

RAJYA SABHA

Tuesday, *the 19th July, 1977*/the 28th.
Asadha, 1899 (Saka)

The House met at eleven of the clock,
Mr. Deputy Chairman in the
Chair.

MEMBERS SWORN

1. Shri N. G. Ranga (Andhra Pradesh).
2. Shri Ananda Pathak (West Bengal) .
3. Dr. M. M. S. Siddhu (Uttar Pradesh).

ORAL ANSWERS TO QUESTIONS

Reduction in the rate of Interest

*31. SHRI HIMMAT SINH:f DR. V.
B. SINGH: SHRI HARSH
DEO MALAVIYA:

Will the Minister of FINANCE AND
REVENUE AND BANKING be pleased to
state:

(a) whether it is a fact that Government have recently reduced the rate of interest on savings banks accounts with cheque book facility;

(b) if so, what is the extent of reduction made and from what date it is effective;

(c) what is the objective behind reducing the rate. of interest;

(d) whether Government are aware that this step will encourage people to withdraw amount from Indian banks and deposit with foreign banks or invest somewhere else; and

(e) if so, whether Government propose to restore the cut in the rate of interest on savings banks accounts

tThe question was actually asked on the floor of the House by Shri Himmat Sinh.

which are maintained generally by
average income people?

THE MINISTER OF FINANCE AND
REVENUE AND BANKING (SHRI H. M.
PATEL): (a) to (e) A Statement is laid on
the Table of the
House.

Statement

On May 27, 1977, the Reserve Bank of India announced further rationalisation in the structure of interests rates payable by the scheduled commercial banks on their deposits. The revised interest rate schedule is at Annexure.

Among other things, the Reserve Bank have advised the scheduled commercial banks to make a distinction between the Savings Bank Accounts which are operated through cheques and those which are not and to pay a rate of interest at 3 per cent per annum on the cheque operated Savings Bank Accounts compared to the interest rate of 5 per cent per annum which would continue to be admissible on balances in the Savings Bank Accounts which are not operated upon through cheques. This change has come into effect on July 1, 1977.

The distinction between cheque operated Savings Bank Accounts and other Savings Bank Accounts and the stipulation of a lower rate of interest of 3 per cent per annum on cheque operated Savings Bank Accounts is based on the nature of these two types of accounts, the former being functionally transaction oriented and the latter more truly partaking of Savings Small depositors, particularly in the rural and semi-urban areas and those belonging to the weaker sections of the community, whose Savings Bank Accounts are not usually transactions oriented and who do not avail of cheque facilities would continue to be entitled to interest on their savings deposits at the old rate.

The directive issued by the Reserve Bank is applicable to all the scheduled commercial banks, including branches of foreign banks in India.

The Reserve Bank of India have also reported that since the savings deposits are mostly of small amounts, there

is unlikely to be any diversion of such deposits into other media of investment.

Annexure

*Rates of interest on Deposits payable by Scheduled Commercial Banks effective from fire I, 1977**

	Existing %	Proposed %
I. Savings Deposits		
Scheduled Commercial Banks		
(1) With demand and time liabilities upto Rs. 10 crores .	5.5	3% on Savings Deposits with cheque facilities and 5% on Savings Deposits Account without cheque facilities.
(2) With demand and time liabilities between Rs. 10 crores and Rs. 25 crores	5.25	
(3) With demand and time liabilities above Rs. 25 crores	5.0	
II. Fixed Deposits		
(1) 15 days to 45 days	3.0	3.0
(2) 46 days to 90 days	3.5	3.5
(3) 91 days to less than 6 months	5.5	4.0
(4) 6 months to less than 9 months	6.0	4.5
(5) 9 months to less than 1 year	7.0	5.0
(6) 1 year to 3 years	8.0	6.0
(7) Over 3 years upto 5 years	9.0	8.0
(8) Above 5 years	10.0	10.0
<p>NOTE: 1. Scheduled commercial banks with demand and time liabilities less than Rs. 25 crores are allowed to pay at their discretion additional interest of $\frac{1}{4}$ per cent per annum on all savings deposits and on term deposits upto and inclusive of 5 years. The rate of interest for deposits above 5 years will be only 10 per cent.</p> <p>2. No Co-operative Bank is allowed to pay interest on deposits in excess of the rates specified below, over and above the rates prescribed above.</p>		
		Over and above the rates payable by scheduled commercial banks (per cent per annum)
(i) State co-operative banks in the Union territories and in Manipur, Tripura, Nagaland and Meghalaya States .		$\frac{1}{4}$
(ii) State co-operative banks in all other States		$\frac{1}{4}$
(iii) Central co-operative banks		$\frac{1}{2}$
(iv) Primary Co-operative banks		1
<p>3. Regional Rural Banks can pay 0.5 per cent more on savings and fixed deposits, except in the case of deposits above 5 years where they are individually advised.</p>		

* Interest on savings deposits which will take effect from July 1, 1977.

SHRI HIMMAT SINH: Sir, the Finance Minister has indeed travelled a long way from the Swatantra scenario to the Janata jumbo and he has tried to answer my question in a manner which is typical of the practice that he used to follow in the party to which he had the dubious honour to belong at one time. I do not know whether he considers it to be a greater honour to belong to the Janata jumbo or not. But that apart, my question is very simple and very direct. Savings are essential in order to strengthen the economy. The higher the interest, the greater the savings and the greater the number of people who are lured into savings, the greater the strength of the national economy.

Here the Finance Minister has gone out of his way to deprive the small savings people of a little higher interest on their hard-earned income which they earn by operating an account through a cheque book because their expenses are not always foreseeable. The expenses come as and when they do, sometimes in adversity, sometimes not in adversity, and this measure which he has asked the Reserve Bank to take on the plea of rationalisation, in my opinion, is most retrograde and it hits hard a large number of the people of this country who want to invest in a secure place like a nationalised bank and earn a little interest which comes in handy for them. Now if this sort of restriction is put and if they are deprived of a higher rate of interest, then, naturally the tendency would be to invest in agencies which are dubious—and there is no dearth of such dubious agencies. Why the Finance Minister has thought it fit to do so, I really do not know. I had discussed this subject in Bombay with several banking organisations including the nationalised banks and they themselves have said that this is something which was uncalled for, which should not have been undertaken and this is going to hit hard those who are inclined to strengthen the national economy through savings in the nationalised banks. Now if this is done, naturally the new channel

which will be opened for investment would be the private sector of the dubious agencies, as I would call them.

MR. DEPUTY CHAIRMAN: Please ask a question.

AN HON. MEMBER: This is not a debate.

SHRI HIMMAT SINH: I therefore earnestly request the Finance Minister to withdraw this and let me know the reasons why he was inclined to encourage this step.

SHRI H. M. PATEL: Mr. Deputy Chairman, Sir, first of all I would like to inform the hon. Member that this decision is taken by the Reserve Bank and not by the Finance Minister. The Reserve Bank is an autonomous institution. Also the nationalised banks have now been put under the Reserve Bank, and the policy in regard to savings, interest, credit, etc., is determined by the Reserve Bank which issued guide-lines. So, this is merely by way of pointing out that it is the Reserve Bank which acts in this matter. The next point that he mentioned was....

SHRI HARSH DEO MALAVIYA: But Government have over-all control.

SHRI PRAKASH MEHROTRA: Have Government control over the Reserve Bank?

SHRI H. M. PATEL: I have only pointed out that this action was not taken by the Finance Minister.

SHRI JAGJIT SINGH ANAND: You mean it was not initiated by you?

SHRI H. M. PATEL: No, it was not initiated by the Ministry. Normally it would not be unless something perverse was being done by the Reserve Bank. So far as the question of the small man's difficulties is concerned, the action taken is, as I see it, to see that the savings bank account is now made a savings bank account proper. If you do not operate it as a current account, then you receive your

five per cent interest. If you want to use cheques, having the cheque book facility, then you get only three per cent interest. Now I think this is not converting the savings bank account into a pure current account where you will get no interest. This is merely to persuade the small saver to see that if he wants the full five per cent interest, then he should treat it as a savings bank account pure and simple. This is the implication behind it. Now this is not a matter which would result in anything else. If I may say for the information of the hon. Member, most people have converted their accounts. I would not like to say anything more now. The trend is for people to use it as a savings bank account rather than as a current account. The larger savers have opened a second savings bank account in which they keep a smaller sum and operate it with cheques. This is what is being done.

SHRI HIMMAT SINH: I know my friend is concerned with the large savings accounts and not the small savings accounts. But that is all the more reason why the small savings accounts should have been taken care of. His suggestion that it was not initiated by his Ministry, but that the Reserve Bank had taken the action on its own, is something which is difficult to follow because, after all, the Reserve Bank is an agency which does come under the overall purview of the Finance Ministry. And, if the Reserve Bank was taking a step which was a retrograde one, certainly it was for the Finance Minister to see that it was countered and it was not allowed to become effective. Now, as far as the savings accounts in dubious agencies are concerned, let me remind the Finance Minister that many of the individuals and characters who operate these private sector deposits are...

MR. DEPUTY CHAIRMAN: This is not a subject for discussion.

SHRI HIMMAT SINH: I want to know how many small savings

accounts will be affected by this measure and whether he is taking effective steps to see that those agencies where the deposits could be diverted are prevented from swallowing the same.

SHRI H. M. PATEL: Mr. Deputy Chairman, Sir, if I may inform the honourable Member, the small savers are not the persons who put their money in private companies as deposits. Private companies which accept deposits ask for larger sums to be deposited. Therefore, his apprehension that this is what will happen is really not correct. I would also like to remove the misapprehension that the Finance Ministry cannot prevent the Reserve Bank from doing something that is wrong. I only wanted to tell him that this step was taken by the Reserve Bank. The Reserve Bank is entitled to do so, has the authority to do so. It is certainly not that the Finance Ministry is opposed to this policy. The Finance Ministry also approves of it. And that is why my replies to the honourable Member are in these terms.

DR. V. B. SINGH: Sir, the Finance Minister has raised two issues. One is the relationship between the Reserve Bank of India and the Ministry of Finance. Apart from what is given in the text-books and the Acts that exist, the fact is that among the Indian economists there is a well known saying that the Reserve Bank of India is the maid-servant of the Ministry of Finance. Therefore to make parliamentary excuses that it has been done by the Reserve Bank is not correct. If must have been done by the Reserve Bank either on its own initiative or on the initiative of the Ministry of Finance, but not without the concurrence of the Ministry of Finance. So the question is: On whose initiative, has it been done? The second point is: What is going to be the net impact on the small savings? Because, Plan after Plan, including the current Plan, the need for small savings has been stressed.

The hon. Minister has rightly said that the large savers may go to the private sector. But, where will the small savers go? And out of the small savings of millions of people, what accrues to the nationalised banks which have investible funds? The net result will be that the domestic savings will further decline which are already in a poor state and the flood-gate of foreign loans will be opened. If it is not a fact, I would like to have a clarification from the Minister.

SHRI H. M. PATEL: Sir, I would like to clarify that, whatever may have been the position in the previous regime, when the Reserve Bank might have been forced to be the handmaid—or whatever expression was used—of the Government this Government has made it clear, and has publicly announced, that the banking system is to be de-politicalised. The Reserve Bank acts within its authority and this is the policy of this Government. Now, so far as the apprehension...

SHRIMATI PURABI MUKHOPADHYAY: Does that authority include cognisance of the Government of India and its concurrence?

SHRI H. M. PATEL: Yes, Sir, my words are very clear.

SHRIMATI PURABI MUKHOPADHYAY: You said, depoliticalisation. Please don't try to politicalise all the issues. Give us straight answer when you accepted this, were you previously consulted or it was a *post-facto* clearance?

SHRI H. M. PATEL: I will answer it later, if you give permission.

DR. V. B. SINGH: If was a maidservant in the previous regime when you were the Finance Secretary.

SHRI H. M. PATEL: I might tell you that when I was the Principal Finance Secretary, the situation was what I am saying now, that is, the

Reserve Bank was an independent organisation. It was the central bank of this country. It was set up in order to formulate the country's credit policy, monetary policy and so on. It is in the later stages, Sir, unfortunately, that the politicalisation began.

Now, I come to your other point regarding your apprehension that the small savers will not have anywhere to go. But, you will be glad to know that there has been no closing of savings bank accounts since the new policy came in. As I explained to you there was no reduction in the savings bank deposits or savings bank accounts. The other point I made was only to explain the point that the Hon. Member there had made that the people might be tempted now to place their money with private companies inviting deposits. To that I said that for deposits with companies a certain minimum amount was necessary and that these savings banks serve smaller men who are not the kind of people who go in for depositing their money with private companies.

SHRI HARSH DEO MALAVIYA: Sir, following from what the Minister has said, I am very happy to say that the cat is out of the bag. The Government has reduced the rate of interest on the savings bank accounts from 5 per cent to 3 per cent per annum with effect from the 1st of July. I do not know on what basis the Hon. Minister's statement is based. There is a general tendency in the market that private investments, even small ones, are going to the private sector companies. The private sector companies are really benefited. It is quite consistent with the Swatantra policy. Now the interest rates have been brought down both on credits and deposits. The new credit policy makes a distinction between cheque and non-cheque accounts. Reducing the rate of interest on savings bank accounts with cheque facilities shall not in any way help the Government in reducing the prices. The Government spokesmen are making out that

this will reduce prices. It is not quite proper to throw everything on the previous Government. After all, you were also an important function, any in the Central Government, a Secretary.

My questions are whether the Government proposes to reconsider the decision? Whether this rule shall be followed by the foreign banks operating in India or other saving institutions, and whether the Government proposes to reduce the limit of the number of cheques to be used in a year or reduce the rate of interest. I also want to know whether the Government has received some representations and memoranda in this connection and, if so, what action the Government is taking upon them.

SHRI H. M. PATEL: The Government have received no memorandum protesting against this matter. I have received no memorandum. I have had letters from individuals.

SHRI HARSH DEO MALAVIYA: I have received some.

SHRI H. M. PATEL: I thought of memoranda from associations etc.

SHRI HARSH DEO MALAVIYA: My question was whether this memorandum was from an organisation or an individual. He said, no organisation but individuals...

SHRIMATI PURABI MUKHOPADHYAY: They do not have that mass contact today.

SHRI HARSH DEO MALAVIYA: A memorandum is a memorandum, whether it is from an organisation or an individual. We have received copies of memoranda...

SHRI H. M. PATEL: I stand corrected. I have received letters from individuals who have given expression to their views on this policy. This new policy is not concerned only with small savings accounts. This is a general policy which is designed to

bring down the rates of interest which had gone up very high. First to divert more money towards medium-term and long-term investments. ...

SHRI HARSH DEO MALAVIYA: Investments in the private sector?

SHRI H. M. PATEL: Whatever sector it is, more money is needed for investment. I consider that the private sector has to be looked after as much as the public sector and money is also needed in the private sector.

SHRI HARSH DEO MALAVIYA: The public sector is higher than the private sector.

SHRI H. M. PATEL: The honourable Member should realise that the banking system. ...

SHRI BHUPESH GUPTA: On a point of order. I am surprised, Sir, at this statement. We pay from the Consolidated Fund of India to the Government of India and the Minister to look after the public sector. We do not pay the Minister for looking after the private sector.

SHRI HARSH DEO MALAVIYA: Sir, this is a preposterous statement that the public sector and the private sector are on the same ground...

SHRI MOHAN DHARIA: Sir, under what rule did he raise this point of order?

SHRIMATI PURABI MUKHOPADHYAY: Under what rule did you get up? Mr. Deputy Chairman, arising out of the reply given by no less a person than the Finance Minister. ...

MR. DEPUTY CHAIRMAN: The reply is not yet complete...

SHRIMATI PURABI MUKHOPADHYAY: But he is making it more confounding.

MR. DEPUTY CHAIRMAN: Let him complete. (*Interruption*). Order, please, order, please.

SHRIMATI PURABI MUKHOPADHYAY: But please let me speak...

SHRI SUNDER SINGH BHAN DARI: On what? Is it a point of order? Is it a point of order?

SHRIMATI PURABI MUKHOPADHYAY: He said public sector...

MR. DEPUTY CHAIRMAN: Please sit down.

SHRIMATI PURABI MUKHOPADHYAY: I am not going to sit down...

MR. DEPUTY CHAIRMAN: Please sit down.

SHRIMATI PURABI MUKHOPADHYAY: You sit down. I am on my right here. It is very unfair of you. whenever we get up you ask us to sit down.

MR. DEPUTY CHAIRMAN: Let the Minister finish his answer.

SHRIMATI PURABI MUKHOPADHYAY: He has to clarify...

MR. DEPUTY CHAIRMAN: Let him finish first.

SHRIMATI PURABI MUKHOPADHYAY: He has already said that the private sector is as important as the public sector...

(Interruptions)

MR. DEPUTY CHAIRMAN: Order, please. Let him finish.

SHRI G. LAKSHMANAN: Mr. Deputy Chairman, the honourable Member said that you must sit and she will not sit...

SHRIMATI PURABI MUKHOPADHYAY: Please sit down. Do not show me the rules.

SHRI G. LAKSHMANAN: You have no business to address Members. You should address the Chair.

SHRIMATI PURABI MUKHOPADHYAY: You sit down. You need not show me the rules.

SHRI VISWANATHA MENON: You sit down. You have no business to say that the Chairman must sit.

SHRIMATI PURABI MUKHOPADHYAY: You need not tell me...

SHRI G. LAKSHMANAN: You have no business to address Members direct. You address the Chair. You have been a Vice-Chairman yourself. You do not know the simple procedure.

SHRIMATI PURABI MUKHOPADHYAY: You read the rules.

MR. DEPUTY CHAIRMAN: Please let the Minister finish the reply.

SHRI H. M. PATEL: I was not allowed even to complete my sentence. Points of order were raised even before I completed the sentence. What I was saying was that the banking system looks after all sectors. It has to look after the public sector requirements of money as much as the private sector requirements of money. It is desirable that our policy, credit and monetary policy, should be such as would induce more money to become available for investment. This is the simple statement that I wanted to make.

SHRI HARSH DEO MALAVIYA: My questions have not been answered. I asked whether the Government propose to reconsider the decision. That is one question. I asked whether this rule shall be followed by foreign banks operating in India. I also asked whether the Government propose to reduce the limit on the use of cheques, on the number of cheques, per month. You know that rule. These are my questions. We do not want any speech on the needs of public sector or private sector. We want only answers to the questions.

SHRI H. M. PATEL: I will answer the questions. The first question was whether we propose to change the order. No, we do not propose to change it. The second question was whether the foreign banks would be governed by this rule. Yes, the

foreign banks in India are governed by the directive of the Reserve Bank. The third point was whether the cheque system would be allowed. At least it is a matter which can be considered. The suggestion that a certain number of cheques may be permitted even under the new system of higher interest on pure savings accounts will be considered.

DR. RAJAT KUMAR CHAKRABARTI: The hon. Minister just now said that no small savers have so far withdrawn their bank accounts. May I remind him that the poor people and small savers do not have any alternative? They have to go by whatever is fixed by the Government. May I know from the hon. Minister what happened to the golden rule of one cheque per week from the savings bank account? Why that principle has been discarded and the small savers unnecessarily punished by forcing them to keep two accounts—one with the cheque system and the other without it?

SHRI H. M. PATEL: I have already said that this point will be considered, is under consideration.

DR. RAJAT KUMAR CHAKRABARTI: What about one cheque per week?

MR. DEPUTY CHAIRMAN: He said he will consider it. Next question.

Loan by the Central Bank to Kohinoor Mills

*32. **SHRI LAKSHMANA MAHA-PATRO:** **SHRI YOGENDRA SHARMA:** **SHRI S. KUMARAN:** **SHRI SANAT KUMAR RAHA:**

Will the Minister of FINANCE AND REVENUE AND BANKING be pleased to state:

fThe question was actually asked on the floor of the House by Shri Lakshmana Mahapatro.

(a) whether the Central Bank of India sanctioned loans of about Rs. 25 crores during the last two years to the Kohinoor Mills Company Ltd., Bombay;

(b) whether it is a fact that the sanction of these loans was without the RBI authorisation; and

(c) if so, what are the details in this regard and what action has been taken against the persons responsible for these irregularities?

THE MINISTER OF FINANCE AND REVENUE AND BANKING (SHRI H. M. PATEL): (a) to (c) A statement is laid on the Table of the House.

Statement

The Kohinoor Mills Co. Ltd., Bombay, a textile mill with installed capacity of 1,30,200 spindles and 1960 looms and employing about 8000 workers, has been a client of the Central Bank of India since 1957 and has been extended credit facilities by the Bank from time to time. For the credit facilities to the Company, the Bank holds a formal credit authorisation from the Reserve Bank of India up to a limit of Rs. 4.75 crores since July, 1974. Under the discretion vested with it under the Credit Authorisation Scheme the Bank also allowed a temporary limit of Rs. 25 lakhs for a period of 3 months from December, 1974 and the Reserve Bank of India was advised of the same as required under the Scheme. The Reserve Bank of India also accorded authorisation in May, 1975 for an additional sum of Rs. 50 lakhs for a period of 3 months. The validity of these enhanced limits expired in August, 1975, whereafter technically the regular limits of the company upto Rs. 4.75 crores became operative.

Since the later half of 1974, the company has been experiencing serious financial difficulties. According to the Bank since then it has been trying to nurse the mill company into health and in the course of this process it has to extend certain increased facilities to the company. The Bank has