V. CREDIT POLICY

128. Given the expansion in money supply in the recent period, the emphasis in monetary policy during the year has been towards restraint of credit. The Reserve Bank of India has in fact been pursuing such a policy more or less continuously since January, 1970. At the same time, since the need to increase output remains paramount, credit has been offered liberally to those sectors which could utilise it profitably towards productive purposes. In particular, sectors neglected in the past, such as agriculture and small-scale industry, have continued to be preferred during the year. Within such sectors, again, the economically weaker groups have received preference.

129. Caution has dominated the shaping of credit policy; the uncertainties on the price front could not make it otherwise. Nevertheless, the Reserve Bank of India has not hesitated to relax its policy of selective credit control whenever circumstances have warranted. For example, in view of the fairly comfortable supplies in the case of certain commodities, a few modifications in the Bank's control mechanisms were introduced in the slack season of 1971. Advances against wheat were completely exempted from regulatory ceilings and those against maize exempted from all controls. Similarly, in view of the increased availability of raw jute and the prospects of expansion in jute manufactures, credit limits to jute mills were increased and the banks were permitted to finance stocks of raw jute with the mills upto an average of four months' consumption. Controls on bank advances against oilseeds too were modified; credit controls were not to apply to all oilseeds and oils other than groundnut, mustard seed/rape seed/castor seed/linseed, oils thereof and vanspati. The need was also felt of relieving the stringency of credit reported in respect of the marketing of cotton and kapas of certain varieties because of delayed harvesting: the period during which a lower minimum margin was to be applicable in respect of advances against these varieties to parties other than mills was accordingly extended from time to time during the 1971 slack season. On the other hand, in the context of the continuous rise in the prices of sugar, gur and khandsari, in order that speculative holding of stocks could be discouraged, controls on bank advances against these commodities were made rigorous by raising the margin and by fixing a minimum rate of interest of 12 per cent under certain stipulated circumstances.

130. For the 1971-72 busy season, credit policy, as formulated by the Reserve Bank of India, continues to be guided by the overall consideration of restraint consistent with the genuine needs of the industrial sector and requirements of food procurement; besides the hitherto neglected sectors continue to receive particular attention along with units specialising in defence-oriented production. While the Reserve Bank of India has agreed to offer finance to cover the requirements of the commercial banks at the time of peak demand, it has also stressed that the latter should resort to borrowings from the central bank only for meeting

the inescapable needs and that too for short periods; recourse to re-finance as a matter of routine is being discouraged. The banks have been further informed that their aggregate borrowings from the Reserve Bank of India as at the end of April, 1972, are not to exceed the borrowings as at the end of April, 1971. In addition, they have been put on notitce that with effect from the first Friday of August, 1972, the statutory liquidity requirement, exclusive of the statutory balances with the Reserve Bank of India amounting to 3 per cent, would be raised from 28 per cent to 29 per cent.

131. The basic structure of the Reserve Bank of India's refinance policy has however remained unimpaired. Irrespective of the net liquidity ratio, refinance is available at 4½ per cent against bank advances to primary co-operative credit societies in selected districts of Andhra Pradesh, Haryana, Madhya Pradesh, Uttar Pradesh and Mysore, and against export credit sanctioned upto an amount equal to 10 per cent of the annual average obtaining in 1971. Further refinance at the Bank rate (6 per cent) is available, again irrespective of the net liquidity ratio, in respect of an additional amount of export credit equal to another 10 per cent of the annual average in 1971. Refinance on similar terms continues to be allowed in respect of increases in short-term advances to small industries covered by the Credit Guarantee Corporation and of increases in short-term direct lending to agriculture over the respective levels of credit offered in the corresponding quarter of the previous year. Identical facilities are to apply to bills rediscounted under the new Bill Market Scheme.

132. Certain changes were undertaken during the year to ensure a broader base of participation by the commercial banks in the financing of food procurement. With effect from November 1, 1971, the Reserve Bank of India's refinance against advances for the procurement of foodgrains was made available at the Bank rate upto an amount equal to 10 per cent of the outstanding level of these advances on the last Friday of October, 1971, and an additional one-third of the increase over the level as obtaining on the latter date. The Reserve Bank of India's discretionary accommodation at the Bank rate, it was emphasised, would be available only in exceptional circumstances, and on a rigorous assessment of the performance of the individual banks in the mobilisation of deposits, the planning of credit and the financing of the hitherto neglected sectors and backward regions.

133. The Reserve Bank of India has continued to review in the course of the year its system of credit controls having regard to trends in prices and availabilities of specific commodities. In November, 1971, it modified its control over bank advances against raw cotton and kapas in order to encourage the production of certain long-staple varieties in the country. Changes have also been made in January, 1972, in the details of credit control over advances against sugar, foodgrains and oilseeds and oils. In the case of sugar, gur and khandsari, controls were tightened by raising the minimum margin on bank advances against these commodities in view of the continued rise in their prices. The credit controls on food-grains, on the other hand, were somewhat relaxed having regard to the improved supplies and the need of meeting the requirements of small farmers, traders and primary co-operative societies. The changes made

in the framework of controls on advances against oilseeds and vegetable oils were, however, not of a substantial nature; credit ceilings were withdrawn in respect of advances against rapeseed and mustardseed oils, and also against oilseeds to vanaspati manufacturers and registered oil mills, advances against vegetable oils to the latter being already exempt from such ceilings.

134. Following the outbreak of hostilities in December, 1971, the Reserve Bank of India adopted a number of measures in order to gear its credit policy to the national war effort. Banks were asked to grant accommodation on a priority basis, to industrial units manufacturing and supplying goods to the defence services, and to help augment production in general and ensure smooth distribution of goods, especially in the border areas. To facilitate the speedy execution of defence orders, banks were also asked to grant packaging-*cum*-supply credit against confirmed orders or acceptance of tenders. Similar facilities were also suggested to be offered to sub-contractors providing materials, etc., to primary suppliers fulfilling defence orders. The procedure of obtaining prior authorisation under the Credit Authorisation Scheme was waived for such cases, as also for sugar, coal and textile industries.

135. Controls in respect of advances against foodgrains, oilseeds and vegetable oils, cotton and kapas, and sugar and gur in the border and near-border areas were relaxed. It was also decided to make refinance available at the Bank rate to individual banks, irrespective of the net liquidity ratio, for meeting the added requirements of working capital, particularly of small-scale units in case inventories had accumulated due to difficulties of transport and other factors beyond control. In addition, the Credit Guarantee Scheme for Small-scale industries located in the border areas was further liberalised.

Progress of Public Sector Banks

136. During the year under review, the banks in the public sector continued their endeavour to widen their geographical coverage, to mobilise deposits on a larger scale and to diversify credit. Significant results were achieved by them in several areas of operation.

137. There was a striking acceleration in the pace of deposit accretion in the banks in 1971. Between the last Fridays of 1970 and 1971, the deposits of the public sector banks (namely, the State Bank of India, its seven subsidiaries and the fourteen nationalised banks) increased from Rs. 4,772.1 crores to Rs. 5,742.0 crores that is, by Rs. 969.9 crores, which works out to a rate of growth of about 20 per cent per annum. This contrasts with the growth of deposits of the order of Rs. 689.3 crores (or 16.9 per cent) between the last Fridays of 1969 and 1970 and of Rs. 556.7 crores (or 15.8 per cent) during the preceding fifty-two weeks (last Friday of 1968 and last Friday of 1969). The State Bank of India alone accounted for an increase of Rs. 287.2 crores in deposits, from Rs. 1,222.2 crores on the last Friday of 1970 to Rs. 1,509.4 crores on the last Friday of 1971. Deposits of the fourteen banks nationalised in 1969, which stood at Rs. 2,625.8 crores at the time of their take-over, aggregated Rs. 3,829.1 crores at the end of 1971, registering a growth of nearly 50 per cent in the course of about thirty months. Reflecting

the growth of the banking habit in the community, bank deposits as a proportion of aggregate monetary resources (comprising currency with the public, deposit money and time deposits with the scheduled banks) have gone up from 52.2 per cent in March, 1969, to 58.1 per cent in December, 1971.

138. In their effort to extend the network of bank branches to hitherto unbanked areas, the public sector banks opened 1,502 new offices in the calendar year 1971, of which 889 were located in centres previously without any bank branches. By the end of December, 1971, the number of new offices opened by the public sector banks following nationalisation went up to 4,047; as on that date, the number of such offices totalled 10,680 as against 6,633 on July 19, 1969. Of the new offices opened since nationalisation 2,655, or more than 65 per cent, are located in rural areas. The proportion of rural branches in the total number of offices of these banks has gone up from 23 per cent in June, 1969, to 39 per cent in December, 1971. Following this spurt in the opening of branches on the part of the commercial banks, the average population served per bank office has declined from 65,000 at the end of June, 1969, to 42,000 in December, 1971; the number of districts where the population served per bank branch averaged over 200,000, has correspondingly come down to 10 from 70 at the time of nationalisation. Districts bereft of any banking facilities are now only three in number (two in Himachal Pradesh and one in Mizoram); in June, 1969, the number was as much as thirteen. In some of the grossly under-banked States, a significant improvement has taken place. Thus population per bank branch has come down in Assam from 188,000 in June, 1969, to 94,000 in December, 1971; in Bihar, from 207,000 to 111,000; in Jammu and Kashmir, from 114,000 to 44,000; in Madhya Pradesh, from 116,000 to 65,000; in Orissa, from 212,000 to 117,000 and in Uttar Pradesh, from 119,000 to 70,000.

139. Unbanked areas and those which are economically backward continue to receive priority in the selection of centres for branch opening. In order to speed up the identification and allocation of new centres for branch expansion, regional meetings of bankers have been convened from time to time by the Reserve Bank of India. Four such meetings were held in 1971, namely, at Patna, Kanpur, Bhopal and Delhi. Besides, meetings were also organised, at the level of States and districts, by the 'lead' banks in their respective areas. The strategy for branch expansion for the years 1972-74, it has now been decided, will be based on a perspective plan to be drawn up by the banks keeping in view their resources of manpower and operational efficiency. It is envisaged that the commercial banks would open about 5,000 new offices in the course of the next three years.

140. Lending to agriculture and other sectors, which received scant attention from the banks before nationalisation, progressed further in 1971. Between June, 1970 and December, 1971, the number of borrowal accounts with the public sector banks under the heads Agriculture, Small-scale Industry, Road Transport Operators, Retail Trade and Small Business, Professional and Self-employed Persons and Education, rose from 928,167 to 1,309,731, an increase of about 40 per cent, and the amount outstanding in these accounts went up from Rs. 760.83 crores to about Rs. 960 crores, that is, by nearly 26 per cent. There has been of late a certain levelling

off in the rate of growth of bank advances to these sectors, but this development has to be viewed in the context of the organisational constraints that have emerged. Lending to hundreds and thousands of small borrowers, scattered over large areas, during the initial phase following nationalisation, gave rise to certain strains affecting the supervision of credit necessary to ensure its proper end-use. The banks have been taking steps to strengthen their field staff and set up appropriate organisations at various levels for undertaking intensive financing of agriculture and the small-scale sector. Consultations with the concerned State Governments are also taking place so as to integrate the credit programmes of the banks with approved schemes for agricultural development.

141. Steady progress has been maintained by the banks in the principal task assigned to them under the Lead Bank Scheme, namely, a survey of the individual districts with a view to assessing the credit needs as well as the deposit potential, promoting branch expansion and bringing about general development. Surveys concerning over 220 districts have been completed and should form the basis for mobilising deposits as well as integrating the activities of the credit institutions with the development programmes in each district. Steps to follow up the findings of the Surveys have been initiated in several areas. A beginning has been made in some districts to establish liaison with State agencies and officials directly concerned with development.

142. The process of consultation with the State Governments and Union Territories will gain further momentum with the constitution of the regional consultative committees envisaged under the Scheme governing the management of the nationalised banks. The States and the Union territories have been demarcated into six regions for the purpose; for each region, there will be a consultative committee consisting of representatives from the Central Government, the State Government, the Union territories and the major commercial banks functioning in the region. The task of each regional committee will be to review banking developments in the particular region and make recommendations for consideration by the Reserve Bank of India and the Union Government.

143. The Credit Guarantee Corporation intended to provide a cover for the small advances of the banks came into operation with effect from April 1, 1971. The Corporation has formulated schemes to extend guarantee cover upto specified limits on bank advances to small borrowers in the hitherto neglected sectors. More recently, these limits have been raised in respect of advances to transport operators, owners of petrol stations, and dealers in fertilisers, and altogether removed in respect of advances to farmers and agriculturists covered by the Corporation's guarantee. Under the Scheme, 75 per cent of the losses arising out of such advances—subject to the limits wherever applicable—will be reimbursed by the Corporation. This innovation, coupled with the emphasis on special schemes to help generate employment, is expected to facilitate the identification of small units with employment-creating potential and their financing by the banks in an imaginative way.

144. In pursuance of the recommendations of the Committee which was set up to recommend special proposals for the generation of employment, the public sector banks have prepared schemes for financing self-employed persons. Borrowal accounts in the name of professional and self-employed persons have gone up from 422 as at the end of June, 1969, to 28,879 as at the end of June, 1970, and further to 51,186 as at the end of December, 1971. The amount of outstanding advances has increased from Rs. 0.3 crores as at the end of June, 1969, to Rs. 6.7 crores as at the end of June, 1970 and further to Rs. 10.4 crores as at the end of December, 1971. The banks have also been taking steps to simplify forms and procedures.

145. To facilitate agricultural lending by the commercial banks, a draft model bill, based on the recommendations of the Expert Committee set up by the Reserve Bank of India, has been circulated to the State Governments; instead of amending the various State laws separately and piecemeal, the State Governments, it is felt, might consider enacting a single consolidated legislation which could place the commercial banks on the same legal footing as the cooperative banks with respect to their lendings to the agricultural sector. The Reserve Bank of India has also introduced a system of obligatory earmarking, upto 20 per cent of the credit limits sanctioned to the Central Cooperative Banks, for the small and economically weaker farmers. Besides, the Agricultural Refinance Corporation is providing complete refinance for schemes undertaken for small and marginal farmers and agricultural labourers.

146. During the year, the Government received the report of the Committee which examined the feasibility of a scheme of differential interest rates. The Report of the Committee was not unanimous. The view of the majority of the members was that too wide a differential in lending rates charged by the banks should be avoided, having regard to the operational problems involved; a range of differentials between 8½ per cent to 10 per cent has been recommended by them. The report of the majority has also recommended the size of the loans as the principal criterion for identifying borrowers in each of the sectors selected (agriculture, small scale industry, transport operators and professionals) for the purpose of applying differential rates. The minority report, on the other hand, has suggested a wide differential of lending rates ranging between 1 per cent and 20 per cent; it has also offered the view that the relative economic status of the borrower rather than the size of the loan should be a more objective criterion for identifying borrowers for the purpose of applying differential rates. The Report is under the Government's consideration.

147. The Banking Commission which was appointed by the Government in February, 1969, submitted its report on February 9, 1972. The Commission has made a review of the important facets of the functioning of commercial and cooperative banks, non-banking financial intermediaries and indigenous banking agencies in the country. It has indicated the need for a structural reorganisation of the commercial banking system, stressing in particular the need for reshaping the banking arrangements in the rural sector. With this end in view, the Commission has suggested the establishment of rural banks either by promoting sound primary agricultural societies as subsidaries of commercial banks or by the commercial banks themselves setting up their own subsidiaries. It has also recommended the strengthening of the primary credit societies, wherever they are working on sound

lines so that they could provide wide-ranging banking services. The Commission has proposed stringent regulatory controls over the non-banking financial intermediaries with a view to facilitating effective implementation of monetary policy, creating conditions for their growth and safeguarding the interests of the depositors. The report contains detailed recommendations for linking indigenous banking agencies with the organised banking system. Several innovations have been proposed in the matter of recruitment and training of bank personnel. There are important detailed recommendations for improving and modernising the operational procedures and management policies of the banks. The Commission has drawn attention to the need for rationalising the service charges. It has also indicated the lines along which banking laws could be streamlined and has recommended a comprehensive banking code to govern commercial banks and non-banking financial intermediaries.

148. Constituting as they do, the principal financial intermediaries, the banks have a pivotal role to play in mobilising private savings and in either transferring such savings to the Government or in deploying them to meet the capital requirements of the private sector itself. As indicated in the preceding paragraphs, notable progress has been made in the field of deposit mobilisation since nationalisation. While the performance in this respect, particularly during the past one year, has been exceedingly satisfactory, the pace of deposit mobilisation needs to be further intensified in view of the resource constraints in the economy. At the other end, the endeavour must continue to reach credit to the genuinely needy elements in the community, especially among those groups who have been neglected and deprived in the past; the terms and conditions of such assistance have to be continuously reviewed. The priorities for the public sector banks in the immediate period are thus fairly clear-cut.

Activities of the Term-lending Institutions

149. During the year, the activities of the term-lending institutions continued to be directed towards promoting a spatially diffused pattern of industrialisation in the country. Mention had been made in the Economic Survey for 1970-71 of the facilities for assistance available from the public sector financial institutions, on concessional terms, to small and medium projects in relatively under-developed areas. The Industrial Development Bank of India, as the apex financial institution, has sought to sustain its special efforts to promote industrial development of the backward regions and to help new entrepreneurs to establish themselves there. In collaboration with the other public financial institutions, the IDBI has undertaken surveys for identifying the industrial potential of the backward States. These surveys contain a detailed analysis of the infra-structural facilities which need strengthening in the areas, suggestions in regard to fiscal incentives, such as subsidies for transport and power, which could be given by either the Central or the State Government, and proposals for concessional terms of credit which may have to be accorded by the financial institutions. The IDBI has also been exploring ways and means whereby technical consultancy services would be available for purposes of identification of backward areas, preparation of preliminary feasibility studies and detailed project reports and project supervision.

150. One could refer here to the structure of interest rates adopted by the Industrial Development Bank of India. Following the raising of the Bank rate from 5 per cent to 6 per cent in January, 1971, while the normal rate on direct loans offered by the IDBI was maintained at $8\frac{1}{2}$ per cent, a few of the other rates were adjusted upwards by between one-half and one per cent; no change was, however, made in the concessional rates charged in respect of either advances to industrial units in backward areas or the refinance of export credit. Thus, in the case of direct assistance (other than for exports), the concessional rate to units in the backward areas is 7 per cent as against the normal rate of 8.5 per cent. Similarly, in the case of refinance of industrial loans, while the normal rate is between 6.75 and 7 per cent, the concessional rate is 5 per cent for the small-scale units covered under the Credit Guarantee Scheme and 3.5 per cent for units in the backward areas (provided the primary lenders' rate does not exceed 8.5 per cent for the small-scale units and 7 per cent for units in the backward areas). The IDBI refinances advances granted by the State Financial Corporations as well as by the banks. The concessional terms offered by it to small and medium units in the backward areas also include such other features as dispensing with the commitment charge, longer repayment periods, deferment of payment of instalments of principal and interest in the initial years and subscriptions to the share capital of the projects. More recently, the IDBI has decided to make available its direct as well as refinance assistance on concessional terms not only to new projects but also to industrial units undertaking substantial expansion in specified backward areas.

151. Aggragate assistance sanctioned by the Industrial Development Bank of India, the Industrial Finance Corporation, the Industrial Credit and Investment Corporation of India, the State Financial Corporations, and the State Industrial Development Corporations amounted to Rs. 232.6 crores in 1970-71 as against Rs. 153.8 crores in 1969-70. The disbursement at Rs. 148.4 crores in 1970-71 was also higher than the disbursement of Rs. 116.3 crores in the preceding year. For the current year, the data available relate to the period April-September and indicate that total sanctions by all these institutions taken together were of the order of Rs. 114.5 crores as against Rs. 83.1 crores in the corresponding period last year. Disbursements have also risen from Rs. 65.1 crores in 1970-71 (April-September) to Rs. 77.4 crores in 1971-72 (April-September).

152. The performance of the Industrial Development Bank of India has been particularly impressive. Information in respect of its operation is available until the end of December, 1971; this reveals that assistance sanctioned (Rs. 135 crores) during the period April to December, 1971 was more than double of what was sanctioned in the corresponding period of 1970. Disbursements (Rs. 76.5 crores) were also higher by 50 per cent over the level attained in the corresponding period of the preceding year.

153. The Reserve Bank of India had taken the initiative to establish the Industrial Reconstruction Corporation of India, with head-quarters at Calcutta, with a view to meeting the problems of sick and closed industrial units, particularly in the eastern region. The Corporation, which came into existence in April, 1971, had, upto the end of December, 1971, sanctioned assistance of the order of Rs. 4.70 crores in respect of 30 industrial units.

General Insurance

154. A development during the year, which has implications for generating savings in the public sector, may also be taken note of here. In May, 1971, the Government, through the issue of an ordinance, took over as a prelude to nationalisation, the management of the undertakings of insurers carrying on general insurance business in the country. The measure covered 62 Indian and 44 foreign insurers. The net premium paid on account of general insurance amounted to Rs. 115 crores in 1969. It is expected that nationalisation of general insurance would lead to improved efficiency, better service to policy-holders and the elimination of undesirable practices.