RESERVE BANK OF INDIA

Annual Report

for the year ended June 30.

1968

Reserve Bank of India

Report of the Central Board of Directors for the year ended June 30, 1968. Submitted to the Central Government in terms of Section 53 (2) of the Reserve Bank of India Act, 1934.

Annual Report 1968

Examiner Press, Bombay-1.

CENTRAL BOARD OF DIRECTORS

Governor

SHRI L. K. JHA

Deputy Governors

SHRI B. N. ADARKAR
SHRI A. BAKSI
SHRI J. J. ANJARIA
SHRI P. N. DAMRY

Directors nominatbd under Section 8(l)(b) of the RBI Act

SHRI R. G. SARAIYA
SHRI B. N. MOOKERJEE
RAJA BAJRANG BAHADUR SINGH
SHRI V. S. TYAGARAJA MUDALIAR

Directors nominated under Section 8(1) (c) of the RBI Act

PROF. C. N. VAKIL
SHRI N. A. PALKHIVALA
SHRI P. L. TANDON
SHRI ARVIND N. MAFATLAL
SHRI G. BASU
SHRI C. P. N. SINGH
PROF. M. MUJEEB
SHRI J. RAMDAVE Row
DR. V. SHANMUGASUNDARAM
SHRI KAMALJIT SINGH

Director nominated under Section 8(1) (d) of the RBI Act

DR. I. G. PATEL, Special Secretary
to the Government of India, Ministry of Finance,
Department of Economic Affairs

MEMBERS OF LOCAL BOARDS

Western Area

SHRI R. G. SARAIYA
SHRI LAXMAN VAMAN APTE
SHRI G. V. PURANIK
SHRI K. MAHINDRA
SHRI RAMKRISHNA BAJAJ

Eastern Area

SHRI B. N. MOOKERJEE
SHRI P. K. ROY
SHRI K. K. BIRLA
SHRI A. K. SEN

Northern Area

SHRI C. P. N. SINGH
SHRI CHARAT RAM
RAJA BAJRANG BAHADUR SINGH
SARDAR AMAR SINGH
SHRI BISHAMBER DAS

Southern *Area*

SHRI V. S. TYAGARAJA MUDALIAR
SHRI V. EMBERUMANAR CHETTY
SHRI K. GOPALAKRISHNA
SHRI C. RAMAKRISHNA
SHRI M. K. RAMCHANDRA

OFFICES/BRANCHES OF THE ISSUE AND BANKING DEPARTMENTS

ISSUE DEPARTMENT

BANGALORE

BOMBAY

BYCULLA (BOMBAY)

CALCUTTA

KANPUR

MADRAS

NAGPUR

NEW DELHI

BANKING DEPARTMENT

BANGALORE

BOMBAY

BYCULLA (BOMBAY)

CALCUTTA

KANPUR

MADRAS

NAGPUR

NEW DELHI

LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.

August 20, 1968

Sravana 29, 1890 (Saka)

The Secretary to the Government of India,
Ministry of Finance,
Department of Economic Affairs,
NEW DELHI.

Dear Sir,

In accordance with the provisions of Section **53(2)** of the Reserve Bank of India Act, I forward herewith the following documents:-

(1) A copy of the Annual Accounts of the Bank for the year ended the 30th June 1968 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's Auditors ;

and

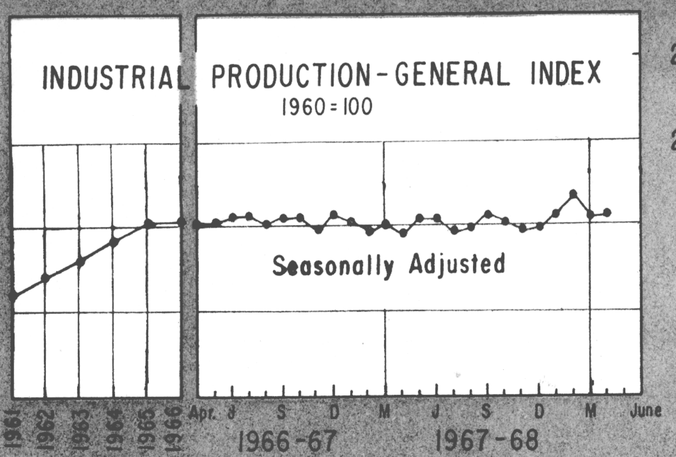
(2) two copies of the Report of the Central Board on the working of the Bank during the year ended the 30th June 1968.

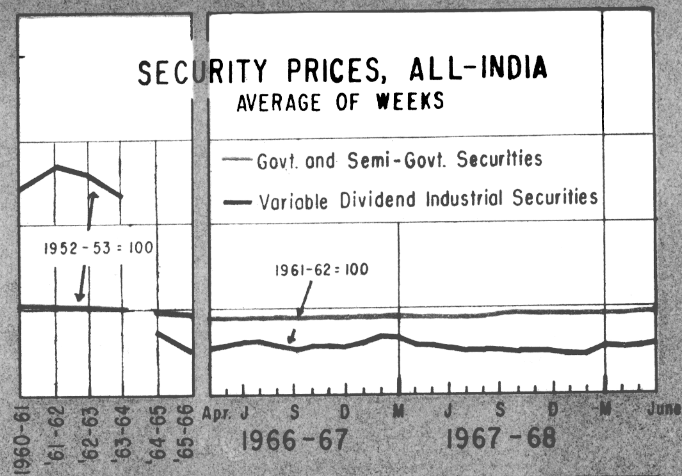
Yours faithfully,

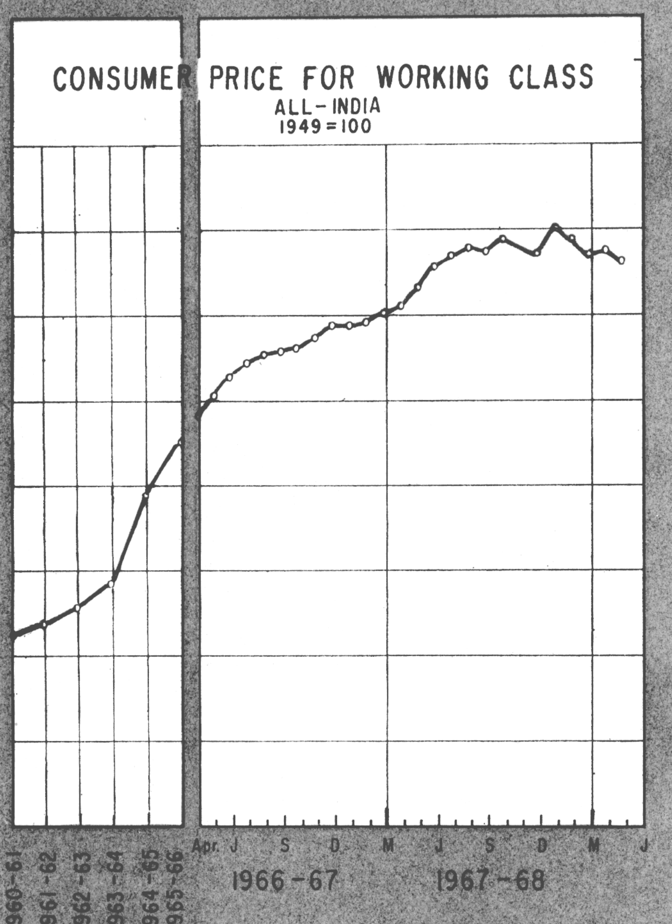
L. K. JHA
Governor.

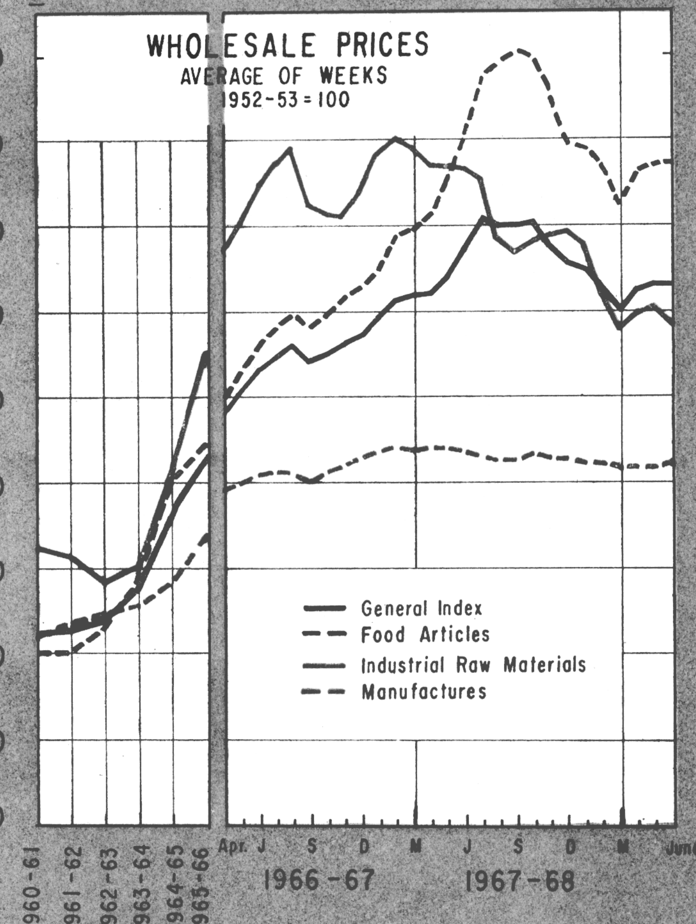
SELECTED ECONOMIC INDICATORS

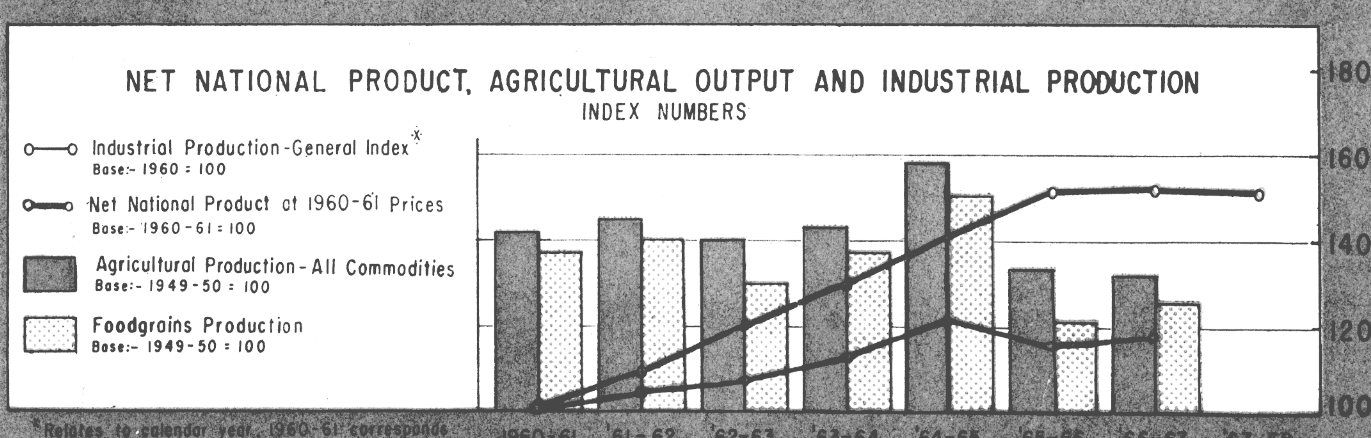
INDEX NUMBERS











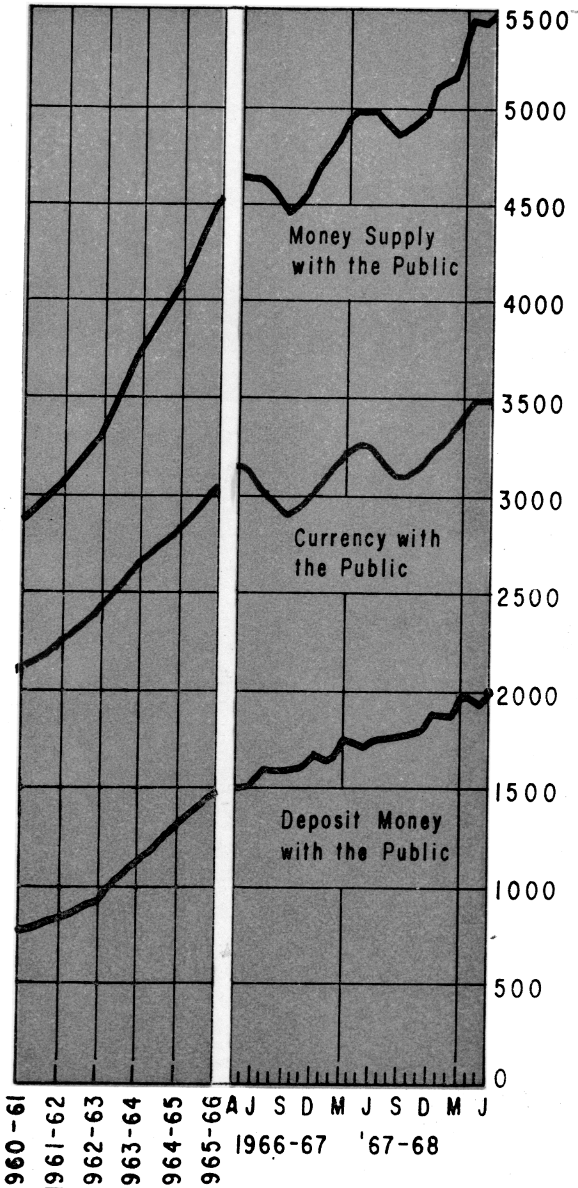
*Relates to calendar year, 1960-61 corresponds to 1960 and so on.

SELECTED ECONOMIC INDICATORS

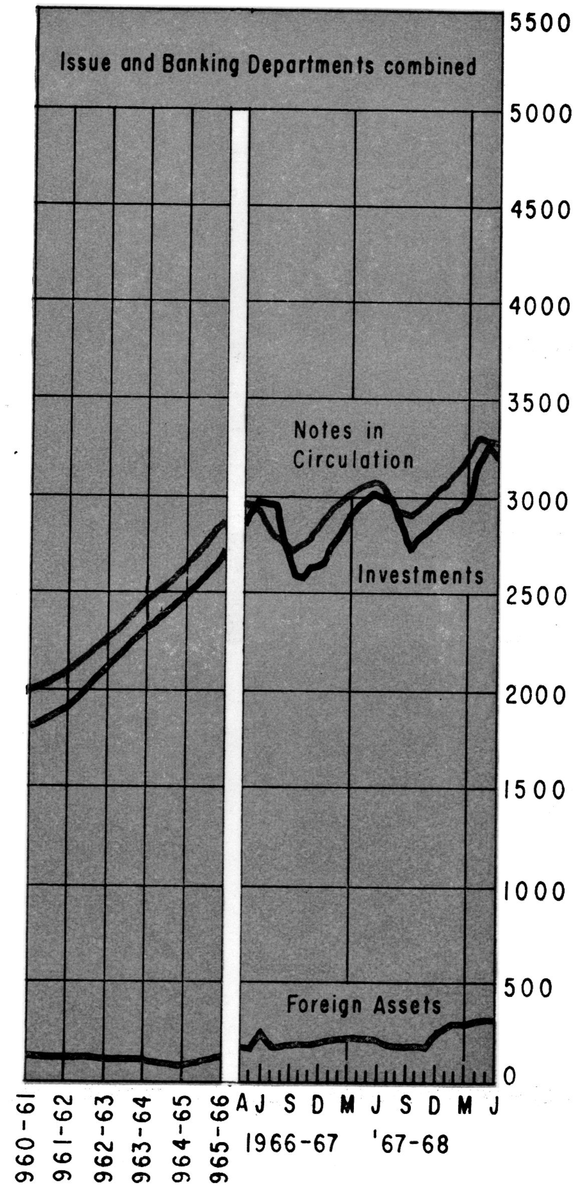
AS ON LAST FRIDAY

(CRORES OF RUPEES)

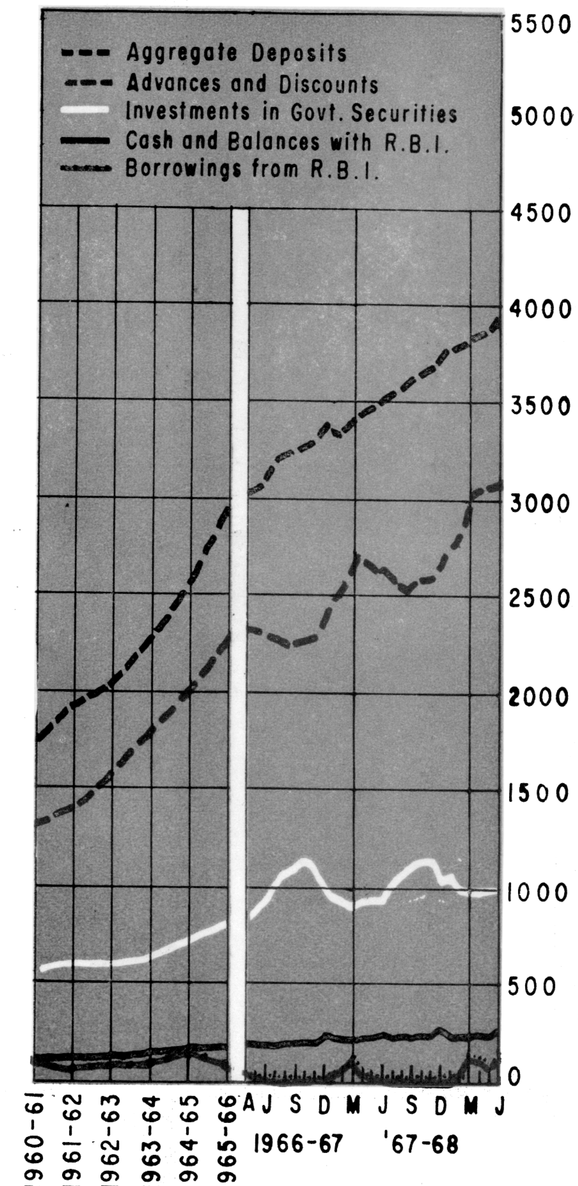
MONEY SUPPLY



RESERVE BANK OF INDIA



SCHEDULED COMMERCIAL BANKS



A = April J = June S = September D = December M = March

REPORT OF THE CENTRAL BOARD OF DIRECTORS OF THE RESERVE BANK OF INDIA

For the Year July 1, 1967—June 30, 1968

I. OVERALL TRENDS IN THE ECONOMY

After two years of successive droughts and serious imbalances in the economy, the year July 1967—June 1968 was characterised by a marked improvement in the supply situation both in respect of foodgrains and of industrial raw materials, a reversal of rising trend in prices and an improvement in the balance of payments position. Industrial production remained sluggish over the first half of the year, but it has begun to pick up since then. National income at constant prices during the fiscal year 1967-68 is estimated to have risen by 9.3 per cent as against a rise of only 1.7 per cent in 1966-67 and a decline of 4.7 per cent in 1965-66. The external accounts situation too showed some improvement attributable partly to a reduction in imports and partly to better export performance. The foreign exchange reserves benefited from this as well. as from other special factors, such as a net drawing of $32 million from the I. M. F. and special deposits of $46 million by the I.B.R.D. and rose as a result by $104 million in contrast to a sharp fall of $160 million during the year July 1966—June 1967. With the greater room for manoeuvre in the economy the accent of policy shifted from control and correction of inflationary pressures to the promotion of recovery,. especially in the industrial sector affected by recessionary demand conditions. These developments had a favourable impact on the capital market which showed a somewhat better tone.

2. The production of foodgrains in the crop year 1967-68 is estimated to be higher by about 29 per cent over that in the previous year. While the satisfactory monsoon has been a major contributory factor the result is also related to the additional production potential built up in recent years through spread of new techniques of cultivation, particularly the High-Yielding Varieties Programme and the Intensive Agricultural District Programme, and the larger availability of inputs like seeds, fertilizers, and pesticides. This is reflected in the fact that foddgrains production in 1967-68 was 8 per cent higher than in 1964-65 when weather conditions, on the whole, were even more favourable. The industrial sector which has been sluggish since end-1965, continued to remain so till the end of December 1967. Index of Industrial Production (Base: 1960=100) for January-April 1968 shows, however, that the level of output was higher by a little over 6 per cent than in the corresponding period of last year. This improvement in the growth rate is attributable to better availability of raw materials, revival of demand and measures taken to stimulate industrial production. The major industries which contributed to the rise in growth rate were cotton textiles, vanaspati, industrial machinery, aluminium manufactures, fertilizers and paper and paper products. With the special measures taken to promote exports, the export demand for industrial products such as cotton textiles, iron and steel and some items of engineering goods has gone up.

3. Monetary resources (that is, currency with the public and aggregate deposits of banks) increased during the year by about 11.0 per cent as against a rise of 8.3 per cent during the previous year. The major factor contributing to this expansion was the extension of substantial credit by banks for food procurement operations. Bank credit to Government and a favourable turn in foreign exchange reserves also had a significant expansionary impact. A close watch was kept on the situation to ensure that the growth in liquidity was not materially higher than that in real output as happened last year when liquidity had increased by 8.3 per cent as against a marginal rise of 1.7 per cent in national output. As a result, there was a considerable easing off of the pressure from the monetary side on available supplies. The

Index Number of Wholesale **Prices** (*Base*: **1952-53=100)** showed a decline of 6. I per cent over the year July **1967—June** 1968 in contrast to sharp rises of 15.8 per cent and 18.3 per cent in 1966-67 and 1965-66 respectively. About 55 per cent of the decline in prices was on account of food articles and 54 per cent because of industrial raw materials and manufactures. The **sizeable** decline in the price level during the busy season of 1967-68 stands out in favourable contrast to the price increases which took place in corresponding periods during the previous two years. The extent of the decline was even larger than in 1964-65, a year of very good crops. Since the last week of March 1968 prices have tended to edge up but the rate of increase is much slower than is usually the case at this time of the year and towards the close of the year the Index remained around 204, which was about 6 per cent lower than the level a year ago.

4. The external payments situation also registered a modest improvement. There was a swing in the foreign exchange reserves from a decline of **$** 160 million in the year July **1966—June** 1967 to an increase of **$** 104 million in the year under review. Apart from net drawings from the I.M.F. and the special deposits from the I.B.R.D., the improvement in foreign exchange reserves was attributable to a decline in imports and a rise in exports. A substantial fall in food and raw jute imports consequent on increased domestic production was responsible for a reduction of 5 per cent in total imports during the financial year 1967-68. The increase in exports, though modest (3.6 per cent), was significant insofar as it represented a reversal of the declining trend of the post-devaluation period. The bulk of the increase in exports took place under non-traditional items. Debt servicing continued to be a strain on reserves but its impact was to some extent lessened by the rescheduling of debt as well as re-financing by some members of the Aid-India Consortium and the special deposits from the I.B.R.D.

5. Economic policies in the first quarter of the year, when the price situation was difficult, were geared primarily to the control of inflationary pressures, ensuring equitable distribution of foodgrains and providing incentives on a selective basis for increased production. With the easing of pressure on prices the accent of policy shifted to the promotion of a more broad-based revival of the economy. The stress on agricultural improvement remains ; the aim is to secure continuing gains in production through the extension of the area under High-Yielding Varieties and other Programmes, adoption of scientific methods of cultivation and better water management. The support prices of agricultural commodities have been raised in order to provide an adequate incentive to the farmer for increasing production. It has also been decided to build up a **sizeable** buffer stock of foodgrains through procurement and imports. The total procurement of foodgrains during the year **upto** the end of June 1968 amounted to 5.8 million tonnes. During the same period, the purchases made by the Food Corporation of India were 3.7 million tonnes.

6. In order to stimulate industrial production, licensing restrictions were further relaxed and credit facilities enlarged. Fiscal and monetary measures were taken during the year to promote savings, investment and exports. The Bank rate was reduced from 6 per cent to **5** per cent on March 2, 1968. Action was also taken to reduce the level of interest rates on bank advances and deposits.

7. A major development in the institutional field during the year was the enunciation by Government of a policy of "social control" of commercial banks. The object of this move is to facilitate a more purposeful distribution of bank credit and to correct the excessive association of banks with particular. industrial or business interests. The National Credit Council, constituted in December 1967, is designed as a forum to assist the Government and the Reserve Bank in the task of allocating credit among the different sectors in conformity with the objectives of planning. The Deputy Prime Minister and Minister of Finance presides over the Council and its membership includes representatives from commercial banks, the co-operative sector, large, medium and small-scale industries, agriculture, trade including export trade and certain professional groups. The Council is to study continually the credit requirements of various sectors, the resources available and the ways and means of augmenting them and

provide guidelines for action by the banking system. Legislation designed, ***inter alia***, to secure a reconstitution of the Boards of Directors of the Indian commercial banks, appointment of professional bankers as full-time Chairmen and prohibition of loans and advances to Directors and their concerns has been taken in hand, Each foreign bank would be expected to set' up an Advisory Board consisting of Indians (with the exception of the Chief Executive Officer when he is a member) on lines similar to those prescribed for Indian banks. Meanwhile, both the major Indian banks and foreign banks have taken steps towards this end.

Output, Prices and Policy Measures

8. The expected overall increase in agricultural output in 1967-68 was 20 per cent. Although this represented in part a recovery from the low level of the previous drought year, it would still compare favourably with the previous peak level reached in 1964-65. Foodgrains output, estimated at 95.6 million tonnes, that is, some 21 million tonnes more than in 1966-67 was 29 per cent higher than in the previous year and about 8 per cent above the 1964-65 level. The rise in the production of commercial crops with the singular exception of sugarcane was equally satisfactory. The output of raw jute is estimated at 6.4 million bales which is about 20 per cent higher than in the preceding year. The output of cotton is also estimated to show a rise of the same order. The output of major oilseeds is estimated to have recorded a sizeable increase over the previous year. Official estimates of groundnut production are placed at 5.8 million tonnes as against 4.4 million tonnes in the previous year. The substantial improvement in agricultural output during 1967-68 was the result of the favourable weather conditions during the year, the additional production potential built up during the last few years, extension of area under the new agricultural strategy and the spread of new techniques of cultivation.

9. The deceleration in the industrial growth rate, which had set in towards the end of 1965, continued during the first half of the year. This was due to the persistence of supply bottlenecks for some agriculture-based industries and the slackness in demand for a number of capital goods and consumer goods industries. The first four months of 1968 (i.e. January-April 1968) witnessed a recovery, the Index of Industrial Production (*Base* : 1960= 100) showing a rise of 6.4 per cent over the corresponding period of 1967. The pick-up in the growth rate reflects the impact of incentives provided by the Government for stimulating industrial production and of the improved supply situation of industrial raw materials, spares and components. The overall effect of reduced output during the first six months (July-December 1967) and the improvement during the following four months has been to raise the Index for the period July 1967 to April 1968 marginally by about one per cent, i.e., the same rate of growth as in the corresponding period of the previous year.* With this overall picture, several important industries such as fertilizers, petroleum products, aluminium manufactures, radio receivers, paper and paper products have shown sizeable increases.

10. The improvement in the supply of foodgrains and industrial raw materials was duly reflected in the price level. The persistent upward trend in prices of the two previous years was halted and reversed. Over the period July 1967—June 1968, the wholesale prices index (Base: 1952-53= 100) registered a fall of 6.1 per cent as compared with increases of 15.8 per cent and 18.3 per cent during the preceding two years of 1966-67 and 1965-66, respectively. Prices of industrial raw materials declined by 17.5 per cent and those of "food articles" and "manufactures" by 5.8 per cent and 1.9 per cent, respectively. On the other hand, consumer prices have not fallen so far. In fact, the All-India Consumer Price Index for Working Class (*Base*: 1949=100) showed a rise, though of a smaller order, of 1.4 per cent over the year July-June as compared with 14.1 per cent during the previous year.

11. Among food articles, rice prices showed an initial decline with the arrival of the crop in the market ; but they have been rising

*** Recently, the Central Statistical Organization has revised the Index of Industrial Production (Base : 1956=100) to base 1960= 100, with many structural changes therein. According to the original Index, there was-an increase of 1·4 per dent in the calendar year 1967.**

consistently since the end of December 1967. Over the year under review they showed a rise of 4.2 per cent. Prices of wheat, jowar and bajra declined by as much as 17.3 per cent, 12.3 per cent and 19.4 per cent, respectively. Pulses and edible oils recorded substantial declines in their prices (34.2 per cent and 34.4 per cent). Only two commodities of common consumption, viz., sugar and gur showed increases of 14.7 per cent and 10.3 per cent, respectively. The main factor behind the rise in the prices of these commodities was the stagnant sugarcane output. The price index for sugar rose also because of the partial decontrol of sugar. Among industrial raw materials, prices of oilseeds declined by 37.2 per cent, while those of raw cotton and raw jute increased by 12.4 per cent and 14.6 per cent, respectively. Raw cotton prices rose largely due to heavy buying by mills to build up their stocks which had been depleted earlier. In the case of raw jute, prices declined initially and even fell below the support prices fixed for the 1967-68 season. In the latter half of the year, however, they rose again as a result, among other things, of purchases by the S.T.C. and the Jute Buffer Stock Association. Among 'manufactures', the price index for which recorded a fall for the first time since 1960, intermediate products declined by 12.2 per cent, while finished products recorded a nominal rise of 0.4 per cent.

12. The emphasis of economic policy in respect of agriculture has been on securing progressive increases in output. The key elements in this policy have been: extension of the High-Yielding Varieties and other similar Programmes, improvement in availability of inputs, extension of the intensive development approach to pulses and other food crops as well as commercial crops and the fixation of support prices for both food and commercial crops at levels remunerative to the agricultural producer.

13. With a view to meeting instability arising out of wide fluctuations in agricultural production from year to year both in respect of supplies and prices and also to progressively reduce the country's dependence on imports of agricultural commodities, it has been decided as a first step to build up a buffer stock of foodgrains of about 3 million tonnes this year. It is also proposed to import 7.5 million tonnes of foodgrains in 1968 to be used partly for stockpiling. Procurement programmes have been intensified and a target of 7 million tonnes for kharif and 2 million tonnes for rabi has been fixed. Total procurement amounted to 5.8 million tonnes during the year upto end-June 1968. The Food Corporation of India has been assigned a major role in the procurement drive. The system of zonal restrictions on movement of foodgrains and of public distribution was generally maintained. As at the end of December 1967, a little more than half the total population was covered by statutory and informal rationing.

14. In pursuance of the policy of ensuring remunerative prices to the farmer, minimum support prices of a number of agricultural commodities-foodgrains and non-foodgrains -were revised upwards. In respect of cotton, statutory price controls were removed, but support prices at higher levels than the previous floor prices were announced. For jute also, minimum support prices for 1967-68 season were raised. To stabilise raw jute prices, the Jute Commissioner issued minimum purchase quotas to mills and the Jute Buffer Stock Association. The State Trading Corporation also entered the market and made purchases. A number of measures were taken to stimulate the production of sugar. The minimum price of sugarcane was raised in order to arrest the declining trend in the area under this commercial crop and also to enable the sugar industry to get adequate supply of cane. The partial decontrol of sugar which was introduced from 1967-68 season envisaged freedom for the sugar producers to dispose of 40 per cent of their production during 1967-68 season in the free market, subject to issue of periodical release orders by the Government. Besides, the basic excise duty on sugar was reduced the benefit of which was given to the consumer. A rebate was also allowed in the excise duty on sugar production in 1967-68 which is in excess of 80 per cent of the production in the 1966-67 season. Alongside the incentives given for increasing domestic production, substantial imports were made also of certain industrial raw materials like raw cotton and vegetable oils in order to feed the requirements of domestic industries.

15. Despite increases in supplies of raw materials as a result of import liberalisation and in the latter part of the year better crop outturn, there was no evidence of recovery from industrial recession for the major part of the year. The recession set in towards the end of 1965 and the rate of growth of industrial output declined from an average of 7 to 8 per cent during the decade 1955-65 to only 2 per cent in 1966 and about one per cent in 1967.

16. For quite some time now, a wide range of industries has been experiencing recessionary conditions. The stagnation in public sector outlays on the Plan and the adverse impact of inflationary pressures and shortages on private investment resulted in a reduction in fresh orders for a number of capital goods industries. The spread effects of these cuts were felt over a wide sector. Some relief was provided to recession-affected industries through increase in exports, particularly of the non-traditional items. The increase in exports was, however, not adequate to induce effective utilisation of capacity. Among the consumer goods industries, cotton textiles, which has a sizeable weightage in the index of industrial production, continued to have serious difficulties in the early part of the year both on account of shortage of raw cotton following two consecutive droughts and the lower off-take of cloth consequent upon a fall in real incomes of a large section of the population. The acute shortage of raw materials led to enforced additional holidays for mills. Since September 1967, however, with the improvement in the availability of raw cotton, the industry has resumed normal working. Production figures for the first four months of 1968 indicate a substantial improvement in cotton textile output.

17. There are, however, a few industries which have escaped recessionary trends as their products do not suffer from demand limitation. There is, for instance, a growing demand for power and at the same time some power projects taken up earlier have fructified. As a result, all industries related to power generation and distribution like electricity, aluminium conductors, electrical goods, electric lamps and power transformers have done well. The other industries whose output has steadily grown are the industries where there is considerable scope for import substitution. Nitrogenous fertilizer, petroleum and petroleum products are in this category. In view of the high level of demand for their products, growth in capacity would largely determine the rate of increase in output. The scooter industry, where output has risen, is a case of considerable pent up demand for this type of transport and the limitation here also is productive capacity.

18. Recently, there are signs of a revival in industrial output. The index for January-April 1968 shows a 6.4 per cent increase over the corresponding period last year largely as a result of an increase in output of industries like fertilizers, cotton textiles, tea and vanaspati. On the whole, while the industries which had suffered because of insufficiency of raw materials have begun to look up, there are still a number of units in the capital goods producing sector which continue to suffer from a low level of demand.

19. In view of the continuing recessionary conditions in industry, several measures were taken to promote recovery. The process of liberalisation of the provisions of licensing for industries, which was initiated in May 1966, was carried forward during the year under review. The Government decided in January 1968 to delicense the manufacture of agricultural tractors and power tillers ; existing units have also been allowed to expand or diversify production without any fresh licence. In December 1967, conditions for diversification of output involving foreign exchange were relaxed, enabling the industries to import raw materials even if it involved additional foreign exchange outlay. In July 1967, price and distribution controls on all categories of coal (except distribution controls on coking coal required by metallurgical consumers e.g. steel plants) were removed. Price and distribution controls on all commercial vehicles (3 tonnes and above) and jeeps were also lifted in stages. With effect from May 2, 1968, the decontrolled part of cloth production by textile mills has been raised from 60 per cent to 75 per cent. Besides, the Government also granted 2 per cent increase in the prices of controlled varieties of cloth, though almost the entire increase would be absorbed by excise duty adjustments so that the consumers would not have to pay a higher price.

Price control on all varieties of paper (which was introduced in January 1960) was removed with effect from May 6, 1968, However, controls over the distribution and prices of cement were reimposed with effect from January 1, 1968. Since the capital goods and engineering sectors of the industry were hard hit by the slackening of demand, decision was taken to revive demand by placing advance orders on private firms by the public sector and liberalisation of controls over bank lending against the security of products of engineering industries.

Budgetary Operations

20. The resources position of the Central and State Governments continued to be strained during the fiscal year 1967-68. Reflecting the recessionary trends in the economy budgetary receipts of the Union Government fell **sizeably** short of expectations under tax receipts and small savings. In the context of the steep fall in resources, efforts were made to keep down some outlays. Among other things, the provision in the Union budget for the Annual Plan of 1967-68 was brought down from the budgeted level of Rs. 1826 crores to Rs. 1809 crores. Further, the Union Government abolished/reduced the subsidy on the distribution of certain foodgrains. The subsidy on distribution of fertilizers had already been withdrawn during the previous year. Even so, aggregate disbursements exceeded budget provisions owing to larger cash outgo on account of enhancement of dearness allowance for Central Government employees, provision for larger non-Plan grants to States affected by floods, cyclone and earthquake, and larger loans to States and Departmental and other undertakings to meet the shortfall in their internal resources. In the result, in place of the nominal overall surplus of Rs. 1 crore envisaged in the budget for 1967-68, an overall deficit of Rs. 218 crores is now estimated.

21. Resources of States were also adversely affected by the recessionary situation in the economy. In particular, resources mobilised by the States from taxes levied by them fell short of budget anticipation by Rs. 5 crores. States, like the Centre, also curtailed the scale of their developmental activity. However, additional expenditure on account of grant of enhanceddearness allowance to their employees and famine relief added to their burden. As a result, some States resorted to further overdrafts from the Reserve Bank. The Central Government had to step up its special loans to these States to enable them to clear their overdrafts. The total special assistance provided by the Centre in this form amounted to Rs. 118 crores during the fiscal year 1967-68 as compared with Rs. 108 crores during 1966-67.

22. In accordance with the revised procedure to deal with the States having persistent overdrafts with the Reserve Bank, the Bank issued formal notices to such States on four occasions between March and July 1967. The overdrafts outstanding at the end of March and June 1967 were cleared by the States out of special loans advanced by the Centre. In view of the abnormal conditions prevailing in the States badly hit by the drought, the Bank refrained, for sometime after July 1967, from issuing formal notices to State Governments which were overdrawn. Nevertheless, the Bank kept up pressure on the concerned State Governments and the question was reviewed at frequent intervals with the representatives of these States individually, The overdrafts outstanding at the end of March 1968 were reduced with special assistance provided by the Centre. But the overdrafts again rose **sizeably** soon after the commencement of the current fiscal year. The Reserve Bank therefore resumed its earlier procedure of issuing formal notices to the States in default. The position of the States, whose accounts are overdrawn, is being constantly reviewed in the light of this procedure. The overdrafts have been cleared at the end of June 1968. In terms of total overdrafts over the year July **1967—June** 1968 cleared by the Centre, there has been some improvement over the previous 12 months.

23. The budget of the Union Government for fiscal year 1968-69, presented against the background of an expected revival of the economy, reflects the policy objective of providing through fiscal incentives further stimulus for recovery. Aggregate receipts of the Centre anticipated at Rs. 4703 crores (including the yield from the additional tax measures proposed in the budget) fall short of the budgeted disbursements at Rs. 4992 crores (including

miscellaneous transactions), leaving a sizeable overall deficit of Rs. 289 crores. As compared with 1967-68 (revised estimates) both receipts and disbursements are placed lower by Rs. 78 crores and Rs. 89 crores, respectively. Although revenue receipts are estimated to exceed the 1967-68 (revised estimates) level by Rs. 181 crores (Rs. 141 crores under tax revenue arid Rs. 40 crores under non-tax revenue), the excess will be more than offset by the expected shortfall under capital receipts. Net receipts from internal market loans are placed lower than in 1967-68 by Rs. 32 crores. The outlook in regard to inflow on account of foreign loan assistance is also not as bright as it was during 1967-68.

24. As regards disbursements, provision for direct disbursements of the Union Government on both developmental and non-developmental items has been' stepped up over the levels for 1967-68 (revised estimates). The provision on the Annual Plan for 1968-69 has been stepped up moderately by Rs. 50 crores to Rs. 1859 crores as compared with the outlay of Rs. 1809 crores on the Annual Plan of 1967-68. In addition, a provision of Rs. 140 crores has been made for buffer stocks of foodgrains during 1968-69.

25. The yield from additional taxation proposed by the Union Government for 1968-69 amounts to Rs. 119 crores including changes in postal and telegraph rates and in railway passenger fares and freights. The Union Budget proposals for 1968-69 were designed mainly to promote savings and investment in the economy, to raise agricultural productivity and expand export earnings. Thus, in the field of personal taxation, the Income-tax Annuity Deposit Scheme has been discontinued and provision for taxation of dividend income liberalised. In regard to the corporate sector, apart from abolition of tax on excess distribution of equity dividend and the reduction of the rate of surtax, the Finance Act has provided, *inter alia*, for liberal deduction from taxable income of specified categories of expenditure incurred in connection with raising agricultural output and promotion of exports, and for exempting from income tax, the whole income derived by an Indian company by way of royalties, fees, etc., from abroad. The bulk of the additional yield from tax proposals is expected from proposals in regard to excise and import duties. The items chosen for additional/new levies of excise are either luxuries or articles of inessential consumption, or items where it is desirable to restrict domestic consumption in the interest of larger exports. Likewise, items covered by the additional import duties are either luxury items or products where indigenous output has been showing a rising trend.

26. In the case of State Governments, a sizeable improvement in resources is anticipated in the current fiscal year. At the same time, States have also stepped up the scale of their outlays on both developmental and non-developmental heads. Consequently, the budgeted overall deficit of Rs. 99.6 crores (at existing levels of taxation) is only marginally lower than the deficit of Rs. 102.6 crores for 1967-68. Including the States' share of Rs. 15 crores in Centre's additional mobilisation through its budget proposals, the additional tax proposals made by five States, and the economies in expenditure proposed by two States, the overall deficit will be brought down to about Rs. 67 crores. Of this Rs. 9.5 crores is expected to be covered by net sale of securities in the cash balance investment account. Both for the immediate future and over the longer run, additional mobilisation of resources by States is imperative if economic growth is to be fostered.

27. Net resources mobilised by the Centre and States through market borrowings were on a reduced scale during the fiscal year 1967-68 than during the preceding year. This was mainly due to the fact that the amount of maturing loans due for repayment by States was sizeably larger (Rs. 51 crores) than during 1966-67 (Rs. 2 crores). The Union Government floated in July 1967 three cash-cum-conversion loans, viz., a 5-year 4½ per cent loan 1972, a 15-year 5 per cent loan 1982 and a 25-year 5½ per cent loan 1992 for an aggregate amount of Rs. 350 crores. Subscriptions amounted to Rs. 350.5 crores, of which Rs. 131 .O crores were in cash and Rs. 219.5 crores in the form of conversion. Net market loans of the Centre, after allowing for cash repayments on account of matured loans, amounted to Rs. 94 crores, the same as expected in the budget but Rs. 14 crores

more than the amount realised during 1966-67. The State Governments floated in September 1967 loans for an aggregate amount of Rs. 114.75 crores with yields ranging from 5.87 per cent to 6.11 per cent. Subscriptions to the loans amounted to Rs. 125 crores (including Rs. 7 crores by way of conversion) the whole of which was accepted. Allowing for cash repayments, net market loans of States amounted to Rs. 74 crores during the year as against Rs. 97 crores during 1966-67. Thus, net market loans of the Centre and States worked out to Rs. 168 crores for the fiscal year 1967-68 as compared with Rs. 177 crores during 1966-67.

28. The Union budget for 1968-69 has taken credit for gross market borrowings of Rs. 300 crores. Allowing for repayments of maturing loans, net market loans are estimated at Rs. 61 crores. The Central Government issued on May 11, 1968 the $5\frac{1}{2}$ per cent loan 1995 at par for an aggregate amount of Rs. 175 crores. Facilities for conversion were offered in respect of $3\frac{3}{4}$ per cent National Plan Bonds Fifth Series ($3\frac{3}{4}$ per cent loan 1968). Total subscriptions to the loan aggregated Rs. 178.56 crores-Rs. 117.75 crores in conversion and Rs. 60.8 1 crores in cash. Allowing for cash repayments of the matured loan, net receipts from the market loan amounted to Rs. 21.92 crores. The Government announced on July 5, 1968 the issue of another cash-cum-conversion loan, namely, $4\frac{1}{4}$ per cent loan 1975 for a total amount of Rs. 135 crores. The maturing 3) per cent loan 1968 was offered for conversion at par into the new loan. The subscription list opened on July 26 and closed on the same day. Total subscriptions amounted to Rs. 142 crores, of which Rs. 76 crores were in cash and Rs. 66 crores were conversions: the entire subscription was accepted. Allowing for cash repayment of the unconverted portion of the $3\frac{1}{2}$ per cent loan 1968 and repayment on account of $4\frac{1}{4}$ per cent National Defence Loan, l-968 (Rs. 10.43 crores) and the 4 per cent Hyderabad Development Loan, 1968 (Rs. 2.18 crores) which mature during September-October 1968, the net market borrowing of the Centre for 1968-69 would aggregate Rs. 81 crores (including Rs. 22 crores raised in May referred to above) as against Rs. 61 crores envisaged in the budget for 1968-69.

29. The recovery in the gilt-edged market noticed in the preceding year gathered further momentum during the year under review. Open market operations of the Reserve Bank continued to be guided by the objectives of creating orderly market conditions and rationalising the yield pattern by correcting distortions in it. In pursuance of this, the Reserve Bank has, from time to time, made adjustments in its buying and selling rates. Prices of most scrips have been well maintained and there has been some welcome broadening of activity in the gilt-edged market. The Index of Government and semi-Government securities (Base: **1961-62=100**) rose from 94.7 at end-June 1967 to 96.3 by the week ended March 2, 1968. Consequent on the reduction in the Bank rate on March 2, 1968, prices in the gilt-edged market firmed up further, the index rising to 98 .0 by end-June 1968. The Bank has continued to be a net seller of securities in the market.

30. Net collections of small savings aggregated Rs. 122 crores during the fiscal year 1967-68. At this level, they showed a shortfall relatively to anticipations in the budget estimates (Rs. 130 crores), although as compared with 1966-67 (Rs. 118 crores) they were somewhat higher. To provide a fillip to the small savings movement, fresh incentives were offered during the year. The rates of interest on certain media were stepped up so as to induce investors to hold investment till maturity. However, following the reduction in the rate of interest offered by commercial banks on savings deposits, the rate on Post Office Savings Bank Deposits was reduced from 4 per cent to 3) per cent. The movement was made more broadbased by the addition of a new instrument viz., the 5-year fixed deposit scheme with (tax free) interest of 5 per cent, payable with the deposit on maturity. Mention may also be made of the institution of a Public Provident Fund Scheme, mainly for the benefit of self-employed persons who could not contribute to any recognised provident funds under the Provident Fund Act, 1925. Contributions to the Fund will enjoy the same income-tax and wealth tax benefits now granted to contributions to recognised provident funds and to savings in the form of insurance premia. The Scheme has come into operation from July 1, 1968.

31. The general deterioration in the economic situation during the last two years caused a postponement of the implementation of the Fourth Five-Year Plan which was due to commence in 1966-67. The outlays in the public sector on the "Annual Plans" of 1966-67 and 1967-68 at Rs. 2141 crores and Rs. 2205 crores, respectively, fell marginally short of the targets postulate'd for these years (Rs. 2145 crores and Rs. 2246 crores). For 1968-69, an outlay of Rs. 2337 crores (including Rs. 140 crores on account of buffer stock of foodgrains) has been targeted. It has been decided to launch the Fourth Five-Year Plan during 1969-70 and the formulation of the Plan is in an advanced stage.

Private Corporate Sector

32. Although there was improvement in the general economic situation for this year as a whole, there was no clear upward trend in actual investment. The capital issues consents rose sharply but actual capital raised showed only marginal rise and the sanctions as well as the disbursements relating to the assistance by the term. lending institutions actually declined.

33. The consents (including no objection certificates) granted to non-Government public limited companies for the issue of fresh capital through shares and debentures (excluding bonus and miscellaneous issues) more than doubled from Rs. 67 crores* granted during 1966 to Rs. 150.6 crores* during the year ended December 1967. Security-wise, consents for equity issues rose from Rs. 37 crores in 1966 to Rs. 93.3 crores in 1967 and those for debentures and preference shares rose from Rs. 24 crores and Rs. 6 crores respectively, in 1966 to Rs. 40.1 crores and Rs. 17.2 crores, respectively in 1967. Consents for bonus issues which amounted to Rs. 147 crores in 1966 following the abolition of bonus issue tax on companies and of the notional capital gains tax on bonus shares in the hands of shareholders, declined steeply to Rs. 47.8 crores during 1967.

34. There was also a modest revival in the new issue activity during 1967-68 (April-March) and the issue of capital through prospectus was higher as compared with 1966-67 mainly in equity. There was an improvement in the public response to a certain extent as indicated by a fall in the proportion of the amount devolved on the underwriters, though the support from the institutional investors continued to be substantial. Further, capital (excluding bonus and miscellaneous issues) raised by non-Government companies, increased from Rs. 72.4 crores in 1966 to Rs. 81.4 crores in 1967. The equity capital raised recorded an increase from Rs. 49.7 crores in 1966 to Rs. 53.0 crores in 1967 and debentures from Rs. 15.3 crores to Rs. 20.9 crores during the same period.

35. The stock market remained depressed for the greater part of the year July 1967—June 1968 owing among other factors, to the persistence of supply shortages, and of recessionary conditions in important sectors of industry, accompanied by labour unrest in certain parts of the country. However, with the easing of the supply situation following the record level of agricultural production, the fiscal reliefs announced in the Union budget for 1968-69 in February 1968 to the corporate sector and the reduction in the Bank rate from 6 per cent to 5 per cent with effect from March 2 favourably influenced the market sentiment. Reflecting the mood of the stock market in these two phases, the Reserve Bank Index of Prices of Variable Dividend Industrial Securities (*Base :* 1961-62 = 100) declined steadily from 77.5 on July 1, 1967 to reach a low of 73.2 by mid-February 1968 ; subsequently, a recovery in share prices set in, raising the Index to 81 .O by the close of the year, although there was a temporary reaction between March 9 and April 13 owing to the pressure on reserve currencies and the consequent uncertainties in the international financial market. Over the year as a whole, the Index recorded a net rise of 4.5 per cent in contrast to the net decline of 4.0 per cent in the preceding year.

36. The financial assistance to the corporate sector provided by the term-lending

*** Excluding private limited companies, banking and insurance companies and provident societies incorporated as companies. Since November 4, 1966 these companies have been exempted from the operation of Capital Issues Control altogether and they no longer require the prior sanction of the Controller of Capital Issues,** *while issuing* **capital, except in case of bonus issues ; hence they are not covered in the data for both the years.**

institutions declined during 1967-68 (April-March) compared with the preceding year, despite the additional facilities provided during the year for concessional finance. Applications for new assistance also declined. Aggregate financial assistance sanctioned by term-lending institutions* in the form of loans, underwriting and direct subscription to shares and debentures declined steeply from Rs. 122 crores in 1966-67 (April-March) to Rs. 86 crores in 1967-68.@ Disbursements were also lower at Rs. 104 crores as against Rs. 124 crores in the previous year. Loans sanctioned and disbursements made by the Industrial Development Bank of India (IDBI) showed a sharp fall from Rs. 55 crores and Rs. 43 crores respectively, in the fiscal year 1966-67 to Rs. 27 crores and Rs. 39 crores, respectively in 1967-68.

37. The IDBI introduced additional financial facilities and concessions during the year (referred to in paras 73-76). Apart from these term-lending institutions, the Unit Trust of India and the Life Insurance Corporation of India continued to assist the private corporate sector through their underwriting and investment operations. The Life Insurance Corporation's investments in shares and debentures at Rs. 193 crores at the end of March 1967 were higher by Rs. 10 crores than their level at the end of the corresponding month in 1966. The increase in investments by the Unit Trust of India amounted to Rs. 15 crores between end-May 1967 and end-May 1968 as compared with Rs. 6 crores in the corresponding period of 1966-67. Under the Credit Guarantee Scheme which was expanded during the year and the new schemes introduced by the State Bank of India, there was a substantial increase in the scale of assistance provided to small-scale industries. The Reserve Bank of India liberalised the terms of refinancing of the increase in advances made by the commercial banks to the small-scale industries. The IDBI took complementary measures in the sphere of term-finance by providing refinance at a concessional rate to the banks and the State Financial Corporations in respect of their loans covered under the Credit Guarantee Scheme.

38. In the bullion market, the ban on forward trading in gold and silver imposed with effect from November 14, 1962 and January 10, 1963, respectively, continued during the year under review. In spot trading, in the Bombay market, silver was in the limelight and showed a persistent uptrend in prices owing to an unprecedented demand in the context of the world uptrend in silver prices following the decision of the U.S. Treasury to abandon the monetary price of $ I. 29 per fine ounce and to restrict sales to domestic industrial users at going market price. The rise in silver prices was very steep from Rs. 353 .OO to Rs. 524 .OO per kg. Gold, on the other hand, presented a steady front and remained by and large unaffected by the 'gold rush' in Europe in March 1968 and by the general uptrend in world prices of the metal following the decision of the European central bankers on a two-tier price system for gold. In fact, the rise in the price of standard gold was modest at Rs. 4.00 per 10 grams from Rs. 157.50 *on* July 7, 1967 to Rs. 161.50 on June 30, 1968.

Money, Credit and Credit Policy

39. Reflecting the higher level of economic activity during the year July 1967—June 1968, money supply with the public rose substantially by Rs. 503 crores (or by 10.1 per cent) as compared with Rs. 312 crores (or 6.7 per cent) in the previous year. The increase in the currency component, and in deposit money, was more or less the same, the former having risen by Rs. 248 crores (Rs. 166 crores in the preceding yea:) and the latter by Rs. 255 crores (Rs. 146 crores in 1966-67). Total monetary resources comprising currency with the public and aggregate deposits of banks expanded during the year by Rs. 764 crores (11.0 per cent) as compared with Rs. 529 crores (8.3 per cent) in 1966-67. The rate of monetary expansion was only slightly higher than the growth rate in real output. Larger credit extension by banks to the private sector was mainly responsible for the increased rate of expansion in money supply. Partly as a result of relaxation of credit policy, net -bank credit to the private sector recorded a substantial increase of 26.8 per cent during

• The institutions included are the IDBI, IFC, ICICI, SFCs and SIDCs.

@ Figures for 1967-68 arc preliminary.

the year as against 18.5 per cent in the previous year. At Rs. 298 crores the increase was ·71 per cent higher than that of the previous year. While the increase in net bank credit to the private sector including credit for food procurement operations was appreciably higher than in the preceding year that to the Government sector (at Rs. 171 crores) was about the same as in the previous year. The Reserve Bank's net credit to Government showed a smaller rise of Rs. 113 crores as against Rs. 182 crores in the previous year ; other banks' credit to Government sector, however, increased by Rs. 58 crores in contrast to a contraction of Rs. 10 crores in the preceding year. An improvement to the extent of Rs. 95 crores in net foreign exchange assets of banks as against a fall of Rs. 24 crores in the previous year, represented a significant expansionary impact on money supply. The marked increase in net foreign exchange assets during the year is attributable, to net drawings from the I.M.F. deposits of I.B.R.D. with the Reserve Bank and an improvement in export earnings along with a noticeable decline in payments for imports. The expansionary effect of the above factors on money supply was offset to some extent by an increase of Rs. 60 crores in net non-monetary liabilities of the banking system (Rs. 32 crores in the previous year). During the 1967 slack season (May-October) money supply showed a smaller contraction of Rs. 63 crores which was only half of that witnessed in the previous slack season. In the 1967-68 busy season which commenced against the back ground of a large increase in agricultural output, money supply recorded the largest ever expansion of Rs. 545 crores (Rs. 456 crores in the preceding busy season), mainly on account of larger credit extension to private sector.

40. The credit situation during the year was marked by a much faster pace of credit expansion than last year accompanied by only a moderately higher rate of deposit accrual which resulted in a steep rise in the credit-deposit ratio from 74.8 per cent to 78.2 per cent. Credit expansion of the order of Rs. 458 crores (17 per cent) was larger by Rs. 121 crores than in the preceding year (Rs. 337 crores or 15 per cent) but the rise in deposits at Rs. 435 crores (12 per cent) was larger by only Rs. 67 crores as compared with the deposit accrual in 1966-67 (11 per cent). The banks, therefore, had a greater recourse to borrowings from the Reserve Bank during the year (Rs. 92 crores as against Rs. 11 crores in the previous year).

41. In the past few years, the accent of monetary policy primarily was on keeping a restraint on the growing inflationary pressures in the economy by minimising the extent and duration of the Reserve Bank's lending to commercial banks. In the operation of this policy, however, the Bank took care to see that the impact of restrictive credit measures was, wherever necessary, softened by a selective liberalisation of credit for productive and developmental activities in the economy. Since August-September 1967 there has been a shift of emphasis towards helping the revival of industrial production, particularly in industries facing recessionary conditions and stimulating the flow of credit to priority sectors like agriculture, small industries and exports. With the bumper harvest of 1967-68, and the fall in wholesale prices, the accent on liberalisation became more pronounced.

42. In the slack season of 1967, credit policy had to be geared initially to reckon with the sustained pressure on prices, particularly of agricultural commodities and a little later, to provide for a larger credit flow to selected industrial sectors which were facing recessionary tendencies. At the beginning of the slack season, therefore, the banks were asked to secure a sizeable reduction in advances against seasonal commodities and also to exercise a strict control over advances against commodities in short supply and unsecured advances. In view of the likely slower pace of deposit expansion in the slack season, the banks were also advised to make positive efforts at deposit mobilisation, utilising the proceeds for investments in Government securities. At the end of July 1967, the Reserve Bank urged banks to enlarge their assistance to agriculture, exports, small-scale industries and engineering industries. With a view to stimulating the flow of bank credit to these sectors, the Reserve Bank, in a circular letter to banks on August 9, 1967, announced a package of liberalising measures. Refinance from the Bank was made available at a preferential rate of 4½

per cent in respect of scheduled commercial banks' packing credit advances to exporters of engineering and metallurgical products and at Bank rate in respect of packing credits to exporters of other products as also in respect of post-shipment export bills in all currencies. Simultaneously ceilings were prescribed for the rates to be charged by banks to the ultimate borrowers at 6 per cent in respect of packing credit advances to exporters of engineering and metallurgical products and at 8 per cent in respect of other packing credit and post-shipment finance ; for rupee usance export bills a ceiling rate of 7.5 per cent was already operative. These ceilings applied irrespective of the banks' resort to Reserve Bank refinace. In line with this policy the I.D.B.I. also liberalised in August and September 1967 the scope of its schemes for refinancing medium-term export credit and rediscounting of bills/promissory notes arising out of sales of indigenous machinery on deferred payment basis. To mitigate the impact of advances to priority sectors on the net liquidity ratio of banks as also the impact of ceiling rates on banks' earnings, the Reserve Bank advised that the increase in a bank's advances to all priority sectors over the average of such advances during July to October 1966 for the slack season and November 1966 to April 1967 for the busy season, would be treated as part of liquid assets of banks while computing the net liquidity ratio. Selective controls on bank advances were continued in respect of advances against commodities in short supply such as foodgrains, oilseeds, vegetable oils, sugar and cotton and kapas.

43. During the slack season of 1967, the overall resources position of scheduled commercial banks was much less comfortable than in the preceding slack season, as reflected in a smaller growth in deposits-Rs. 191 crores as compared with Rs. 265 crores in the previous slack season. In the result, despite the larger credit contraction of Rs. 102 crores as compared with Rs. 86 crores in the 1966 slack season, the credit-deposit ratio at the close of the slack season was 2.2 percentage points higher than that a year ago. Owing to the slower deposit growth, higher increase in cash reserves and larger repayment of loans to the Reserve Bank, the net increase in banks' investments in Government securities during the 1967 slack season was lower at Rs. 218 crores as compared with Rs. 298 crores during the 1966 slack season. The net liquidity ratio of scheduled commercial banks was, therefore, lower at 37.4 per cent as compared with 39.3 per cent at the end of the 1966 slack season.

44. Credit policy for the 1967-68 busy season took into account the higher demand for bank credit emanating from the expected increase in agricultural output, the consequent increase in official procurement operations in foodgrains as well as increased reliance by State Governments on the banking system for financing storage and distribution of chemical fertilizers, and the need to stimulate industrial output. It was also visualised that as the deposit growth during the year was expected to be lower than in the previous year, the Reserve Bank would be called upon to provide a larger quantum of refinance to banks. At the same time, however, the Bank was to provide refinance on a more selective basis, since the prevailing price situation did not permit a general expansion of credit. While the basic policy of the Bank to make refinance available to banks at the Bank rate, so long as a bank's net liquidity ratio was above 30 per cent remained unchanged, the Bank continued the various special schemes of refinance under which banks could borrow at Bank rate or below and extended the scope of such refinance facilities to cover additional purposes. The Governor announced in February 1968 the Bank's decision to charge a concessional rate of 4.5 per cent to scheduled commercial banks in respect of their borrowing equivalent to the increase in advances made by them to the priority sectors over the average of such advances in the slack or the busy season, as the case may be. The refinance at Bank rate or at a rate lower than the Bank rate under the various special schemes was to be additional to what a bank was entitled to obtain on the basis of the excess of its net liquidity ratio over 30 per cent. The Bank extended the scope of refinance at the Bank rate to cover specific purposes, which included advances to State Governments/their agencies/ Food Corporation of India for the purpose of food procurement operations and advances for financing the distribution of chemical fertilizers and pesticides. Again, refinance for these purposes was made available in the

same manner as under the Bill Market Scheme, facilities in respect of which were reintroduced from November 1, 1967.

45. In the operation of credit policy, the Reserve Bank also provided for an extension of refinance facilities on a discretionary basis, for limited periods, in certain special cases so that the pace of produotive activity was not impeded for lack of credit. Banks were advised to bring to the notice of the Reserve Bank cases where they could not sanction loans to agricultural borrowers and to manufacturing units owing to paucity of resources. The system of higher interest rates applicable in respect of borrowings from the Bank above the Bank rate entitlement was also liberalised. In regard to export credit, the Bank, besides continuing the refinance schemes introduced in August 1967, further reduced the cost of export credit by reducing in January 1968 the ceiling rate from 8 to 7.5 per cent in respect of packing credit for products other than engineering and metallurgical ones and all post-shipment bills excepting rupee usance export bills for which a ceiling of 7.5 per cent was already operative and which was subsequently reduced to 6 per cent in March. As this rate was much lower than what the banks charged for domestic credit, a scheme has been evolved for grant of subsidy towards interest charges on export finance provided by banks at 6 per cent. Under the scheme, which became effective from March 3, 1968, the rate of subsidy would be one and a half per cent.

46. In conformity with the policy to provide banks with additional flexibility of operations in extending unsecured credit for production, trade and exports, the Bank consequent upon its acceptance of the major recommendations of the Working Group on Unsecured Advances and Guarantees decided that several specified categories of advances, hitherto classified as unsecured advances, would be excluded, ***inter alia,*** from the total of unsecured advances for the purpose of credit policy.

47. As the busy season progressed, prices began to decline at a fairly fast rate. The pace of bank credit expansion was considerably slower than expected and what was even more significant, important sections of industry continued to experience recessionary conditions. In the busy season, **upto** the end of February 1968, credit expanded at a slower pace (Rs. 306 crores) than in the corresponding period last year (Rs. 319 crores) in spite of a higher rate of deposit accrual (Rs. 143 crores as against Rs. 77 crores). More significantly, credit expansion for purposes other than food procurement operations was even lower at Rs. 248 crores as against Rs. 323 crores. It was clear, therefore, that urgent action was needed. Some fiscal measures to stimulate the recovery of the economy were announced in the budget for 1968-69. The Bank reduced the Bank rate from 6 per cent to 5 per cent with effect from March 2, 1968. Simultaneously the Bank announced (i) a downward adjustment in the structure of selected interest rates to be paid by banks on deposits and the maximum rate to be charged by banks on their advances was also reduced from 10 per cent to 9.50 per cent per annum, (ii) a ceiling of 6 per cent per annum for packing credit and post-shipment credit for exports, and (iii) a reduction by half a per cent to 3 per cent per annum in the rate for 91 -day Treasury bills. Accordingly, **short-**term interest rates were adjusted downwards.

48. By the end of March 1968, bank credit was running ahead of the last season's corresponding level and by the end of April the total seasonal expansion came to be Rs. 508 crores as against Rs. 426 crores in the 1966-67 busy season. Excluding advances by the State Bank of India and its subsidiaries for food procurement operations, the busy season expansion of bank credit was Rs. 401 crores as against Rs. 417 crores in the preceding season. Bank advances against all seasonal commodities rose by Rs. 384 crores during 1967-68 busy season as against Rs. 171 crores during the 1966-67 busy season, but advances against securities other than seasonal showed a much smaller expansion (Rs. 113 crores as against Rs. 260 crores). Deposit growth, however, continued to be higher throughout the season, amounting to Rs. 220 crores as against Rs. 169 crores during the previous busy season. The higher volume of credit during the busy season was financed by banks mainly by drawing down their investments and by recourse to borrowing from the Bank which was larger mainly because of the liberalised refinance facilities made available

by the Bank. Liquidation of investment in Government securities amounted to Rs. 182 crores (Rs. 198 crores in the preceding year) and borrowing from the Reserve Bank was larger by Rs. 105 crores as compared with Rs. 41 crores in the 1966-67 busy season. At their peak, borrowing from the Bank in the 1967-68 season touched Rs. 148 crores on May 10, 1968 as against, Rs. 140 crores reached on March 31, 1967. The comfortable resources position of banks was reflected in easy money conditions in the inter-bank call money market relative to the previous busy season. In Bombay, the highest rate for the 1967-68 season was reached at 5.3 per cent in the middle of December 1967 and in Calcutta at 5.5 per cent in the third week of March 1968.

49. In the field of selective credit controls, the Bank gradually relaxed controls on advances against some of the seasonal commodities. The credit by commercial and co-operative banks against gur was, however, brought under the purview of selective controls for the first time,, owing to the sharp rise in its price. With a view to encouraging production and export of oilcakes, advances against oils and oilseeds to solvent extraction plants and/or the integral oil expeller mills with solvent extraction plants were exempted from ceiling restrictions while a preferential margin of 25 per cent was fixed in respect of such advances. Later, further relaxation was introduced in respect of advances against groundnuts and vegetable "oils, following the arrival of a larger groundnut crop in 1967-68. Preferential concessions both in respect of ceilings and margins were. accorded in respect of credit to vanaspati manufacturers and oil millers and that against warehouse receipts. In view of the prospects of a better supply situation of cotton and in order to take account of the regional disparities in cotton marketing as well as the delayed onset of the marketing season, the Bank re-fixed the ceilings and margins on banks' advances against cotton and kapas on a more flexible basis, banks being given the option to choose the base period from either the corresponding month of the previous year or the month immediately following that month. The ceilings were fixed at 85 per cent of the base month and margins at 25 per cent on advances to mills and 35 per cent for others. Credit ceilings and margins were also modified in November 1967 in respect of credit advanced by State and Central Co-operative Banks against cotton. The margin on advances to co-operative cotton mills was lowered in December 1967. The Bank further relaxed the control on commercial banks' advances effective April 2, 1968. The ceiling was made more broad-based and raised to 110 per cent of the peak level during the corresponding three-month period in 1967 commencing with April-June 1967 or the prevailing ceiling together with additional limits granted, whichever was higher. The margin for trade advances was lowered and a uniform margin of 25 per cent was thus prescribed for all parties in April 1968. In June 1968, the minimum margin was reduced to 20 per cent in the case of cotton mills. Control on co-operative banks' advances against cotton was also relaxed towards the end of April 1968 when ceilings in respect of such advances were raised in the case of State and central co-operative banks. Thus the Bank's policy during the year was generally to relax selective credit controls whenever the situation of price and availability of individual commodities warranted it.

50. To assist the food procurement operations the Bank decided on June 15, 1968 that although the limits sanctioned by it under the regular Bill Market Scheme for the 1967-68 season would lapse by the close of June 1968, the refinance facilities under the Bill Market Scheme in respect of advances made by banks for the purpose of foodgrains procurement/distribution/storage to the State Governments/their agencies/Food Corporation of India would be available upto the end of September 1968.

51. During the first two months of the current slack season (i.e. upto June 28, 1968), there was a contra-seasonal credit expansion of Rs. 15 crores as against a contraction of Rs. 39 crores in the corresponding period of 1967, but deposit accrual was larger at Rs. 78 crores as compared with Rs. 54 crores. On present indications, it appears that seasonal contraction in credit would be somewhat smaller but the deposit growth would be larger. In respect of selective credit controls, in view of the improved supply position in

respect of 'other foodgrains' (i.e. other than paddy and rice and wheat), oilseeds and vegetable oils and a fall in their prices, the Bank, on May 27, 1968, relaxed its control on advances against these commodities. A similar relaxation was also made in respect of advances against wheat in August 1968.

52. A major development relating to the banking system this year was the initiation by the Government of a number of measures in pursuance of its policy of social control over banks. The primary objective of this new policy is, to secure a better alignment of the commercial banking system to the emerging needs of the economy. While there have been striking advances in recent years in the geographical as well as functional coverage of commercial banking, large sectors of the economy like agriculture and small-scale industry have not come within its purview. It has been felt increasingly that the time has come for a more active and positive role by the commercial banks in co-operation with the co-operative banks to make their services available in these new and important fields. The programmes of branch expansion have made considerable headway, but more effort in the same direction is called for. The essential idea behind the scheme of social control of banks is that a co-ordinated view of the requirements of the entire economy, which is being rapidly modernised, be taken and concerted measures put through for more purposive distribution of available credit and for more effective mobiiisation of savings. The changes proposed at the decision-making levels in the commercial banks through appropriate legislative amendments are designed to facilitate this orientation. For a periodical assessment of the emerging needs and for working out the appropriate guidelines for banks' lending policies in accordance with an agreed overall scheme of priorities, a new body called the National Credit Council has been set up. The Council is presided over by the Deputy Prime Minister and Minister of Finance. The Governor of the Reserve Bank is its Vice-Chairman. Its membership comprises representatives of industry (large scale, medium scale and small), trade (including export trade), agriculture, commercial banking, co-operative sector and professional groups including economists. Over the years, the Reserve Bank has played a significant role in building up and strengthening the structure of term financing institutions. Its task in the new set-up will be to carry the process of further extending the organised banking system by taking a co-ordinated view of the requirements and availability of short-term, medium-term and long-term finance for the entire economy.

53. The National Credit Council has already met twice (in March and July 1968) and has set guide-posts for bank lending. Even before the legislative amendments are passed the major commercial banks have taken action to appoint full time Chairmen and reconstitute their Boards of Directors in consonance with the objectives of social control. The foreign banks have also taken steps to set up Advisory Boards with similar intent. For considering the long-term re-orientation and development of the banking structure, the Government have decided to set up a Banking Commission.

Balance of Payments

54. On external account, there was a sizable addition of $104 million to the foreign exchange reserves during the year July 1967-June 1968 in contrast with the sharp drop of $160 million in the year before. As much as $78 million of the year's growth in reserves was due to the net drawing of $32 million from the I.M.F. and special deposits of $46 million by the I.B.R.D. The net drawing from the Fund was the combined result of a drawing of $90 million in December 1967 under the compensatory scheme for financing fluctuations in export earnings and a repayment of $58 million in March 1968 on earlier drawings. Last year, there was a repayment of $58 million to the I.M.F. Exclusive of these transactions and depreciation of sterling assets following the devaluation of the pound, the rise in reserves this year works out to $40 million as compared with a drawing down of $102 million last year.

55. The improvement in reserves this year reflects the sizeable reduction in food and raw jute imports financed from free foreign exchange resources, the better performance of exports and larger utilisation of foreign aid, particularly non-project assistance. Several factors account for the increase in exports :

larger, domestic availabilities, the. recessionary situation in the domestic market, the beneficial effect of the various promotional measures adopted by Government and the increasing efforts made by industrialists and businessmen to build up adequate contacts abroad.' The reduction in the outlay on maintenance imports, mainly industrial inputs, was facilitated by the larger availability of non-project assistance as well as import substitution stimulated by the rise in the rupee costs of imports following the devaluation of the rupee. Debt service payments continued to rise, but. the net outgo on this account was mitigated by the refinancing credit extended by the U.K. and the rescheduling of debt by some members of the Aid-India Consortium, in addition to the special. deposits by the I.B.R.D., referred to earlier.

56. Exports according to the data compiled by the DGCIS totalled $1,598 million in the financial year 1967-68, 3.6 per cent higher than in the preceding year, but still 5.6 per cent lower than in 1965-66. The recovery commenced in October 1967 and has continued through April-June 1968. Exports during the nine-month period (October 1967-June 1968) were 6 per cent higher than in the corresponding period of 1966-67 and were also a little above the level in 1965-66. The increase during the financial year 1967-68, though small, marked a reversal of the declining trend of the post-devaluation period and was particularly significant in that it occurred despite some weakening of import demand by the major industrial countries, and the loss in the rupee value of India's exports as a result of the devaluation of sterling.

57. About three-fourths of the rise in exports in the financial year 1967-68 was brought about by non-traditional items of exports, such as iron and steel, engineering goods and marine products. Iron and steel recorded a spectacular rise of 122 per cent to $73 million; engineering goods also rose by 33 per cent to $55.1 million. Among the traditional lines, tea and unmanufactured tobacco recorded sizeable increases while cotton textiles exports increased marginally. Exports of unmanufactured tobacco went up by 62 per cent to $46.5 million largely because of higher domestic production. Tea exports, assisted by a good domestic crop and lower production in Ceylon, increased by 14 per cent to. $240.3 million, which was about the level at which they were in 1965-66. Apart from tea, where there was also a rise in unit values, the export growth in most items reflected an increase in quantum. Largely attributable to the intensified competition from Pakistan was the drop of $20.6 million or 6 per cent to $311.4 million in the exports of jute manufactures. There was a sharp fall of 26 per cent in sacking and a small-one of 6 per cent in hessian ; carpet backing, however, improved by 8 per cent. Leather and leather manufactures declined by 14 per cent to $71.3 million and hides and skins by a sharp 54 per cent to $ 10. 1 million mainly due to the reduced offtake by the U.K. Both the unit values and the quantities recorded lower levels. Exports of. cashew kernels declined by 6 per cent to $57.4 million reflecting the fall in unit values.

58. 'Also according to DGCIS data, imports during the financial year 1967-68 totalled $2,632 million, 5 per cent and 11 per cent, lower than in 1966-67 and 1965-66 respectively. There were sharp declines in the imports of food and raw jute due to better domestic output. Excluding these, imports during 1967-68 amounted to $1,935 million, 5.9 per cent higher than in 1966-67 but still 14.6 per cent lower as compared with 1965-66. Apart from raw cotton, the import of which went up by 48 per cent to $ 111 million, because of two successive poor domestic crops, the increase in imports in 1967-68 was accounted for by industrial inputs. This increase reflected the liberalisation of the imports policy for the year and some picking up of the rate of growth in industrial production in the last few months of the year. The rise in imports was, however, lower than might have been expected, the main factor in the situation being the continued low level of investment and the persistence of recessionary conditions in the economy.

59. With limited availabilities of free foreign exchange resources, total imports have moved generally with the level offoreign assistance received. The amount of aid utilised during the financial year 1967-68 is estimated to be $1,594 million. It was $88 million higher than in the preceding year,

$24 million lower than in 1965-66. The increase in utilisation over the year came from the aid already available in the pipeline. In fact, authorisations of external assistance, which picked up substantially in 1966-67 in support of a liberal import policy following the devaluation of the rupee, showed a sharp decline of about 55 per cent to $948 million in 1967-68. The I.D.A. did not provide any fresh aid during 1967-68 pending replenishment of its funds and there was also a delay in the authorisations of non-project assistance by the U.S.A. against its commitments for 1967-68. At the same time, debt service payments (both interest and amortisation) which had progressively increased over the last several years from $214 million in 1961-62 to $318 million in 1966-67 rose further to $431 million in 1967-68. Consequently, the net inflow of foreign aid which increased from $497 million in 1961-62 to $1,355 million by 1965-66 fell to $1,188 million in 1966-67 and to $1,163 million in 1967-68.

60. With the more favourable trends in the economy-given a good monsoon this year—exports Should show a further rise during 1968-69. Imports of industrial inputs and capital goods are also likely to go up. While some improvement in the balance on commodity trade could be hoped for, debt serving poses a really difficult problem. The Aid-India Consortium at its meeting held in May 1968 recommended assistance of $1.45 billion comprising of $900 million of non-project aid, $100, million of debt relief and $450 million of project aid to meet the requirements for the year 1968-69, but in pursuance of these, indications have been given only to the extent of $297 million. Fresh assistance from the I.D.A. depends upon the replenishment of its funds, and the budgetary provision for aid by the U.S. is being drastically cut. The foreign exchange situation will, in this context, call for continued vigilance and flexibility.

Assessment and Prospects

61. As the paragraphs above have indicated, the Indian economy is currently in the process of adjustment to a better balance after a prolonged period of stresses and strains. The price level now is 6 per cent lower than the level at the end of the last year ; the balance of payments has shown an improvement ; the capital market is in somewhat better shape ; and, there is more confidence all-round. This welcome change in economic climate and in expectations augurs well for the much needed resumption of economic growth. But unquestionably many difficult problems lie ahead.

62. The new strategy of agricultural development holds promise of continued advance in that sector in the coming years. The Indian farmer has demonstrated his readiness to use new inputs and to adopt improved techniques ; the ground-machinery for supplying these needs has begun to function well. It will be necessary to ensure that the supply of vital inputs is well maintained and the momentum of technological change is kept up and progressively accelerated. The monsoons will, undoubtedly, remain a major determining factor in the agricultural situation over the coming years. But, with sustained efforts to raise agricultural productivity and a policy of building up and using buffer stocks to counteract fluctuations in output, the outlook for satisfactory growth in that sector can reasonably be assessed as good.

63. Industrial production has yet to pick up momentum. The rise of more than 6 per cent in the Index for January-April, 1968 is encouraging. The recovery from recessionary trends is, however, partial and tardy, and several industries are working below capacity. Better performance in this sector depends upon a number of factors: a steady rise in real incomes, a step-up in investment in the public and private sectors, adequate availability of raw materials, components and spares, domestically and from imports, and a further growth in exports.

64. It is but appropriate in this context that the stress in the "Approach" document on the Fourth Plan is on growth with stability. As experience has shown, both these objectives are interrelated ; they need equal emphasis and have to be pursued simultaneously. Clearly, no further general increases in prices and costs can be permitted ; the need, in fact, is to improve productivity and to allow a part of the gains in productivity to accrue

to the consumer by way of reduced price and/or improved quality of output and service. Special effort is needed in this context to prevent the emergence of a wage-cost-push, and through it an accentuation of inflationary pressures. Basically, the resumpion of growth-with stability-depends vitally upon the success both of public authorities and of private investors in mobilising larger savings, which necessarily involves restraint on the competing and sometimes even compulsive claims of the different sectors for a large share for themselves for current consumption.

65. While considering the prospects ahead, it is essential first to stress that the return to a position of balance in the economy is as yet not complete. While the index of wholesale prices has come down, the cost of living indices have not yet registered any fall. Pressures for higher wages and dearness allowances persist in several sectors. The increase in national income in 1967-68, substantial and highly welcome as it is, has still to be viewed against the low levels of income over the previous years. The annual average rate of growth in the past three years works out to only about 2 per cent. Also, the improvement in national income has been the result almost entirely of the increase in agricultural production. Industrial production has a long way to go before it resumes its earlier-and highly essential-role as the leading growth sector in the economy. On the employment front, there is little, if any, overall advance, and, although a quantitative measure is difficult, there has been some increase in unemployment. The employment opportunities for the rapidly increasing numbers of the educated labour force are lagging far behind requirements. Continued stagnation in investment in the Indian context cannot but mean failure to utilise some of the highly trained and skilled manpower at the disposal of the community.

66. An acceleration of the growth process consistently with the maintenance of price stability depends on a progressive step-up in the rate of domestic savings. For this latter to materialise, simultaneous efforts to increase total output and to strengthen the incentives and the facilities to save and invest are essential. Fiscal and monetary policies have a crucial role in bringing this about, and the problem of resource mobilisation for the Fourth Plan has to be viewed in this context. The existence of unutilised capacity, in the industrial sector offers scope for an increase in output without immediate additions to fixed capital investment. Nevertheless, progressive growth in output and incomes cannot be achieved without a steady step-up in investment. This, in turn, requires that as output and incomes increase, the fullest effort to mobilise savings from sectors hitherto insufficiently tapped will be needed. Greater attention is needed, at the same time, to the securing of adequate surpluses from the investments already made and from those coming into fruition from year to year. In essence, the investment process has to become self-reinforcing.

67. Both for mobilisation of additional resources and for allocating investible funds among the different sectors more efficiently, certain adjustments in the working of banking and financial institutions are necessary. In this context, reorientation of the banking structure, commensurately with the emerging new needs of agriculture and small-scale industries has recently been initiated. This, and the channelling of credit in terms of a scheme of overall priorities in the light of the deliberations of the National Credit Council, open up far-reaching possibilities for the commercial and co-operative banks both for promoting a more broad-based development process and for mobilising savings on a greatly enlarged scale.

68. Currently, investment in the economy is around 11 per cent of national income. Domestic savings come to about 8 per cent. The balance of 3 per cent is covered by net use of external resources. A problem of special concern from the point of view of even maintaining the current level of investment in the economy is the large and growing volume of debt service payments abroad due in the coming years. These liabilities will total the equivalent of about \$3000 million over the next five years. Judging from recent experience, and on the basis of continuing effort in the same direction, export earnings can be expected to go up steadily. The progress of import substitution should

result in sizeable import savings. Yet, import needs cannot but grow as the economy develops. On balance, therefore, there is littk prospect of the current receipts on the balance of payments making a significant contribution towards these debt service liabilities. This **means** that total external assistance (gross) would have to rise substantially if even the current net levels **of** assistance are to be maintained. If, as is hoped, the agricultural sector keeps up its momentum, it should be possible before long to eliminate food aid. Project aid to supply complete equipment or plant will have diminishing 3ignificance in the coming years, as sizeable domestic capacity for producing a variety of machinery, equipment and capital goods has been built up in the country. There will still be need over the next few years for external aid towards setting up new projects. The point essentially is that the bulk of external assistance required will have to be in the form of non-project aid ; such aid, it must be stressed, is **no less a contribution to** the country's investment programme than project aid.

69. Whether external assistance on an adequate scale and in the form and on terms that accord with the requirements of the economy will be forthcoming, it is hard to say. The external climate in this regard is often as unpredictable as the course of the Indian monsoon. It is, however, fair to say that the prospects at this stage are by no means reassuring. While the levels of investment will have to be raised to a larger percentage of national income than in recent years, net external assistance as a *proportion* of investment is certain to fall even on the assumption' of generous external assistance. The optimum level of investment for the Fourth Plan will thus have to be determined on a careful assessment of the additional savings effort that is feasible. If so, as is possible, there is a serious shortfall in external assistance, adjustments not only in current policies but also in the scale and structure of the Fourth Plan might become unavoidable. In any event, the need for a maximum effort on domestic savings and on exports and for flexibility in the phasing of Plan outlays will be paramount.

II. DEVELOPMENTS IN INDUSTRIAL FINANCE AND COMMERCIAL BANKING

70. The developments in the Indian economy, set out in the preceding paragraphs, were broadly reflected in the operations of term lending institutions which slowed down during the year. In the sphere of commercial banking, besides the significant steps **initiated** by the Government for bringing the banking system under social control, efforts were continued to consolidate and strengthen the banking structure through voluntary merger and compulsory amalgamation and through annual inspection and supervision. The progress made in the branch expansion programmes of the State Bank of India and its subsidiaries, as also of the commercial banks, was impressive.

Industrial Finance : Industrial Development Bank of India and other Term-lending Institutions

71. The climate for new industrial investment appeared to have been depressed for the greater part of the year by the recessionary conditions in certain sectors of industry, the uncertainty attending the final shape of the Fourth Plan, the general labour situation and the political uncertainty in certain areas. It was against this background that the Industrial Development Bank of India adopted several specific policy measures during the course of the year to revive industrial activity. Thus, the emphasis of IDBI's policy was shifted to enlarging its assistance ovei a wider sector of industry and on a more liberal scale. The Bank also lowered its refinance and rediscounting rates and reduced the minimum limits in respect of refinance and rediscount facilities, thereby making them available to a larger segment of small borrowers/purchasers.

72. While these measures, however, will take some time to achieve the desired impact, the tempo of operations of the IDBI slackened during the year, with the exception of rediscount assistance. New issues on the capital market (equity and preference shares, and debentures) which are also indicative of investment **activity** were, however, higher

than in 1966-67, but these represented implementation of investment decisions taken earlier. The financing agencies (other than term lending institutions) such as investment houses, brokers, banks and the Unit Trust of India also extended a larger measure of supportto the new issues than in the previous year. Consequently, the number of applications received for loans and underwriting and the amounts sought from the IDBI recorded declines, leading in turn to a fall in the assistance sanctioned. Thus, the Bank's total sanctions (excluding guarantees) during the year aggregated Rs. 43.81 crores as compared with Rs. 64.00 crores in the previous year. Total disbursements were also lower at Rs. 44.71 crores as against Rs. 59.29 crores. The Bank's total assistance outstanding as on June 30, 1968 amounted to Rs. 166.00 crores as against Rs. 144.3 crores as on June 30, 1967. The decline in the assistance would have been more, had it not been for IDBI's acceptance, in the matter of direct assistance, of overall responsibility for financing the entire requirements of deserving projects, at an early stage, without waiting for the detailed settlement of shares of assistance of other participating institutions, to enable the entrepreneurs to proceed with the projects.

73. The policy measures taken by the IDBI may now be given in some detail. During the year, the IDBI reduced its rate of interest on refinance of industrial loans successively. Effective July 1, 1967, a concessional rate of 6 per cent was charged, provided the lending institutions did not charge a rate exceeding 8½ per cent per annum: in other instances, the normal rate continued to be 6½ per cent. In March 1968, following the reduction in the Bank rate from 6 per cent to 5 per cent, the IDBI's normal refinancing rate was reduced from 6½ per per cent to 6 per cent, effective March 14, 1968, while the concessional rate of 6 per cent was reduced to 5½ per cent provided the lending bank or financial institution did not itself charge a rate exceeding 8¼ per cent per annum. In addition, in order to channel a larger flow of funds to small industries, the IDBI introduced a special concessional rate of 4½ per cent on refinance of loans to small scale units covered under the Credit Guarantee Scheme of the Central Government provided the rate to the final borrower was not more than 8 per cent per annum. The IDBI also reduced the minimum amount of loans to this priority sector from Rs. 1 lakh to Rs. 0.2 lakh and that in other cases from Rs. 5 lakhs to Rs. 2 lakhs. Simultaneously, the refinance in respect of loans to small industries was raised from 80 per cent to 100 per cent, while in respect of other loans refinance of 100 per cent was given on loans upto Rs. 5 lakhs. As a measure of relief to the cotton textile industry, effective May 10, 1968, the IDBI has temporarily allowed availment of refinancing facilities to banks on advances already. disbursed by them to cotton textile mills, provided the refinancing was of sums spent by mills on the acquisition of. fixed assets during the last three years ; a longer period might also be considered in specially deserving cases.

74. In August 1967, the scheme for refinancing of medium term export credit was liberalised ; the maximum period of export credit covering capital goods was raised from 5 to 7 years in deserving cases and up to 10 years in exceptional instances. This facility, which was normally available for exporters of capital and engineering goods, was extended to cover finance for the overall costs of construction projects executed by Indian concerns abroad, where the bulk of the construction contracts constituted equipment, material and services, etc. of Indian origin. The scheme was also extended to exporters in the public sector. This facility is now provided at a uniform rate of 4½ per cent and the eligible banks are required to charge exporters not more than 6 per cent.

75. It was only in respect of IDBI's scheme of rediscounting of usance bills covering sales of indigenous machinery on deferred payments basis that there was a substantial increase in operations. The amount of bills rediscounted during the year was Rs. 12.43 crores as compared with Rs. 7.09 crores in 1966-67, bringing the total under the scheme to Rs. 21.85 crores. In August 1967, the terms of the scheme were liberalised ; theminimum amount of a transaction covering a set of bills was abolished for agricultural implements and reduced from Rs. 50,000~ to Rs. 10,000 for other types of machinery. The maximum limit for bills of any single purchaser, over a year, was raised from Rs. 25 lakhs to Rs. 50

lakhs. The maximum period of deferred payments sales was also extended from 5 years to 7 years in deserving cases covering certain items of machinery; Following the reduction in the Rank rate and the subsequent reduction in refinance rates of ID31 in March 1968, the rediscounting rates for bills-were reduced, by ½ per cent all along the line, effective May 10, 1968. The facility was also extended to sellers/distributors other than machinery manufacturers,

76. In order to meet the special problems of the transport industry, the IDBI introduced a new scheme in September 1967 to cover promissory notes arising out of conditional sales and resales or on" hire. purchase basis of new trucks, jeeps and passenger buses to road transport operators in the private sector. The rate of rediscount was initially fixed at 6 per cent per annum with a stipulation that the banks should not charge more than 9 per cent per annum to the manufacturers, or hire-purchase companies : in turn, the 'latter were required to charge the road, transport operators a rate not more than 7½ per cent *flat* per annum. The rediscount rate was subsequently reduced to 5½ per cent with the corresponding discount for banks limited to a maximum of 8½ per cent per annum. Though iimits aggregating Rs. 3.1 crores were sanctioned to 5 banks upto the end of the year, no promissory notes were received for rediscount.

77. The operations of the other All-India term lending institutions were also at a lower level' during the year (April-March). Thus, the sanctions of ICICI (rupee and foreign currency loans, underwriting and direct subscriptions) at Rs. 15.3 crores were below the previous year's Rs. 18.1 crores. Its disbursements were also, somewhat lower at Rs. 20.4 crores than Rs. 22.6 crores in 1966-67. Likewise, the total sanctions of the Industrial Finance Corporation of India (rupee loans and foreign currency loans, underwriting and direct subscriptions) aggregated Rs. 20.8 crores in 1967-68 (April—March) as against Rs. 21.7 crores in the previous year. Its disbursements too 'at Rs. 23.9 crores were substantially below the level in the previous year (Rs. 31.2 crores).

78; The loans sanctioned as well as disbursed during' 1967-68 (April-March) by the State Financial Corporations (including Madras Industrial Investment Corporation) were also below the level in the preceding year, but the amount outstanding as at the end of March 1968 was" appreciably higher than a year ago, reflecting to some extent lower repayments by borrowers. Thus, loans sanctioned and disbursed by these Corporations during 1967-68 amounted to Rs. 17.0 crores and Rs. 15.2 crores as compared with Rs. 20.2 crores and Rs. 17.3 crores respectively in 1966-67; the loans outstanding as at the end of March 1968 (Rs. 79.4 crores) were higher by Rs. 8 crores than a year ago.

Financing of small-scale industries

79. Mention has been made earlier of a few concessions granted by the Reserve Bank of India and Industrial Development Bank of India to the scheduled commercial banks and other financial institutions in respect of their advances to small-scale industries covered under the Credit Guarantee Scheme (vide para 73) with a view to giving a further fillip to their lending to the small industries.

80. The Credit Guarantee Scheme made substantial progress during the year under review. The Reserve Bank, which is entrusted with the administration of the scheme, received 22,282 applications for credit limits. aggregating Rs. 109.10 crores during the year 1967-68 (July-June) as against 19,160 applications for credit limits aggregating Rs. 79.97 crores during the year 1966-67. The amount for which guarantees were actually issued was significantly higher than in the preceding year ; Rs. 109.77 crores as against Rs. 55.97 crores.

81. As in the previous years, the bulk of the applications continued to be received from the State Bank of India and its subsidiaries, as they had taken a policy decision to cover all their advances to small-scale industries under the Scheme. However, consequent on the availability of these concessions, the other commercial banks have also been gradually availing themselves of the guarantee facility in respect of their advances to small-scale industries and a few

of the larger scheduled commercial banks have decided to cover all their advances to small-scale industries under the Credit Guarantee Scheme. During the year, internal procedures were streamlined for the issue of guarantees and the coverage of the scheme was extended to include automobile servicing and repairing workshops. The work under the scheme was also decentralised with the opening of Regional Offices of the Industrial Finance Department of the Reserve Bank of India, at 3 centres, namely, Calcutta, Madras and New Delhi, besides, Bombay.

82. There was a further increase in the scale of assistance provided by the State Bank of India and its subsidiaries to the small-scale industrial sector during the year (April-March). Thus, the number of small-scale units assisted by these banks with working capital finance under their 'liberalised' scheme rose from 14,275 as at the end of March 1967 to 17,031 at the end of March 1968, while in the same period, total working capital limits sanctioned rose from Rs. 85.62 crores to Rs. 108.25 crores. The outstanding advances stood at Rs. 56.96 crores at end-March 1968 as against Rs. 44.65 crores a year ago. Further, these banks instituted a new scheme for extending financial support to new entrepreneurs with technically sound and economically viable projects ; similar schemes were also introduced in the course of the year by the Rank of India and the Bank of Baroda.

Unit Trust of India

83. The operations of the Unit Trust of India (UTI) revealed a substantial rise in the sale of units during 1967-68. During the year ended June 30, 1968, sale of units amounted to Rs. 15.30 crores, as compared with Rs. 9.24 crores in the previous year. As on June 30, 1968, the aggregate value of uoits sold and outstanding was over Rs. 41.13 crores, the total number of unit holders registered with the Trust being over 2,18,000; as on June 30, 1967 the outstanding was Rs. 27 crores, the total number of unit holders registered with the Trust being over 1,69,000.

84. Under the 'Reinvestment Plan' introduced by the Trust in 1966 new applications from unit holders with respect to income distribution for the year ended June 30, 1967 aggregated 6,400, their investments exceeding Rs. 15.6 lakhr ; the corresponding figures for the previous year were 4,063 and Rs. 9.5 lakhs.

85. Repurchase of units by the Trust during the year ended June 30, 1968 amounted to Rs. 1.22 crores as against Rs. 1.99 crores in the preceding year,

86. The Unit Trust of India announced income distribution at the rate of 7 per cent (70 paise per unit) to the unit holders for the year ended June 30, 1968, the same as that for the last two years. Income from units upto Rs. 1,000 received by an individual unit holder, it may be mentioned, is free of income-tax, irrespective of his other income.

87. Total investments of the Trust increased from Rs. 33.6 crores as at end-May 1967 to Rs. 48.62 crores, as at end-May 1968; of the latter, ordinary shares of corporate enterprises accounted for Rs. 18.37 crores (37.8 per cent), preference shares Rs. 6.87 crores (14.1 per cent), debentures Rs. 17.89 crores (36.8 per cent) and bonds of financial corporations and electricity boards Rs. 0.91 crore (1.9 per cent). The balance of Rs. 4.57 crores represented advance deposits against forthcoming preference and debenture issues which the Trust had agreed to underwrite, application money, treasury bills, cash, and bank and other balances.

Strengthening of the Banking Structure

88. The efforts to consolidate the banking system in the country through voluntary merger and compulsory amalgamation were continued during the year. As a result, five banks transferred their assets and liabilities to five other banks, while one bank was amalgamated with another bank under Section 45 of the Banking Regulation Act, 1949. During the year under review two non-scheduled banks were ordered to be wound up by the High courts. While three non-scheduled -banks went into voluntary liquidation after obtaining from the Reserve Bank a certificate under

Section 44 (1) of the Banking Regulation Act, 1949, certificates under the foregoing Section were also issued to 15 non-scheduled banks to enable them to go into voluntary liquidation. The inspection report under Section 45 (Q) of the Banking Regulation Act, 1949 in respect of one non-scheduled bank (in liquidation) was fowarded to the Government of India and the High Court concerned.

89. In pursuance of the objective of annual inspection of all banks with a view to strengthening the banking system, 54 scheduled and 14 non-scheduled banks were inspected during the year under review. All these inspections were carried out under Section 35 of the Banking Regulation Act, 1949. Seven banks were inspected under Section 45 (Q) ***ibid*** for judging whether there are any substantial irregularities in their winding up proceedings. Besides, two banks in the former Portuguese Territory were inspected under Sections 14 and 22 of the Goa, Daman and Diu (Banks Reconstruction) Regulation, 1962 to determine their future set-up.

90. Furthermore, the affairs of 14 banks were scrutinized for specified purposes, namely (i) for judging whether there is a ***prima facie*** case for misfeasance proceedings under Section 45L(4) (one bank), (ii) for issue of a certificate under Section 44(1) (10 banks), and (iii) for issue of a certificate under Sections 49B and 49C (three banks).

91. During the period under review comments/representations/observations on inspection reports were received from 62 banks including 8 banks carried over from the previous year. After examining these, directions were issued in 36 cases while 3 banks were asked to submit periodical progress reports. No action was considered necessary in the case of eight banks. The cases of the remaining 15 banks were under consideration. In suitable cases, representatives of banks were called for discussion with a view to bringing to their notice the main defects in the working of the institutions concerned and impressing upon them the need for taking expeditious steps for removing the defects in their working. In cases where the findings of the inspection called for stricter control over the affairs of the concerned banks, suitable directions were issued to them. In respect of banks which are already working under directions issued following their earlier inspections the directions were continued with suitable modifications depending upon the circumstances of each case. With a view to reducing the time lag between the completion of the inspection reports and taking final action thereon, while forwarding copies of inspection reports, nine banks were asked to take certain specific steps and to submit monthly/quarterly progress reports. There are at present 48 banks (32 scheduled and 16 non-scheduled) working under directions issued by the Reserve Bank and submitting periodical statements. In 33 cases, observers have been deputed to attend the Board/Committee meetings of the banks. Besides the banks working under directions, there are at present 22 other banks which are submitting monthly/quarterly progress reports.

Banking Legislation

92. A Bill was introduced in the Lok Sabha on December 23, 1967 to amend the Banking Regulation Act, 1949 so as to provide for the extension of social control over banks and also to amend the Reserve Bank of India Act, 1934 and the State Bank of India Act, 1955. The objectives of the amendments to the Banking Regulation Act, 1949 are mainly to achieve an equitable distribution of the resources of the banking system in conformity with the requirements of the economy, so that the needs of the priority sectors may be met. The Bill was referred to a Select Committee of the Lok Sabha, and has since been passed with some amendments by that Sabha. The main provisions of the Bill as amended by the Select Committee are summarised in the following paragraphs.

93. In terms of clause 3 of the Bill, banks will have to reconstitute their Boards of Directors, so that not less than 51 per cent of the total number of members are persons having special knowledge of or practical experience in certain fields 'such as accountancy, agriculture and rural economy, small-scale industry, co-operation, banking, economics, finance and law. The directors in the majority sector should not have substantial interests in or be connected, as employee,

manager or managing agent, with large or medium-sized industrial undertakings or trading or commercial concerns. Of these directors, not less than two are to represent agriculture and rural economy, co-operation and small-scale industry. In consonance with the spirit of these provisions, each foreign bank is also expected to set up an advisory board consisting of Indians (with the exception of the Chief Executive Officer when he is a member) with a majority of persons having special knowledge of or practical experience in one or more of the fields mentioned above. Each Indian bank is to have a professional banker and not an industrialist as fulltime Chairman. The appointment, removal or termination of appointment of the Chairman and the terms to be granted to him would require the approval of the Reserve Bank.

94. After the commencement of the Act, the grant of any new loans and advances, whether secured or unsecured, to directors or members of any Committee or Board appointed by the banks in India or to concerns in which they are interested as partner, director, manager, managing agent, employee or guarantor or in which they hold substantial interest, will be prohibited, except in pursuance of previous commitments ; and if the director concerned continues to be a member of the bank's board, the loan, even if it is granted because of any previous commitment, will have to be recovered within a period of one year from the commencement of the Act ; the Reserve Bank may, however, in special cases extend the period up to 3 years. The appointment, re-appointment or removal of the auditors of a banking company will in future require the approval of the Reserve Bank, and the Reserve Bank has been empowered to direct the auditors to audit any special transactions, which it may specify.

95. The Reserve Bank's powers to appoint directors or observers and to issue directions to banks have been amplified. Such directions may hereafter be issued not only in the interests of depdsitors or proper management of the banking companies, but also in the interest of banking policy. Banking policy as defined in the Bill means any policy which is specified from time to time by the Reserve Bank in the interest of the banking system or in the interest of monetary stability or sound economic growth, having due regard to the interests of the depositors, the volume of deposits and other resources of the bank and the need for equitable allocation and the efficient use of these deposits and resources. The inclusion of a reference to banking policy in Sections 21, 35A, 36 and 36AB of the Banking Regulation Act, has the effect of widening the scope of the Reserve Bank's powers with respect to control over bank advances, directions to banks generally on any other matter concerning the affairs of a bank, whether arising out of inspection or otherwise, and the appointment of observers or additional directors by the Reserve Bank.

96. In view of the special responsibilities of banks under the Negotiable Instruments Act towards their depositors and the public in general, the Bill provides a new section 36AD, which makes it unlawful to (a) obstruct any person from lawfully entering or leaving a bank's office or from carrying on any business there, (b) hold within such office, demonstrations which are violent or are calculated to prevent the transactions of normal business or (c) act in any manner calculated to undermine the confidence of the depositors in the bank concerned. It has been indicated on behalf of Government that this provision will be without prejudice to the exercise of normal and lawful trade union rights by the employees.

97. Government is being empowered under the Bill to acquire the business of any bank, if it fails more than once to comply with any directions issued to it under section 21 of the Banking Regulation Act in regard to advances *or* under section 35A of that Act in regard to any other matter concerning the affairs of the bank and if, in addition, the acquisition of the bank is considered necessary in the interest of the depositors or in the public interest or in the interests of banking policy. Provision has been made for payment of compensation in the event of such acquisition.

98. Although the Bill is yet to be enacted, banks having deposits of Rs. 10 crores and over and all foreign banks have taken or are taking steps to comply with its provisions regarding the reconstitution of Boards of Directors or constitution of Advisory Boards.

The Indian banks with deposits of Rs. 25 crores or more have in addition appointed wholetime Chairmen.

99. The amendments to the Reserve Bank of India Act, 1934 seek mainly to provide for the revaluation of gold held in the Issue Department at the current parity rate following the devaluation of the rupee in June 1966, for the valuation of the securities held in the Issue Department at or below the market rates instead of at the actual market rates as at present, and to simplify the procedure for the refinancing of pre-shipment loans and advances to exporters. The Reserve Bank is also being authorised to operate on behalf of the Central Government a scheme for subsidising the rates of interest charged to exporters by commercial banks or other financial institutions.

100. The amendments to the State Bank of India Act seek to enable the State Bank of India to grant loans and advances for periods not exceeding one year at a time, as compared with six months as at present, and to grant term loans for approved purposes for any period up to fifteen years as compared with ten years at present.

Deposit Insurance Corporation

101. With a view to extending the coverage of deposit insurance scheme, the Corporation, with the prior approval of the Government of India, increased, with effect from January 1, 1968, the limit of insurance cover in respect of the amounts due to any one depositor from a registered commercial bank from Rs. 1,500 to Rs. 5,000, without any change in the present rate of premium, which will continue to be 5 paise per hundred rupees per annum.

102. The number of insured banks declined to 90 at the end of June 1968 from 96 at the end of June 1967 as a result of the compulsory amalgamation under Section 45 of the Banking Regulation Act, 1949 of one bank with another bank and the transfers of the deposit and other liabilities and equivalent assets of five banks to other insured banks. The Corporation's liability; under Section 16 of the Deposit Insurance Corporation Act, 1961 was not attracted in any of these cases. No new bank was registered during the year. The total amount of claims paid or provided for by the Corporation since its inception in respect of eleven banks upto June 1967, which stood at Rs. 57.21 lakhs, was reduced to Rs. 56.85 lakhs in June 1968, as the Corporation was relieved of the liability to the extent of Rs. 0.36 lakh in respect of certain untraceable depositors, whose balances were vested in the Custodian of Enemy Property. The repayments received by the Corporation so far from the concerned banks in respect of the claims met totalled Rs. 35.02 lakhs, of which those received during the year amounted to Rs. 2.49 lakhs.

Branch Expansion Programme

103. During the period July 1967 to June 1968, the number of offices opened by commercial banks in the private sector under the impetus of the first 3-year programme which ended on July 31, 1965, rose from 602 to 606, the number at unbanked centres remaining the same at 224. The second expansion programme referred to in the last year's report came to an end on July 31, 1967. Under this programme, upto the end of June 1968, licences were issued for 597 new offices as against 508 as at the end of last year. Of these 597 offices, 219 are to be at unbanked centres, Against these licences issued so far banks have opened 569 offices including 210 at unbanked centres.

104. In pursuance of the Bank's policy of promoting systematic expansion of banking facilities to areas devoid of or deficient in such facilities, the second branch expansion programme was followed by another programme for a two-year perod ending July 31, 1969. Under this programme, banks are expected to open a relatively large number of offices in rural and semi-urban centres. Upto the end of June 1968, the Bank has approved the opening of 559 offices ; of these 387 are in rural and semi-urban places, of which, in turn 247 are at unbanked places. The banks have opened upto end-June 1968, 28 offices at banked and 49 at unbanked centres.

105. The branch licensing policy came up for discussion at the first meeting of the National Credit Council. Following this and after discussions with bankers, the branch

licensing procedures were reviewed by the Central Board of Directors of the Bank in May 1968 and certain modifications were made in the guiding principles with a view to adopting a more flexible policy. The commercial banks were urged to make a continuous study of the banking needs and potential of the various regions and to aim at opening a number of branches'which should be at least **1/3** more than those opened by them during the previous two-year programme period. As a further measure to step up opening of branches in under-developed areas, the All-India and the large regional banks were requred to open a reasonable number of branches in such areas (not less than 10 per cent of the total). Within the overall target at least 50 per cent of the offices should- be at unbanked centres ; besides a like percentage should be at rural and semi-urban centres. Banks would be free to select centres of their choice where they find scope for establishing additional bank offices and **requests for** allotment of centres will be considered on 'first come, first served' basis except in respect of (a) small places having a population of 5,000 or less (where the suitability of the places for offices of co-operative banks would have to be considered), (b) bigger cities having a population of one million and above and port towns and (c) places which are regarded as adequately banked on population basis. These cases will be reserved for detailed consideration.

106. The applications of the State Bank of India and its subsidiaries otherwise than for taking over treasury work and for other developmental purposes are generally considered on the basis of the principles applicable to other commercial banks. During the period July 1, **1967** to June 30, 1968, the State Bank of India opened two more branches under its second expansion programme, thus, bringing the total number of branches opened under this programme to 145 as against **165** centres approved for that programme. Under the third expansion **programme** (covering the period January 1, 1964 to December 31, **1968),** in terms of which the State Bank of India is required to open 319 branches at treasury/sub-treasury centres, it has opened 47 branches during the period July 1, 1967 to June 30, 1968 and the total number of branches so far opened under this programme stands at 232. During the period July 1, 1967 to June 30, 1968, the subsidiary banks have opened 56 branches (including four one-man offices) under their second five-year expansion programme ending June 1970. Thus, during the above period, the State Bank of India and its subsidiaries opened 105 branches under their expansion programmes. The total number of offices of the State Bank of India and its subsidiaries as at the end of June 1968 stood at 2,295 as against 2,146 as at the end of June 1967.

107. The policy of permitting foreign banks to open branches at port towns on a restricted scale is being continued.

108. With the establishment of five more clearing houses, the total number of clearing houses in the country as at the end of June 1968 was 94; of these seven were managed by the Reserve Bank of India, 69 by the State Bank of India and 18 by the subsidiaries of the State Bank of India.

Regulation of Business of Non-banking Institutions Relating to Acceptance of Deposits

109. Following the issue of two directives in October 1966, a number of representations were received to the effect that, in view of the recessionary trends in the economy, some relief should be granted to non-banking companies regarding the acceptance of deposits from the public. The Bank, on a review of the position, came to the conclusion that no basic changes in the framework of the control were necessary or desirable. However, to obviate hardships, particularly to industrial undertakings, in complying with the provisions of the directives within the specified time limit the Bank made certain modifications in the directives on August 23, 1967 so as to provide for: (a) the inclusion of the 'statutory development rebate reserve' within the definition of 'free reserve' in respect of both financial and non-financial companies : and (6) the extension of the period for the adjustment of the excess deposits as on January 1, **1967,** from two years to five years in respect of industrial concerns which have declared dividends on their equity shares at the rate of 6 per cent or more in five out of 6 or 7 years prior to January 1, 1967 or have unencumbered fixed assets of a book value of

not less than twice the -amount of deposits and unsecured loans.

110. These concessions do not involve any departure from the policy underlying the issue of the revised and amplified directives in October 1966. They will, however, make it possible for all sound and well managed industrial concerns to comply, without any difficulty, with the requirements regarding the adjustment of the deposits in excess of twenty-five per cent of their paid-up capital and free reserves. As the development rebate reserve is now counted as a free reserve, the amount of the excess which is required to be adjusted has been substantially reduced. In the case of many industrial companies, there may also be some additional scope, in view of this concession, for the acceptance of further deposits from the public.

111. A survey of deposits with non-banking companies, based on the returns received from them as on March 31, 1966, showed that 2,357 companies (as against 1,909 as on March 31, 1965) accepted deposits as on that date; of these, 393 were financial companies and 1,964 non-financial companies. Total deposits accepted by them stood as on that date at Rs. 283.41 crores, representing an increase of Rs. 74.26 crores over the deposits reported as at the end of March 1965, The total number of deposit accounts increased by about 86,000 to **3,67,300.**

III. DEVELOPMENTS IN COOPERATIVE BANKING

112. The Bank made further efforts, in-so far as they lie within its purview, in regard to the re-organisation of the co-operative credit structure on the basis of viability and adoption of the crop loan system with a view to ensuring an adequate flow of credit for the programmes of intensive development of agriculture.

113. Among the important developments during the year in the sphere of co-operative banking, was the introduction in Parliament of two bills, namely, (a) the Banking Laws (Amendment) Bill, 1967 incorporating certain amendments to Part V of the Banking Regulation Act, and the Reserve Bank of India Act and *(b)* the Deposit Insurance Corporation (Amendment) Bill, 1967 with a view to extending facilities for deposit insurance to co-operative banks.

114. In the sphere of co-operative credit policy, a reference was made in the last report to the appointment, by the Reserve Bank of India, of the All-India Rural Credit Review Committee and the Working Group on Industrial Financing through Co-operative Banks. The various issues referred to them were under their consideration. The Fertiliser Credit Committee appointed by the Fertiliser Association of India in 1966 under the Chairmanship of Shri B. Venkatappiah to examine and make specific proposals in regard to the credit required for the distribution of fertilisers submitted its report in February 1968. One of the important recommendations of the Committee was the setting up of a Fertiliser Credit Guarantee Corporation for ensuring adequate institutional credit facilities for distribution of fertilisers. The recommendations of the Committee in so far as they call for action on the part of the Bank are being examined in the concerned Departments.

Co-operative Credit : Policy, Procedures and Operations

115. With the reduction in the Bank rate from 6 per cent to 5 per cent from March 2, 1968, the concessional rate of interest to State co-operative banks for seasonal agricultural operations and marketing of crops was reduced from 4 per cent to 3 per cent, thus keeping the concession at the existing level of 2 per cent below the Bank rate. The benefit of reduction in the Bank rate was extended to the other types of finance provided by the Bank to the State co-operative banks, viz., for medium-term loans for agricultural purposes and for the production and marketing activities of handloom weavers' societies, reducing the rate from 4½ per cent to 3) per cent.

116. In pursuance of the directives issued by the Bank prescribing the maintenance of minimum margins on advances against cotton and kapas made by State and central co-operative banks and ceilings in regard to such advances (referred to in para 133 below), it was decided that no part of the financial accommodation under the credit limits sanctioned by the Bank for seasonal agricultural operations and marketing of crops should be used by the co-operative banks for financing the marketing of cotton and kapas, and that the Bank should sanction separate credit limits to State co-operative banks for financing the marketing of cotton and kapas under Section 17(2) (*b*) or (4) (*c*)/17(4) (*c*) of the Reserve Bank of India Act, at the concessional rate of 2 per cent below the Bank rate.

117. Another decision related to the extension of short-term and medium-term credit facilities for poultry farming. In order to enable the State Governments to set up strong poultry co-operatives which can utilise the Plan resources earmarked for poultry programmes, the Government of India had requested the Bank to consider the extension of credit facilities to cover the credit requirements of poultry farming also. The Bank accordingly decided in November 1967 to recognise, under certain conditions, poultry co-operatives also as the channel for the flow of the Reserve Bank's short-term and medium-term loans for agricultural purposes for financing their agriculturist members.

118. As mentioned in last year's report, no special credit limits were to be sanctioned by the Bank for the High-Yielding Varieties Programme during the year 1967-68 since the requirements of the programme were taken into account while sanctioning the normal credit limits. The Bank sanctioned supplementary credit limits in respect of certain central co-operative banks in whose areas the High-Yielding Varieties Programme was under implementation.

119. The total credit limits sanctioned by the Bank to State co-operative banks for financing seasonal agricultural operations and marketing of crops at the concessional rate of 2 per cent below the Bank rate increased from Rs. 257.50 crores (inclusive of the special limits for High-Yielding Varieties Programme) in 1966-67 to Rs. 314.15 crores in 1967-68. Drawals aggregated Rs. 364.89 crores as against Rs. 289.25 crores in 1966-67, while repayments were Rs. 362.52 crores as against Rs. 297.60 crores in 1966-67. The outstandings as on June 30, 1968 stood at Rs. 137.17 crores as compared with Rs. 135.38 crores as on June 30, 1967. The Bank also sanctioned a short-term credit limit of Rs. 10.25 crores to a State co-operative bank for financing the marketing of cotton and kapas in the context of the decision to regulate the advances of co-operative banks against the security of cotton and kapas referred to earlier. The drawals against the limit were Rs. 10.54 crores, repayments were Rs. 9.34 crores and the outstandings as on June 30, 1968 were Rs. 1.20 crores. In addition to accommodation for agricultural purposes at concessional rate of interest, short-term finance amounting to Rs. 14.55 crores as against Rs. 0.80 crore during 1966-67, was also made available at the Bank rate to State co-operative banks for general banking purposes.

120. The short-term credit limits, which the Bank sanctioned during the calendar year 1967 for financing the stocking and distribution of chemical fertilisers at the Bank rate against Government guarantee under Section 17(4) (*c*) of the Reserve Bank of India Act have been continued during the calendar year 1968. During the year 1967, the limits sanctioned, drawals and outstandings at the end of the year were, Rs. 33 .00 crores, Rs. 27.65 crores and Rs. 15.49 crores, respectively ; the corresponding figures for 1968 upto the end of June of that year (compared with the June-ending figures of 1967), were Rs. 22.00 crores (Rs. 27 .00 crores), Rs. 16.34 crores (nil) and Rs. 5.42 crores (nil.)

121. Besides agreeing to provide medium-term credit for poultry farming by agriculturist members of primary credit societies and poultry co-operatives, the Bank agreed to grant medium-term loans for 5 years to a larger extent to facilitate the implementation of productive schemes, of medium-term lending. As regards the security for medium-term loans, the Bank had been stipulating that while loans for amounts upto Rs. 500 might be made by agricultural credit societies against personal sureties, loans between Rs. 501

to Rs. 1,000 should be against the statutory charge on the land by the borrowers in favour of the societies and loans above Rs. 1,000 only against mortgage of land. These conditions were relaxed by the Bank as recommended by the Standing Advisory Committee on Rural and Co-operative Credit. Medium-term loans might be given against personal sureties upto Rs. 1,000, between Rs. 1,001 and Rs. 1,500 on a statutory charge on land and for amounts exceeding Rs. 1,500 against mortgage of land.

122. During the year under report, the medium-term loans sanctioned by the Reserve Bank at a concessional rate of 1½ per cent below the Bank rate amounted to Rs. 16.37 crores as against loans of Rs. 15.34 crores sanctioned last year. Besides, loans amounting to Rs. 0.20 crore were sanctioned at the Bank rate for purchase of shares in sugar factories. Drawals on the limit came to Rs. 9.12 crores as compared with Rs. 8.37 crores in the previous year ; outstandings as on June 30, 1968 were Rs. 16.47 crores.

123. In regard to the financial accommodation to State co-operative banks for financing the production and marketing of handloom weavers' societies, the concessions allowed to weavers' societies in regard to the basis for fixing normal credit limits and to the maintenance of margins, in the context of change-over from per loom basis to production basis (to which a reference was made in the last report), were continued during 1967-68 also. On the recommendation of the Standing Finance Committee of the All-India Handloom Board, it was decided to extend the credit facility under Section 17 (2)(*bb*) of the Reserve Bank of India Act for financing production and marketing activities of silk and woollen handloom weavers' societies also from the financial year 1968-69 onwards. During the financial year ended March 1968 the State co-operative banks were sanctioned credit limit aggregating Rs. 7.59 crores under Section 17 (2) (bb) or (4)(c) of the Reserve Bank of India Act at 1½ per cent below the Bank rate as against Rs.6.48 crores sanctioned during the financial year 1966-67. The drawals amounted to Rs. 8.54 crores as against Rs. 4.87 crores in 1966-67 and the outstandings at the end of the year stood at Rs. 5.44 crores as against Rs. 4.85 crores. One State co-operative bank was sanctioned a credit limit of Rs. 0.34 crore under Section 17(4)(u) of the Reserve Bank of India Act at the concessional rate of 1½ per cent below the Bank rate for financing handloom weavers' co-operatives during the fiscal year. The outstandings at the end of the year against this limit amounted to Rs. 0.17 crore. The Bank also sanctioned during the financial year 1967-68 Rs. 1.05 crores as against Rs. 1 .OO crore in 1966-67, at Bank rate under Section 17(2)(a) or (4)(c) of the Reserve Bank of India Act for financing commercial or trade transactions of apex hanctloom weavers' societies. Drawals aggregated Rs. 1.73 crores as compared to Rs. 0.58 crore in 1966-67, and the outstandings were Rs.0.24 crore at the end of the financial year 1967-68 and also at the end of 1966-67.

124. In view of the prevalence of scarcity conditions in certain parts of the country, the Bank had sanctioned credit limits to the extent of Rs. 53.50 lakhs in respect of two banks out of the National Agricultural Credit (Stabilisation) Fund for conversion of short-term loans into medium-term loans in the areas affected by drought as against Rs. 7.45 crores during 1966-67. One bank drew in full the limit of Rs. 11 lakhs sanctioned to it while the drawals in 1966-67 amounted to Rs. 6.43 crores. The outstandings against the State co-operative banks as at the end of June 1968 were Rs. 6.14 crores while the corresponding figure as at the end of June 1967 was Rs. 8.82 crores.

125. At its thirty-sixth meeting held on May 23, 1967 the Standing Advisory Committee on Rural and Co-operative Credit recommended that assistance to State Governments in regard to building up of stabilisation funds of State co-operative banks should be fully by way of grants instead of providing such assistance partly as grants and partly as loans. The recommendation of the Committee was communicated to the Government of India. The pattern of assistance approved by the Government of India envisages that 25 per cent of the amount will be given as interest-bearing loans and 75 per cent as grants ; in respect of Madras and Maharashtra, however, the assistance will be provided in the form of loans and grants in equal pro-

portions. During the financial year 1967-68, the Government of India made a provision of Rs. 3.50 crores, as against Rs. 6.78 crores for 1966-67, for Central assistance to the State Governments for the purpose.

126. In view of the meagre funds built up under State Governments' Agricultural Credit (Relief and Guarantee) Funds, the Central Government has requested the State Governments to build up these Funds upto a level of ½ per cent of the outstandings at primary level by the end of 1970-71.

127. During the year under report, the Bank in consultation with the Government of India, made certain relaxations in the procedure for sanctioning 'long-term loans from the National Agricultural Credit (Long-term Operations) Fund to State Governments for contribution to the share capital of primary agricultural credit societies. The conditions requiring the consent of 60 per cent of the members of primary agricultural credit societies for State participation in their share capital and the support of the proposal by the central co-operative bank concerned were waived. Further, the Bank dispensed with the condition of matching contribution by members of the primary agricultural credit societies in regard to Government's participation in their share capital upto Rs. 5,000. In other words, a minimum contribution of Rs. 5,000 was permitted in the case of each viable or potentially viable primary agricultural credit society. For every increase of Rs. 10,000 over and above Rs. 30,000 in the loan and other business of the society, the State Government could contribute an additional amount of Rs. 1,000 to the Society's share capital. The ceiling for total Government contribution to the share capital of a society was, however, retained at Rs. 10,000. These relaxations were made with a view to facilitating an easier access to State participation by primary agricultural credit societies on a more liberal scale as compared to the previous year, in the context of the implementation of intensive programmes of agricultural development over large parts of the country.

128. Loans amounting to Rs. 7.32 crores (excluding renewals of Rs. 4.42 lakhs) were sanctioned to 15 State Governments during the financial year 1967-68 (as against Rs. 2.47 crores- during 1966-67) out of the National Agricultural Credit (Long-term Operations) Fund under Section 17 (4AA) read with Section 46A(2) (a) of the Reserve Bank of India Act for contributing to the share capital of three State co-operative banks, 81 central co-operative banks, 2,016 primary agricultural credit societies and eight central land development banks. The total drawals by the State Governments during the financial year 1967-68 amounted to Rs. 7.28 crores as against Rs. 2.27 crores in 1966-67 and their repayments in respect of previous loans were of the order of Rs. 3.88 crores as against Rs. 3.47 crores repaid in 1966-67. The total amount outstanding against the State Governments on this account was Rs. 31.70 crores as on March 31, 1968 as against Rs. 28.22 crores as on March 31, 1967.

129. The Reserve Bank convened in March 1968 a meeting of the representatives of the central land development banks, the Life Insurance Corporation of India, the State Bank of India and the Government of India to discuss the debentures programme of the central land development banks for the year 1968-69. A supported programme of Rs. 86 crores was approved as compared with a programme of Rs. 57.40 crores fixed for 1967-68. The support from the public sector institutions as well as of the Government of India was kept at the same level as in 1967-68, viz., Rs. 34.50 crores. For allocating the support among the various central land development banks, in 1967-68, such banks were placed into A, B and C categories with reference to their stage of development, the least developed banks getting maximum support. For the year 1968-69, however, in grouping the central land development banks special note was taken of their overdues in relation to demand. In the case of developed banks having overdues exceeding a certain level, the support was fixed at 30 per cent of the programme whereas banks with relatively less overdues were to get 40 per cent of their programme. The support in respect of underdeveloped banks was retained at 60 per cent of their programme.

130. A significant development in the field of long-term finance was the emergence of commercial banks as investors in the debentures of central land development banks

on a fairly sizeable scale. The commercial banks contributed during 1967-68 Rs. 18.13 crores to the debentures of various land development banks as, compared with Rs. 3.85 crores in the previous year. With this additional support, the central land development banks had issued during the year ended March 1968 ordinary debentures of Rs. 71.18 crores as against Rs. 58.02 crores in 1966-67. Of the supported programme of Rs. 57.40 crores during 1967-68, Rs. 4.76 crores were taken up by the Reserve Bank (as against Rs. 4.37 crores in 1966-67), while the State Bank contributed Rs. 4.49 crores, the Life Insurance Corporation Rs. 10.43 crores, the State Governments Rs. 12.40 crores and the Government of India subscribed Rs. 14.90 crores. The contribution from co-operative institutions came to Rs. 7.23 crores. During the year, the central land development banks also floated rural debentures for Rs. 1.85 crores to which the Bank subscribed to the extent of Rs. 0.98 crore as against Rs. 1.63 crores in 1966-67. On June 30, 1968, the Bank's holdings in ordinary and rural debentures were of the order of Rs. 24.38 crores and Rs. 7.94 crores respectively as against Rs. 20.74 crores and Rs. 7.20 crores as on June 30, 1967.

131. In the context of the growing volume of operations of the co-operative credit structure the Bank has been emphasising the need to ensure that credit is used only for productive purposes. A reference may be made in this connection to (i) efforts to further spread the crop loan system in order to bring about productive short-term lending, (ii) rationalisation of policies regarding medium-term loans on the part of the co-operative banking structure so that they finance only genuinely productive medium-term loans for specific purposes, and (iii) efforts made to regulate the operation of credit limits sanctioned by the Reserve Bank with a view to preventing their diversion for non-productive purposes. During the course of inspection of co-operative banks conducted by the Bank as well as in conferences, meetings, etc., special stress was laid on the adoption of the crop loan system. As indicated in the last report, the Bank has attempted to give wide publicity to the important features of this system through a Manual published in June 1966. This Manual has also been translated and published by the concerned agencies in some regional languages. In order to ensure, productive use of medium-term loans the Bank has been trying to impress upon the co-operative banks the need for a detailed examination of loan applications where the purposes are stated vaguely. It has also been indicated that medium-term loans for sinking of new wells, installation of pump-sets, tube-wells, etc., should be carefully examined with reference to the possible cropping pattern, repaying capacity, economic feasibility, etc., by obtaining necessary details from the members concerned. It was observed that there was a tendency on the part of State co-operative banks to draw upon the credit limits sanctioned by the Reserve Bank especially towards the close of the co-operative year without due regard to the actual need for funds. The funds in excess of their minimum requirements were kept by the banks in current or call deposits. In this connection the need for timely submission of credit limit applications was emphasised by the Bank so that there was no time-lag between the lapse of credit limits for one year and the sanction of fresh limits for the new year, which encourages unwarranted drawals towards the end of the year.

132. Forty-eight new societies came under the purview of the Banking Regulation Act, 1949 (as applicable to co-operative societies) as a result of inclusion of their names in the list of co-operative banks while the names of 276 societies were excluded from the list. Thus, at the end of the year under report, there were 1422 co-operative banks coming under the 'purview of the Act (viz., 28 State, 368 central and 1026 primary banks) as against 1650 co-operative banks (viz., 29 State, 381 central and 1240 primary banks) at the beginning of the year. The primary co-operative banks numbering 1026 as on June 30, 1968 comprised 604 urban banks and 422 salary earners' societies as against 560 urban banks and 680 salary earners' societies coming under the purview of the Act at the beginning of the year. When the statutory control of the Bank was extended to co-operative banks, many salary earners' societies were listed as primary co-operative banks as they had provision in their by-laws for acceptance of deposits. Most of these

societies desired to go out of the purview of the Act. As it was not intended to bring such societies under the purview of the statutory control of the Bank, it was decided to advise these societies to take certain steps so that they could be declared as non-banking institutions under Section 36A(2) of the Act. Further, it was also decided that the names of such societies as had never accepted deposits from non-members might be deleted from the list of primary co-operative banks on completion of certain formalities by them. The steep decline in the number of salary earners' societies coming under the purview of the Act during the year under report was due to their taking advantage of the above facilities. The reduction of one in the number of State co-operative banks during the year was due to the withdrawal of the notification declaring West Bengal State Housing Finance co-operative society as a State co-operative bank by the Government of West Bengal. The number of scheduled State co-operative banks remained unchanged at 12 at the end of June 30, 1968.

133. A mention was made in the previous report regarding the issue of two directives to State and central co-operative banks imposing a limited control on their advances against cotton and kapas. Following the issue of a directive by the Bank to all scheduled commercial banks in this regard on November 1, 1967, a directive in supersession of the earlier directives was issued by the Agricultural Credit Department on November 16, 1967, prescribing maintenance by State and central co-operative banks of a minimum margin of 25 per cent on pledge advances and 40 per cent on hypothecation advances granted by them. The relevant margins were subsequently relaxed in December 1967 to 10 and 20 per cent respectively in the case of credit limits granted to co-operative cotton mills against the security of cotton and kapas which are fully guaranteed by the State Government with regard to the repayment of principal and payment of interest thereon. It was also stipulated that the aggregate credit limit against the security of cotton and kapas shall not exceed 10 per cent of the total liabilities in India as on last Friday in October 1967 in the case of State co-operative banks other than those in Union Territories and 20 per cent in the case of central banks and State co-operative banks in Union Territories. It was, however, provided that the requirements of co-operative banks for financing the marketing of cotton over and above the limits as stipulated above could be met from out of special credit limits for the purpose from the Reserve Bank of India under Section 17(2)(b) or (4)(c) of the Act. These restrictions were intended to regulate the flow of co-operative credit for financing the marketing of cotton in the context of a rising trend in cotton prices. In view of the improved supply position of indigenous cotton and kapas, a fresh directive was issued in April 1968 to all State and central co-operative banks raising the limit prescribed for the aggregate level of credit which the banks could grant against the security of cotton and kapas from their total liabilities in India to 20 per cent in the case of State co-operative banks other than those in Union Territories and to 40 per cent in the case of State co-operative banks in Union Territories and central co-operative banks. This relaxation was given upto the period ending June 30, 1968.

134. During the year, 12 State co-operative banks, 293 central co-operative banks and 286 primary banks were inspected in terms of Section 35 of Banking Regulation Act, 1949, of which 100 primary co-operative banks were inspected by the officers of the State co-operative banks on behalf of the Reserve Bank of India as provided for under Section 35(1) of the Banking Regulation Act, 1949 and the rest by the officers of the Bank. During the year 12 central land development banks, 4 apex handloom weavers' societies and 2 apex marketing societies were inspected by the Bank as hitherto on a voluntary basis. Copies of inspection reports of 21 State co-operative banks including one State industrial co-operative bank, 264 central co-operative banks including 5 district industrial co-operative banks and 227 primary co-operative banks were furnished to the banks concerned in terms of Section 35 (1) of the Banking Regulation Act. Inspection reports relating to 11 State land development banks, 5 State handloom weavers' societies and one apex marketing society were also furnished to the concerned institutions during the year under report.

Co-operative Development

135. The Bank's Standing Advisory Committee on Rural and Co-operative Credit met once during the year under report on January 23, 1968 and considered subjects such as security for medium-term loans for agricultural purposes, medium-term loans for purchase of shares in co-operative processing societies, training of Registrars of co-operative societies and certain aspects of the role of commercial banks in agricultural credit.

136. Among other important developments, mention may be made of the Conference of States' Chief Ministers and Ministers for Co-operation held at Madras in June 1968. The Conference was attended by the Deputy Governor in charge of Rural Credit. The subjects discussed at the Conference included :

(i) measures for curbing vested interests in the co-operative movement,

(ii) diversification of the sources of production credit within the movement for agricultural production ; and

(iii) formation of cadres of co-operative personnel for credit, marketing and processing and consumers' societies.

137. A reference was made in the previous year's report about the recommendation of the Informal Group on Institutional Arrangements for Agricultural Credit for the establishment of agricultural credit corporations in certain States and Union Territories where the present co-operative structure is weak. On the lines recommended by the Informal Group, the State Agricultural Credit Corporations Bill, 1968 was introduced in Parliament in May 1968 for the establishment of agricultural credit corporations in the States of Assam, Bihar, West Bengal, Orissa and Rajasthan and the Union Territories of Manipur and Tripura.

138. As mentioned earlier, a Bill called the Deposit Insurance Corporation Amendment Bill, 1967 was introduced in the Lok Sabha on July 17, 1967. The Bill seeks to extend the benefit of deposit insurance to co-operative banks if the law for the time being in force in the State relating to co-operative societies provides that an order for winding up or an order sanctioning a scheme of compromise or arrangement or amalgamation or reconstruction of any co-operative bank can be made with the previous sanction in writing of the Reserve Bank of India. In other words, the benefit of insurance of deposits can be extended to co-operative banks if the State Governments amend the State co-operative societies Act on the lines indicated above. Some of the State Governments have already agreed in principle to amend their respective Acts for enabling the Deposit Insurance Corporation to extend the benefit of deposit insurance to co-operative banks and a few States have already initiated action in this regard.

139. As in previous years, the Deputy Governor in charge of Rural Credit held discussions with the official and non-official representatives of the co-operative movement in the various States during January-June 1968. Besides basic issues such as the reorganisation of the primary credit structure on the basis of viability, adoption of the crop loan system and rehabilitation of weak central banks, operational problems such as the prevalence of heavy overdues, inadequacy of banks' own resources, inadequacy regarding audit, supervision etc. were discussed. Follow-up action on these discussions is being pursued by the Agricultural Credit Department.

140. The Bank continued to provide study facilities to the senior officers of the co-operative departments of State Governments, the number of officials who were provided such facilities being 12 during the year under report. In the context of the entry of commercial banks in the field of agricultural finance, study facilities were extended to two officers of commercial banks in the Agricultural Credit Department of the Bank. Study facilities were also provided to certain officials of the Bank of Thailand, Nepal Rashtra Bank, Peoples' Bank, Ceylon, etc.

Development in Linking Credit with Marketing

141. During the year under report, efforts continued to be made to forge an organic link between co-operative credit and market-

ing. The value of agricultural produce marketed by the co-operatives during 1966-67 was of the order of Rs. 335 crores including Rs. 144.45 crores worth of. foodgrains as compared to Rs. 360.41 crores during 1965-66. The recoveries out of sale proceeds towards the dues of primary agricultural credit societies were Rs. 33.00 crores during 1965-66, as against Rs. 30 crores during 1964-65.

142. The co-operatives have constructed out of their own resources about 1200 godowns at mandi level and 2000 godowns in rural areas during 1966-67 as against 1000 godowns at mandi level and 1500 godowns in rural areas during 1965-66. Further, a total number of 14195 rural godowns and 3281 godowns at mandi level were given financial assistance by the Government upto the end of 1966-67 as against 12288 rural godowns and 2681 godowns at mandi level upto the end of 1965-66. The storage capacity of these godowns was expected to be about 2.5 million tonnes.

Agricultural Refinance Corporation

143. During the year 1967-68 the Corporation sanctioned as many as 89 schemes relating to development of land, such as minor irrigation and land reclamation, development of plantation crops like tea, coffee, rubber, cardamom, apple, coconut, pineapple, etc., development of poultry and fishery and purchase of agricultural implements such as tractors and power tillers. The States to benefit by these 89 schemes are Andhra Pradesh, Bihar, Gujarat, Haryana, Jammu and Kashmir, Kerala, Madhya Pradesh, Madras, Maharashtra, Mysore, Punjab, West Bengal and Uttar Pradesh and the Union Territory of Delhi. The total financial outlay involved in these schemes was of the order of Rs. 68.16 crores and the Corporation's commitments in respect thereof amounted to Rs. 58.64 crores or 86 per cent of the outlay. As against this, 15 schemes involving a financial outlay of Rs. 10.53 crores were sanctioned during 1966-67, the Corporation's commitment being Rs. 8.53 crores.

144. Of the 89 schemes, 69 schemes are to be financed by central land development banks, the refinance amounting to Rs. 54.90 crores to be provided in the form of subscription to the special development debentures to be floated for the purpose ; 7 schemes involving refinance of Rs. 2.47 crores are through State co-operative banks and the remaining 13 schemes are to be financed by the scheduled commercial banks involving refinance to the extent of Rs. 1.27 crores.' All the schemes are to be implemented over a period of years. Compared with the previous year, there has been a substantial increase both in the number and the amount of refinance extended by these agencies. During the preceding year, out of 15 schemes involving Rs. 10.53 crores, 4 were to be financed by central land development banks, 2 through a State co-operative bank, and 9 through scheduled commercial banks, the respective amounts of refinance being Rs. 5.29 crores, Rs. 1.28 crores and Rs. 1.96 crores.

145. Taking into consideration the changes in the outlay of some schemes sanctioned earlier as a result of rephasing, etc., the total number of schemes sanctioned by the Corporation, during its five years of working is 128, the total financial outlay and the Corporation's commitment being Rs. 107.57 crores and Rs. 90.59 crores respectively. In addition to the schemes actually sanctioned, several schemes are under the consideration of the Corporation.

146. During the year under review, the Corporation disbursed a sum of Rs. 5.23 crores in the form of contribution to the special development debentures floated by the central land development banks under the schemes for the reclamation and development of land, soil conservation, minor irrigation, plantation, etc. Rs. 0.20 crore to the State co-operative banks and Rs. 0.24 crore to the scheduled commercial banks. Thus, the total disbursement made during the year amounted to Rs. 5.67 crores as against Rs. 2.08 crores disbursed during the previous year. The Corporation has so far disbursed Rs. 12.65 crores.

147. In regard to the policy and procedure for the sanction of refinance the Corporation made further relaxation in its policy for financing area development schemes under minor irrigation projects during the year. It had earlier stipulated a condition to the effect that the construction programme of

wells should invariably be preceded by detailed ground water surveys and investigations. It has now been decided that a certificate from the concerned technical department of the State Government supported by investigations of a scientific nature would be acceptable. Further, the Corporation agreed, in view of the strained resources position of the State Governments, to accept, as a special case, in respect of minor irrigation schemes sanctioned during the year under review, a reduced contribution of not less than 10 per cent by the State Government to the special development debentures to be floated by the central land mortgage banks instead of the usual 25 per cent. This facility has been extended to one more year, i.e., upto June 30, 1969.

148. Recently, the Corporation has agreed to provide through central land development banks refinance facilities in respect of loans advanced by them to farmers for the expenditure incurred by the latter by way of charges paid to the Electricity Board or deposits kept with the Electricity Board for obtaining electric connections through low and high tension lines to enable the farmers to energise their 'wells. This facility has been restricted to a ceiling of Rs. 3,000 per connection and is subject to the entire loan amount for which refinance is given being within the repaying capacity of the borrowing farmer.

149. Regarding its financial assistance through the scheduled commercial banks, the Corporation decided that in case the cultivators in a particular area showed a preference for obtaining finance through a scheduled bank, refinance facilities could be made available to the scheduled bank, especially in areas where the cultivators came under the area of operation of a sugar factory and the factory is prepared to assist the bank in supervision, technical guidance, recovery of loans, etc. The Corporation also decided to entertain proposals from scheduled banks for financing the purchase of power tillers, tractors, pumpsets, etc. and provide refinance for the purpose, provided that the schemes are drawn up keeping in view the area development aspect. Detailed circular letters were also issued to the scheduled commercial banks giving guidelines for formulating schemes of minor irrigation, land reclamation, etc. and for the development of poultry, dairying and fisheries. The Reserve Bank of India agreed that loans for medium-term and long-term purposes for agricultural development advanced by scheduled commercial banks, under refinance arrangements with the Corporation, may be excluded from the norm of 5 per cent which the banks are expected to maintain between their term lendings and deposits.

150. During the year under review, the Corporation brought out two booklets, one each on coffee and cardamom plantations for the benefit of planters, explaining in detail the terms and conditions and the procedure to be followed for obtaining refinance from the Corporation in respect of schemes for the development of these plantation crops.

IV. EDUCATION AND TRAINING

151. In pursuance of the Deputy Prime Minister's statement in the Parliament on social control over banks, stressing among other things, the need for improving the quality of personnel of banks, the Governor set up in December 1967 a Working Group for reviewing the training facilities for senior and middle level personnel of commercial banks. The Group recommended a two-tier training structure for officers of commercial banks to meet both the quality and the extent of training effort. The Group suggested the setting up of a National Institute of Bank Management to initiate and co-ordinate measures for the development of the banking profession in the country at the highest level. The Institute would constitute the first tier of the training structure contemplated by the Group. The training institutions of the commercial banks which provide training at the junior officer and clerical levels would constitute the second tier after suitable re-organization. Necessary follow-up action on the Working Group's recommendations is in progress.

152. During 1967-68, two new courses were started in the Bankers' Training College, Bombay. A new course on Agricultural Finance has been instituted with a view to providing intensive training in farm finance, tailored to the needs of the managerial staff of commercial banks and to facilitate their entry into the new field of farm finance. The pilot course was held from. December 18, 1967 to February 3, 1968 and was attended by 33 trainees. The second course in which 25 trainees participated was held in March-April 1968.

153. A new course for the managerial staff of the urban co-operative banks has been instituted with a view to equipping the key personnel of these banks with knowledge of practices and procedures of modern banking. The first (pilot) course of eight weeks' duration was held from October 16, 1967, which was attended by 31 officials. The second course of same duration was held from March 4, 1968 and 30 officials attended it.

154. The Reserve Bank continued to sponsor and organise training courses for the supervisory personnel of commercial banks in the Bankers' Training College, Bombay. During the year, the College conducted three Senior Courses, three Intermediate Courses, one course each in Foreign Exchange, Industrial Finance and Personnel and Organization. The total number of bank officials who received training in the College during the year was 327 (including 8 officials from foreign countries). Since the inception of the College in 1954, 2,892 officials have received training in the different- courses, conducted for the supervisory staff of commercial banks.

155. The Bank continued to arrange courses in banking for the managerial staff of co-operative banks. Two courses were conducted for the managerial staff of State and central co-operative banks during the year in the Bankers' Training College, in which 47 officials participated. The total number of officials who have received training in this course so far is 154.

156. As regards training facilities for its own staff the Staff Training College at Madras conducted the following courses for the Bank's supervisory staff : (i) six General Courses in which 281 employees of the Reserve Bank and 4 nominees of foreign banks participated ; (ii) four Inspection-Oriented Courses covering 79 employees and (iii) an induction course for newly appointed Rural Credit Officers (Junior Officers Grade I) for its Agricultural Credit Department.

157. The clerical staff of the Bank continued to receive training at the Zonal Training Centres at Bombay, Calcutta, Madras, New Delhi and Nagpur. Advanced courses for the clerical staff at senior level and induction courses for junior staff and new entrants were conducted at these centres. *Ad hoc* arrangements were made -for holding Induction courses for the clerical staff of Patna Office with a view to meeting the need for adequately trained staff for the proposed full-fledged Patna Office.

158. Hindi classes continued to be conducted on a voluntary basis for the Bank's staff. Hindi versions of the following publications of the Bank were brought out during the year under' review : (i) an abridged version of the "Report on a Framework for Incomes and Prices Policy"; (ii) Report on Trend and Progress of Banking in India, 1966 ; and (iii). Annual Report of the Central Board of Directors of the Bank for the year ended June 30, 1967.

V. ACCOUNTS AND OTHER MATTERS

159. During the accounting year ended June 30, 1968, the Bank's income, after making statutory and other provisions, amounted to Rs. 92.92 crores as against Rs. 85.12 crores in the previous year. The expenditure, which included establishment expenses, turnover commission to the State Bank of India and its subsidiaries for conduct of Government business and provision for sundry liabilities amounted to Rs. 27.92 crores as against Rs. 25.12 crores in the previous year. The net profit available for payment to Central Government was Rs. 65 crores as against Rs. 60 crores paid during 1966-67.

160. The contributions to the National Agricultural Credit (Long-term Operations) Fund, the National Agricultural Credit (Stabilisation) Fund and the National Industrial Credit (Long-term Operations) Fund during the -year were Rs. 12 crores, Rs. 8 crores and Rs. 25 crores, respectively, as against Rs. 16 crores, Rs. 9 crores and Rs. 10 crores, respectively, during.' 1966-67.

161. The rise of Rs. 7.80 crores in the income during 1967-68 was mainly due to increased earnings by way of discount. on Treasury bills and interest on securities. The rise of Rs. 2.80 crores in the expenditure was mainly- under the head "Establishment", "Agency Charges" and "Security Printing.". The increase under the head "Establishment" was mainly due to payment of dearness allowance at enhanced rates to "Award Staff" owing to the rise in the relevant Consumer Price Index Numbers, payment of salaries at the revised scale for the months of May and June 1968 to Class III Staff and increments granted to the staff in the time scales of pay. The increase under "Agency Charges" was due to payment of commission to the State Bank of India and its subsidiaries on larger turnover of Government transactions at their branches, while that under "Security Printing" was due to increase in the indents for note forms.

Auditors

162. The accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co., of Bombay, Messrs. Brahmayya & Co., of Madras and Messrs. Ray & Ray, of Calcutta, who were appointed by the Government of India as auditors of the Reserve Bank of India for the year 1967-68 by notification No. F. 3 (61)-BC/67 dated September 27, i967 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

The Central Board

163. Dr. I.G. Pate1 was nominated as a Director of the Central Board in terms of Section 8(1) (d) of the Reserve Bank of India Act, 1934, with effect from January 16, 1968 *vice* Shri S. Jagannathan. Shri P. L. Tandon retired as Director from the Central Board of the Bank on the expiry of his term of office on January 14, 1968 but was re-nominated by the Government of India as Director of the Central Board in terms of Section 8(1) (c) of the Reserve Bank of India Act, 1934. Dr. V. Shanmugasundaram was nominated as a Director of the Central Board of the Bank with effect from January 15, 1968 in terms of Section 8(1) (c) of the Reserve Bank of India Act, 1934. Sarvashri G. Basu, Arvind N. Mafatlal and J. Ramdave Row retired as directors from the Central Board on the expiry of their terms of office on June 30, 1968, but they were re-nominated by the Government of India as Directors of the Central Board in terms of Section 8(1) (c) of the Reserve Bank of India Act, 1934. The vacancy caused by the resignation of Dr. Triguna Sen was filled by the Government of India by nominating Shri Kamaljit Singh as a Director of the Central Board of the Bank with effect from June 25, 1968 in terms of Section 12(4) of the Reserve Bank of India Act. On the expiry of his term of office on June 30, 1968, Shri Kamaljit Singh was re-nominated for a period of four years by the Government of India as Director of the Central Board in terms of Section 8(1) (c) of the Reserve Bank of India Act, 1934.

164. Shri K. Sreenivasan retired as Director of the Central Board of the Bank on the expiry of his term of office on January. 14, 1968. The Board wishes to place on record its appreciation of the services rendered by Shri K. Sreenivasan.

165. Five meetings of the Central Board were held during the year, two of which were in Bombay and one each in Madras, Calcutta and New Delhi. The Committee of the Central Board held fifty-three meetings, of which three were held in New Delhi, two in Madras and the rest in Bombay.

Local Boards

166. There was no change either in the composition or in the membership of the Local Boards during the year under report.

Opening and Closing of Offices and Changes in the Organisation and Management

167. Offices of the Bank's Exchange Control Department with limited functions have

been set up at Bangalore, Hyderabad, Jaipur, Nagpur and Patna with effect from April 1, 1968.

168. The Secretary's Section was reorganised with effect from July 1, 1967 and was renamed as Secretary's Department. The Central Debt Section which was under the charge of the Secretary was transferred to the Department of Accounts and Expenditure with effect from January 20, 1968.

Bank's Premises

A. Office Premises

169. The construction of the Bank's new office building at Patna and the second phase of construction of the office building at Kanpur have since been completed. The Annexe to the proposed office building at Hyderabad is expected to be completed shortly, while the construction of the Annexe buildings at Bangalore and Madras is in progress. The construction of the main office building at Bangalore and the Annexe buildings at Gauhati and Nagpur is expected to commence shortly. Plans for a new office building in the compound of the India Government Mint, Bombay have been drawn up and the construction is. expected to commence shortly.

B. Residential Quarters

170. The construction of additional Officers' quarters at Alipore and the staff quarters at Singhi Park, Calcutta have been completed. The Staff quarters at Rajendranagar, Patna are nearing completion. The construction of Staff quarters at Choolaimedu Road, Madras is in progress. The contract for the construction of Staff quarters at Bombay (Chembur) has been awarded and the work will commence shortly. Additional Staff quarters at Calcutta, Kanpur, Madras, New Delhi and Nagpur, as also the proposed Staff quarters at Bangalore are in the planning stage. Efforts are being made to secure suitable land for staff quarters at various centres.

C. Miscellaneous

171. The construction of the Staff Training College and Hostel at Poona is nearing completion. The construction of additional floors over the Bankers' Training College, Bombay has been completed, while the work of the additional floor over the Hostel Block of the Staff Training College at Madras is in progress.

Employer-Employee Relations

172. The Arbitrator, Shri T. L. Venkatarama Aiyar, Retired Judge of the Supreme Court of India, gave his Award in respect of certain service conditions of workmen employees in Classes II and III in the Bank on February 12, 1968 and it was published in the Government of India Gazette Extraordinary (Part II-Section 3, Sub-Section (ii)) dated 5th March 1968. The Award has abolished the distinction between the existing two classes of Centres, viz., "Higher Pay Centres" and "Centres Other Than Higher Pay Centres", for pay scales for different categories of staff and has prescribed uniform scales of pay for each category of employees at all centres. The revised basic pay has been fixed with reference to base year 1960 of Middle Class Index [(All India Average Consumer Price Index Numbers for Urban Non-Manual Employees (Base : 1960 = 100)] by merging a part of the dearness allowance. Payment of dearness allowance has been linked with the Middle Class Index with 90 per cent neutralisation when the pay is Rs. 500 or less and when it is above Rs. 500, at 90 per cent for the part upto Rs. 500 and at 75 per cent for the balance. The rates of Dearness Allowance are to be varied for every change of 4 points in the Middle Class Index calculated on a quarterly basis. Instead of the existing schemes of payment of family allowance at Rs. 10 per child with a maximum of Rs. 30 per month to employees with five years service, it is now admissible to all employees on completion of five years service, at 5 per cent of pay. The Arbitrator has also awarded certain improvements in the matter of medical aid, leave fare concession, etc. The revised scales of pay and allowances have been given retrospective effect from January 1, 1966. In all other respects, the provisions of the Award came into force from April 5, 1968.

Employees' Housing Loans Scheme

173. Since the introduction of the Bank's Housing Loans Scheme in 196 1, an increasingly large number of employees has been taking advantage of the loan facilities available to

them under the Reserve Bank of India Employees' Housing Loans Rules, 1960. . Loans are granted **upto** 90 per cent of the total cost of land and construction of house or 42 months' **pay or** Rs. 50,000 whichever limit is the lowest to employee-members of **Co-operative** Housing Societies formed by them and also to employees individually, referred to as "Society Loans" and "Individual Loans" respectively. The Scheme has become popular among all classes of employees and as at the end of June 1968 society loans have been sanctioned for an aggregate amount of Rs. **77,69,280** to 18 co-operative housing societies consisting of 407 **employee**-members. Besides this, 'loans amounting to Rs. **23,43,913** have been sanctioned to 131 employees individually.

RESERVE BANK OF INDIA

BALANCE SHEET AS AT JUNE 30, 1968

ISSUE DEPARTMENT

LIABILITIES	Rs. P.	Rs. P.	ASSETS	Rs. P.	Rs. P.
			Gold Coin and Bullion :—		
Notes held in the Banking Department ..	31,41,47,578·00		(a) Held in India ..	115,89,24,794·75	
			(b) Held outside India	......	
			Foreign Securities	206,41,99,950·11	
Notes in circulation ..	3298,63,98,906·50		Total ..		322,31,24,744·86
			Rupee Coin ..		74,69,53,227·64
Total Notes issued ..		3330,05,46,484·50	Government of India Rupee Securities ..		2933,04,68,512·00
			Internal Bills of Exchange and other Commercial Paper ..		....
Total Liabilities		**3330,05,46,484·50**	**Total Assets**		**3330,05,46,484·50**

BANKING DEPARTMENT

LIABILITIES	Rs. P.	ASSETS	Rs. P.
Capital Paid-up	5,00,00,000·00	Notes	31,41,47,578·00
Reserve Fund	80,00,00,000·00	Rupee Coin	1,73,173·00
National Agricultural Credit (Long-Term Operations) Fund	143,00,00,000·00	Small Coin	3,11,577·76
National Agricultural Credit (Stabilisation) Fund	33,00,00,000·00	Bills Purchased and Discounted :—	
National Industrial Credit (Long-Term Operations) Fund	55,00,00,000·00	(a) Internal	....
		(b) External	....
		(c) Government Treasury Bills ..	186,12,84,872·46
		Balances held Abroad*	107,53,31,072·38
Deposits :—		Investments**	252,52,09,122·40
(a) Government		Loans and Advances to :—	
(i) Central Government ..	54,82,38,785·05	(i) Central Government	....
(ii) State Governments	7,94,39,780·27	(ii) State Governments@	22,60,00,000·00
(b) Banks		Loans and Advances to :—	
(i) Scheduled Commercial Banks	150,53,41,384·68	(i) Scheduled Commercial Banks†	103,48,29,000·00
(ii) Scheduled State Co-operative Banks	10,72,07,452·12	(ii) State Co-operative Banks†† ..	148,74,84,233·00
(iii) Non-Scheduled State Co-operative Banks	82,32,797·14	(iii) Others	3,33,39,800·00
(iv) Other Banks	42,11,824·22	Loans, Advances and Investments from National Agricultural Credit (Long-Term Operations) Fund	
(c) Others	389,59,65,274·78	(a) Loans and Advances to :—	
Bills Payable	16,92,38,496·17	(i) State Governments	31,69,15,471·46
Other Liabilities	38,67,93,539·15	(ii) State Co-operative Banks ..	16,46,76,526·61
		(iii) Central Land Mortgage Banks	....
		(b) Investment in Central Land Mortgage Bank Debentures ..	8,00,02,135·00
		Loans & Advances from National Agricultural Credit (Stabilisation) Fund	
		Loans and Advances to State Co-operative Banks	6,14,33,418·00
		Loans, Advances and Investments from National Industrial Credit (Long-Term Operations) Fund	
		(a) Loans and Advances to the Development Bank	6,08,92,344·00
		(b) Investment in bonds/debentures issued by the Development Bank	....
		Other Assets	62,26,39,009·51
Total Liabilities	**986,46,69,333·58**	**Total Assets**	**986,46,69,333·58**

Contingent liability on partly paid shares Rs. 8,99,992·80 (Sterling Investments of £ 50,000 converted @ Rs. 100 = £ 5·5556).

* Includes Cash, Fixed Deposits and Short-term Securities.

** (i) Excluding Investments from the National Agricultural Credit (Long-Term Operations) Fund and the National Industrial Credit (Long-Term Operations) Fund.

(ii) Includes £ 50,000 and U.S. $ 1,992,500 held abroad.

@ Excluding Loans and Advances from the National Agricultural Credit (Long-Term Operations) Fund.

† Includes Rs. 67,00,54,000·00 advanced to scheduled commercial banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.

†† Excluding Loans and Advances from the National Agricultural Credit (Long-Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund.

G. BALASUBRAMANIAN,
Chief Accountant.

Dated, the 23rd July, 1968.

L. K. JHA, *Governor.*
B. N. ADARKAR, *Deputy Governor.*
A. BAKSI, *Deputy Governor.*
J. J. ANJARIA, *Deputy Governor.*
P. N. DAMRY, *Deputy Governor.*

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED		
	June 30, 1968	June 30, 1967	June 30, 1966
INCOME	Rs. p.	Rs. p.	Rs. p.
Interest, Discount, Exchange, Commission, etc.†	92,92,11,671·89	85,12,17,798·63	67,52,54,502·47
EXPENDITURE			
Establishment	11,74,52,581·32	10,24,00,952·84	8,94,25,875·37
Directors' and Local Board Members' Fees and Expenses ..	66,839·23	67,605·07	71,490·87
rs' Fees	30,000·00	30,000·00	30,000·00
Taxes, Insurance, Lighting, etc.	64,70,307·75	58,19,576·85	40,45,684·58
harges	1,63,239·37	14,708·45	48,332·67
and Telegraph Charges	9,61,938·76	8,50,377·65	7,76,425·43
ttance of Treasure	42,17,526·30	44,26,080·96	44,61,098·57
ionery, etc.	15,97,976·97	16,15,830·06	20,27,981·10
curity Printing (Cheque, Note Forms, etc.)	5,00,13,904·09	4,65,24,897·71	3,94,18,299·90
Depreciation and Repairs to Bank Property	69,08,487·84	68,61,357·31	49,01,584·56
Agency Charges	8,65,30,376·36	7,83,59,733·25	2,60,72,804·94
Contributions to Staff and Superannuation Funds	7,32,000·00	7,32,000·00	7,32,000·00
Miscellaneous Expenses	40,66,145·79	35,13,774·50	32,42,547·34
Net available balance	65,00,00,348·11	60,00,00,903·98	50,00,00,377·14
Total	**92,92,11,671·89**	**85,12,17,798·63**	**67,52,54,502·47**
ts payable to the Central Government	65,00,00,348·11	60,00,00,903·98	50,00,00,377·14

RESERVE FUND ACCOUNT

By Balance on 30th June, 1968	80,00,00,000·00
By transfer from Profit and Loss Account ..	Nil
Total	**80,00,00,000·00**

† After making usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act.

G. BALASUBRAMANIAN,
Chief Accountant.

L. K. JHA, *Governor.*
B. N. ADARKAR, *Deputy Governor.*
A. BAKSI, *Deputy Governor.*
J. J. ANJARIA, *Deputy Governor.*
P. N. DAMRY, *Deputy Governor.*

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1968.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the Offices at Calcutta, Bombay and Madras and with the Returns submitted and certified by the Managers of the other Offices and Branches, which Returns are incorporated in the above Balance Sheet, and report that where we have called for explanations and information from the Central Board such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is a full and fair Balance Sheet containing the particulars prescribed by and in which the assets have been valued in accordance with the Reserve Bank of India Act, 1934 and the Regulations framed thereunder and is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Bank.

S. B. BILLIMORIA & CO.,
BRAHMAYYA & CO.,
RAY & RAY
Auditors.

Dated, the 23rd July, 1968.