Refinance Corporation

IN order to enable the Indian exporter to compete effectively in the world market, the Refinance Corporation for Industry has announced a reduction in the rate of refinance for export credit from 5 per cent to 4.5 per cent per annum with effect from December 24, 1963, on condition that exporters are allowed credit by financial institutions at a rate not exceeding 6 per cent per annum.

The scheme of refinancing export credit was originally introduced in January 1963 under which refinance for export credit was made available to financial institutions at *A* concessional rate of 5 per cent as against the normal rate of 5.5 per cent per annum charged on refinance of industrial loans.

Another modification made in the scheme is that the stipulation of a minimum amount of loan of Rs 1 lakh to seek refinance has now been relaxed in order to extend the benefits of the refinancing scheme to the small exporters who ship goods in instalments against a particular contract. Under the revised scheme, refinance will now he available for less than Rs 1 lakh provided that the export contract is for a minimum amount of Rs 1 lakh.

Money Market

Thursday, Morning

HTHE inter-bank call money rate continued unchanged for over a week at 5 per cent, the rate reached on *the* last working day of 1963. This steadiness of the call rate at half per cent above the Bank Rate has caused some surprise in market circles. The expanding demand for funds which is evident from the continuously rising bank credit and increasing active notes during the, last six weeks or so, has been met by an almost well-matched supply of funds available from increased deposits, sales of investments, surplus floating funds with others, etc. There was no borrowing from the Reserve Bank to any noteworthy extent nor were borrowers aggressive in the call loan market at the prevailing high rates. In fact, scheduled banks' borrowings from the Reserve Bank until at least December 27, 1963, were only Rs 7.71 crores, and moneys placed al call by scheduled banks as a whole on the same date were only Rs 50.80 crores compared with about Rs 69.08 crores a month ago. One possible explanation for the steadiness in the rate can be that lenders are generally reluctant to cut the rate and that borrowers are also few and far between and must have resorted to this source more as a matter of necessity.

There are no signs of the rate getting easy, except to a small extent, in the immediate future; for, during the week ended December 27, 1963, bank credit has expanded further by Rs 24.28 crores, as against Rs 15.69 crores in the previous week. The rise in bank credit since the beginning of the busy season is about Rs 107 crores compared with a rise of a mere Rs 32 crores during the corresponding period last year. The rising tempo of bank credit is also reflected in the spurt of Rs 125 crores in the notes in circulation since November 1, 1963 compared with a rise of Rs 90 crores in the corresponding last period.

As against the rising demand for credit, aggregate deposits of banks have improved during the last two months or so by Rs 9.42 crores and hanks have strengthened their cash resources by the sale of investments to the tune of about Rs 67.55 crores. With their own resources, banks have been able to meet credit demands without resort to borrowing from the Reserve Rank even though the latter has to some extent liberalised its credit policy in anticipation of a further strain during the current busy season. In these circumstances the inclination to avail of funds from call loan market, even as matter of temporary expedient, will be extremely limited so long as the call rate exceeds the Bank Rate. So it is doubtful whether the call rate will sustain itself above the Bank Rate for any length of time at a stretch. At the same time it is equally unlikely that there will be any drastic decline in the rate, since sporadic pressure for funds will tend to push it up to the level of the Bank Rate.

Anyhow, such a stringency as cannot be easily tided over can hardly be expected to arise in the money market this season in view of the precautions already taken by the banking system and 'the Reserve Hank. The banks resources position is definitely stronger now than a year ago to withstand any normal strains, as will be seen from the following figures:

(*Rs crores*)

	As on 27-12-1963	As on 28-12-1962	Change
Bank credit	1575	1422	+ 152
Aggregate deposits	2246	2042	+ 204
Investments	709	652	+ 56
Borrowings from RBI	8	21	— 13
Bal with RBI and cash	140	132	+ 8

With a substantial rise in deposits, investments, cash balances and with larger scope of borrowing from the Reserve Bank, the rising credit demand can be easily met by the banks. There is therefore little possibility of any scramble for funds or for unreasonably high interest rates.

The latest Reserve Bank Statemeut, for the week ended January 3, shows a sharp rise of Rs 29.16 crores in the Notes in Circulation. This is in continuation of a small rise of Ks 3.97 crores in the last week of December. During the whole of 1963, notes in circulation increased by Bs 219 crores as against an increase of Rs 177 crores in 1962. This is in consonance with a rise in bank credit during the year. The rise during the first week of the new year, after the year-end requirements have been met, confirms that the busy season has now picked up. The Banking Department having supplied Rs 1.30 crores of notes, the balance of Rs 28,16 crores is met by a fresh issue. Rupee coins of the order of Rs 1.85 crores have also flown out of the Issue Department with the result that Rupee secrities in the Issue Department have been inflated by Rs 30 crores to secure the expansion of currency. Foreign securities have continued unchanged while balances held abroad are up fractionally by Rs 22 lakhs.

The Central (Government's deposits stand lower by Rs 1.03 crores while those of State Governments aiv higher by Rs 1.55 crores. There is thus a net fall of Rs 2.48 crores in Government deposits but loans to Governments have swelled by Rs 3.99 Crores. Government's disbursements have gone higher and account partly for the rise in the note issue.

fn spite of an increase in bank advanees, scheduled banks' deposits with the Reserve Bank are up by Rs 4.19 crores but at the same time, their borrowings for the first time in this season have sharply risen by Rs 18.71 crores to Rs 26.79 crores, the highest for the season till now. Larger borrowings from the Rserve Bank must have been due to the higher call money rate to some extent. Bills purchased and discounted by the Bank are higher by Rs 6.67 crores and investments have recorded a fall of Rs 10.88 crores.