 per cent of aggregate deposits) as on March 29, 1996, which was more than double the amount of Rs.8,017 crore (2.1 per cent of aggregate deposits) issued by commercial banks as on March 31, 1995. The outstanding CDs rose further to Rs.21,331 crore (4.8 per cent of aggregate deposits) during the fortnight ended June 21, 1996 and thereafter, started gradually declining to a level of Rs.11,593 crore (2.5 per cent of aggregate deposits) during the fortnight ended November 8, 1996 (Appendix Table II.9).

2.37 The typical interest rates on CDs for a maturity of 3 months moved sharply to a high range of 18.0 - 19.0 per cent in March 1996 from the range of 12.5 - 13.5 per cent in March 1995. Some moderation in the range was noticed subsequently, with the interest rates varying between 16.0 and 18.0 per cent during the fortnight ended June 21, 1996. A substantial reduction to a range of 11.0 - 12.0 per cent was noticed in the fortnight ended November 8, 1996. Similar trend was observed in respect of CDs for a maturity of one year with interest rate range rising from 12.0 - 14.0 per cent during March 1995 to 18.0 - 19.0 per cent during March 1996, easing thereafter to a range of 16.0 - 18.0 per cent during the fortnight ended June 21, 1996 and further to a range of 13.0 - 14.0 per cent during the fortnight ended November 8, 1996.

Commercial Bills

2.38 The bills rediscounting market was subdued during the year with a low outstanding of Rs.374 crore rediscounted by the scheduled commercial banks with various financial institutions as at the end of March 1996 as against Rs.1,226 crore in the preceding year. Fourteen mutual funds in the private sector approved by the Securities and Exchange

BOX II.2:
CAPITAL STANDARDS FOR DERIVATIVES

The Basle Committee on Banking Supervision (the Basle Committee) published in 1988 standards for capital adequacy, establishing a system in which minimum capital requirements were set for banking firms based on the risk of bank assets. The risk-based capital standards specified in the Basle Accord have been adopted by many countries including India where it came into force since 1992-93. When the standards were prescribed, the Basle Committee acknowledged that the resulting assignments of minimum capital primarily reflected an assessment of credit risk or the risk of loss due to counter-party default. Consideration of other types of risk was left to national regulatory authorities or to future deliberations of the Basle Committee and its subgroups.

Derivatives are financial investments that derive their value from the underlying financial assets. Derivative contracts are used to unbundle the price risks embodied in assets and liabilities. Derivatives do not eliminate risks; they divert risks from investors who are risk averse to those who are risk-neutral. The use of derivative instruments is part of the growing trend among financial intermediaries like banks to substitute off-balance sheet activity for traditional lines of business. The exposure to derivatives by banks have implications not only from the point of capital adequacy, but also from the point of view of establishing trading norms, business rules and settlement process. Trading in derivatives differ from that in equities as most of the derivatives are marked-to-the-market and there is a market risk of loss. The collapse of Barings in February 1995, the huge loss suffered by Daiwa Bank in September 1995 and recent episode of Sumitomo Corporation in copper futures brings to the fore the risks associated with derivative trading and the threat it can pose to the financial system. Most of the episodes of losses in derivative markets have arisen due to lack of transparency and weak internal controls.

In April 1995, Bank for International Settlements co-ordinated the survey 'Central Bank Survey of Derivatives Market Activity' by central banks of twenty-six countries and the summary results are given in table below. As per this survey, the total value of derivatives amounted to 40,714 billion U.S. dollars as at the end of March 1995, of which nearly 32 per cent was on account of foreign exchange transactions, 65 per cent on account of interest rates. The share of equities and commodities was not substantial.

As at the end of March 1995

Product Category	Amount* (Billions of U.S Dollars)	Per Cent to Total
1	2	3
A. Foreign Exchange	**13,091**	**32.1**
1. Foreign exchange forwards and swaps	8,742	21.5
2. Currency Swaps	1,974	4.8
3. Currency Options	2,375	5.8
B. Interest Rates	**26,428**	**64.9**
4. Forward rate agreements	4,597	11.3
5. Interest rate swaps	18,283	44.9
6. Interest rate options	3,548	8.7
C. Equity	**599**	**1.5**
7. Equity forwards and swaps	52	0.1
8. Equity options	547	1.4
D. Commodity	**317**	**0.8**
9. Commodity forwards and swaps	208	0.5
10 Commodity options	109	0.3
E. Others	**279**	**0.7**
Total	***40,714***	***100.0***

* In notional amounts i.e., the reference amount used to calculate the exchange of cash flows between counterparties.

Source: Kambhu, J, Keane, F and Benadon, C (1996), p.3

Some of the risks associated with derivatives can be broadly classified as (i) Credit risk, (ii) Market risk, (iii) Liquidity risk, (iv) Operational risk and (v) Legal risk. Credit risk is the possibility of loss from the counterparty default. Market risk is the possibility that the value of on-or-off-balance sheet positions will change before the positions can be liquidated. Liquidity risks can be classified into two - (a) market liquidity risk and (b) funding risk. Market liquidity risk arises when a trading position cannot be eliminated quickly either by liquidating or by establishing off-setting positions. Funding risk arises from the failure of the counterparty to meet cash requirements of the contracts. Operational risk is the possibility of losses due to inadequate systems and controls, human error or mismanagement. Legal risk is the possibility of losses that arise when a contract cannot be enforced, for example, due to poor documentation.

An important function of derivatives is the efficient allocation of risks in the economy. But the ability of derivative instruments to transform risks can be misused. Reportedly, some people have used derivatives to evade investment guidelines, conceal risks from principals, evade taxes, circumvent regulations etc. The effect of these misuses on the financial stability of the system is substantial as evident from recent episodes of Barings Bank in U.K., Daiwa Bank, Sumitomo Corporation in Japan. It is in this context that the regulatory issues assume much importance. A common viewpoint among bank regulators is that the presence of derivatives creates a potential for systemic risk that could wipe out a large portion of capital of banks.

The regulatory and supervisory response has so far focussed on improving supervisory oversight and on increasing disclosure. In April 1993, the Basle Committee sought comments on a consultative paper describing proposals for incorporating additional types of risks into the original framework. The G30 report (July 1993) on derivatives was the first attempt to set out principles for the management of a derivatives trading operation. In March 1995, the Derivatives Policy Group (DPG), drawn from six US securities firms produced *Framework for Voluntary Oversight*, a code for better disclosure of their over-the-counter (OTC) derivatives activities. In July 1995, a Tripartite Group of banks, securities and regulators recommended setting up of a nine-person joint forum representing the Basle Committee on Banking Supervision, the International Organisation of Securities Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS) to examine different aspects relating to derivatives. But an agreement on the financial regulation of derivatives market has eluded so far.

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Kambhu, J., Keane, F and Benadon, C (1996) 'Price Risk Intermediation in the Over-the-Counter Derivatives Markets: Interpretation of a Global Survey', *Economic Policy Review*, Federal Reserve Bank of New York, **2**, 1-15.

Board of India (SEBI) were allowed to participate in the bills rediscounting market during the year under review. From June 6, 1996 four Primary Dealers were also allowed to participate in the market.

Commercial Paper (CP)

2.39 The declining trend in the commercial paper (CP) market noticed in 1994-95 continued during the year under review, with the outstanding showing a decline of Rs.527 crore to Rs.76 crore as on March 31, 1996 following a substantial decline of Rs.2,661 crore in the preceding year (Appendix Table II.10). Scheduled commercial banks' investment in CPs registered a steep fall from Rs.469 crore as on the last reporting Friday of 1994-95, i.e., March 17, 1995 to only Rs.15 crore as on March 29, 1996. The slack in the CP market is attributable, inter alia, to the deferment of the prospective issues following the high ruling rates and withdrawal of the standby facility by banks from October 1994. The standby facility of banks enabled the issuers of CP to draw down on the cash credit limits in case there was no roll over. Subsequently, however, a revival of the market was discernible with outstanding amount rising to Rs.236 crore as on June 30, 1996.

2.40 Reflecting the tight money market conditions, the typical interest rates on CP went up to a range of 19.1 - 20.2 per cent per annum during the fortnight ended March 31, 1996 from a range of 14.0 - 15.0 per cent per annum in the preceding year. The rates of interest ranged between 16.2 - 20.9 per cent per annum during the fortnight ended June 30, 1996.

2.41 With the introduction of the Loan System in April 1995, the maximum amount for issue of CPs was restricted to 75 per cent of the cash credit component of the maximum permissible bank finance (MPBF). While the maximum limit was raised on April 18, 1996, to 100 per cent for borrowers with MPBF of Rs.20 crore or above, a limit of 75 per cent on the issue of CPs was applied to borrowers with MPBF of Rs.10 crore or above but less than Rs.20 crore. Following a reduction in the cash credit component as announced on October 19, 1996, the CP issue was freed from the cash credit component. The quantum of CP hereafter would be first adjusted from the cash credit component for the purpose of 'pro tanto' reduction in the working capital limit of the issuing company. If the quantum is in excess of the cash credit component, it would be adjusted from the loan component. By this measure, the Reserve Bank has effectively removed the constraining factor in the CP issue by the corporate sector.

Money Market Mutual Funds (MMMFs)

2.42 In order to provide greater liquidity and depth to the money market as also to make the scheme more flexible and attractive to banks and financial institutions, the norms for setting up the Money Market Mutual Funds (MMMFs) were relaxed in December 1995. As per the relaxed norms, private sector mutual funds were allowed to set up MMMFs with the prior approval of the Reserve Bank and SEBI. Besides, the ceiling on the size of MMMFs as also the minimum size of Rs. 50 crore have been removed. Moreover, the prescription of maximum and minimum limits on investments in individual instruments by MMMFs has been withdrawn and MMMFs are free to determine the extent of their investments in each instrument. On prudential grounds, however, the exposure limit to commercial paper issued by an individual company would continue to be three per cent of the resources mobilised by the MMMFs. Furthermore, the restriction that the units of MMMFs can be issued only to individuals has been withdrawn in April 1996, making them available to corporates and others on par with all other mutual funds. Finally, a reduction of the minimum lock-in period from 46 days to 30 days has been effected in July 1996. Responding to these initiatives some institutions have approached the Reserve Bank for permission to set up MMMFs. UTI, IDBI Mutual Fund, ABN Amro Bank and Bank of Madura Ltd, have been given clearance to set up MMMFs.

7. Government Securities Market

2.43 With the gradual reduction of the Statutory Liquidity Ratio (SLR) from a peak of 37.4 per cent in March 1992 to 28 per cent in March 1996, the move towards market related rates of interest on Government securities has been facilitated. The process received a major impetus with the announcement of a comprehensive system of Primary Dealers (PDs)[5] in March 1995 and Satellite Dealers in December 1996. PDs would provide the much needed institutional structure for secondary market operations in Government securities. In order to provide liquidity to PDs, the Reserve Bank has put in place a number of measures including attractive rates of commissions and access to commercial paper market.

2.44 With a view to providing incentives to PDs to develop the secondary market and investor base in Government securities, effective July 10, 1996, the Reserve Bank introduced a system of commission for the PDs on purchases (including underwriting commitment) of Government securities in the primary market. The rate of commission per Rs.100 face value was prescribed to be 12.5 paise, 50 paise and Re.1 for 91 day Treasury Bills, 364 day Treasury Bills and Government of India dated securities, respectively. The Reserve Bank also effected reduction by one percentage point in interest rate on liquidity support in the form of repos transactions to the PDs. Effective December 19, 1996, interest rate on liquidity support was further reduced by two percentage points to 10.5 per cent for Treasury Bills and 11.0 per cent for Government of India dated securities.

Primary Dealers' Access to CP Market

2.45 In an effort to develop the secondary debt market, the Reserve Bank of India has permitted the Primary Dealers, effective September 6, 1996, to raise funds by issuing commercial papers (CPs). The guidelines for issue of CPs by Primary Dealers are :

i) CPs can be issued for a maturity from three months to one year.

ii) CPs should fulfil a certain minimum credit rating requirement : P2 by Crisil, A2 by ICRA, PR2 by CARE, and D2 by Duff and Phelps.

iii) Every CP issue has to be a fresh one, i.e., Primary Dealers cannot roll-over their issues.

iv) No grace period is allowed for repayment of the CP.

v) The CP can be issued in parts or in one tranche. In case the CP being divided into parts, all the segments must have the same maturity date.

The Primary Dealers can now access greater volume of funds and thus increase their level of activities in the Government securities markets.

Satellite Dealers (SDs)

2.46 In order to further strengthen the Government securities market with enhanced liquidity, turnover as also a retail outlet, leading to a wider investor base, the Reserve Bank announced detailed guidelines for registration of Satellite Dealers (SDs) in December 1996.

5. During 1995-96 six PDs have been given approval. They are DFHI, STCI, SBI Gilts, PNB Gilts, Gilts Securities Corporation (set up by Canara Bank and other banks) and ICICI Securities & Finance Co. DFHI and STCI commenced operations since March 1, 1996, while the remaining four became operational with effect from June 1, 1996.

Subsidiaries of scheduled commercial banks or all India financial institutions or companies incorporated under the Companies Act, 1956, predominantly dedicated to the securities business and in particular to the Government securities market as also having net owned funds of a minimum of Rs.5 crore would be eligible to apply for registration as an SD. Once registered, it would be effective for three years. The Reserve Bank would extend to SDs facilities like current account and Subsidiary General Ledger (SGL) account, permission to borrow and lend in the money market including the call money market subject to certain terms and conditions. SDs would be subject to the Bank's regulations. Registered SDs would be required to become members of Self Regulatory Organisation (SRO) when set up by the Primary Dealers in Government securities and would abide by such code of conduct and system.

2.47 The SD would be required to have a standing arrangement with the Reserve Bank based on the execution of an undertaking, covering, *inter-alia*, commitments a) to generate outright turnover of Central Government securities including Treasury Bills of not less than Rs.30 crore in a year, b) to achieve an annual turnover of not less than five times in Government securities including Treasury Bills, c) to achieve a portfolio of not less than 20 per cent in Government securities in relation to total assets before the end of the first year of operations, and d) to maintain a minimum capital standard based on risk weighted assets.

Dedicated Gilt Fund

2.48 With a view to broad-basing the Government securities market, the Reserve Bank announced in April 1996 a scheme of liquidity support to mutual funds dedicated exclusively to investments in Government securities. As per the detailed guidelines issued on April 20, 1996, all the dedicated gilt fund schemes in the public or the private sector would be eligible for liquidity support in the form of outright purchase or reverse repos by the Bank subject to a maximum cash limit of 20 per cent of the outstanding value of investments in Government securities. Besides, they would have access to the Subsidiary General Ledger (SGL) account and current account facilities with the Bank.

Retailing of Government Securities

2.49 In order to broad-base and deepen the secondary market in Government securities, banks have been allowed from June 8, 1996, to undertake retailing of Government securities with non-bank clients through their large network of branches subject to the conditions as under :

i) Repurchase of securities sold should not be undertaken before the expiry of 46 days since revised to 30 days from July 25, 1996.

ii) Retailing of Government securities should be on the basis of ongoing market rates/yield curve emerging out of secondary market transactions.

iii) No sale of Government securities should be effected unless the securities are held in the banks' portfolio either in the form of physical scrips or in the SGL Account maintained with the Reserve Bank.

iv) The amount should be immediately deducted on sale from the concerned bank's investment account as also its SLR assets.

v) Adequate internal control checks/ mechanism should be put in place.

vi) Such transactions should be subjected to concurrent audit as also the respective bank's statutory audit.

Government Securities Refinance

2.50 The base date for determining the refinance limits to commercial banks against Government securities was brought forward from the end of 1991-92 to the end of 1994-95 (April-March), effective September 30, 1995. The limit of refinance for each bank was also raised from 0.5 per cent to 1.0 per cent of aggregate deposits. The refinance limit was equally divided into 0.5 per cent each under two separate limits against Treasury Bills and Government dated securities respectively, at interest rates of 12.5 per cent and 14.0 per cent per annum. As a result, the aggregate limit for all scheduled commercial banks under the Government Securities Refinance facility recorded a more than two-fold increase to Rs.3,385 crore at end-March 1996 from Rs.1,028 crore at end-March 1995 (Appendix Table II.2). The fortnightly average utilisation of the refinance limit varied between Rs.411 crore (12.1 per cent of limit) and Rs.2,228 crore (65.8 per cent of limit) during this period. The refinance facility was withdrawn effective July 6, 1996 following the emergence of a system of Primary Dealers in Government securities and reduction in cash reserve ratio.

8. Rural Credit

2.51 In recent years, concerns have been expressed at the inadequacy of institutional credit to rural sector especially to the agricultural sector, in view of the felt need to bring about rapid and sustained rural development. Strengthening the multi-agency rural credit system for this purpose has become imperative. During 1995-96, the Reserve Bank enhanced its General Line of Credit (I and II) for NABARD by Rs.300 crore to Rs.5,250 crore and further to Rs.5,500 crore in 1996-97. The share capital of NABARD was also raised during 1995-96 by Rs.170 crore to Rs.500 crore with equal contributions from the Reserve Bank and the Government of India. As part of a plan to quadruple the share capital of NABARD from the existing level of Rs.500 crore to Rs.2,000 crore in the next five years, the Union Budget for 1996-97 proposed to double the share capital of NABARD to Rs.1,000 crore in 1996-97 with a contribution of Rs.400 crore from the Reserve Bank and Rs.100 crore from the Government. In order to ensure that NABARD would adhere to the same financial discipline as banks and other term lending institutions, the prudential accounting standards as also the capital adequacy requirement of eight per cent were extended to NABARD in March 1996 for implementation in phases.

2.52 Public sector banks were advised to continue with the special agricultural credit plan for the year 1995-96 and further for 1996-97. As at the end of December 1995, disbursement under the plan touched a level of Rs.10,172.50 crore as against the projection of Rs.12,121.19 crore. To deal with high-tech agricultural financing in a more effective manner, the conveners of State Level Bankers' Committees (SLBCs) were required to draw a suitable plan for opening at least one specialised agricultural finance branch in their respective State. By the end of June 1996, commercial banks have opened 69 such branches. Besides, the Union Budget for 1996-97 has proposed that State-level agricultural development finance institutions, with NABARD as the chief promoter, would be set up to promote investment in commercial/high-tech agriculture and allied activities.

2.53 The limit of Rs.25,000 on advances by commercial banks against pledge/ hypothecation of agricultural produce for a period of six months, which form part of agricultural advances, has been raised to Rs.one lakh. In cases of small agricultural loans for crop, and term loans (for creation of movable assets upto Rs.25,000), the requirement of collateral was removed. As proposed in the Union Budget for 1995-96, a consortium of 20 public sector banks provided a sum of Rs.325 crore as at end-June 1996 to the Khadi and Village Industries Commission (KVIC) for lending to viable khadi and village industrial units. With the extension of NABARD's refinance facility to commercial banks, the latter were advised to provide working capital finance to the Primary Weavers' Co-operative Societies.

2.54 As indicated in the previous year's Report, during 1994-95 the Government of India had provided a sum of Rs.150 crore for comprehensive restructuring of 49 Regional Rural Banks (RRBs) as identified by the Bhandari Committee. During 1995-96, an amount of Rs.223.57 crore was released for this purpose. The Expert Group (Chairman: Dr.N.K. Thingalaya) has, since its constitution in July 1995, started monitoring the progress of restructuring, and suggesting supplementary policy measures on an on-going basis. Sixty-eight more RRBs have been identified for restructuring under phase II by a NABARD Committee (Chairman : Shri K. Basu) in addition to two RRBs identified by the Government of India for the purpose. The Union Budget for 1996-97 has made a further provision of Rs.200 crore for such restructuring. The restructuring process was sought to be made durable by extending to the RRBs prudential norms of income recognition and asset classification from 1995-96 and of provisioning from 1996-97. With a view to widening the investment options by RRBs, the recommendations of the Working Group (Chairman : Shri K.K. Misra) on funds management in RRBs are under active consideration. In order to broadbase their range of activities, RRBs have since been allowed to extend housing loans subject to certain conditions.

2.55 With a view to rendering the cooperative credit structure viable and effective in meeting the rural credit requirements, NABARD has been entering into time-bound memoranda of understanding (MoUs) with cooperative banks and State Governments on the basis of State specific Development Action Plans (DAPs) prepared by co-operative banks in respective States. As at the end of June 1996, such MoUs have been signed with all the 28 State Cooperative Banks (SCBs), all the 20 State Land Development Banks (SLDBs) and 361 out of 363 District Central Cooperative Banks (DCCBs). The prudential accounting norms of income recognition, asset classification and provisioning have also been extended to the State Co-operative Banks/Central Co-operative Banks from the accounting year 1996-97.

2.56 In order that rural savings are channelised into investments in local areas by local institutions, the Reserve Bank has issued guidelines in August 1996 for setting up of new private local area banks with jurisdiction over two or three contiguous districts. This scheme has been drawn following the announcement of the establishment of such banks in the Union Budget for 1996-97.

Rural Infrastructure Development Fund

2.57 As discussed in the previous year's Report, the Rural Infrastructure Development Fund (RIDF) was constituted in NABARD in 1995, out of the contributions by banks having shortfall in meeting their priority sector sub-target for agriculture. As at the end of June 1996, NABARD has sanctioned from RIDF an amount of Rs.1,991 crore to 21 State Governments. Besides, the Union Budget for 1996-97 has proposed to make available an additional amount of Rs.2,500 crore for financing rural infrastructure through RIDF.

Priority Sector Advances by Public Sector Banks

2.58 The overall priority sector credit target of 40 per cent of net bank credit and sub-targets in respect of priority sector lending remained unchanged for the Indian scheduled commercial banks.

2.59 Public sector banks increased their advances to priority sectors by Rs.7,815 crore (12.6 per cent) to Rs.69,609 crore at the end of March 1996. Relative to net bank credit, these advances showed an improvement from 36.6 per cent as at the end of March 1995 to 37.8 per cent as at the end of March 1996 but fell short of the target of 40 per cent. Agricultural advances by these banks showed an increase of Rs.2,838 crore (12.1 per cent) to Rs.26,351 crore during 1995-96 and formed 14.3 per cent of net bank credit as at the end-March 1996 against the target of 18.0 per cent. Direct lending to agriculture increased by Rs.2,080 crore (10.0 per cent) to Rs.22,892 crore by end-March 1996 and amounted to 12.4 per cent of net bank credit. Credit to SSI units as a proportion of net bank credit formed 16.0 per cent as at end-March 1996 as against 15.3 per cent a year ago (Appendix Table II.11).

Priority Sector Advances by Indian Private Sector Banks

2.60 The priority sector advances of Indian private sector banks amounted to Rs.6,198 crore as at the end of March 1996 accounting for 32.5 per cent of their net bank credit, up from Rs.4,064 crore or 30 per cent of net bank credit in March 1995. Direct credit to agriculture, as proportion of net bank credit, decreased to 4.8 per cent in March 1996 from 5.3 per cent in March 1995. Advances to SSI units as a proportion of net bank credit amounted to 18.2 per cent as compared with 15.8 per cent in the previous year (Appendix Table II.12).

Priority Sector Advances by Foreign Banks

2.61 The existing overall target of priority sector lending in respect of foreign banks remained unchanged at 32 per cent of net bank credit with a sub-target of 10 per cent in respect of advances for small scale industries. The sub-target for export credit has, however, been raised from 10 per cent to 12 per cent of net bank credit for the year ending March 1997. In case of any shortfall in priority sector lending from the targets and sub-targets, the policy of requiring them to place deposits equivalent to the shortfall with the Small Industries Development Bank of India (SIDBI) (at an interest rate of 8 per cent per annum) was also maintained. Foreign banks operating in India improved their lending to the priority sector significantly from Rs.4,058 crore as on the last Friday of March 1995 to Rs.5,417 crore as on the last Friday of March 1996. As a share of net bank credit, it improved from 38.5 per cent to 39 per cent during the same period.

Recovery of Direct Agricultural Advances

2.62 The recovery performance of public sector banks in respect of direct advances to agriculture showed consistent progress over the years (Table II.3). The recovery as a percentage to demand improved from 55.9 per cent as at the end of June 1993 to 57.6 per cent as at the end of June 1994 and further to 59.6 per cent as at the end of June 1995.

Table II.3 : Recovery of Direct Agricultural Advances

(Rs.crore)

Year ended June	Total Demand	Recovery	Recovery as percentage of demand
1	2	3	4
1993	10,217	5,709	55.9
1994	10,972	6,320	57.6
1995*	11,965	7,126	59.6

* Provisional

9. Advances to Weaker Sections and Special Assistance Programmes

2.63 Advances to weaker sections by the public sector banks increased from Rs.13,918 crore as on the last Friday of March 1995 to Rs. 15,579 crore as on the last Friday of March

1996. As a proportion of net bank credit, it improved from 8.2 per cent to 8.5 per cent during the aforesaid period.

2.64 The public sector banks' advances to SC/STs increased from Rs.5,428 crore as at the end of March 1995 to Rs.5,809 crore at the end of March 1996.

2.65 As at the end of March 1996, public sector banks' advances to the minority communities in 41 identified districts amounted to Rs.1,313 crore in 12.71 lakh borrowal accounts as against Rs.1,130 crore in 12.61 lakh borrowal accounts as at the end of March 1995.

2.66 The Scheme of Preparing Ex-Servicemen for Self-Employment (PEXSEM) which was introduced in 1984 was operative in 42 districts of 11 States during 1995-96.

2.67 The Debt Relief Scheme (DRS) for November 1984 Riot-Affected Borrowers authorises the banks to write off all those loans together with their interest outstanding in respect of riot victims whose loan amounts, including all banks, are Rs.25,000 and less. In respect of borrowers whose loan amounts exceed Rs.25,000, an interest subsidy scheme is in force. Under this scheme, the Reserve Bank received claims amounting to Rs.28.99 crore from the banks as at end-March 1995. Out of the Government's contribution of Rs.15 crore, the Reserve Bank has released a sum of Rs.14.76 crore to banks towards the settlement of these claims.

Differential Rate of Interest Scheme (DRI)

2.68 The DRI Scheme was introduced in 1972 to enable credit flows by banks at concessional interest rate of 4 per cent per annum to specified categories of borrowers. Under the Scheme, the public sector banks extended Rs.702.22 crore at end-June 1996 (Rs.681.32 crore at end-June 1995). The DRI advances at end-June 1996 accounted for 0.42 per cent of the total advances outstanding as against the target of one per cent. To ensure that weaker sections in rural areas derive maximum benefit, banks were advised that at least two thirds of their advances under the Scheme be lent by rural and semi-urban branches. Of the total advances under the Scheme, credit to the SC/ST beneficiaries amounted to Rs.438.37 crore in 10.07 lakh borrowal accounts which formed 62.43 per cent of the total DRI advances, well exceeding the 40 per cent target as at the end of June 1996.

Integrated Rural Development Programme (IRDP)

2.69 During 1995-96 (April-March), commercial banks assisted 20.90 lakh beneficiaries of which 13.83 lakh beneficiaries belonged to SC/ST communities and 6.98 lakh were women. During the financial year 1995-96, a sum of Rs.1,703 crore was disbursed as loans, while Rs.1,079 crore was distributed as subsidy to the beneficiaries (Table II.4).

Table II.4 : Advances under Integrated Rural Development Programme (IRDP)

Year	No.of beneficiaries *(lakhs)*	Total Credit *(Rs. crore)*
1	2	3
1992-93	20.69	1,037
1993-94	25.39	1,408
1994-95	22.15	1,450
1995-96	20.90	1,703*

* Provisional.

2.70 The recovery performance of public sector banks in respect of IRDP loans improved marginally from 29.3 per cent as at the end of

March 1995 to 30.5 per cent as at the end of March 1996 (Table II.5).

Table II.5 : Recovery of IRDP Loans

(Amount in Rs.crore)

Year ended	Demand	Recovery	Recovery as percentage of demand
1	2	3	4
June 1993	1,657.0	502.6	30.3
June 1994	1,729.0	497.3	28.8
March 1995	2,135.0	625.0	29.3
March 1996*	1,741.6	531.1	30.5

* Provisional

Scheme of Urban Micro-Enterprises (SUME)

2.71 The financial assistance extended by public sector banks under SUME for the past four years is given in Table II.6.

Table II.6 : Loans under SUME

Year (July-June)	No.of Accounts	Loans (Rs.lakh)	
		Sanctioned	Disbursed
1	2	3	4
1992-93	1,60,506	10,246	7,932
1993-94	1,82,878	12,892	10,375
1994-95	1,45,972	11,136	8,626
1995-96	1,26,411	10,482	7,859

Twenty Point Programme - 1986

2.72 Under the Twenty Point Programme of 1986, public sector banks extended a total credit of Rs.16,922.79 crore in 276.11 lakh borrowal accounts as at the end of June 1996 as compared with Rs.15,975 crore in 270.97 lakh borrowal accounts at the end of June 1995.

Lead Bank Scheme

2.73 The lead bank scheme was introduced in 1970, with the objective of promoting banks' role in the overall development of all the districts in the country; districts were distributed among various banks, designated as lead bank for the district concerned. The function of the lead bank is to co-ordinate the efforts of all other banks, financial institutions and other developmental agencies at various levels for the overall development of the concerned district. During 1995-96, with the addition of 13 new districts, the Lead Bank Scheme covered 512 districts at end-March 1996. It has since been decided that weak banks will not be assigned any fresh lead responsibility.

Service Area Approach (SAA)

2.74 The SAA was introduced in 1989 to improve the quality of delivery system in rural lending. Further to those measures reported in the previous year's Report, the Reserve Bank is endeavouring to make the reporting system more effective and useful under Service Area Monitoring and Information System (SAMIS) by persuading the banks to regularly submit the Lead Bank Returns (LBR). A provision has also been made in the return to furnish details on the advances to women beneficiaries. Besides, the designated branches of commercial banks would continue to extend financial assistance to beneficiaries under the IRDP and priority sector lending till end-March 1997 wherever RRBs would be unable to meet their obligation of credit disbursals.

2.75 Under the SAA, annual credit plans are prepared by concerned commercial banks. The sector-wise targets at all-India level vis-a-vis achievements for the years 1994-95 and 1995-96 are set out in Table II.7. During 1995-96 (April- September), the achievement of overall annual credit accounted for 49.3 per cent of the target as against an achievement of 106.0 per cent during the previous year as a whole. The achievement in respect of agriculture accounted for 52.8 per cent during April-September 1995 as against 102.5 per cent during the entire year 1994-95, while in respect of SSI, the achievement accounted for about 44.8 per cent as against 114.1 per cent in the previous full year.

Prime Minister's Rozgar Yojana for Educated Unemployed Youth (PMRY)

2.76 The PMRY scheme which was introduced in 1993 aims at providing sustained self-employment in micro-enterprises to both rural and urban unemployed youth who are resident in the area for more than three years, with family income not exceeding Rs.24,000 per annum. The erstwhile Self-Employment Scheme for Educated Unemployed Youth (SEEUY) was subsumed in this scheme in April 1994. During 1995-96, commercial banks sanctioned Rs.1,648.34 crore to 2.84 lakh applicants and disbursed Rs.1,012.75 crore in 1.91 lakh borrowal accounts under the scheme (Table II.8).

Table II.7 : Annual Credit Plans

(Rs.crore)

Sector	1994-95 (April-March)		1995-96 (April-March)	
	Target	Achievement	Target	Achievement*
1	2	3	4	5
1. Agriculture and allied activities	16,468.5	16,884.7 (102.5)	19,905.7	10,501.2 (52.8)
2. SSI	4,914.1	5,605.0 (114.1)	6,088.6	2,726.1 (44.8)
3. Services	3,672.5	4,080.9 (111.1)	5,336.4	2,216.3 (41.5)
Total	25,055.1	26,570.7 (106.0)	31,330.7	15,443.6 (49.3)

* Data relate to April-September 1995.
Note : Figures in brackets represent percentages of achievement to target.

Table II.8 : Financial Assistance under PMRY

(Amount in Rs.crore)

Year	Target	Sanction		Disbursements	
		No.	Amount	No.	Amount
1	2	3	4	5	6
1993-94	42,040	29,601	183.26	18,859	110.61
1994-95	2,39,215	1,82,592	1,025.72	1,12,724	594.57
1995-96*	3,21,360	2,83,593	1,648.34	1,91,081	1,012.75

* Provisional

Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP)

2.77 The PMIUPEP scheme introduced in January 1996, has two components namely (a) Self-Employment Scheme (SES) and (b) Shelter Upgradation Scheme (SUS). The scheme envisaged to address the poverty in targeted urban areas in an integrated manner was being implemented in over 400 urban agglomerations. The urban poor including slums/pavement dwellers and street/destitute children etc., whose household income is below Rs.11,850 per annum would be eligible for assistance under the scheme. Under the SES, projects upto Rs. one lakh would be financed with a subsidy at 15 per cent of the project cost, subject to a ceiling of Rs.7,500. Five per cent of the project cost would be the margin money to be brought in by the borrower and the balance 95 per cent would be provided as loan. The loan repayments would be in instalments spread over 3 to 7 years after an initial moratorium of 6 to 18 months. Under SUS, 75 per cent of the unit/renovation/ repairs cost, subject to a ceiling of Rs.10,000 per household, would be financed and the remaining 25 per cent, subject to a ceiling of Rs.2,500, would constitute the subsidy. The repayment would be spread over 10 years. While no collateral is required under SES, appropriate guarantees are required under the SUS.

Scheme for Financing Primary Weavers' Co-operative Societies

2.78 In order to augment the flow of credit to the weavers employed in the handloom sector, commercial banks were advised to provide working capital requirements to the primary weavers' co-operative societies at an interest rate of 12.0 per cent per annum. The commercial banks, in turn, would receive a line of credit from NABARD at an interest rate of 9.5 per cent per annum. The advances extended by commercial banks to the handloom weavers' co-operative societies would be reckoned as indirect credit to SSI and form part of priority sector advances.

10. Regional Dispersal of Credit

2.79 The all-India credit-deposit (CD) ratio of scheduled commercial banks, as per sanction registered an improvement to 61.9 per cent as on the last Friday of March 1996 from 59.2 per cent a year ago (Appendix Table II.13). This reflected the continued surge in bank credit for the second year in succession coupled with sluggish deposit growth. While the Southern, Western and Central Regions posted improvement in their CD ratios, the rest more or less maintained their position during the period. Among all the regions, Southern region attained the highest CD ratio of 76.6 per cent, followed by Western region (69.4 per cent). The North-Eastern region recorded a low ratio of 34.5 per cent during the period. The CD ratio increased sharply for the States of Tamil Nadu, Andhra Pradesh, Gujarat and Maharashtra during 1995-96.

2.80 The CD ratio as per utilisation since allows for the inter-State migration of credit provides a better indicator of the regional dispersal of credit. As per the latest available information, the all-India CD ratio (utilisation) stood at 54.3 per cent in March 1994 as against 58.9 per cent in the preceding year (Appendix Table II.13). The CD ratios (utilisation), region-wise and State-wise, indicated a general decline during 1993-94, in commensurate with the lower expansion in non-food credit during the same period. The CD ratio as per utilisation was observed to be higher than as per sanction in North-Eastern, Central and Southern regions in March 1994.

2.81 The investment plus credit to deposits (ICD) ratio is yet another indicator of regional deployment of bank funds. The all-India ICD ratio declined to 64.9 per cent in March 1994 from 70.1 per cent a year ago (Appendix Table

II.13). The region-wise distribution indicated a high ICD ratio (utilisation) of 80.2 per cent in Southern region, followed by North-Eastern region (74.8 per cent), and a low ratio of 58.4 per cent in Western region.

11. Regional Spread of Banking

2.82 On expiry of the Branch Expansion Programme, 1990-95 on March 31, 1995, no fresh branch expansion programme was drawn up. Banks have already been granted freedom to open new branches provided they meet certain stipulations, as indicated in the previous year's Report. Banks are however required to obtain approval of the plan of opening branches by their respective Boards of Directors. In the context of the current branch licensing policy, Bank's Task Forces for expeditious implementation of the Branch Expansion Programme would be wound up.

2.83 Commercial banks were advised to set up at least one specialised agriculture finance branch in each State where they act as the convenor of the State Level Banker's Committee, for adequately financing the high-tech agricultural activities. By the end of June 1996, 897 specialised branches (with 69 for agricultural finance) were opened as against 729 (65 for agricultural finance) at end-June 1995 (Table II.9).

2.84 During 1995-96 (July-June), banks were allowed to open branches at 44 rural, 176 semi-urban, 259 urban and 184 metropolitan centres.

2.85 The number of commercial bank branches (including RRBs) went up from 62,531 as on the last Friday of June 1995 to 63,092 as on the last Friday of June 1996, of which 52.4 per cent and 21.4 per cent were in rural and semi-urban areas, respectively (Appendix Table II.14 and Chart II.7). The nationalised banks accounted for the largest number of branches with a share of 49 per cent, followed by RRBs with 23 per cent, and State Bank of India with 14 per cent of the total number of branches. Rural branches accounted for 47 per cent of the total number of branches of the State Bank of India.

2.86 The average population per bank branch which declined considerably over two decades from 64,000 in 1969 has since

Table II.9 : Number of Specialised Branches (As at end-June)

Specialisation Category	Public Sector Banks		Private Sector Banks		Total	
	1995	1996	1995	1996	1995	1996
1	2	3	4	5	6	7
Industrial Finance Branch	85	96	10	12	95	108
Agricultural Finance Branch	64	68	1	1	65	69
S.S.I.Branch	164	292	17	6	181	298
Capital Market Services Branch	15	17	-	-	15	17
Corporate Finance Branch	5	10	-	-	5	10
Overseas Branch	87	115	7	12	94	127
N.R.I.Branch	49	65	15	23	64	88
Asset Recovery Management Branch	-	33	-	-	-	33
Others	207	146	3	1	210	147
Total	**676**	**842**	**53**	**55**	**729**	**897**

CHART II.7:
Number of Branches of Commercial Banks

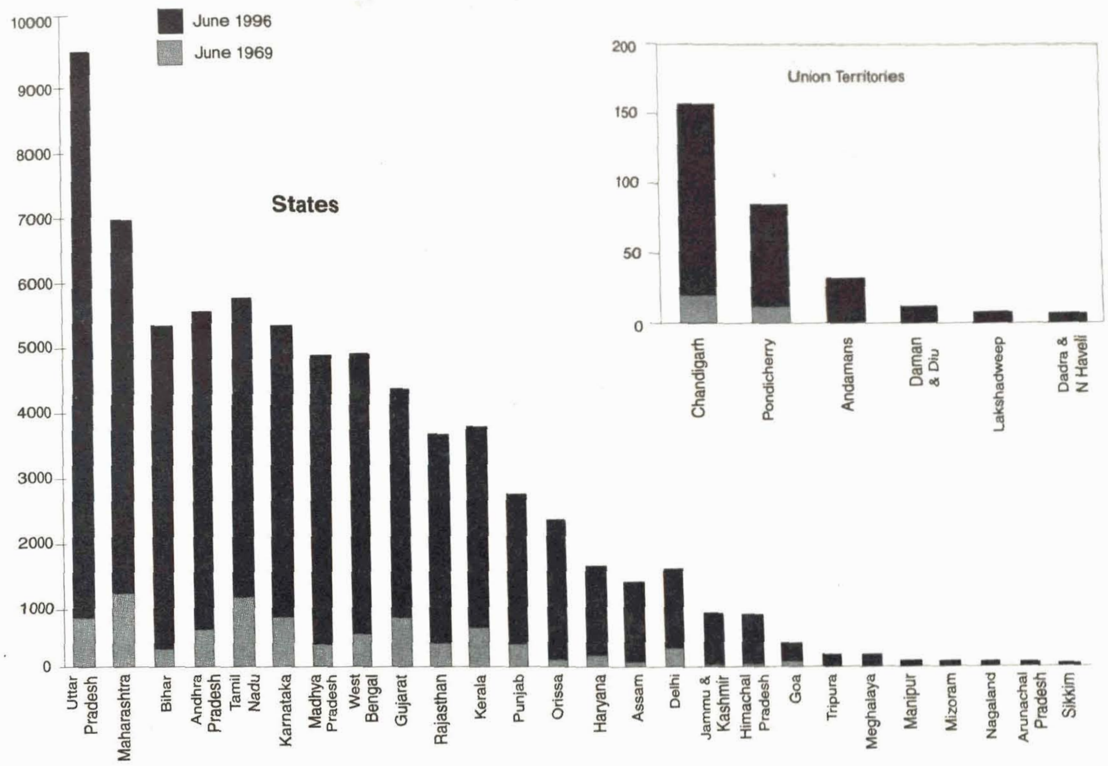
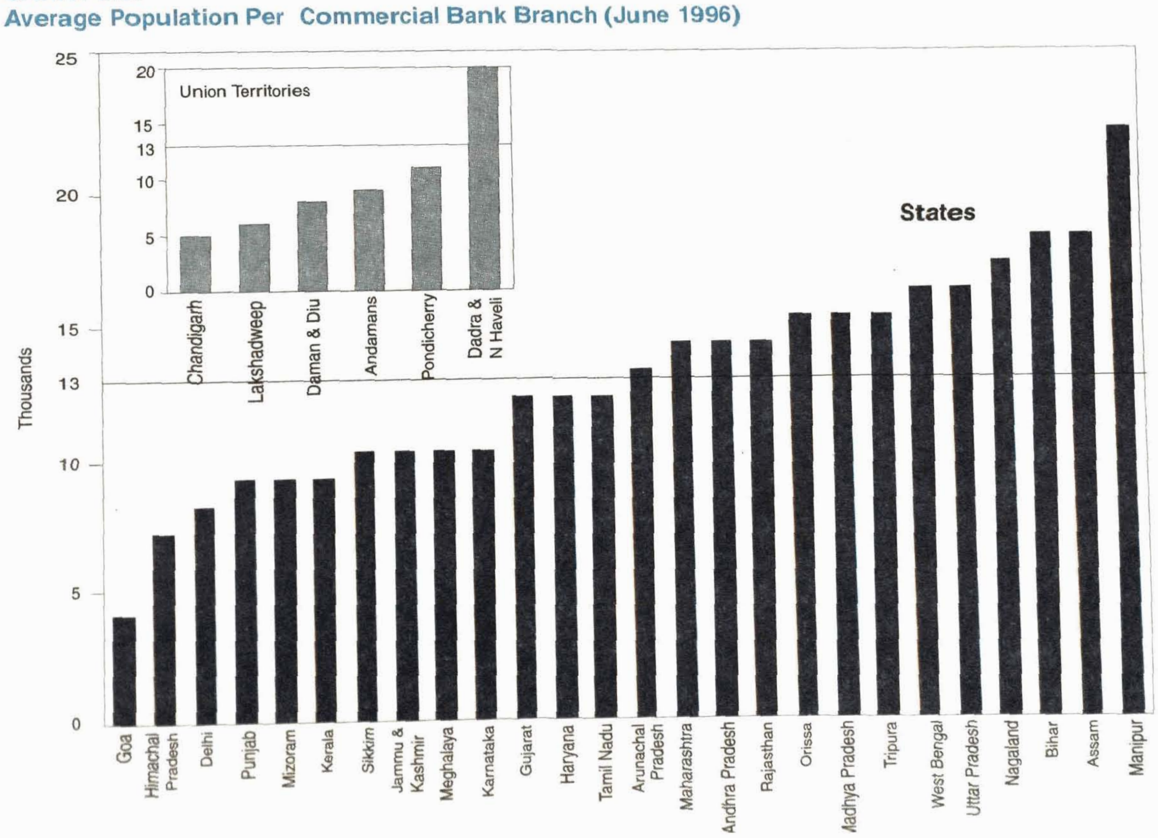


CHART II.8:
Average Population Per Commercial Bank Branch (June 1996)



remained stable at around 14,000 (as per estimated mid-year population of 1991) with 13,000 in June 1996 in view of the recent accent on consolidation of the branch network (Appendix Table II.15 and Chart II.8). The lowest per branch population of 11,000 was observed in the Northern Region while the highest at 17,000 was recorded in the North-Eastern Region. Among the States and Union Territories, Manipur continues to have the highest population per branch figure of 22,000 as against the lowest figure of 4,000 for Goa.

12. Regional Rural Banks (RRBs)

Progress of RRBs

2.87 During the year 1995-96, the total number of districts covered by 196 RRBs increased to 427 from 425 in the preceding year on account of bifurcation of districts. At the end of March 1996, these 196 RRBs had 14,497 branches (Appendix Table II.16).

2.88 During 1995-96, aggregate deposits of RRBs increased by Rs.2,521.6 crore (23.3 per cent) as compared with the rise of Rs.2,802.9 crore (34.8 per cent) in 1994-95. Unlike scheduled commercial banks, credit expansion of RRBs was moderate; bank credit of RRBs increased by Rs.1,088.1 crore (17.6 per cent) in 1995-96 as against an increase of Rs.1,177 crore (23.4 per cent) in the previous year. There was thus a decline in credit-deposit ratio over the year, from 57 per cent as at the end of March 1995 to 55 per cent as at the end of March 1996. The purpose-wise break-up of advances outstanding is set out in Table II.10.

Table II.10 Purpose-wise Advances of RRBs
(As at the end of March 1996)

(Rs. crore)

	Purpose	Amount
	1	2
1.	Short term (crop loan)	1,330
2.	Term loan for agriculture	1,239
3.	Allied activities	926
4.	Rural artisans, village and cottage industries	589
5.	Retail trade and self-employed etc.	1,839
6.	Consumption loans	258
7.	Other purposes	1,330
8.	Indirect advances	35
	Total	7,546

Note : Data may not tally with figures in Table II. 11 due to differences in reporting day.
Source : NABARD.

2.89 During the first quarter (April-June) of 1996-97, deposit growth of RRBs was subdued - an increase of Rs.465.5 crore (or 3.5 per cent) as compared with a fall of Rs.170.3 crore (or -1.6 per cent) in the corresponding period of the previous year. Credit by RRBs marginally increased by Rs.30.9 crore (0.4 per cent) as against an increase of Rs.0.5 crore (0.01 per cent) a year ago (Table II.11).

Lending rates

2.90 In the context of the need for ensuring viability of RRBs by providing greater manoeuvrability and ensuring the flow of adequate and sustainable credit to the rural sector, effective August 26, 1996, RRBs were freed to determine their own lending rates.

Borrowings

2.91 Borrowings of RRBs from sponsor banks, NABARD, IDBI, SIDBI and other institutions aggregated Rs.2,600 crore as at the end of March 1996, of which Rs.2,067 crore (79.5 per cent) was from NABARD. The proportion of borrowings by RRBs to total outstanding advances was 34.5 per cent.

Overdues of RRBs

2.92 There was considerable improvement in the recovery management of RRBs as reflected in the reduction of overdues as

Table II.11 : Selected Indicators in respect of RRBs

(Amount in Rs.crore)

	March 18 1994	March 31 1995	March 29 1996	June 23 1995	June 21 1996	Variations 1994-95 (April-March)	1995-96 (April-March)	1995 (April-June)	1996 (April-June)
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
1. Aggregate Deposits	**8,045.11**	**10,847.97**	**13,369.61**	**10,677.63**	**13,835.10**	**2,802.86 (34.84)**	**2,521.64 (23.25)**	**-170.34 (-1.57)**	**465.49 (3.48)**
a. Demand	1,394.20	2,115.38	2,474.93	1,943.81	2,357.39	721.18 (51.73)	359.55 (17.00)	-171.57 (-8.11)	-117.54 (-4.75)
b. Time	6,650.91	8,732.59	10,894.68	8,733.82	11,477.72	2,081.68 (31.30)	2,162.09 (24.76)	1.23 (0.01)	583.04 (5.35)
2. Bank Credit	**5,024.23**	**6,201.26**	**7,289.32**	**6,201.75**	**7,320.24**	**1,177.03 (23.43)**	**1,088.06 (17.55)**	**0.49 (0.01)**	**30.92 (0.42)**
3. Borrowings	**3.22**	**0.72**	**2.11**	**2.54**	**1.24**	**-2.5 (-77.64)**	**1.39 (193.06)**	**1.82 (252.78)**	**-0.87 (-41.23)**
4. Investments	**91.31**	**833.74**	**1,825.65**	**896.71**	**1,987.40**	**742.43 (813.09)**	**991.91 (118.97)**	**62.97 (7.55)**	**161.75 (8.86)**
a. Government Securities	39.15	459.02	842.17	515.36	616.89	419.87 (1,072.46)	383.15 (83.47)	56.34 (12.27)	-225.28 (-26.75)
b. Other Approved Securities	52.15	374.72	983.48	381.35	1,370.51	322.57 (618.54)	608.76 (162.46)	6.63 (1.77)	387.03 (39.35)
5. Investment-Deposit Ratio	1.13	7.69	13.66	8.40	14.36				
6. Credit-Deposit Ratio	62.45	57.17	54.52	58.08	52.91				

Note : Figures in brackets are percentage variations.

percentage of outstanding advances from 28.5 per cent as at the end of March 1995 to 25.6 per cent in March 1996.

Refinance from Sponsor Banks

2.93 The amount of refinance availed of by RRBs from their respective sponsor banks stood at Rs.439 crore as at the end of March 1996 *vis-a-vis* Rs.361 crore a year ago.

Refinance from NABARD

2.94 During the year 1995-96 (July-June), NABARD sanctioned total credit limits of Rs.830 crore for short-term purposes. Short-term credit limits for seasonal agricultural operations (SAO) aggregating Rs.665 crore were sanctioned to 149 RRBs, whereas other short-term credit limits aggregating Rs.165 crore were sanctioned to 89 RRBs. The outstandings under SAO and other short-term limits stood at Rs.755 crore as at the end of June 1996. The above sanction included SAO credit limits aggregating Rs.62.80 crore sanctioned to 22 RRBs during 1995-96 for financing production of oilseeds under the Oil Seed Production Programme of the Government of India. The outstanding against these limits stood at Rs.56 crore.

2.95 The medium-term credit limits (non-schematic) sanctioned by NABARD to 73 RRBs during 1995-96 were lower at Rs.51 crore than that of Rs.83 crore sanctioned to 99 RRBs in the previous year. Besides, NABARD sanctioned a medium-term (conversion) loan amounting Rs.0.99 crore to three RRBs. While the outstanding under medium-term credit limits was Rs.156 crore, the same for medium-term (conversion) stood at Rs.1 crore as at the end of June 1996.

2.96 RRBs continued to avail of long-term refinance from NABARD, which made a larger total commitment of Rs.3,888 crore to RRBs in 6,202 schemes upto end-March 1996. Drawals against these commitments were also higher amounting Rs.3,605 crore as against the commitment of Rs.3,468 crore in 6,149 schemes upto end-March 1995.

Increase in Share Capital

2.97 In line with the recommendations of the Kelkar Working Group on RRBs, the Government of India has raised the issued share capital of all the RRBs, in phases, from Rs.25 lakh to Rs.100 lakh. As at the end of March 1996, there were 48 RRBs with paid-up capital of Rs.100 lakh each, 11 RRBs with paid-up capital below Rs.100 lakh but above Rs.75 lakh, 107 RRBs with Rs.75 lakh. For the rest 30 RRBs the paid-up capital was less than Rs.75 lakh. The share capital of all the 196 RRBs aggregated Rs.155.64 lakh as at the end of March 1996.

Efforts for Improving the Efficiency of RRBs

2.98 With a view to toning up the overall efficiency of the RRBs, NABARD has been monitoring progress of RRBs in respect of various parameters such as productivity, cash management, advances portfolio and recovery performance. The process of revamping RRBs through Development Action Plans (DAPs) was initiated in April 1994 for ensuring a comprehensive approach to their planned development over a five-year time span on the basis of a rolling plan concept. As at the end of December 1995, 192 out of 196 RRBs prepared DAPs and entered into MoUs with their respective sponsor banks. From 1996-97 RRBs were required to execute MoU on an annual basis.

Restructuring Programme for RRBs

2.99 Following the recommendations of the Bhandari Committee on Restructuring of RRBs, actions were initiated in respect of 49 RRBs, the details of which were provided in the previous year's Report. At the instance of the Government of India, NABARD constituted a Committee (Chairman : Shri K.Basu) to look into the norms afresh and identify another group of RRBs to be taken up for restructuring in the second phase during 1995-96.

2.100 In its report submitted in December 1995, the Basu Committee recommended initiatives primarily in the areas of interest rates, relocation of branches, credit allocation, direction of credit, and manpower policy in simultaneity with the infusion of capital. The Committee identified 68 RRBs to be revamped under the second phase. In addition, the Government of India identified two more RRBs, one each from Assam and Orissa and thus there were 70 RRBs, in all, for restructuring during the second phase. During 1995-96, a sum of Rs.223.57 crore was released by the Government for cleaning the balance sheets of 53 RRBs under the second phase.

2.101 A Working Group on Funds Management in RRBs (Chairman : Shri K.K. Misra) was also appointed in May 1995 to look into various issues relating to funds management of RRBs. In its interim report submitted in October 1995, the Group has made wide ranging recommendations relating to investment options, strengthening of cash management, modification in accounting standards, participation in consortium lending etc., for RRBs, which are under consideration.

Working Group on Non-Governmental Organisations (NGOs) and Self-Help Groups (SHGs)

2.102 A Working Group (Chairman : Shri S.K. Kalia), was appointed by the Reserve Bank in November 1994 to study the functioning of SHGs and NGOs and to explore the possibility of extending their role in rural development with the assistance of commercial banks. The Study Group in its report, submitted in November 1995, has recommended that the approach involving SHGs and NGOs alongwith the banks should be flexible, cost-effective and transparent so as to improve the accessibility of these groups to bank finance. Some of the important recommendations of the Group are:

1. The link between SHGs and NGOs vis-a-vis the rural sector and the commercial banks should be treated as a business strategy.
2. The linkage programme needs to be made a part of both the Service Area Approach and the Lead Bank reporting system and also the regular training curriculum of banks.
3. Lending of banks to SHGs should be made a segment of the priority sector advances.
4. A system needs to be introduced to review and monitor the SHGs' linkage programme.

13. Prudential and Capital Adequacy Measures

Capital Adequacy Measures

2.103 With a view to enabling the banks to achieve the prescribed capital adequacy norms, they have been allowed since 1993-94 to issue, with prior approval of the Bank, subordinated debts in the nature of unsecured redeemable bonds qualifying for Tier II capital. Banks' investments in such instruments issued by other banks or public financial institutions, would carry 100 per cent risk weight and be subject to the ceiling of five per cent for investments in shares and debentures of corporate bodies. During the year 1995-96, seven public sector banks raised a sum of Rs.1,145.74 crore through subordinated debt instruments for attaining the prescribed capital adequacy norm. Banks were advised in April 1996 to include their assessment of capital adequacy ratio in the Notes on Accounts attached to the Balance Sheet from the year ended March 1996 so as to enable the auditors to authenticate the ratio. Nineteen out of the 27 public sector banks as against 13 in the preceding year have attained the benchmark of eight per cent capital adequacy at the end of March 1996.

Prudential Accounting Standards

2.104 On a review of the prudential norms by the Bank Audit Committee in February 1996, the Reserve Bank effected major modifications in March 1996 as under :

i) All member banks including the leader of consortium should treat their advances as non-performing assets (NPAs) if any member bank considers its advance as NPA.

ii) Advances guaranteed by Government may be treated as NPAs only when the Government concerned revokes its guarantee.

iii) Banks should continue to make a general provision of 10 per cent on sub-standard assets without making any allowance for DICGC/ECGC guarantee cover and securities available.

iv) Depreciation in the value of 'current' investments should be shown under 'provisions and contingencies' in the profit and loss account while the depreciation in the value of investments as on the balance sheet date should not be deducted from investments but be shown under 'other liabilities and provisions'.

v) For the purpose of banks' accounts as on March 31, 1996, shares of public sector undertakings (PSUs) should be valued at the break-up value as per the PSUs' balance sheets of March 31, 1995 and where not available at a discount of 20 per cent of the value as per the balance sheets of March 31, 1994. In case the balance sheets of March 31, 1994 are not available, such shares should be valued at Re. 1/- per company.

vi) In the case of transfer of securities from the 'current' category to 'permanent' category, banks should immediately provide for depreciation on the transferred securities.

vii) Banks should value the specified Government securities under ready forward transactions at market rates on the balance sheet date and in the absence of market rates at Yield to Maturity (YTM). The resultant loss should be provided for.

viii) Write-off of advances outstanding in the branch's books at Head Office level is permitted provided necessary provisions are made as per the existing guidelines.

ix) Advances with balances less than Rs.25,000 should henceforth be classified into the usual four asset category and provided for from the accounting year 1996-97. However, in view of operational difficulties expressed, banks have been given time upto March 31, 1998 for such classification subject to the condition that they should make a provisioning of 15 per cent of the aggregate outstanding amount of loans with balances less than Rs.25,000. The banks which have already classified, however, would not be permitted to revert to such *ad hoc* provisioning.

2.105 Banks were advised in November 1995 that the extent of payment for the post-shipment supplier's credit, received by banks under the Exim Bank's guarantee-cum-refinance facility, may not be treated as a non-performing asset (NPA) for the purpose of asset classification and provisioning which would, however, be applicable to the balance payable by the exporter.

2.106 In order to progressively move towards the international practice of valuing all investments of banks on a 'mark-to-market' basis and to facilitate the development of an active and healthy secondary market in Government securities, banks are required to raise the proportion of 'current' investments from 30 per cent to 40 per cent for the year ended March 1996 and furthermore to 50 per cent in the year ending March 1997. Banks with a higher proportion of 'current' category should not however bring it down. For the purpose of balance sheet as on March 31, 1996, banks were advised to adopt the prescribed method of valuation of investments broadly in line with the previous year. In respect of Central/State Government securities which were not on the RBI list for sale, the prescribed YTMs varied between 13.12 per cent and 14 per cent with maturity periods ranging from one year to 10 years, respectively. Banks were also advised not to book as income any appreciation in the value of securities on account of the prescribed method of valuation.

14. Bank Credit and Industrial Sickness

2.107 The Reserve Bank continued to lay stress on a systematic approach to tackle the problem of industrial sickness. This includes a diagnosis of the problem at the incipient stage itself, formulation of timely rehabilitation packages in respect of sick/weak non-SSI units which are found to be potentially viable and monitoring of the performance of industrial units through half-yearly returns.

2.108 The number of sick units - both SSI and non-SSI-increased during the year ended March 1995. While the amount outstanding in respect of SSI sick units marginally declined from Rs.3,680 crore at end-March 1994 to Rs.3,547 crore at end-March 1995, the advances outstanding in respect of non-SSI sick units increased from Rs.8,151 crore to Rs.8,740 crore during the same period. Significantly, both the number of units and the amount of advances outstanding in respect of non-SSI weak units recorded decline during the period (Appendix Table II.17).

2.109 The total bank funds locked in sick industries (which include SSI and non-SSI sick units and non-SSI weak units) increased by Rs.44 crore to Rs.13,739 crore as at the end of March 1995 which constituted about 13.3 per cent of the gross bank credit deployed in industry during 1994-95. Noticeably, the amount of credit outstanding in respect of units under nursing programme declined from Rs.3,572 crore as at the end of March 1994 to Rs.3,459 crore as at the end of March 1995.

2.110 Following the freeing of interest rate for credit limits over Rs.2 lakh, the Reserve Bank has revised the parameters for provision of reliefs/concessions for various credit facilities by banks as also the promoters' contribution as part of the packages evolved for rehabilitation of potentially viable non-SSI sick/weak industrial units.

15. Regulatory and Supervisory Issues

2.111 Some of the issues raised by the Narasimham Committee on the Financial System (1991) with regard to regulation and supervision are still being actively debated. A number of expert committees have gone into various aspects of internal regulation and supervision, *inter alia*, on-site supervision, internal control in banks, and supervisory framework for non-banking financial companies (NBFCs). The discussion on the Expert Group (Chairman: Shri P. R. Khanna) for designing a supervisory framework for NBFCs is covered in Chapter IV.

Working Group on On-Site Supervision

2.112 A fresh review of the Bank's inspection system was undertaken by a Working Group to Review the System of On-site Supervision over Banks (Chairman: Mr. S. Padmanabhan), set up in February 1995. The Group submitted its report on November 8, 1995 and recommended significant changes in the approach, strategy, thrust and style of inspections and the follow-up. The report has been considered by the Board for Financial Supervision (BFS) and most of the recommendations of the Group have been accepted; the recommendation regarding periodicity of bank inspections, however, being under examination. An action plan for implementing the recommendations is at a final stage. The main recommendations of the Padmanabhan Working Group are as follows :

i) The Group, while re-emphasising the primacy of on-site inspections, has recommended switch over to a system of ongoing supervision. It has recommended a strategy of periodical full-scope on-site examinations supplemented by an in-house off-site monitoring system and linked exercises in between two statutory examinations. The Group has also recommended commissioning external auditors as supervisory resource and support system and orienting supervision for enforcement of correction of deviations.

ii) The periodic and full-scope statutory examinations should concentrate on core areas of assessment, *viz*. (a) financial condition and performance, (b) management and operating condition, (c) compliance, and (d) summary assessment in line with the internationally adopted capital adequacy, asset quality, management, earnings, and liquidity (CAMEL) rating model with systems and controls added to it for Indian banks and for foreign banks on CACS model (capital adequacy, asset quality, compliance, systems and controls) (See Box II.3).

iii) The periodic statutory examinations should be supplemented by four types of regular and cyclical on-site assessments, *viz.* targeted appraisals, targeted appraisals at control sites, commissioned audits, and monitoring visits.

iv) Supervisory examinations may be conducted in two cyclical tracks, *viz.* annual and a wider time cycle mostly biennial - by dividing banks into two categories based on their rating. For overseas branches of Indian banks, on-site examination at international finance centres may be undertaken on a center-wise basis at intervals of three to four years, while the existing system of portfolio appraisals of International Divisions of Indian banks may be strengthened under the proposed targeted appraisals at control site on an annual cycle. Besides, focused appraisals of subsidiaries need to be put formally on an annual cycle.

v) Supervisory reports may be compiled in two parts one of which is a confidential assessment of the bank's Board and management, major supervisory concerns, etc., which is for information and internal action in Reserve Bank and the other part could be non-confidential to be sent to banks.

vi) The norms for coverage of branch network or for screening thresholds should be decided as a part of the strategic planning for examination of each bank.

vii) Supervisory examinations should lead to a monitorable action plan agreed with the bank with a time frame. The action plan represents the commitments of the bank management which will be monitored on an on-going basis by the Department of Supervision for their fulfillment.

viii) The emerging supervisory concerns may be tackled through consolidated supervision of bank conglomerates, greater co-ordination between regulatory agencies and development of market discipline as a support system to supervision.

ix) Adequate back-up systems, a streamlined organisation, and a motivated and skilled cadre of bank examiners and analysts need to be developed for making supervision effective.

Working Group on Internal Control in Banks

2.113 Following the rapid changes in the complexion and quantum of bank work in recent years, internal control and inspection/audit function within banks has assumed considerable importance. Accordingly, in February 1995, the Reserve Bank set up a Working Group to review the Internal Control and Inspection/Audit System in Banks (Chairman: Shri R.Jilani). In its report submitted on September 20, 1995, the Group focused on imparting uniformity in the system of internal inspection/audit in banks, as also follow-up and compliance, quality of concurrent audit, rating of branches, etc. The

BOX II.3:
SOME COMMONLY USED BANKING TERMINOLOGY

Adverse Selection: This term is used to refer to situations , typically in credit market, in which at higher rates of interest, the relatively safer borrowers drop out of the credit market and borrowers with higher risks undertake investment activity leading to deterioration of the quality of the banks' portfolios.

CAMEL: Refers to a system of bank rating initially introduced in the US as an effective supplement to bank supervision. It refers to five key criteria, *viz.*, capital adequacy (C), asset quality (A), management (M), earnings (E), and liquidity (L) against each of which a bank's financial health is evaluated on a scale of '1' to '5' with '1' as the highest rating and '5' as the lowest. Banks with composite CAMEL ratings of '1' or '2' are deemed to be sound and are generally permitted to operate without any restrictions. Banks that receive CAMEL ratings of '4' or '5' are designated as problem banks to be subjected to close surveillance and regulatory restrictions. A below average bank typically gets a '3' rating and is given specific instructions to address its deficiencies. The Padmanabhan Working Group (1995) on on-site supervision over banks operating in India has recommended adoption of six rating factors for Indian banks *viz.*, CAMEL and systems (CAMELS), and four rating factors for foreign banks viz., capital adequacy, asset quality, compliance, and systems (CACS).

Credit Crunch: Originally coined to describe the abrupt slowdown of credit in 1966, in United States, it now refers to a situation where supply of credit falls even though there is sufficient demand for credit. In a deregulated environment, default rather than disintermediation is seen to be a more prominent as crunch trigger.

Cycles in Lending Standards: The questions such as — whether swings (from tight to lax) in credit standards is part of credit cycle and what is the role of the regulator (i.e. the central banks) in minimising such things have come to the forefront in recent times. One school of thought argues that such cycles are caused by imperfection in bank credit markets, while another school attributes such cycles to the tendency on the part of banks to overextend themselves during general expansions. The aim of the regulatory body is to eliminate or reduce the cyclical swings in credit standards and smoothen out lending cycles. The introduction of norms relating to capital adequacy, income recognition and accounting standards are measures towards this end.

Escrow Account: Accounts for which banks act as an uninterested third party (custodian/depository) to ensure compliance with the terms of the deed between two parties only upon the fulfilment of some stated conditions. Such an account becomes operative as soon as the stated event occurs. Banks often hold such accounts, in which funds accumulate to pay taxes, insurance on mortgaged property, etc.

Futures: An agreement to buy or sell a fixed quantity of a particular commodity, currency, or security for delivery on a fixed date in the future at a fixed price. Unlike an 'option', a futures contract involves a definite purchase or sale and not an option to buy or sell. It, therefore, may entail a potentially unlimited loss. However, futures provide an opportunity for those who must purchase goods regularly to hedge against changes in prices. In contrast to a forward contract which is tailor-made to the specific needs of individual buyer and seller, a futures contract is a standardised agreement under the prescribed rules of futures exchange which insures each buyer or seller against default. Futures trading are allowed in India for six commodities, *viz.*, castor seed, hessian, gur, potatoes, turmeric and pepper.

Moral Hazard: Moral hazard problem arises when borrowers undertake riskier projects at higher rates of interest with potentially higher returns but lower probabilities of success. The incentive to undertake risky investments at higher rates of interest is known in the literature is adverse incentive effect and a moral hazard problem arises therefrom.

Nostro Account: It refers to 'our account' kept by a bank or other institution of a country with a correspondent bank in foreign country, usually in the currency of the latter.

Options: Options come in two types: Call and Put. The call option is the right to buy an asset at a specified price and time, while put option is in the right to sell an asset at a specified price and time. European options can be exercised only at the expiry date while American options can be exercised at any time before and including the expiry date. An option contract can never have a negative value as the purchaser of an option is not obliged to buy or sell at the 'exercise price' and will only do so if it is profitable. In the case of lapse of the option, only the initial purchase price of the option, 'option money' / 'premium' is lost. Options allow the economic agents to hedge against the risk of wide fluctuations in prices; they also allow dealers and speculators to gamble for large profits with limited liability.

Resilience of the Banking System: Resilience of the banking system implies the capacity of the system to bounce back after a shock.

Robustness of the Banking system: Robustness of the banking system implies the ability of the system to absorb shocks without much difficulty.

Securitisation: A process of pooling and repackaging similar loans into marketable securities and thereby imparting liquidity to the bank's loan portfolio. It also refers to the shift in the pattern of mobilisation of funds by firms from bank borrowing to securities sold in financial markets.

Swap: Swap is a series of forward contracts in which two counter-parties agree to exchange (swap) future streams of payments according to a predetermined rule. It provides the borrower with a means to exchange the type of funds most easily raised for the type of funds required, usually through the intermediation of a bank. The common types of swap are 'interest - rate swap' (borrowers exchange fixed - for floating interest rates), 'currency swap', 'cap swap', etc. The intermediary bears the credit risk, should one party to a swap default on its payments.

Systemic Risk: Systemic risk or market risk refers to the extent to which the value of a particular asset (say share price of script A) is correlated with the market as a whole. It is measured by *beta*. This concept is basis of capital asset pricing (CAP) model.

Vostro Account: Refers to 'your account' maintained by foreign banks or other foreign correspondents with a domestic bank or other institution in the latter's currency.

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recommendations of the Group have been accepted by the Board for Financial Supervision (BFS) and necessary instructions/ guidelines have been issued for their implementation. The important recommendations of the Jilani Working Group are as follows :

i) Vigilance and inspection functions in banks should be separated and placed under the charge of two different executives for focused attention.

ii) Banks should necessarily introduce a system of branch rating based on inspection reports and review it periodically keeping in view the changed priorities and objectives set for proper working of the branches. Each bank should maintain on computer a profile of each of its branches on performance in various thrust areas like audit ratings, asset quality, level of NPAs, revenue leakages, profitability, etc. to enable it to pin-point the causes for poor performance and initiate appropriate and timely corrective measures.

iii) All poorly rated branches need to be inspected within 12 months and others between 12 and 18 months from the time of the last inspection.

iv) Coverage of the concurrent audit should be decided on the basis of size and complexity of credit and risk portfolios rather than just on the size of total business.

v) The scope of Audit Committee in banks needs to be broadbased to cover study of additional areas, such as frauds, progress in inter-branch and inter-bank reconciliation, etc. and progress in compliance on Reserve Bank's annual financial inspection findings. Electronic Data Processing (EDP) activities should also be brought under the purview of Inspection and Audit Department in banks.

vi) Parent banks need not be involved in the inspection/audit of their subsidiaries.

16. Insurance Cover for Deposits

2.114 The Deposit Insurance Scheme covers the commercial banks, co-operative banks and the RRBs. During the year ended March 1996, 12 commercial banks and 87 co-operative banks were registered while two co-operative banks were de-registered. As at the end of March 1996, the Scheme covered 2,122 banks comprising 102 commercial banks, 196 RRBs and 1,824 co-operative banks in 21 States and 2 Union Territories. The limit of insurance cover and the rate of premium remained unchanged during the period under review.

2.115 Considering the fact that the three Credit Guarantee Schemes viz., Small Loans Guarantee Scheme, 1971 and Small Loans (Co-operative Banks) Guarantee Scheme, 1984 (both meant for small borrowers) and Small Loans (SSI) Guarantee Scheme, 1981 operated by the Deposit Insurance and Credit Guarantee Corporation (DICGC) have now outlived their utility as also the heavy burden borne by it of continuing them, the Corporation had appointed a Committee (Chairman: Shri B.Rai) to suggest measures to reduce its liability and also raise its revenue at the same time. The recommendations were accepted and implemented by the DICGC, effective April 1, 1995 and are as presented below :

i) The participating credit institutions should lodge the claim only after the balance outstanding in the accounts is written off in the books of account of the institution under orders of the Competent Authority.

ii) The Corporation's guarantee shall cover only the principal amount sanctioned by the credit institution. However in respect of cash credit, overdraft and revolving credit facilities, the guarantee cover will be on the outstandings upto the regular limit sanctioned under each type of credit facility.

iii) No claim shall be admitted from credit institutions in respect of accounts where recovery received from borrowers (excluding adjustment of subsidy) in a particular account is less than 25 per cent of the total debits in the account on the date of write off, except under exceptional circumstances such as : when borrower has expired; when any natural calamity has affected the area; any other ground which may be decided by the Corporation.

iv) The claims should be lodged with DICGC within a year from the date of write-off of the amount in the books of account.

v) The requirement of three-year lock-in-period for lodgement of claims be discontinued in respect of claims which were not due for submission as on March 31, 1995.

17. Technology in Banking

2.116 As on June 30, 1996, 4,523 branches of public sector banks were eligible for partial/ full computerisation under the agreement between the Indian Banks' Association (IBA) and the employees' unions signed in October 1993. Of these, around 2,900 branches have been identified for full computerisation by March 31, 1997 and at the end of June 1996, 1,394 branches were fully computerised. The public sector banks have installed 13,522 (12,052 in June 1995) Advanced Ledger Posting Machines (ALPMs) at 4,238 branches and mini-computers at 441 branches as at end-June 1996 apart from 454 mini computers already installed at the Regional and Zonal offices. In tune with modern technology, banks are switching to PCs and LAN/WAN systems and ALPMs so as to achieve integrated branch computerisation and networking of branches. The banks have installed 2,120 PCs (at 1,920 offices) and Local Area Network (LAN) at 916 branches as at the end of June 1996. As many as 175 branches were connected through Wide Area Networks (WAN). Banks have also installed 937 signature storage and retrieval systems. Customer Service has gained in focus, with 315 on-line terminals reported to have been installed at corporate customers' sites. Due attention was paid to bilingualisation efforts as well, with the facility available at more than 1,770 sites.

Cheque Processing

2.117 In addition to the existing four MICR Cheque Processing Centres, one more Centre has been operationalised in Mumbai by the Bank at its Bandra-Kurla Complex. Additional Cheque Processing Centres are proposed to be set up at each of the four metro centres to share the increasing load and serve as effective back-up centres. Apart from this, as an interim measure, floppy-based input clearing has been introduced at the 10 clearing houses managed by the Bank. Ahmedabad, Bangalore, Bhubaneshwar, Hyderabad, Kanpur, Nagpur, Thiruvananthapuram, Patna and Baroda have been connected under one-way inter-city clearing to the four metro centres. Jaipur has been connected to New Delhi. Pune and Indore are also connected to Mumbai. Chennai has already been connected with 24 commercially important centres in Tamil Nadu/ Pondicherry.

Electronic Clearing Service

Credit Clearing

2.118 The Bank formally launched in April 1995 Electronic Clearing Service (ECS) (Credit Clearing) for effecting bulk payment transactions such as interest, dividend, etc. The facilities available at the National Clearing Centres (NCCs) at Mumbai and Chennai have been extended to New Delhi and Calcutta as well. The UTI made use of this facility in a major way in Mumbai during 1995-96.

Debit Clearing

2.119 In order to facilitate payment of utility bills such as electricity, telephone bills, ECS (Debit Clearing) was introduced by the Reserve Bank at Chennai in August 1994 and at Mumbai in March 1996. Mahanagar Telephone Nigam Limited, Mumbai and Chennai Telephones have already availed of this scheme for payments pertaining to collection of telephone bills.

Telecommunication Network

2.120 In addition to the seven offices of the Reserve Bank *viz.*, Mumbai, Delhi, Chennai, Calcutta, Hyderabad, Bangalore, and Nagpur which were connected through leased lines network, 12 offices *viz.*, Jammu, Chandigarh, Jaipur, Lucknow, Patna, Bhubaneswar, Guwahati, Bhopal, Ahmedabad, Pune, Thiruvananthapuram, and Kochi are connected through dial-up. About 400 ports at these centres have been brought under BANKNET/ RBINET. All public sector banks, a few foreign/ private sector banks and some financial institutions have also been connected to the network. A node has also been provided to the Central Railways for receiving weekly reports from the NCC.

2.121 The availability of National Informatics Centre's NICNET was sought to be utilized for reporting of currency chest transactions by the currency chests to Issue Departments. So far, 295 currency chests and all the Issue Departments of the Bank are connected to NICNET. In addition, banks on their own also have been exploring the possibility of connectivity to networks such as RABMN, I-NET, NICNET; the number of such branches connected being around 835. NICNET has also been installed and is proposed to be used as a back-up for RBINET in its pilot EFT venture.

2.122 The Department of Telecommunication, Government of India, has made some relaxations in accessing the Swift Access Point (SAP), enabling the banks to connect more of their branches to their SWIFT nodes at Mumbai, through leased lines, Public Switch Telephone Network (PSTN) or Telex. Several banks could connect their local as well as remote branches, enabling them to increase their membership of the SWIFT User Group in India, and the total number of live users stood at 55 as at the end of June 1996. IDBI and ICICI have also recently acquired membership of SWIFT.

Electronic Funds Transfer (EFT) System

2.123 With a view to enabling the banks to provide a fast mode of remittance of funds to their retail customers, the Reserve Bank started an Electronic Funds Transfer System in February, 1996. The system facilitates transfer of funds from one centre to another across banks, with availability of funds assured on the day next to the day of transfer. The system has the flexibility to cover intra-centre and intra-bank funds transfer as well. Presently, an upper limit of Rs.25,000 has been set for individual transaction. The facility is available now at about 1,960 branches of 27 public sector banks at Mumbai and Chennai and efforts are being made to extend the facility to New Delhi and Calcutta in the near future.

Very Small Aperture Terminal (VSAT)

2.124 The Reserve Bank intends to set up a satellite based VSAT network dedicated exclusively to the banking industry and term lending institutions. The network will be designed to support data voice and video and would provide enabling techniques to rapidly build a reliable communication infrastructure.

Institute for Development and Research in Banking Technology - Hyderabad (IDRBT)

2.125 The Reserve Bank has set up an Institute for Development and Research in Banking Technology at Hyderabad to cater to the industry-wide needs for technological infrastructure, applications and training. The Institute is supposed to be the brain trust of the banking industry and would be developed as a world class centre for eventual recognition as global institute in the field of banking technology. The main objective of the Institute will be to provide the highest quality of research and consultancy advice in the area of information technology to the financial sector in general and to the banks in particular.

18. Organisational Matters

2.126 As regards installation of Automated Teller Machines (ATMs), banks were earlier allowed to install ATMs at branches and extension counters. As for operating ATMs at other places identified for the purpose, banks were permitted in December 1994 to install only 'Stand Alone' ATMs after obtaining a licence from the Reserve Bank on *post facto* basis. Such 'Stand Alones' would be restricted to deposits and withdrawals. However certain functional facilities such as PIN changes, requisition for cheque books, statement of accounts, balance enquiry and inter account transfer have been permitted in May 1996. Further, telephone connections between the Stand Alone ATMs, branch ATMs and Shared Payment Net Work System (SPNs) have also been allowed in May 1996.

Liquidation, Moratorium and Amalgamation

2.127 As on June 30, 1996, 103 banks were under liquidation as against 106 a year ago. The issue of early completion of liquidation proceedings continues to be pursued with the concerned official/court liquidators. The moratorium of three months on Kashinath Seth Bank Ltd. from July 1, 1995 was extended till December 31, 1995 and the bank was subsequently amalgamated with the State Bank of India effective January 1, 1996 in terms of the Government of India Notifications. In respect of payment to the creditors and depositors, the prescribed date was February 1, 1996.

Indian Banks' Operations Abroad

2.128 With the closure of one branch of the Bank of Baroda and three branches of the Bank of India in the United Kingdom, the total number of overseas branches of Indian banks was reduced from 101 to 97 as at the end of June 1996, of which 96 branches belonged to eight public sector banks and the remaining one was that of the Bharat Overseas Bank, a private sector bank. The number of wholly-owned subsidiaries (including three deposit taking companies) and of joint venture banks remained at 11 and 7 respectively while the number of representative offices increased from 13 to 14 with the opening of an office by Canara Bank in Moscow.

Foreign Banks in India

2.129 During 1995-96 (July-June) nine more new foreign banks, predominantly from South-East Asian countries, opened their branches in India. They were Dresdner Bank, Bank of Ceylon, Commerzbank, Siam Commercial Bank, Bank Internasional Indonesia, Arab

Bangladesh Bank, Chinatrust Commercial Bank, ChoHung Bank and Fuji Bank. Besides, from amongst the existing foreign banks, ABN Amro Bank and Societe Generale opened a branch each at Chennai and Bangalore, respectively, while Banque Nationale de Paris opened a branch each at Pune and Bangalore. As a result, the total number of foreign banks operating in India and their branches increased significantly to 36 and 166 during the year ending June 1996 from 27 and 153 respectively a year ago. During the year, six foreign banks, *viz.*, Bayerische Vereinsbank, Sumitomo Bank, Kredietbank, D.G. Bank, Asahi Bank and First National Bank of Boston, opened their respective representative offices in India. With this, the total number of representative offices also increased to 27 at the end of June 1996 from 23 in the preceding year. On termination of agency arrangements with Indian companies or individuals by two foreign banks, the number of banks having such arrangements stood at eight at end-June 1996.

Local Advisory Boards of Foreign Banks

2.130 Thirty-one out of 36 foreign banks operating in India have constituted their respective Local Advisory Boards. Proposal submitted by one bank is under consideration. The remaining four banks are in the process of identifying suitable names for appointment on their Local Advisory Boards.

Bank (Employees') Pension Regulation, 1995

2.131 The Indian Banks' Association (IBA) on behalf of its member banks concluded agreements with the representative associations of employees in all categories on pension scheme in the year 1993. On completion of the statutory requirements, all the nationalised banks have framed the Bank (Employees') Pension Regulations, 1995 which were approved by the Reserve Bank in September 1995 in terms of the provisions under Section 19(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980.

Committee on Recruitment in Banks

2.132 The Committee (Chairman : Shri D.R. Mehta) on recruitment methods and practices in public sector banks has since finalised its report on April 4, 1996 and submitted the same to the Governor of the Reserve Bank.

Vigilance System

2.133 Following the Bank's recommendation, Government of India advised seven public sector banks to separate the inspection and audit function from the purview of the Chief Vigilance Officer and put them under the charge of a separate General Manager. These banks included, Bank of Baroda, Bank of India, Central Bank of India, Canara Bank, Indian Bank, Punjab National Bank and Union Bank of India.

19. Diversification in Banking

Stockinvest Scheme

2.134 With permission given to Credit Lyonnais and Citibank N.A., the total number of banks allowed to introduce stockinvest scheme reached 56 as at the end of June 1996.

2.135 In view of the serious irregularities noticed in operations of the scheme, a ceiling of Rs.10 lakh per individual per capital issue was imposed on banks for issue of stockinvest effective March 30, 1996. Banks were also advised in April 1996 that it would not be proper to accept share applications unaccompanied by original stockinvests/ cheques and to furnish declaration to the authorities that such applications are valid applications. Furthermore, bankers' lien on the deposit account of the investor in respect of an unused stockinvest instrument shall not be lifted before the expiry of four months.

Securities Broking & Trading Subsidiaries

2.136 In terms of Section 8 (1)(f) of the Securities Contract (Regulation) Rules, 1957, currently being enforced by the Securities and Exchange Board of India (SEBI), members of stock exchanges are required to shed their fund-based activities like leasing, etc. The existing merchant banking subsidiaries which are members of the National Stock Exchange of India Ltd. (NSE)/ Over the Counter Exchange of India Ltd. (OTCEI) are therefore proposing to set up separate securities broking and trading subsidiaries. Punjab National Bank and State Bank of India were given 'in principle' approval to set up such subsidiaries during the year under review.

Merchant Banking/Leasing Subsidiaries

2.137 In order to avoid double financing of the same asset by banks undertaking leasing activity on behalf of the non-banking financial companies (NBFCs), banks were advised in September 1995 not to enter into lease agreements departmentally with equipment leasing companies and other NBFCs engaged in equipment leasing. Besides, lease rental receivables arising out of sub-lease of an asset by a non-banking non-financial company (undertaking nominal leasing activity) or by an NBFC would not be taken into account for the purpose of computation of bank finance for such company. Banks and their subsidiaries were also instructed in August 1995 not to extend Revolving Underwriting Facility to short term Floating Rate Notes (FRN)/Bonds or debentures issued by corporate entities. Since FRN facility is similar to commercial paper, stand-by facility/underwriting for the issue was not allowed. Banks which were hitherto permitted to lend to their own merchant banking subsidiaries upto five times of their Net Owned Funds (NOFs) have been permitted upto three times/two times/equal to NOFs of respective subsidiaries effective April 21, 1995 depending on their classification (including the nature of their major business activity). At the end of June 1996, the total number of merchant banking/ leasing subsidiaries remained at 11, of which eight were set up by public sector banks and the rest by private sector banks.

Marketing of Mutual Fund Units

2.138 In June 1996, banks were permitted to enter into agreements with Mutual Funds (MFs) for marketing units of mutual funds, after complying with the following terms and conditions :

i) The purchase of units should be at the customers' risk without the bank guaranteeing any assured return. Banks should act only as agents of the customers.

ii) Banks should not acquire units of MFs from the secondary market nor buy back units from their customers.

iii) Extension of any credit facility to individuals against the security of shares or units of MFs should be in accordance with the Reserve Bank's instructions from time to time.

iv) Banks as custodian of MF units on behalf of their customers should ensure distinction of their own investments and investments belonging to their customers.

v) Banks should put in place adequate and effective control mechanisms confining retailing of units to certain select branches.

Other Subsidiaries

2.139 The total number of housing finance subsidiaries of banks (including 'in principle' approval to Allahabad Bank) increased to eight as at the end of June 1996 from seven a year ago, with the approval given to Vijaya Bank. As regards factoring, credit card and computer related services, no new bank was given permission to set up such subsidiaries during the year.

Equity Participation

2.140 During the year under review, three banks, *viz.*, Bank of India, Bank of Baroda and Corporation Bank were allowed to participate in the equity share capital of Gilt Securities Trading Corporation Ltd., a Primary Dealer subsidiary of Canara Bank. In July 1995, Bank of Baroda was permitted to participate in the equity share capital of India Clearing and Depository Services Ltd. (ICDS), promoted by six Southern Stock Exchanges. Two banks, *viz.*, Bank of India and State Bank of India were permitted to contribute additional capital to the BOI Finance Ltd., and the SBI Commercial and International Bank Ltd. respectively. Bank of Rajasthan was allowed to enhance the paid-up capital of its subsidiary, *viz.*, Rajasthan Bank Financial Services Ltd. for the purpose of obtaining SEBI registration to undertake category I merchant banker's business. In April 1996, State Bank of India was given an 'in principle' approval to dilute its shareholding in SBI Capital Markets Ltd. in order to enable the Asian Development Bank (ADB) to participate in the share capital of the subsidiary to the extent of 18 per cent. However, the price at which such shares be divested to the ADB should have the approval of the respective Boards of SBI and SBI Capital Markets Ltd. For dilution of its equity holding below 51 per cent, SBI should also seek the Reserve Bank's specific prior approval.

20. Customer Service in Banks

2.141 An important element of the on-going reform process has been to ensure quality services to the customers-depositors and borrowers as well. Several policy measures were already put in place to this end, and further steps have been initiated during the year under review.

2.142 For providing direct credit to the beneficiaries' bank accounts, effective April 1, 1995 the Bank has introduced an Electronic Credit Clearing Scheme at Mumbai, Chennai, New Delhi and Calcutta. The commercial banks were instructed in September 1995 to pay a penal interest of two per cent above the prevailing Bank Rate for any delayed credit to the beneficiaries' accounts without the Destination Account Holder claiming for the same as per the Electronic Clearing Service (Credit Clearing) Procedural Guidelines (March 1995). In February 1996, they were advised not to insist on fresh photographs for opening an additional account in the name of the account holder. Besides, they were asked to introduce, initially in the urban and metropolitan centres, single window service for issuance of drafts/ pay orders/banker's cheques, etc. upto Rs.10,000 for expeditious rendering of services.

2.143 The progress achieved in implementing the various recommendations of the Goiporia Committee on Customer Service in Banks (1991) is being reviewed periodically by the Reserve Bank. Banks were advised in April 1996, *inter alia*, to identify the complaint-prone branches, endeavour for a customer-friendly attitude, introduce Automated Teller Machines (ATMs) and initiate suitable corrective measures. They were further advised to move towards speedier ways to settle the transactions and to avoid delays in transacting business at the counters and in collection of local and outstation cheques and also to desist from adopting unhealthy practices such as insistence on large amounts of fixed deposits, etc.

21. Miscellaneous Issues

Receipt of Foreign Contribution

2.144 In the context of violation by banks of the provisions of the Foreign Contribution (Regulation) Act, 1976 as also of the Reserve Bank's instructions, commercial banks were advised to submit to the Ministry of Home Affairs, Government of India, detailed half-yearly statements in the prescribed format on receipt of foreign contributions by various associations/organisations within two months of the closure of the half year.

Concessions to Disturbed States

2.145 In view of the disturbed conditions, trade and industry in the States of Punjab and Jammu and Kashmir, have been granted concessions from time to time by the Bank since 1984 and 1990 respectively. While such concessions were not extended beyond September 30, 1996 in the case of Punjab and Union Territory of Chandigarh, it has been extended upto March 31, 1997 for Jammu and Kashmir.

2.146 The Inter Disciplinary Group set up to identify the end use of money and trace the assets created out of funds involved in the problem exposure of banks/financial institutions which had submitted an interim report in June 1994 has since submitted its final report. To supplement the findings of the Group's report, the Bank has ordered an audit in respect of 13 banks/financial institutions on the basis of certain findings of the Group, which have been already taken up.

Special Investigation Cell

2.147 Complaints of serious nature received by the Bank against the Chairmen and Executive Directors of banks were looked into for remedial action wherever necessary. Review meetings were also held with the public sector banks excluding the State Bank of India (slated for discussion later) on largest 300 non-performing assets in order to ascertain adequacy of steps taken for recovery and staff accountability, wherever appropriate.

Tax Deduction at Source

2.148 Commercial banks were exempted by the Government of India the difference payable between redemption value and bid price of Zero Coupon Bonds, 2000 (issued on February 3 and July 27, 1995) from deduction of tax at source under Section 193(iiia) of the Income Tax Act, 1961.

Study Group on Review of Returns

2.149 In order to reduce unnecessary and avoidable workload on banks, a Study Group (Chairman : Shri T.N.A. Iyer) was appointed in January 1995 to carry out a review of the various returns filed by banks. The Group's report, titled 'Report on Review, Rationalisation and Redesigning of Returns relating to Core Commercial Banking Areas' submitted on July 1, 1995, has recommended, *inter alia*, i) elimination of a large number of returns, ii) rationalisation of the remaining returns, iii) computerisation of the processing of returns and quick dispersal of the processed information, iv) strengthening of the existing inter-departmental reporting mechanism, v) institution of a consultative machinery for regular inter-departmental review of returns, vi) centralised receipt of returns for use by authorised users/ departments, and vii) development of an integrated data base management system both in the Reserve Bank and commercial banks in the long-run. As a follow-up measure, installation work for RBINET at Offices of the Department of Banking Operations and Development (DBOD) and Head Offices of commercial banks has been undertaken for computerisation of returns. The project on transmission of data under Section 42(2) of the RBI Act, 1934 from commercial banks to DBOD Regional Offices and subsequently to DBOD, Central Office are expected to be complete shortly.

Appointment of Chairmen of Banks

2.150 Among the public sector banks, the post of Chairman and Managing Director (CMD) in UCO Bank and the Canara Bank and the posts of Executive Directors (EDs) in Dena Bank, Oriental Bank of Commerce, Punjab National Bank, and Syndicate Bank were lying vacant as on December 31, 1996. The Bank has since approved the appointment of the Managing Director (MD) of State Bank of Saurashtra.

2.151 For the private sector banks, full time Chairmen/Managing Directors were in position in 35 out of 37 banks (including 10 new banks) as on June 30, 1996. For the remaining two banks, viz., Nainital Bank Ltd. and Sangli Bank Ltd., the offices of Chairmen fell vacant on September 26, 1996 and September 27, 1996 respectively. The proposals from the banks for their next Chairmen and Chief Executive Officers are awaited.

Grant of Loans to Bank Directors

2.152 On a review of grant of loans and advances and award of contracts to directors of other banks, banks were advised in March 1996 that all credit proposals for Rs.25 lakh and above should be sanctioned by the bank's Board of Directors/ Management Committee of Boards as against Rs.10 lakh stipulated earlier. The proposals for less than Rs.25 lakh may be sanctioned by the appropriate authority in banks and should be reported to the Board subsequently.

Frauds and Robberies

2.153 During the year 1995-96 (July-June), commercial banks reported 2,282 cases of frauds involving a sum of Rs.172.79 crore apart from two cases of frauds at overseas branches aggregating Rs.6 lakh. The cases were followed up with the banks for necessary remedial measures and fixing staff accountability. Banks were advised in September 1995 to introduce a system of close monitoring on cash deposits and withdrawals of Rs.10 lakh and above and verify for transactions of dubious nature on an ongoing basis. In April 1996 they were further advised to furnish a report on implementation thereof to the Reserve Bank. During the year ended June 1996, caution advices were issued 17 times to all commercial banks (excluding RRBs) in respect of firms/companies committing serious irregularities in their borrowal accounts.

2.154 In line with the recommendations of the Ghosh Committee on frauds and malpractices in banks, commercial banks were advised in October 1995 to introduce the practice of informing the employer bank whenever an employee of another bank opens an account with them. In case an employee of a bank opens an account with a branch other than that of his posting, the account opening branch should bring the fact to the notice of the latter. Besides, financial institutions were advised to implement the relevant recommendations of the Ghosh Committee.

2.155 During the year under review (July - June), 65 cases of robberies involving an amount of Rs.272.42 lakh were reported by public sector banks.

Use of Hindi

2.156 The progress in use of Hindi in day-to-day functioning of banks is being reviewed by the Reserve Bank in quarterly meetings of the Official Language Implementation Committee of the public sector banks. The Reserve Bank has advised the public sector banks to incorporate the items on use of Hindi in their corporate plans, so that the progress in this regard could be reviewed regularly at the highest levels. During the year, many banks have organised programmes on managerial and administrative skills for their

Rajbhasha Officers and installed electronic machines with Hindi/bilingual facilities. Most of the banks have reported compliance of the provisions of the Official Language Act 1963 and the Rules framed thereunder, in particular, Section 3(3) of the Act on use of both Hindi and English in areas, such as, advertisements, press communique, public notices, issue of tender forms, general orders, licences, acceptance of cheques and drafts and execution of contracts and agreements.

CHAPTER III

DEVELOPMENTS IN CO-OPERATIVE BANKING

Overview

The role of co-operative banks in rural financing continues to be important. Their role in the urban sector too has improved considerably in recent years mainly owing to the sharp increase in the number of primary co-operative banks. In this Chapter, the performance of primary, state and central co-operative banks are discussed individually along with the policy initiatives undertaken in the area of rural and co-operative banking.

3.2 The primordial role of National Bank for Agriculture and Rural Development (NABARD) was evident from the fact that in 1995-96, the institution sanctioned loans aggregating Rs.1,984 crore to 19 States for completing 2,489 projects under the Rural Infrastructure Development Fund (RIDF). The Reserve Bank's General Line of Credit (GLC) to NABARD was increased from Rs.4,850 crore in 1994-95 to Rs.5,250 crore in 1995-96 and further to Rs.5,500 crore in 1996-97, so as to enhance the refinancing capacity of NABARD substantially.

3.3 The Union Budget for 1996-97 has proposed quadrupling of the capital base of NABARD from the present level of Rs.500 crore to Rs.2,000 crore in the next five years. During 1996-97, the share capital of NABARD is to be raised to Rs.1,000 crore.

6. The analysis in this chapter for PCBs covers the period upto the year 1995-96 and for other co-operative institutions (SCBs, CCBs, SLDBs, PACSs, and PLDBs) upto the year 1994-95.

2. Progress of Credit Co-operatives

A. Primary Co-operative Banks (PCBs)

3.4 The number of Primary Co-operative Banks[6] (PCBs) stood at 1,525, including 91 salary earners' banks and 66 Mahila banks as at the end of June 1996. Of the 1,525 PCBs, 2 salary earners' banks and 54 other primary (urban) co-operative banks were under liquidation as on June 30, 1996.

3.5 During 1995-96 (April-March), the deposits of PCBs recorded a higher growth rate of 20.2 per cent as against 19.9 per cent recorded during 1994-95. However, the growth of credit at 21.0 per cent in 1995-96 was

CHART III.1:
Primary Co-operative Banks - Rate of Growth of Deposits and Credit : 1994-95 to 1995-96

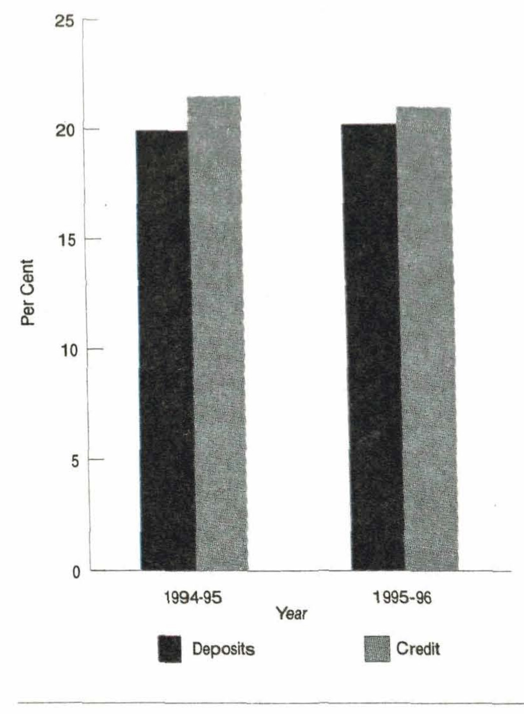


Table III. 1 : Primary Co-operative Banks

(Amount in Rs.crore)

Items	As on March 31,			End-June		Variations during			
						Financial year		April - June	
	1994	1995	1996	1995	1996	1994-95	1995-96	1994-95	1995-96
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
1. Number	1,400	1,431	1,501	1,449	1,525	31	70	18	24
2. Owned Funds	2,723	3,312	3,848	3,371	4,151	589 (21.6)	536 (16.2)	59 (1.8)	303 (7.9)
3. Deposits	16,769	20,101	24,165	20,577	25,584	3,332 (19.9)	4,064 (20.2)	476 (2.4)	1,419 (5.9)
4. Borrowings	496	577	758	610	585	81 (16.3)	181 (31.4)	33 (5.7)	-173 (-22.8)
5. Loans outstanding	12,172	14,795	17,908	14,730	18,197	2,623 (21.5)	3,113 (21.0)	-65 (-0.4)	289 (1.6)

Note : Figures in brackets are percentage variations.

marginally lower than 21.5 per cent in 1994-95. During the first quarter of 1996-97 (April-June), both deposits and credit growths were higher than in the corresponding period last year (Table III.1 and Chart III.1).

Licensing and Inspection

3.6 The branch expansion policy of PCBs has been further liberalised effective January 8, 1996. Well-managed and financially sound banks satisfying prudential norms are permitted to open branches at the centres of their choice. They are however, required to formally obtain licence from the Reserve Bank of India. PCBs were allowed to extend their area of operation to the entire district in which they are registered inclusive of rural areas without prior approval from the Reserve Bank. PCBs with deposits above Rs.50 crore were granted freedom to extend their area of operation beyond the respective States of their registration, provided they are financially sound and have met the priority sector targets, alongwith prudential accounting norms.

3.7 The Reserve Bank carried out statutory inspections of 533 PCBs during the year (July 1995 to June 1996) under Section 35 of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies).

Multi-State Apex Co-operative Bank of Urban Banks of Maharashtra and Goa

3.8 Consequent to granting of licence under Section 22 of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies), the Apex Co-operative Bank of Urban Banks of Maharashtra and Goa Ltd. was established and commenced its business with effect from April 10, 1996.

Refinance Facilities

3.9 During the fiscal year 1995-96, the Reserve Bank granted refinance limits aggregating Rs.4.57 crore to eight PCBs against their advances to tiny and cottage industrial units. The outstanding borrowings of State Co-operative Banks against the limits sanctioned stood at Rs.2.52 crore as at the end of June 1996.

Priority Sector Lending

3.10 Of the 831 reporting PCBs, as at the end of March 1996, 694 PCBs achieved the stipulated target of 60 per cent of their total advances to priority sector including that of 25 per cent target for weaker sections.

Weak and Non-viable PCBs

3.11 The number of weak PCBs declined from 233 at end-March 1994 to 216 at end-March 1995. During the year 1994-95, 14 PCBs were included in the weak category, whereas eight PCBs were amalgamated and five were liquidated. Further, 18 PCBs were deleted from the list of weak PCBs, consequent upon their showing improved financial position. Of the total 216 PCBs, there were 17 PCBs under direction issued under Section 35A of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies) as at the end of March 1996.

Table III. 2 : Domestic Term Deposit Rates of Primary Co-operative Banks

(per cent per annum)

October 1, 1995		July 2, 1996		October 21, 1996	
Duration	Rates	Duration	Rates	Duration	Rates
1	2	3	4	5	6
46 days and upto 2 years	Not exceeding 12.0	30 days and upto 1 year	Not exceeding 11.0	30 days and upto 1 year	Not exceeding 10.0
Over 2 years	Free	Over 1 year	Free	Over 1 year	Free

Major Policy Measures

a) Banking Operations

3.12 Some of the Reserve Bank's credit policy measures applicable to commercial banks were extended to PCBs. In some other cases, existing policies were modified. These include :

(i) There was further freeing of PCBs' domestic term deposit rates subject to a maximum rate of 10.0 per cent for maturity of 30 days and upto one year effective October 21, 1996. However, PCBs were allowed to continue to offer, at their discretion, higher rate of interest, not exceeding one-half of one percentage point per annum on term deposits (of 30 days and upto one year) and one percentage point per annum on savings deposits, than those prescribed for scheduled commercial banks (Table III. 2).

(ii) PCBs' interest rates on NRE deposits of over 2 years were deregulated effective April 4, 1996.

(iii) PCBs' interest rates on advances were also freed subject to a minimum lending rate of 13 per cent per annum effective July 21, 1995. Furthermore, interest rates on loans/advances over Rs.2 lakh against term deposits were freed. However, for loans upto Rs.2 lakh, the stipulation of 2 per cent above deposit rates has been retained.

(iv) The Post-Shipment Credit denominated in Foreign Currency (PSCFC) was terminated in February 1996.

(v) Effective from October 21, 1996, PCBs were advised to charge interest rate of 15 per cent for Post-Shipment Export Rupee Credit for the period 90 days and upto 6 months. However, higher rate of interest will apply for the period beyond 90 days and not from the date of advance.

(vi) PCBs were advised in October 1995 to charge interest rate surcharge of 15 per cent on the outstanding bank credit for imports. This was subsequently raised to 25 per cent in February 1996. The interest rate surcharge on import finance was withdrawn with effect from July 23, 1996.

(vii) In the context of the favourable supply situation, all commodities except buffer stock and unreleased stocks of sugar to sugar mills were exempted from all the stipulations of selective credit control with effect from October 21, 1996. Further, the minimum margin on unreleased stock of sugar was lowered by 5 percentage points from the 20 per cent earlier to 15 per cent and in case of buffer stock of sugar, the existing prescription of zero per cent would continue.

(viii) Under the Loan System for Delivery of Bank Credit, PCBs were advised on November 29, 1996 that in the case of borrowers with assessed Maximum Permissible Bank Finance (MPBF) of Rs.20 crore and above, the 'Cash Credit' component would be 25 per cent of the MPBF and the balance 75 per cent would be in the form of a 'Loan' component. Further, with a view to extending the Loan System in respect of borrowers with assessed MPBF of Rs.10 crore and above but less than Rs.20 crore, 40 per cent of MPBF would be in the form of 'Cash Credit' component and the balance 60 per cent by way of a 'Loan' component.

(ix) The housing loan limits extended to individuals by PCBs have been modified. PCBs with deposits below Rs.50 crore can now grant loans upto Rs.5 lakh and those with deposits of Rs.50 crore and above can sanction such loans upto Rs.10 lakh.

(x) The maximum limit on advances of PCBs based on Time and Demand Liabilities (TDL) was withdrawn. Instead, prudential exposure limits based on capital funds were introduced since January 1996. PCBs were advised that the exposure ceiling on fund-based and non-fund based limits should be fixed in relation to their capital funds and it should not exceed 25 per cent of capital funds in case of individual borrowers and 50 per cent in the case of group of borrowers.

(xi) PCBs were advised not to extend finance to non-banking financial companies (NBFCs) other than hire-purchase/leasing companies.

(xii) The ceiling on PCBs' advances to a single party against the security of shares/ debentures of joint stock companies has been revised upward to Rs.10 lakh with effect from November 1, 1996. PCBs were advised to ensure that the total advances against the shares and debentures of any one company and all companies together should not exceed 4 per cent and 20 per cent respectively of the banks' own share capital and reserves.

(xiii) PCBs were advised to desist from launching price-oriented deposit schemes and paying brokerage in the form of commission/gift/ incentive on deposits in any manner.

(xiv) With a view to provide alternative avenues for investments, PCBs, effective from November 27, 1996 were permitted to invest 5 per cent of their incremental deposits in the units of Unit Trust of India subject to overall ceiling of 10 per cent of deposits prescribed for investment in bonds of PSUs and equity of All India Financial Institutions.

(xv) Effective December 13, 1996, PCBs were permitted to extend credit for primary agricultural operations in addition to activities allied to agriculture.

(xvi) The ceiling on advances by PCBs to Nominal members has been enhanced to Rs.50,000 for banks with deposits upto Rs.50 crore and Rs.1,00,000 for banks with deposits above Rs.50 crore with effect from October 16, 1996.

(xvii) The maximum limit on unsecured advances to a single party/connected group or to relatives of directors has been revised upward to Rs.25,000 for PCBs with TDL less than Rs.10 crore and Rs.50,000 for banks with TDL more than Rs.10 crore with effect from November 11, 1996. Further, the ceiling for temporary unsecured advances without sureties for a period upto 30 days was raised from Rs.1,000 to Rs.5,000.

b) Net Working Capital

3.13 Primary co-operative banks were advised that receivables arising out of domestic/inland sales by drawing bills of exchange under usance letter of credit should be excluded from Current Assets for working out the net working capital under the second method of lending prescribed by the Tandon Committee.

c) Income Recognition and Provisioning

3.14 PCBs were advised that advances secured against term deposits, National Savings Certificates, Indira Vikas Patras and Kisan Vikas Patras were exempt from provisioning requirements towards Non-Performing Assets (NPAs). Further, PCBs were permitted to take into account the amount of interest on the above types of advances on accrual basis, provided adequate margin was available in the account. For valuation of Central Government and other approved securities, PCBs were advised that they may value them at cost and in case the cost price was higher than the face value, the premium should be amortised over the remaining period of maturity of the security. On the other hand, where the cost price was less than the face value, the difference should be ignored and should not be amortised or taken to income account since the amount represents unrealised gains. The same method of valuation could be applied to State Government securities and Government guaranteed securities. As regards valuation of PSU bonds, PCBs were advised that valuation would be done at cost or market value, whichever is lower.

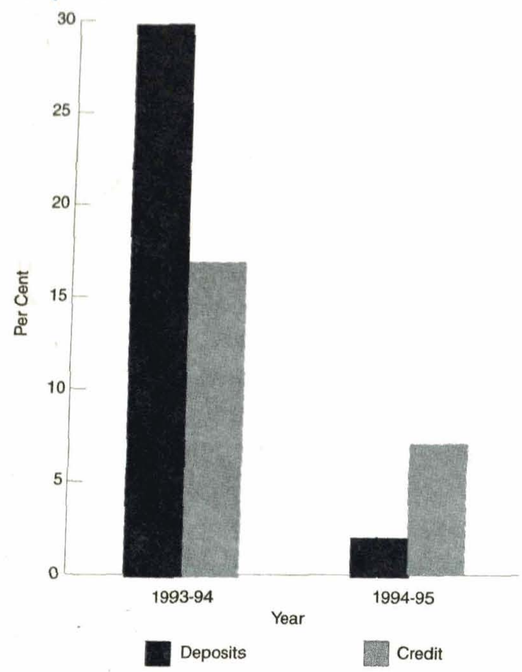
d) Customer Service

3.15 PCBs were advised to provide : (i) immediate credit upto Rs.5,000 for all outstation cheques; (ii) credit for cheques with MICR facility within 8 days in State Capital and within 10 days in centres with more than 100 bank branches, and (iii) credit for local cheques on the third working day.

B. State Co-operative Banks

3.16 The deposit growth of State Co-operative Banks (SCBs) decelerated sharply to 2.1 per cent during 1994-95 as compared with an increase of 29.9 per cent recorded in 1993-94 (Chart III.2). Loans outstanding at Rs.10,492 crore showed an increase of 7.1 per cent which was substantially lower

CHART III.2:
State Co-operative Banks - Rate of Growth of Deposits and Credit : 1993-94 to 1994-95

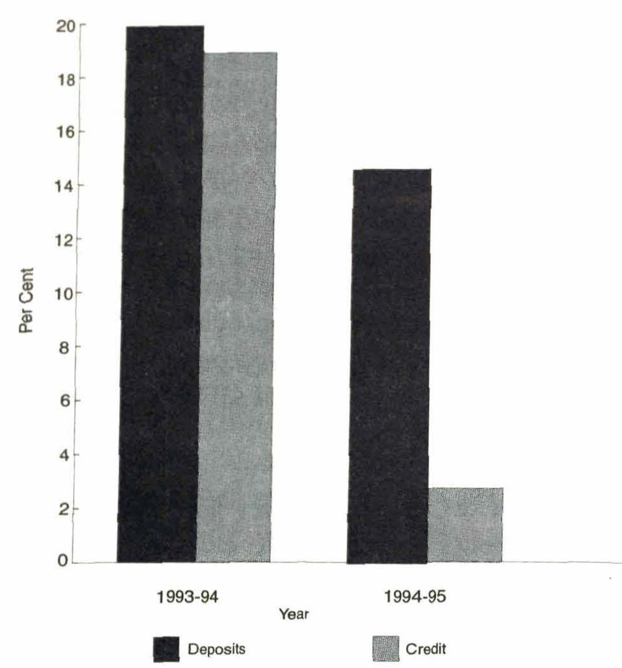


than the rise of 17.0 per cent in 1993-94. However, there was a significant improvement in the overdue position; overdues as a percentage to demand declined by 3 percentage points to 14.0 during 1994-95 (Appendix Table III.1).

C. Central Co-operative Banks

3.17 The deposits of Central Co-operative Banks (CCBs) grew by 14.6 per cent in 1994-95 which also was lower than the rise of 19.9 per cent recorded in 1993-94 (Chart III.3). Loans outstanding at end-March 1995 placed

CHART III.3:
Central Co-operative Banks - Rate of Growth of Deposits and Credit : 1993-94 to 1994-95

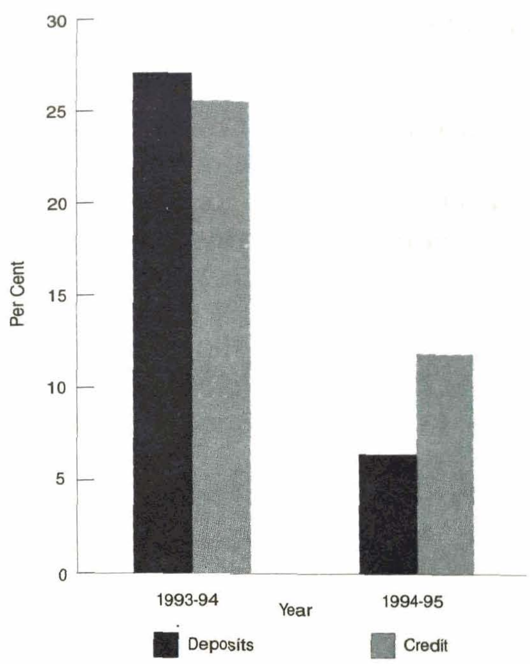


at Rs.18,240 crore were higher by 2.7 per cent than Rs.17,757 crore (18.9 per cent) a year ago. Here again, improvement in the overdue position was discernible ; the loans overdue as a percentage to demand declined from 33 per cent to 31 per cent during the same period (Appendix Table III.1).

Prudential Norms for SCBs and CCBs

3.18 The Reserve Bank, in consultation with NABARD, directed all SCBs and CCBs to adopt prudential accounting norms for income recognition, asset classification and provisioning for bad and doubtful debts from the accounting year, 1996-97. The provisioning requirement has been phased in such a manner that during the first year of implementation i.e., 1996-97, full provisioning (100 per cent) should be made for loss assets, and not less than 30 per cent for sub-standard and doubtful assets. The balance 70 per cent provisioning for sub-standard

CHART III.4:
Primary Agricultural Credit Societies - Rate of Growth of Deposits and Credit : 1993-94 to 1994-95



and doubtful assets for the accounting year 1996-97 together with fresh provisioning for 1997-98 will have to be made fully during 1997-98.

D. Primary Agricultural Credit Societies

3.19 The number of Primary Agricultural Credit Societies (PACSs) including large-sized Adivasi Multi Purpose Societies and Farmers' Services Societies declined marginally to 88,047 in 1994-95 from 89,067 in 1993-94. The deposits of PACSs increased by 6.5 per cent reaching Rs.2,520 crore by end-March 1995, but was much lower than the rise of 27.1 per cent in the previous year (Chart III.4). Loans outstanding at Rs.11,404 crore also decelerated to 11.9 per cent in 1994-95 from 25. 6 per cent increase in the preceding year. On the other hand, overdues as ratio to demand improved by 5 percentage points from 41.0 per cent in 1993-94 to 36.0 per cent in 1994-95 (Appendix Table III.1).

E. State/Central Land Development Banks

3.20 The deposits of State/Central Land Development Banks (SLDBs) recorded a high growth of 40 per cent during 1994-95 as compared with an increase of 23.1 per cent in the previous year. Loans outstanding at Rs.5,646 crore were higher by 4.5 per cent as compared with the rise of 14.5 per cent in 1993-94. The proportion of overdues to demand witnessed an increase with the ratio rising by one percentage point to 53.0 per cent during this period (Appendix Table III.1).

F. Primary Land Development Banks

3.21 With the addition of 4 PLDBs during 1994-95, the total number of PLDBs at the end of March 1995 stood at 731. The membership of PLDBs increased by 1.39 lakhs to 73.6 lakhs during the year 1994-95. Loans outstanding at Rs.1,699 crore recorded a rise of 11.3 per cent in 1994-95 as compared with 4.4 per cent increase in the preceding year. There was a deterioration in the overdue position; overdues as a ratio to demand rose significantly by 12 percentage points to 57.0 per cent in 1994-95 from 45.0 per cent during 1993-94 (Appendix Table III.1).

3. NABARD and the Co-operative Sector

Resources of NABARD

3.22 The net resource mobilisation of NABARD suffered a setback during 1995-96; it declined sharply by Rs.680 crore (or 29.6 per cent) to Rs.1,617 crore during 1995-96 from Rs.2,297 crore in 1994-95. The decline mainly reflected lower accretions to General Line of Credit (GLC) from the Reserve Bank of India and market borrowings through issue of bonds and debentures. The net accretion to the resources from GLC was Rs.444 crore in 1995-96 as against Rs.918 crore in the preceding year. The market borrowings through issue of bonds and debentures at Rs.45 crore in 1995-96 was only one-half of Rs.90 crore mobilised in 1994-95. On the other hand, reserves and surplus increased from Rs.465 crore in 1994-95 to Rs.506 crore in 1995-96. The Government of India and the Reserve Bank contributed Rs.85 crore each to the share capital of NABARD taking the total to Rs.500 crore in 1995-96 from Rs.330 crore in 1994-95. The borrowing from the Central Government amounted to Rs.65 crore during 1995-96 in contrast to a net repayment of Rs.62 crore from NABARD to the Government in 1994-95. The deposits under the Rural Infrastructure Development Fund (RIDF) placed by commercial banks with NABARD amounted to Rs.350 crore (Table III.3).

Table III.3 : Net Accretion in Resources Position of NABARD

(Rs.crore)

Sr. No.	Type of Resource	1994-95 (April-March)	1995-96 (April-March)
1	2	3	4
1.	Capital	210	170
2.	Reserves and Surplus	465	506
3.	NRC (LTO) Fund	251	251
4.	NRC (Stabilisation) Fund	2	2
5.	Deposits	-16	-24
6.	Bonds and Debentures	90	45
7.	Borrowings from Central Govt.	-62	65
8.	Borrowings from RBI		
	a. General Line of Credit	918	444
	b. ARDR Scheme 1990	69	-114
	c. Foreign Currency Loans	–	70
	d. Other borrowings Scheme	86	-86
	e. RIDF Deposits	–	350
	f. Govt. Security Refinance	117	-117
9.	Other Liabilities	167	55
	TOTAL	2,297	1,617

Source : NABARD.

3.23 During 1995-96, NABARD transferred Rs.251 crore and Rs.2 crore respectively to National Rural Credit (Long-Term Operations) Fund and National Rural Credit (Stabilisation) Fund, the same as in the preceding year.

3.24 The Union Budget 1996-97 envisaged quadrupling the share capital of NABARD from the present Rs.500 crore to Rs.2,000 crore in the next five year period. During the year 1996-97 itself, the share capital is to be increased from Rs.500 crore to Rs.1,000 crore for which the Budget has provided Rs.100 crore as Union Government's share while the Reserve Bank will contribute the balance amount i.e., Rs.400 crore.

Refinance from NABARD

3.25 The aggregate credit limits sanctioned by NABARD to SCBs and State Governments increased by 13.6 per cent during 1995-96; the utilisation of credit limits, however, declined sharply by 9.8 per cent during the same period. In the case of medium term refinance, there was a sharp decline during 1995-96 in sanctions (-59.6 per cent) as well as in utilisation (-40.5 per cent). In contrast, there was a significant improvement in the case of long term loans to State Governments, both in terms of the sanctions and utilisation of refinance (Table III.4). During the current financial year, i.e. 1996-97, the Reserve Bank has increased the General Line of credit (GLC) substantially to Rs. 5,500 crore. This alongwith the increase in paid-up capital of NABARD to Rs.1,000 crore (in 1996-97) is expected to substantially enhance the refinancing capacity of NABARD to the co-operative institutions.

3.26 The NABARD revised the rates of interest on its refinance facilities with effect from August 1, 1995 (Table III.5).

Table III. 4 : NABARD's Credit to State Co-operative Banks and State Governments

(Amount in Rs.crore)

Category	1994-95 (April-March)				1995-96 (April-March)			
	Limits	Drawals	Repay-ments	Outsta-nding	Limits	Drawals	Repay-ments	Outsta-nding
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks								
a. Short-term	5,042.4 (24.2)	6,884.9 (30.4)	6,290.0	3,119.0	5,837.0 (15.8)	6,193.3 (-10.0)	5,807.2	3,505.0
b. Medium-term	172.4 (417.7)	81.7 (42.3)	119.3	116.3	69.7 (-59.6)	48.6 (-40.5)	98.4	66.5
Total	5,214.8 (27.4)	6,966.6 (30.5)	6,409.3	3,235.3	5,906.7 (13.3)	6,241.9 (-10.4)	5,905.6	3,571.5
2. State Governments								
a. Long-term	73.0 (83.4)	74.9 (145.6)	29.6	281.8	100.1 (37.1)	107.8 (43.9)	26.4	363.2
Grand Total (1+2)	5,287.8	7,041.5	6,438.9	3,517.1	6,006.8	6,349.7	5,932.0	3,934.7

Note : 1. Limits and Outstandings are as on June 30, of respective years.
2. Figures in brackets are percentage variations over the preceding year.

Source : NABARD.

Development Action Plans (DAPs) and Memoranda of Understanding (MoUs)

3.27 The basic objective of the Development Action Plans (DAPs) was to analyse, in detail, the strengths and weaknesses of co-operative banks so as to increase their viability. For revamping the co-operative credit structure, the co-operative banks and State Governments were required to enter into MoUs with NABARD. As at the end of May 1996, MoUs in respect of all the 28 SCBs and all the 20 SCARDBs were signed. MoUs were also signed in respect of 358 CCBs out of 364 and 96 per cent of the total of 734 PCARDBs.

3.28 During 1995-96, NABARD issued guidelines on monitoring and reviewing of DAPs. Internal monitoring arrangements through the establishment of Institutional Development Cells (IDCs) within the co-operative banks and in NABARD were set up in nearly 80 per cent of the banks. External monitoring through the constitution of Monitoring and Review Committees (MRCs) at the State and District levels have also been constituted in about 80 per cent of the banks.

3.29 During 1994-95, the recovery performance in 14 out of 28 State Co-operative Banks (SCBs) and 14 out of 19 State/Central Land Development Banks (SLDBs) showed significant improvement. Similarly, the District Central Co-operative Banks (DCCBs) also showed improvements in the recovery performance in 10 out of 16 States.

Table III. 5 : NABARD's Structure of Interest Rates for Term Loans*

(Per cent per annum)

Size of limits	Rate of interest	Rate of interest on refinance			
		SCBs	CBs	RRBs	SCARDBs
1	2	3	4	5	6
1. Upto Rs.25,000	12.0 (12.0)	6.5 (6.5)	8.5 (7.5)	6.5 (6.5)	6.5 (6.5)
2. Over Rs.25,000 & upto Rs.2 lakh	13.5 (13.5)	9.5 (9.5)	10.5 (10.5)	9.5 (9.0)	9.5 (9.5)
3. Over Rs.2 lakh	Free (Free)	12.0 (@)	** @@	12.0 (11.0)	12.0 @@@

* Three years and above.

** 3.0 per cent below the rate charged to ultimate beneficiaries.

@ 4.5 per cent below the rate charged to ultimate beneficiaries.

@@ 4.0 per cent below the rate charged to ultimate beneficiaries.

@@@ For Thrust area schemes at 9.5 per cent and for Non-Thrust area schemes at 10.5 per cent.

CBs : Commercial Banks.

SCARDBs : State Co-operative Agricultural and Rural Development Banks.

Note : Figures in brackets indicate interest rates which were in effect from October 18, 1994 to July 31, 1995.

Source : NABARD.

Rural Infrastructure Development Fund (RIDF)

3.30 As envisaged in the Union Budget 1995-96, NABARD created Rural Infrastructure Development Fund (RIDF) with an initial corpus of Rs.2,000 crore for facilitating quicker completion of ongoing rural infrastructure projects. The Fund was created by contributions from scheduled commercial banks which could not fulfill their agricultural lending targets. During 1995-96, NABARD sanctioned loans aggregating Rs.1,984 crore to 19 States for completing 2,489 projects, mostly for irrigation, watershed management, rural bridges and flood protection schemes. The Union Budget, 1996-97 has indicated that RIDF will be augmented considerably in 1996-97 for which an additional Rs.2,500 crore will be made available. Nearly Rs.4,000 crore worth of irrigation projects are expected to be benefitted by this measure.

3.31 The disbursements under RIDF during 1995-96 aggregated Rs.387 crore with four States *viz.*, Maharashtra (Rs.82 crore), Orissa (Rs.51 crore), Rajasthan (Rs.43 crore), and Andhra Pradesh (Rs.39 crore), accounting for nearly 56 per cent of the total. The poor pace of disbursements of sanctioned assistance was due to the fact that the sanctions of the projects were communicated to most of the State Governments after finalisation of their budgets for 1995-96 as a result of which adequate budgetary provisions for these projects could not be made. Besides, acquisition of land for drainage was stated to be a major constraint impeding smoother implementation of certain irrigation projects.

Agricultural Development Finance Institutions

3.32 For promoting investment in commercial or high-technology agriculture and allied activities, the Union Budget 1996-97 has proposed setting up of State-level Agricultural Development Finance Institutions (ADFIs) with NABARD as the chief promoter. While 55 per cent of the equity of the ADFIs is slated to be offered to corporate houses and 100 per cent export-oriented units (EOUs) involved in hi-tech agricultural processing and allied activities, NABARD would retain 26 per cent of the equity. The remaining 19 per cent is to be offloaded to the respective State Governments and other financial institutions.

Major Policy Initiatives by NABARD

3.33 Consequent to the deregulation of interest rates by the Reserve Bank for the co-operative banking system, NABARD has also freed the lending rates of DCCBs and PACSs effective November 2, 1994. Accordingly, PACSs in eight States have raised their minimum lending rates, which ranged between 12.5 per cent to 14.5 per cent per annum. The DCCBs have also raised their lending rates varying between 10 per cent to 14 per cent per annum.

3.34 NABARD has liberalised its norms for sanctioning credit limits to apex/regional weavers' societies to the extent of 50 per cent of their anticipated sales for all varieties of cloth as against the earlier norms of 40 per cent. Similarly, it has been decided to assess working capital requirement of primary weavers' co-operative societies at 50 per cent of anticipated gross value of production as against 40 per cent reckoned earlier.

3.35 NABARD formulated, in consultation with the Reserve Bank, a scheme for providing refinance to commercial banks wherever DCCBs are weak with a view to financing the working capital requirements of Primary Handloom Weavers' Co-operative Societies.

3.36 The activities covered under Automatic Refinance Facility (ARF) of co-operative banks would no longer qualify in the calendar year 1996 for refinance assistance under Section 24 of the NABARD Act, 1981. Consequently, the stipulation that banks must lend a minimum of 40 per cent of the medium-term (non-schematic) advances for easily identifiable purposes has been withdrawn.

3.37 NABARD has announced its decision to support hi-tech/export-oriented projects which are in the nature of construction of post-harvest facilities such as private cold storage near airports, subject to their economic viability and technical feasibility.

3.38 For meeting the credit needs of tribals, NABARD has earmarked a sum of Rs.400 crore for 1994-95 providing refinance through a separate line of short-term (Seasonal Agricultural Operations) credit to SCBs and RRBs.

3.39 A new scheme for extending financial assistance for setting up 'Women Development Cells' by co-operative banks and RRBs has been introduced. Under the scheme, NABARD would meet 50 per cent of the salary of key personnel appointed to such cells for a period of three years beginning from 1995-96 subject to a maximum of Rs.75,000 per Cell per annum.

3.40 In order to step up the flow of institutional credit to the North Eastern Region, NABARD has liberalised refinance norms by way of higher percentage of refinance to commercial banks in the region and relaxation of minimum recovery norms. NABARD has also formulated banking plans for facilitating flow of investment credit for all States in the region as also encouraging development of supplementary credit delivery system through the Non-Government

Organisations (NGOs).

3.41 NABARD has accelerated the pace of implementation of the District Rural Industries Project (DRIP) in all the five pilot districts with the support of bankers, concerned departments of the State Governments and development agencies. The ground level disbursements for DRIP rose to Rs.73 crore during 1995-96 from Rs.47 crore in the preceding year; NABARD disbursed refinance of Rs.22.3 crore in 1995-96 which was higher than that of Rs.17.8 crore in 1994-95.

3.42 NABARD has constituted a 'NB-SDC Promotional Fund' as per the MoU signed with Swiss Development Corporation. The Fund has been bifurcated into 'Credit and Financial Services Fund' (CFSF) and 'Rural Promotion Corpus Fund' (RPCF). The former is to support banking and financial service institutions and activities for undertaking innovations and other financial service programmes so as to improve the efficiency of the credit delivery and services of rural enterprises, particularly the artisans and other micro enterprises. The objective of the latter is to support linkage activities such as input supply, marketing support, technology and skill upgradation so as to improve the overall capabilities of entrepreneurs at macro level.

CHAPTER IV

FINANCIAL INSTITUTIONS

Overview

Financial sector reforms have been fostering a greater degree of financial deepening and integration among financial intermediaries and, in the process, blurring the functional distinction among them. This chapter reviews the major developments in the operations of a range of financial institutions including development banks, investment institutions, mutual funds, State-level financial institutions as also non-banking financial companies (NBFCs).

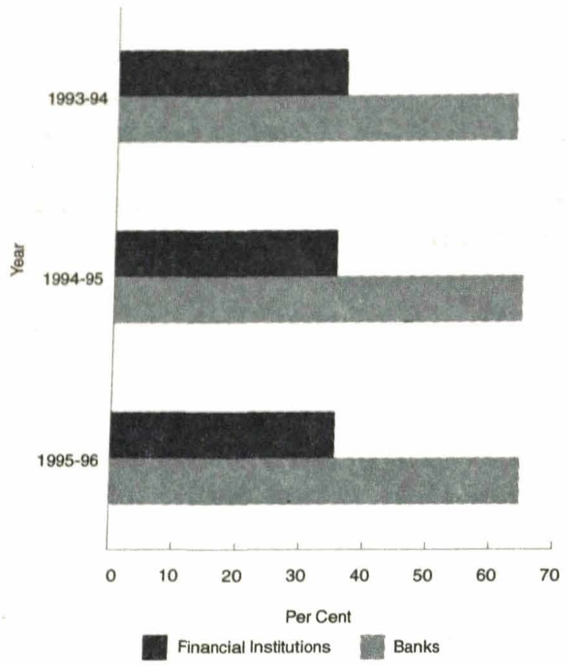
4.2 During 1995-96 (April-March), financial assistance as per sanctions and disbursements extended by all financial institutions slowed down considerably. However, the share of financial institutions in aggregate financial assets improved marginally to 35.3 per cent in 1995-96 from 35.2 per cent a year ago. Between February and December 1996, four major all-India financial institutions viz., Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Finance Corporation of India (IFCI) and SCICI used the debt market for mobilising funds. The performance of the mutual fund industry was severely affected by the prolonged subdued conditions in the capital market and relatively stringent money market conditions. In order to promote the mutual fund industry and as part of furtherance of financial sector reforms, the Reserve Bank effected substantial relaxations in the norms prescribed for setting up of Money Market Mutual Funds (MMMFs) in November 1995. The Reserve Bank has also announced a package of measures by way of relaxing its control over those NBFCs including *Nidhi* companies which comply with the prescribed registration and prudential norms. These measures are expected to promote efficiency in financial intermediation.

2. Assets of Financial Institutions

4.3 The aggregate financial assets of banks and financial institutions (FIs) showed a low growth of 11.1 per cent during 1995-96 as compared with a rise of 19.9 per cent in the preceding year (Appendix Table IV.1). Banks' financial assets decelerated to 11.0 per cent in 1995-96 from 22.0 per cent in 1994-95, while that of the FIs decelerated to 11.3 per cent in 1995-96 from 16.0 per cent in the previous year. Consequently, the share of FIs in aggregate financial assets marginally improved to 35.3 per cent in 1995-96 (Chart IV.1).

4.4 Among the FIs, the financial assets of all-India term-lending institutions increased by 15.9 per cent in 1995-96 as compared with an increase of 13.3 per cent in 1994-95. Within the all-India term lending institutions, there was slackening in the growth of financial assets of three institutions *viz.*, National Bank for Agriculture and Rural Development (NABARD), ICICI and Export - Import Bank of India (Exim Bank) while other institutions recorded expansion in their assets (Appendix Table IV.2). In the case of ICICI, the financial assets grew by 20.4 per cent in 1995-96 but was lower than the corresponding figure of 26.7 per cent in 1994-95. In respect of IDBI, the financial assets grew by 15.9 per cent in 1995-96 as compared with the rise of 10.1 per cent in the preceding year. The increase in financial assets of IFCI

CHART IV.1:
Share of Banks and Financial Institutions in Financial Assets : 1993-94 to 1995-96



during 1995-96 at 25.5 per cent far exceeded the previous year growth of 6.9 per cent. The financial assets of Industrial Reconstruction Bank of India (IRBI) and National Housing Bank (NHB), increased by 18.7 per cent and 3.1 per cent, respectively, in 1995-96 as compared with the increases of 12.6 per cent and 2.6 per cent in the preceding year.

4.5 Among the investment institutions, Life Insurance Corporation of India (LIC) recorded a marginally lower growth of 21.3 per cent in its financial assets during 1995-96. The financial assets of Unit Trust of India (UTI), on the other hand, suffered a major setback, indicating a decline of 2.0 per cent in 1995-96 as against a rise of 13.8 per cent in 1994-95.

3. Reserve Bank Assistance to Financial Institutions

4.6 During 1995-96 (July-June), the Reserve Bank's long-term and medium/short-term assistance as per sanctions to eligible financial institutions increased significantly by 14.0 per cent to Rs.341.4 crore as compared with the rise of 6.9 per cent in the preceding year (Appendix Table IV.3). During this period, only Small Industries Development Bank of India (SIDBI) and State Financial Corporations (SFCs) were provided fresh assistance by the Reserve Bank, as was the case in the preceding year. The SIDBI was extended long-term assistance of Rs.224.0 crore at an interest rate of 9.5 per cent per annum for a period of 15 years out of the repayments by IDBI to the NIC (LTO) Fund while SFCs were sanctioned medium/ short-term assistance of Rs.117.4 crore.

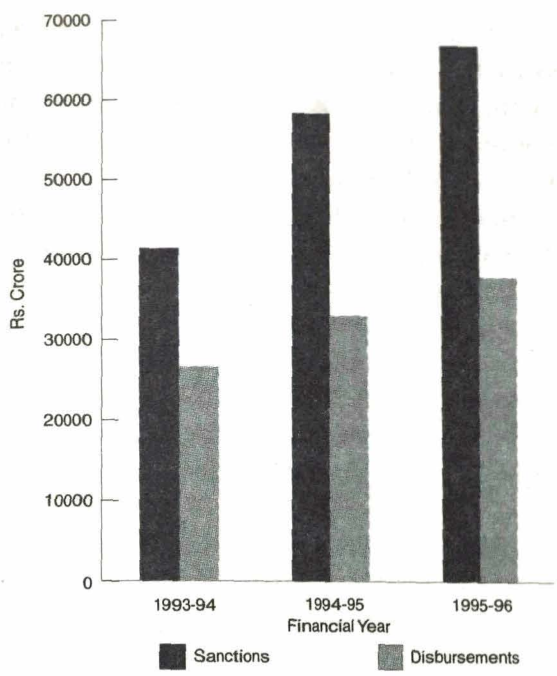
4.7 There was no change in the outstanding long-term borrowings of Exim Bank and IRBI under NIC (LTO) Fund facility which stood at Rs.877.0 crore and Rs.170.0 crore, respectively, as at end-June 1996. The outstanding long-term borrowings of NHB from the NHC (LTO) Fund also remained unchanged at Rs.175.0 crore. However, the outstanding long-term borrowings of IDBI declined to Rs.2,789.4 crore at end-June 1996 from Rs.3,033.2 crore a year ago, while that of SIDBI increased to Rs.1,604.8 crore from Rs.1,380.8 crore during the same period. The outstanding borrowings of IDBI under the special medium-term refinance facility also declined to Rs.200.0 crore at end-June 1996 from Rs.280.0 crore at end-June 1995. The Reserve Bank, under Section 17(4A)/(4BB) of the RBI Act, 1934, sanctioned borrowing limits of Rs.117.4 crore to 15 SFCs during the year at the Bank Rate against bonds guaranteed by respective State Governments/Union Territories valid upto June 25, 1996. The outstanding borrowings by SFCs amounted to Rs.6.7 crore as at end-June 1996.

4. Term Lending and Investment Institutions

Financial Assistance

4.8 During the fiscal year 1995-96, the

CHART IV.2:
Financial Assistance of All Financial Institutions : 1993-94 to 1995-96



growth in financial assistance both as per sanctions and disbursements (net of inter-institutional flows) extended by all financial institutions slowed down to 15.2 per cent and 15.1 per cent respectively, as against 37.6 per cent (sanctions) and 24.3 per cent (disbursements) in the preceding year. While the sanctions aggregated Rs.67,273.0 crore, disbursements amounted to Rs.38,125.7 crore (Chart IV.2). The quantum of assistance sanctioned by the all-India development banks, *viz.*, IDBI, IFCI, ICICI, SIDBI, IRBI and SCICI at Rs.56,985.6 crore was substantially higher by 18.6 per cent. Their disbursements at Rs.30,109.2 crore too were higher by 17.8 per cent over the preceding year (Appendix Table IV.4). On the other hand, there was a sharp decline of 27.4 per cent in sanctions extended by investment institutions, *viz.*, UTI, LIC and General Insurance Corporation of India (GIC), from Rs.8,756.3 crore in 1994-95 to Rs.6,355.5 crore in 1995-96; their disbursements at Rs.6,111.7 crore were marginally higher by 0.7 per cent than Rs.6,069.1 crore in 1994-95. The specialised financial institutions *viz.*, Risk Capital and Technology Finance Corporation (RCTC), Technology Development and Information Company of India (TDICI) and Tourism Finance Corporation of India (TFCI), increased their sanction to Rs.369.5 crore or by 2.3 per cent whereas their disbursements at Rs.231.0 crore recorded a decline of 5.9 per cent over the preceding year. The sanctions and disbursements by the State-level institutions showed a quantum jump of 51.7 per cent and 32.3 per cent, respectively, as compared with those in 1994-95.

Policy and Other Developments

4.9 The Reserve Bank has extended, in March 1996, prudential accounting norms of income recognition, asset classification and provisioning for bad debt as also the capital adequacy stipulation, as in the case of all term-lending institutions, to three refinancing institutions *viz.*, SIDBI, NABARD and NHB. SIDBI and NABARD are required to achieve a capital adequacy norm of 4.0 per cent by end-March 1996, 6.0 per cent a year later, and 8.0 per cent by end-March 1998, whereas NHB is required to meet these norms by end-June of each of these years.

4.10 The interest rate structure of development banks was revised upwards twice during the financial year 1995-96 with the Prime Lending Rate (PLR) raised to 15.5 per cent (inclusive of interest tax) effective April 20, 1995 and further to 16.0 per cent (exclusive of interest tax) effective November 20, 1995. But consequent to the announcement of the credit policy in October 1996, FIs have reduced their PLR by 50 basis points.

4.11 A significant development observed during 1995-96 (July - June) was the structural shift in sourcing of funds by the development financial institutions. Several of these institutions raised their resources, substantially from the market, through debt-instruments thereby activating the primary debt market in India. IDBI floated bonds valued at Rs.500 crore in February 1996 while ICICI entered the debt market to raise Rs.1,000 crore in April 1996. In July 1996, both IFCI and SCICI followed suit by raising Rs.800 crore and Rs.500 crore, respectively.

Infrastructure Development Finance Company

4.12 For providing long-term finance for infrastructure development, a new financial institution, *viz.*, Infrastructure Development Finance Company (IDFC) is being established with an authorised share capital of Rs.5,000 crore to be contributed by the Government of India, the Reserve Bank, banks and financial institutions. The Government of India has already made a budgetary provision of Rs.500 crore during the fiscal year 1996-97 with a matching initial contribution of Rs.500 crore by the Reserve Bank. The IDFC will act as a direct lender, as a refinancing institution and as a provider of financial guarantees.

Industrial Reconstruction Bank of India

4.13 As envisaged in the Union Budget for 1996-97, the IRBI is being transformed into a full-fledged, all-purpose development financial institution. Accordingly, amendment of the IRBI Act is proposed for its recasting. The restructuring of IRBI envisages strengthening of the institution through (i) conversion into a company to provide it with adequate operational flexibility, and (ii) financial restructuring involving strengthening of balance sheet through suitable changes in capital and asset-liability structure.

Finance for Small-Scale Sector

Specialised Branches

4.14 As part of the follow up action on Nayak Committee (1993) recommendations on financing of small-scale industries (SSIs), the public sector banks were required to set up 100 dedicated specialised branches during 1995-96 in 85 identified districts for improving the flow of credit to the SSI sector. The public sector banks have opened/converted 136 such branches in the identified districts, apart from 33 specialised branches in districts other than the identified ones, thus operationalising 169 specialised branches during the financial year 1995-96.

4.15 For strengthening the small-scale sector, the Union Budget, 1996-97 has envisaged a number of measures with the SIDBI as the focal point. These measures include the following : (i) SIDBI will refinance the SFCs and commercial banks for modernisation projects upto Rs.50 lakh from its unutilised corpus of about Rs.175 crore of the Technology Development and Modernisation Fund Scheme; (ii) SIDBI's refinance ceiling of Rs.50 lakh for the Single Window Scheme of SFCs etc. for composite loans will be doubled to Rs.100 lakh; (iii) SIDBI will participate in venture capital funds set up by public sector institutions as well as private companies upto 50 per cent of the total corpus of the fund, provided such a fund is dedicated to financing of small-scale industry; and (iv) SIDBI will provide refinance to lending institutions which are now permitted to lend to SSI units seeking ISO certification of quality.

5. Mutual Funds

4.16 With the entry of four new private sector mutual funds during 1995-96 (April-March), the total number of mutual funds (including UTI) increased to 25 at end-March 1996.

4.17 The performance of the mutual fund industry suffered a major set-back following the prolonged subdued conditions in the capital market and the stringent money market conditions. Consequently, both public sector mutual funds (excluding UTI) and private sector mutual funds could mobilise only Rs.332.2 crore and Rs.240.0 crore, respectively, during 1995-96, far below the sums of Rs.1,337.0 crore and Rs.1,326.8 crore, respectively, mobilised during 1994-95 (Appendix Table IV.5). As regards UTI, the net sales (sales minus repurchases), under its various schemes during 1995-96 registered a substantial decline of Rs.6,314.0 crore, indicating heavy repurchases particularly from Unit-64 scheme held by the corporates. This was in a sharp contrast to the substantial resource mobilisation of Rs.8,611.0 crore by UTI in the preceding year. As a result, the aggregate resource mobilisation by all mutual funds during 1995-96 declined, for the first time, by Rs.5,741.8 crore, in contrast to the impressive aggregate resource mobilisation of Rs.11,274.8 crore in the preceding year.

4.18 In order to promote mutual funds in the country, the Reserve Bank relaxed further the norms for setting up of Money Market Mutual Funds (MMMFs) in November 1995. Besides, to help broaden the investor base in MMMF schemes, several changes were effected such as allowing private sector institutions to set up MMMFs, removing the ceiling and minimum stipulation on the size of such funds, withdrawing the prescribed limits on investments in individual instruments as also the restriction on issue of units of such funds only to individuals, allowing issue of units to corporates and others and reducing the minimum lock-in period for investments from 46 days to 30 days. Responding to these, UTI, IDBI Mutual Fund and some banks have taken steps to set up MMMFs.

4.19 In May 1994, the Securities and Exchange Board of India (SEBI) had set up an Expert Committee on the accounting policies, net asset values and pricing of mutual funds. The Expert Committee submitted its report in December 1995, recommending, *inter alia*, norms for working out net asset value, pricing of units, accounting standards and remuneration structure of asset management companies. The report is under consideration of the SEBI. In April 1996, SEBI brought out a report on "Mutual Funds 2000" which encompassed an agenda of reforms for the mutual funds industry in the years ahead.

4.20 The Union Budget, 1996-97 envisages permitting the mutual funds and venture capital funds to have voting rights in respect of their holdings in companies.

6. Non-Banking Companies

4.21 The number of non-banking companies (NBCs) reporting deposits to the Reserve Bank has decreased by 624 to 10,725 at end-March 1995 from 11,349 at end-March 1994. Their aggregate regulated deposits showed an increase of Rs.10,721.0 crore or 40.3 per cent to Rs.37,295.2 crore during 1994-95 from Rs.26,574.2 crore in the preceding year (Appendix Table IV.6) (For definitions of types of NBCs and of their funds, please refer to Box IV.1). The regulated deposits of financial companies at Rs.25,322.9 crore accounted for bulk of the deposits with 67.9 per cent share while that of miscellaneous non-banking and residuary non-banking companies at Rs.4,711.6 crore formed 12.6 per cent of the regulated deposits. The regulated deposits of non-banking financial companies (NBFCs) aggregated Rs.30,034.5 crore; at this level, they would be equivalent to 8.0 per cent of the aggregate deposits of all scheduled commercial banks (excluding RRBs) at end-March 1995. A year ago, the regulated deposits of NBFCs placed at Rs.20,761.3 crore, accounted for only 6.2 per cent of scheduled commercial bank

BOX IV.1

NON-BANKING COMPANIES : COMMON TERMINOLOGY

Equipment leasing company : means any company which is carrying on as its principal business, the activity of leasing of equipment or the financing of such activity.

Hire purchase finance company : means any company which is carrying on as its principal business, hire-purchase transactions or the financing of such transactions.

Housing finance company: means any company which is carrying on as its principal business, the financing of the acquisition or construction of houses including the acquisition or development of plots of land in connection therewith.

Investment company: means any company which is carrying on as its principal business, the acquisition of securities.

Loan company: means any company which is carrying on as its principal business, the providing of finance whether by making loans or advances, or otherwise for any activity other than its own. This category does not include an equipment leasing company or a hire-purchase finance company or a housing finance company.

Mutual benefit financial company: means any company which is notified by the Central Government under Section 620A of the Companies Act 1956 (1 of 1956).

Non-banking financial company: means any hire-purchase finance, housing finance, investment, loan, equipment leasing or mutual benefit financial company, but does not include an insurance company or a stock exchange or a stock-broking company.

Miscellaneous non-banking company: means a company carrying on all or any of the following types of business.

Managing, conducting or supervising as a promoter, foreman or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that every one of them shall subscribe a certain sum in instalments over a definite period and that every one of such subscribers shall in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement be entitled to the prize amount.

Conducting any other form of chit or kuri which is different from the type of business referred to, in the immediately preceding sub-paragraph.

Undertaking or carrying on or engaging in or executing any other business similar to the business referred to, in the immediately preceding two sub-paragraphs.

Residuary non-banking company: means a company which receives any deposit under any scheme or arrangement, by whatever name called, in one lumpsum or in instalments by way of contributions or subscriptions or by sale of units or certificates or other instruments, or in any other manner and which, according to the definitions contained in the Non-Banking Financial Companies (Reserve Bank) Directions, 1977 or, as the case may be, the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977 is not

i) an equipment leasing company
ii) a hire-purchase finance company
iii) a housing finance company
iv) an insurance company
v) an investment company
vi) a loan company
vii) a mutual benefit financial company,
or
viii) a miscellaneous non-banking company.

Non-banking non-financial company: means an industrial concern as defined in the Industrial Development Bank of India Act, or a company whose principal activity is agricultural operations or trading in goods and services or real estate and which is not classified as financial or miscellaneous or residuary non-banking company.

Deposit: any money received by a non-banking company by way of a deposit or a loan or in any other form.

Regulated deposit: A deposit which is subject to certain ceilings and other restrictions as imposed by the regulatory measures is termed as regulated deposit, such as :

(a) non-convertible debentures, (b) deposits received by companies from their share holders, (c) deposits guaranteed by directors in their personal capacity, (d) fixed deposits, etc. received from public, and (e) inter-corporate deposits.

Exempted deposit: It signifies those types of deposits/borrowings which are outside the scope of the regulatory measures. It includes (a) borrowings from banks and specified financial institutions, (b) money received from Central/ State/Foreign Governments, (c) security deposits, (d) advances received against orders, (e) convertible debentures, etc.

Net owned fund: means the aggregate of the paid-up capital and free reserves as appearing in the audited balance sheet of the company as reduced by the amount of accumulated balance of loss, deferred revenue expenditure and other intangible assets, if any, as disclosed in the balance sheet.

deposits.

Shah Working Group and Follow-up Measures

4.22 As per the recommendations of the Working Group on Financial Companies (Chairman : Dr. A.C. Shah), non-banking financial companies (NBFCs) with net owned fund of Rs.50 lakh and above are required to register with the Reserve Bank. Accordingly, till June 1996 the Reserve Bank received 1,789 applications from all categories of financial companies for registration, out of which 797 companies were registered while 461 companies did not qualify for registration; the remaining applications were pending for scrutiny at various stages.

Expert Group for Designing a Supervisory Framework for NBFCs

4.23 The Expert Group constituted by the Bank under the chairmanship of Shri P.R. Khanna, for making an in-depth study on various aspects pertaining to supervisory jurisdiction of NBFCs, objectives, scope, strategy on prudential supervision, etc. has suggested a comprehensive supervisory framework for their regulation and supervision. The major recommendations of the Group include the following :

(i) All the NBFCs, regardless of their capital base, should be supervised mainly through off-site surveillance system, (ii) registered NBFCs should be subjected to supervisory rating, and (iii) the periodicity of their inspection should be determined depending upon such rating. The Group has also suggested enlargement of the role of the external/statutory auditors of the financial companies. All the major recommendations of the Group have been accepted by the Board for Financial Supervision (BFS) with some modifications. Accordingly, it has been decided to generally supervise the NBFCs through an off-site monitoring system. However, companies which have been issued certificates under the liberalisation measures announced in July 1996 as also the companies having total assets exceeding Rs. 50 crore would be subjected to on-site inspection every year. Companies having asset size of Rs. 5 crore and above but below Rs. 50 crore would be supervised once in two years.

Amendments of Directions on Interest Rates

4.24 In the context of the prevalent market conditions and other interest rates, the following changes were made in the interest rates payable by NBCs.

(i) The maximum rate of interest payable by financial and miscellaneous non-banking companies on their deposits was raised from 14 per cent to 15 per cent per annum from October 30, 1995.

(ii) The National Housing Bank, in consultation with the Reserve Bank, amended the Housing Finance Companies (National Housing Bank) Directions, 1989 by enhancing the interest rate on deposits to 15 per cent per annum from November 1, 1995.

(iii) The Department of Company Affairs, Government of India, in consultation with the Reserve Bank, amended the Companies (Acceptance of Deposit) Rules, 1975 by enhancing the interest rate to 15 per cent per annum from December 1, 1995.

Supreme Court Judgement on RNBCs

4.25 The Supreme Court, vide its judgement dated January 4, 1996, on a Special Leave Petition filed by the Reserve Bank of India against the Calcutta High Court judgement in the case of Peerless General Finance & Investment Company Ltd., a residuary non-banking company (RNBC), upheld the Reserve Bank's power to stipulate a one-time service charge to be collected by RNBCs towards cost of expenses of issuing brochure/application forms and servicing the account of a depositor/ subscriber to a maximum of Rs.10/-. Therefore, the Reserve Bank, in larger public interest, amended para.4A of Residuary Non-Banking Companies (Reserve Bank) Directions, 1987. The amendment envisages charging a one-time (non-refundable) sum, not exceeding Rs.80 for a new depositor/subscriber towards cost of expenses for issuing brochures, application forms and servicing depositors' account where the aggregate yearly subscription/ deposit exceeds Rs.500. Wherever the aggregate yearly subscription/deposit is less than this amount, there shall be a pro-rata reduction in the said one-time non-refundable amount of Rs.80.

Shere Working Group

4.26 In its judgement on RNBCs, the Supreme Court suggested *inter alia* that :

a) "Union Government may, therefore, consider whether it would be advisable to create a separate instrumentality which may be entrusted with the task of supervision and enforcement of the provisions regulating the functions of these companies".

b) "The Union Government may also consider whether the existing provisions need to be further strengthened so as to give greater protection to the interest of the depositors. We find that in England the Banking Act, 1987 contains provisions for Deposit Protection Scheme for the protection of the depositors. It may be considered whether provisions on similar lines could be introduced here".

4.27 In order to examine the issues involved in the above suggestions, the Reserve Bank appointed a Working Group (Chairperson : Smt. K.S.Shere) on creation of separate instrumentality for regulation and supervision of residuary and other non-banking financial companies and extension of deposit protection scheme. The terms of reference of the Group are as under:

i) To review the role of residuary non-banking and other financial companies (including Chit Fund companies) in tapping the deposits from the members of public;

ii) To review their operational impact on the monetary and credit policies laid down by the Reserve Bank of India from time to time;

iii) To review the status of these companies insofar as they have been able to inculcate confidence among the depositors on the basis of safety and liquidity of their assets as well as the security to the depositors and their track record in observance of the regulatory discipline;

iv) To review the efficacy of the supervision and control exercised by the Reserve Bank of India and to examine whether instead of Reserve Bank, there is a need for any other authority to regulate the activities of these companies;

v) To examine the feasibility of introducing a deposit insurance scheme for the depositors of all the non-banking financial companies on the lines of the U.K. Banking Act of 1987.

Liberalisation/Rationalisation Measures for NBFCs

4.28 The Reserve Bank, on July 24, 1996 announced a package of measures by way of relaxing its controls for those NBFCs which fully comply with its directions and guidelines (Box IV.2). For the Equipment Leasing and Hire Purchase Finance Companies (EL&HP) which fully comply with the directions and guidelines of the Reserve Bank and minimum credit rating requirement, interest rate controls and limits on mobilisation of deposits from the market are deregulated. The EL&HPs which do not

BOX IV.2

LIBERALISATION MEASURES RELATING TO NON-BANKING FINANCIAL COMPANIES

Category of Financial Companies	Overall ceiling on raising of Deposits	Requirement of Liquid Assets to Deposits	Stipulation on Rate of interest payable on Deposits
1	2	3	4
(i) Equipment Leasing and Hire Purchase (EL&HP) Finance Companies			
a) Registered EL&HP companies complying with credit rating requirement and the prudential norms.	Overall ceiling on deposits of 10 times the Net Owned Funds (NOF) removed; sub-ceiling of 2 times the NOF on Inter-Corporate Deposits (ICDs), however, remains unchanged.	Liquid assets to deposits reduced from 15 per cent to 12.5 per cent of which at least 10 per cent to be in Government Securities/Guaranteed Bonds.	Interest rates on deposits of one year and upto 5 years deregulated.
b) Registered EL&HP companies complying either with credit rating requirement or the prudential norms.	Overall ceiling on deposits of 10 times the NOF with a sub-ceiling of ICDs not exceeding 2 times the NOF remains unchanged.	Liquid assets to deposits at 15 per cent of which at least 10 per cent to be in Government Securities/ Guaranteed Bonds remains unchanged.	Not exceeding 15 per cent per annum.
c) Registered EL&HP companies complying neither with the credit rating requirement nor the prudential norms.	Overall ceiling on deposits reduced from 10 times to 7 times the NOF; the sub-ceiling of ICDs not exceeding two times the NOF remains unchanged.	Liquid assets to deposits at 15 per cent of which at least 10 per cent to be in Government Securities/Guaranteed Bonds remains unchanged.	Not exceeding 15 per cent per annum.
d) All other EL&HP companies	Overall ceiling on deposits reduced from 10 times to 5 times the NOF; the sub-ceiling on ICDs also reduced from 2 times the NOF to equal to NOF.	Liquid assets to deposits at 15 per cent of which at least 10 per cent to be in Government Securities/ Guaranteed Bonds remains unchanged.	Not exceeding 15 per cent per annum.

1	2		3	4
(ii) Loan and Investment Companies	**Deposits from**			
	Public/Share holders	**ICDs**		
a) Registered loan/ investment companies complying both with credit rating requirement and the prudential norms.	Overall ceiling on deposits increased from equal to NOF to 2 times the NOF.	Separate ceiling of 2 times the NOF remains unchanged.	Liquid assets to deposits reduced from 15 per cent to 12.5 per cent of which at least 10 per cent to be in Government Securities/Guaranteed Bonds.	Interest rates on deposits of one year and upto 5 years deregulated.
b) Registered loan/ investment companies complying either with the credit rating requirement or the prudential norms.	Overall ceiling on deposits equal to NOF retained.	Separate ceiling of 2 times the NOF remains unchanged.	Liquid assets to deposits at 15 per cent of which at least 10 per cent to be in Government Securities/Guaranteed Bonds remains unchanged.	Not exceeding 15 per cent per annum.
c) Registered loan and investment companies complying neither with the credit rating nor the prudential norms.	Overall ceiling on deposits reduced from equal to NOF to 15 per cent and 25 per cent of NOF for deposits from shareholders and public respectively.	Separate ceiling of 2 times the NOF remains unchanged.	Liquid assets to deposits at 15 per cent of which at least 10 per cent to be in Government Securities/Guaranteed Bonds remains unchanged.	Not exceeding 15 per cent per annum.
d) All other loan and investment companies.	Overall ceiling on deposits at 15 and 25 per cent of NOF continues for deposits from shareholders and public respectively.	Separate ceiling of 2 times the NOF reduced to equal to NOF.	Liquid assets to deposits at 7.5 per cent of which at least 5 per cent to be in Government Securities/Bonds remains unchanged.	Not exceeding 15 per cent per annum.

Notes : 1) All the relaxations whether deregulation of interest rates on deposits or removal of ceiling on deposits or increase in the limit of deposits or reduction in the liquid assets requirements will be effective from the date of receipt of the specific certificate from the Reserve Bank by the individual NBFC.

2) The reduction of the limits of deposits and liquid assets, wherever applicable, will be effective immediately i.e. from July 24, 1996.

3) NBFCs having deposits in excess of the revised limits have been given time upto six months to reduce the level within the revised limits and such companies are barred from renewing maturing deposits and accepting fresh deposits until they comply with the new stipulations.

fully comply with the directions, will continue to be subject to deposit rate and other regulations.

4.29 Loan and Investment Companies which comply with the Reserve Bank regulation and the minimum credit rating requirement, are entitled to deregulation from interest rate caps/ controls.

4.30 While the removal of the overall ceiling on deposits will be effective from the date of receipt of the necessary certificate by the eligible NBFCs from the Reserve Bank, the reduction of the deposit limit, wherever applicable, will be effective immediately *i.e.*, from July 24, 1996. The NBFCs having excess deposits in relation to the revised limits now set, have been permitted a six-month period to bring the deposits within the stipulated level. Besides, these NBFCs have been barred from renewing the maturing deposits and also accepting any fresh deposits until they comply with the new stipulations.

Enforcement of the Provisions of Chapter III-C of the RBI Act, 1934

4.31 In the context of large number of unincorporated bodies such as individuals, association of individuals, partnership firms etc. resorting to aggressive advertisement for soliciting deposits by offering very high rates of interest, the Reserve Bank has asked State governments to take effective action to ensure that unincorporated bodies do not accept deposits from the public except to a limited extent as specified in Chapter III-C of the RBI Act. It has also reminded the concerned State governments about their enabling powers to take action for contravention of the provisions of Section 45 S of Chpater III-C of RBI Act and to keep a vigil on the deposit acceptance activities of unincorporated bodies. The Reserve Bank has also advised State governments that wide publicity to the provisions of Chapter III-C be given so that the public become aware of the same. The Bank undertook the scrutiny of records of certain unincorporated bodies to verify any infringement of law with a view to taking appropriate follow-up action.

4.32 The Union Budget for 1996-97 envisaged to bring about amendments to the Reserve Bank of India Act, so as to strengthen the regulatory powers of the Bank over all types of NBFCs, both corporate and non-corporate. The Budget also proposed that companies defaulting on payment of interest or repayment of principal on deposits would be debarred from raising further deposits until these defaults were remedied. The necessary amendments to the Reserve Bank of India Act, 1934 have since come into effect in January 1996 with the promulgation of an Ordinance by the Government of India.

Relaxation of Deposit Rate for Nidhis

4.33 Mutual Benefit Financial Companies (MBFCs), popularly known as *Nidhis*, were exempt from most of the provisions of the Reserve Bank's NBFCs directions. Effective July 8, 1996 the Reserve Bank had imposed a ceiling of 15 per cent interest rate on deposits mobilised by them and prohibited them from issuing advertisements in any form and paying any brokerage for soliciting deposits.

4.34 In view of the rationalisation measures taken for registered NBFCs which comply with the Reserve Bank's guidelines and directions, and which are functioning on sound lines, effective August 24, 1996 the Reserve Bank has freed MBFCs' deposit interest rates as well. The exemption from the interest rate ceiling is allowed to :

i) MBFCs having complied with the directions contained in Government of India Department of Company Affairs Notification No. GSR 773(E) dated December 4, 1995.

ii) MBFCs having positive net owned fund (NOF) as on March 31, 1996.

iii) MBFCs which are and will be in a position to repay the amount of their liabilities including the interest payable to the depositors as and when their claims arise.

iv) MBFCs having the ratio of NOF to deposits not exceeding 1:20, as on the date of the application.

v) The compliance with the above requirements should be certified by the MBFCs' statutory auditors, being the member of the Institute of Chartered Accountants of India.

The existing ban on issue of advertisement and payment of brokerage for mobilisation of deposits, however, will continue.

4.35 In view of the representations received from various quarters, the Bank announced on October 25, 1996 temporary relaxation from the requirement of achieving the ratio of NOF to deposits not exceeding 1:20 and allowed them time till January 15, 1997 to comply with the above ratio. Further on January 15, 1997 the prescribed ratio of NOF to deposits not exceeding 1:20 was made applicable only on the incremental deposit liabilities over January 15, 1997. However, MBFCs with NOF to deposits ratio of 1:20 or less as on January 15, 1997 should not exceed the prescribed ratio of 1:20 on the aggregate deposit liabilities

4.36 The eligible MBFCs have to apply to the concerned Regional Office of the Reserve Bank under whose jurisdiction their registered offices are situated for exemption of the interest rate ceiling, furnishing relevant information and documents showing the compliance with the aforesaid conditions.

ANNEXURE I

PROGRESS OF FINANCIAL SECTOR REFORMS: 1992-93 TO 1996-97

1. Reserve/Liquidity Requirements

a) Cash Reserve Ratio (CRR)

1992-93

i) The scheduled commercial banks were exempted from maintenance of the 10 per cent incremental CRR over the level of net demand and time liabilities (NDTL) as on April 17, 1992.

ii) One-third of additional cash balances maintained under the 10 per cent incremental CRR on NDTL between May 3, 1991 and upto the level of April 17, 1992 was released to banks in three equal instalments from the fortnights beginning October 17, November 14 and December 12, 1992.

iii) Effective the fortnight beginning October 17, 1992, no interest was paid on the increase in eligible cash balances based on NDTL maintained after March 23, 1990 under the average 15 per cent CRR as well as on the eligible cash balances maintained under the 10 per cent incremental CRR.

1993-94

i) The average CRR on NDTL was reduced from 15 per cent to 14 per cent in two phases i.e., 14.5 per cent from the fortnights beginning April 17 and 14 per cent from May 15, 1993.

1994-95

i) In order to sterilise the expansionary effect of the surge in foreign currency assets, CRR was increased from 14 per cent to 15 per cent in three phases: 14.5 per cent, 14.75 per cent and 15 per cent from the fortnights beginning June 11, July 9, and August 6, 1994 respectively.

ii) From the fortnight beginning January 7, 1995, banks were required to maintain a minimum of 85 per cent of the CRR requirement on each of the first 13 days of the reporting fortnight, failing which they would not be paid interest for that/those day/days even though there was no shortfall in the maintenance of CRR on average basis for the fortnight. On the 14th day of the reporting fortnight, banks were allowed to maintain less than 85 per cent of the required cash balances to adjust the average of daily balances to the required level.

1995-96

i) CRR was reduced from 15 per cent to 14.5 per cent from the fortnight beginning November 11, 1995 and further to 14 per cent from the fortnight beginning December 9, 1995.

ii) From the fortnight beginning September 30, 1995, banks were required to maintain a minimum level of 85 per cent of the CRR requirement only from the first working day of the reporting fortnight. However, this stipulation would not be applicable on the last working day of the reporting fortnight. For this purpose, banks should reckon the holidays with reference to the centre where they have their principal account for maintenance of CRR.

1996-97

i) CRR was reduced from 14.5 per cent in two stages: to 13.5 per cent from the fortnight beginning April 27, 1996 and to 13 per cent from the fortnight beginning May 11, 1996. CRR was further reduced to 12 per cent from the fortnight beginning July 6, 1996.

ii) CRR was reduced by two percentage points from 12 per cent to 10 per cent in four phases of 0.5 percentage points as follows :

11.5 per cent by October 26, 1996,
11 per cent by November 9, 1996,
10.5 per cent by January 4, 1997 and
10 per cent by January 18, 1997.

b) Statutory Liquidity Ratio (SLR)

1992-93

i) SLR was frozen at 38.5 per cent of the outstanding domestic NDTL as on April 3, 1992 and for any increase in domestic NDTL over April 3, 1992 level, the SLR was reduced from 38.5 per cent to 30 per cent.

ii) SLR, on the level of outstanding domestic NDTL as on April 3, 1992 was reduced from 38.5 per cent to 37.75 per cent in three phases, i.e., 38.25 per cent from the fortnight beginning January 9, 1993, 38 per cent from February 6, 1993 and 37.75 per cent from March 6, 1993.

1993-94

i) SLR on domestic NDTL as on April 3, 1992 was reduced to 37.5 per cent from August 21 and further to 37.25 per cent from September 18, 1993.

ii) The base date for SLR on domestic NDTL was brought forward from April 3, 1992 to September 17, 1993 and SLR was fixed at 34.75 per cent.

iii) SLR on any increase in domestic NDTL over the level as on September 17, 1993 was reduced from 30 per cent to 25 per cent.

1994-95

i) SLR on the level of domestic NDTL as on September 17, 1993 was reduced from 34.75 per cent to 34.25 per cent effective August 20, 1994 and further to 33.75 per cent effective September 17, 1994.

ii) The base date for SLR on domestic NDTL was brought forward from September 17, 1993 to September 30, 1994 and SLR was fixed at 31.5 per cent effective October 29, 1994 and for any increase in domestic NDTL over the level as on September 30, 1994 the SLR was fixed at 25 per cent.

1995-96

i) With a lower stipulation of SLR on incremental NDTL over the level as on September 30, 1994 and zero SLR requirement on certain specific external liabilities, the overall effective SLR was estimated to have declined to 28.2 per cent by the end of March 1996 as against 29.3 per cent at the end of March 1995.

ii) Effective October 14, 1995 scheduled commercial banks (excluding RRBs) were required to adopt, for the purpose of SLR, the same system of valuation of Government securities as for the balance sheet purposes.

c) Inclusion/Exemption of certain liabilities from Reserve/Liquidity Requirements

1992-93

i) Liabilities under the following schemes were exempt from both CRR and SLR requirements :

a) Non-Resident (Non-Repatriable) Rupee Deposit Scheme (NRNR), b) Foreign Currency (Non-Resident) Accounts (Banks) [FCNR(B)] Scheme, c) Escrow Accounts, d) Inter-Bank Foreign Currency Deposit (IBFCD) Accounts, e) Foreign Currency (FC) Accounts, f) Resident Foreign Currency (RFC) Accounts, and g) Foreign Currency Non-Resident Ordinary Non-Repatriable (FCON) Accounts.

ii) Certificate of Deposits (CDs) issued by banks over the pre-May 2, 1992 limit, equivalent to 5 per cent of the fortnightly average outstanding aggregate deposits in 1989-90, were exempted from CRR requirements.

1993-94

i) The number of schemes exempt from both CRR and SLR requirements remained the same as in 1992-93.

ii) CDs issued over pre-May 2, 1992 limit were brought under the purview of CRR from the fortnight beginning April 17, 1993.

1994-95

i) From the fortnight beginning October 29, 1994 a CRR of 7.5 per cent was prescribed on liabilities under the FCNR(B) Scheme. This was raised to 15 per cent from the fortnight beginning January 21, 1995. However, liability under FCNR(B) Scheme was exempted from SLR requirement.

ii) A CRR of 7.5 per cent on liability under NRNR Scheme was prescribed from the fortnight beginning January 21, 1995.

1995-96

i) The increase in liabilities under Non-Resident External (Rupee) (NRE) Accounts over the level outstanding as on October 27, 1995 was exempted from maintenance of average CRR with effect from the fortnight beginning October 28, 1995 and average CRR on outstanding liabilities as on October 27, 1995 was reduced to 10 per cent with effect from the fortnight beginning January 6, 1996.

ii) The increase in liabilities under NRNR accounts over the level outstanding as on October 27, 1995 was exempted from maintenance of CRR with effect from the fortnight beginning October 28, 1995 and all liabilities under NRNR Scheme were exempted from CRR with effect from fortnight beginning January 6, 1996.

iii) The increase in liabilities under FCNR(B) Scheme over the level outstanding as on November 24, 1995 was exempted from CRR with effect from the fortnight beginning November 25, 1995. Average CRR on the outstanding liabilities as on November 24, 1995 was reduced to 7.5 per cent with effect from December 9, 1995. With effect from January 6, 1996 all liabilities under FCNR(B) Scheme were exempted from CRR.

1996-97

i) All liabilities under NRE Scheme were exempted from CRR, effective the fortnight beginning April 13, 1996.

ii) Effective the fortnight beginning April 13, 1996 SLR on outstanding liabilities under the NRE Scheme was reduced from 30 per cent to 25 per cent.

d) Foreign Currency Borrowings

1996-97

i) Effective October 19, 1996 banks were allowed to lend their FCNR(B) deposits in foreign currency denominated loans to corporates.

2. Interest Rates

a) Lending Rates

1992-93

i) Effective April 22, 1992 the lending rates structure was rationalised from the earlier six categories into four categories of which one was a minimum rate and interest rates on CDs were freed.

ii) The minimum lending rate (MLR) for credit limit of over Rs. 2 lakh was reduced from 20 per cent to 19 per cent effective March 2, 1992, to 18 per cent effective October 9, 1992 and further to 17 per cent effective March 1, 1993.

1993-94

i) The lending rates structure was further rationalised into three categories of which one was a minimum rate effective April 8, 1993 from four categories earlier.

ii) Effective October 16, 1993, bank-wise limits on issue of CDs were withdrawn.

iii) The minimum maturity of a term deposit under the NRE Deposit Scheme was raised upwards from 46 days to 6 months effective May 16, 1994.

iv) MLR was reduced to 16 per cent effective June 24, 1993 and further to 15 per cent effective September 2, 1993.

v) MLR on term loan of 3 years and above was reduced from 15 per cent to 14 per cent effective March 1, 1994.

vi) The fixed interest rate on term loans over Rs. 25,000 and upto Rs. 2 lakh was reduced from 15 per cent to 14 per cent effective March 1, 1994.

1994-95

i) Effective October 18, 1994 MLR for credit limits of over Rs. 2 lakh was abolished and banks were free to fix their own Prime Lending Rates (PLR) subject to the approval of their Board of Directors.

ii) Effective October 18, 1994 the lending rate for credit limits of over Rs. 25,000 and up to Rs. 2 lakh for all advances including term loans was fixed at 13.5 per cent.

iii) The stipulation of effective interest rate on bill discounting of over Rs. 2 lakh which was at one percentage point below the lending rate under this category was withdrawn from October 18, 1994.

1995-96

i) Effective October 1, 1995 banks were allowed to fix their own interest rate on advances over Rs. 2 lakh against term deposits.

1996-97

i) Effective August 26, 1996 lending rates of Regional Rural Banks were deregulated.

ii) On October 19, 1996 the Reserve Bank advised the banks to announce the maximum spread over the PLR for all advances other than consumer credit along with their PLRs approved by the Boards.

b) Interest Rates on Export Credit

1995-96

i) Effective October 31, 1995 interest rate on Post-Shipment Export Credit denominated in US Dollars (PSCFC) in respect of usance bills for periods beyond 90 days and up to six months from the date of shipment was enhanced from 7.5 per cent to 9.5 per cent per annum. The interest rate on export credit not otherwise specified for PSCFC, which was 9.5 per cent per annum, was also freed.

ii) Effective January 16, 1996, a rate of interest of 9.5 per cent per annum was prescribed on PSCFC for a total period of upto 90 days as against 7.5 per cent per annum earlier. On credit over 90 days, banks were free to fix their own interest rates.

iii) Effective February 8, 1996 the interest rate on Post-Shipment Export Rupee Credit for over 90 days and up to 180 days was deregulated.

1996-97

i) Effective October 21, 1996, interest rates on Post-Shipment Export Rupee Credit were rationalised and banks were advised to charge interest rate of 15 per cent for the period beyond 90 days and upto 6 months and not from the date of advance.

c) Deposit Rates

1992-93

i) Effective April 22, 1992 deposit rates were subject to only one ceiling rate as against the prescribed rates earlier.

ii) Banks' maximum deposit rate was reduced from 'not exceeding 13 per cent' to 'not exceeding 12 per cent' effective October 9, 1992 and further to 'not exceeding 11 per cent' effective March 1, 1993.

iii) The interest rate on savings deposits under the NRE scheme was raised from 5 per cent to 6 per cent with effect from October 9, 1992.

1993-94

i) Effective July 1, 1993 interest rate on savings deposits was reduced from 6 per cent to 5 per cent.

ii) Effective April 8, 1993 maximum term deposits rate under NRE Scheme was reduced from 'not exceeding 13 per cent' to 'not exceeding 12 per cent', and to 'not exceeding 11 per cent' effective October 12, 1993 and further to 'not exceeding 10 per cent' effective May 16, 1994.

iii) Term deposits rate was reduced to 'not exceeding 10 per cent' effective September 2, 1993.

iv) New FCNR (B) Scheme was introduced effective May 15, 1993 entailing the commercial banks to provide the exchange rate guarantee to depositors.

1994-95

i) Effective October 18, 1994 term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was reduced from 'not exceeding 10 per cent' to 'not exceeding 8 per cent'.

ii) Effective November 1, 1994 the savings deposit rate including under NRE accounts was reduced to 4.5 per cent from 5 per cent earlier.

iii) Effective February 10, 1995 maximum term deposit rate was increased to 'not exceeding 11 per cent' from 'not exceeding 10 per cent' earlier.

1995-96

i) Effective April 18, 1995 the maximum term deposit rate was increased to 'not exceeding 12 per cent' from 'not exceeding 11 per cent' earlier.

ii) Effective October 1, 1995 banks were given freedom to fix their own interest rates on domestic term deposits with a maturity of over two years.

iii) Effective October 1, 1995 the maximum term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was raised from 8 per cent to 10 per cent and further to 12 per cent effective October 31, 1995.

1996-97

i) Effective April 4, 1996 with a view to bringing about an alignment of the maturity structure of NRE term deposits with that on domestic term deposits, interest rate on NRE term deposits of over two years was freed.

ii) Effective July 2, 1996 banks were given freedom to fix their own interest rates on domestic term deposits with a maturity of over one year. Further, to provide some outlet for management of short-term surplus funds, owing to the developments in the money market and the progressive move from the cash credit system to a loan system, the minimum period of term deposits was reduced from 46 days to 30 days. Accordingly, effective July 2, 1996, the interest rate on domestic term deposits of 30 days and up to one year was prescribed at 'not exceeding 11 per cent per annum'.

iii) Effective October 21, 1996 the interest rate on domestic term deposits of maturity between 30 days to one year was reduced to 10 per cent.

3. Changes in the Refinance Policy

a) Export Credit (Rupee) Refinance

1992-93

i) Effective April 22, 1992, 60 per cent of increase in export credit (rupee denominated) over the monthly average level for 1988-89 upto the monthly average level for 1989-90 plus 125 per cent of increase in export credit over the monthly average level for 1989-90 was eligible for refinance.

ii) Effective October 31, 1992, 60 per cent of increase in export credit (rupee denominated) over the monthly average level for 1988-89 upto the monthly average level for 1989-90 plus 110 per cent of increase in export credit over the monthly average level for 1989-90 was eligible for refinance.

1993-94

i) Effective May 15, 1993, 60 per cent of increase in export credit (rupee denominated) over the monthly average level for 1988-89 upto the monthly average level for 1989-90 plus 100 per cent of increase in export credit over the monthly average level for 1989-90 was eligible for refinance.

ii) Effective October 30, 1993, the base year was shifted by one year (i.e. 1989-90 and 1990-91 will be the new base years) - 60 per cent of increase in export credit (rupee) over the monthly average level for 1989-90 upto the monthly average level for 1990-91 plus 100 per cent of increase in export credit over the monthly average level for 1990-91 was eligible for refinance.

1994-95

i) Effective May 28, 1994, the base year was shifted by one year. 60 per cent of increase in export credit over the monthly average level for 1990-91 upto the monthly average level for 1991-92 plus 100 per cent of increase in export credit over the monthly average level for 1991-92 was eligible for refinance.

1995-96

i) Effective April 29, 1995 the refinance limit was enhanced to 100 per cent of increase in export credit over the monthly average level of outstanding export credit in 1992-93.

1996-97

i) The refinance formula for export credit was rationalised effective the fortnight beginning April 13, 1996 whereby scheduled commercial banks would be provided export credit refinance to the extent of 45 per cent of the outstanding export credit was eligible for refinance (rupee credit and PSCFC taken together) upto the level of such export credit as on February 16, 1996 plus 100 per cent of increase in outstanding export credit over the level of such export credit as on February 16, 1996.

ii) Effective November 9, 1996, 20 per cent of outstanding export credit was made eligible for refinance upto the level of such credit as on February 16, 1996 **plus** 100 per cent of increase in outstanding export credit over the level as on February 16, 1996.

b) Export Credit Refinance- Denominated in US Dollars (PSCFC)

1992-93

i) Under Post-Shipment Export Credit Denominated in U.S. Dollars (introduced in January 3, 1992) banks were eligible for export credit refinance limits equivalent to 133-1/3 of such credit provided by them to exporters. Effective October 31, 1992, this refinance limits was reduced to 120 per cent (from 133-1/3).

1993-94

i) Effective May 15, 1993 the export credit refinance limits were further reduced to 100 per cent of such credit provided by banks to exporters.

1994-95

i) Effective May 28, 1994 the export credit refinance limits were further reduced to 80 per cent of such credit provided by banks to exporters.

1995-96

i) Effective April 29, 1995 the export refinance limits were further reduced to 70 per cent of such credit provided by banks to exporters.

ii) Overdue PSCFC was made ineligible for refinance with effect from October 31, 1995.

iii) PSCFC beyond 90 days and upto 6 months from the date of shipment sanctioned on or after January 16, 1996 was made ineligible for refinance.

iv) With effect from February 8, 1996, PSCFC scheme was terminated. However, the refinance limits against eligible PSCFC was allowed to continue till the respective due dates.

c) Government Securities Refinance

1992-93

i) Effective October 31, 1992 the refinance limit of 0.5 per cent of the fortnightly average outstanding aggregate deposits in 1991-92 was eligible under Government securities at the rate of 14 per cent per annum.

1995-96

i) Effective September 30, 1995 the refinance limit was raised to one per cent of the fortnightly average outstanding aggregate deposits in 1994-95. The refinance limit was provided under two separate limits (a) 0.5 per cent of the fortnightly average outstanding aggregate deposits in 1994-95 against the collateral of Treasury Bills at the rate of 12.5 per cent per annum and (b) 0.5 per cent of the fortnightly average outstanding aggregate deposits in 1994-95 against the collateral of dated Government and other approved securities at the rate of 14 per cent per annum.

1996-97

i) Effective July 6, 1996 Government securities refinance facility was withdrawn.

4. Institutional/Other Developments

1995-96

i) The private sector mutual funds approved by SEBI, were allowed to operate only as lenders in the call/notice money/bill rediscounting market on April 17, 1995.

ii) Effective September 30, 1995 the minimum period for Repos in Treasury Bills and Government dated securities was stipulated to be 3 days.

iii) Effective November 23, 1995 the private sector was allowed to set up Money Market Mutual Funds (MMMFs). The size of MMMFs and limits on investments by MMMFs were deregulated.

iv) Effective January 1, 1996 banks are free to decide their own foreign exchange overnight open position limits subject to the approval by the Reserve Bank as against the earlier uniform limit of Rs. 15 crore for each bank.

1996-97

i) Effective April 3, 1996, the scheme of MMMFs was made more flexible by bringing it on par with all other mutual funds by allowing investment by corporates and others.

ii) The scheme of MMMFs was made more attractive to investors, by reducing the minimum lock-in period from 46 days to 30 days, effective July 3, 1996.

5. Internal Debt Management Policies

1992-93

i) During the year, an active debt management policy was pursued to prudently influence the composition, maturity structure and yield of Government securities which by reducing monetised deficit and effectively controlling money supply, enhanced the efficacy of monetary policy. Accordingly, many reform measures were introduced such as :

a) auctions of 364-day Treasury Bills and 91-day Treasury Bills, b) auction of Government dated securities of varied maturities, and c) Repurchase Agreement (Repo) auction.

ii) With the introduction of auction system, the interest rates on Government borrowing instruments were closely market related. The cut-off yields of 91-day Treasury Bills were significantly higher than the earlier fixed discount rate of 4.6 per cent per annum. The cut-off-yields of 364-day Treasury Bills ranged between 10.96 per cent and 11.42 per cent. The coupon rate on 15-year State Government securities turned out to be 13 per cent.

1993-94

i) In order to develop an efficient secondary market for Government securities, the Reserve Bank decided to set up 'Securities Trading Corporation of India' (STCI).

ii) The maximum maturity period of State Government securities was reduced from 15 years in 1992-93 to 10 years.

iii) The coupon rate on 10 year State Government securities was hiked from 13 per cent in 1992-93 to 13.5 per cent in 1993-94 in order to make these securities attractive.

iv) A new instrument called 'Zero Coupon Bond' of five year maturity was introduced on auction basis on January 18, 1994.

v) Funding of 364-day Treasury Bills and 91-day Treasury Bills was effected as an important aspect of internal debt management in 1993-94.

1994-95

i) A historic agreement was signed on September 9, 1994 between the Reserve Bank and the Government of India on the net issue of ad hoc Treasury Bills. As per the agreement, the net issue of ad hoc Treasury Bills for the year 1994-95 was not to exceed Rs. 6,000 crore; if the net issue of ad hoc Treasury Bills exceeded Rs. 9,000 crore for more than ten consecutive working days at any time during the financial year 1994-95, the Reserve Bank was to automatically reduce only the excess beyond the prescribed level of ad hoc Treasury Bills by auctioning Treasury Bills or selling fresh Government of India dated securities in the market; similar ceilings for the net issue of ad hoc Treasury Bills would be stipulated for the years 1995-96 and 1996-97 and from 1997-98 the system of ad hoc Treasury Bills would be totally discontinued.

ii) STCI Ltd. commenced operations from June 27, 1994.

iii) From the fiscal year 1994-95, the allocations of open market borrowings was made only to State Governments and not to State-guaranteed institutions.

iv) From July 4, 1994 State Governments and non-Government provident funds were allowed to participate in 91 day Treasury Bills auctions on a non-competitive basis with allotment at weighted average price.

v) Government of India, for the first time, issued securities on a tap basis on July 29, 1994.

vi) Particulars of transactions in Government securities including Treasury Bills put through SGL accounts at Public Debt Office at Mumbai were being released to the Press daily beginning September 1, 1994.

vii) Government of India issued, for the first time, on November 15, 1994 Government Stock (Securities) for which payment was made in instalments.

viii) Repo facility with RBI in Government dated securities was extended to STCI and DFHI to provide liquidity support to their operations.

ix) To strengthen Government securities market, guidelines and procedure for enlistment of Primary Dealers in Government securities market were issued on March 29, 1995.

x) A scheme for auction sale of Central Government securities held in the Reserve Bank's portfolio was introduced.

xi) The Reserve Bank decided to delink its role of investment management on behalf of Provident Funds.

xii) The Reserve Bank issued guidelines and procedure for enlistment of Primary Dealers in the Government securities market on March 29, 1995 to develop the institutional set up for a secondary market in Government securities.

1995-96

i) Net issue of ad hoc Treasury Bills was decided not to exceed Rs. 5,000 crore at the end of the financial year 1995-96 and not to exceed Rs. 9,000 crore for more than ten continuous working days at any time during the year 1995-96.

ii) An auction system for conversion of Treasury Bills into dated Government of India securities was introduced in April 1995.

iii) For the first time, Government of India converted a maturing two-year dated Government security into another dated security of the same maturity on July 14, 1995.

iv) A system of Delivery Versus Payment (DVP) in Government securities was introduced in Mumbai from July 17, 1995 to synchronise the transfer of securities with the cash payment thereby reducing the settlement risk in securities transaction and also preventing diversion of funds in the case of transactions through Subsidiary General Ledger (SGL).

v) New instrument of Floating Rate Bonds was introduced on September 20, 1995.

vi) The DVP system was extended to auction Treasury Bills from February 14, 1996.

vii) With effect from March 1, 1996 DFHI and STCI started functioning as Primary Dealer (PD) in Government Securities Market out of the six 'in principle' approvals granted in November 1995.

1996-97

i) It was decided to continue with the previous year's limits on ad hoc Treasury Bills for fiscal 1996-97 i.e., the net issue not to exceed Rs. 5,000 crore at the end of the financial year 1996-97 and not to exceed Rs. 9,000 crore for more than ten consecutive working days at any time during the year 1996-97.

ii) With a view to encouraging schemes of mutual funds dedicated to Government securities and creating a wider investor base for Government securities, the Reserve Bank announced on April 20, 1996 a provision for liquidity support to mutual funds dedicated exclusively to investments in Government securities either by way of outright purchases or reverse repos in Central Government securities up to 20 per cent of outstanding investment.

iii) In addition to DFHI and STCI, four more PDs, viz., SBI Gilts Ltd., PNB Gilts Ltd., Gilt Securities Trading Corporation Ltd. and ICICI Securities Co. Ltd., became operational from June 1, 1996.

iv) As a part of measures to develop secondary market in Government securities and making the market deep and broad based, the Reserve Bank issued guidelines to banks for retailing of Government securities with non-bank clients on June 8, 1996.

v) With a view to providing incentives to PDs to develop the secondary market in Government securities, the Reserve Bank decided to pay commission on their primary purchases (including the underwriting commitment) of Central Government securities effective July 10, 1996.

vi) With a view to enabling the State Governments to meet temporary mismatches between receipts and expenditures, effective August 1, 1996, the level of Ways and Means Advances provided by the Reserve Bank to each State Government was doubled; the aggregate limits of the State Governments were increased from Rs. 1,542.8 crore to Rs. 3,085.6 crore.

vii) Effective September 6, 1996 PDs were allowed to access commercial paper market.

viii) The Reserve Bank has announced on December 31, 1996, the guidelines for setting up of Satellite Dealers with the aim of strengthening the infrastructure in Government securities market.

6. Prudential Norms

a) *Capital Adequacy Norms*

1992-93

i) In order to improve the financial health of the banking system, the Reserve Bank introduced a risk-asset ratio system for banks in India as a capital adequacy measure. Accordingly, all Indian banks with international presence were asked to achieve a capital to risk-asset ratio of 8 per cent by March 31, 1994. Foreign banks operating in India were asked to achieve this norm of 8 per cent by March 31, 1993. Other banks were asked to achieve 4 per cent ratio by March 31, 1993 and 8 per cent ratio by March 31, 1996.

1993-94

i) The Government of India had made a provision of Rs. 5,700 crore in the 1993-94 Union Budget for recapitalisation of nationalised banks. Recapitalisation of 19 nationalised banks was made on January 1, 1994 subjecting the banks under time bound 'performance obligations'. The recipient banks were required to invest the Government's capital subscription in Government bonds known as '10 per cent Recapitalisation Bonds, 2006'.

ii) Indian banks having branches abroad were given one year extension to achieve the capital adequacy norm of 8 per cent i.e. by March 31, 1995.

1994-95

i) As against the budgetary provision of Rs. 5,600 crore towards recapitalisation of nationalised banks for the year 1994-95, the revised estimates was Rs. 5,287.12 crore out of which a sum of Rs. 4,362.54 crore was allocated to 13 nationalised banks and Rs. 924.58 crore passed on as Tier II capital to six nationalised banks against the World Bank assistance.

1995-96

i) The Government released a sum of Rs. 850 crore towards recapitalisation of nationalised banks during 1995-96.

ii) Banks were directed to maintain Tier I capital funds of 5 per cent of the foreign exchange open position limit besides the existing capital adequacy requirements.

b) *Capital Restructuring*

1993-94

i) 'The State Bank of India Act, 1955' was amended by an Ordinance in October 1993 to enhance the scope of the provision for partial private share holding.

ii) SBI was the first public sector bank to tap the capital market with an equity-cum-bond issue of Rs. 3,212.18 crore in December 1993.

1994-95

i) Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 were amended with effect from July 15, 1994 permitting the banks to raise capital up to 49 per cent from the public.

ii) Oriental Bank of Commerce was the first nationalised bank to access the capital market with an equity issue of Rs. 387.24 crore in October 1994.

iii) The Government of India promulgated an Ordinance in January 1995 to amend the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 for enabling the banks to reduce their paid-up capital.

1995-96

i) The Government of India provided Rs. 1,506.21 crore during 1995-96 towards writing down of the capital base of two banks for adjustment of their losses. A further provision of Rs. 1,532 crore was made in the Union Budget (interim) 1996-97 for similar writing down of capital base of three more banks.

1996-97

i) A provision of Rs. 909 crore was made in the Union Budget 1996-97 for recapitalisation of public sector banks in 1996-97.

ii) Dena Bank entered the capital market to raise Rs. 180 crore in October 1996 while Bank of Baroda entered the capital market to raise Rs. 850 crore in December 1996.

c) Income Recognition and Provisioning

1992-93

i) In April 1992, it was decided to implement the Narsimham Committee's recommendations on financial sector reforms with certain modifications, in a phased manner over a three year period commencing from the accounting year 1992-93. Accordingly, a prudential system of income recognition, classification of assets and provisioning for bad debts was put in place beginning financial year 1992-93.

ii) In order to reflect actual financial health of banks, the Reserve Bank instructed the commercial banks to treat an amount in respect of term loans, overdrafts and cash credit accounts, bills purchased and discounted and other accounts as "Past due" when not paid on the due date (since revised to 30 days beyond the due date).

iii) A 'non-performing asset' is defined as a credit facility in respect of which interest has remained 'past due' for a period of four quarters ending March 31, 1993, three quarters ending March 31, 1994 and two quarters ending March 31, 1995 and onwards. Banks were instructed not to charge and take to income account interest on all Non-Performing Assets (NPAs).

iv) Banks were required to classify their advances into four broad groups : (a) standard assets, (b) sub-standard assets, (c) doubtful assets, and (d) loss assets from the earlier system of eight health codes.

v) Banks were advised in March 1993 to make 100 per cent provision in respect of loss assets, and not less than 30 per cent of the total provisioning needed in respect of sub-standard and doubtful advances and advances with outstanding balance of Rs. 25,000 for the year ended March 31, 1993. The balance of provisioning needed in respect of the above categories of advances not provided for as on March 31, 1993 together with the fresh provisioning needed in respect of credit facilities identified in the year ending March 31, 1994 should be made as on that date.

vi) In respect of advances with an outstanding balances of less than Rs. 25,000, banks were asked to make aggregate provisioning to the extent of 2.5 per cent of the total outstanding for the year 1992-93, rather than a case by case evaluation of a very large number of small accounts.

1993-94

i) Banks were required to make full stipulated provision against NPAs identified during 1993-94 besides the carried forward provisioning for 1992-93.

ii) In respect of advances with balances less than Rs. 25,000, the required provision for the year ended March 31, 1994 was enhanced from 2.5 per cent to 5 per cent of such advances without reckoning the DICGC/ECGC cover.

1994-95

i) The provisioning requirement for NPAs with balances of less than Rs. 25,000 was increased from 5 per cent of the aggregate amount outstanding in respect of such advances for the year ending March 31, 1994 to 7.5 per cent for the year ending March 31, 1995 and further to 10 per cent for the year ending March 31, 1996. From the year 1996-97, the provisioning requirement for NPAs with balances of less than Rs. 25,000 was to be made as per the classification of advances.

ii) The ratio of permanent and current investment in the approved securities was prescribed at 70:30 per cent for the year ended March 1995.

1995-96

i) The ratio of 'permanent' and 'current' investments in approved securities was enhanced to be 60:40 for the year ending March 1996.

ii) Banks were advised on April 3, 1995 that interest accrued and credited to income account during the year ended March 1994 in respect of accounts identified as NPAs for the first time during the year ended March 31, 1995 should be reversed or provided for as on that date.

iii) Banks were advised that provision need not be made for a period of one year from the date of disbursement in respect of additional facilities sanctioned under the rehabilitation package approved by BIFR/term lending institutions.

iv) Banks were advised that from 1995-96 onwards, for arriving at the provision required to be made in respect of doubtful assets, the realisable value of the securities should be deducted from the outstanding balance in respect of advances guaranteed by ECGC/DICGC.

1996-97

i) The ratio for investments in the permanent category for scheduled commercial banks was reduced from 'not exceeding 60 per cent' in 1995-96 to 'not exceeding 50 per cent' in 1996-97.

d) Recovery of Bank Loans

1993-94

i) In order to effect speedy recovery of loans, a new Act 'Recovery of Debts due to Banks and Financial Institutions Act, 1993', for the creation of Special Recovery Tribunals was passed by the Parliament on August 27, 1993.

1994-95

i) Debt Recovery Tribunals at Calcutta, Delhi, Bangalore, Jaipur and Ahmedabad and Appellate Tribunal at Mumbai were set up. However, Delhi High Court quashed the notification of constituting the Tribunal for Delhi region in March 1995.

1995-96

i) Banks were required to have loan recovery policy delineating, *inter alia*, norms for write-off.

ii) The Supreme Court stayed the operation of the Delhi High Court judgment in April 1995 and admitted special leave petition filed on behalf of the Government.

e) Lending Norms

1992-93

i) For calculation of Maximum Permissible Bank Finance (MPBF) only two-thirds of term loan instalment falling due for payment during the next 12 months was to be treated as part of current liabilities effective January 8, 1993. This was further liberalised in April 1993 by treating only one third of such instalment due, as part of current liabilities.

ii) Banks were permitted to provide term loans to entrepreneurs/private sector undertakings for technically feasible, financially viable and bankable projects involving creation of infrastructure facilities subject to the terms and conditions and extent of participation governing sanction of term loans. Banks, however, were not allowed to extend term loans for infrastructure facilities created out of budgetary allocations.

1993-94

i) Term loan instalment falling due for payment during the next 12 months need not be treated as current liabilities for the purpose of the calculation of MPBF.

ii) Banks could decide on their own the levels of holding of individual items of inventory and of receivables while assessing credit requirements of borrowers.

iii) The threshold limit for obligatory consortium lending was raised from Rs. 5 crore to Rs. 50 crore.

iv) Banks were permitted to extend bridge loans/interim finance against capital issues/ market borrowing (domestic) upto 50 per cent of the amount "called up" on each occasion without the prior approval of the Reserve Bank. However, sanction of bridge loan against Euro-issue was subject to prior approval of the Reserve Bank.

v) There was a major change in policy by linking bank participation in term loans to 'quantum of loan' instead of 'cost of project'. Banks were allowed to lend individually upto Rs. 50 crore and the banking system collectively upto Rs. 200 crore for each project subject to compliance with prudential exposure norms.

vi) Jilani Committee set up to review the cash credit system submitted its Report in October 1993.

vii) Effective October 18, 1993 the facility of issue of CP was extended to companies having working capital (fund-based) limit of not less than Rs. 4 crore; the size of CP issue continued to be Rs. 25 lakh and in multiple of Rs. 5 lakh subject to a ceiling of 30 per cent of the working capital (fund-based) limit.

1994-95

i) Banks were advised to extend cash credit facilities to farmers with irrigation facilities and also to other farmers undertaking off farm/allied activities in October 1994.

ii) In October 1994, the ceiling of Rs. 50 crore for each bank for grant of term loans for any project was abolished and the overall limit of Rs. 200 crore for the banking system as a whole was raised to Rs. 500 crore for a single project. Sanction of such term loans, however, continued to be subject to compliance with prudential exposure norms.

iii) The stipulated margin of not less than 25 per cent for advances granted against deposits was withdrawn, banks were free to determine the margin on a case by case basis.

iv) Banks/financial institutions were permitted to extend bridge loans/interim finance to all companies, including finance companies, against public issues/market borrowing (domestic) upto 75 per cent of the amount called up on each occasion as against 50 per cent prescribed earlier.

v) In September 1994, banks were advised not to extend bridge loans/interim finance in the form of bridging nature to all categories of non-banking financial companies.

vi) In September 1994, the overall limit of bank credit to loan and investment companies and residuary non-banking financial companies was reduced to twice the net owned fund (NOF) as against three times the NOF as hitherto. In respect of credit to equipment leasing and hire purchase companies, the limit of four times the NOF was to continue provided such borrowers were predominantly engaged in equipment leasing/hire purchase business; other-wise, bank credit was restricted to three times the NOF.

vii) Banks were permitted to extend finance to public sector undertakings (registered under the Companies Act, 1956 or as a corporation under the relevant Act) for projects involving creation of infrastructure facilities subject to the same terms and conditions as applicable to the private sector. Additionally, banks were asked to ensure that such PSUs were run on commercial lines and repayment was made out of income generated by the project and not out of Government subsidies/budgetary allocation.

1995-96

i) A 'Loan System' for Delivery of Bank Credit for working capital purpose was introduced effective April 17, 1995 to bring about greater discipline in credit utilisation and better control over credit flow. The 'cash credit' component was fixed at 75 per cent of the Maximum Permissible Bank Finance (MPBF), while 'loan' component was fixed at 25 per cent.

ii) Banks were advised to reduce the 'cash credit' component from 75 per cent to 60 per cent of the MPBF and to increase the 'loan' component from 25 per cent to 40 per cent effective October 5, 1995.

iii) Effective April 17, 1995 bridge loan by banks/financial institutions to all companies was banned. In October 1995, subject to the compliance of certain conditions, banks were allowed to sanction bridge loans against the commitment of financial institutions and/or other banks where the lending institution was faced with temporary liquidity constraint.

iv) Effective April 21, 1995 bank credit limit to loan and investment companies and residuary non-banking companies was reduced to the level of NOF from twice the level of NOF of the company; for companies having not less than 75 per cent of their assets in equipment leasing and hire purchase activity and 75 per cent of their gross income from these two types of activities as per their last audited balance sheets, the limit was brought down to thrice the level of NOF; for other equipment leasing/ hire purchase companies the limit was prescribed to twice the level of NOF.

v) Effective April 21, 1995 the extent of CP to be issued by a company was restricted to 75 per cent of the 'cash credit' component of the working capital limit instead of 75 per cent of the working capital (fund-based) limit as hitherto.

vi) Effective July 25, 1995 banks were advised to scrupulously follow the guidelines in the Accounting Standard (AS7) prescribed/ issued by the Institute of Chartered Accountants of India (ICAI) for the construction companies.

vii) Effective December 22, 1995 banks were allowed to sanction term finance up to Rs. 1,000 crore for each power generation project, subject to certain terms and conditions.

1996-97

i) In order to further strengthen the discipline in the utilisation of bank credit by borrowers with assessed MPBF of Rs. 20 crore or above, the 'cash credit' component under the 'Loan System' was reduced to 40 per cent of MPBF and the 'loan' component was increased to 60 per cent effective April 18, 1996; with a view to extending the 'Loan System' in respect of borrowers with assessed MPBF between Rs. 10 crore and Rs. 20 crore, the 'cash credit' component was restricted to 60 per cent while the 'loan' component fixed at 40 per cent.

ii) Consequent on restricting the 'cash credit' component to 40 per cent of the MPBF in the case of borrowers with MPBF of Rs. 20 crore and above, such borrowers were permitted to issue CPs to the entire extent of 'cash credit' component, as against 75 per cent earlier. In the case of borrowers with MPBF of Rs. 10 crore or above but less than Rs. 20 crore, the amount of issuable CP was restricted to 75 per cent of the 'cash credit' component.

iii) The mandatory requirement of levy of commitment charge on the unutilised portion of the working capital credit limits of Rs. 1 crore and above was withdrawn effective July 1, 1996, and banks were advised to evolve their own guidelines for ensuring credit discipline and levy of commitment charge.

iv) The mandatory requirement of levy of additional interest of two percentage points above the relevant cash credit, interest rate on the portion of the book-debt finance in excess of 75 per cent of the limits sanctioned to borrowers with fund-based credit limits of Rs. 5 crore and above was withdrawn effective July 1, 1996.

v) Effective October 19, 1996 'cash credit' component was reduced from 40 per cent to 25 per cent with MPBF over Rs. 20 crore. In the case of companies with MPBF between Rs. 10 crore to Rs. 20 crore, the cash credit to loan ratio of 60:40 has been reversed to 40:60.

vi) Effective November 4, 1996 CPs can be issued by all bank borrowers eligible to issue CPs upto 100 per cent of the working capital (fund-based) limit sanctioned by banks subject to certain conditions.

f) Investment Norms

1993-94

i) Ceiling of 5 per cent of incremental deposits of the previous year on bank's investment in PSU bonds was withdrawn effective January 25, 1994.

1994-95

i) Standby facility for CP was abolished in October 1994; after issuance of CP, the banks were advised to effect a 'pro tanto' reduction in the cash credit limit.

1995-96

i) Banks were advised in April 1995 to desist from acquiring shares/debentures etc. in the secondary market.

ii) The period for transferring the shares held by banks in their names against advances to share and stock brokers held by them as stock-in-trade, was raised to 9 months effective July 15, 1995 from a period of more than 3 months earlier. Besides, the monetary limit for such advances was raised to Rs. 5 lakh from Rs. 3 lakh earlier.

1996-97

i) In October 1996 the prohibition on banks acquiring shares and debentures of corporate bodies in the secondary market was removed and banks were permitted to purchase shares and debentures in the secondary market within the ceiling of 5 per cent of incremental deposits of the previous year prescribed for investments in corporate shares, debentures and units of mutual funds. However, such purchases (other than inter-bank transactions) should be only through recognised stock exchanges and registered stock brokers.

ii) Effecive November 30, 1996 banks were also permitted to purchase PSU bonds in the secondary market (other than inter-bank trasactions) provided these bonds have been issued and registered in the name of the seller and purchased through recognised stock exchanges and registered stock brokers.

iii) The limit for sanction of advances against shares and advances to individuals was raised from Rs. 5 lakh to Rs. 10 lakh with effect from September 6, 1996.

iv) Effective November 30, 1996 the requirement of sanctioning advances exceeding Rs. 5 lakh against shares and debentures by the Board/Committee of Directors was withdrawn and banks were given freedom to decide the appropriate levels of authority for sanction of such advances.

7. Technological Issues

1993-94

i) Decks were cleared for further computerisation of banks following agreements with trade union in October 1993.

1994-95

i) A High Powered Committee headed by Shri W.S. Saraf set up to study the technology issues relating to payment and settlement system in the banking industry submitted its report on December 9, 1994.

1995-96

i) The recommendations of the Saraf Committee were at various stages of implementation.

ii) The Committee (Chairperson : Ms. K.S. Shere) set up in April 1995 by the Reserve Bank to study all aspects of Electronic Funds Transfer (EFT) for instituting an EFT system in India, submitted its report in January 1996.

iii) Under the World Bank's Financial Sector Development Project, the participating banks could obtain a modernisation and institutional development loan of US $ 150 million for extending, *inter alia*, automation and computerisation of banking operations.

8. Regulatory and Supervisory Issues

a) Supervision System

1993-94

i) A decision to set up a Board for Financial Supervision (BFS) within the Reserve Bank was taken in May 1993 to ensure implementation of regulations in the areas of credit management, asset classification, income recognition, capital adequacy and treasury operations.

ii) Operational support to BFS was to come from the new Department of Supervision (DoS) set up within the Bank in December, 1993. DoS started exercising supervision over commercial banks.

1994-95

i) To enable the Board for Financial Supervision (BFS) to perform some of the functions of the Central Board of the Reserve Bank of India, the Reserve Bank of India (BFS) Regulations, 1994 framed under Section 58 of the RBI Act, 1934 came into effect from July 28, 1994.

ii) BFS under the Chairmanship of Governor of the Reserve Bank became functional from November 16, 1994 with a Deputy Governor as Vice Chairman and six other members. BFS and the Advisory Council constituted under the RBI (BFS) Regulations, 1994 would each have a term of two years.

iii) An audit sub-committee comprising the Vice Chairman and two members of the BFS was set up in January 1995 to examine, on an on-going basis, the system of auditing of banks, financial institutions and non-banking financial companies.

1995-96

i) Effective April 1995, the BFS started supervising the all-India financial institutions and from July 1995 non-banking financial companies.

ii) A Working Group on Internal Controls in Banks set up in February 1995 to review the internal control and inspection/audit system in banks (Chairman R.J. Jilani) submitted its report on September 20, 1995.

iii) A Working Group to 'Review the System of On-site Supervision over Banks' headed by Shri S. Padmanabhan, constituted in February 1995, submitted its report on November 8, 1995.

b) Bank Branch Licensing

1992-93

i) The branch licensing policy for 1990-95 which provided operational autonomy to banks to rationalise the structure of their branches continued. Banks were permitted to shift their existing branches within the same locality, open specialised branches, convert the existing non-viable rural branches into satellite offices and spin-off business of a branch.

ii) Also, banks which attained the stipulated capital adequacy norms and prudential accounting standards were permitted to set up new branch offices/upgrade the extension counters into full-fledged new branches without the prior approval of the Reserve Bank.

1993-94

i) In August 1993 banks were allowed to close, with the Reserve Bank approval, on mutual consultation, one loss making branch at rural centres served by two commercial banks branches excluding RRBs.

ii) RRBs were allowed in December 1993 to relocate their loss incurring branches at new places within their service area/area of operation.

1994-95

i) Banks which attained capital adequacy ratio of 8 per cent, earned net profit for three consecutive years, having NPAs not more than 15 per cent of total outstanding loans and a minimum owned funds of Rs. 100 crore were advised in June 1994 to submit to the Reserve Bank a plan of action for opening of new branches or to upgrade existing extention counters during the next one year for prior approval.

ii) In June 1994, scheduled commercial banks were asked to open at least one specialised Agricultural Finance Branch in each State to adequately deal with high-tech agricultural financing where they are convenors of the respective State Level Bankers' Committee.

1995-96

i) In line with the Bhandari Committee's recommendation, the branch licensing policy for RRBs was modified in June 1995 as follows: (a) 70 RRBs, freed from the Service Area obligations, were given freedom to relocate their loss making branches preferably within the same block or convert them into satellite/ mobile offices; (b) Two loss making branches of the same RRB within five kms were permitted to merge; (c) RRBs with Service Area obligations were free to relocate loss-making branches at 'specified centres' within their Service Area; (d) Such RRBs were allowed to convert their loss making branches into satellite/mobile offices, provided such conversion would not impair the performance of SAA obligations; (e) Two branches of the same RRB within five kms in a geographically contiguous Service Area were allowed to be merged; (f) These RRBs were allowed to open new branches at 'specified centre' within their area of operation.

ii) Banks were advised to set up 100 specialised branches in 85 identified districts to meet the requirements of Small Scale Industries.

c) Private Sector Banks

1992-93

i) In order to introduce greater competition in the banking system, the Reserve Bank issued guidelines in January 1993 for the establishment of new banks in the private sector.

1993-94

i) The Banking Regulation Act, 1949 was amended in February 1994 raising the ceiling of voting rights of an individual shareholder in a private bank from one per cent to ten per cent.

1994-95

i) Six new private banks, viz., UTI Bank Ltd., IndusInd Bank Ltd., ICICI Banking Corporation Ltd., Global Trust Bank Ltd., Centurion Bank Ltd., and HDFC Bank Ltd., commenced banking business out of 'in principle' approval given for setting up ten private banks during the year.

1995-96

i) With four more new private banks viz., Times Bank Ltd., Bank of Punjab Ltd., Development Credit Bank Ltd., and IDBI Bank Ltd., nine private sector banks became operational. Two more 'in principle' approvals were granted during the year.

1996-97

i) As proposed in the Union Budget for 1996-97, guidelines were issued on August 24, 1996 for setting up of new private local area banks with jurisdiction over two or three contiguous districts. A minimum paid-up capital of Rs. 5 crore was stipulated for such banks.

ii) The Reserve Bank has granted 'in principle' approval on January 15, 1997 for establishment of two Local Area Banks.

d) Priority Sector Lending

1992-93

i) Regarding credit delivery to the SSIs, the Reserve Bank advised the banks : a) to step up the credit flow to meet the legitimate requirements of SSI sector in full during the Eighth Five-Year Plan, b) to provide working capital limits upto Rs. 100 lakh to SSIs, and c) to set up an institutional frame-work for redressal of grievances of SSI units, as also modified the definition of sick SSI units so that potentially viable SSI units could be helped in their rehabilitation efforts at an early stage.

1993-94

i) Effective April 1993 foreign banks were advised to increase their priority sector advances from 15 per cent of their net credit to 32 per cent by March 1994. Within the enhanced target of 32 percent, two sub-targets of 10 per cent each in respect of advances to (a) small scale industries and (b) export sector, were fixed.

ii) Government of India redefined SSIs with investment in plants and machinery worth upto Rs. 60 lakh (Rs. 75 lakh in the case of ancillary units and export oriented units). All advances granted to SSIs as per revised definition were treated as priority sector advances by the Reserve Bank.

1994-95

i) Banks were advised to consider on merits proposals for term finance/loans in the form of lines of credit to State Industrial Development Corporations and State Financial Corporations subject to the observance of terms and conditions advised to banks from time to time. The extent of such loans to SSI units would be treated as a part of priority sector lending.

1995-96

i) Banks were required to contribute to the Rural Infrastructure Development Fund (RIDF), newly set up at NABARD, an amount equivalent to shortfall in the priority sector target for agricultural lending, subject to a maximum of 1.5 per cent of the Bank's net credit. Such contributions, expected to provide Rs. 2,000 crore during 1995-96, would also be treated as priority sector lending.

ii) Banks, falling short of the priority sector target, were required to provide Rs. 1,000 crore on a consortium basis to the Khadi and Village Industries Commission, on top of lending to the Handloom Co-operatives, for the purpose of financing viable Khadi and Village Industrial units which would be reckoned as priority sector lending.

iii) Entire amount of refinance granted by sponsor banks to the RRBs would be reckoned as priority sector lending.

1996-97

i) As per the Union Budget 1996-97 proposal, an additional amount of Rs. 2,500 crore would be made available for financing rural infrastructure through the RIDF during 1996-97.

ii) The target for export credit for scheduled commercial banks was raised in October 1996 to 12 per cent of net bank credit to be reached by end-March 1997 from the present 10 per cent fixed in November 1992. Banks having higher ratio of export credit than the target should ensure that there was no fall in the ratio.

e) Customer Services

1992-93

i) Customer service in the banking sector was perceived as an integral part of the overall financial sector reforms. Accordingly, the Reserve Bank initiated speedy action relating to (a) advancing of working hours, (b) extension of business hours, (c) acceptance of small denomination notes, (d) exchange of soiled and mutilated notes, (e) immediate credit of local cheques upto Rs. 5,000, and (f) payment of interest at enhanced rate on delayed collection of outstation instruments at minimum lending rates when the proceeds of the instruments were to be credited to cash credit.

1993-94

i) As a part of implemention of the recommendations of the Goiporia Committee on customer service in banks, the Reserve Bank advised all commercial banks to monitor and evaluate 25 core recommendations of the Committee in the prescribed format. The bank branches were required to send their evaluation reports on a quarterly basis to their controlling offices, which would in turn consolidate them and send a report to their head offices as also to the Reserve Bank at prescribed intervals (half-yearly).

1995-96

i) For expeditious and inexpensive resolution of customer complaints against deficiency in banking services, the Banking Ombudsman Scheme, 1995 was introduced in June 1995. So far 8 ombudsmen were appointed, one each at New Delhi, Mumbai, Bhopal, Bangalore, Chandigarh, Hyderabad, Patna and Jaipur.

ii) a) For local and outstation cheques upto Rs. 5,000, banks were required to provide immediate credit. b) For local cheques, customers were allowed to use the credited funds latest by the third working day from the date of acceptance of the cheque. c) Banks were advised to constitute a committee under a General Manager to identify the areas and factors for delays in collection of outstation instruments.

1996-97

i) Stand alone ATMs at places other than branches and extension counters were allowed to provide functional facilities such as : a) PIN Changes (b) Requisition for cheque books c) Statement of accounts d) Balance enquiry, and e) Inter-account transfer (at same centre).

f) Frauds and Malpractices

1992-93

i) Banks were instructed to implement the recommendations of Ghosh Committee on frauds and malpractices in banks.

1995-96

i) Banks were required to devise a system of close watch on new deposit accounts, and cash deposits and withdrawals for Rs. 10 lakh and above.

1996-97

i) Banks were advised to introduce the practice of informing the employer bank whenever an employee of a bank opens an account with a branch other than that of his posting.

g) Export/Import Credit

1992-93

i) The Reserve Bank directed the commercial banks to set up State Level

Committee for Export Promotion.

1994-95

i) Sub-suppliers of export orders would be provided credit within the overall permissible Pre-Shipment export credit wherever letters of credit were opened by the export order holder.

1995-96

i) Effective October 31, 1995, outstandings under the import credit sub-limit of the cash credit would be subject to a 15 per cent interest rate surcharge which was raised to 25 per cent effective February 8, 1996.

ii) Effective February 8, 1996 the scheme of PSCFC was terminated.

1996-97

i) In the context of recent developments in the foreign exchange market and the overall monetary and credit situation, the interest rate surcharge on import finance was withdrawn, effective July 23, 1996.

ii) As per the credit policy for the second half of 1996-97, the target for export credit of scheduled commercial banks has been revised to 12 per cent (from 10 per cent) of net bank credit to be attained by end-March 1997.

iii) Effective July 3, 1996 interest rate surchage on import finance was withdrawn.

h) Bank Restructuring

1993-94

i) New Bank of India was merged with the Punjab National Bank in September 1993.

1995-96

i) The Kashinath Seth Bank Ltd., was amalgamated with the State Bank of India on January 1, 1996.

i) Regional Rural Banks

1994-95

i) As recommended by the Bhandari Committee, 49 RRBs were taken up for restructuring and revival during the year.

ii) RRBs were allowed to deploy a part of their surplus non-SLR funds in credit portfolios of their sponsor banks and in specified investment avenues like UTI listed schemes, etc.

1995-96

i) The Basu Committee set up by NABARD recommended in December 1995 for selection of 68 RRBs for comprehensive restructuring under phase II.

ii) The Government released a sum of Rs. 223.57 crore during 1995-96 for capital restructuring of 53 RRBs out of the selected (68+2) 70 RRBs.

iii) An Expert Group under the chairmanship of Dr. N.K. Thingalaya was set up to examine the issues concerning the managerial and financial restructuring of RRBs. The group continued in 1995-96 to monitor the progress in this regard.

iv) RRBs were advised to adopt income recognition and asset classification norms from 1995-96 and provisioning norms from 1996-97 onwards.

1996-97

i) A provision of Rs. 200 crore was made in the Union Budget 1996-97 for recapitalisation of 70 RRBs in 1996-97.

j) Dividend declaration by banks

1995-96

i) Public sector banks were made subject to prior approval for payment of interim dividend, dividend higher than 25 per cent and in cases of non-fulfillment of four stipulated conditions: (i) compliance with the provisions of Section 15 of the Banking Regulation Act, 1949, (ii) proposed dividend out of current year's profit being not more than 25 per cent, (iii) compliance with the extant regulations on transfer of profits to statutory reserves and setting up of required provisions and (iv) observance of prudential accounting and capital adequacy requirements.

9. Reforms in Co-operative Banking

a) Co-operative Banks

1992-93

i) Licensing of new urban co-operative banks was liberalised greatly. Apart from prescribing entry point/viability norms and the guidelines relating to their operations, the Reserve Bank also placed on Primary (urban) Co-operative Banks (PCBs) stipulations in respect of income recognition, classification of assets, and provisioning on the lines stipulated for commercial banks.

1993-94

i) The National Co-operative Bank of India (NCBI) was registered on August 5, 1993 as a Multi State Co-operative Society.

ii) A Co-operative Development Fund was set up by NABARD to help improve managerial systems and skills in co-operative banks.

iii) For the first time, scheduled PCBs were considered for investing their surplus funds in CDs and CPs in those with credit rating P1 or A1 from CRISIL/ICRA.

1994-95

i) Co-operative credit structure was set to be strengthened through state specific development action plans, and through MoU between NABARD, State Governments, SCBs and CCBs.

ii) Lending and deposit rates of all co-operative banks, excluding PCBs, were deregulated in October 1994 subject to an MLR of 12 per cent.

iii) Effective October 18, 1994 MLR for credit limits of over Rs. 2 lakh was abolished and PCBs were free to fix their lending rates for such credit limits.

1995-96

i) Effective June 21, 1995 PCBs were free to fix their lending rates for all categories of loans subject to an MLR of 13 per cent.

ii) PCBs were allowed in April 1995 to invest their surplus funds in equity/bonds of all India Financial Institutions, in addition to their investment in PSU bonds, within the ceiling of 10 per cent of their deposits.

iii) For term deposits of over two years, PCBs were given freedom to fix their own interest rate, effective October 1, 1995.

iv) PCBs were allowed in February 1996 to invest their surplus funds in CDs issued by scheduled commercial banks and other financial institutions approved by the Reserve

Bank subject to fulfilling certain conditions.

v) All scheduled PCBs were brought under the perview of the provisions of the Banking Ombudsman Scheme, 1995.

1996-97

i) Scheduled PCBs were allowed in April 1996 to undertake equipment leasing and hire purchase financing activities after meeting certain prudential requirements. Non Scheduled PCBs desiring to undertake the above activities were required to approach the Reserve Bank through the Regional Offices concerned.

ii) With a view to providing banks greater flexibility in determining their deposit rates, effective July 2, 1996 PCBs were given freedom to fix interest rates on domestic term deposits of over one year maturity. Also, the minimum maturity period of term deposit was reduced from 46 days to 30 days. Accordingly, interest rate for the term deposits of 30 days and upto one year, was prescribed at not exceeding 11.0 per cent per annum.

iii) Effective from July 1996 PCBs were given freedom to fix the interest rate on post-shipment Export credit on medium and long term basis for any period beyond 180 days.

iv) Effective October 21, 1996 PCBs' interest rate on domestic term deposits for maturity of 30 days upto 1 year was reduced from 11.0 per cent to 10.0 per cent per annum.

v) It was decided to withdraw the interest rate surcharge on import finance for PCBs with effect from July 23, 1996.

vi) PCBs were allowed in November, 1996 to invest their surplus funds in the Units of UTI upto 5 per cent of their incremental deposits of the previous year and these investments should be within the overall ceiling of 10 per cent of their deposits for investment in the bonds of public sector undertaking/ companies and equity/bonds of All India Financial Institutions.

vii) In the light of allowing PCBs to extend their area of operation to the entire district of registration including rural areas in the context of the credit gap in agricultural sector, effective December 1996, PCBs were permitted to extend direct finance for agricultural activities and these will be counted as priority advances.

viii) The prudential accounting norms were made applicable to State Co-operative Banks/ Central Co-operative Banks from the year 1996-97 in two phases viz., 1996-97 and 1997-98.

10. Reforms in Non-Bank Financial Sector

a) Non-bank Financial Companies (NBFCs)/Mutual Benefit Financial Companies (MBFCs)

1992-93

i) In order to integrate NBFCs within the mainstream of overall financial sector reform, the Reserve Bank initiated a comprehensive programme of reform of the financial companies.

1993-94

i) The recommendations of the Shah Committee Report on NBFCs were accepted and the first phase of implementation was initiated.

1994-95

i) Detailed prudential guidelines to NBFCs were issued in June 1994. The registered NBFCs were required to achieve a minimum capital adequacy norm of 6 per cent by March 31, 1995 and 8 per cent by March

31, 1996 and also obtain a minimum credit rating from any one of the three credit rating agencies.

1995-96

i) Board for Financial Supervision with the assistance of the Bank's Department of Supervision extended its supervision on the NBFCs from July 1995.

ii) An expert group (Chairman : Shri P.R. Khanna) was set up in April 1995 for recommending a framework for supervision of the financial companies.

iii) Maintenance of liquid assets was increased from 10 per cent to 15 per cent of deposit liabilities for the equipment leasing and hire purchase finance companies and other NBFCs registered with the Reserve Bank. For other NBFCs not registered with RBI, the requirement was raised from 5 per cent to 7.5 per cent of the deposit liabilities.

iv) For better and effective regulation of the NBFCs, certain legislative changes were being considered.

1996-97

i) An Expert Group headed by Shri P.R. Khanna constituted in April 1995 to frame a comprehensive supervisory system over the operations of NBFCs submitted its report.

ii) A ceiling of 15 per cent interest rate on deposits was prescribed for MBFCs, popularly known as Nidhi companies, effective July 8, 1996.

iii) The Reserve Bank removed the interest rate ceiling on deposits as also the ceiling on the quantum of deposits for NBFCs subject to the condition that they fully comply with the Bank's directions and guidelines. In respect of registered equipment leasing and hire purchase finance companies (EL/HP) complying with credit rating requirement and prudential norms, the liberalisation measures include (a) removal of ceiling on deposits, hitherto 10 times the NOF, (b) reduction of liquid assets to deposits ratio from 15 per cent to 12.5 per cent, while continuing with the stipulation that at least 10 per cent of the deposits be maintained in Government securities and Government guaranteed bonds, and (c) freedom to determine interest rates on deposits of one year and upto 5 years.

iv) As regards registered loan/investment companies complying with credit rating requirements and prudential norms, the overall ceiling on deposits, hitherto equal to NOF, was increased to twice the NOF. The stipulation of 12.5 per cent of liquid assets ratio and the freedom to determine interest payable on deposits as in the case of EL/HP companies would also apply to these companies.

v) For registered EL/HP as well as loan/ investment companies, which comply with either credit rating or prudential norms, the ceiling on interest rate of 15 per cent on deposits and overall ceiling on quantum of deposits alongside the stipulation of 15 per cent liquid assets ratio would continue. In the case of non-compliance of both the credit rating and the prudential norms, the overall ceiling on deposits has been reduced in relation to NOF from 10 times to 7 times for registered EL/HP companies, and for registered loan and investment companies, from equal to NOF to 15 and 25 per cent of NOF for deposits from shareholders and public, respectively.

b) Term Lending Institutions

1993-94

i) Term lending institutions viz., IDBI, IFCI, ICICI, IRBI and Exim Bank were required to achieve a capital adequacy norm of 4 per cent by the end of March 1994. Such of the FIs having dealings with agencies abroad were required to achieve a norm of 8 per cent by March 31, 1995 while the rest are to attain 8 per cent norm by March 31, 1996.

1995-96

i) Under the General Line of Credit (GLC) to NABARD, the Reserve Bank sanctioned in June 1995 an aggregate limit of Rs. 4,950 crore which was enhanced to Rs. 5,250 crore in January 1996.

1996-97

i) The Union Budget 1996-97 proposed to raise the share capital of NABARD from Rs. 500 crore in 1995-96 to Rs. 1,000 crore in 1996-97 with a contribution of Rs. 100 crore from the Government and Rs. 400 crore from the Reserve Bank and to quadruple the share capital to Rs. 2,000 crore within five years. The aggregate limit under GLC was enhanced to Rs. 5,500 crore for the year 1996-97.

ii) State level agricultural development finance institutions are proposed to be set up as per the Union Budget 1996-97, with NABARD as the chief promoter to promote investment in commercial or high technology agriculture and allied activities.

iii) The Union Budget 1996-97 proposed the establishment of an Infrastructure Development Finance Company (IDFC) with an authorised share capital of Rs. 5,000 crore.

c) Insurance Sector

1992-93

i) The Committee on Reforms in the Insurance Sector under the Chairmanship of Shri R.N. Malhotra was set up to make recommendations on reforms in insurance sector.

1993-94

i) The Malhotra Committee on the Insurance Sector submitted its report.

1995-96

i) As announced in the Union Budget for 1995-96, a three member board for the interim Insurance Regulatory Authority (IRA) was constituted in January 1996.

Appendix Table II.1 : Industry-wise Deployment of Gross Bank Credit @

(Rs. crore)

Industry	Outstanding as on					Variations during			
						Financial year		April-June	
	Mar.18 1994	Mar.31 1995	Mar.29 1996	June 30 1995	June 28 1996	1994-95	1995-96	1995-96	1996-97
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
Industry (Total of Small, Medium and Large Scale)	**80,482**	**102,310**	**124,992**	**101,706**	**121,396**	**21,828**	**22,682**	**-604**	**-3,596**
1. Coal	457	475	488	383	447	18	13	-92	-41
2. Iron and Steel	4,528	6,725	8,483	6,637	9,228	2,197	1,758	-88	745
3. Other Metals and Metal Products	3,199	3,471	3,979	3,455	3,744	272	508	-16	-235
4. All Engineering	17,127	21,160	25,612	21,185	24,953	4,033	4,452	25	-659
Of which: Electronics	(2,512)	(3,544)	(5,276)	(3,625)	(5,297)	(1,032)	(1,732)	(81)	(21)
5. Electricity (Gen. and Trans.)	1,425	1,984	2,704	2,186	2,944	559	720	202	240
6. Cotton Textiles	4,802	5,907	7,588	5,937	6,969	1,105	1,681	30	-619
7. Jute Textiles	410	502	600	454	564	92	98	-48	-36
8. Other Textiles	4,916	6,590	7,815	6,258	7,645	1,674	1,225	-332	-170
9. Sugar	1,370	2,950	3,300	3,016	3,000	1,580	350	66	-300
10. Tea	922	1,106	1,323	1,069	1,334	184	217	-37	11
11. Food Processing	1,601	2,470	3,102	2,489	3,323	869	632	19	221
12. Vegetable Oils (including Vanaspati)	1,075	1,219	1,564	1,239	1,504	144	345	20	-60
13. Tobacco and Tobacco Products	623	854	1,009	809	902	231	155	-45	-107
14. Paper and Paper Products	1,735	2,185	2,367	2,095	2,209	450	182	-90	-158
15. Rubber and Rubber Products	1,196	1,569	1,749	1,493	1,727	373	180	-76	-22
16. Chemicals, Dyes, Paints, etc.	10,034	12,797	16,431	12,311	15,863	2,763	3,634	-486	-568
Of which:									
i) Fertilisers	(1,540)	(1,663)	(2,107)	(1,987)	(2,105)	(123)	(444)	(324)	(-2)
ii) Petro-chemicals	(747)	(747)	(1,633)	(799)	(1,203)	(0)	(886)	(52)	(-430)
iii) Drugs and Pharmaceuticals	(1,439)	(1,834)	(2,294)	(1,899)	(2,546)	(395)	(460)	(65)	(252)
17. Cement	1,217	1,515	1,734	1,253	1,678	298	219	-262	-56
18. Leather and Leather Products	1,279	1,848	2,276	1,870	2,285	569	428	22	9
19. Gems and Jewellery	1,975	2,361	2,785	2,220	2,672	386	424	-141	-113
20. Construction	1,670	2,032	1,855	1,762	1,867	362	-177	-270	12
21. Petroleum	227	222	281	66	589	-5	59	-156	308
22. SAFAUNS*	30	10	2	5	1	-20	-8	-5	-1
23. Other Industries	18,664	22,358	27,945	23,514	25,948	3,694	5,587	1,156	-1,997
Memorandum Item									
A. Industrial Credit as proportion of NBC #	52.8	53.2	54.7	52.2	54.2				

@ Data are Provisional.

* Ships acquired from abroad under new scheme.

\# Net Bank Credit.

Note : No sign is indicated for positive variations.

Appendix Table II.2 : RBI Accommodation to Scheduled Commercial Banks *

(Rs. crore)

As on the last reporting Friday of	Export Credit (Rupee denominated) Refinance		Export Credit (Dollar denominated) Refinance		Total Export Credit Refinance		Government Securities Refinance		Total Refinance	
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding
1	2	3	4	5	6 (2+4)	7 (3+5)	8	9	10 (6+8)	11 (7+9)
1995										
March	2,725.57	1,391.76 (51.1)	6,669.71	5,973.09 (89.6)	9,395.28	7,364.85 (78.4)	1,027.79	33.46 (3.3)	10,423.07	7,398.31 (71.0)
April	3,674.89	311.45 (8.5)	7,290.60	3,201.63 (43.9)	10,965.49	3,513.08 (32.0)	1,027.79	4.82 (0.5)	11,993.28	3,517.90 (29.3)
May	2,464.11	405.06 (16.4)	6,606.40	4,245.45 (64.3)	9,070.51	4,650.51 (51.3)	1,027.79	33.46 (3.3)	10,098.30	4,683.97 (46.4)
June	2,917.46	1,271.81 (43.6)	6,450.81	5,444.16 (84.4)	9,368.27	6,715.97 (71.7)	1,027.79	159.29 (15.5)	10,396.06	6,875.26 (66.1)
September	3,129.19	1,271.87 (40.6)	6,528.96	4,261.40 (65.3)	9,658.15	5,533.27 (57.3)	1,027.79	36.79 (3.6)	10,685.94	5,570.06 (52.1)
December	4,607.98	1,572.78 (34.1)	6,572.90	4,208.24 (64.0)	11,180.88	5,781.02 (51.7)	3,385.10	171.90 (5.1)	14,565.98	5,952.92 (40.9)
1996										
March	10,080.29	2,895.69 (28.7)	4,061.32	1,795.04 (44.2)	14,141.61	4,690.73 (33.2)	3,385.10	153.98 (4.5)	17,526.71	4,844.71 (27.6)
April					13,723.33	4,845.82 (35.3)	3,385.10	3.54 (0.1)	17,108.43	4,849.36 (28.4)
May					13,373.92	4,393.82 (32.9)	3,385.10	43.00 (1.3)	16,759.02	4,436.82 (26.5)
June					13,044.20	2,497.39 (19.1)	3,385.10	-	16,429.30	2,497.39 (15.2)
September					11,377.37	1,822.51 (16.0)	-	-	11,377.37	1,822.51 (16.0)

* Excluding special refinance against shipping loans, duty drawback, etc.

Notes : 1. Effective from the fortnight commencing September 30, 1995 two separate limits under the Government securities refinance were granted to banks. Effective from July 6, 1996 the Government securities refinance scheme was terminated.

2. Effective from the fortnight commencing April 13, 1996 banks are provided export credit refinance against rupee denominated and dollar denominated export credit taken together.

3. Figures in brackets are proportions of Utilisation to Refinance.

Appendix Table II.3 : Working Results of All Scheduled Commercial Banks for the years 1994-95 and 1995-96

(Rs.crore)

Particulars	1994-95	1995-96	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**50,964.28 (100.00)**	**65,112.24 (100.00)**	**14,147.96**	**27.76**
i) Interest income	44,567.57 (87.45)	56,180.86 (86.28)	11,613.29	26.06
ii) Other income	6,396.71 (12.55)	8,931.38 (13.72)	2,534.67	39.62
B. Expenditure (i+ii+iii+iv)	**48,810.01 (100.00)**	**64,199.90 (100.00)**	**15,389.89**	**31.53**
i) Interest expended	29,040.91 (59.50)	37,316.44 (58.13)	8,275.53	28.50
ii) Provisions and contingencies	5,539.89 (11.35)	9,293.06 (14.48)	3,753.17	67.75
iii) Wage bill	8,598.28 (17.62)	11,964.79 (18.64)	3,366.51	39.15
iv) Other operating expenses	5,630.93 (11.54)	5,625.61 (8.76)	-5.32	-0.09
C. Profit				
i) Operating Profit	7,694.16	10,205.40	2,511.24	32.64
ii) Net Profit	2,154.27	912.34	-1,241.93	-57.65
D. Total Assets	**5,14,690.88**	**5,99,468.06**	**84,777.18**	**16.47**
E. Financial Ratios $				
i) Operating Profit	1.49	1.70	0.21	-
ii) Net Profit	0.42	0.15	-0.27	-
iii) Income	9.90	10.86	0.96	-
iv) Interest income	8.66	9.37	0.71	-
v) Other Income	1.24	1.49	0.25	-
vi) Expenditure	9.48	10.71	1.23	-
vii) Interest expended	5.64	6.22	0.58	-
viii) Other operating expenses	1.09	0.94	-0.16	-
ix) Provisions and Contingencies	1.08	1.55	0.47	-
x) Wage bill	1.67	2.00	0.33	-

$ Ratios to Total Assets.

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

Appendix Table II.4 : Working Results of Public Sector Banks for the years 1994-95 and 1995-96

(Rs.crore)

Particulars	1994-95	1995-96	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**42,947.39 (100.00)**	**53,665.09 (100.00)**	**10,717.70**	**24.96**
i) Interest income	37,846.16 (88.12)	46,620.27 (86.87)	8,774.11	23.18
ii) Other income	5,101.23 (11.88)	7,044.82 (13.13)	1,943.59	38.10
B. Expenditure (i+ii+iii+iv)	**41,831.60 (100.00)**	**54,036.46 (100.00)**	**12,204.86**	**29.18**
i) Interest expended	25,011.17 (59.79)	30,960.79 (57.30)	5,949.62	23.79
ii) Provisions and contingencies	4,404.75 (10.53)	7,940.25 (14.69)	3,535.50	80.27
iii) Wage bill	8,007.75 (19.14)	11,136.42 (20.61)	3,128.67	39.07
iv) Other operating expenses	4,407.93 (10.54)	3,999.00 (7.40)	–408.93	–9.28
C. Profit				
i) Operating Profit	5,520.54	7,568.88	2,048.34	37.10
ii) Net Profit	1,115.79	–371.37	–1,487.16	–133.28
D. Total Assets	**4,38,829.62**	**5,05,844.92**	**67,015.30**	**15.27**
E. Financial Ratios $				
i) Operating Profit	1.26	1.50	0.24	–
ii) Net Profit	0.25	–0.07	–0.33	–
iii) Income	9.79	10.61	0.82	–
iv) Interest income	8.62	9.22	0.59	–
v) Other Income	1.16	1.39	0.23	–
vi) Expenditure	9.53	10.68	1.15	–
vii) Interest expended	5.70	6.12	0.42	–
viii) Other operating expenses	1.00	0.79	–0.21	–
ix) Provisions and Contingencies	1.00	1.57	0.57	–
x) Wage bill	1.82	2.20	0.38	–

$ Ratios to Total Assets.

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

Appendix Table II.5 : Working Results of State Bank of India and its Associates for the years 1994-95 and 1995-96

(Rs.crore)

Particulars	1994-95	1995-96	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**15,947.71 (100.00)**	**20,566.77 (100.00)**	**4,619.06**	**28.96**
i) Interest income	13,862.07 (86.92)	17,114.45 (83.21)	3,252.38	23.46
ii) Other income	2,085.64 (13.08)	3,452.32 (16.79)	1,366.68	65.53
B. Expenditure (i+ii+iii+iv)	**15,101.24 (100.00)**	**19,773.63 (100.00)**	**4,672.39**	**30.94**
i) Interest expended	8,751.17 (57.95)	10,871.79 (54.98)	2,120.62	24.23
ii) Provisions and contingencies	1,736.72 (11.50)	3,130.08 (15.83)	1,393.36	80.23
iii) Wage bill	3,339.68 (22.12)	4,307.52 (21.78)	967.84	28.98
iv) Other operating expenses	1,273.67 (8.43)	1,464.24 (7.41)	190.57	14.96
C. Profit				
i) Operating Profit	2,583.19	3,923.22	1,340.03	51.88
ii) Net Profit	846.47	793.14	-53.33	-6.30
D. Total Assets	**1,56,294.64**	**1,86,767.98**	**30,473.34**	**19.50**
E. Financial Ratios $				
i) Operating Profit	1.65	2.10	0.45	-
ii) Net Profit	0.54	0.42	-0.12	-
iii) Income	10.20	11.01	0.81	-
iv) Interest income	8.87	9.16	0.29	-
v) Other Income	1.33	1.85	0.51	-
vi) Expenditure	9.66	10.59	0.93	-
vii) Interest expended	5.60	5.82	0.22	-
viii) Other operating expenses	0.81	0.78	-0.03	-
ix) Provisions and Contingencies	1.11	1.68	0.56	-
x) Wage bill	2.14	2.31	0.17	-

$ Ratios to Total Assets.

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

Appendix Table II.6 : Working Results of Nationalised Banks for the years 1994-95 and 1995-96

(Rs.crore)

Particulars	1994-95	1995-96	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**26,999.68 (100.00)**	**33,098.32 (100.00)**	**6,098.64**	**22.59**
i) Interest income	23,984.09 (88.83)	29,505.82 (89.15)	5,521.73	23.02
ii) Other income	3,015.59 (11.17)	3,592.50 (10.85)	576.91	19.13
B. Expenditure (i+ii+iii+iv)	**26,730.36 (100.00)**	**34,262.83 (100.00)**	**7,532.47**	**28.18**
i) Interest expended	16,260.00 (60.83)	20,089.00 (58.63)	3,829.00	23.55
ii) Provisions and contingencies	2,668.03 (9.98)	4,810.17 (14.04)	2,142.14	80.29
iii) Wage bill	4,668.07 (17.46)	6,828.90 (19.93)	2,160.83	46.29
iv) Other operating expenses	3,134.26 (11.73)	2,534.76 (7.40)	-599.50	-19.13
C. Profit				
i) Operating Profit	2,937.35	3,645.66	708.31	24.11
ii) Net Profit	269.32	-1,164.51	-1,433.83	-532.39
D. Total Assets	**2,82,534.98**	**3,19,076.94**	**36,541.96**	**12.93**
E. Financial Ratios $				
i) Operating Profit	1.04	1.14	0.10	–
ii) Net Profit	0.10	-0.36	-0.46	–
iii) Income	9.56	10.37	0.82	–
iv) Interest income	8.49	9.25	0.76	–
v) Other Income	1.07	1.13	0.06	–
vi) Expenditure	9.46	10.74	1.28	–
vii) Interest expended	5.76	6.30	0.54	–
viii) Other operating expenses	1.11	0.79	-0.31	–
ix) Provisions and Contingencies	0.94	1.51	0.56	–
x) Wage bill	1.65	2.14	0.49	–

$ Ratios to Total Assets.

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

Appendix Table II.7 : Working Results of Foreign Banks for the years 1994-95 and 1995-96

(Rs.crore)

Particulars	1994-95	1995-96	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**4,665.70 (100.00)**	**6,082.90 (100.00)**	**1,417.20**	**30.37**
i) Interest income	3,748.22 (80.34)	4,968.60 (81.68)	1,220.38	32.56
ii) Other income	917.48 (19.66)	1,114.30 (18.32)	196.82	21.45
B. Expenditure (i+ii+iii+iv)	**3,968.53 (100.00)**	**5,334.63 (100.00)**	**1,366.10**	**34.42**
i) Interest expended	2,138.88 (53.90)	3,183.62 (59.68)	1,044.74	48.85
ii) Provisions and contingencies	792.72 (19.97)	827.68 (15.51)	34.96	4.41
iii) Wage bill	337.01 (8.49)	460.91 (8.64)	123.90	36.76
iv) Other operating expenses	699.92 (17.64)	862.42 (16.17)	162.50	23.22
C. Profit				
i) Operating Profit	1,489.89	1,575.95	86.06	5.78
ii) Net Profit	697.17	748.27	51.10	7.33
D. Total Assets	**37,934.84**	**47,547.59**	**9,612.75**	**25.34**
E. Financial Ratios $				
i) Operating Profit	3.93	3.31	–0.61	–
ii) Net Profit	1.84	1.57	–0.26	–
iii) Income	12.30	12.79	0.49	–
iv) Interest income	9.88	10.45	0.57	–
v) Other Income	2.42	2.34	–0.08	–
vi) Expenditure	10.46	11.22	0.76	–
vii) Interest expended	5.64	6.70	1.06	–
viii) Other operating expenses	1.85	1.81	–0.03	–
ix) Provisions and Contingencies	2.09	1.74	–0.35	–
x) Wage bill	0.89	0.97	0.08	–

$ Ratios to Total Assets.

Notes : 1. Figures in brackets are percentage shares to the respective total.
2. The Table covers 30 out of 36 Foreign Banks.

Appendix Table II.8 : Working Results of Indian Private Sector Banks for the years 1994-95 and 1995-96

(Rs.crore)

Particulars	1994-95	1995-96	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**2,173.08 (100.00)**	**3,642.19 (100.00)**	**1,469.11**	**67.60**
i) Interest income	1,815.81 (83.56)	3,058.71 (83.98)	1,242.90	68.45
ii) Other income	357.27 (16.44)	583.48 (16.02)	226.21	63.32
B. Expenditure (i+ii+iii+iv)	**1,863.23 (100.00)**	**3,186.93 (100.00)**	**1,323.70**	**71.04**
i) Interest expended	1,204.81 (64.66)	2,180.96 (68.43)	976.15	81.02
ii) Provisions and contingencies	219.08 (11.76)	286.17 (8.98)	67.09	30.62
iii) Wage bill	253.52 (13.61)	367.46 (11.53)	113.94	44.94
iv) Other operating expenses	185.82 (9.97)	352.34 (11.06)	166.52	89.61
C. Profit				
i) Operating Profit	528.93	741.43	212.50	40.18
ii) Net Profit	309.85	455.26	145.41	46.93
D. Total Assets	26,513.84	30,818.83	4,304.99	16.24
E. Financial Ratios $				
i) Operating Profit	1.99	2.41	0.41	-
ii) Net Profit	1.17	1.48	0.31	-
iii) Income	8.20	11.82	3.62	-
iv) Interest income	6.85	9.92	3.08	-
v) Other Income	1.35	1.89	0.55	-
vi) Expenditure	7.03	10.34	3.31	-
vii) Interest expended	4.54	7.08	2.53	-
viii) Other operating expenses	0.70	1.14	0.44	-
ix) Provisions and Contingencies	0.83	0.93	0.10	-
x) Wage bill	0.96	1.19	0.24	-

$ Ratios to Total Assets.

Notes : 1.Figures in brackets are percentage shares to the respective total.

2.The table includes data only for 23 out of 35 private sector banks.

Appendix Table II.9 : Issue of Certificates of Deposits by Scheduled Commercial Banks

(Amount in Rs.crore)

Fortnight ended		Total Outstanding	Rate of Interest (Per Cent) @
1		2	3
1994			
March	18	5,571	7.00 - 12.20
April	1	6,041	7.00 - 12.00
	15	5,897	7.00 - 12.50,
	29	6,121	7.25 - 12.00
May	13	6,110	7.25 - 12.00
	27	6,016	7.25 - 12.00
June	10	5,884	7.00 - 12.00
	24	5,512	7.50 - 12.00
July	8	5,218	8.00 - 13.50
	22	5,347	7.10 - 12.00
Aug	5	5,279	7.25 - 12.00
	19	5,861	7.50 - 13.50
Sept	2	5,823	8.00 - 12.00
	16	5,974	7.40 - 15.00
	30	5,955	7.50 - 12.00
Oct	14	5,895	7.50 - 12.02
	28	5,799	7.00 - 13.00
Nov	11	6,315	7.00 - 13.00
	25	6,051	7.50 - 12.00
Dec	9	6,188	7.50 - 12.00
	23	6,577	8.00 - 12.01
1995			
Jan	6	6,385	7.50 - 12.80
	20	6,708	7.50 - 13.50
Feb	3	6,016	9.00 - 13.77
	17	7,601	9.00 - 14.25
March	3	7,969	9.00 - 14.00
	17	7,665	9.00 - 14.50
	31	8,017	10.00 - 15.00
April	14	8,556	9.00 - 14.75
	28	9,145	10.00 - 14.50
May	12	9,775	10.00 - 15.00
	26	11,054	10.00 - 15.00
June	9	11,214	11.00 - 15.00
	23	11,843	11.00 - 14.50
July	7	12,117	11.00 - 15.25
	21	12,094	10.50 - 15.00
Aug	4	13,246	11.00 - 15.00
	18	12,308	11.00 - 15.50
Sept	1	12,526	10.00 - 14.50
	15	13,215	11.00 - 14.50
	29	13,873	10.00 - 14.75
Oct	13	13,933	10.50 - 15.00
	27	14,389	11.00 - 15.00
Nov	10	14,362	11.00 - 17.00
	24	15,274	11.00 - 22.99
Dec	8	16,203	12.00 - 22.99
	22	17,161	12.00 - 22.99

Fortnight ended		Total Outstanding	Rate of Interest (Per Cent) @
1		2	3
1996			
Jan	5	17,266	12.00 - 18.50
	19	17,934	12.00 - 19.50
Feb	2	18,306	12.00 - 19.50
	16	17,145	11.00 - 23.00
March	1	18,016	12.00 - 23.00
	15	17,907	10.00 - 22.00
	29	16,316	12.00 - 22.25
April	12	19,571	12.00 - 21.00
	26	21,181	13.00 - 21.00
May	10	20,842	12.00 - 20.00
	24	21,380	12.00 - 20.00
June	7	21,503	13.00 - 19.50
	21	21,331	11.00 - 19.25
July	5	20,815	11.00 - 19.00
	19	18,203	10.00 - 20.75
Aug	2	16,927	9.00 - 17.00
	16	16,873	9.50 - 16.00
	30	15,573	10.00 - 19.00
Sept	13	14,678	9.00 - 17.50
	27	13,760	9.00 - 15.25
Oct	11	12,846	9.00 - 16.00
	25	13,052	9.00 - 19.00
Nov	8	11,593	9.50 - 16.00

@ Effective interest rate range per annum.

Appendix Table II.10 : Commercial Paper *

(Amount in Rs.crore)

Fortnight Ended		Total Outstanding	Rate of Discount (Per cent)@
1		2	3
1995			
March	31	603.5	14.0 - 15.0
April	15	533.8	15.4
	30	565.8	14.5 - 15.5
May	15	489.8	14.1 - 15.0
	31	714.3	14.0 - 16.0
June	15	656.0	15.5
	30	663.0	15.0 - 15.5
July	15	682.0	15.2 - 15.5
	31	581.5	14.0 - 15.0
Aug	15	517.0	14.0 - 14.5
	31	624.5	13.8 - 14.0
Sept	15	715.5	13.8 - 14.0
	30	785.7	14.0 - 14.5
Oct	15	841.7	16.3 - 19.5
	31	613.7	14.6 - 16.5
Nov	15	353.7	15.0 - 15.7
	30	287.2	16.8 - 17.9
Dec	15	235.5	16.1 - 16.4
	31	171.5	16.9 - 17.9
1996			
Jan	15	139.5	-
	31	89.0	16.9 - 17.9
Feb	15	117.0	17.5 - 18.0
	29	92.0	16.9 - 19.6
March	15	69.3	19.1 - 20.0
	31	76.3	20.2
April	15	71.3	-
	30	72.8	18.1 - 20.3
May	15	99.3	16.5 - 18.9
	31	221.0	16.1 - 18.6
June	15	221.0	15.8 - 16.3
	30	236.0	16.2 - 20.9
July	15	234.0	15.1 - 17.8
	31	218.0	12.6 - 19.0
Aug	15	265.5	12.9 - 15.0
	31	311.5	12.5 - 13.5
Sep	15	349.5	12.8 - 14.1
	30	371.5	13.0 - 14.7
Oct	15	313.0	12.4 - 13.5
	31	232.5	13.0 - 13.8
Nov	15	367.5	11.6 - 14.0
	30	422.5	11.5 - 13.0

* Issued at face value by companies.

@ Typical effective discount rate range per annum on issues during the fortnight.

- No issue during the fortnight.

Appendix Table II.11 : Advances to the Priority Sectors by Public Sector Banks (As on the last Friday)

Sector	No. of Accounts (in lakh)				Amount Outstanding (Rs. crore)			
	June 1969	March 1994@	March 1995@	March 1996@	June 1969	March 1994@	March 1995@	March 1996@
1	2	3	4	5	6	7	8	9
I. Agriculture	1.7	217.9	213.0	208	162 (5.4)	21,204 (15.0)	23,513 (13.9)	26,351 (14.3)
i) Direct	1.6	212.9	207.1	203	40 (1.3)	19,255 (13.7)	20,813 (12.3)	22,892 (12.4)
ii) Indirect	0.1	5.0	5.9	5	122 (4.0)	1,949 (1.4)	2,700 (1.6)	3,459 (1.9)
II. Small-scale industries	0.5	30.2	32.3	33	257 (8.5)	21,561 (15.3)	25,843 (15.3)	29,482 (16.0)
III. Other priority sector advances*	0.4	116.9	116.4	115	22 (0.7)	10,432 (7.4)	12,438 (7.4)	13,751 (7.5)
IV. Total priority sector advances	2.6	365.1	361.7	356	441 (14.6)	53,197 (37.8)	61,794 (36.6)	69,609$ (37.8)
V. Net Bank Credit	-	-	-	-	3,016	1,40,914	1,69,038	1,84,391

@ Data are provisional.
* Include small transport operators, self-employed persons, rural artisans, etc.
$ Inclusive of Rs.25 crore provided to RRBs by their sponsoring banks, eligible for being treated under priority sector advances.
Note : Figures in brackets represent percentages to net bank credit.

Appendix Table II.12 : Advances to the Priority Sectors By Indian Private Sector Banks (As on the last Friday)

(Amount in Rs. crore)

Sector	March 1995		March 1996	
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit
1	2	3	4	5
I. Agriculture	816 (20.1)	6.0	1,162 (18.7)	6.1
i) Direct advances	722 (17.8)	5.3	912 (14.7)	4.8
ii) Indirect advances	94 (2.3)	0.7	250 (4.0)	1.3
II. Small-scale industries	2,150 (52.9)	15.8	3,467 (55.9)	18.2
III. Other priority sectors	1,098 (27.0)	8.1	1,569 (25.3)	8.2
Total (I+II+III)	**4,064**	**30.0**	**6,198**	**32.5**

Note : Figures in brackets represent percentage share in total priority sector advances.

Appendix Table - II.13 : Region/State-wise Credit Deposit Ratio and Investment + Credit Deposit Ratio of Scheduled Commercial Banks
(As on the last Friday of March)

(Per cent)

Region/State/ Union Territory	Credit Deposit Ratio						Investment + Credit Deposit @ Ratio			
	1993		1994		1995	1996	1993		1994	
	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Sanction	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation
1	2	3	4	5	6	7	8	9	10	11
NORTHERN REGION	**58.0**	**56.7**	**57.8**	**56.6**	**60.3**	**60.8**	**65.2**	**63.9**	**64.3**	**63.1**
Haryana	55.3	69.0	47.9	58.4	46.7	46.0	68.8	82.5	60.7	71.1
Himachal Pradesh	31.8	34.5	22.4	23.7	26.3	25.8	45.0	47.7	32.3	33.5
Jammu & Kashmir	46.0	46.7	38.7	39.4	42.8	38.2	61.6	62.3	53.4	54.1
Punjab	41.8	44.1	39.6	41.0	41.4	41.9	47.9	50.2	45.1	46.5
Rajasthan	55.4	60.2	49.3	52.1	46.0	46.6	79.3	84.1	71.8	74.6
Chandigarh	49.5	42.0	54.1	60.1	115.8	138.8	49.8	42.3	64.1	60.1
Delhi	72.0	63.7	75.1	69.2	74.6	74.7	72.7	64.4	75.9	69.9
NORTH-EASTERN REGION	**44.7**	**64.0**	**38.9**	**50.0**	**34.6**	**34.5**	**71.5**	**90.8**	**63.7**	**74.8**
Arunachal Pradesh	18.0	35.5	14.1	27.6	11.3	10.4	25.2	42.7	21.0	34.5
Assam	49.3	75.9	41.3	55.6	38.0	39.3	76.2	102.8	66.0	80.4
Manipur	75.6	75.1	65.2	65.8	55.6	53.7	140.6	140.1	120.8	121.4
Meghalaya	17.8	21.3	17.4	20.0	15.8	14.4	44.0	47.5	40.4	43.0
Mizoram	24.8	37.6	24.5	41.1	15.4	16.2	24.8	37.6	26.6	43.2
Nagaland	40.1	46.3	42.1	45.8	35.4	27.4	82.7	88.9	86.2	89.9
Tripura	60.1	61.8	58.6	60.6	45.7	42.1	83.6	85.3	81.3	83.2
EASTERN REGION	**50.5**	**50.4**	**44.1**	**43.9**	**47.6**	**47.7**	**67.0**	**66.9**	**59.9**	**59.7**
Bihar	37.4	40.9	35.2	37.0	33.2	32.0	60.9	64.5	57.7	59.5
Orissa	67.0	69.5	50.1	62.1	54.1	54.8	104.6	107.1	97.9	99.9
Sikkim	30.5	31.2	23.2	23.7	24.3	19.3	50.5	51.1	44.1	44.6
West Bengal	54.3	52.1	45.9	44.4	54.4	55.7	64.5	62.3	55.6	54.1
Andaman & Nicobar Islands	29.6	29.9	19.1	19.2	17.8	16.5	29.6	29.9	19.1	19.2
CENTRAL REGION	**46.7**	**49.7**	**42.0**	**44.3**	**40.0**	**40.5**	**64.5**	**67.4**	**59.2**	**61.5**
Madhya Pradesh	60.9	63.4	55.0	57.5	53.3	57.1	82.6	85.1	76.1	78.7
Uttar Pradesh	41.5	44.6	37.2	39.5	35.0	34.2	57.8	60.9	53.0	55.2
WESTERN REGION	**60.5**	**58.5**	**53.2**	**52.2**	**63.9**	**69.4**	**66.9**	**65.0**	**59.5**	**58.4**
Goa	23.6	24.4	18.1	19.0	26.5	26.9	25.3	26.1	19.8	20.7
Gujarat	53.0	57.9	46.0	49.3	46.6	53.0	64.5	69.3	56.7	59.9
Maharashtra	63.7	59.7	56.4	54.0	70.3	75.7	69.0	65.1	61.6	59.3
Dadra & Nagar Haveli	28.6	175.7	21.3	112.2	15.5	20.7	28.6	175.7	21.3	112.2
Daman & Diu	16.9	45.3	14.1	40.1	14.5	23.3	16.9	45.3	14.1	40.1
SOUTHERN REGION	**71.5**	**72.3**	**67.3**	**67.9**	**71.9**	**76.6**	**84.1**	**84.9**	**79.6**	**80.2**
Andhra Pradesh	79.5	80.8	70.7	71.8	75.7	80.8	95.4	96.7	85.6	86.6
Karnataka	65.8	67.3	65.6	66.4	67.8	69.7	77.2	78.7	77.2	77.9
Kerala	46.5	47.1	44.0	44.2	44.9	45.4	58.6	59.2	55.2	55.4
Tamil Nadu	86.2	86.2	82.5	82.7	91.2	101.2	97.8	97.7	94.2	94.4
Lakshadweep	9.2	9.4	9.1	9.1	9.9	9.6	9.2	9.4	9.1	9.1
Pondicherry	42.5	48.7	43.7	49.4	44.0	41.9	42.5	48.7	43.8	49.5
ALL INDIA	**58.9**	**58.9**	**54.3**	**54.3**	**59.2**	**61.9**	**70.1**	**70.1**	**64.9**	**64.9**

Notes: 1.Deposits and credit (sanction and utilisation) data are based on BSR-1 and 2 surveys.
2.The investment figures are estimated, based on BSR-5 survey for March 1993 and March 1994.
3.Credit-Deposit Ratios for March 1995 and March 1996 are based on BSR-7 survey.
@ State-wise investment figures pertain to investments by scheduled commercial banks in the respective States only. All India ICD ratio is the sum total of all State level ICD ratios excluding investment in Central Government and other approved securities.

Appendix Table II.14 : Bank Group-wise/Population Group-wise Distribution of Commercial Bank Branches in India

Bank Group	No. of Banks#	No. of Branches as on									
		Last Friday of June 1995 @					Last Friday of June 1996@				
		Rural	Semi-urban	Urban	Metro-politan/ Port-town	Total	Rural	Semi-urban	Urban	Metro-politan/ Port-town	Total
1	2	3	4	5	6	7	8	9	10	11	12
State Bank of India	1	4,130 (46.9)	2,393 (27.2)	1,355 (15.4)	934 (10.6)	8,812 (100.0)	4,136 (46.7)	2,401 (27.1)	1,371 (15.5)	944 (10.7)	8,852 (100.0)
Associate Banks of SBI	7	1,374 (33.9)	1,403 (34.7)	684 (16.9)	587 (14.5)	4,048 (100.0)	1,375 (33.4)	1,437 (34.9)	697 (16.9)	607 (14.7)	4,116 (100.0)
Nationalised Banks	19	13,939 (45.2)	6,310 (20.4)	5,658 (18.3)	4,953 (16.0)	30,860 (100.0)	13,932 (44.7)	6,416 (20.6)	5,768 (18.5)	5,061 (16.2)	31,177 (100.0)
Private Banks	34	1,129 (27.6)	1,446 (35.3)	927 (22.7)	588 (14.4)	4,090 (100.0)	1,141 (26.7)	1,507 (35.3)	963 (22.6)	655 (15.4)	4,266 (100.0)
Foreign Banks	30	– (–)	3 (2.1)	13 (9.0)	128 (88.9)	144 (100.0)	– (–)	3 (1.9)	15 (9.6)	138 (88.5)	156 (100.0)
Non-Scheduled Banks	3	14 (38.9)	11 (30.6)	10 (27.8)	1 (2.8)	36 (100.0)	3 (37.5)	2 (25.0)	2 (25.0)	1 (12.5)	8 (100.0)
Regional Rural Banks	196	12,503 (86.0)	1,744 (12.0)	289 (2.0)	5 (..)	14,541 (100.0)	12,482 (86.0)	1,741 (12.0)	289 (2.0)	5 (..)	14,517 (100.0)
Total	**290**	**33,089 (52.9)**	**13,310 (21.3)**	**8,936 (14.3)**	**7,196 (11.5)**	**62,531 (100.0)**	**33,069 (52.4)**	**13,507 (21.4)**	**9,105 (14.4)**	**7,411 (11.7)**	**63,092 (100.0)**

\# As on the last Friday of June 1996.
@ Population group-wise classification of branches as per 1991 Census.
.. Negligible
Note : Figures in brackets indicate percentage to total in each group.

Appendix Table II.15 : Region/State/Union Territory-wise Distribution of Commercial Bank Branches

Sr. No.	Region/State/ Union Territory	Number of Branches as on the last Friday of			Number of branches opened during				Average population (in '000) per bank branch as at the end of		
		June 1969	June 1995	June 1996	July 94 to June 95	of which: at un-banked centres	July 95 to June 96	of which: at un-banked centres	June 1969	June 1995	June 1996
1	2	3	4*	5	6	7	8	9	10	11	12
1.	**NORTHERN REGION**	**1,253**	**9,645**	**9,814**	**144**	**3**	**169**	**3**	**46**	**11**	**11**
	Haryana	172	1,344	1,371	29	-	27	-	56	12	12
	Himachal Pradesh	42	760	763	6	1	3	1	80	7	7
	Jammu & Kashmir	35	793	795	4	1	2	-	124	10	10
	Punjab	346	2,247	2,309	36	-	62	1	38	9	9
	Rajasthan	364	3,177	3,208	34	1	31	1	68	14	14
	Chandigarh	20	131	137	11	-	6	-	7	5	5
	Delhi	274	1,193	1,231	24	-	38	-	10	8	8
2.	**NORTH-EASTERN REGION**	**90**	**1,890**	**1,894**	**2**	-	**4**	-	**203**	**17**	**17**
	Arunachal Pradesh	-	68	68	-	-	-	-	-	13	13
	Assam	74	1,229	1,233	1	-	4	-	193	18	18
	Manipur	2	85	85	-	-	-	-	510	22	22
	Meghalaya	7	179	179	1	-	-	-	137	10	10
	Mizoram	-	76	78	-	-	2	-	-	9	9
	Nagaland	2	71	71	-	-	-	-	250	17	17
	Tripura	5	182	180	-	-	-2	-	300	15	15
3.	**EASTERN REGION**	**878**	**11,429**	**11,470**	**27**	**3**	**41**	**1**	**135**	**16**	**16**
	Bihar	273	4,929	4,943	13	1	14	1	200	18	18
	Orissa	100	2,150	2,155	3	1	5	-	211	15	15
	Sikkim	-	42	42	2	1	-	-	-	10	10
	West Bengal	504	4,278	4,299	9	-	21	-	85	16	16
	Andaman & Nicobar Islands	1	30	31	-	-	1	-	82	9	9
4.	**CENTRAL REGION**	**1,090**	**13,088**	**13,124**	**45**	**4**	**36**	**1**	**115**	**16**	**16**
	Madhya Pradesh	343	4,433	4,430	-6	-	-3	1	116	15	15
	Uttar Pradesh	747	8,655	8,694	51	4	39	-	114	16	16
5.	**WESTERN REGION**	**1,955**	**9,571**	**9,686**	**76**	**1**	**115**	**4**	**38**	**13**	**13**
	Goa +	85	274	276	8	-	2	-	8	4	4
	Gujarat	752	3,499	3,514	30	-	15	-	34	12	12
	Maharashtra	1,118	5,780	5,877	37	1	97	4	43	14	14
	Dadra & Nagar Haveli	-	7	7	-	-	-	-	-	20	20
	Daman & Diu	-	11	12	1	-	1	-	-	9	8
6.	**SOUTHERN REGION**	**2,996**	**16,872**	**17,096**	**208**	**9**	**224**	**4**	**44**	**12**	**12**
	Andhra Pradesh	567	4,830	4,869	48	3	39	-	74	14	14
	Karnataka	756	4,412	4,470	37	-	58	1	37	10	10
	Kerala	601	3,034	3,089	63	3	55	3	34	10	9
	Tamil Nadu	1,060	4,516	4,587	60	3	71	-	37	12	12
	Lakshadweep	-	8	8	-	-	-	-	-	6	6
	Pondicherry	12	72	73	-	-	1	-	31	11	11
	ALL INDIA	**8,262 $**	**62,495@**	**63,084@**	**502**	**20**	**589**	**13**	**64**	**14**	**13**

$ Position as at end-June.

\+ Includes 'Daman and Diu' for 1969 data.

@ Excluding the branches of non-scheduled banks.

Note : Average population per bank branch for June 1969 is based on 1969 mid-year population; the same for June 1995 and June 1996 is based on 1991 mid-year population.

Appendix Table II.16 : Region/State-wise Number of RRBs, their Branches, Deposits, Advances, etc.
(As at the end of March 1996)

(Amount in Rs.lakh)

Name of the State/Region	No. of RRBs	No. of Dists. covered	No. of branches	Deposits	Advances Amount (outstanding)			Overdue Advances	CD Ratio (%)	NABARD Refinance Amount (outstanding)		
					Agricultural Advances	Non-Agricultural Advances	Total Advances			Schematic	Non-Schematic	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
NORTHERN REGION	**28**	**75**	**1,959**	**1,98,106.60**	**39,048.83**	**40,366.56**	**79,415.39**	**21,210.63**	**40**	**4,889.75**	**13,724.21**	**18,613.96**
Haryana	4	15	291	48,590.14	11,343.14	9,631.48	20,974.62	7,786.14	43	893.00	4,234.00	5,127.00
Himachal Pradesh	2	4	129	17,327.50	699.84	4,048.39	4,748.23	614.04	27	861.26	252.30	1,113.56
Jammu & Kashmir	3	12	273	20,125.18	1,230.28	3,909.45	5,139.73	1,547.16	26	152.00	511.43	663.43
Punjab	5	13	201	22,895.32	6,011.52	5,739.32	11,750.84	3,088.20	51	823.00	2,577.32	3,400.32
Rajasthan	14	31	1,065	89,168.46	19,764.05	17,037.92	36,801.97	8,175.09	41	2,160.49	6,149.16	8,309.65
NORTH-EASTERN REGION	**11**	**53**	**655**	**59,504.24**	**10,645.43**	**20,564.03**	**31,209.46**	**16,973.73**	**52**	**1,509.54**	**5,154.47**	**6,664.01**
Arunachal Pradesh	1	5	19	1,223.60	230.02	191.28	421.30	45.96	34	115.45	0.00	115.45
Assam	5	23	404	35,955.03	6,849.26	11,626.26	18,475.52	8,214.10	51	565.36	2,953.40	3,518.76
Manipur	1	8	29	821.31	173.33	281.72	455.05	322.15	55	4.56	177.17	181.73
Meghalaya	1	4	51	6,223.10	746.78	440.10	1,186.88	288.14	19	232.04	202.52	434.56
Mizoram	1	3	54	2,833.12	311.02	698.23	1,009.25	210.67	36	306.39	0.00	306.39
Nagaland	1	7	8	244.58	8.74	76.24	84.98	29.82	35	0.00	12.18	12.18
Tripura	1	3	90	12,203.50	2,326.28	7,250.20	9,576.48	7,862.89	78	285.74	1,809.20	2,094.94
EASTERN REGION	**40**	**98**	**3,568**	**3,24,514.62**	**49,565.37**	**1,01,942.22**	**1,51,507.59**	**48,700.39**	**47**	**9,670.03**	**21,282.06**	**30,952.09**
Bihar	22	50	1,885	167,050.80	21,406.38	44,953.75	66,360.13	24,231.30	40	2,385.92	5,551.38	7,937.30
Orissa	9	29	819	60,488.00	16,692.67	22,315.82	39,008.49	7,809.40	64	5,449.86	8,280.37	13,730.23
West Bengal	9	19	864	96,975.82	11,466.32	34,672.65	46,138.97	16,659.69	48	1,834.25	7,450.31	9,284.56
CENTRAL REGION	**64**	**110**	**4,628**	**5,02,776.92**	**99,796.67**	**1,09,530.37**	**2,09,327.04**	**46,235.23**	**42**	**17,808.03**	**37,087.96**	**54,895.99**
Madhya Pradesh	24	44	1,593	121,813.44	26,562.75	26,708.14	53,270.89	13,617.66	44	1,285.63	7,590.87	8,876.50
Uttar Pradesh	40	66	3,035	380,963.48	73,233.92	82,822.23	156,056.15	32,617.57	41	16,522.40	29,497.09	46,019.49
WESTERN REGION	**19**	**34**	**1,013**	**77,658.08**	**26,246.86**	**17,905.13**	**44,151.99**	**8,518.33**	**57**	**5,780.47**	**8,230.78**	**14,011.25**
Gujarat	9	17	425	31,084.93	11,644.43	5,657.66	17,302.09	3,545.68	56	3,071.42	3,375.29	6,446.71
Maharashtra	10	17	588	46,573.15	14,602.43	12,247.47	26,849.90	4,972.65	58	2,709.05	4,855.49	7,564.54
SOUTHERN REGION	**34**	**57**	**2,674**	**2,56,229.86**	**1,21,348.14**	**1,13,542.93**	**2,34,891.07**	**51,159.02**	**92**	**52,925.93**	**28,618.26**	**81,544.19**
Andhra Pradesh	16	23	1,123	116,122.26	52,104.44	44,208.31	96,312.75	21,162.20	83	21,403.51	8,476.14	29,879.65
Karnataka	13	20	1,074	96,742.80	49,094.69	39,978.07	89,072.76	21,880.74	92	18,749.43	15,503.11	34,252.54
Kerala	2	6	269	26,750.00	15,270.00	19,648.00	34,918.00	5,685.00	131	10,316.00	3,427.00	13,743.00
Tamil Nadu	3	8	208	16,614.80	4,879.01	9,708.55	14,587.56	2,431.08	88	2,456.99	1,212.01	3,669.00
ALL INDIA	**196**	**427**	**14,497**	**14,18,790.32**	**3,46,651.30**	**4,03,851.24**	**7,50,502.54**	**1,92,797.33**	**53**	**92,583.75**	**1,14,097.74**	**2,06,681.49**

Source: NABARD.

Appendix Table II.17 : Viability Position of Sick/Weak Industrial Units

(Amount in Rs. crore)

Type of Industrial Units	SSI Sick Units				Non-SSI Sick Units				Non-SSI Weak Units				Total			
	Number		Amount Outstanding		Number		Amount Outstanding		Number		Amount Outstanding		Number		Amount Outstanding	
	March 1994	March 1995	March 1994	March 1995	March 1994	March 1995	March 1994	March 1995	March 1994	March 1995	March 1994	March 1995	March 1994	March 1995	March 1994	March 1995
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Potentially viable units	16,580 (6.5)	15,539 (5.8)	686 (18.6)	598 (16.9)	676 (35.4)	667 (34.8)	3,899 (47.8)	3,904 (44.7)	253 (42.8)	156 (32.8)	820 (44.0)	587 (40.4)	17,509 (6.7)	16,362 (6.0)	5,405 (39.5)	5,089 (37.0)
2. Non-viable units	2,34,265 (91.3)	2,49,375 (92.8)	2,842 (77.2)	2,842 (80.1)	868 (45.5)	890 (46.5)	2,290 (28.1)	2,344 (26.8)	194 (32.8)	189 (39.7)	322 (17.3)	277 (19.1)	2,35,327 (90.9)	2,50,454 (92.4)	5,454 (39.8)	5,463 (39.8)
3. Viability not decided	5,607 (2.2)	3,901 (1.4)	152 (4.2)	107 (3.0)	365 (19.1)	358 (18.7)	1,962 (24.1)	2,492 (28.5)	144 (24.4)	131 (27.5)	722 (38.7)	588 (40.5)	6,116 (2.4)	4,390 (1.6)	2,836 (20.7)	3,187 (23.2)
4. Total	**2,56,452**	**2,68,815**	**3,680**	**3,547**	**1,909**	**1,915**	**8,151**	**8,740**	**591**	**476**	**1,864**	**1,452**	**2,58,952**	**2,71,206**	**13,695**	**13,739**
5. Units under nursing Programme	11,376	10,371	522	449	454	442	2,591	2,674	131	89	459	336	11,961	10,902	3,572	3,459
5 as percentage of 1	68.6	66.7	76.1	75.1	67.2	66.3	66.5	68.5	51.8	57.1	56.0	57.2	68.3	66.6	66.1	68.0

Note : Figures in brackets are percentages to total.

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

(Amount in Rs.crore)

Type of Institution	Items	1992-93#	1993-94#	1994-95#
		(April - March)		
1	2	3	4	5
(a) State Co-operative Banks (SCBs)*	**Number**	**28**	**28**	**28**
		(25)	**(25)**	**(-)**
	Owned Funds	1,348	1,528	1,635
	Deposits	8,701	11,305	11,547
	Borrowings from RBI/NABARD	4,513	4,749	5,150
	Working capital	15,560	18,919	18,719
	Loans issued	10,123	14,107	16,271
	Loans outstanding	8,378	9,801	10,492
	Loans overdue ++	926	1,520	1,162
	% of overdues to :			
	(i) Loans Outstanding	11.1	15.5	11.0
	(ii) Demand	15.0	17.0	14.0
(b) Central Co-operative Banks (CCBs)	**Number**	**352**	**361**	**361**
		(351)	**(340)**	**(-)**
	Owned Funds	2,345	2,559	2,783
	Deposits	13,555	16,251	18,616
	Borrowings from RBI/NABARD/ Apex Banks **	6,777	7,223	7,921
	Working capital	23,719	27,586	30,543
	Loans issued	14,155	17,744	22,373
	Loans outstanding	14,940	17,757	18,240$
	Loans overdue ++	3,738	3,874	3,482
	% of overdues to :			
	(i) Loans outstanding	25.0	21.8	22.0
	(ii) Demand	40.0	33.0	31.0
(c) State/Central Land Development Banks (SLDBs)	**Number**	**19**	**20**	**20**
		(18)	**(18)**	**(-)**
	Owned Funds	727	857	938
	Deposits	65	80	112
	Borrowings	5,373	4,811	6,087
	Working Capital	6,265	7,888	8,454
	Loans issued+	1,231	1,352	1,540
	Loans outstanding+	4,719	5,405	5,646
	Loans overdue @ ++	923	1,014	845
	% of overdues to :			
	(i) Loans outstanding	19.6	18.8	15.0
	(ii) Demand	53.0	52.0	53.0

(Contd.)

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

(Amount in Rs.crore)

Type of Institution	Items	1992-93#	1993-94#	1994-95#
		(April - March)		
1	2	3	4	5
(d) Primary Agricultural Credit Societies (PACS)##	**Number (000's)**	**84**	**91**	**90**
	Membership (000's)	**88,539**	**89,067**	**88,047**
	Owned Funds	**2,032**	**2,462**	**2,584**
	Deposits	1,863	2,367	2,520
	Borrowings	7,896	8,487	9,596
	Working capital	12,666	15,207	16,304
	Total Loans issued	6,793	7,301	9,373
	Total Loans outstanding ++	8,116	10,190	11,404
	Total Loans overdue ++	3,256	3,874	3,937
	% of overdues to :			
	(i) Loans outstanding	40.1	38.0	35.0
	(ii) Demand	43.0	41.0	36.0
(e) Primary Land Development Banks (PLDBs)	**Number**	**726**	**727**	**731**
	Membership (000's)	**6,503**	**7,221**	**7,360**
	Owned Funds	**308**	**349**	**372**
	Borrowings	2,382	2,621	2,816
	Working capital	2,958	3,379	3,676
	Loans issued	435	664	705
	Loans outstanding ++	1,463	1,527	1,699
	Loans overdue ++	382	396	437
	% of overdues to :			
	(i) Loans outstanding	26.1	26.0	26.0
	(ii) Demand	44.2	45.0	57.0
(f) Primary Co-operative Banks (PCBs)	**Number**	**1,399**	**1,400**	**1,431**
	Owned Funds	**2,224**	**2,723**	**3,312**
	Deposits	13,531	16,769	20,101
	Borrowings	565	496	577
	Loans outstanding	10,132	12,172	14,795

\# Provisional.
\+ Long-term Loans.
++ As on June 30.
@ Include interest overdue.
* Include three CCBs in J & K, related data for which are not available.
** Include borrowings from commercial banks and others.
\## Include Large-Size Adivasi Multi-Purpose Societies (LAMPS) and Farmers' Service Societies (FSS)
$ Data for the year 1993-94 in respect of Uttar Pradesh and Orissa have been repeated.
Note : Figures in brackets are reporting banks/societies.
Source : NABARD and Reserve Bank of India.

Appendix Table IV.1 : Financial Assets of Banks and Financial Institutions
(As at the end of March)

(Rs.crore)

Institutions	1981	1990	1991	1992	1993	1994	1995P	1996P
1	2	3	4	5	6	7	8	9
I. Banks (1+2+3)*	**46,987**	**2,05,513**	**2,32,786**	**2,71,915**	**3,12,983**	**3,73,511**	**4,55,840**	**5,05,820**
			(13.3)	**(16.8)**	**(15.1)**	**(19.3)**	**(22.0)**	**(11.0)**
1. All Scheduled Commercial Banks**	44,622	1,96,377	2,22,613	2,59,902	2,99,509	3,58,407	4,38,092	4,85,657
2. Non-Scheduled Commercial Banks***	9	60	77	86	91	93	65	2
All Commercial Banks (1+2)	**44,631**	**1,96,437**	**2,22,690**	**2,59,988**	**2,99,600**	**3,58,500**	**4,38,157**	**4,85,659**
3. State Co-operative Banks+	2,356	9,076	10,096	11,927	13,383	15,011	17,683	20,161
II. Financial Institutions++	**16,650**	**1,02,179**	**1,22,655**	**1,57,761**	**1,81,271**	**2,13,819**	**2,48,113**	**2,76,148**
			(20.0)	**(28.6)**	**(14.9)**	**(18.0)**	**(16.0)**	**(11.3)**
4. Term-lending Institutions# (All-India)	6,143	44,942	52,054	65,185	73,650	80,995	91,751	1,06,302
5. State Level Institutions@	1,733	7,893	10,048	11,523	12,576	13,229	14,178	14,766
6. Investment Institutions$	8,534	47,694	58,566	78,699	92,146	1,15,762	1,37,057	1,49,018
7. Other Institutions~	240	1,650	1,987	2,354	2,899	3,833	5,127	6,062
III. Aggregate (I+II)	**63,637**	**3,07,692**	**3,55,441**	**4,29,676**	**4,94,254**	**5,87,330**	**7,03,953**	**7,81,968**
			(15.5)	**(20.9)**	**(15.0)**	**(18.8)**	**(19.9)**	**(11.1)**
IV. Percentage Share:								
a) I to III	73.8	66.8	65.5	63.3	63.3	63.6	64.8	64.7
b) II to III	26.2	33.2	34.5	36.7	36.7	36.4	35.2	35.3

P Provisional.

* Include the following items: (i)cash in hand and balances with the Reserve Bank,(ii)assets with the banking system,(iii)investments,(iv)bank credit (total loans,cash credits,overdrafts and bills purchased and discounted) and (v)dues from banks.

** As per returns under Section 42 of the RBI Act,1934. The data since 1990 are in respect of last reporting Friday of March.

*** As per returns under Section 27 of the Banking Regulation Act,1949. The data are in respect of last Friday of March.

\+ As per returns received by Rural Planning and Credit Department, RBI, from State Co-operative Banks. The data since 1990 are in respect of last reporting Friday of March.

++ Figures pertain to the accounting year of the respective financial institutions.

\# Term-lending institutions include IFCI,ICICI,IDBI,Exim Bank,NABARD,IRBI and NHB. The NHB position (as at end June) is included since 1990.

@ State-level institutions include SFCs and SIDCs.

$ Investment institutions include UTI,LIC and GIC and its subsidiaries.

~ Other institutions include DICGC and ECGC.

Note : Figures in brackets are percentage change over the previous year.

Appendix Table IV.2: Total Financial Assets of Financial Institutions

(Rs.crore)

Institutions	As at the end of						
	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95P	1995-96P
1	2	3	4	5	6	7	8
A. All-India Term Lending Institutions							
1. IDBI	3,099	22,701	27,968	30,919	34,330	37,786	43,791
2. NABARD @	1,635	12,664	14,466	15,680	15,586	17,820	19,437
3. ICICI	728	7,084	9,135	11,185	13,715	17,375	20,911
4. IFCI	589	5,835	7,515	9,108	9,869	10,551	13,240
5. Exim Bank	–	1,984	2,458	2,685	3,099	3,597	3,958
6. IRBI	92	818	985	1,070	1,128	1,270	1,508
7. NHB	–	969	2,659	3,003	3,268	3,352	3,457
Total of A (1 to 7)	**6,143**	**52,054**	**65,185**	**73,650**	**80,995**	**91,751**	**1,06,302**
B. State Level Institutions							
8. SFCs	1,074	6,412	7,383	7,943	8,431	9,009	9,009
9. SIDCs	660	3,637	4,140	4,633	4,798	5,169	5,757
Total of B (8 + 9)	**1,733**	**10,048**	**11,523**	**12,576**	**13,229**	**14,178**	**14,766**
C. Investment Institutions							
10. LIC	6,815	29,040	35,411	41,837	50,964	61,922	75,100
11. GIC and its subsidiaries	1,199	6,362	7,953	8,731	9,916	12,691	12,691
12. UTI	521	23,164	35,336	41,578	54,882	62,444	61,226
Total of C (10 to 12)	**8,534**	**58,565**	**78,700**	**92,146**	**1,15,762**	**1,37,057**	**1,49,017**
D. Other Institutions							
13. DICGC	200	1,744	2,038	2,520	3,497	4,588	5,523
14. ECGC	40	244	315	380	336	539	539
Total of D (13 + 14)	**240**	**1,987**	**2,354**	**2,899**	**3,833**	**5,127**	**6,062**
Grand Total (A+B+C+D)	**16,650**	**1,22,655**	**1,57,761**	**1,81,271**	**2,13,819**	**2,48,113**	**2,76,147**

P Provisional.

@ Data for 1980-81 pertain to ARDC as NABARD was formed only during 1982.

Notes :
1. Data pertain to the accounting year of the respective financial institution. As far as IFCI is concerned, the stock of financial assets for years upto 1992-93 are as at end-June and for 1993-94 the figures are as at end-March due to a change in IFCI's accounting year.
2. Data pertaining to some of the financial institutions for the year 1995-96 have been repeated due to non-availability of data.
3. Constituent items may not add up to the totals due to rounding off.

Appendix Table IV.3 : RBI Assistance to Financial Institutions (July-June)

(Amount in Rs.crore)

Type of Assistance	1994-95		1995-96		Period (Years)	Rate of Interest (per cent per annum)	Amount Outstanding as on June 30, 1996
	S	U	S	U			
1	2	3	4	5	6	7	8
A. Long Term Credit [NIC(LTO)Fund]							
1. IDBI	–	–	–	–	15	–	2,789.4
2. SIDBI	200.0	200.0	224.0	224.0	15	9.5	1,604.8
3. Exim Bank	–	–	–	–	15	9	877.0
4. IRBI	–	–	–	–	15	8	170.0
B. Long Term Credit [NHC(LTO)Fund]							
1. NHB	–	–	–	–	20	8	175.0
C. Medium/Short Term Credit							
1. IDBI	–	–	–	–	5	14	200.0
2. SFCs	99.4	*	117.4	*	1	Bank Rate	6.7

* Ad-hoc borrowing limits utilised from time to time as per requirements.
S = Sanctioned. U = Utilised.

Appendix Table IV.4 : Financial Assistance Sanctioned and Disbursed by All Financial Institutions
(Year:April-March)

(Rs. crore)

Institutions		Loans*				Underwriting and Direct Subscription				Others				Total			
		1994-95		1995-96		1994-95		1995-96		1994-95		1995-96		1994-95		1995-96	
		S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
A All India Development Banks (1 to 6)	**@**	**39,392.1**	**21,768.0**	**48,081.6**	**25,345.0**	**7,199.4**	**2,995.1**	**4,724.9**	**3,112.9**	**1,459.9**	**800.1**	**4,179.1**	**1,651.3**	**48,051.4**	**25,563.2**	**56,985.6 (18.6)**	**30,109.2 (17.8)**
	@@	**37,502.2**	**20,488.8**	**45,265.2**	**23,213.4**	**7,199.4**	**2,995.1**	**4,724.9**	**3,112.9**	**1,459.9**	**800.1**	**4,179.1**	**1,651.3**	**46,161.5**	**24,284.0**	**54,169.2 (17.3)**	**27,977.6 (15.2)**
1. IDBI		15,638.4	9,342.7	17,447.9	9,612.2	2,625.9	1,115.3	777.1	591.2	342.7	163.3	1,243.8	432.8	18,607.0	10,621.3	19,468.8 (4.6)	10,636.2 (0.1)
	@	15,638.4	9,342.7	17,447.9	9,612.2	2,625.9	1,115.3	777.1	591.2	342.7	163.3	1,243.8	432.8	18,607.0	10,621.3	19,468.8 (4.6)	10,636.2 (0.1)
	@@	15,133.1	8,970.4	16,842.0	9,094.6	2,625.9	1,115.3	777.1	591.2	342.7	163.3	1,243.8	432.8	18,101.7	10,249.0	18,862.9 (4.2)	10,118.6 (-1.3)
2. IFCI		4,941.2	2,504.7	9,385.0	4,030.3	768.4	324.2	618.9	461.4	9.9	9.8	296.4	71.6	5,719.5	2,838.7	10,300.3 (80.1)	4,563.3 (60.8)
3. ICICI		10,998.6	5,406.4	11,258.9	4,927.8	3,140.9	1,298.6	2,500.0	1,612.7	388.4	174.3	1,455.6	579.9	14,527.9	6,879.3	15,214.5 (4.7)	7,120.4 (3.5)
4. SIDBI	@	4,157.9	2,953.5	5,477.1	4,418.2	5.9	4.8	8.1	5.0	535.5	427.0	570.5	372.9	4,699.3	3,385.3	6,055.7 (28.9)	4,796.1 (41.7)
	@@	2,773.3	2,046.6	3,266.6	2,804.2	5.9	4.8	8.1	5.0	535.5	427.0	570.5	372.9	3,314.7	2,478.4	3,845.2 (16.0)	3,182.1 (28.4)
5.IRBI		624.2	331.6	743.6	440.9	131.6	45.0	48.0	22.7	22.1	21.0	105.7	65.0	777.9	397.6	897.3 (15.3)	528.6 (32.9)
6.SCICI		3,031.8	1,229.1	3,769.1	1,915.5	526.7	207.2	772.8	420.0	161.3	4.7	507.1	129.1	3,719.8	1,441.0	5,049.0 (35.7)	2,464.6 (71.0)
B Specialised Financial Institutions (7 to 9)		**208.8**	**126.6**	**259.7**	**161.8**	**131.0**	**102.4**	**97.8**	**62.3**	**21.5**	**16.5**	**12.0**	**6.9**	**361.3**	**245.5**	**369.5 (2.3)**	**231.0 (-5.9)**
7.RCTC		1.0	2.8	1.1	0.6	12.9	10.2	40.9	14.7	-	-	-	-	13.9	13.0	42.0 (202.2)	15.3 (15.0)
8.TDICI		6.3	3.4	4.5	6.2	111.8	91.9	51.4	42.6	-	-	-	-	118.1	95.3	55.9 (-52.7)	48.8 (-48.8)
9.TFCI		201.5	120.4	254.1	155.0	6.3	0.3	5.5	5.0	21.5	16.5	12.0	6.9	229.3	137.2	271.6 (18.4)	166.9 (21.6)
C Investment Institutions (10+11+12)		**1,699.6**	**1,462.0**	**2,658.0**	**1,481.8**	**6,676.0**	**4,377.0**	**3,641.0**	**4,572.4**	**380.7**	**230.1**	**56.5**	**57.5**	**8,756.3**	**6,069.1**	**6,355.5 (-27.4)**	**6,111.7 (0.7)**
	@	880.4	987.0	2,558.0	1,331.8	6,676.0	4,377.0	3,641.0	4,572.4	49.9	230.1	56.5	57.5	7,606.3	5,594.1	6,255.5 (-17.8)	5,961.7 (6.6)
	@@	880.4	987.0	2,558.0	1,331.8	6,676.0	4,377.0	3,641.0	4,572.4	49.9	230.1	56.5	57.5	7,606.3	5,594.1	6,255.5 (-17.8)	5,961.7 (6.6)
10.UTI		569.2	858.1	917.5	754.0	5,327.9	3,258.3	2,204.9	2,182.6	380.7	230.1	56.5	57.5	6,277.8	4,346.5	3,178.9 (-49.4)	2,994.1 (-31.1)
	@	-	583.1	917.5	754.0	5,327.9	3,258.3	2,204.9	2,182.6	49.9	230.1	56.5	57.5	5,377.8	4,071.5	3,178.9 (-40.9)	2,994.1 (-26.5)
	@@	-	583.1	917.5	754.0	5,327.9	3,258.3	2,204.9	2,182.6	49.9	230.1	56.5	57.5	5,377.8	4,071.5	3,178.9 (-40.9)	2,994.1 (-26.5)

(Contd.)

Appendix Table IV.4 : Financial Assistance Sanctioned and Disbursed by All Financial Institutions *(Concld.)*

(Year:April-March)

(Rs. crore)

Institutions	Loans*				Underwriting and Direct Subscription				Others				Total			
	1994-95		1995-96		1994-95		1995-96		1994-95		1995-96		1994-95		1995-96	
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
11. LIC	812.1	405.8	1,291.3	538.6	977.9	937.6	1,050.7	1,991.1	-	-	-	-	1,790.0	1,343.4	2,342.0 (30.8)	2,529.7 (88.3)
@	562.1	205.8	1,191.3	388.6	977.9	937.6	1,050.7	1,991.1	-	-	-	-	1,540.0	1,143.4	2,242.0 (45.6)	2,379.7 (108.1)
12. GIC	318.3	198.1	449.2	189.2	370.2	181.1	385.4	398.7	-	-	-	-	688.5	379.2	834.6 (21.2)	587.9 (55.0)
D Total Assistance by All-India Financial Institutions (A@+B+C@)	**40,481.3**	**22,881.6**	**50,899.3**	**26,838.6**	**14,006.4**	**7,474.5**	**8,463.7**	**7,747.6**	**1,531.3**	**1,046.7**	**4,247.6**	**1,715.7**	**56,019.0**	**31,402.8**	**63,610.6 (13.6)**	**36,301.9 (15.6)**
E State-level Institutions (13 and 14)	**3,947.6**	**2,814.5**	**6,478.8**	**3,955.4**	**323.9**	**175.3**	-	-	-	-	-	-	**4,271.5**	**2,989.8**	**6,478.8 (51.7)**	**3,955.4 (32.3)**
13. SFCs	2,760.2	2,001.1	3,991.2	2,572.3	-	4.3	-	-	-	-	-	-	2,760.2	2,005.4	3,991.2 (44.6)	2,572.3 (28.3)
14. SIDCs	1,187.4	813.4	2,487.6	1,383.1	323.9	171.0	-	-	-	-	-	-	1,511.3	984.4	2,487.6 (64.6)	1,383.1 (40.5)
F. Total Assistance by All Financial Institutions (A@@+B+C@@+E)	**42,539.0**	**24,416.9**	**54,561.7**	**28,662.4**	**14,330.3**	**7,649.8**	**8,463.7**	**7,747.6**	**1,531.3**	**1,046.7**	**4,247.6**	**1,715.7**	**58,400.6**	**33,113.4**	**67,273.0 (15.2)**	**38,125.7 (15.1)**

S : Sanctions. D : Disbursements.

* Loans include rupee loans, *foreign* currency loans and guarantees.

@ Data are adjusted for inter-institutional (all India) flows.

@@ Data are adjusted for inter-institutional (all India and State level) flows.

Notes : 1. Data for 1995-96 are provisional for all institutions and estimated for SFCs and SIDCs.

: 2. Data have been adjusted for inter-institutional flows. This involves adjustment in regard to loans and subscriptions *to* shares and bonds of financial institutions by IDBI, IDBI/SIDBI's refinance assistance to SFCs and SIDCs and seed capital assistance, term loans given by LIC and special deposits of UTI to IDBI, IFCI and ICICI

3. Others include leasing in case of IDBI,IFCI,ICICI,SIDBI,TFCI and SCICI; leasing, hire purchase assistance and equipment finance in case of IRBI; and special deposits by UTI.

4. Figures in brackets indicate percentage variation over the year.

Source: IDBI and respective Financial Institutions.

Appendix Table IV.5 : Resource Mobilisation by Mutual Funds

(Rs.crore)

Year (April-March)	Public Sector Mutual Funds					Private Sector Mutual Funds	Grand Total (6+7)
	Subsidiaries of Banks	Subsidiaries of Financial Institutions	Sub-Total (2+3)	Unit Trust of India	Total (4+5)		
1	2	3	4	5	6	7	8
1987-88	250.3	-	250.3	1,767.6	**2,017.9**	-	**2,017.9**
1988-89	319.7	-	319.7	3,464.0	**3,783.7**	-	**3,783.7**
1989-90	888.1	315.2	1,203.3	5,490.9	**6,694.2**	-	**6,694.2**
1990-91	2,352.0	603.5	2,955.5	3,198.8	**6,154.3**	-	**6,154.3**
1991-92	2,140.4	427.1	2,567.5	8,685.4	**11,252.9**	-	**11,252.9**
1992-93	1,204.0	760.0	1,964.0	11,057.0	**13,021.0**	-	**13,021.0**
1993-94	148.1	238.6	386.7	9,297.0	**9,683.7**	1,559.5	**11,243.2**
1994-95*	760.8	576.2	1,337.0	8,611.0	**9,948.0**	1,326.8	**11,274.8**
1995-96*	111.0	221.2	332.2	-6,314.0	**-5,981.8**	240.0	**-5,741.8**

* Provisional.

Note : Data for UTI are net sales with premium for the period July-June; for the years 1987-88, and 1988-89, data represent net sales at face value. In respect of data for 1992-93 and onwards, the period is April-March.

Source : Respective Mutual Funds.

Appendix Table IV.6 : Deposits with Non-Banking Companies
(As at the end of March)

(Amount in Rs.crore)

Category	1993-94				1994-95*			
	No. of Reporting Companies	Regulated Deposits	Exempted Deposits	Total Deposits (3+4)	No. of Reporting Companies	Regulated Deposits	Exempted Deposits	Total Deposits (7+8)
1	2	3	4	5	6	7	8	9
Aggregate Deposits	**11,349** (**100.0**)	**26,574.2** (**100.0**)	**1,62,582.0** (**100.0**)	**1,89,156.2** (**100.0**)	**10,725** (**100.0**)	**37,295.2** (**100.0**)	**2,11,308.7** (**100.0**)	**2,48,603.9** (**100.0**)
Of which: held by								
1. Non-Financial Companies	2,218 (19.5)	5,812.9 (21.9)	1,23,530.4 (76.0)	1,29,343.3 (68.4)	2,156 (20.1)	7,260.7 (19.5)	1,51,250.5 (71.6)	1,58,511.2 (63.8)
2. Financial Companies **	7,943 (70.0)	17,372.0 (65.4)	38,074.8 (23.4)	55,446.8 (29.3)	7,405 (69.0)	25,322.9 (67.9)	58,380.0 (27.6)	83,702.9 (33.7)
3. Misc. Non-Banking and Residuary Non-Banking Companies	1,188 (10.5)	3,389.3 (12.7)	976.8 (0.6)	4,366.1 (2.3)	1,164 (10.9)	4,711.6 (12.6)	1,678.2 (0.8)	6,389.8 (2.5)

* Provisional.

** Inclusive of Housing Finance Companies.

Note : Figures in brackets are percentages to the totals in the respective columns.