CHAPTER 3

MONEY AND CREDIT

Money supply growth during the current financial year has been faster than in the previous year, even though both the net Reserve Bank credit to the Central Government and bank credit to the commercial sector have expanded at a lower rate. This is primarily because of the substantial build up in foreign exchange reserves.

The stance of the monetary policy in 1991-92 was restrictive to contain the growth of aggregate demand to fight the twin problems of high inflation and adverse balance of payments. Quarterly targets have been set for net domestic assets of RBI, net RBI credit to the Central Government and gross fiscal deficit as also the floor for net official foreign exchange reserves. In addition, indicative targets have been set for broad money (M3) growth and bank credit to Government.

The current financial year is marked by several important changes in monetary policy. The Bank Rate was revised twice and raised from 10 per cent to 12 per cent. Interest rates on term deposits (particularly short-term deposits) were also raised significantly in order to ensure their competitiveness in the market. Interest rates on bank advances of all categories, therefore, underwent upward revision both in keeping with these changes and as an anti-inflationary measure. Higher interest rates on export credit and larger export credit refinance facilities were introduced to encourage banks in their credit support to exporters.

Among other measures of credit control introduced in 1991-92 are (a) 10 per cent Incremental Cash Reserve Ratio on the increase in net demand and time liabilities of the scheduled commercial banks over May 3, 1991 level; (b) withdrawal of all refinance facilities (except export credit refinance facility, by RBI; (c) imposition of a ceiling on the effective drawing power of big borrowers with aggregate credit limits of Rs. 1 crore and above from May 9 to September 30, 1991 and (d) extension/tightening of selective credit controls on bank advances against price-senstitive essential commodities like wheat, rice/paddy, cotton and kapas and pulses. The higher minimum cash margin imposed on bank finance for imports in March-April, 1991 came to be reduced in stages with gradual improvement in foreig exchange reserves and also to help exporters in making necessary imports.

The uptrend in the credit sanctioned and disbursed by term lending financial institutions continued in the current financial year. A floor rate of 15 per cent came to replace their fixed lending rate of 14 per cent. Orderly growth of the secondary money market continued to be the concern of the Reserve Bank of India which also took measures to reduce the volatility of call money rates and liberalised the guidelines for issue of commercial paper (CP) and certificate of deposits (CD). The Discount and Finance House of India (DFHI) had large turnover in each major money market instrument. Home Loan Accounts Scheme of National Housing Bank (NHB) was extended to select Housing Finance companies (HFCs). NHB also launched National Housing (Voluntary Deposits) scheme to attract black money to social housing schemes.

The Committee on the Financial system (Chairman: Shri M. Narasimham) has submitted the report and has made far-reaching recommendations for reform in the organisation, operations and policies in the financial sector. The Goiporia Committee in its report has also suggested various measures for improvement in the customer services of the banks. Recommdations of both these committees are now under consideration of the Reserve Bank of India and the Government.

Introduction

3.1 Broad money (M3) growth turned out to be lower at 14.9 per cent in 1990-91 than the 19.4 per cent growth in the preceding year, mainly due to a large draw-down of foreign exchange reserves because of worsening in balance of payments in 1990-91. However, there existed a large liquidity hang-over in the economy because of near 17 per cent average rate of money supply expansion in the last four to five years. The deteriorating fiscal situation at home and the critical payments problem in the external sector made the situation serious.

3.2 The economic realities dictated the adoption of a restrictive monetary policy almost from the beginning of the current financial year. Adjustments were effected in July 1991 in the exchange rate of the Rupee to make it credible and to ensure competitiveness of exports without the need for large and discretionary export subsidies. Major changes were introduced, at the same time, in trade, investment and the industrial policies to promote competitiveness, enterprize and efficiency on the fiscal front. The Central Government's Budget for 1991-92 seeks to reduce fiscal deficit from 8.4 per cent of GDP in RE

1990-91 to no more than 6.5 per cent in 1991-92 (based on projections of GDP at that time; the latest GDP estimate yields 6.2 per cent) through substantial efforts at expenditure reduction and mobilisation of resources.

3.3 To support these measures, monetary policy was also tightened. This reflected the urgent need to restrain aggregate demand in general and import demand in particular, in order to fight the twin problems of inflation and unfavourable balance of payments. Broad money (M3) growth of 13 per cent has been targeted consistent with output and inflation targets. Correspondingly reserve money has also been targeted to grow by 15.5 per cent after taking into account the Incremental Cash Reserve Requirement of 10 per cent imposed on May 4, 1991. The monetary programme for 1991-92 also specifies quarterly ceilings on the net domestic assets of the Reasve Bank of India as well as net RBI credit to the Central Government and floors for net official foreign exchange reserves (in US Dollars).

TABLE 3.1

Sources of changes in Money Stock

(Rs. crore)

	Variations during $			
	1989-90 March 31 to March 31	1990-91 March 31 to March 31 (P)	1990-91 March 31 to Jan. 11, 1991 (P)	1991-92 March 31 to Jan. 10, 1992 (P)
I. M1 (Money supply with the public)	14,274 (21.4)	11,710 (14.4)	8,950 (11.0)	18,991 (20.5)
II. M3 (Aggregate monetary resources)	37,457 (19.4)	34,486 (14.9)	26,010 (11.3)	39,653 (14.9)
(i) Currency with the public	7,971 (20.8)	6,787 (14.7)	5,423 (11.7)	7,682 (14.5)
(ii) Demand deposits with banks	6,399 (23.1)	4,863 (14.2)	2,457 (7.2)	9,953 (25.5)
(iii) Time deposit with banks	23,183 (18.3)	22,776 (15.2)	17,060 (11.4)	20,662 (12.0)
(iv) Other deposits with RBI	—96	60	1,070	1,356
III. Sources of changes in money stock (M3) (1+2+3+4—5)				
1. Net bank credit to Government (a+b)	20,676 (21.4)	23,048 (19.7)	20,644 (17.6)	23,914 (17.1)
(a) RBI's net credit to Government (i+ii) £	14,068	15,165 (a)	13,577 (b)	13,022
(i) to Central Government	13,813	14,745	15,054	14,980
(ii) to State Governments	255	420	—1,477	—1,958
(b) Other banks' credit to Government	6,608	7,883	7,067	10,892
2. Bank credit to commercial sector (a+b)	23,822 (18.6)	21,443 (14.1)	11,898 (7.8)	8,378 (4.8)
(a) RBI's credit to commercial sector*	825	—7	—873	—821
(b) Other banks' credit to commercial sector	22,997	21,450	12,771	9,199
3. Net foreign exchange assets of the banking sector	—149 (—2.2)	1,915 † (28.8)	1,737 † (26.1) (—4567)+b (—68.7)+b	6,198 † (72.4) (4033)+a (47.1)+a
4. Government's currency liabilities to the public	80 (5.4)	52 (3.3)	17 (1.1)	41 (2.6)
5. Banking sector's net non-monetary liabilities other than time deposits (a+b)	6,972 (17.8)	11,972 (26.0)	8,286 (18.0) (1,982)+b	—1,122 (—1.9) (—3,287)+a
(a) Net non-monetary liabilities of RBI	600	9,502 †	8,600 † (2,296)+b	1,668 † (—497)+a
(b) Net non-monetary liabilities of other banks	6,372	2,470	—314	—2,790

P — Provisional.

* — Excludes, since the establishment of NABARD, its refinance to banks.

£ — Includes an amount of (a) Rs. 722 crore/(b) Rs. 325 crore representing the replacement of non-negotiable non-interest bearing securities issued to IMF by RBI claims on Central Government for facilitating repurchases from the Fund.

$ — While variations in respect of scheduled commercial banks are worked out on the basis of their data for the last reporting Friday of March, *i.e.* March 24, 1989, March 23, 1990, and March 22, 1991, those for the RBI an others are based on the data for March 31, 1989 and March 31, 1990 and March 31, 1991,

† — Inclusive of appreciation in the value of gold following its revaluation close to international market price since October 17, 1990. Such appreciation has a corresponding effect on a RBI's net non-monetary liabilities.

+ — Excluding revaluation of gold amounting to (a) Rs. 2165 crore (b) Rs. 6304 crore.

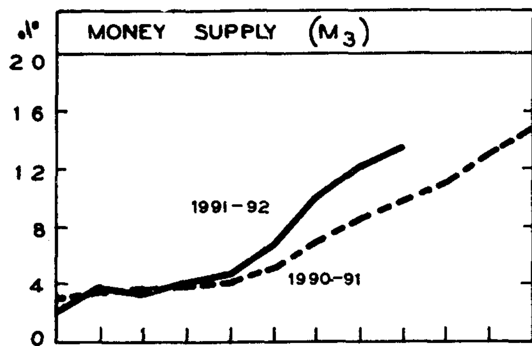
NOTES : 1. Figures may not add up to totals because of rounding.

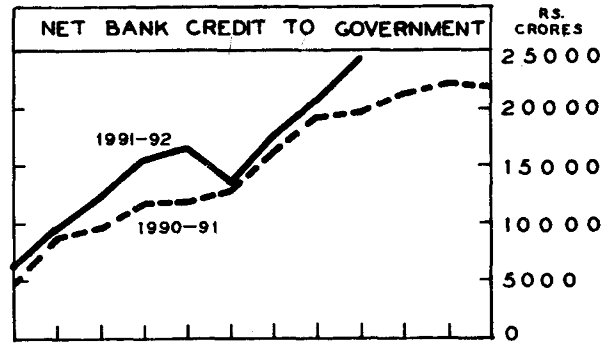
2. Figures in brackets are percentage variations.

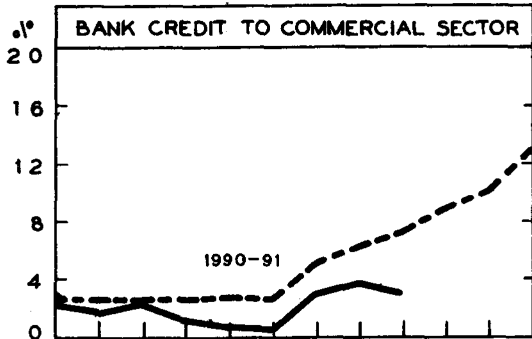
3. Reserve Bank data are on the basis of closure of Government accounts.

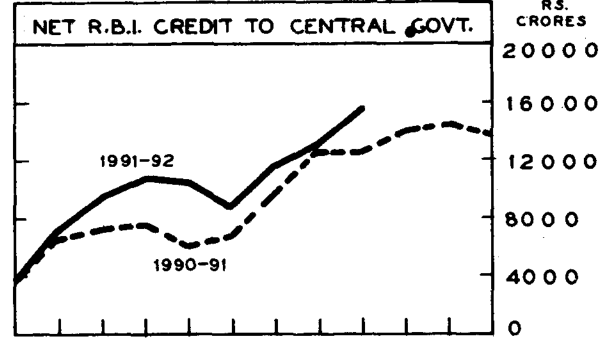
GROWTH IN SELECTED MONETARY INDICATORS

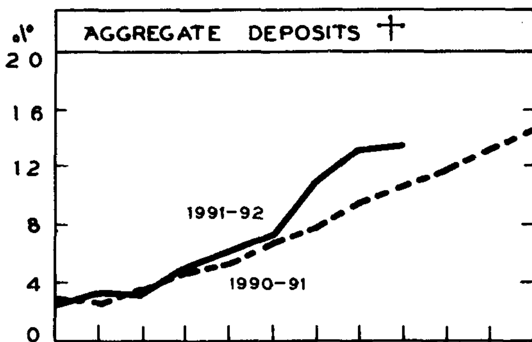
LAST FRIDAY DATA [PROVISIONAL]

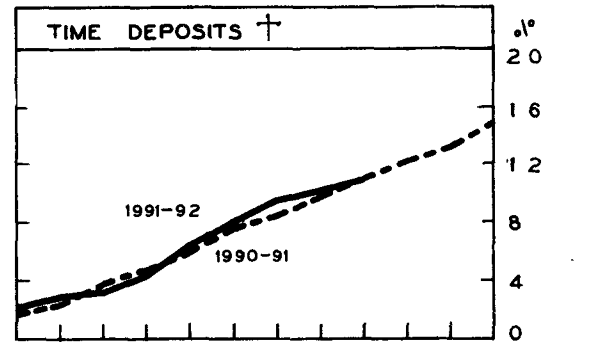


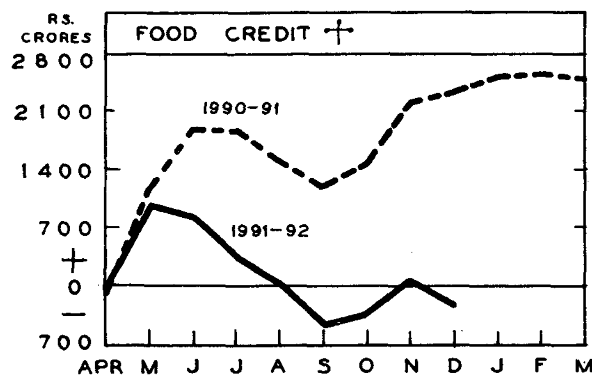


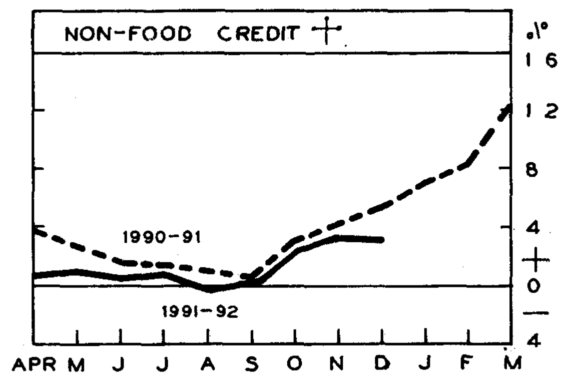




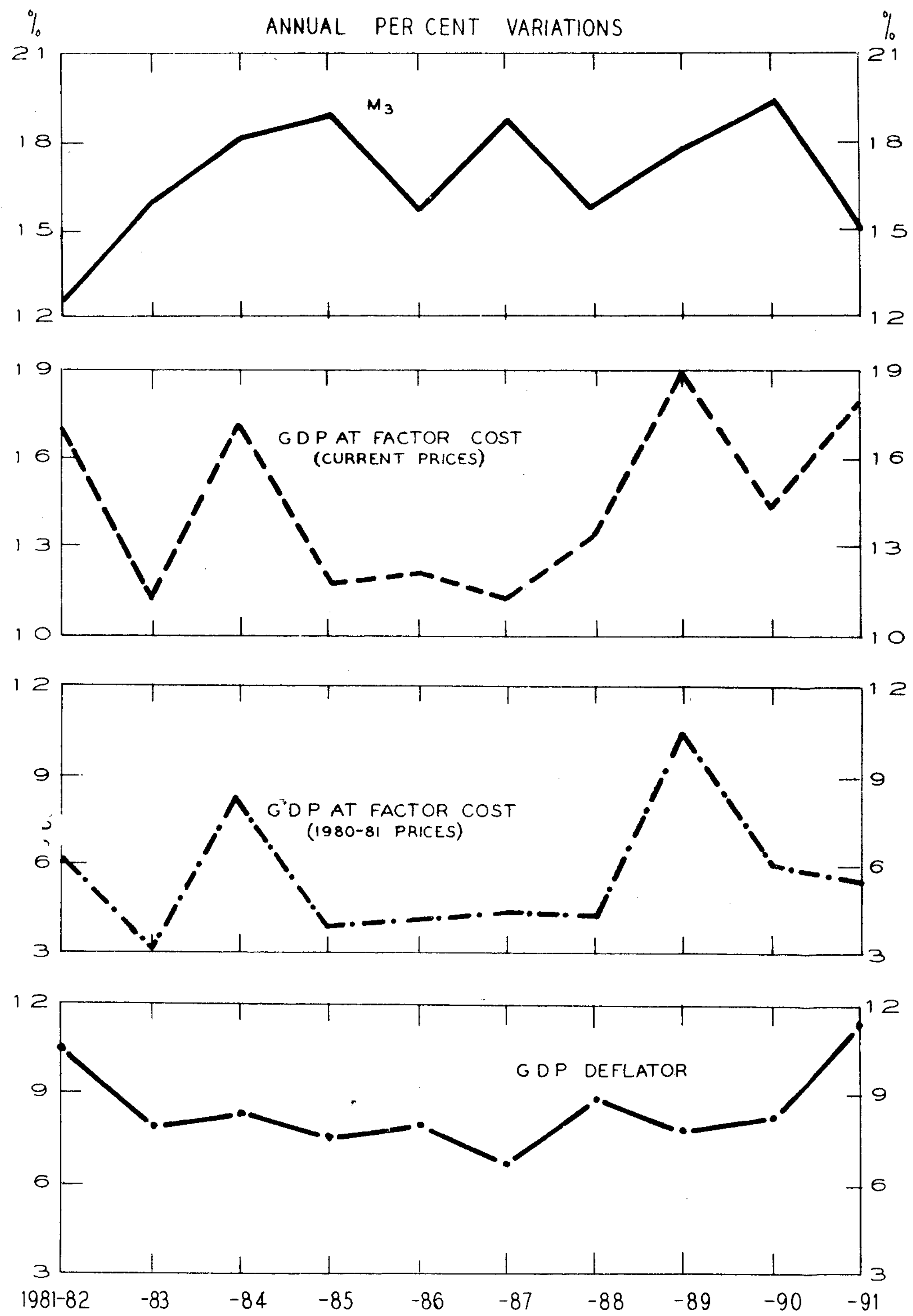








† DATA RELATE TO SCHEDULED COMMERCIAL BANKS


MONEY OUTPUT AND PRICES
ANNUAL PER CENT VARIATIONS
%
%
21
18
15
12
M_3
19
16
13
10
GDP AT FACTOR COST
(CURRENT PRICES)
12
9
6
3
GDP AT FACTOR COST
(1980-81 PRICES)
GDP DEFLATOR
1981-82
-83
-84
-85
-86
-87
-88
-89
-90
-91

3.4 The data on the movement of money supply and its associated monetary variables in the current financial year 1991-92 are available up to the fortnight ending January 10, 1992. Table 3.1 presents component and sourcewise position of the growth of money supply for the full financial year 1989-90, 1990-91 as also for the current financial year 1991-92 up to January 10, 1992, compared with the corresponding period of the financial year 1990-91 (i.e. up to January 11, 1991). The data shows that both narrow money (M1) and broad money (M3) have recorded higher growth rates in this year up to January 10, 1992 than those recorded in the corresponding period of 1990-91. The growth rate of M1 has been higher in this financial year than that of M3 because of a much larger rise (25.5 per cent) in demand deposits with banks than that in time deposits with banks (12.0 per cent). The currency growth at 14.5 per cent has also been much higher than the growth in time deposits. The latter is, in fact, marginally higher than its rate of growth (11.4 per cent) in the corresponding period of 1990-91. The accelerated growth in demand deposits with banks is attributable to an extraordinary factor, namely, the holding of additional cash margins and the money kept by the canalising agencies with banks mainly linked to POL transactions.

3.5 Net bank credit to Government and bank credit to the commercial sector, recorded lower growth of 17.1 per cent and 4.8 per cent, respectively, during 1991-92 (up to January 10, 1992) as against 17.6 per cent and 7.8 per cent, respectively, in the corresponding period of 1990-91. The net increase in RBI credit to Central Government has been of a lower order in the current financial year than that in the last financial year. The higher growth rate in M3 can, therefore, be appropriately explained by expansion in net foreign exchange assets of the banking sector. Available monetary data show that money supply (M3) has been growing above its 13 per cent annual growth path since the fortnight ending August 9, 1991. However, NRCCG has remained within the ceilings fixed for end-October and end-December, 1991.

Reserve Money

3.6 The higher growth rate of broad money up to January 10, 1992 can be traced to faster expansion in reserve money (14.9 per cent) than in 1990-91 (7.8 per cent), essentially supported by larger foreign exchange accruals [Table 3.2].

TABLE 3.2

Sources of Changes in Reserve Money

(Rs. crore)

	Outstanding as on March 31, 1989	Variations during†			
		1989-90	1990-91	1990-91	1991-92
		March 31, 1989 to March 31, 1990	March 31, 1990 to March 31, 1991 (P)	March 31, 1990 to Jan. 11, 1991 (P)	March 31, 1991 to Jan. 10, 1992 (P)
1	2	3	4	5	6
1. Net RBI credit to Government £	59615	14068(a) (23.6)	15165(b) (20.6)	13577(b) (18.4)	13022 (14.7)
2. RBI credit to banks @	7080	392 (5.5)	2535 (33.9)	303 (4.1)	—3612 (- 36.1)
3. RBI credit to commercial sector*	5524	825 (14.9)	—7 (—0.1)	—873 (—13.8)	—821 (—12.9)
4. Net foreign exchange assets of RBI	6201	—133 (—2.1)	1915** (31.6)	1631** (26.9)	6092** (76.3)
5. Government's currency liabilities to the public	1475	80 (5.4)	52 (3.3)	17 (1.1)	41 (2.6)
6. Net non-monetary liabilities of RBI	16936	600 (3.5)	9502** (54.2)	8600** (49.0)	1668** (6.2)
7. Reserve money (1 + 2 + 3 + 4 +5 —6)	62958	14633 (23.2)	10158 (13.1)	6055 (7.8)	13054 (14.9)

† Variations are worked out on the basis of March 31 data, after closure of Government accounts.
P Provisional
@ Includes claims on NABARD
* Excludes, since the establishment of NABARD, its refinance to banks.
£ Includes an amount of (a) Rs. 722 crore (b) Rs. 325 crore representing the replacement of non-negotiable non-interest bearing securities issued to IMF by RBI claims on Central Government for facilitating repurchases from the Fund.
** Inclusive of appreciation in the value of gold following its revaluation close to the international market price since October 17, 1990. Such appreciation has a corresponding effect on RBI's net non-monetary liabilities.

3.7 Net RBI credit to Government (NRCG) accounts for the lion's share of the increase in reserve money. In 1990-91 increase in NRCG was more than double the increase in reserve money. Only large increase in net non-monetary liabilities of RBI could moderate the growth of reserve money in that year. The increase in net RBI credit to Government (central and state governments) is due mainly to the increase in net RBI credit to Central Government accounting for nearly 96 per cent of the former. The latter, in turn, depends very largely on the Centre's budget deficit which it has to finance fully. In 1990-91 Centre's budget deficit accounted for 77.5 per cent of increase in NRCCG. One important trend in the growth of NRCCG, which is also logically found in the budget deficit as well, that it is not very orderly through the fortnights, The rise in NRCCG at the end of several fortnights exceeds even the annual rise (see chart). Given the divergent patterns of inflows of receipts and outflows of expenditure some mid-year fluctuations in budget deficit are unavoidable but it is equally important to note that volatile increases in NRCCG caused by peaks in budget deficit create avoidable expansion in reserve money and consequent monetary expansion with inflationary consequences.

Scheduled Commercial Banks

3.8 Table 3.3 presents some selected indicators of the operations of the scheduled commercial banks during 1989-90, 1990-91 and up to January 10, 1992. The demand deposits recorded much larger expansion than time deposits in the present financial year, relative to their expansion in the last financial year. Non-food credit to deposit ratio stood at 52.6 per cent on January 10, 1992 as against 57.7 per cent on January 11, 1991. Net balances of these banks with RBI improved significantly in the current financial year so far, mainly due to very large increases in their balances with RBI compared to that in 1990-91.

TABLE 3.3

Scheduled Commercial Banks—Variations in Selected Indicators

(Rs. crore)

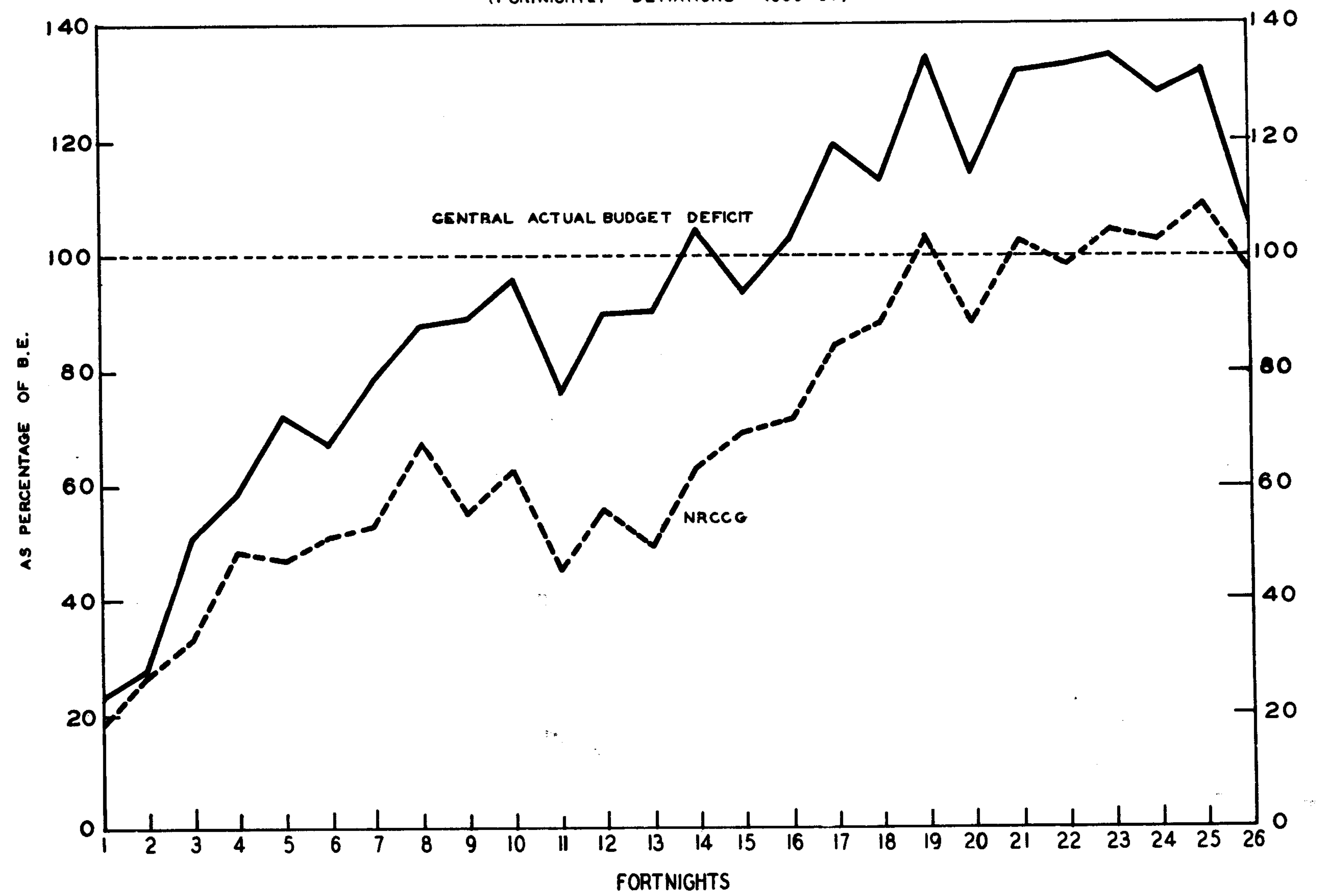
Items	Variations during			
	1989-90 March 24, 1989 to March 23, 1990	1990-91 March 23, 1990 to March 22, 1991	1990-91 March 23, 1990 to Jan. 11, 1991(P)	1991-92 March 22, 1991 to Jan. 10, 1992 (P)
1. Aggregate deposits (a + b)	26809	25583	18184	28384
(a) Demand deposits	5514	4337	2367	9193
(b) Time deposits	21295	21246	15817	19191
2. Borrowings from R.B.I.	—1128	1069	1621	—1346
3. Cash in hand and balances with R.B.I.	2291	554	4006	11047
(a) Cash in hand	204	156	176	174
(b) Balances with R.B.I.	2087	398	3830	10873
4. Net balances with R.B.I. [3 (b) — 2]	3215	—671	2209	12219
5. Money at call and short notice	—1172	—489	—443	863
6. Bank credit (a + b)	16734	14848	9721	4422
(a) Public food procurement credit	1237	2500	2398	29
(b) Non-food bank credit	15497	12348	7323	4393
of which : to Priority Sector*	6164	2497	..	..
7. Investments in Government and other approved securities	9707	10696	9278	12080
(a) Government securities	6477	7706	6901	10740
(b) Other approved securities	3230	2990	2377	1340
8. Balances with other banks in current account	247	276	125	479
9. Credit-deposit ratio †	60.8	60.4	60·0	54.6
10. Non-food credit-deposit ratio †	59.6	58.1	57.7	52.6
11. Investment-deposit ratio †	38.6	39.0	39.8	39.4

P- Provisional.

.. Not available.

† Percentage at the end of the period.

* Data relate to 50 banks (49 from March 1990 and 48 from August 1990 due to merger) which account for 95 per cent of bank credit, and variations are based on last reporting Fridays of March,


INCREASE IN NRCCG AND CENTRAL BUDGETARY DEFICIT
(FORTNIGHTLY DEVIATIONS 1990-91)
AS PERCENTAGE OF B.E.
CENTRAL ACTUAL BUDGET DEFICIT
NRCCG
FORTNIGHTS
0
20
40
60
80
100
120
140
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26

3.9 The sectoral distribution of bank credit by scheduled commercial banks is set out in Table 3.4. During 1990-91 (March 23, 1990 to March 22, 1991) growth in gross bank credit was smaller than in 1989-90, though expansion in public food procurement credit was higher. Share of priority sector advances in net bank credit at the end of March, 1991 was also smaller at 39.2 per cent (target being 40 per cent). Among priority sectors, decleration in credit expansion is most significant in credit to agriculture because of rural debt waivers which in turn moderated the growth in priority sector advances. The expansion in the export-credit in 1990-91 was also very low relative to that in 1989-90.

TABLE 3.4

Sectoral Deployment of Gross Bank Credit

(Rs. crore)

	Variations during									
	1988-89		1989-90		1990-91		April-September 1990		April-September 1991	
On the last reporting Friday basis	Rs. crore	per cent	Rs. crore	Per cent	Rs. crore	Per cent	Rs. crore	Per cent	Rs. crore	Per cent
1 2	3	4	5	6	7		8	9	10	11
I. Gross bank credit	15468	22.0	16943	19.8	15052	14.7	5059	4.9	2079	1.8
1. Public food procurement . . .	—1421	—64.9	1237	160.9	2500	124.6	1256	62.6	—556	—12.3
2. Gross non-food credit. . . (a + b+ c + d)	16889	24.8	15706	18.5	12552	12.5	3803	3.8	2635	2.3
(a) Priority sector (i + ii + iii)	5149	17.7	6164	18.0	2497	6.2	477	1.2	1121	2.6
(i) Agriculture	1941	16.2	2576	18.5	230	1.4	—175	—1.1	986	5.9
(ii) Small scale industry .	2315	21.4	2408	18.3	1608	10.3	401	2.6	104	0.6
(iii) Other priority sectors .	893	14.3	1180	16.5	659	7.9	251	3.0	21	0.3
(b) Industry (Medium & Large) .	7032	28.0	6087	18.9	6163	16.1	2064	5.4	844	1.9
(c) Wholesale trade (Other than food procurement) . . (i + ii + iii + iv)	1169	32.5	705	14.8	412	7.5	—227	—4.1	299	5.1
(i) Cotton Corporation of India .	—54	—59.3	103	278.4	—49	—35.0	—126	—90.0	—91	—100.0
(ii) Food Corporation of India (Fertilizer)	31	18.1	28	13.9	—18	—7.8	19	8.3	—11	—5.2
(iii) Jute Corporation of India .	—44	—31.0	—44	—44.9	8	14.8	—18	—33.3	—23	—37.1
(iv) Other trade	1236	38.0	618	14.0	471	9.3	—102	—2.0	424	7.7
(d) Other sectors	3539	34.5	2760	20.0	3480	21.0	1489	9.0	371	1.8
II. Export credit . (Included under Item 2)	2224	56.8	2104	34.3	908	11.0	—185	—2.2	665	7.3
Priority sector advances as percentage of net bank credit (including inter-bank participations) in the last month of the period . .		43.2		42.4		39.2		41.1		39.2

NOTE : Data are provisional and relate to 50 (49 from March, 1990 and 48 from August, 1990 due to merger) scheduled commercial banks which account for about 95 per cent of the bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, Exim Bank and 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.

3.10 Data on sectoral deployment of bank credit are available only for April-September, 1991 of the current financial year. During this period gross bank credit showed a smaller expansion of Rs. 2,079 crore (1.8 per cent) as compared with the rise of Rs. 5,059 crore (4.9 per cent) during the corresponding period of 1990. Public food procurement credit showed a decline of Rs. 556 crore (—12.3 per cent) as against a rise of Rs. 1,256 crore (62.6 per cent) during the same period of 1990. Credit to medium and large industry also showed a lower expansion of Rs. 844 crore (1.9 per cent) as compared with the expansion of Rs. 2,064 crore (5.4 per cent) during April-September, 1990. Credit to the 'residual sectors' also showed a lower rise of Rs. 371 crore (1.8 per cent), as compared with the expansion of Rs. 1,489 crore (9 per cent) during April-September 1990. However, the growth in priority sector advances during the period at Rs. 1,121 crore (2.6 per cent) was substantially higher than the increase of Rs. 477 crore (1.2 per cent) during the corresponding period of 1990, due mainly to the sizeable increase of Rs. 986 crore (5.9 per cent) to agriculture as against a decline of Rs. 175 crore (—1.1 per cent) during the comparable period of 1990, offset to some extent by the lower expansion in credit to small scale industries and other priority sectors. Credit to wholesale trade and export credit also showed increases of Rs. 299 crore (5.1 per cent) and Rs. 665 crore (7.3 per cent) respectively, as against declines of Rs. 227 crore (—4.1 per cent) and Rs. 185 crore (—2.2 per cent) during the corresponding period of 1990.

Developments in Credit Policy

3.11 Credit policy has been an important component of the overall economic policy package adopted in the country to promote economic growth and stability. The financial year 1991-92 began with serious problems—backlog of inflation, large budget-deficit and growing current account deficit on balance of payments. The immediate concern of the credit policy adopted by RBI has, therefore, been (i) to supplement the macro—stabilisation measures, as also the structural adjustment process initiated in the economy (ii) to help in fighting inflation by curbing aggregate demand in general and that for imports, in particular, and (iii) to motivate the scheduled commercial banks to expand the flow of credit to the export sector. Though the overall stance of the monetary and credit policy was one of restraint in the expansion of money supply and credit, the consideration that productive sectors, especially the export sector, were supplied with adequate credit, was kept in view.

3.12 The continuing rapid deterioration in the country's external payments situation called for special attention. With the objective of conserving free foreign currency assets, the series of measures introduced since September, 1990, was made more stringent in April, 1991, with the immediate aim of containing overall demand, particularly, that for imports. Thus free foreign exchange was not available for import of capital goods and such imports were to be channelled through foreign currency lines of credit and/or to be made against supplier's credit for at least one year. The prescribed minimum cash margin on imports other than capital goods was raised to 200 per cent for imports under OGL and 150 per cent for imports under Specific Licences. The level of holdings of imported raw materials was continued to be restricted to the prescribed norm or three months, whichever was less. An interest rate surcharge at 25 per cent of the interest rate, was imposed on import finance extended by banks. In addition, restrictions was imposed on drawals by borrowers with large cash credit limits for a limited period. However, while adopting these measures, due care was taken to ensure that export-related activities were, as far as possible, not affected, and some of these measures were not applicable in respect of import of essential commodities like POL, fertilizer, foodgrains, edible oils, newsprint and life saving drugs and equipments, etc.

3.13 Along with above measures, interest rates on export credit were reviewed from time to time with a view to providing an incentive to exporters for repatriating the proceeds as well as discouraging them from delaying repatriation of export proceeds. The higher lending rates for export credit also gave incentive to banks to augment their supply of export credit. As it is, export credit was exempted from the stipulation of maximum (45 per cent) incremental non-food credit-deposit ratio. These measures were reviewed periodically and changes effected in them from time to time to avoid the negative impact on the economy. Thus with improvement in foreign exchange reserves position, it was possible to reduce the percentage of cash margin gradually from 200 per cent in April 1991 to 150 per cent in October, 1991 further to 50 per cent in December, 1991 and then to 25 per cent in January, 1992.

3.14 Details of the credit policy announced by RBI for the first half of 1991-92 were spelt out in detail in Economic Survey 1990-91. In short the RBI revised upwards the interest rate on Non-Resident (External) Rupee Accounts of (a) 3 years to less than 5 years and (b) 5 years and above by one percentage

point each to 13 per cent and 14 per cent, respectively. The rate of interet on term deposits of three years and above was raised from 11 to 12 perc ent followed by an across-the-board increase by one percentage point, thus raising the maximum rate from 12 to 13 per cent. Simultaneous upward revisions were also effected in interest rate on bank advances of over Rs. 2 lakhs from 16 per cent (minimum) to 17 per cent (minimum) and further to 18.5 per cent (minimum). The stipulation regarding 60 per cent incremental non-food credit to deposits was brought down to 45 per cent but with the exclusion of export credit (with the base fixed at March 22, 1991). The penalty for its non-fulfilment continued to be a levy of penal interest of additional 3 percentage points on refinance availed or the amount of excess non-food credit, whichever is lower in respect of the defaulting banks. A new formula was introduced for determining export refinance limits for banks which would help the banks in catering to additional credit needs of the export sector without facing resource constraints. While fixing new three year period (1987-88 to 1989-90) for determining credit ceilings of bank advances subject to selective credit control, the level of credit ceilings applicable on oilseeds/vegetable oils was reduced from 100 per cent to 85 per cent.

3.15 The credit policy of RBI adopted in the first half of the current financial year left Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) unchanged at 38.5 per cent and 15 per cent respectively of the net demand and time liabilities (DTL) of the scheduled commercial banks. Another instrumet for general credit control came to be reintroduced with effect from May 4, 1991, viz. Incremental Cash Reserve Ratio (ICRR) of 10 per cent (on increase in net demand and time liabilities over the level on May 3, 1991). An attempt was thus made to freeze a part of the additional deposit resources of the banks with the objective of containing overall demand. The additional Cash Reserve Ratio was introduced in January 1977. It was withdrawn in October 1980, but re-introduced in November 1983 and remained in force until end-June, 1989. Banks were paid interest at the rate of 8 per cent on the additional cash reserve deposited with RBI under ICRR.

3.16 As another measure the RBI advised the banks on May 8, 1991 that in case of all accounts of borrowers with aggregate credit limits of Rs. 1 crore and above, effective drawing power under the limits for cash credit and inland bills for the period May 9 to September 30, 1991 should in no case exceed the credit limits existing on May 8, 1991 and be equal to 100 percent of the peak levels of actual utilisation in the similar period of 1988, 1989 and 1990. However, in view of their special significance or needs, export credit and credit for sick/weak units (under sanctioned rehabilitation packages) were kept outside the framework of this stipulation. Similarly, credit for newly established limits due to start production and need-based credit for sugar industry were also treated liberally.

3.17 The third set of general credit control introduced by RBI in the first half of the current financial year basically related to interest rate adjustment. Along with the Bank Rate which was raised from 10 per cent to 11 per cent, the interest rates on term deposits, on bank advances of over Rs. 2 lakh and on refinance facilities available to banks from RBI were adjusted upwards to reinforce anti-inflationary stance of the credit policy.

3.18 The credit policy for the second half of the current financial year (busy season) announced on October 8, 1991 had the same stance of restraint in the growth of money supply and credit. In order to prevent reserve money growth, this credit policy envisaged the withdrawal of certain refinance facilities from Reserve Bank, *viz.* Food Credit Refinance, Standby Refinance, 182 Days' Treasury Bill Refinance and Discretionary Refinance. Outstandings under these facilities were to be repaid by the banks on the day the sanctioned limit expired or on October 18, 1991 whichever was earlier. Even while indicating of the continuance of the stipulation of 45 per cent, Incremental Non Food Credit (excluding export) to Deposit Ratio (INFCDR) for the scheduled commercial banks under the busy season credit policy, RBI warned the banks that those banks which exceeded this ratio for two successive fortnights would face an automatic reduction in refinance limits for the next four fortnights. Further, any excess credit in each subsequent fortnight would result in a reduction in refinance limits for the subsequent two fortnights and persistent violation of the stipulation would lead to total withdrawal of refinance facilities. The RBI reduced to 5.0 per cent the rate of interest paid on the increase in eligible cash balances of banks on their net DTL after March 23, 1990 as well as eligible cash balances under the 10 per cent incremental CRR.

3.19 At the same time several steps were taken to liberalize or expand credit facilities in certain other areas. Bank credit to export sector has been sought

to be promoted under this policy by (i) raising interest rates on export credit and (ii) enhancing export credit refinance facilities from the Reserve Bank to banks both of which are intended to encourage them to lend more credit to exporters. Effective July 27, 1991 banks were being provided export credit refinance (under a two-tier formula of refinance) to the extent of 50 per cent of the increase in export credit over the monthly average level (MAL) of 1988-89 up to the MAL of such credit of 1989-90 plus 100 per cent of the increase over the monthly average level of export credit in 1989-90. Facility of export credit refinance scheme was liberalised further in two stages 60 per cent of the increase in export credit over MAL of 1988-89 up to the MAL of 1989-90 plus 110 per cent of the increase in such credit over the MAL of 1989-90 with effect from November 2, 1991; the second tier of refinance would be raised from 110 per cent to 125 per cent of the increase in such credit over the MAL of 1989-90 with effect from December 28, 1991.

Selective Credit Controls

3.20 On a review of price-output developments in the first half of 1991-92, RBI introduced three measures of selective credit controls, effective from October 9, 1991. Bank advances against *cotton and kapas* which had been exempt from the provisions of selective credit controls were brought back under them. However, mills/processing units continued to be exempt from the stipulations in this regards.

3.21 Secondly, selective credit controls on bank advances against stocks of *pulses* were tightened by raising minimum margins by 15 percentage points across-the-board to 60 percent for mills/processing units and against warehouse receipts and 75 per cent for 'others.' Thirdly, the credit ceiling on advances against *wheat* was reduced to 85 per cent of the peak level of credit maintained by any party in any of the three year period ended 1989-90. Effective February 11, 1992, minimum margins on bank advances against *wheat* (including advances against roller flour mills) have been raised across-the-board by 15 per cent and those on bank advances against *cotton and kapas* have been raised by 15 percentage points for 'others' and against warehouse receipts. The existing pattern of selective credit controls on bank advances is presented in Table 3.5.

TABLE 3.5

Minimum Margins and Level of Credit Ceilings on Bank Advances against commodities Subject to Selective Credit Controls (effective February 11, 1992)

(Per cent)

Commodities	Minimum Margins			Level of credit ceiling (base year : three years ending 1989-90 November—October)
	Mills/Processing Units	Others	Warehouse Receipts	
1. Paddy/Rice	60	75	60	85
2. Wheat	45	60	45	85
3. Pulses	60	75	60	85
4. Other foodgrains	60	75	60	85
5. Oilseeds (viz., groundnut, rapeseed/ mustard, cottonseed, linseed, castorseed and all imported oilseeds)	60	75	60	85
6. Vegetable oils (viz. groundnut oil, rapeseed/mustard oil, cottonseed oil, linseed oil, castor oil, vanaspati and all imported vegetable oils)	60†	75	60	85
7. Sugar				
(a) Buffer	0	—	—	—
(b) Unreleased stock	20	—	—	—
(c) Released	75	75	60	—
8. Gur and Khandsari	45	75	60	—
9. Cotton and Kapas	*	60	45	85**

† Applicable to registered oil mills.
— Not applicable.
* Exempted from the stipulations.
** Applicable to other than mills.

Interest Rate Changes

3.22 Interest rate adjustment is a both flexible and potent tool and clearly signals changes in credit policy. It can also reinforce restrictive/liberal impact of such a policy. Interest rate adjustments extended not only to bank deposits and advances but also to Bank Rate and refinance facilities of RBI.

3.23 Interest rates on bank deposits were revised upwards three times in the current financial year in keeping with high inflation rate (which made deposits at short-end unattractive) and also with a view to helping these deposits compete effectively with other saving instruments in the market. As a part of the credit policy for the first half of 1991-92 the highest deposit rate (i.e. interest rate on deposits of three years and above was raised from 11 per cent to 12 per cent effective April 13, 1991. Such revision was effected for the second time on July 4, 1991 when all the term deposit rates of the scheduled commercial banks were raised across-the-board by one percentage point each. Finally to provide a better rate of return on short-term surplus funds, interest rate on term deposits of 46 days to less than a year was raised by two percentage point, from 9 per cent to 11 per cent and those on term deposits of (a) one year to less than two years and (b) 2 years to less than three years were raised from 10 per cent to 12 per cent and 11 per cent to 12 per cent respectively. The interest rate on term deposits of three years and above was left unaltered at 13 per cent.

3.24 Interest rates on Non-Resident (External) Rupee (NRE) deposits with maturities of three years and above but less than 5 years and of 5 years and above were raised by one percentage point earlier with effect from April 13, 1991. Accordingly, the maximum interest rate for NRE deposits now stand at 14 per cent in place of 13 per cent earlier.

3.25 Among the interest rate adjustments, an event of significance relates to the changes in the Bank Rate effected in the current financial year. A number of interest rates on advances from the Reserve Bank are specifically linked to the Bank Rate which was 10 per cent since July 1981 (and actually had fallen in disuse) came to be raised during the current financial year from 10 to 11 per cent at the close of business of July 3, 1991 and again from 11 per cent to 12 per cent with effect from the close of business of October 8, 1991. All other rates linked to the Bank Rate also underwent similar upward revisions. In line with the upward revision in the Bank Rate, interest rates payable by the banks on various refinance facilities (viz. food credit, export credit, discretionary and standby refinance) also came to be revised upwards by 0.5 to 3 percentage points. There was an increase of 0.5 percentage point on export refinance (from 9 to 9.5 per cent) and by 3 percentage points on discretionary refinance (from 14 per cent minimum to 17 per cent minimum) effective July 4, 1991.

3.26 Upward revisions were made also in the lending rate of the scheduled commercial banks. The interest rate on bank advances of over Rs. 2 lakh which was made partly flexible with the introduction of only a floor level from October 10, 1988, was raised thrice in the current financial year. The first upward revision was effected on April 13, 1991 when the floor rate of interest on bank advances of this category was raised from 16 per cent to 17 per cent and the effective interest rate on discounting of bills of exchange for this category of borrowers was also raised by one percentage point from 15 per cent (minimum) to 16 per cent (minimum). The same interest rate was raised again from 17 per cent (minimum) to 18.5 per cent (minimum) effective July 4, 1991. The next round of upward revisions was made with effect from October 9, 1991 when the interest rates on all categories of bank advances were raised across-the-board by 1.5 percentage points, bringing the floor rate of interest on bank advances of over Rs. 2 lakh to 20 per cent from 18.5 per cent. In this process the rate of interest on bank advances of over Rs. 2 lakh was raised in stages from 16 per cent (minimum) to 20 percent (minimum) *i.e.* by four prcentage points and on discounting of bills of exchange for advances of this category from 15 per cent (minimum) to 19 per cent (minimum) with the actual rate being kept at one percentage point below the lending rate charged to such borrowers.

3.27 With a view to encouraging the early repatriation of export proceeds and at the same time making delayed repatriation costlier, interest rates on post-shipment credit were reviewed periodically and revised in four stages with effect from April 1, April 23, August 6, and October 9, 1991. A special concessional rate of 7 per cent was prescribed in April, 1991, for periods up to 45 days, leaving the rate for more than 45 days to 90 days unchanged. Interest rate was stipulated at 18 per cent for the entire period of more than 90 days to less than 6 months and 25 per cent for the entire period if repatriation was delayed beyond 180 days. Following adjustment in the exchange rate of the Rupee, interest rate subsidy on exports was abolished. Consequently, interest rate on export credit was revised effective August 6, 1991. Interest rates on pre-shipment credit were raised

(a) from 7.5 to 12.5 per cent up to 180 days and (b) from 9.5 to 14.5 per cent for period of more than 180 days to 270 days (with prior approval of RBI). In the case of post-shipment credit a uniform interest rate of 12.5 percent was introduced for credit up to 90 days, leaving interest rates on post-shipment credit of longer period unaltered. The lending rates noted above are, however, exclusive of 3 per cent tax on interest income earned by banks with effect from October 1, 1991 since banks are supposed to reimburse themselves by making necessary adjustments in the interest rates charged to borrowers. With further increase in general rates of lending, rates of interest on export credit were also revised upwards effective October 9, 1991, so as to ensure that lower lending rates for export credit did not act as a disincentive to banks for extending export credit. Comparative position of interest rates on export credit is shown in Table 3.6.

3.28 In recognition of the need for timely and adequate credit to exporters from banks and of possible leakages in the flow of such credit (because of low interest rate on exports credit), the RBI came to revise the interest rate on export credit further to provide greater incentive to banks. Effective October 9, 1991 for pre-shipment credit, the interest rate was raised from 12.5 per cent to 15 per cent for credit up to 180 days and from 14.5 per cent to 17 per-cent for credit beyond 180 days and up to 270 days. As regards post-shipment credit for usance periods upto 90 days, interest rate was raised by 2.5 percentage points, to 15 per cent from 12.5 per cent and interest rate for period beyond 90 days and up to 6 months by 2 percentage points to 20 per cent from 18 per cent (higher rate being applicable to period beyond 90 days and from the date of advance as hitherto).

3.29 The current high levels of interest rate have been dictated by the existing inflationary situation which called for the adoption of a restrictive monetary policy. Various measures of supply and demand management have since been introduced to tackle inflation. A reduction in inflation alone will enable relaxation in monetary policy and reduction in interest rates. Further , as the process of fiscal consolidation and reduction in fiscal deficit takes hold, the Government may have to consider a phased reduction in Statutory Liquidity Ratio (SLR) and ease the interest rate on bank deposits. It would seem appropriate that the process of interest rate liberalisation continues and government focus attention on three other key priorities, *viz.*, promoting a market oriented allocation of credit, implementing policies to promote the development of capital markets and enhancing soundness of the banking system. Existing rates for term deposits and selected categories of advances of scheduled commercial banks are indicated in Table 3.6.

TABLE : 3.6

Structure of Interest Rates : Some Selected Categories

(Per cent per annum)

	Rates as on March 31, 1991	Existing Rates
I. Scheduled Commercial Banks		
A. Term Deposit Rates		
(a) Domestic Deposits		
(i) 46 days and above but less than one year	8.00	11.00
(ii) One year and above but less than two years	9.00	12.00
(iii) Two years and above but less than three years . . .	10.00	12.00
(iv) Three years and above . .	11.00	13.00
(b) Non-Resident (External) Rupee Accounts		
(i) 46 days and above but less than one year	8.50	8.50
(ii) One year and above but less than two years	10.50	10.50
(iii) Two years and above but less than three years . . .	11.00	11.00
(iv) Three years and above but less than five years . . .	12.00	13.00
(v) Five years and above . .	13.00	14.00

(c) Foreign currency (Non-Resident Accounts)	Existing Rates			
	Pound sterling	US Dollar	Deutsche Mark	Japanese Yen
(i) 6 months and above but less than one year .	12.00	5.50	10.25	7.00
(ii) One year and above but less than two years .	12.00	5.75	10.25	7.00
(iii) Two years and above but less than three years .	12.00	6.75	10.50	7.00
(iv) Three years only .	12.00	7.50	10.50	7.00

B. Bank Credit (other than export credit)

I. Size of limit

	Rates as on March 31, 1991	Existing Rates
(i) Up to and inclusive of Rs. 7,500	10.00	11.50
(ii) Over Rs. 7,500 and upto Rs. 15,000	11.50	13.00
(iii) Over Rs. 15,000 and up to Rs. 25,000	12.00	13.50
(iv) Over Rs. 25,000 and up to Rs. 50,000	14.00	15.50
(v) Over Rs. 50,000 and up to Rs. 2 lakh	15.00	16.50
(iv) Over Rs. 2 lakh . . .	16.00 (Minimum)	20.00 (Minimum)
II. (1) DRI Advances	4.00	4.00
(2) Term loans to agriculture, SSI and transport operators owning up to two vehicles. *size of limit*		
(i) Over Rs. 25,000 and up to Rs. 50,000	13.00	14.00
(ii) Over Rs. 50,000 and up to Rs. ^ lakh	14.00	15.00
(iii) Over Rs. 2 lakh . . .	14.00	15.00
B. Bank Credit for Exports		
(1) Pre-shipment credit		
(i) (a) Up to 180 days . . .	5.50	15.00
(b) Beyond 180 days and up to 270 days (with the prior approval of the Reserve Bank of India) . . .	9.50	17.00
(ii) Against incentives receivable from Government covered by ECGC guarantee (up to 90 days).	7.50	15.00
(2) Post-shipment credit		
(i) Demand bills for transit period (as specified by FEDAI) . .	8.65	15.00
(ii) Usance bills (For total period comprising usance period of export bills, transit period as specified by FEDAI, and grace period where-ever applicable) . . .		
(a) Up to 90 days . . .	8.65	15.00
(b) Beyond 90 days and up to six months from date of shipment	18.00	20.00
(iii) Beyond six months from date of shipment	25.00	25.00
(iv) Against incentives receivable from Government covered by ECGC guarantee (upto 90 days)	8.65	15.00
(v) Against undrawn balance (upto 90 days)	8.65	15.00
(vi) Against retention money (for supplies portion only apayable within one year from the date of shipment (upto 90 days) .	8.65	15.00
3. Deferred Credit Deferred credit for the period beyond 180 days.	8.65	15.00
(4) Duty Drawback Credit Scheme, 1976 against duty drawback as provisionally certified by the customs authorities (upto 90 days) . .	Free of interest	Free of interest
(5) Export credit not otherwise specified	14.00 to 15.50	20.00 (Minimum)
C. Post Shipment Export Credit Denominated in US Dollars **(With effect from January 1, 1992)**		
(i) Demand bills in transit period as specified by FEDAI . .	..	8.5
(ii) Usance bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period, wherever applicable up to six months from date of shipment)	..	8.5

NOTES : The rates are exclusive of interest tax imposed effective October 1, 1991.

Change in import finance

3.30 The critical balance of payments position called for not only long term measures but also short term management of exceptional nature. Thus the credit policy in the current financial year had certain elements of unconventional monetary policy instruments with a view to ensuring that external payment obligations were met and the foreign exchange reserves remained at a reasonable level. This was sought to be achieved, firstly, through compression of imports by containing import demand financed by banks and, secondly, through export promotion by motivating banks to direct larger flow of credit to export sector.

3.31 The balance of payments position in general and of foreign exchange reserves, in particular, was closely monitored by the Reserve Bank of India and response to imp!ovement in this regard reflected in gradual and selective relaxation in the terms of bank finance for imports. These exemptions emphasised the need to increase export and, hence imports other than of capital goods under post-payment Replenishment, post-payment Additional, post-payment Special Additional Licences and EXIM Scrips were exempted from the requirement of prescribed minimum cash margins. Effective September, 1991, exemptions were

extended to (a) merchanting trade transactions governed by chapter 13 of the Exchange Control Manual, Volume I (b) import of raw cashewnut for processing and exports as cashewkernel subject to fulfilment of certain conditions. Exemption from the requirement of prescribed minimum cash margin provided in the case of imports by manufacturer-exporters of finished leather, leather products, chemicals and pharmaceuticals, engineering goods, garments and marine products up to 10 per cent of the actual export realisation from General Currency Areas (GCA) during the previous accounting year, subject to a monetary ceiling of Rs. 2.5 crore in a year provided that no export bill remained outstanding beyond the prescribed tolerance level, was enhanced to 20 per cent with a ceiling of Rs. 5 crore. Further, import of certain types of hide and skins, leather and chemicals under OGL by manufacturer-exporters, export houses and trading houses was exempt from the requirement of cash margin.

3.32 On a review of the situation the minimum cash margin for imports of goods other than capital goods under OGL was reduced, effective October 8, 1991, to 150 per cent, *i.e.* at par with the minimum cash margin stipulated for imports of goods other than capital goods under specific licences. Secondly, partial exemption from the requirement of prescribed minimum cash margin available for certain manufacturer-exporters (to General Currency Areas) was extended to manufacturer-exporters, export and trading houses dealing in woollen goods and carpets, agro-products and processed foods, sports goods and handicrafts. The limit of exemption was also enhanced to 30 per cent subject to a monetary ceiling of Rs. 10 crore in a year.

3.33 Banks were advised on November 9, 1991 that for all imports, other than that of capital goods, covered under letters of credit (whether on sight or usuance basis), cash margin might be released at the time of retirement of documents or on production of Exchange Control Copy of the Customs Bill of Entry (either home consumption or warehousing) whichever was earlier. For imports not covered by letters of credit, cash margins may be released after the retirement of import documents, subject to a minimum period of three months unless covered by suppliers' credit for a minimum period of 180 days in which case the amount of cash margin could be released on clearance of goods and production of the E.C. copy of the Customs Bill of Entry.

3.34 The facility of bank finance for imports, free from minimum cash margin hitherto available for certain thrust sectors for exports, was extended to all manufacturer-exporters to GCA with effect from November 15, 1991 and the monetary ceiling revised to Rs. 30 crore from Rs. 10 crore per year. The benefit of relaxation from the requirement of cash margins made available earlier to exporter having Advance Licences Holder was exteneded to supporter-manufacturers as well. The requirement of seeking prior clearance of the Reserve Bank of India for all imports other than capital goods of Rs. 50 lakh and above, except for certain export related purposes, was dispensed with in all cases of imports exempt from cash margins, including imports uder EXIM scrips, except in cases of import under suppliers' credit exceeding 180 days.

3.35 The prescribed minimum cash margin for imports of goods other than capital goods under OGL and specific licences was drastically reduced from 150 to 50 per cent (except for specific categories for which it had already been relaxed or waived) with effect from December 9, 1991. Requirement of prior centralised clearance by the RBI for these goods (subject to minimum cash margin) was also waived. Imports of scientific and technical books and journals (Item 35 of Appendix of IMPEX policy 1990—93), as also medical equipments/instruments subject to a ceiling of Rs. 10 lakh per consignment, was exempt from the requirement of minimum cash margin. Effective January 1, 1992, the requirement of prescribed minimum Cash margin on imports other than capital goods was further reduced to 25 per cent.

3.36 Reserve Bank of India launched, with effect from Jan. 1, 1992, a scheme called "Post-shipment Export Credit Denominated in Foreign Currency (PSCFC)" with a view to enabling exporters to have post-shipment credit denominated in US dollars (as against the existing system of such credit in Rupees) and pay interest at rates applicable to the foreign curreny concerned. The exporters continue to obtain post-shipment export credit in Rupees also. The scheme was made optional for banks, but they were advised to extend the facility of such credit denominated in a foreign currency to the desirous exporters. Export bills denominated in a foreign currency other than US Dollars could also be denominated by conversion at appropriate exchange rate in US Dollars for credit purposes. Rate of interest to be charged on such credit (repayable in foreign currency) will be notified from time to time by the Reserve Bank of India. (It has since been fixed at 8.5 per cent). Exchange risk will be that of bank and the transactions will be reflected in the position of the bank. For this scheme, banks will have a separate refinance scheme from RBI to be effective from January 4, 1992. The refinance under Refinance Scheme for Post-shipment credit denominated in US Dollars will be equivalent to

133.1/3 per cent of such credit provided by banks to exporters and will have the same interest rate of 9.5 per cent as for usual export credit refinance. The scheme is expected to be attractive both to bankers and exporters and improve the flow of credit to export sector.

Developments in the Money Market

3.37 Money market plays an important role in the financial sector in finding avenues for profitable investment for short-term surpluses and making available short-term funds for banks needing them. It thus works as a equilibrating mechanism, evening out short-term surpluses and shortages in the financial sector. Reserve Bank continued with its initiatives in broadening and deepening Indian money market by not only increasing the number of participants in money market but also by facilitating trading in money market instruments through appropriate liberalisation of terms governing their issue. Discount and Finance House of India Ltd. has actively participated in money market transactions and continued with its efforts in developing secondary markets for the money market instruments. Steps were also taken to contain the spiralling of money market rates which remain free (as against other lending rates which are administered) and have to bear the burden of equilibrating the system.

3.38 182 Days' Treasury bills remained a major money market instrument. Introduced in November 1986, this money market instrument came to be promoted systematically by Discount and Finance House of India. The outstanding amount of these bills increased from Rs. 774.30 crore as on March 23, 1990, to a peak of Rs. 2,363 crore on October 3, 1990 but declined substantially to Rs. 1,077.59 crore as on March 22, 1991. It again picked up to a level of Rs. 2,146.77 crore as on June 28, 1991. The cut-off yield on these bills has declined fractionally to 10 per cent per annum in early August, 1991 from 10.08 per cent per annum in January 1991. It was again at 10.08 per cent per annum on January 10, 1992 with the outstanding amount being Rs. 3,783.47 crore.

3.39 The second instrument viz. Certificates of Deposits (CDs) had also gained market over the years. On June 28, 1991 outstanding amount of CDs issued by 50 scheduled commercial banks was Rs. 4,556 crore (62.2 per cent of the limits of these banks). This compares well with Rs. 3,265 crore outstanding on March 22, 1991. CDs are issued with maturities from 3 months to one year. The typical interest rate for a 3 months CD was in the range of 14 to 16 per cent per annum. For one year CD it is between 15 per cent and 16 per cent. At the end of December, 1991 the outstanding amount of CDs stood at Rs. 5,023 crore.

3.40 The third new money market instrument, viz. Commercial Paper (CP) was introduced in January, 1990. Maturity period of CP issued by 27 companies so far ranged from 3 months to 6 months and the effective interest rates were in the range of 11.7 to 20.9 per cent per annum. The outstanding amount of CP's issued has kept on rising and reached a level of Rs. 142.8 crore at the end of December, 1991.

3.41 In order to moderate the volatality in call money rates RBI took certain measures like increased availability of discretionary refinance facility, softening of the loss of interest in cases of CRR defaults and higher limit for the issue of CDs by banks. During the fortnight ended March 22, 1991, the call rate rose to 28 per cent as against 16.5 per cent during fortnight ended December 28, 1990. Increased requirements of funds by banks for maintaining higher level of CRR in the fortnight ended April 19, 1991 and SLR for the fortnight ended May 3, 1991 following the year end bulge in bank deposits led to sharp rise in call money rates, also because some financial institutions either reduced or stopped lending in the call money market. However, measures taken to widen call and notice money market by increasing the number of participants expanded the flow of funds into this market. As a result, the peak call money rate came down to 17.5 per cent in the fortnight ended August 9, 1991. However, this was much higher than 11 per cent peak rate in the corresponding fortnight a year ago. The peak call-money rate stood at 16.25 per cent during the fortnight ended December, 27, 1991 as against 15 per cent a year ago.

3.42 In the current financial year Reserve Bank took several steps to promote money market instruments and strengthen/deepen the money market. The limits for the issue of CDs by the scheduled commercial banks (excluding RRBs) were enhanced from 3 per cent to 5 per cent of the fortnightly average of outstanding aggregate deposits in 1989-90 effective April 20, 1991 to provide flexibility to the banks in raising funds from the market in times of need for funds. The aggregate limits for the banking system for the issue of CDs were raised from Rs. 4,522 crore to Rs. 7,537 crore.

3.43 Relaxations were also introduced in the guidelines regarding the issue of CPs to make room for greater participation and introduce flexibility in operations of issuing companies. Need for prior

approval of RBI to the issue of CP has been waived. The ceiling of working capital (Fund-based) limit for issue of CP by a company, has been raised to 30 per cent and working capital (Fund based) limit for eligibility of the company seeking to issue CP was reduced to Rs. 10 crore.

3.44 In order to create an additional short-term avenue to invest and bring money market instruments within the reach of individuals and small bodies, Reserve Bank announced a decision in April 1991 to set up Money Market Mutual Funds (MMMFs) which would be a special variety of mutual funds investing only in high quality money market instruments of a short term nature. It was envisaged that only banks and their subsidiaries would be permitted to set up such mutual funds in which individuals and other bodies would be permitted to invest their resources in the form of negotiable/transferable instruments and MMMFs deposit accounts. Minimum size of such investment would be Rs. one lakh with a minimum lock-in period of 3 months for repurchase. The funds mobilised by MMMFs would be exempted from reserve requirements since these funds are to be invested in money market instruments. Reserve Bank has already set up a Task Force consisting of representatives of banks/financial institutions to fully develop the operational details and study the implications of the scheme of MMMFs. The tesk force has since submitted its report to the RBI.

3.45 It has also been the steady endeavour of RBI to promote bill financing by commercial banks. It has encouraged the entry of larger number of participants in the bill rediscounting markets in order to widen them. However, the intending entrants are required to show evidence of having bulk lendable resources and observe minimum size of operations of Rs. 20 crore per transactions which will be permitted only through DFHI. The lending rate on bill finance has been kept always one percentage point lower than the rate on cash credit of the relevant category so that borrowers are urged to switch more and more to the former from the latter. The removal in August 1989 of stamp duty on bills of exchange payable to banks (commercial and co-operative within not more than three months after the date of sight was another incentive for such change-over. Even then it has not gained the desired momentum. Proportion of bank credit under the category of "bill discounted" in total bank credit was about 6 per cent in September, 1991.

3.46 However, parties using bill discounting/rediscounting facilities have been found to draw credit from the banks well above the established credit norms. Banks' lending to hire purchase and equipment leasing companies is subject to a ceiling of three times the net owned funds. RBI has recently directed that credit provided to these companies by way of bill discounting/rediscounting should also be taken into account while providing facilities to such companies. In the case of finance companies (other than above noted ones) banks have been advised to ensure that total credit accommodation provided by banks inclusive of bill discounting/rediscounting facilities, should not exceed three times the net owned funds.

Term Lending Institutions

3.47 Aggregate assistance sanctioned and disbursed by the term lending financial institutions (Development Finance Institutions) in the last financial year 1990-91 shows continuance of the increasing trend seen in preceeding two years (as will be evident from Table 4.8 of the Appendix). In the three year period (1988-89 to 1990-91) aggregate assistance sanctioned by them recorded an average annual growth rate of 31 per cent while aggregate disbursements of assistance rose at an annual average rate of 22.5 per cent. Among the all India Financial Institutions viz. Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial credit and Investment Corporation of India (ICICI), small Industries Development Bank of India (SIDBI), Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and Unit Trust of India (UTI), together accounted for the major share of the total assistance sanctioned (Rs. 20,033 crore) and disbursed (Rs. 12,471 crore) by all financial institutions in 1990-91.

3.48 Among industries, disbursements of assistance to iron and steel, rubber, paper, fertilisers, chemicals and chemical products and electrical and electronic equipment recorded significant growth rates. Direct assistance sanctioned by all India financial institutions for new projects recorded a growth rate of 32.5 per cent and for modernisation/rehabilitation purposes recorded a growth rate of 81.1 per cent.

3.49 Provisional data for the first six months, i.e., April—September, 1990 and 1991 in respect of all India financial Institutions are presented in Table 3.7. Data show that total sanctioned assistance by them in April—September 1991 was 9.6 per cent higher than that in April-September, 1990 and disbursements in April—September, 1991 recorded a much higher growth of 39.9 per cent over the level reached in the corresponding period of 1990.

TABLE 3:7

Financial Assistance Sanctioned and Disbursed by All India Financial Institutions

(Rs. crore)

Institutions	(April—September) 1990		1991	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments
IDBI . .	2452.0	1610.7	2455.9	2120.0
IFCI . .	943.5	514.7	718.2	636.2
ICICI . .	1765.2	685.4	1362.7	995.3
SIDBI . .	910.7	770.8	1203.3	963.2
IRBI . .	110.4	55.8	79.5	67.2
RCTC . .	4.1	1.3	7.1	2.5
TDICI . .	3.8	7.1	10.5	7.4
SCICI . .	179.0	88.0	214.0	60.0
TFCI . .	30.2	10.9	43.6	18.0
LIC . .	145.4	94.6	379.2	169.5
UTI . .	714.2	578.6	1249.7	1027.9
GIC . .	65.9	49.2	212.2	93.4
Total . .	**7118.2**	**4310.9**	**7805.0**	**6030.6**

NOTES : 1. Data are provisional.
2. Totals are adjusted for inter-institutional flows.

3.50 It is relevant here to note the contributions made by the financial institutions to the growth of risk and venture capital assistance in our country. Risk capital and Technology Finance Corporation Ltd. (RCTC) established in 1988 after reconstitution of Risk Capital Foundation (RCF) set up earlier in 1975 by IFCI provides risk capital assistance to first generation enterpreneurs on soft terms under Risk Capital Scheme and also supplies conventional loans and interest free (conditional) loans under Technology Finance Scheme to projects that envisage adaptation/ commercialisation of new technologies. Similarly Technology Development and Information Company of India (TDICI) was set up by ICICI and UTI in July, 1988 as India's first venture finance company. It primarily assists small and medium scale projects conceived by technocrat-enterpreneurs by providing project finance in the form of equity or conditional loans, apart from offering technology information service. On cumulative basis, up to March end, 1991 the assistance disbursed by RCF/RCTC and TDICI has not been very large, being of the order of Rs. 29.8 crore and Rs. 24.7 crore respectively.

3.51 Consortium financing arrangements amongst All India financial institutions were further liberalised in 1990-91. Assistance to projects costing up to Rs. 20 crore are now considered for sanction of assistance by the institution receiving the application without reference to the inter-institutional fora.

3.52 The interest rates on financial assistance have been made flexible with the introduction of a floor rate of 15 percent. Institutions are now free to charge an interest rate, beyond the floor in accordance with their perception of the credit worthiness of borrowers.

3.53 Another important development in this segment of the financial sector is that these financial institutions have started tapping the capital market for raising resources. During 1990-91 for the first time ICICI entered the capital market since its initial offer in 1955 with a public-cum-rights issue of shares and raised Rs. 100 crores. Shipping Credit and Investment Corporation of India also issued additional equity shares for Rs. 25 crore to public in this year.

3.54 As the number of these institutions has been growing and their activity getting expanded and diversified, it is being felt that they should approach capital market in raising resources and that the consortium finance is not the best available method of development finance. There is also a felt need to lay down prudential guidelines to govern their functions. These guidelines may relate, interalia, to their capital adequacy, provisioning against bad debts proper valuation of the assets, sound accounting policies and disclosure requirements. Above all, it can not be denied that for a proper management of monetary policy, their credit policies should be consistent with the overall monetary and credit policies pursued by RBI.

Institutional Developments in the Financial Sector

3.55 Discount and Finance House of India (DFHI) which entered the fourth year of its operations on April 25, 1991 has been seeking to develop an active secondary market for the money market instruments and integrate various segments of the market in order to facilitate the smoothening of short-term liquidity imbalances. In its operations, the emphasis is placed on a high turn-over in the money market instruments rather than on being their repository.

3.56 Apart from making 182 Days Treasury bills a highly liquid instrument, DFHI operates in; (a) inter-bank call money and short notice money market; (b) inter-bank term deposit (15—90 days) market, both as lender and borrower and as a broker); (c) commercial papers (CP) and certificates of deposits (CD). The spread/ margin on its money market instruments is not very large but sufficient profits for the DFHI are generated because of large turnover.

3.57 In 1991-92, DFHI enhanced its paid up capital from Rs. 150 crore to Rs. 200 crore to augment its resources. Besides DFHI enjoys refinance facilities from RBI against the holding of Commercial Bills/ derivative usance promissory notes (at 13-18 per cent interest rate). It also continues to avail of a line of credit of Rs. 100 crore (at a minimum of 20 per cent interest) from the consortium of public sector banks for rediscounting of commercial bills.

3.58 During the current financial year DFHI sought to increase its reliance on market funding for business activities and availed of refinance from RBI indeed as a last resort. Average outstanding refinance from RBI in April—September 1991 against the average holdings of commercial bills was 42 per cent, which implies that balance funding was done through own funds and market access, indicative of growing intergration of different segments of secondary money market.

3.59 The total lendings by DFHI in call money market during the current financial year (up to January 10, 1992) was significantly higher at Rs. 254,018 crore as against Rs. 142,067 crore (up to January 11, 1991), in the preceeding year. The daily average lendings by DFHI has increased to Rs. 711.9 crore as against Rs. 579.6 crore last year. During the current year, lending in notice money market (up to 14 days) and term money market (over 14 days and up to 90 days) amounted to Rs. 2,520 crore and Rs. 4,705 crore, respectively.

3.60 The turnover in 182 Days Treasury Bills in the current financial year (up to January 17, 1992) amounted to Rs. 20,406 crore as against Rs. 27,722 crore (up to January 18, 1991) in 1990-91. The reasons for lower turnover during current financial year as compared with that in the last year could be that due to delay in floatation of new loans by the Central Government, treasury bills were held by banks as cover for meeting Statutory Liquidity Ratio. Some of the institutions, like NABARD and DICGC also held treasury bills for deploying their short-term surpluses. Many banks also preferred to hold treasury bills rather than Government dated securities due to strong expectation of a rise in coupon rates of dated Government securities. This has since come true.

3.61 In respect of commercial bills, the turnover during the current financial year (up to January 17, 1992) amounted to Rs. 6,712 crore as against Rs. 10,572 crore (up to January 18, 1991) last year. The lower turnover this year could be on account of diversion of a part of lendable funds of many financial institutions to call money market apparently because of high call money rates in the first quarter of the year.

3.62 The secondary market for certificates of deposit (CDs) and commercial paper (CP) continued to be subdued as investors preferred to hold these instruments till maturity. There was a nominal turnover of Rs. 14 crore in CDs and Rs. 42 crore in CP during the current year.

3.63 The National Housing Bank (NHB) as an apex agency in housing finance seeks to promote a sound and effective institutional framework for the supply of finance in the housing sector as also for augmentation of supply materials and components. NHB has since been notified as a "Public Financial Institution" for purposes of Section 4A of the Companies Act, 1956. This would enable NHB to diversify its efforts for mobilisation of resources. The paid-up-capital of NHB and long-term loan availed by it from RBI as at end June 1991 stood at Rs. 200 crore and Rs. 125 crore respectively.

3.64 The National Housing Bank took various measures to augment its fund. It raised Rs. 88 crores under 20 year (12 percent) Government guaranteed bonds, S25m (Rs. 48.74 crore) by borrowing from US capital market (under USAID Govt. Housing Guaranty Program) and 2.97 billion Yen (Rs. 50 crore) from Overseas Economic Co-operation Fund of Japan and Rs. 171 crore loan from LIC. Negotiations have been started for finalising the modalities for drawing the second tranche of US $ 25 million under USAID Housing Guaranty Program. Under the Capital Gains Bonds Scheme launched on July 20, 1990 NHB collected Rs. 115 crore up to end December, 1991. Under Home Loan Account Scheme which was extended to select Housing Finance companies (HFCs) a total of about Rs. 100 crore has been deposited through 5.44 lakh accounts. NHB is also formulation schemes for launching Mutual Fund and Pension Fund to garner resources.

3.65 An important initiative taken by NHB which sought both to raise resources for social housing (slum clearance/upgradation and low-cost housing for poor) and to tap black money was the launching of National Housing (Voluntary Deposits) Scheme 1991 under the Voluntary Deposits (Immunities and Exemption) Act, 1991. Under this scheme persons, viz, individuals, a Hindu undivided family, a company, a firm, an association of persons or a body of individuals, can make deposits with immunity from enquiry and investigation at 855 identified branches of 8 designated banks and without any limit on the number and amount of such deposits. The scheme,

initially open upto November 30, 1991 has since been extended upto January end, 1992. 40 per cent of these deposits will be credited to a special fund of NHB for social housing and remaining sixty percent can be withdrawn without any lock-in period by the depositor. As on January 23, 1992 a total of Rs. 831 million has been deposited under the scheme.

3.66 Till end December 1991, the total refinance assistance provided by NHB to eligible primary leaders rose to Rs. 740.84 crore, apart from Rs. 28.54 crore by way of ad hoc financial assistance to HFC's. Of the total refinance provided by NHB so far, HFC's account for the lion's share.

3.67 In line with the increase by RBI in the ceiling rate of interest on deposits of non-banking financial companies from 14 per cent per annum to 15 per cent per annum with effect from July 27, 1991, the ceiling rate of interest on deposits of HFCs was also correspondingly raised.

3.68 Consequent on increase in the interest rate on deposits of HFCs, NHB raised the interest rate structure for housing finance by HFCs as also its refinance rates, increasing the spreads. The spread available to HFCs now is 2 per cent on loans above Rs. 15,000 and upto Rs. 50,000 and 1.5 per cent on loans above Rs. 50,000 and upto Rs. 2,00,000 as against the earlier spread of 1.5 per cent and 1 per cent respectively. The revised rates of interest effective October 1, 1991 are as follows :

Amount of loan	Rate of interest charged (Per cent Per annum)	
	Refinance	Loans to actual beneficiaries
(a) Acquisition/Construction of New housing Unit		
1. Upto Rs. 7,500	8.0	10.0
2. Rs. 7,500 to Rs. 15,000 . .	9.5	11.5
3. Above Rs. 15,000 to Rs. 25,000	11.0	13.0
4. Above Rs. 25,000 to Rs. 50,000	13.0	15.0
5. Above Rs. 50,000 to Rs. 1 Lakh	14.0	15.5
6. Above Rs. 1 Lakh to Rs. 2 Lakh	14.5	16.0
7. Above Rs. 2 Lakh .	No refinance	16.0 (min)
(b) Upgradtion/major repairs		
(a) Upto Rs. 30,000	13.0	15.0
(b) Above Rs. 30,000	No refinance	16.0 (min)

3.69 In the wake of the across-the-board increase of 1.5 percentage points in the lending rates of scheduled commercial banks by RBI effective from October 9, 1991. NHB also revised the rates of interest to be charged by banks on housing loans to ultimate beneficiaries as also its refinance rates. While the spread of 2 per cent between refinance rates and interest rates for ultimate beneficiaries remained unchanged in respect of housing loans up to Rs. 25,000, the spread for higher bracket loans has been increased by 0.5 per cent. The following is the interest rate structure for scheduled commercial banks, effective October 9,1991.

Amount of loan	Rate of interest* (Per cent per annum)	
	Refinance	Loans to actual beneficiaries
1. Upto Rs. 7,500 . .	9.5	11.5
2. About Rs. 7,501 to 15,000	11.0	13.0
3. Above Rs. 15,000 to Rs. 25,000	11.5	13.5
4. Above Rs. 25,000 to Rs. 50,000	13.5	15.5
5. Above Rs. 50,000 to Rs. 2 lakh	15.0	16.5

*(exclusive of interest tax)

3.70 NHB has also provided a line of credit (Rs. 150 crore so far) to HUDCO for assisting in the construction of houses for the people belonging to economically weaker sections and low-income group categories. It has further agreed to provide Rs. 20 crore as refinance assistance for housing programmes of Andhra Pradesh and Rs. 30 crore for resconstruction of houses of persons affected by recent earthquake in the hilly regions of Uttar Pradesh. NHB has entered into an agreement with the State Government of Maharashtra for refinancing slum upgradation scheme in Bombay for Rs. 25 crore in the first phase. Besides, it will also provide Rs. 25 crore as refinance assistance to Andhra Pradesh for building 50,000 houses for EWS and 10,000 families of bidi workers. NHB has also cleared 4 proposals with total capital outlay of Rs. 23.47 crore from different states for aggregate equity subscription by it to the extent of Rs. 1.16 crore for manufacturing of high-tech but low-cost building materials.

3.71 Certain changes were made in guidelines issued/formulated by NHB for public agencies, co-operative housing societies and professional developers in Land Development and Shelter Projects (LDSPs) under which projects are refinanced by NHB through scheduled commercial banks and HFIs. The objective was to bring flexibility in the schemes

in the light of existing local conditions and to encourage the use of local and low cost building materials. For instance, the stipulation of (a) plot size of 60 sqm in the case of developed plots and (b) minimum 75 per cent of the dwelling units of 40 sqm are now relaxable subject to cost ceilings of Rs. 50,000 and Rs. 1.5 lakh including the cost of land, respectively. With a view to encouraging professional developers to undertake housing projects on large scale, NHB has revised with effect from January 1, 1992, the guidelines for LDSP for professional developers. The major changes in the guidelines have been effected in the rate of interest on project loaning and the cost of developed plot (raised to Rs. 60,000 from Rs. 50,000 stipulated earlier) and dwelling unit (raised to Rs. 2 lakh from Rs. 1.5 lakh stipulated earlier). Effective from January 1, 1992 NHB has also issued guidelines for financing housing infrastructure schemes which were not covered under LDSP guidelines issued earlier. NHB will consider such infrastructural facilities for financial assistance under these guidelines. Effective January 1, 1992, NHB has revised rate of interest for providing refinance under LDSP schemes in the light of revision effected by RBI and NHB for scheduled commercial banks and HFIs respectively. Under these guidelines till January 7, 1992 NHB has cleared 51 Detailed Project Reports (DPR) with an estimated total project cost of Rs. 376.39 crore for the development of 18,490 plots and 40,559 dwelling units. These include 12 Squatter Resettlement Schemes in Madhya Pradesh with a capital outlay of Rs. 59.48 crore envisaging construction of 22,797 dwelling units.

3.72 In recognition of the need for giving due priority to provision of shelter in the rural areas, NHB has formulated a scheme for subscription to "Special Rural Housing Debentures" floated by state land development banks in respect of lending for rural housing. Under the scheme, NBH has provided refinance assistance of about Rs. 50 crores upto end December, 1991, on housing loans upto Rs. 1 lakh and loans upto Rs. 30,000 for repairs/upgradation of existing houses in rural areas. NHB also accords preference to programmes of land development and shelter projects undertaken by public agencies in rural and semi-urban areas.

3.73 In the current financial year the Credit Rating Information Services of India Limited (CRISIL), India's first credit rating agency, continued to make steady progress in its operations. Its special product known as CREDIT ASSESSMENT for small-sized finance companies, developed initially for the State Bank of India, is now being used by some of the nationalised banks as well, as an additional input in their decision making process on the terms of lending to such companies. CRISIL's quarterly publication, CRISIL RATINGSCAN which presents the rationale for ratings assigned, the list of ratings in use, as well as, ratings reviewed during a quarter received an encouraging response. In the current financial year its CRISILCARD service will contain information on at least 200 companies (as against 100 companies last year).

3.74 The freeing of interest rates on debentures and the mandatory requirement of rating of certain categories of debentures are stages towards institutionalization of the concept of credit rating. By end January, 1992, CRISIL had rated 229 debt instruments, issued by 196 companies (including four companies belonging to the public sector) covering a total debt of Rs. 8,782 crore. Apart from fixed deposit programmes, debentures and short-term instruments, CRISIL had rated 56 commercial paper programmes covering a total debt volume of Rs. 703 crore. In addition, CRISIL had completed CREDIT ASSESSMENT of 54 companies.

Financial Sector Reforms

Report of the Committee on the Financial System

3.75 A nine member committee under the chairmanship of Shri M. Narasimham, former Governor, Reserve Bank of India was set up by the Government of India (GOI) to examine the existing structure of the financial system and its various components and to make recommendations for improving the efficiency and effectiveness of the system, with particular reference to economy of operations, accountability and profitability and for infusing greater competitve vitality into the system so as to enable the banks and financial institutions to respond more effectively to the emerging credit needs of the economy. The committee was also asked to review the existing supervisory arrangement relating to the various entities in the financial sector, in particular the commercial banks and term lending institutions, and to make recommendations for ensuring appropriate and effective supervision. It was also expected of the committee to review the existing legislative framework and to suggest necessary amendments for implementing the recommendations.

3.76 The report of the committee was tabled in both the houses of Parliament on December 17, 1991. The committee's approach to the subject of financial sector reform was based on three broad and interrelated premises. The

first was the perception that the spirit of competitive efficiency that is sought to be brought about in the real sectors of the economy should also cover the financial sector for the exercise to be meaningful and successful. The second premise was that to be able to perform this task effiectively in an environment of competitive efficiency, the financial system itself should be healthy and profitable. The third premise was that for the financial sector to operate on an efficient basis it would need to have a measure of operational flexbiility and, more importantly, autonomy in decision making and that credit and investment decisions should be basecd on professionalism and be free from any type of extraneous pressure.

3.77 The Committee has, *inter-alia*, recommended, (a) establishment of a four tier hierarchy for the banking structure with 3 or 4 large banks including State Bank of India at the top (which could be international in character) and rural banks (including RRBs) at the bottom (confined to rural areas and mainly engaged in financing agriculture and related activities); (b) hiving off supervisory functions over banks and financial instiutions to a separate quasi-autonomous body under aegis of the RBI;(c) a phased achievement of 8 percent capital adequacy ratio as recommended by the Basle Committee; (d) abolition of branch licensing policy; (e) phased reduction in SLR starting from 1991-92;(f) deregulation of interest rates which are to be related to the Bank Rate on the basis of guidelines given by the Chakravarty Committee; (g) competition among financial instrutitions which will adopt a syndicating or participating (instead of consortium) approach; (h) retention by IDBI of only its refinancing role and delegation of its direct lending activity to a separate corporate body; (i) prudential guidelines governing the functioning of financial institutions and; (j) proper classification of assets and full disclosure and transparency of accounts of banks and financial Institutions.

3.78 The Committee also made recommendations regarding directed investments and credit programmes and setting up of a separate institution by the Government of India to be known as Asset Reconstruction Fund with the express purpose of taking over a portion of the loan portfolio of banks which has become bad and doubtful and whose recovery is being hampered by the slow legal process. Thus. the recommendations seek to address issues of declining profitability and efficiency and seek to restore the autonomy and flexibility of operations within an overall framework of reasonable monetary stability. They cover policy aspects, organisational issues, accounting practices and operational 'procedures but underlying them all is the central point of qualitative improvement of the advances portfolio and attention to enhancing the inherent strength of the institutions.

3.79 The report of the committee is under examination by the Reserve Bank of India and Government.

Report of the Goiporia Committee

3.80 The improvement in the customer service in banks has long been a concern of the Reserve Bank of India and the Government. In the post bank nationalisation era, this matter assumed greater importance and was examined by both the Banking Commission (chairman: Shri R.G. Saraiya), 1972 and the Working Group on customer service in banks (chairman : Shri R.K. Talwar), 1975. To oversee the implementation of the recommendations made by the latter, a standing committee on customer service in banks was also set up with representatives from the Government, RBI, banks, and Indian Banks' Association. Special drive was made to record and monitor the disposal of complaints made by the customers against services rendered by their banks.

3.81 In September, 1990, a new committee was set up by RBI under the chairmanship of Shri M.N. Goiporia, Chairman, State Bank of India to look into the causes of below-par customer service in banks, to identifiy structural and operational rigidities in the banking system, find ways and means to upgrade technology in banks, address deficiencies in bank service and suggest ways to improve work culture among bank employees. The committee submitted its report on 6th December, 1991.

3.82 In its report, the committee has observed that disservice to customer should be treated as delinquency and that an indifferent and casual approach to work should not go unnoticed. The report has identified quite a number of areas of customer service which call for improvement. Among its major recommendations are (i) extension of banking hours for all transactions except cash, (ii) change in the commencement of working hour for bank staff to facilitate timely opening of the bank counters, (iii) immediate credit of outstation cheques upto Rs. 5,000 as against Rs. 2,500 at present, (iv) enchancement of interest rate on savings account, (v) introduction of tax benefits against bank deposits, (vi) full use of discretionary powers vested in the bank staff at all levels, (vii) expeditious despatch of documents lodged for collection and regular follow-up with the foreign bank to facilitate timely realisation of export proceeds in the case of export finance, (viii) extension of teller's duties, (ix) modernisation of banks, (x) opening of specialised branches for different customer groups, (xi) a new instrument in the form of Bank Orders and (xii) introduction of restricted holidays in banks.

3.83 The recommendations of the committee are being processed.

Outlook

3.84 Money supply growth may get accelerated because of (a) improvement in foreign exchange resources, and (b) larger expansion of bank credit in busy season (October-March) than in the preceding slack season. The only alternative left, therefore, is to make a significant reduction in net Reserve Bank credit to Government with measures to contain fiscal deficit, if monetary growth target is to be achieved by the year end.

3.85 A dynamic and responsive financial sector is a basic requirement for a dynamic and efficient economy. Banks are and continue to remain the most powerful instrument for collections of savings. However, following British tradition, banks are basically suppliers of short-term funds while financial institutions mainly provide term capital. Banks as well as financial institutions need some structural changes and policy reorientation corresponding to the economy's shift towards a more competitive and dynamic environment. As the banks get increasingly drawn into term finance, at least through their subsidiaries, the financial institutions may also meet short-term capital needs of the borrower. At the same time, effective steps need to be taken to remove the heavy burden of bad debts and lessen the multiplicity of regulations that may hinder their efficient growth in future. As the price of borrowed funds, interest rates also require review.