Banking Policy and Trends

15. Scheduled Commercial Banks (SCBs), which account for nearly 95 per cent of the total deposits of the Indian Banking System, play a pivotal role in financial intermediation. The public sector banks (PSBs) comprising the State Bank of India, including its subsidiaries, and the nationalised banks (but excluding RRBs) account for about 70 per cent of the total number of over 63,000 commercial bank branches in the country. Though the Indian banking system registered commendable progress in terms of geographical and functional coverage, its performance in terms of operational efficiency and viability still leaves considerable room for improvement. The first phase of banking sector reforms based on the Narsimham committee's recommendations aimed at improving performance through prudential norms and regulations in contrast to the earlier system of quantitative controls. The policy shift witnessed in the wake of these reforms also facilitated entry of private sector banks, thereby creating an environment conducive to market based banking capable of fostering economic development.

Financial Performance

16. Scheduled Commercial Banks showed significant improvement in their financial performance in 1996-97 *vis-a-vis* 1995-96 (Tables 3.4 and 3.5). Profits (net) increased for all sub-groups. The increase was due either to an improvement in operating profits or to a decrease in provisioning needs or both. The relative decline in yields on Government securities resulted in significant reduction in banks' provisioning requirements in accordance with 'mark-to-market' norms. This enabled public sector banks, especially the nationalised banks, to increase their net profits. The increase in spread or net interest income also contributed to higher profits in 1996-97. The ratio of spread to total assets in the case of public sector banks increased by 8 basis points from 3.08 per cent in 1995-96 to 3.16 per cent in 1996-97. The new private sector banks recorded an increase in spread of 7 basis points from 2.84 per cent to 2.91 per cent whereas their old counterparts experienced a decline in spread by 18 basis points from 3.14 per cent to 2.96 per cent during the same period. The maximum increase in spread was noticed in the case of foreign banks by 35 basis points from 3.74 per cent in 1995-96 to 4.09 in 1996-97.

New Private Sector Banks

17. Ten new private sector banks had started operation out of the 13 "in principle approvals" given by the RBI. Three local area private banks one each in Andhra Pradesh, Maharashtra and Karnataka, received in-principle approval from the RBI. The new private sector banks had one of the lowest intermediation ratios (ratio of operating expenditure to total assets) in 1996-97. The intermediation ratios for the new private sector banks in 1996-97 was 1.92 percent as against 2.50 per cent for old private sector banks and 2.88 per cent for public sector banks. However, the corresponding ratio for foreign banks was the highest at 3.01 per cent in the same year. The ratio of net profits to total assets was the maximum (1.77%) for the new private sector banks in 1996-97,followed by foreign banks (1.41%), old private sector banks (0.92%) and public sector banks (0.56%).

Non-Performing Assets (NPAs)

18. The ratio of NPAs to advances reflects the quality of a bank's loan portfolio. A distinction is often made between gross NPA and net NPA. Net NPA, which is obtained by deducting from gross NPA items like interest due but not recovered, part payment received and kept in suspense account, etc. is internationally accepted as the more relevant indicator of financial health of banks. As per NPAs for 1996-97, the ratio of net NPAs to net advances for Indian Banks was the highest in the case of nationalised banks (10.07 per cent), followed by public sector banks (9.18 per cent), SBI and associate banks (7.07per cent), old private sector Indian banks (5.99 per cent), foreign banks (2.50 per cent) and new private sector Indian banks (2.07 per cent). To a great extent, the present level of NPAs reflects the over hang of the past NPAs (i.e. NPAs before the issue of new prudential guidelines), since the fresh NPAs have been much less after the issue of such guidelines.

Prudential Regulations

19. Prudential regulations underwent modifications and fine-tuning in 1997-98. Loan defaults in any two quarters, which have been regularised before the date of balance sheet by repayment of overdue amount through genuine sources would not be classified as NPA. With effect from the accounting year ending March 1998, agricultural advances with interest/instalment in arrears for more than two quarters from the due date of repayment would be treated as NPA.

B OX 3.1

Monetary and Credit Policy Measures 1997-98

- Bank rate reduced in stages from 12 per cent to 9 per cent between April and October, 1997, then raised to 11 per cent with effect from (w.e.f.) January 17, 1998, and again reduced in two stages to 10 per cent w.e.f. April 3, 1998.
- CRR reduced from 10 per cent to 9.5 per cent in two stages during October-November, 1997, then raised in two stages to 10.5 per cent w.e.f from January 17, 1998, and then again reduced in two stages to 10 per cent w.e.f. April 11,1998.
- On October 21, 1997 interest rate on FCNR(B) deposits deregulated subject to the limit 'not more than LIBOR'.
- Fixed interest rate of 13.5 per cent on credit limits of over Rs.25,000/- and up to Rs.2 lakh replaced by a ceiling rate of 13.5 per cent w.e.f. October 22, 1997.
- Banks permitted to announce separate Prime Term Lending Rates (PTLR) for term loans of 3 years and above with the approval of their respective boards.
- Effective December 18, 1997 banks were advised to charge a minimum interest rate of 20 per cent on overdue export bills from date of advance, which was later modified on December 31, 1997 and made applicable for the overdue period only with retrospective effect from December 18, 1997.
- Effective June 26, 1997, the ceiling interest rate on post-shipment rupee export credit upto 90 days reduced from 13 per cent to 12 per cent and the interest rate on such credit beyond 90 days and upto 6 months reduced from 15per cent to 14 per cent, which after certain changes during September-December was reduced to 13 per cent, applicable only for the period beyond 90 days w.e.f. January 1, 1998.
- Interest rates on pre-shipment Rupee export credit reduced w.e.f October 22, 1997 from 13 per cent to 12 per cent for up to 180 days and from 15 per cent to 14 per cent for beyond 180 days and up to 270 days.
- Since October 22, 1997 banks permitted to provide finance to housing finance agencies at interest rates less than their respective PLRs
- In April 1997 banks' investments in preference shares/debentures/bonds of private corporate bodies excluded from the limit of 5 per cent of the incremental deposits in the previous year. In October, 1997, banks permitted to extend loans to these bodies against shares held by them and banks also allowed to provide bridge loans against expected equity flows/issues within the 5 per cent ceiling mentioned above.
- In April 1997, freedom was given to banks to evolve their own methods of assessing the working capital needs of their borrowers within the prudential guidelines and exposure norms.
- In April 1997, the restriction of overall limits of bank credit based on certain multiples of the net owned funds of NBFCs was removed for such NBFCs which had complied with the requirements of registration, credit rating and prudential norms.
- In April, 1997 consortium arrangements dispensed with and banks permitted to meet the entire credit requirements individually or via syndication route, based on the convenience of borrowers and financing banks.
- In October, 1997 banks freed to fix margins on their advances to individuals against shares and debentures/bonds, in place of a minimum 50 per cent margin stipulated earlier.
- Each bank Board directed to review arrangements for trade-financing with a view to enhancing the resources flowing to trade. Banks advised to devise, with the approval of their boards, alternative methods of assessing the loan requirement of borrowers in the services sector.
- In October, 1997 Road and Water Transporters owning up to ten (instead of six earlier) vehicles made eligible for priority sector advances.
- In October, 1997 limit of Priority sector advances by the banks for housing in rural and semi-urban areas raised to Rs.5 lakh from Rs.3 lakh.
- Selective Credit controls imposed only for a period of three months (April 8 – July 7, 1997)on bank advances against stocks of wheat. Effective October 22, 1997, differential mimimum margins of 10 per cent and 15 per cent were stipulated for advances against levy and free sale sugar respectively leaving advances against buffer stock free from margins.
- Scheduled commercial banks were provided export credit refinance to the extent of 100 per cent of the increase in outstanding export credit eligible for refinance over the level of such credit as on February 16,1996,effective from April 26,1997, which was reduced to 50 per cent effective from January 17,1998.
- Effective from April 26,1997 ,a new refinance facility viz.,General Refinance Facility,was introduced for the commercial banks to the extent of 1.00 per cent of each bank's fortnightly average outstanding aggregate deposits in 1996-97,which was reduced to 0.25 per cent ,effective from January 17,1998.
- An interest rate surcharge of 15 per cent of the lending rate was imposed on bank credit for imports with effect from December 18,1997,which was subsequently raised to 30 per cent effective January 17,1998.

TABLE 3.4

Working Results of Scheduled Commercial Banks for 1995-96 and 1996-97

	SBI Group		Nationalised banks		Public Sector Banks		Pvt. Sector Banks (Old)[1]		Pvt. Sector Banks (New)[2]		Foreign Banks[3]		All SCBs	
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
A. Rupees Crore														
A.Income	20567	23277	33075	37994	53641	61271	4332	5402	1000	1980	6085	7589	65058	76242
i)Interest	17114	19923	29418	33988	46533	53911	3755	4745	835	1654	4960	6190	56082	66500
ii)Other income	3453	3354	3657	4006	7108	7360	577	657	165	326	1125	1399	8976	9742
B.Expenditure	19774	21627	34235	36549	54009	58176	3941	4992	833	1694	5336	6802	64119	71664
i)Interest	10872	12819	20089	23519	30961	36339	2593	3431	579	1185	3186	3906	37319	44861
ii)Other operating expenses	5782	6000	9362	10035	15144	16035	962	1113	171	310	1312	1684	17589	19141
iii)Provisions and contingencies	3120	2808	4784	2995	7904	5802	386	448	83	199	838	1212	9211	7662
C.Profit	3913	4458	3624	4440	7536	8897	777	858	250	485	1587	1999	10150	12240
D.Net Profit	793	1650	-1160	1445	-368	3095	391	410	167	286	749	787	939	4578
E. Working Fund	186698	204356	319001	351905	505698	556261	36998	44454	9025	16112	47430	55911	599152	672739
B. Per Cent of Working Funds														
A.Income	11.0	11.4	10.4	10.8	10.6	11.0	11.7	12.2	11.1	12.3	12.8	13.6	10.9	11.3
i)Interest	9.2	9.7	9.2	9.7	9.2	9.7	10.1	10.7	9.3	10.3	10.5	11.1	9.4	9.9
ii)other income	1.8	1.6	1.1	1.1	1.4	1.3	1.6	1.5	1.8	2.0	2.4	2.5	1.5	1.4
B.Expenditure	10.6	10.6	10.7	10.4	10.7	10.5	10.7	11.2	9.2	10.5	11.3	12.2	10.7	10.7
i)Interest	5.8	6.3	6.3	6.7	6.1	6.5	7.0	7.7	6.4	7.4	6.7	7.0	6.2	6.7
ii)Other operating expenses	3.1	2.9	2.9	2.9	3.0	2.9	2.6	2.5	1.9	1.9	2.8	3.0	2.9	2.8
iii)Provisions and contingencies	1.7	1.4	1.5	0.9	1.6	1.0	1.0	1.0	0.9	1.2	1.8	2.2	1.5	1.1
C.Operating Profit	2.1	2.2	1.1	1.3	1.5	1.6	2.1	1.9	2.8	3.0	3.3	3.6	1.7	1.8
D. Net Profit	0.4	0.8	-0.4	0.4	-0.1	0.6	1.1	0.9	1.9	1.8	1.6	1.4	0.2	0.7

[1] **The data relate to 25 Indian private sector banks.**
[2] **The data relate to 9 new Indian private sector banks.**
3 **The data relate to 39 foreign banks**

Under the new norms, banks' income from dividend on corporate shares and units of mutual funds would be booked on cash basis. With effect from 1996-97, the new private sector banks acquiring Government securities at market related interest rates were required to 'mark-to-market' their entire portfolio of approved securities. For others, the required 'mark-to-market' proportion stands at 60.0 per cent with effect from 1997-98.

Bank Supervision

20. As recommended by the Working Group on the On-site Supervision of Banks by RBI (The Padmanabhan Working Group–1995), a new approach has been adopted in the annual financial inspection of banks with effect from the inspection cycle commencing in July 1997. It incorporates the statutorily mandated aspects of solvency, liquidity, financial and operational health, based on a modified version of the CAMEL model, *viz.* CAMELS which evaluates banks' Capital adequacy, Assets quality, Management, Earning, Liquidity and Systems and control.

Capital Adequacy

21. As part of the efforts to augment the capital base of public sector banks in conformity with the Basle norm of 8 per cent capital to risk weighted assets ratio (CRAR), the Government contributed Rs. 1509 crore during 1996-97 for recapitalising six public sector banks. During 1996-97, three

TABLE 3.5

Increase in Profits of SCBs in 1996-97

(Rs. crore)

Sub-group Profit	Operating	Provisions & Contin-gencies	Net profits
1. SBI & associates	545(14)	-312(-10.0)	857(108.0)
2. Nationalised-Banks	816(22.5)	-1789(-37.4)	2605(224.5)
3. Public Sector	1361(18.1)	-2101(-26.6)	3462(942.5)
4. Private (Old)	81(10.4)	62(16.2)	19(4.8)
5. Private(New)	235(93.9)	116(142.6)	119(69.6)
6. Foreign	413(26.0)	374(44.7)	39(5.1)
7. Total	2090(20.6)	-1549(-16.8)	3639(387.3)

Note: Figures in brackets show percentage change over the previous year.

public sector banks entered the capital market for raising additional capital of Rs. 1705 crore through public issue of shares. The SBI issued Rs. 2.614 crore of GDRs which were convertible into 5.228 crore equity shares of Rs. 10 each at a premium of Rs. 233 per share. Four public sector banks raised subordinated debt amounting to Rs. 325 crore through private placement for inclusion under Tier II capital for capital adequacy purposes. By the end of March 1997, only two public sector banks could not achieve the prescribed CRAR.

Credit Delivery System

22. The RBI continued with its efforts to enhance the element of discipline in the utilisation of bank credit by moving further towards loan system. Accordingly during 1997-98, the minimum level of 'loan component' for borrowers with working capital (fund based) credit limit of Rs.10 crore and above from the banking system was prescribed at the uniform level of 80 per cent from October 21,1997.

23. A number of measures were taken in 1997-98 to impart flexibility and enhance freedom for banks in credit delivery. Banks were given freedom to evolve their own methods of assessing the working capital requirements of borrowers. Banks may follow the cash budget system or retain the old system of Maximum Permissible Bank Finance with necessary modifications or adopt any other method for assessing the working capital requirements of borrowers, especially the larger corporate borrowers. For the small borrowers, they may continue with the prevailing turnover method. The banks were also given freedom to stipulate margins on loans (in place of the earlier fixed 50 per cent margin) to individual borrowers against preference shares/bonds/debentures of corporate bodies. The Bank Boards were also given freedom to exempt from loan system activities, which are cyclical/ seasonal or otherwise unsuitable for credit delivery through loan system.

24. In April 1997, the restriction of overall limits of bank credit based on certain multiples of the net owned funds of NBFCs was removed for such NBFCs which had complied with the requirements of registration, credit rating and prudential norms. Freedom was given to banks for determining the level of credit to such N BFCs. As a move towards further liberalisation in April 1997, banks were allowed to exclude the investments in preference shares/debentures/bonds of private corporate bodies from the ceiling limit 5 per cent of the incremental deposits of the previous year on banks' investments in such securities. As such, the limits will be applicable for investment in ordinary shares of corporate units, including public sector units (PSUs)

25. Keeping in view the need to support the efforts to revive the capital market, banks were allowed to extend loans to corporates against share held by them to enable such corporates to meet the promoters' contribution to the equity of new companies in anticipation of raising resources. Such loans would be treated as banks' investment directly in shares and would thus come under the ceiling of 5 per cent. The margin and the period of repayment of such loans would be determined by banks.

26. In response to the representations received for provision of bridge loans, it was decided in October,1997 to permit banks to sanction bridge loans to companies against expected equity flows/ issues for a period not exceeding one year and with the guidelines for sanction of bridge loans approved by the banks' Boards. The total amount of sanctions under the bridge loans would be within the ceiling of 5 per cent of incremental deposits prescribed for bank's investments in shares.

Consortium Finance

27. The obligation to enter into consortium arrangements for credit limit in excess of Rs.50 crore per borrower was completely removed to extend credit on their own. Banks are now free or to choose any other alternative including syndication route in consultation with the borrower and the financing banks.

Refinance Facility

28. The process of rationalisation of CRR and refinance facilities from RBI has led to the creation of General Refinance facility in place of sector-specific refinance facilities which were either eliminated or rationalised.

29. The refinance facility against Government securities was withdrawn in 1996. Export credit refinance to scheduled commercial banks was based on outstanding level of export credit and effective from April 26, 1997, banks are provided export credit refinance at Bank Rate to the extent of 100 per cent of the increase in outstanding export credit eligible for refinance over the level of such credit as on February 16,1996. Effective January 17, 1998, the export refinance limit was reduced from 100 to 50 per cent. With effect from

April 26, 1997 a General Refinance Facility (GRF) was introduced to enable scheduled commercial banks to obtain General Refinance equivalent to 1.0 per cent of each bank's fortnightly average outstanding aggregate deposits in 1996-97 in two blocks of four weeks each. Interest is at Bank Rate for the first four weeks and at Bank Rate plus one percentage point for the second block of four weeks. Effective January 17, 1998, limits for general refinance were reduced from 1.00 per cent to 0.25 per cent of fortnightly average outstanding deposits in 1996-97.

Export Credit

30. During the year 1996-97 the average export credit outstanding rose from Rs. 30793 crores in June 1997, but declined to Rs. 30806 crores in December 1997. The rationalisation measures undertaken by the RBI from time to time in the context of CRR reductionled to sharp decline in export credit refinance limit of scheduled commercial banks in 1996-97. The comfortable overall liquidity situation and the favourable Call money market reduced the need for export credit refinance. Though the package of measures taken by the RBI in December, 1997 and January, 1998, tightend liquidity and made borrowings costlier, the reduction in the bank RAte and the CRR effected in March and April 1998 resulted in the reversal of the earlier trend noted after the East Asian currency crises. With a view to ensure promopt realisation of export proceeds, the interest rate applicable in respect of overdue export bills, for the overdue period, was fixed at 20 per cent (Minimum) in December, 1997."

Forex Transactions

31. The Reserve Bank introduced a number of measures to make foreign exchange transactions of the banks more flexible and also to promote some degree of integration between the overseas and the domestic money markets. In April 1997 banks were permitted to borrow up to US $ 10 million from their overseas offices/correspondents without any conditions on end use and repayment of such borrowings. They were also allowed to invest funds in overseas money market instruments up to US $ 10 million. In order to impart flexibility to corporates and improve liquidity in the forward markets for periods beyond 6 months banks were permitted to book forward cover for exporters and importers without the requirement of documentary evidence of a firm order/ or letter of credit.The authorised banks were also allowed to run a swap book and enter into rupee foreign currency swaps within their open position/gap limits without prior approval of the RBI.This arrangement is expected to benefit corporates with foreign currency exposure via overseas borrowing/import commitments and those expected to receive foreign exchange on account of long-term export commitments. In August 1997 Authorised Dealers (ADs) were permitted to provide forward exchange cover to Foreign Institutional Investors in respect of their investments in India, subject to certain conditions.

32. On the basis of experience gained, RBI decided to liberalise in October, 1997, banks' borrowings from overseas market and allow banks to borrow up to a maximum extent of 15 per cent of their unimpaired Tier I capital. On the same lines, the limit of US $ 10 million on banks' investment in overseas markets was revised to 15 per cent of Tier I capital. Investments of nostro funds arising out of FCNR (B) deposits, EEFC, RFC and ESCROW accounts and overnight investment were, however kept outside this limit. ADs were also permitted to extend forward cover to holders of FCNR(B)/NR(E) RS deposits to enable them to hedge their balances subject to certain conditions.

33. As a part of the measures initiated during December 1997 to restore orderly conditions in the Foreign Exchange Market, Authorised Dealers (ADs), were advised to enter into forward contracts based on the production of documentary evidence and not to allow rebooking of forward contracts once cancelled for non-trade transactions. Overnight investments of the banks, which were kept out side the permitted limit of borrowings from the overseas money market, were included within the overall limit of 15 per cent of Tier I capital.

Selective Credit Controls

34. Selective credit controls were virtually eliminated in October, 1996, the only exception being advances against buffer stock of sugar and unreleased stock of sugar to sugar mills. In order to counter temporary deterioration in price- supply situation, selective credit controls were reimposed only for a period of three months (April 8-July 7, 1997) on bank advances against stocks of wheat. A minimum margin 45 per cent was stipulated on bank advances against (a) stocks of wheat to mills and processing units and (b) warehouse receipts covering wheat stocks and a higher margin of 60 per cent was imposed on advances to others, *i.e.* parties other than mills and processing units. A credit ceiling of 100 per cent of the peak level of

bank credit maintained by the party in any of the three years commencing 1993-94 (November-October) was also set. Effective from October 22, 1997, differential minimum margins of 10 per cent and 15 per cent were stipulated for advances against levy and free sale sugar respectively, leaving advances against buffer stock free from margin.

Sectoral Deployment of Bank Credit

35. During the Financial year 1996-97 out of the total increase in gross non-food credit of Rs. 19742 crore, 35.3 per cent (Rs. 6,972 crore) flowed to medium and large industries, 19.4 per cent (Rs. 3,830 crore) to agriculture and 11.3 per cent (Rs. 2,229 crore) to small scale industires (Table 3.6)

36. Sectoral break down of bank credit available only for the period April to January in the financial year 1997-98 shows banks credit to industry (Medium and large) increased by Rs. 9,702 crore as compared with an increase of Rs. 5,189 crore during April-January 1996-97. Credit to Agriculture and small scale industries increased by Rs. 2,389 crore and Rs. 4,837 crore in April-January 1997-98 in comparison to the increase of Rs. 2,334 crore and Rs. 202 crore respectively during April-January 1996-97. Export Credit increased by Rs. 3,503 crore in April-January 1997-98 as against decline of Rs. 2,246 crore in Apirl-January 1996-97.

Priority Sector Credit

37. The scope of priority sector credit has been widened by (a) increasing the number of eligible vehicles from ‘not more than six’ to ‘not more than ten’ for such credit to road and water transport operators for purchase of vehicles and (b) raising the limit of priority sector credit to housing in rural and urban areas from Rs. 3 lakh to Rs. 5 lakh. Priority sector advances of public sector banks which stood at Rs. 83,639 crore as on the last reporting Friday of December 1997 constituted 43.06 per cent of their net bank credit thereby exceeding the stipulated lending target of 40 per cent; it was 41.7 per cent as on the last reporting Friday of March 1997. For private sector banks, provisional data show that the priority sector advances moved up to Rs. 8,902 crore in September 1997 from Rs. 8,831 crore in March 1997. However, as a percentage of net bank credit, it decreased to 40.04 per cent from 41.22 during the same period. The priority sector advances of foreign banks stood at 26 per cent as on the last reporting Friday of December 1997 as compared with 37 per cent in March 1997 and the stipulation of minimum of 32 per cent.

Diversification of Bank Credit

38. In April, 1997, bank investments in preference shares/debentures/bonds of the private corporate bodies were kept out of the limit of 5 per cent of their incremental deposits in the previous year and only their investments in ordinary shares of such corporates (including PSUs) was subjected to this limit. The earlier ban on bridge loans by banks to companies against expected equity flows/issues was lifted in October 1997 and banks were permitted to sanction such loans within the limit of 5 per cent of incremental deposits in the previous year prescribed for banks’ investment in shares.

39. In response to the representations received earlier for supply of adequate bank finance for trade, particularly retail trade, the RBI advised the bank boards in October, 1997 to review the then existing arrangements for bank financing of trade with a view to augmenting bank funds flow to trade sector. Secondly, keeping in mind the growing importance of services sector (including tourism and tourism related hotels and computer software), the RBI directed the banks to evolve a suitable method of assessing loan requirements of borrowers in the services sector and report the arrangements made in this regard in two months.

Rural Credit

40. NABARD has been playing a major role in strengthening credit support for agricultural/rural development. In order to accelerate the flow of credit to productive sectors in rural areas the RBI raised its General Line of Credit (I and II) from Rs.5250 crore to Rs. 5500 crore in 1996-97 and further to Rs.5700 crore in the current financial year. The share capital of NABARD, which was raised from Rs.500 crore to Rs.1000 crore jointly by the Government and the RBI in 1996-97, was raised to Rs.1500 crore in 1997-98 to enable NABARD to mobilise additional resources from market for Rural Development.

41. As at the end of March 1998, loans worth Rs.1427 crore, Rs.816 crore and Rs.192 crore were disbursed out of Rs.1789 crore, Rs.2617 crore and Rs.2584 crore sanctioned under the RIDF(I), RIDF(II) and RIDF (III) respectively for expediting on-going projects relating to irrigation and other forms of rural infrastructure.

42. A consortium comprising select public sector banks with SBI as the leader was formed to

TABLE 3.6
Sectoral Deployment of Gross Bank Credit
Variations during[1]

On the last reporting Friday	1995-96	1996-97	April-January 1996-97	April-January 1997-98	1995-96	1996-97	April-January 1996-97	April-January 1997-98
	(Rs.crore)				(Per cent)			
I. Gross bank credit	34875	17548	8469	32995	17.7	7.6	3.7	13.2
1. Public food procurement	-2484	-2194	-1121	4819	-20.2	-22.4	-11.4	63.4
2. Gross non-food credit (a+b+c+d)	37359	19742	9590	28176	20.2	-8.9	4.3	11.7
a) Priority sector (i+ii+iii)	9168	8659	4044	10080	14.3	11.8	5.5	12.3
i) Agriculture	3061	3830	2334	2389	12.8	14.2	8.6	7.7
ii) Small scale industry	4246	2229	202	4837	15.4	7.0	0.6	14.2
iii) Other priority sectors	1861	2600	1508	2854	14.8	18.1	10.5	16.8
b) Medium and large industries	18381	6972	5189	9702	24.6	7.5	5.6	9.7
c) Wholesale trade (excluding food procurement)	2231	-47	-1319	957	22.9	0.4	-11.6	8.0
d) Other sectors	7579	4158	1676	7437	21.0	9.5	3.8	15.5
II. Export credit [2]	4539	-1002	-2246	3503	18.1	-3.4	-7.6	12.3

1 Data are provisional.

2 Data on the sectoral deployment of bank credit are tentative and relate to 47 scheduled commercial banks which account for about 90-95 per cent of bank credit of all scheduled commercial banks. Therefore, the priority sector data need further refinement in order to enable a comparision with the target.

2 Also included in non-food credit.

Note : Data relate to selected scheduled commercial banks which account for 90-95 per cent of the banks credit of all scheduled commercial banks. Gross bank credit data included bills rediscounted with RBI,IDBI, Exim Bank and other approved financial institutions. Data for 1995-96 and 1996-97 are as on the last Friday of the period.

provide credit amounting to Rs.1000 crore to KVIC at 1.5 per cent below the average PLR of the five major banks in the consortium. A sum of Rs.493 crore has already been sanctioned under this scheme at the end of March, 1998. With a view to enhancing credit flow to small scale industries, banks were advised to adopt a simplified approach to the assessment of working capital requirement.

Monetary and Credit Policy for 1998-99 (First half)

43. The target for broad money (M3) growth for 1998-99 has been fixed at the same level as in 1997-98:15.0 to 15.5 per cent. This takes into account the need (i) to achieve a real GDP growth rate of 6.5 to 7.0 per cent and (ii) to prevent inflation rate from rising beyond 5 to 6 per cent. The statement on policy also indicates that the liquidity situation at the beginning of the current financial year is comfortable and the RBI will keep a close watch on liquidity conditions to ensure that credit availability is commensurate with the growth potential. The credit policy measures announced include reduction in Bank Rate from 10 per cent to 9 per cent, lowering of maturity period on term deposits from 30 days to 15 days, higher interest rate ceiling for FCNR(B) deposits of one year and above and lower interest rate ceiling for such deposits below one year (Box 3.2). In regard to agricultural credit, the policy statement has referred to the proposal to make several procedural modifications in the light of the recommendations made by the R.V. Gupta Committee. These include greater flexibility and discretion to the lending banks in matters of collateral, margin, security, introduction of a composite cash credit limit to cover the farmers' production, post-harvest and household requirements etc.

44. As regards prudential norms and supervision of banks, the policy statement has referred to the fact that phased implementation of measures relating to income recognition, asset classification and provisioning has considerably improved the resilience of the banking system. It is proposed to further strengthen the existing capital adequacy, income recognition and the provisioning norms in the light of the recommendations of the High Level Committee on Banking Sector Reforms under the Chairmanship of Shri M. Narasinmham (Box 3.3).

45. In regard to the roles of Banks and Development Finance Institutions (DFIs), the monetary and credit policy statement has referred to the recommendations made by the Working

Group under the Chairmanship of Shri S.H. Khan for Harmonising the Role and Operations of DFIs and Banks. (Box 3.4). Keeping in view the issues involved in moving towards the concept of 'universal banking', espcially in the context of a developing country like India where debt and securities markets are not fully developed and where financing of development projects, particularly infrastructure projects, involves special problems, RBI will prepare a 'Discussion Paper' in consultation with the Government of India. The discussion paper will contain RBI's draft proposals for bringing about greater clarity in the respective roles of banks and DFIs and greater harmonisation of facilities and obligations applicable to them.

BOX 3.2

Monetary and Credit Policy Measures
1998-99 (First Half)

- Bank Rate reduced from 10.0 per cent to 9.0 per cent w.e.f. April 29, 1998.
- The minimum period of maturity of term deposits and CDs reduced from 30 to 15 days. The lock-in period similarly reduced to 15 days for units of Money Market Mutual Funds.
- Banks permitted to determine their own penal interest rates for premature withdrawal of domestic term deposits;similar permission extended to NRE deposits as in the case of FCNR(B) deposits;in both the cases depositors to be kept aware of the penal rates.
- Restriction regarding same rate on deposits of the same maturity irrespective of size of such deposits removed; bank boards will henceforth lay down policy in this regard.
- Interest rate on loans below Rs. 2 lakh liberalised but not to exceed the PLR available to the best borrowers.
- Advances against term deposits set at interest rates equal to or less than PLR.
- Export credit refinance restored to 100 %(instead of existing 50 %) of the increase in outstanding export credit eligible for refinance over the level of such credit as on February 16,1996 with effect from the fortnight beginning May 9,1998.
- Interest rate on pre-shipment credit upto 180 days reduced from 12 % to 11 % with effect from April 29,1998.
- Interest rate against incentives receivable from Government covered by ECGC guarantee in respect of pre-shipment credit upto 90 days reduced from 12 % to 11 % with effect from April 29,1998.
- The ceiling of Rs. 10 lakh per borrower in respect of advances granted by banks against shares and debentures raised to Rs 20 lakh and the margin in respect of such advances reduced to 25 % provided such advances are secured against dematerialised securities/shares.
- Banks required to clasify a minimum of 70 % of their investments in approved securities for 1998-99;this ratio is proposed to be raised to 100 per cent in the next three years.
- The interest rate ceiling on FCNR(B) deposits of one year and above to be increased by 50 basis points and that on such deposits below one year to be reduced by 25 basis points.
- Banks to be advised to monitor unhedged exposure of their clients by building in adequate risk evaluation procedures in their credit appraisal system.