RESERVE BANK OF INDIA

RBI

annual report and trend and progress of banking in India

for the year ended June 30, 1971

Reserve Bank of India

Report of the Central Board of Directors on the Working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1971. Submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, 1934 and Section 36(2) of the Banking Regulation Act, 1949.

Annual Report 1971

CENTRAL BOARD OF DIRECTORS

Governor

SHRI S. JAGANNATHAN

Deputy Governors

SHRI P. N. DAMRY
DR. R. K. HAZARI
SHRI V. V. CHARI
SHRI S. S. SHIRALKAR

Directors nominated under Section 8(1)(*b*) *of the RBI Act.*

SHRI S. L. KIRLOSKAR
SHRI BHASKAR MITTER
SHRI V. N. PURI
SHRI J. RAMDAVE ROW

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

SHRI P. L. TANDON
SHRI ARVIND N. MAFATLAL
SHRI G. BASU
DR. V. SHANMUGASUNDARAM
SHRI KAMALJIT SINGH
SHRI D. C. KOTHARI
DR. P. B. GAJENDRAGADKAR
DR. A. M. KHUSRO

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

SHRI A. BAKSI, *Secretary*,
Government of India,
Ministry of Finance,
Department of Banking

MEMBERS OF LOCAL BOARDS

WESTERN AREA

SHRI S. L. KIRLOSKAR
SHRI LAXMAN VAMAN APTE
SHRI K. MAHINDRA
SHRI RAMKRISHNA BAJAJ
SHRI DAYALJI GOVINDJI PATEL

EASTERN AREA

SHRI BHASKAR MITTER
SHRI A. K. SEN
SHRI ABHIJIT SEN
SHRI HARI SHANKER SINGHANIA
SHRI G. K. BHAGAT

NORTHERN AREA

SHRI C. P. N. SINGH
SHRI G. R. MATTOO
SHRI V. N. PURI

SOUTHERN AREA

SHRI J. RAMDAVE ROW
SHRI C. RAMAKRISHNA
SHRI M. K. RAMACHANDRA
SHRI JOHN K. JOHN
SHRI A. SIVASAILAM

OFFICES/BRANCHES OF THE ISSUE AND BANKING DEPARTMENTS

ISSUE DEPARTMENT

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

BANKING DEPARTMENT

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.

August 16, 1971

Sravana 25, 1893 (Saka)

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

Dear Sir,

In pursuance of the provisions of Section 53(2) of the Reserve Bank of India Act, 1934 and of Section 36(2) of the Banking Regulation Act, 1949, I forward herewith the following documents :—

(1) A copy of the Annual Accounts of the Bank for the year ended the 30th June 1971 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's Auditors ;

and

(2) Two copies of the Annual Report of the Central Board on the working of the Bank and on Trend and Progress of Banking in India during the year ended the 30th June 1971.

Yours faithfully,

S. JAGANNATHAN

Governor

ANNUAL REPORT ON THE WORKING OF THE RESERVE BANK OF INDIA AND TREND AND PROGRESS OF BANKING IN INDIA

For the year July 1, 1970—June 30, 1971.

I. OVERALL TRENDS IN THE ECONOMY

The performance of the Indian economy during the Bank's accounting year July 1970 to June 1971 was rather uneven, though in terms of overall growth rate it appeared fairly satisfactory. In particular, as the year progressed, adverse trends emerged in some of the important sectors. National income at constant prices is estimated to have expanded by 5 to 5.5 per cent over 1969-70, attaining for the second year in succession the overall target of growth postulated in the Fourth Plan. To a large extent, this rise was due to a growth rate of over 6 per cent in the agricultural sector. The dominant group in this sector, *viz.*, foodgrains production, continued its upward movement for the second year in succession, recording a rise of over 8.0 per cent. In contrast, the rate of growth in industrial production showed deceleration. The prices continued to be under pressure throughout the year. On the external side, while India strengthened her second line of reserves by completing the programme of repurchases from the I.M.F., the deficit in the balance of payments on current account widened. Over the year, exports registered a rise but in respect of imports, there was a reversal of the declining trend noticed since devaluation. The tragic developments in East Bengal, following the military crackdown in March 1971, have led to a serious problem of millions of evacuees seeking refuge in our country. Provision of food and shelter to these unfortunate people has put a heavy strain on the country's resources and their continued inflow is bound to act as a serious constraint on the tempo of economic development.

2. Investment in the economy does not yet seem to have picked up to an adequate level. Public sector investment though larger than in the preceding year was much lower than budgeted for. As regards private corporate sector, public response to new issues was encouraging. Financial assistance sanctioned as well as disbursements made against earlier sanctions by the term-lending institutions were appreciably larger than last year. The stock market after a recovery in the earlier months, however, showed a bearish trend. On the whole, the organised sector of industry remained subdued with capital consents and capital issues lower than last year. Investment activity in the small-scale sector appears to have improved. Institutional finance for investment in agriculture showed a further increase over the previous year's level.

3. Budgetary operations in 1970-71 have shown a much wider gap between receipts and disbursements than expected, particularly in the case of State Governments, leading to a considerable increase in bank financing of the deficit. The budgetary policy of the Central Government for 1971-72 has been framed against the background of generally improved prospects in the economic situation and the need to accelerate the tempo of development. The budget provides for a substantial step-up in Plan outlays in order to impart the necessary thrust to developmental activities. It also provides further measures for moving nearer to the social objectives of reducing regional disparities and bringing about an egalitarian society. A special provision of Rs. 75 crores has been made for employment-oriented works in rural areas and for creating employment opportunities for the educated unemployed. The budget has also provided for Rs. 60 crores for expenditure in connection with the evacuees. However, the inflow of evacuees has been much larger than anticipated earlier and the strain on budgetary resources would be correspondingly increased.*

4. In view of the continuous pressure on prices and the much larger credit expansion by the banking system in the first half of the

* An additional provision of Rs. 200 crores has been made for expenditure to be incurred by end-December 1971 on evacuees from East Bengal.

year, monetary policy was constantly directed towards curbing the inflationary trends in the economy. Important measures taken were the stepping up of the Bank rate by one percentage point to 6 per cent, the raising of the banks' statutory and net liquidity ratios, substantial alterations in the basis of eligibility for refinance in respect of advances to priority sectors and for food procurement, advice to banks to exercise the utmost restraint, and the tightening of selective credit controls on specified commodities. At the same time, banks were advised to step-up the pace of deposit mobilisation ; with a view to helping the banks to augment their resource-base, upward revision of various deposit rates was permitted. The rate of credit expansion slowed down considerably thereafter and the pressure on prices eased.

5. The public sector banks vigorously continued their branch expansion programme and oriented their lending policies in favour of the priority sectors, and prepared special schemes for assisting the backward areas and the weaker sections of the community. At the same time, it has been impressed upon the banks that in lending to priority sectors, a minimum standard of quality should be maintained and proper utilisation and return flow of funds should be ensured.

Output, Prices and Policy Measures

Farm Output

6. For the second year in succession during 1970-71, agricultural production showed a fairly high rate of expansion. While favourable weather conditions, particularly during the kharif season, have no doubt played a part in this, the extension of irrigation facilities and use of better water management techniques, the expansion of area under the High Yielding Varieties Programme and adoption of modern technology on a wider scale, have all contributed to this progress. A large part of this progress was due to the output of foodgrains which at 107.8 million tonnes showed an increase of 8.3 million tonnes over the previous year. All major cereals except jowar shared the increase. Production of pulses, however, showed a marginal decline. The performance of major cash crops, however, was uneven. Output of both cotton and raw jute during 1970-71 is expected to be lower than in 1969-70. While cotton output was adversely affected by heavy unseasonable rains and attacks by pests in certain cotton producing tracts, decline in raw jute was due partly to adverse weather conditions during the sowing period and partly to reduction in acreage. Among major oilseeds, groundnuts production registered a significant improvement from 5.1 million tonnes to 6.1 million tonnes. Sugarcane (in terms of gur) is likely to remain around the previous year's level of output of 13.4 million tonnes.

Table I—Trends in Agricultural Production

	Unit	1969-70 (Final Estimates)	1970-71 (Estimates)
1. Foodgrains	Million tonnes	99·5	107·8£
(i) Rice	-do-	40·4	42·5£
(ii) Wheat	-do-	20·1	23·3£
2. Raw Cotton*	Million bales†	6·1	5·4
3. Raw Jute and Mesta‡	-do-	6·8	6·1
4. Groundnuts‡ ..	Million tonnes	5·1	6·1
5. Sugarcane (in terms of gur)	-do-	13·4	13·4

£ Final estimates.
* Trade estimates.
† Bales of 180 kgs.
‡ Final estimates for 1970-71 and partially revised estimates for 1969-70.

Industrial Output

7. The period under review witnessed a noticeable slackening in the tempo of industrial growth. After registering annual increases of 6.4 per cent and 7.1 per cent during 1968 and 1969, the C.S.O.'s Index of Industrial Production (Base : 1960=100) recorded a growth rate of only 4.5 per cent* for 1970. The set-back became more pronounced during the latter half of the year which showed a growth rate of only

* The slow-down in the growth rate is in part due to statistical reasons. There has been some transfer of units out of the books of D.G.T.D. to the small-scale sector without corresponding adjustments for the past years.

3.0 per cent over the corresponding period of 1969. Latest available data show that during January—March 1971 the increase in the index over the corresponding months of 1970 works out to only 1.5 per cent. The slackness in the tempo of industrial growth was due to a variety of adverse factors : shortages of key raw materials such as cotton, oilseeds and basic metals ; power and transport bottlenecks ; strained industrial relations ; and a shortfall in the targeted rate of increase in the public sector investment.

8. Almost all major industrial groups whether classified according to *uses* or *inputs* have shared in this deceleration in varying degrees. Thus *basic* industries showed an increase of only 4.2 per cent during 1970 as against 8.9 per cent in 1969. Growth rate in *intermediate goods* industries, which was 4.2 per cent in 1969 declined to 2.7 per cent. *Consumer goods* industries witnessed a growth rate of 6.3 per cent as against one of 10.2 per cent in 1969, the fall being particularly sharp in the sub-group 'consumer durable goods industries.' The group *capital goods* industries alone showed an improvement in the rate of increase from 1.8 per cent in 1969 to 4.7 per cent in 1970.

9. Input-wise, while growth rates in *agro-based* industries and *metal-based* industries registered marginal declines from 5.5 per cent and 5.8 per cent during 1969 to 4.5 per cent and 5.2 per cent, respectively, during 1970, the fall in *chemical-based* industries was steeper from 10.3 per cent to 7.5 per cent.

10. The *sectoral indicators* show that the output of 'transport equipment and allied industries' was virtually stagnant during 1970 as in 1969. The 'electricity and allied industries' group maintained a high level of growth rate (about 11 per cent) though it was lower than that in the preceding year (14.2 per cent). Figures relating to some of the important industries showing absolute declines in output are given in Table 3 and figures for industries showing high growth rates in Table 4.

Table 2—Trends in Industrial Production

(Variations (%) over corresponding period of previous year)

	Weights	1969	1970	January-June		July-December	
				1969	1970	1969	1970
General Index (Crude)	100·00	+ 7·1	+ 4·5	+ 8·0	+ 6·2	+ 6·1	+ 3·0
Use-Based Classification							
Basic industries	25·11	+ 8·9	+ 4·2	+ 9·6	+ 5·9	+ 8·3	+ 2·6
Capital goods industries ..	11·76	+ 1·8	+ 4·7	+ 4·1	+ 7·4	— 0·8	+ 2·5
Intermediate goods industries..	25·88	+ 4·2	+ 2·7	+3·0	+ 5·1	+ 5·1	+ 0·6
Consumer goods industries ..	37·25	+10·2	+ 6·3	+12·6	+ 6·8	+ 7·9	+ 5·5
(*a*) Consumer durable goods industries	5·68	+12·9	+ 3·2	+17·0	+ 2·7	+ 9·7	+ 3·1
(*b*) Consumer non-durable goods industries	31·57	+ 9·3	+ 7·3	+11·2	+ 8·2	+ 7·3	+ 6·3
Input-Based Classification							
Agro-based industries	44·08	+ 5·5	+ 4·5	+ 5·8	+ 6·0	+ 5·5	+ 2·9
Metal-based industries ..	16·55	+ 5·8	+ 5·2	+ 8·5	+ 6·9	+ 3·1	+ 3·7
Chemical-based industries ..	8·94	+10·3	+ 7·5	+13·2	+10·7	+ 7·7	+ 4·6
Sectoral Indicators							
(1) Transport equipment and allied industries	10·90	+ 0·4	+ 0·1	+ 5·4	+ 1·8	— 4·6	— 1·4
(2) Electricity and allied industries	8·42	+14·2	+11·1	+15·4	+12·1	+12·8	+10·4

Note : This table is based on C.S.O.'s Index Number of Industrial Production (*Base :* 1960=100). Group indices are derived.

Table 3—Industries Showing Absolute Declines in Output During 1970

(In percentages)

Industry	Growth rates during 1969	Growth rates during 1970
Iron and steel (basic industries)	+ 8·5	— 6·9
Brass manufacturing	+28·5	— 4·6
Prime movers, boilers and steam generating plants	+ 0·5	— 2·7
Rail-road equipment	—10·6	—19·8
Dyestuff and dyes	+ 9·6	— 1·4

Table 4—Industries Showing High Growth Rates During 1970

(In percentages)

Industry	Growth rates during 1969	Growth rates during 1970
Basic Industries		
Heavy inorganic chemicals ..	+14·0	+ 6·5
Fertilisers	+22·1	+21·3
Aluminium	+ 5·9	+19·6
Electricity	+12·9	+10·3
Capital Goods Industries		
Machinery apparatus and supplies for generation, etc. (power transformers) ..	+ 4·6	+40·6
Electrical motors and furnaces	+ 8·7	+34·5
Electrical cables and insulated wires	+ 5·4	+ 9·0
Intermediate Goods Industries		
Jute manufactures	—19·3	+ 9·4
Consumer Goods Industries		
Sugar (refined)	+76·4	+10·9
Tea	+ 3·1	+18·8
Vanaspati	+ 1·6	+ 8·2
Commercial office and household machines	—14·1	+14·3
Motor cycles and bicycles ..	+10·4	+ 9·8

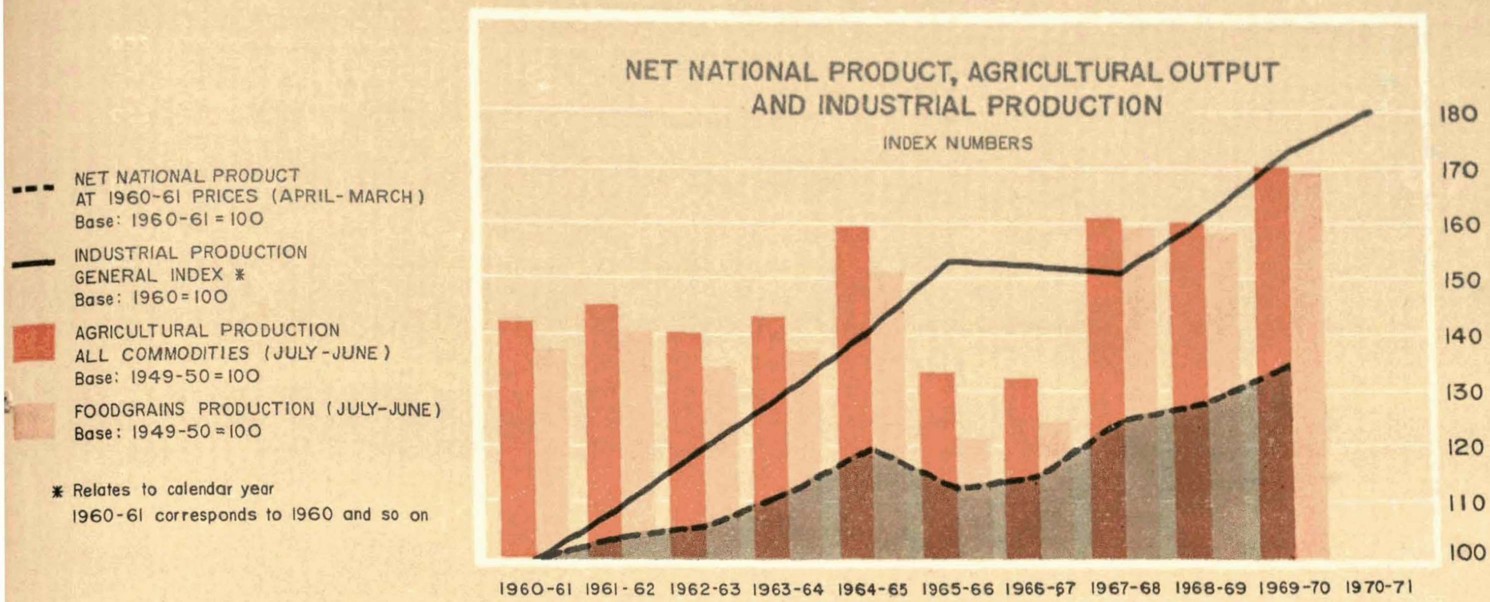
Capacity Utilisation

11. With this slackening in the industrial growth rate, the problem of under-utilisation of capacity was accentuated particularly in such industries as iron and steel, heavy mechanical engineering and industrial machinery and rail-road equipment. For finished steel, the utilisation ratio worked out to 68 per cent during the second half of 1970 as compared with 70 per cent during the corresponding period of 1969. Those industries manufacturing machinery for cement mills, tea, printing, leather and rubber products, experienced a reduction in capacity utilisation during 1970 as compared with 1969. In respect of railway wagons, hardly 39 per cent of the installed capacity was utilised due to a steady decline in orders from the railways. Other important industries which showed a reduction in capacity utilisation ratio during 1970 included, among others, cement, steel castings, steel pipes and tubes, storage batteries and dry cells. The utilisation ratio in almost all of these industries was not only lower during the second half of 1970 than during the first half but was also lower during the calendar year 1970 as compared with 1969.

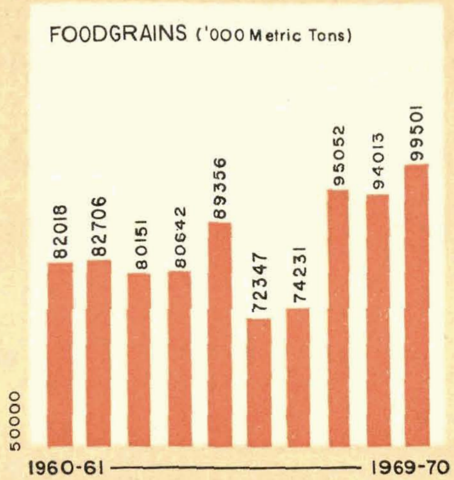
12. However, some industries did register some improvement in the utilisation of their rated capacity. Important amongst these were power transformers, electrical motors, electrical cables and wires, because of larger outlays on rural electrification programmes. In motor vehicles, machine tools and some basic chemicals such as caustic soda, the capacity utilisation improved because of maintenance of high demand.

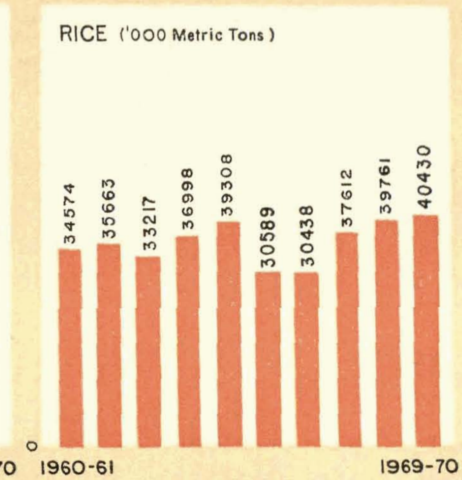
Causal Factors

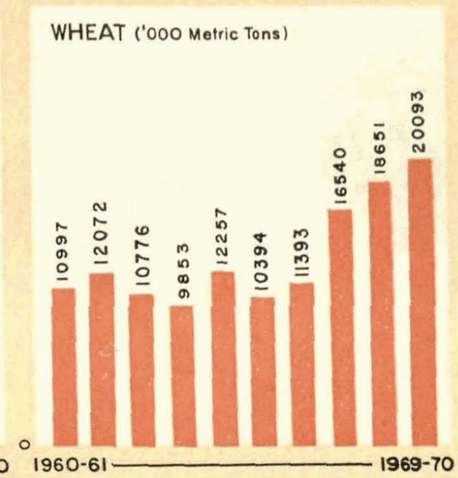
13. The causal factors for the slowdown in industrial growth are many and they differ from industry to industry. Output of iron and steel was adversely affected by strained industrial relations and other organisational problems, shortages of raw materials such as refractories and lime and shutdown of some plants due to mechanical failures and for capital repairs. The absolute decline in the output of iron and steel had, in turn, an adverse impact on the output of a number of steel-based engineering industries. Output of coal was adversely affected by reduced demand, particularly from the railways, and

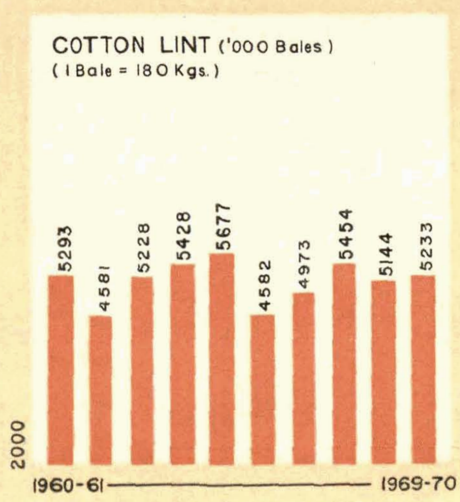


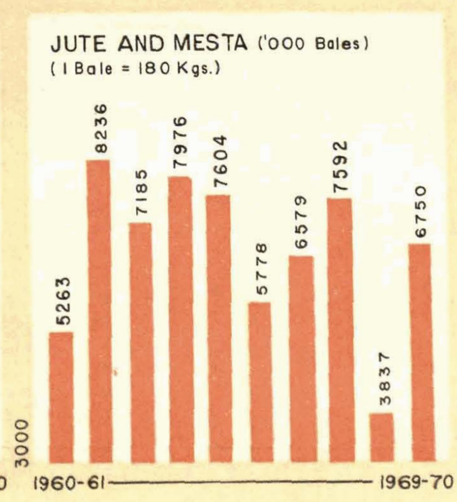
AGRICULTURAL PRODUCTION

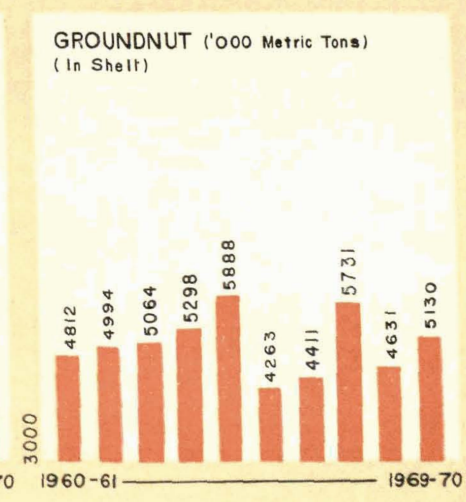








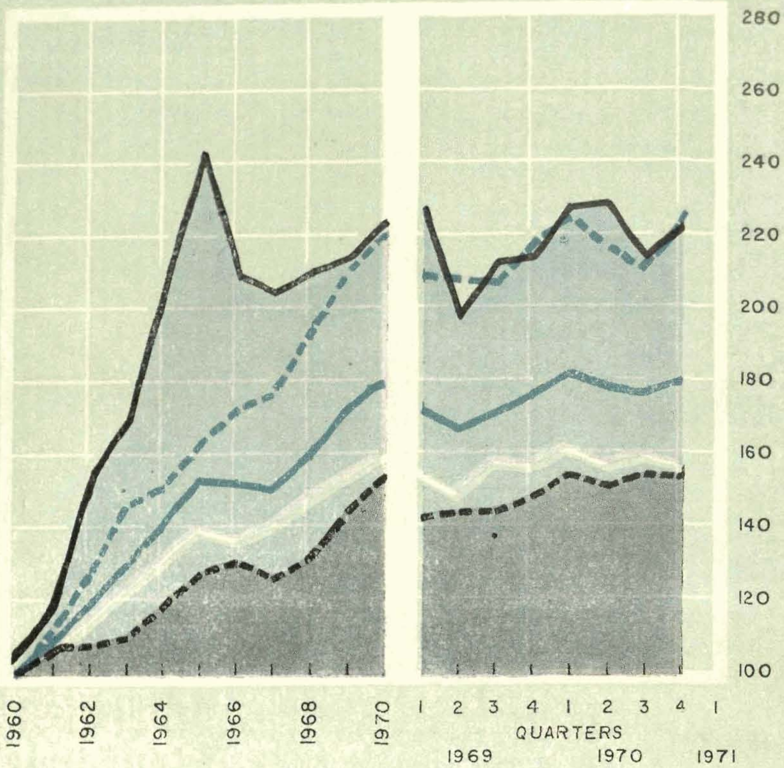




INDEX NUMBERS OF INDUSTRIAL PRODUCTION

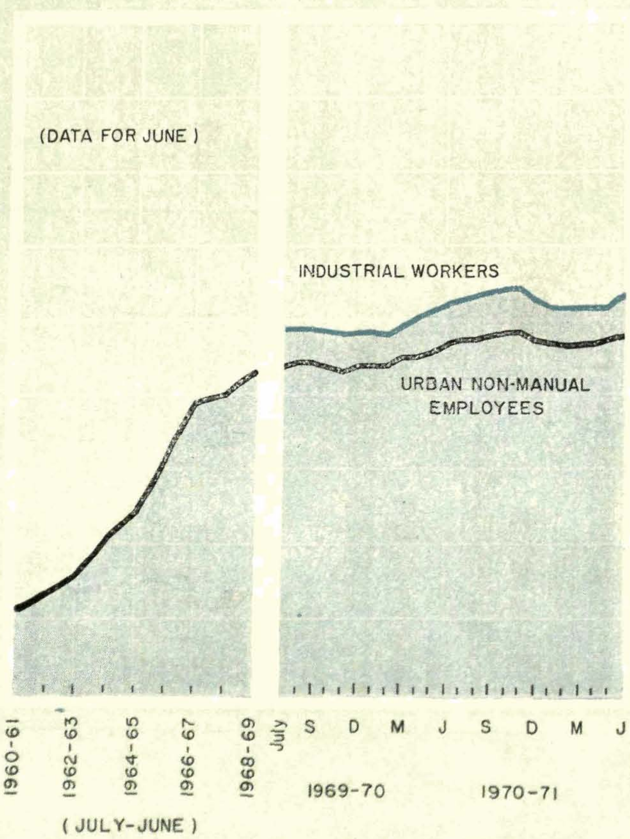
BASE: 1960 = 100

GENERAL INDEX (SEASONALLY ADJUSTED)
BASIC INDUSTRIES
CAPITAL GOODS INDUSTRIES
INTERMEDIATE GOODS INDUSTRIES.
CONSUMER GOODS INDUSTRIES.



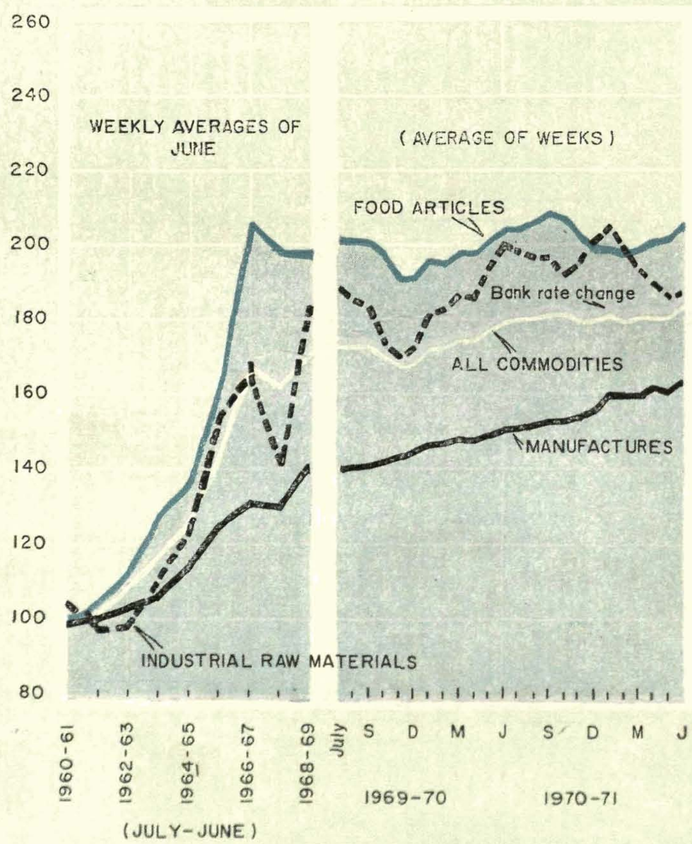
CONSUMER PRICE INDEX NUMBERS ALL-INDIA

(BASE: 1960 = 100)



INDEX NUMBERS OF WHOLESALE PRICES BY GROUPS

(BASE: 1961-62=100)



also by transport bottlenecks. Reduction in wagon loadings during the year, following general slackness in overall industrial activity and also immobilisation of wagons as a result of an unsatisfactory law and order situation in the Eastern region, adversely affected railway finances resulting in a cut in their investment programmes. This, in turn, severely affected the demand for a wide range of engineering products, particularly the rail-road equipment. Besides the railways, many other major industrial projects in the public sector such as Bokaro Steel, petro-chemicals and fertiliser plants could not achieve the targeted rate of increase in investment outlays ; this affected output in the engineering sector except in industries belonging to heavy electrical group which has registered substantial increases in the output of generators, power transformers and other equipment to cater to the growing demand for electricity. The recent rural electrification programme is an additional factor.

14. With the improvement in power supply in rural areas, demand for diesel engines has levelled off in recent months. Among consumer goods industries, the cotton textile industry has been passing through a difficult phase due to shortage of raw cotton.

15. As stated already, slackness in industrial growth in general was partly due to shortages of key raw materials like cotton, oilseeds and steel, in addition to power and transport bottlenecks. Shortfall in public sector investment had its impact on a number of mechanical engineering industries in which additional capacity was built up earlier in anticipation of a steady expansion of public sector investment. Further, there has recently been a shift in investment programmes in favour of agricultural and employment-oriented schemes ; these schemes have, in the initial stages at least, a limited potential for generating additional demand for the products of the heavy mechanical engineering industry. Labour relations continued to remain disturbed. Total man-days lost in 1970 on account of strikes and lock-outs add up to 19 million about the same as in 1969.

16. In contrast to a decline in the rate of growth of output of organised industries, the performance of small-scale and decentralised sectors in recent years has shown improvement. The cloth output in the decentralised sector, for instance, recorded an improvement of about 4.4 per cent during 1970.

Employment Situation

17. In the absence of adequate data, it is difficult to assess the employment situation during 1970-71. Overall employment in the 'organised sector,' which was virtually stagnant during the years 1966-67 and 1967-68, registered an improvement of 1.9 per cent in 1968-69 and 2.5 per cent in 1969-70. In both these years, the growth rate was higher in public sector than in private sector. Data regarding employment in 1970-71, available for the period April-September 1970 show that total employment in 'organised sector' increased by about 2.7 per cent over the corresponding period of the previous year. Employment in public sector rose by 2.9 per cent during this period and that in private sector by 2.3 per cent. Further, data from the Live Registers of the Employment Exchanges available for 1970-71 (April-March) also show a rising trend in employment in the 'organised sector.' Rate of growth in 'placements' has shown a sharp increase from 0.9 per cent in 1969-70 to 5.1 per cent in 1970-71 and that in 'vacancies notified' from an absolute decline of 0.6 per cent to a rise of 4.8 per cent.

18. With the recent emphasis on employment-oriented schemes, both in rural and urban areas, and with the increase in agricultural production, employment situation in the unorganised sector also may be expected to improve. The Central Budget has made provision of Rs. 50 crores for employment-oriented works in rural areas and Rs. 25 crores for creation of employment opportunities for the educated unemployed. Besides, some of the special programmes formulated for the benefit of marginal farmers, farmers in dry-farming areas and agricultural labour may also be helpful. The Marginal Farmers and Agricultural Labour (MFAL) projects to be taken up in 41 selected districts (of which 30 have already been approved and financial allocation in respect of 22 projects have been made upto March 1971) with a project outlay of Rs. 1 crore each are particularly oriented towards development of subsidiary occupations such as poultry and dairy farm-

ing. The rural works programme proposed to be undertaken in 54 chronically drought-prone districts in different States, for which an outlay of Rs. 100 crores is envisaged during the Fourth Plan, is expected to provide significant employment opportunities for farmers in these areas.

19. The commercial banks also have expanded credit facilities at reasonable rates of interest for purposes with a considerable employment potential to a large number of borrowers of small means, such as, small farmers, small-scale manufacturers, retail traders, road transport operators, small businessmen, professionals and self-employed persons.

Price Situation

20. The general price level over the year under review showed a rise of 3.1 per cent, compared with an increase of 4.0 per cent recorded in the preceding year. The undertone was one of continued pressure although between September 1970 and May 1971, prices fluctuated within a narrow range.

21. The Economic Adviser's Index Number of Wholesale Prices (Base : 1961-62 = 100), which stood at 180.5 by end-June 1970 moved up further to reach the peak at 183.8 on September 12, 1970. This was followed by a period of narrow fluctuations with the onset of the harvesting season ; as the underlying trend was one of continued pressure, the index again touched its earlier peak of 183.8 on January 9, 1971 and hovered around this level till the end of the month. The main factor responsible for pressure on prices during this period was the supply shortages, in relation to rising demand, in respect of key industrial raw materials such as cotton and oilseeds in the earlier part of the year. With the adoption of corrective measures, such as larger imports, equitable distribution, general and selective credit controls, the pressure on prices eased and the price index declined to 180.6 on February 27, 1971. Thereafter, it fluctuated narrowly between 180-183 till the third week of May 1971. Following the onset of lean season for agricultural commodities, the pressure on prices reasserted itself. Variations in index of wholesale prices during the last two accounting years are brought out in Table 5.

22. Groupwise, the prices of Food Articles experienced relative stability, while those of Industrial Raw Materials registered a decline mainly because of a perceptible fall in groundnuts and other edible oil prices from the high levels reached in the previous year. Almost all other groups showed larger increases than in the preceding year.

23. The relative stability in the price index for Food Articles reflected their relatively easier supply position. Following good harvest for the fourth year in succession, prices of 'foodgrains' recorded a significant fall of 2.4 per cent as against an increase, though fractional (0.6 per cent), noticed during the previous year. Prices of major cereals such as rice and wheat recorded declines of 2.1 per cent and 2.9 per cent, respectively. Prices of bajra moved down by as much as 25.6 per cent. As against these declines, prices of 'pulses' witnessed a rise of 3.3 per cent and jowar prices, an increase of 1.6 per cent. 'Edible oils' prices, which were experiencing severe pressure till the beginning of October 1970, eased thereafter on better crop prospects during the 1970-71 season, particularly in respect of groundnuts. On balance, 'edible oils' prices recorded a substantial fall of 17.3 per cent during the year under review as compared with the rise of 13.5 per cent during 1969-70.

24. The marked fall of 5.1 per cent (as against a rise of 8.4 per cent during 1969-70) in the Industrial Raw Materials group was brought about by the declines in prices of 'oilseeds' (16.5 per cent) and raw jute (4.8 per cent). During 1969-70, while prices of raw jute had witnessed a substantial fall of 15.7 per cent, those of 'oilseeds' had risen by 13.6 per cent. In contrast, raw cotton prices experienced renewed pressure during the year under review and there was a rise of 20.3 per cent on top of an increase of 12.6 per cent recorded during 1969-70. Except for a temporary respite noticed during the months of September-October 1970 when trade estimates had placed the cotton crop for 1970-71 at a high level of 62 lakh bales (which was subsequently revised downward to only 54 lakh bales), raw cotton prices had shown a marked upward trend almost continuously from the beginning of 1970 due to acute scarcity of domestic cotton and delayed

Table 5—Trends in Index Numbers of Wholesale Prices

(*Base* : **1961-62 = 100**)

	Weights*	End-June 1969	End-June 1970	End-June 1971	Percentage Variations: End-June 1970 over End-June 1969	Percentage Variations: End-June 1971 over End-June 1970
All Commodities	**1000**	**173·5**	**180·5**	**186·1**	**+ 4·0**	**+ 3·1**
Food Articles	**413**	**201·9**	**204·3**	**206·8**	**+ 1·2**	**+ 1·2**
Foodgrains	(35·8)	210·8	212·1	207·0	+ 0·6	— 2·4
(*i*) Rice	(16·2)	202·4	209·2	204·8	+ 3·4	— 2·1
(*ii*) Wheat	(7·8)	207·8	205·9	199·9	— 0·9	— 2·9
(*iii*) Jowar	(2·2)	198·3	188·8	191·9	— 4·8	+ 1·6
(*iv*) Bajra	(1·1)	207·2	187·6	139·5	— 9·5	—25·6
Pulses	(6·5)	241·6	240·0	247·8	— 0·7	+ 3·3
Edible Oils	(13·0)	211·1	239·5	198·1	+13·5	—17·3
Liquor and Tobacco	**25**	**202·2**	**184·5**	**194·4**	**— 8·8**	**+ 5·4**
Tobacco Manufactures	(47·5)	199·5	212·1	245·6	+ 6·3	+15·8
Fuel, Power, Light and Lubricants	**61**	**153·4**	**160·3**	**170·5**	**+ 4·5**	**+ 6·4**
Industrial Raw Materials	**121**	**185·7**	**201·3**	**191·0**	**+ 8·4**	**— 5·1**
Cotton Raw	(18·5)	169·7	191·0	229·8	+12·6	+20·3
Jute Raw	(9·6)	189·3	159·6	152·0	—15·7	— 4·8
Oilseeds	(43·3)	215·1	244·3	204·0	+13·6	—16·5
Groundnuts	(20·8)	216·9	240·1	192·9	+10·7	—19·7
Chemicals	**7**	**179·1**	**185·1**	**195·0**	**+ 3·4**	**+ 5·3**
Machinery and Transport Equipment	**79**	**133·7**	**145·7**	**156·1**	**+ 9·0**	**+ 7·1**
Manufactures	**294**	**140·9**	**151·7**	**165·4**	**+ 7·7**	**+ 9·0**
(*i*) Intermediate Products	(19·5)	155·3	174·9	193·0	+12·6	+10·3
(*ii*) Finished Products	(80·5)	137·4	146·0	158·7	+ 6·3	+ 8·7
Cotton Manufactures	(26·8)	131·1	140·0	159·4	+ 6·8	+13·9
Jute Manufactures	(8 ·1)	148·1	166·5	191·2	+12·4	+14·8
Chemical Products	(9·2)	135·6	143·9	149·5	+ 6·1	+ 3·9
Iron and Steel Manufactures	(12·2)	149·7	160·8	177·6	+ 7·4	+10·4
Paper Products	(3·3)	120·4	121·3	124·7	+ 0·7	+ 2·8

* Figures in brackets refer to the percentage distribution of the weightage assigned to respective main groups.

imports. By February 6, 1971, the wholesale price index for raw cotton had reached the peak level of 257.0, recording a rise of 53 per cent over the level at the beginning of 1970. Subsequently, however, with the stepping up of Government's import programme and tightening of credit control measures, cotton prices tended to fall and by May 15, 1971, their index had reached 218.1 showing a fall of 15.1 per cent over the above peak level. Thereafter, cotton prices again edged upwards due to inadequate pick-up in import arrivals, and the index stood at 229.8 at the end of the year.

25. Though estimated output of raw jute in 1970-71 was lower than that in the previous year, its prices showed a gradually declining trend upto the beginning of March 1971 due to sluggish manufacturing activity, following labour unrest in the jute mill industry, as also in Calcutta port which affected jute exports. With subsequent improvement in mills' demand for raw jute, the prices tended to rise. This was aided by developments in East Bengal. As a result, though over the year the raw jute index recorded a substantial fall, during the last quarter (April-June), it showed a rise of 6.6 per cent.

26. The decline in prices of 'oilseeds' to the extent of 16.5 per cent, in contrast to a steep increase of 13.6 per cent in 1969-70, was mainly brought about by a substantial fall of 19.7 per cent in groundnuts prices. These have been steadily declining throughout the year under review owing to promising crop prospects ; the down-trend was accentuated by heavy market arrivals of new groundnut crop during September-October 1970 and later due to reports of the signing of a new P. L. 480 agreement for import of 75,000 tonnes of soyabean oil from the U.S.A.

27. Associated with supply shortages noticed in respect of certain key industrial raw materials is the rise of 9.0 per cent during 1970-71 in the prices of Manufactures, on top of a rise of 7.7 per cent during 1969-70. The increase has been all-round. Among 'finished products', industries to record large increases are cotton and jute manufactures. Increases in their prices were of the order of 13.9 per cent and 14.8 per cent over and above the increases of 6.8 per cent and 12.4 per cent, respectively, recorded in the preceding year. The prices of 'iron and steel manufactures' rose by 7.4 per cent during 1969-70 and by 10.4 per cent during 1970-71. Besides, items like paper products and chemical products have shown continuous increases in prices.

28. Within the group Liquor and Tobacco, prices of 'tobacco manufactures', which rose by 3.2 per cent during the first eleven months of the accounting year (July 1970—May 1971), experienced a sharp increase of 12.2 per cent during the month of June 1971 ; as a result, over the year, these prices showed a rise of 15.8 per cent as compared with a rise of 6.3 per cent during the previous year. Similarly, within the group 'Fuel, Power, Light and Lubricants', prices of mineral oils, kerosene oil and petrol, which had almost remained stable during the first eleven months, registered sharp increases during the month of June 1971, ranging from 6.0 to 19.0 per cent.

29. The relative stability noticed in respect of 'foodgrains' prices during the year under review is also reflected in the movement in the All-India Consumer Price Index for Working Class (Base : 1960=100), which recorded a smaller rise of 1.1 per cent during July 1970—June 1971 as compared with the rise of 3.9 per cent recorded during 1969-70.

Policy Measures —Agricultural Commodities

30. Following increase in foodgrains output for the second year in succession, procurement of foodgrains was sizeably stepped up, controls on movements of all foodgrains except rice were generally removed, and size of foodgrains stocks with Governments showed a further increase of nearly three million tonnes by the end of the year, despite a lower level of imports.

31. With the steady improvement in domestic output, imports of foodgrains have been reduced to 3.6 million tonnes in 1970 from 5.7 million tonnes in 1968 and 3.9 million tonnes in 1969. During 1971, imports are likely to be lower than 3 million tonnes. In fact, during the first six months of 1971, only 0.7 million tonnes of foodgrains were imported as against 1.8 million tonnes during the corresponding period of 1970.

Table 6—Basic Data Relating to Food Management

(Million tonnes)

	1968-69 Crop		1969-70 Crop		1970-71 Crop	
	Target	Achievement	Target	Achievement	Target	Achievement
Procurement						
Total Foodgrains	7·9	6·1	9·2	6·6	9·5	8·1*
Of which : Rice (November-October)	3·5	3·3	4·5	3·0	4·7	3·1*
Wheat (April-March)	3·6	2·3	3·7	3·2	4·0	4·5*
Imports†	5·7		3·9		3·6	
Public Distribution of Foodgrains†	10·4		9·5		8·9	
Year-end Stocks of Foodgrains	5·5		5·8		8·5	

* Provisional.
† These are calendar year data for 1968, 1969 and 1970, respectively.

Government have also proposed to stop all concessional imports of foodgrains by 1972.

32. Notwithstanding lower imports, stocks of foodgrains with the Central and State Governments stood at 8.5 million tonnes at the end of June 1971, registering an increase of 2.7 million tonnes over the level a year ago. Allowing for an operational stock of 2 million tonnes, buffer stock of foodgrains may be reckoned at 6.5 million tonnes. Such a high level of stock build-up was made possible by intensified procurement operations and lower off-take of foodgrains through the public distribution system.

33. Procurement of foodgrains from the 1969-70 crop totalled 6.6 million tonnes. Total procurement from the 1970-71 crop till end-June 1971 aggregated 8.1 million tonnes as against the target of 9.5 million tonnes set for the entire crop year. The Food Corporation of India is gradually acquiring a commanding position in the foodgrains trade ; it procured 7.4 million tonnes of foodgrains from the 1970-71 crop till end-June 1971 as compared with 5.4 million tonnes from the entire 1969-70 crop.

34. Due to improved open market availability, volume of foodgrains distributed through fair price/ration shops has been declining for the past two years. During 1970, total quantity distributed was 8.9 million tonnes as compared with 9.5 million tonnes in 1969. The number of fair price/ration shops also declined from 1.39 lakhs as at the end of 1969 to 1.22 lakhs as at the end of 1970.

35. As for movement restrictions, the movement of wheat and wheat products was made free throughout the country except in the statutorily rationed areas of Bombay, Calcutta, and the Asansol-Durgapur complex, with effect from April 1970. Subsequently, in May 1971, the ban on movement of wheat in the statutorily rationed area of Bombay was lifted.

36. In respect of key agricultural raw materials, prices of which caused anxiety during the year, Government stepped up its import programme. In the case of raw cotton, Government decided to import about 13.3 lakh bales during the 1970-71 season as against 9.1 lakh bales imported during 1969-70 (Table 7). However, there was considerable delay in actual import arrivals, and prices of cotton experienced a sharp upward rise, which necessitated tightening of control on bank advances against cotton in mid-December 1970. The Textile Commissioner imposed on December 9, 1970 a further reduction in cotton stocks to be held by the Mills. Also the Forward Markets Commission sus-

pended futures trading in Kapas and reduced the period for non-transferable specific delivery contracts in cotton from six months to three months in December 1970 and further to one month in February 1971. In respect of oilseeds, Government permitted large imports of soyabean oil under P.L. 480 and made arrangements for the import of rapeseed. As prices of oilseeds and oils ruled at levels much higher than the preceding year due to speculative stock-holding despite reported rise in groundnut output, the Reserve Bank had to tighten its credit control measures regarding bank advances against oilseeds, vegetable oils and vanaspati towards end-January 1971.

Table 7—Availability[1] of Raw Materials for Industries

	1967-68	1968-69	1969-70	1970-71 (Estimates)
Raw Cotton (Lakh bales of 180 kgs. each) (September-August)				
Production[2]	65·4†	59·2	60·7	54·0
Imports	7·8	4·3	9·1	13·3
Availability	92·4	84·7	86·9	83·8
Mill consumption ..	61·7	62·0	63·7	59·3
Raw Jute and Mesta (Lakh bales of 180 kgs. each) (July-June)				
Production	75·9	38·4	67·9	61·4*
Imports	—	6·1	—	—
Availability	94·6	64·5	75·9	75·4
Mill consumption ..	71·3	58·5	62·0	60·0
Major Oilseeds[3] (July-June) (Million tonnes)..				
Production	8·3	6·8	7·6	8·4

1. Availability is defined as production, imports and opening stocks.
2. Trade estimate, including non-commercial production.
3. Groundnut, rapeseed and mustard, linseed, sesamum and castorseed.
† Actual bales.
* Final estimate.

37. The programmes under the New Agricultural Strategy designed to strengthen the productive base of agriculture were further expanded and also intensified during the year under review. New dimensions were added to the programme of agricultural development so as to extend the coverage to dry farming areas as also to provide infra-structural facilities for the weaker sections of the rural community to share the benefits of development. Initially, food production policy was directed at exploiting, through concentrated application of new techniques, the existing production potential of areas with assured water supply and other favourable conditions. Though the strategy has yielded promising results, it has so far not benefited the farmers in dry areas, as also the weaker sections of the farm community. Therefore, additional programmes were undertaken to benefit the dry farming regions and to improve the lot of small but potentially viable farmers, marginal farmers and agricultural labour.

38. Among the existing programmes, coverage under high-yielding varieties is expected to be 14.0 million hectares in 1970-71 as against the actual achievement of 11.4 million hectares in the previous year. Besides, further progress has been made in evolving new improved varieties for both rice and wheat, and areas under them have increased considerably during the year under review. Coverage under high-yielding varieties of rice has shown a significant increase at 5.50 million hectares during 1970-71 against the target of 4.45 million hectares. Among coarse grains, hybrid varieties of bajra have given encouraging results. Substantial achievements, in quantitative terms, were recorded in other programmes like multiple cropping, plant protection and minor and medium irrigation. Efforts at evolving new techniques for raising yield rates of important commercial crops were also vigorously pursued during the year under review.

39. Though the quantity of fertilisers consumed has increased, rate of growth has slowed down during both 1969-70 and 1970-71, partly due to larger stock accumulation earlier with dealers and farmers. The consumption of fertilisers has shown a notable rise in areas with adequate water supply and in areas where coverage of high-yielding varieties has

been increasing ; the other areas remain yet to be adequately covered. With rural electrification programme gaining momentum, the number of villages electrified has increased as also the number of agricultural pumpsets energised. There has been further progress in installation of private tubewells and induction of tractors (Table 8). Following the adoption of "multi-agency approach", quantum of institutional credit extended to agriculture has made rapid strides. Total credit extended by co-operatives during 1969-70 amounted to Rs. 682 crores as against the year's target of Rs. 640 crores and the actual credit of Rs. 616 crores supplied in the previous year. Short and medium-term credit during 1970-71 amounted to about Rs. 615 crores ; long-term credit extended by land development banks is also expected to increase further during the year. Farm credit by commercial banks registered a phenomenal increase during 1970-71 ; as against the outstandings of Rs. 188 crores, on the eve of nationalisation of the major commercial banks, in June 1969, outstandings as at the end of March 1971 increased to Rs. 379 crores.

Table 8—Progress of New Agricultural Strategy

Programme	Units	1968-69	1969-70	1970-71 (Target)
Gross Area Covered				
High-yielding varieties	Million hectares	9·3	11·4	15·1 (14·0)
Multiple cropping	„	6·1	8·0	10·2 (9·5)
Plant protection	„	40·0	48·0	52·0* (52·0)
Consumption of Fertilisers	'000 tonnes (nutrients)	1760	2009	2540 (2113)
Nitrogenous (N)	„	1208	1398	1730 (1426)
Phosphatic (P_2O_5)	„	382	435	560 (461)
Potassic (K_2O)	„	170	176	250 (226)
Gross Area Irrigated				
Major and medium**	Million hectares	18·6	19·4	20·0 (20·7)
Minor	„	19·0	20·4	21·9 (21·9)
Institutional Investment on Minor Irrigation	(Rs. Crores)	106	120	— (30)
Agricultural pumpsets energised	'000 Nos.	1069	1329	1609 (1594)
Private tube wells installed	„	67	90	— (100)
Indigenous production of tractors	„	15·5†	17·1‡	25·0 (20·1)

Note: Figures in brackets are likely achievements.
* The original target was 42·3 million hectares.
** Potential.
† In addition, 15,500 tractors were imported.
‡ In addition, 14,888 tractors have already been shipped upto March 31, 1971 against contracts concluded for import of 33,500 tractors against 1969-70 requirements.

40. The Small Farmers Development Agencies have been approved for 45 selected districts as against the target of 46 districts to be covered during the remaining years of the Fourth Plan and financial allocations were made in respect of 43 agencies upto March 1971. These agencies would locate the small but potentially viable farmers, identify their problems and help in the provision of institutional credit, inputs, etc. Agencies for developing special programmes for providing supplementary occupation and employment-

oriented activities in respect of marginal farmers and agricultural labour have been set up. The Agro-Industries Corporations already established in all the States except in Nagaland and Meghalaya, have shown further progress in making available essential farm inputs and agricultural machinery. The Central budget for 1971-72 has provided Rs. 50 crores to be spent on a countrywide crash programme of employment-oriented schemes in rural areas. A sum of Rs. 18.5 crores for grants has also been provided in the budget for 1971-72 for rural works in chronically drought affected areas.

41. In regard to raw cotton and raw jute, Government also took steps to canalise their imports/supplies through public sector agencies for which special corporations were established. The Cotton Corporation of India started functioning from September 15, 1970 which, besides canalising cotton imports, is also entrusted with the task of price support operations, purchase of extra long-staple cotton and supply of cotton to mills working under Government management. The Corporation has already started purchasing domestic cotton to meet the requirements of mills mainly in the public sector. In the case of jute, the Jute Corporation of India was established on April 2, 1971 for purchasing raw jute so as to ensure minimum support price to the growers and to build up buffer stocks through internal purchases and imports, if necessary.

Industrial Commodities

42. In the industrial sector, the tempo of growth was partly affected by shortfalls in public sector investment during the first two years of the Fourth Plan. This has been sought to be corrected by raising the public sector Plan outlay for 1971-72 to Rs. 3024 crores, *i.e.*, by about Rs. 600 crores above the likely Plan expenditure in 1970-71. Import policy for 1971-72 was considerably liberalised in regard to the requirements of priority sectors. Besides, import policy has provided special facilities for the import of raw materials to facilitate the revival of closed engineering units, particularly in West Bengal. A new corporation, namely, the Industrial Reconstruction Corporation of India, was established in April 1971, with headquarters at Calcutta, with a view to helping rehabilitation of closed units or units facing the risk of closure, particularly in West Bengal.

43. In regard to industrial development policy, while the new licensing policy as enunciated by Government in February 1970 continued to provide the basis for industrial advancement, the year under review saw a distinct policy re-orientation in favour of industries established in backward regions and those in the small-scale sector including the ones initiated by the young technicians, engineers and other self-employed persons, with a view to promoting wider dispersal and decentralisation of industries. A series of incentives have been devised for the promotion of these industries. The Central budget for 1971-72 has provided for a reduction in import duty in respect of machinery imported by small units and also differential excise duties, particularly on producer goods. The term-lending institutions like IDBI and IFCI have evolved new policies for encouraging industries set up in backward regions. Import policy for 1971-72 also makes special provision for the raw material requirements of small-scale units, young technicians, engineers, and other self-employed persons and also in respect of industries established in backward regions.

44. Government took certain concrete steps to foster the development of 'joint sector' in Indian industry on the lines of the recommendations of the Industrial Licensing Policy Inquiry Committee's (Dutt Committee) Report to which a reference is made later in this Report.

45. In the field of licensing policy, the number of items reserved for the small-scale sector has been increased, bringing the total of reserved items to 128. The 'banned' list for the purposes of industrial licensing, which had been under suspension since March 1970 on an experimental basis, has been dispensed with.

46. Besides, specific policy measures were adopted depending upon the exigencies of

individual industries. In respect of some, as in electrical cables and wires and aluminium and its products, the market conditions attracted statutory price controls by Government. Besides, the use of copper in the manufacture of electrical cables and wires was prohibited except where they are intended for exports. Where the cost structure of industries entailed a reduction in prices, such a reduction was effected, either through statutory reduction as in rayon tyre yarn, cord and fabric (done on the advice of the Tariff Commission) or through informal arrangements with the industries concerned as in respect of the retail prices of automotive tyres and tubes. The prices of drugs and medicines were brought under a comprehensive system of control. Price increases were permitted where wage, raw material or other costs have escalated in recent years. Cycle prices were allowed to be raised due to increases in the prices of steel. In cement, price increases were permitted with a view to replenishing the balance in the freight equalisation account.

47. In steel, to mitigate the severe shortages, imports were considerably liberalised. As a result the import licences for steel issued during the financial year 1970-71 were more than twice the value of licences issued during 1969-70. Government also adopted a series of other measures, such as regulation of steel exports and introduction of the requisite changes in the product-mix by the main producers. The system of distribution was streamlined and distribution control was extended to practically all iron and steel products, without any distinction between scarce and non-scarce categories. Billets being supplied to re-rollers at controlled prices, the informal price control was also extended to the steel re-rolled products so as to prohibit them from appropriating a high margin.

48. Among agricultural commodities and agro-based industries under price controls, the prices of natural rubber were permitted to be raised with a view to protecting the interests of small growers. In view of the comfortable supply of sugar, controls on its price, distribution and movement were removed, but the mechanism of monthly release was continued.

Budgetary Operations@

49. Budgetary operations of the Central and State Governments in 1970-71 indicate a considerable worsening of the overall position. As against a modest overall deficit* of Rs. 37 crores in 1969-70 (actuals) the revised estimates for 1970-71 show a deficit of Rs. 455 crores. This worsening has taken place despite a slow-down in the rate of growth in total disbursements because of the considerably smaller growth rate of total receipts. For 1971-72 the deficit is estimated at Rs. 387** crores.

Trends in Outlays

50. The growth rate in total disbursements (revenue and capital) of the Central and State Governments together declined to 10 per cent in 1970-71@@ from 11.4 per cent in 1969-70; for the year 1971-72, such disbursements are estimated to show a rise of over 8 per cent (Table 9). The combined revenue expenditure of the Centre and States which had increased by 11 per cent and 12 per cent, respectively, in 1968-69 and 1969-70 increased by 10 per cent in 1970-71; budget estimates for 1971-72 provide for an increase of nearly 10 per cent in revenue expenditure. Capital disbursements of the Centre and States together increased by a little less than 10 per cent in 1970-71, as against a rise of a little over 10 per cent in 1969-70; the increase in such disbursements anticipated for 1971-72 at about 7 per cent is lower than in the preceding two years.

@ The amounts mentioned in this Section relate to the fiscal year (April-March) unless stated otherwise.

* The net increase in outstanding Treasury Bills and withdrawal from cash balances in respect of the Centre and withdrawal from cash balances, net sales of securities held by States in their cash balance investment account and net transfer from Revenue Reserve Funds of States in respect of State Governments.

** This does not take into account the effects of supplementary demands for grants presented to the Lok Sabha, on August 5, 1971, which provide for an additional expenditure of Rs. 200 crores in connection with relief to refugees from East Bengal for the period upto end-December 1971. Since credit is also taken for an amount of Rs. 50 crores in the form of foreign assistance, the net impact on the budgetary position of the Centre is Rs. 150 crores.

@@ All references to figures relating to 1970-71 represent revised estimates for the year unless stated otherwise.

Table 9—Combined Receipts and Disbursements of Central and State Governments

(Amounts in Rupees Crores)

	1969-70 (Accounts)		1970-71 (Budget Estimates) (*a*)		1970-71 (Revised Estimates)		1971-72 (Budget Estimates) (*a*)	
	Amount	Per cent increase(+)/ decrease(—) over the previous year	Amount	Per cent increase(+)/ decrease(—) over the previous year	Amount	Per cent increase(+)/ decrease(—) over the previous year	Amount	Per cent increase(+)/ decrease(—) over the previous year
I. Total Receipts (A+B)	**8179**	**+15·2**	**8229**	**+ 0·6**	**8579**	**+ 4·9**	**9436**	**+10·0**
A. Revenue Receipts ..	5392	+11·3	5813	+ 7·8	6004	+11·4	6666	+11·0
of which :								
Tax Receipts ..	4182	+12·2	4564	+ 9·1	4700	+12·4	5259	+11·9
B. Capital Receipts ..	2787	+23·7	2416	—13·3	2575	— 7·6	2770	+ 7·6
II. Total Disbursements	**8216**	**+11·4**	**8590**	**+ 4·6**	9034	**+10·0**	**9823**	**+ 8·7**
of which :								
Developmental Outlay (*a*+*b*) ..	3140	+ 8·4	3620	+15·3	3647	+16·1	4128	+13·2
(*a*) Revenue ..	2105	+11.9	2323	+10·4	2417	+14·8	2741	+13·4
(*b*) Capital ..	1035	+ 2·0	1297	+25·3	1230	+18·8	1387	+12·8
Non-Developmental Outlay (*a*+*b*) ..	3279	+17·5	3328	+ 1·5	3697	+12·7	3723	+ 0·7
(*a*) Revenue ..	3157	+12·0	3210	+ 1·7	3377	+ 7·0	3574	+ 5·8
(*b*) Capital ..	122		118	—3·3	320	+162·3	149	—53·4
III. Overall Surplus (+) **or Deficit** (—) .. **(I—II)**	**—37**(*b*)		**—361**(*b*)		**—455**(*b*)		**—387**(*b*)(*c*)	

Note : Figures are adjusted for inter-Governmental transfers and hence differ from those given in Tables 12 and 13. The combined overall position, however, remains unchanged.

(*a*) Includes effects of budget proposals.

(*b*) As measured by increase in outstanding Treasury Bills of Centre, withdrawal of cash balances of Centre and States, net sale of securities held by States in their cash balance investment account and net transfers from revenue reserve funds of States.

(*c*) This does not take into account the impact on Budgetary Position of net expenditure of Rs. 150 crores for relief to refugees from East Bengal provided for in the Supplementary Demands for Grants.

51. During 1970-71, non-developmental outlay of the Centre and States together (excluding special items of expenditure of non-recurring type like subscriptions to the international financial institutions, etc., for which provision was made in 1970-71 revised) rose by 7 per cent as against 18 per cent in 1969-70. For 1971-72 the combined non-developmental outlay would show a rise of about 6 per cent over such expenditure (excluding special items) in 1970-71. The developmental outlay of the Centre and States together which had increased by 8 per cent in 1969-70 (as against 14 per cent in 1968-69) increased by almost 14 per cent in 1970-71 (excluding a special item of expenditure of non-recurring nature, *viz.*, provision for compensation to nationalised banks included in 1970-71 revised). For 1971-72, budgeted developmental outlay shows an increase of about 16 per cent over 1970-71 (excluding provision for compensation to nationalised banks). The Plan outlay of Centre and States is estimated at Rs. 3024 crores in 1971-72—nearly Rs. 400 crores more than that provided for in 1970-71 (budget).

Trends in Receipts

52. The rate of growth in total receipts of the Central and State Governments during 1970-71 (excluding notional receipts on account of compensation bonds in respect of nationalised banks and special securities issued to international financial institutions, etc.) was 3 per cent as against 15 per cent in 1969-70. Total receipts budgeted for 1971-72 would show a rise of about 12 per cent over 1970-71 (excluding notional receipts). Revenue receipts of the Centre and States together, which had increased by over 11 per cent in 1969-70 rose by almost the same rate in 1970-71 ; in 1971-72, however, the rate of growth in revenue receipts is placed at 11 per cent—slightly lower than that in the preceding two years. The rate of growth in tax revenue, which had accelerated from about 9 per cent in 1968-69 to about 12 per cent in 1969-70, was maintained at the same level in 1970-71; in 1971-72 the growth rate in tax revenue will be fractionally lower than in the preceding year. The revenue from taxes on commodities and services increased by 15 per cent in 1970-71 as against 12 per cent in 1969-70 thus raising its share in total tax revenue to 76.3 per cent in 1970-71 from 74.4 per cent in 1969-70. In 1971-72 the increase in tax revenue from this source is expected to be about 13 per cent ; revenue from such taxes will constitute 77 per cent of the total tax revenue.

Budgetary Deficit for 1970-71

53. The overall deficit of the Central Government turned out to be Rs. 230 crores in 1970-71—nominally higher than originally envisaged (Rs. 227 crores)*. In the case of State Governments, revised estimates of overall deficit in 1970-71 at Rs. 225 crores showed an increase of Rs. 91 crores over the budget anticipation. The quantum of actual overall deficit of Central and State Governments for 1970-71 is not yet known. However, the likely deficit can be gauged from the magnitude of net Reserve Bank credit to the Government sector which during the fiscal year 1970-71, increased by Rs. 332 crores as against an increase of Rs. 13 crores in the fiscal year 1969-70. Net Reserve Bank credit to the Central Government increased by Rs. 107 crores in 1970-71 as against an increase of Rs. 81 crores in 1969-70. In regard to States, the increase in net Reserve Bank credit was of the order of Rs. 225 crores as against a decline of Rs. 68 crores in 1969-70.

54. During the current fiscal year so far (April 1 to June 25, 1971), net Reserve Bank credit to Government sector increased by Rs. 468.0 crores as against an increase of Rs. 65.5 crores in the corresponding period of the preceding year. Net Reserve Bank credit to Central Government increased by Rs. 375.2 crores (as against an increase of Rs. 56.1 crores during the same period in 1970) and to State Governments by Rs. 92.8 crores (as compared with an increase of Rs. 9.4 crores in the corresponding period of last year).

Overdrafts by States

55. For the past few years there have emerged persistent overdrafts of certain State Governments with the Reserve Bank of India. Total outstanding overdrafts of 11 States (as on 28th June 1971) were Rs. 371.29 crores as against Rs. 82.74 crores (6 States) as on June 27, 1970. Table 10 presents the overall budgetary position of all the States together for 1965-66 to 1970-71. It also shows the overdraft position of the State Governments with the Reserve Bank of India as at the end of each financial year and total disbursements on Revenue and Capital accounts combined. The table shows that the overall deficits of State Governments during the past five or six years have widened between the budget forecast and the revised estimates, and so have their disbursements. The precise reasons for the overdrafts of some of the State Governments are not clear. It would be useful, however, to see the trends in disbursements and variations in them between budget forecast and revised estimates.

56. For 1970-71 where the break-down of total disbursements into Plan and non-Plan is available, the data show that total disbursements increased in revised estimates over budget forecast ; this has occurred both in respect of Plan and non-Plan expenditure, the increase in non-Plan expenditure being much larger. In 1970-71 while the overall deficit in the revised estimates has shown a deterioration of Rs. 320.4 crores over budget estimates, Plan expenditure has gone up by

* It is indicated by the Union Finance Minister that overall deficit of the Centre for 1970-71 may be of the order of Rs. 270 crores.

Table 10—State Governments' Overall Budgetary Position, Aggregate Disbursements and Overdrafts from Reserve Bank of India during 1965-66 to 1970-71

(Rupees Crores)

		Overall Deficit (—)/ Surplus (+)	Aggregate Disbursements on Revenue and Capital Accounts Combined**	Variation of Overall Deficit in R.E. over B.E. Increase (+) Decrease (—)	Variation of Aggregate Disbursements in R.E. over B.E. Increase (+) Decrease (—)	Overdrafts from Reserve Bank of India as on March 31
		(1)	(2)	(3)	(4)	(5)
1965-66	(B.E.)*	—45·6	2965·3			
	(R.E.)	—188·9	3269·7	+143·3	+304·4	120·2
	(Accts.)	—66·8	3216·5			
1966-67	(B.E.)*	+170·6	3204 1			
	(R.E.)	—76·2	3431·0	+246·8	+226·9	15·8
	(Accts.)	— 6·5	3339·7			
1967-68	(B.E.)*	—49·7	3784·5			
	(R.E.)	—102·6	3882·1	+52·9	+97·6	31·5
	(Accts.) ..	—38·2	3835·6			
1968-69	(B.E.)*	+138·0	3847·9			
	(R.E.)	—152·7	4314·2	+290·7	+466·3	144·7
	(Accts.)	—11·8	4461·5			
1969-70	(B.E.)*	—88·9	4797·3			
	(R.E.)	—145·8	4935·1	+56·9	+137·8	91·7
	(Accts.)	+ 8·9	4907·6			
1970-71	(B.E.)*	+95·7@	5033·3@			
	(R.E.)	—224·7@	5432·9@	+320·4	+399·6	268·2

** Excluding remittances (net).
* Include yield from additional measures proposed by States and increase in transfer of resources from the Centre, viz, share in Central taxes, grants-in-aid and net loans as reflected in the revised estimates over the budget estimates of States.
@ Excluding Himachal Pradesh as revised estimates for the State are not available.
B.E. = Budget Estimates.
R.E. = Revised Estimates.

Rs. 104.6 crores, and non-Plan expenditure by Rs. 295.0 crores (Table 11). The overdrafts (10 States) as at the end of March 1971 amounted to Rs. 268.2 crores.

57. The States have been obtaining short-term *ad hoc* loans from the Central Government to enable them to clear their overdrafts with the Reserve Bank of India. Such *ad hoc* loans amounted to Rs. 378 crores during 1965-66 to 1968-69. Since 1969-70, the Central Government has initiated a scheme of special accommodation to meet the overall non-Plan gaps of some States. For this purpose Rs. 279 crores were provided in 1969-70, Rs. 195 crores in 1970-71 (revised estimates) and Rs. 120 crores in 1971-72 (budget estimates).

58. The problem of these overdrafts has been engaging the attention of the Bank. The Fifth Finance Commission (1968) which examined the problem of unauthorised overdrafts of certain States with the Reserve Bank of

India has made recommendations regarding the avoidance of unauthorised overdrafts and the procedure for dealing with such overdrafts ; the Centre brought the recommendations to the notice of the State Governments.

Overall Position for 1971-72

59. For 1971-72, the overall deficits of Centre and States at the existing rates of taxation are estimated at Rs. 397 crores and Rs. 240 crores, respectively. After taking into account the additional tax proposals, the deficit for the Centre for 1971-72 would be reduced to Rs. 233 crores* as compared with Rs. 230 crores for 1970-71. The State Governments are expected to end with a surplus of Rs. 39 crores as against a deficit of Rs. 225 crores in 1970-71, after taking into account the impact of additional resource mobilisation of States, shares of States in Centre's additional taxation and the net additional amount of transfers to be received by the States from the Centre.$ Some State Governments have already begun taking recourse to overdrafts from the Reserve Bank of India. As on August 13, 1971 outstanding overdrafts (8 States) stood at Rs. 108.0 crores as against Rs. 52.5 crores (6 States) on August 14, 1970.

* This does not take into account impact on budgetary position of net expenditure of Rs. 150 crores for relief to refugees from East Bengal provided for in the Supplementary Demands for Grants.

$ Including Rs. 100 crores of grants-in-aid to State Governments provided under the Supplementary Demand for Grants for 1971-72 to meet the additional expenditure on account of refugees from East Bengal.

Table 11—State Government's Overall Budgetary Position and Aggregate Disbursements during 1970-71 and 1971-72

(Rupees Crores)

	1970-71			1971-72 Budget Estimates
	Budget Estimates	Revised Estimates	Variation in Revised Estimates over Budget Estimates column (2) over column (1) [Increase (+)/ Decrease (−)]	
	(1)	(2)	(3)	(4)
Overall Surplus (+) or Deficit (−) of all States	+95·7@†	−224·7†	+320·4	−153·8£
Overall Surplus (+) or Deficit (−) of States having overdrafts as on March 31, 1971 ..	+66·7@	−169·6	+236·3	
Aggregate Disbursements* of all States (a+b)..	5033·3† (100·0)	5432·9† (100·0)	+399·6	5700·1 (100·0)
(a) Plan	1142·2 (22·7)	1246·8 (22·9)	+104·6	1489·3 (26·1)
(b) Non-Plan	3891·1 (77·3)	4186·1 (77·1)	+295·0	4210·8 (73·9)
Aggregate Disbursements* of States having overdrafts as on March 31, 1971 (a+b) ..	3095·5 (100·0)	3371·2 (100·0)	+275·7	
(a) Plan	655·3 (21·2)	748·1 (22·2)	+ 92·8	
(b) Non-Plan	2440·2 (78·8)	2623·1 (77·8)	+182·9	

Notes: (1) Figures in brackets are percentages to aggregate disbursements.
(2) Plan expenditure comprises expenditure on State Plans and Centrally Sponsored Schemes.
(3) The Gujarat State has treated the expenditure on Centrally-sponsored schemes as non-Plan expenditure. To ensure uniformity in presentation this has been treated as Plan expenditure.

@ Include yield from additional measures proposed by States and increase in transfer of resources from the Centre, viz., share in Central taxes, grants-in-aid and net loans as reflected in the revised estimates over budget estimates of States.

£ Include yield from additional measures proposed by States (Rs. 45·3 crores) and States' share (approximately Rs. 41 crores) in Centre's additional taxation.

† Excluding Himachal Pradesh as the revised estimates for the State are not available.

* Relate to aggregate disbursements on revenue and capital accounts combined excluding remittances (net).

60. The Union Budget for 1971-72 was framed against the background of generally improved prospects in the economic situation, and also against the shortfalls in Centre's Plan outlay for second year in succession. The Finance Minister emphasised the need for timely implementation of Plan projects so as to increase the tempo of economic activity and to provide a stimulus thereby to employment. Besides stepping up the Central Sector Plan outlay by 13 per cent over 1970-71 budget, the Central Budget makes a provision of Rs. 75 crores for employment-oriented works in rural areas (Rs. 50 crores) and for creation of employment opportunities for the educated unemployed (Rs. 25 crores).

Centre's Budget for 1971-72

61. For the Central Government, the aggregate receipts on revenue and capital accounts for 1971-72 (including yield from additional tax measures) are estimated at Rs. 6,244 crores, showing a rise of 5.4 per cent over 1970-71 (Table 12). Tax revenues, inclusive of the yield from fresh tax measures, show an increase of 11.3 per cent over 1970-71. Net domestic market borrowings and small savings are placed higher in the budget than in 1970-71, whereas the budgeted amount of net external borrowings will be the lowest for any year since 1964-65. Aggregate disbursements at Rs. 6,477 crores show an increase of 5.3 per cent (Rs. 324 crores) over 1970-71. The increase is entirely under revenue expenditure which at Rs. 3,527 crores is placed Rs. 385 crores higher than in 1970-71 ; an increase of Rs. 60 crores is on account of 'tentative' provision for relief to evacuees from East Bengal*. A part of the increase in revenue expenditure will be offset by reduction of Rs. 61 crores in capital disbursements. Since aggregate receipts and disbursements are expected to rise almost by the same magnitude, the overall deficit at Rs. 233 crores is only nominally higher than the overall deficit in 1970-71 (Rs. 230 crores). The overall deficit will constitute 3.6 per cent of aggregate disbursements as against 3.7 per cent in 1970-71.

* Since credit is taken 'for the present', for external assistance of Rs. 20 crores on revenue account, net budgetary impact on account of relief to evacuees will be Rs. 40 crores. In addition, the Supplementary Demands for Grants provide for an expenditure of Rs. 200 crores for relief to refugees from East Bengal for the period upto end-December 1971 ; it also takes credit for Rs. 50 crores by way of external assistance. Thus the net budgetary outgo on this account would be Rs. 150 crores.

Table 12—Overall Budgetary Position of Centre

(Rupees Crores)

	1969-70 (Accounts) (1)	1970-71 (Budget Estimates) (2)	1970-71 (Revised Estimates) (3)	1971-72 (Budget Estimates) (4)
I. Aggregate Receipts (A+B)	**5667**	**5573**	**5923**	**6080** (6244)
A. Revenue Receipts	3027	3241	3340	3503 (3667)
of which :				
Tax Revenue	2201	2390	2442	2553 (2717)
B. Capital Receipts	2640	2332	2583	2577
of which :				
Internal Market Borrowings (Gross) ..	536	455	427	500
External Borrowings* (Gross)	633	719	681	666
II. Aggregate Disbursements	**5713**	**5800**	**6153**	**6477**
of which :				
(a) Developmental outlay	889	1152	1047	1178
(b) Non-Developmental outlay	2073	2158	2435	2409
(c) Discharge of internal loans	393	293	291	332
(d) Discharge of external loans	179	200	196	216
III. Overall Deficit (I—II)	**(—46)**	**(—)227**	**(—)230**	**(—)397** **[(—)233**]**

Note : i) Figures in brackets are after taking into account the estimated yield from additional tax measures.
ii) Figures given here do not tally with those in the budget papers as certain adjustments have been made.

* Including P.L. 480 Loans.

** This excludes the net impact of Supplementary Demands for Grants (Rs. 150 crores) for relief to refugees from East Bengal.

62. The Plan outlay of the Centre and States is estimated at Rs. 3024 crores for 1971-72 ; this amount is nearly Rs. 400 crores higher than the corresponding provision for 1970-71 and about Rs. 600 crores higher than the likely Plan expenditure in 1970-71. The Central budget makes provision for Rs. 2135 crores for Plan outlay showing an increase of Rs. 229 crores (12 per cent) over 1970-71 (budget estimates). This is mainly accounted for by a step-up in the provision for the Central sector Plan in the budget by Rs. 155 crores (to Rs. 1350 crores) and an increase of Rs. 67 crores in Central assistance for State Plan schemes. Sector-wise, Central sector Plan provision in respect of 'agriculture and allied programmes' shows a rise of 60 per cent over the corresponding provision in the 1970-71 budget. The budget provision under 'transport and communications' shows a step-up of about 10 per cent. In regard to industry, there is a nominal increase ; while provision for coal and petro-chemicals is stepped up, lower provision is made for fertilisers.

Plan Outlay

63. Tax proposals were framed in the budget for 1971-72, with a view, among other things, to minimising opportunities for evasion and reducing inequalities of income and wealth. The proposals of additional taxation are estimated to yield Rs. 205 crores (including States' share of Rs. 41 crores) in 1971-72. Besides, additional revenue on account of changes in postal tariffs is estimated to be Rs. 10.8 crores in a full year and upward revision in freight rates and passenger fares by Railways are expected to yield Rs. 26 crores in 1971-72 (Rs. 35 crores in a full year) ; these, however, do not accrue to the Centre.

Centre's Tax Measures

64. Of the total estimated additional revenue in 1971-72, taxes on commodities and services (including tax on foreign travel) account for 86.8 per cent. There are 24 new items, including consumer goods as well as producer goods, on which excise duty at *ad valorem* rates is levied for the first time. The rate structure in respect of import duty is simplified by prescribing four *ad valorem* rates of import duty in place of seven. The rate of surcharge on personal income-tax is raised from 10 to 15 per cent on incomes exceeding Rs. 15,000. The rate of tax on net wealth above Rs. 15 lakhs is raised to 8 per cent from the existing rates of 4 and 5 per cent on slabs of net wealth between Rs. 15 lakhs and Rs. 20 lakhs and above Rs. 20 lakhs, respectively. The rate of surtax leviable on company profits remains unchanged at 25 per cent for profits upto 15 per cent of capital ; in respect of profits exceeding this limit, the rate of tax is raised to 30 per cent. The incidence of tax on long-term capital gains is also raised.

65. The development rebate was introduced in 1955-56 in respect of new investment in plant or machinery installed and new ships acquired after March 31, 1954. No development rebate would be allowed on ships acquired or machinery or plant installed after May 31, 1974. The list of priority industries is curtailed by deleting certain industries from the list and the special tax exemption in respect of profits of priority industries is reduced. For computing tax-exempt profits under the "Tax Holiday" provisions, debentures and long-term borrowings will be excluded from the term "capital employed". These measures are estimated to yield Rs. 22 crores in a full year. As regards concessions to personal savings, the monetary ceiling in respect of savings through life insurance premia, provident fund contributions, etc., qualifying for deduction from taxable income, is raised from Rs. 15,000 to Rs. 20,000 in the case of individuals and some modifications are made in the computation of tax relief in this behalf. The exemption of income upto Rs. 3,000 derived from specified financial assets will now include interest on members' deposits with co-operative societies ; the relief will now be confined to individuals and Hindu Undivided Families. Standard deductions in respect of assessees other than those who own motor cars is raised.

66. The aggregate receipts on revenue (at 1970-71 rates of taxation) and capital accounts budgeted by the State Governments at Rs. 5464 crores for 1971-72 represent 4.9 per cent (Rs. 256 crores) rise over 1970-71 (Table 13). States' own tax revenues are estimated to rise by 6.6 per cent to Rs. 1607 crores in 1971-72. Aggregate disbursements are placed at Rs. 5704 crores in 1971-72 showing 5.0 per cent (Rs. 271

State Budgets for 1971-72

crores) increase over 1970-71. The increase in the projected level of disbursements is mainly due to stepped-up provision for development expenditure which at Rs. 2950 crores is 13.5 per cent higher than in 1970-71 and will constitute a little over one-half of aggregate disbursements in 1971-72 (as against 47.9 per cent in 1970-71). The budgeted amount of non-development expenditure (Rs. 1632 crores) shows an increase of Rs. 67 crores over 1970-71, and other disbursements, comprising mainly loans and advances by States, repayment of loans to Centre and market loans are expected to decline by over 11 per cent from 1970-71.

67. For 1971-72, budgetary transactions of the State Governments (without taking into account the yield from proposals for fresh resources) are expected to end up with an overall deficit of Rs. 240 crores ; this is the net result of a deficit of Rs. 267 crores on capital account and a surplus of Rs. 27 crores on revenue account. Taking into account the expected yield of Rs. 45 crores from the proposed additional resource mobilisation of some of the States and their share of Rs. 41 crores in Centre's fresh tax effort, the overall deficit gets reduced to Rs. 154 crores. Further, if adjustment is made for net additional amount to be received by them from the Centre (Rs. 193 crores*) the State Governments will have a surplus of Rs. 39 crores** as against the overall deficit of Rs. 225 crores in 1970-71.

* The State Governments have taken credit for smaller amounts of grants and net loans and slightly larger amount of shares in taxes in their budgets than the respective amounts shown in the Central Government Budget. The net additional amount to be received from the Centre includes Rs. 100 crores of grants-in-aid to State Governments provided under the Supplementary Demand for Grants for 1971-72 to meet the additional expenditure on account of refugees from East Bengal.

** The position in 1971-72 may further improve if receipts from market loans (Rs. 27 crores) floated by Bihar and Maharashtra, for which credit is not taken in their budgets, are taken into account.

Table 13—Overall Budgetary Position of States

(Rupees Crores)

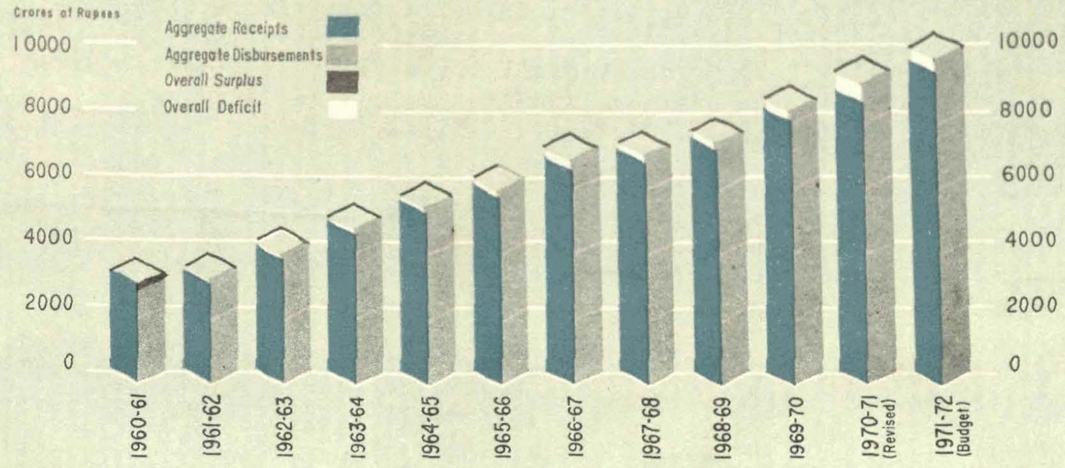
	1969-70 (Accounts) (1)	1970-71 (Budget Estimates)+ (2)	1970-71 (Revised Estimates) (3)	1971-72 (Budget Estimates)* (4)
I. Aggregate Receipts (A+B)	**4957**	**4918**	**5208**	**5464 (5550)**
A. Revenue Receipts (i + ii)	3172	3430	3535	3916 (3992)
(*i*) States' own Revenue Receipts	2015	2144	2216	2381 (2416)
of which : Tax Receipts	1356	1446	1507	1607 (1641)
(*ii*) Resources transferred from the Centre (a+b)	1157	1286	1319	1535 (1576)
(*a*) Shared Taxes	625	728	751	860 (901)
(*b*) Grants from Centre	532	558	568	675
B. Capital Receipts (i + ii)	1785	1488	1673	1548 (1558)
(*i*) States' own Capital Receipts	755	694	651	745 (755)
of which : Market Borrowings (Gross)	173	152@	157	152@
(*ii*) Loans from Centre (Gross)	1030	794	1022	803
II. Aggregate Disbursements of which :	**4948**	**5052**	**5433**	**5704**
(*a*) Developmental Outlay	2251	2468	2600	2950
(*b*) Non-Developmental Outlay	1481	1470	1565	1632
(*c*) Repayment of Loans to Centre	608	610	659	562
(*d*) Loans and Advances to Third Parties	432	394	497	436
(*e*) Repayment of Market Loans	85	62	63	75
III. Overall Surplus (+) or Deficit (—) (I—II)	**+9**	**—134**	**—225**	**—240 (—154)**

Note : Figures given here do not tally with those given in the budget papers as certain adjustments have been made here.
\+ Include the effect of budget proposals.
* Figures in brackets are after taking into account estimated yield from budget proposals.
@ Exclude receipts from market loans floated by Bihar and Maharashtra (Rs. 27 crores).

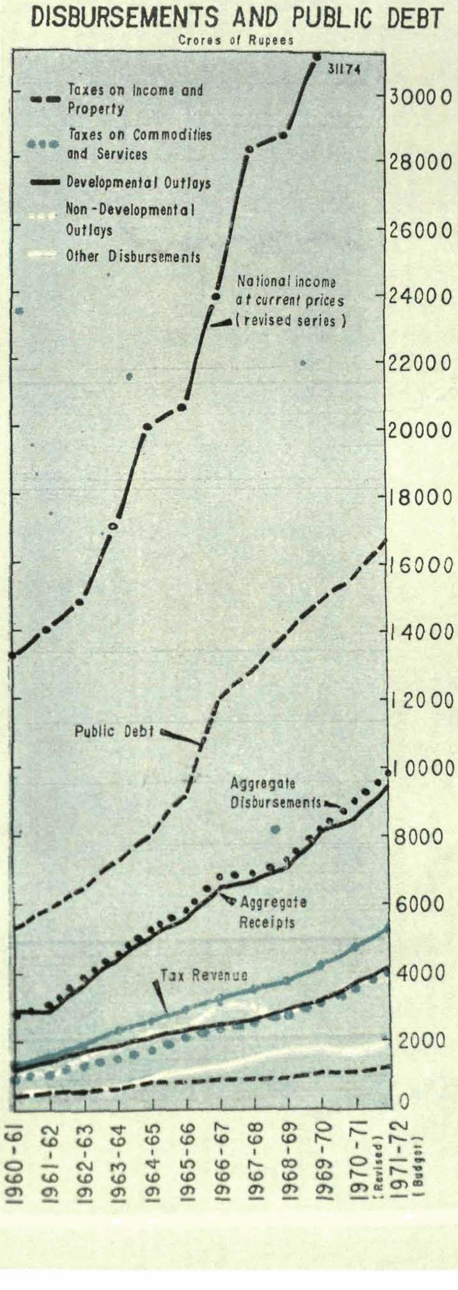
COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS

REVENUE AND CAPITAL ACCOUNTS 1960-61 TO 1971-72 (BUDGET)

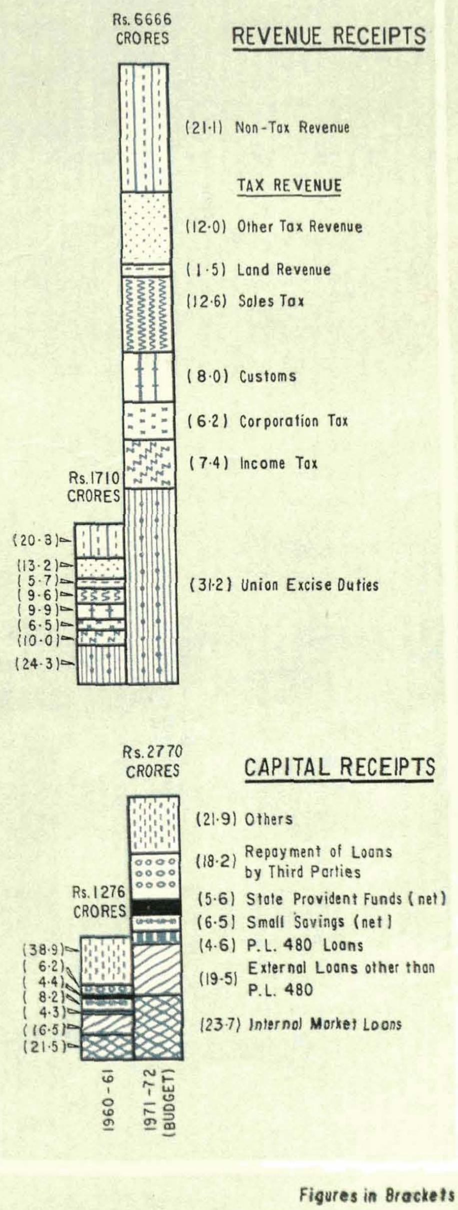
Aggregate Receipts, Disbursements and Overall Surplus or Deficit



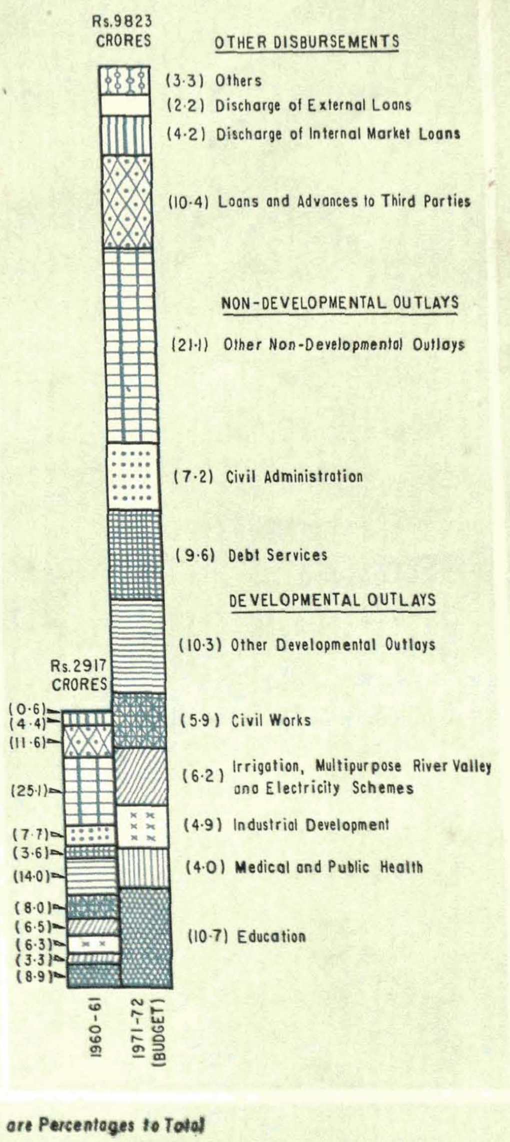
TRENDS IN NATIONAL INCOME, BUDGETARY RECEIPTS AND DISBURSEMENTS AND PUBLIC DEBT



PATTERN OF RECEIPTS



PATTERN OF DISBURSEMENTS



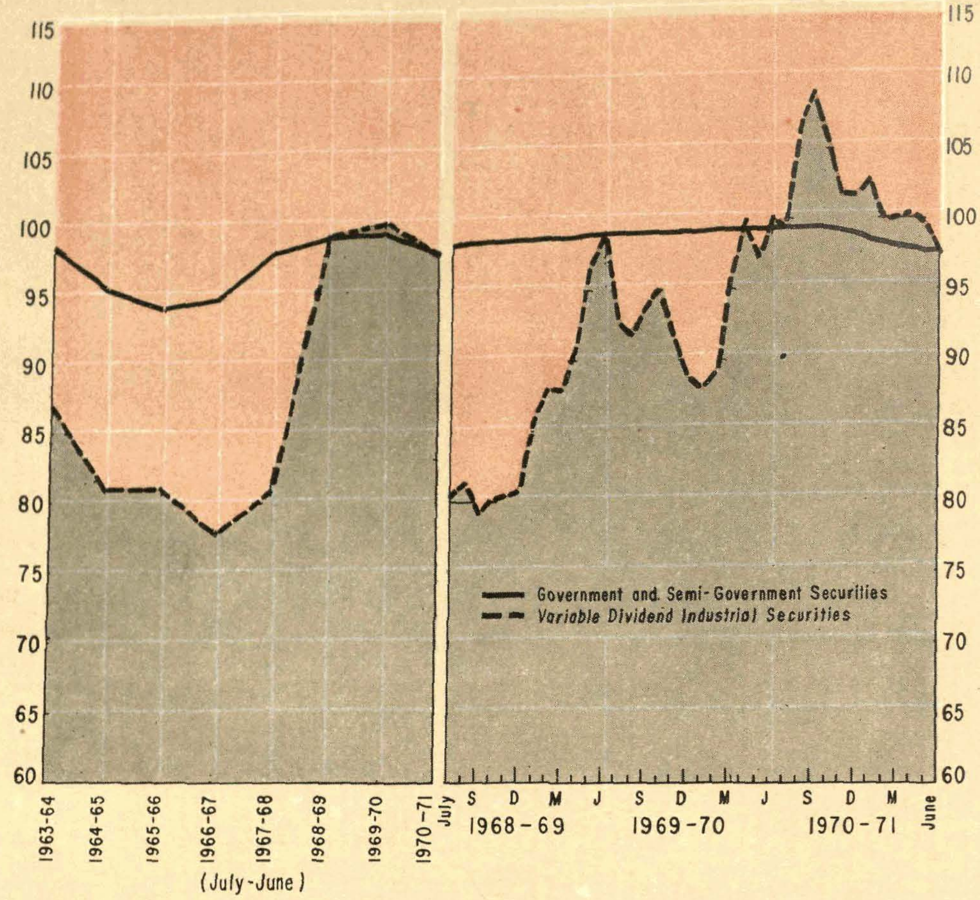
Figures in Brackets are Percentages to Total

INDEX NUMBERS OF SECURITY PRICES ALL-INDIA

(REVISED SERIES)

Base : 1961-62 = 100

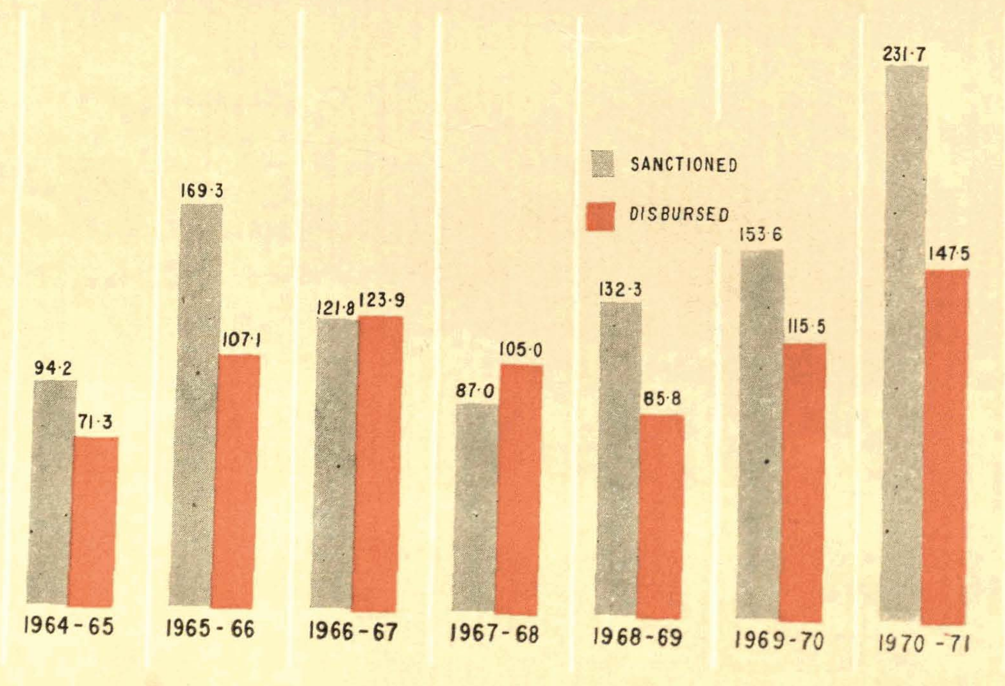
(As on last Saturday)



ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING FINANCIAL INSTITUTIONS

[I.D.B.I., I.F.C.I., I.C.I.C.I., S.F.Cs. and S.I.D.Cs.]

(CRORES OF RUPEES)



68. Seven State Governments namely, Andhra Pradesh, Bihar, Jammu and Kashmir, Madhya Pradesh, Mysore, Nagaland and Orissa, have proposed measures to raise additional resources ; Kerala, Rajasthan and Tamil Nadu have proposed measures as also granted fiscal concessions. In the net, additional measures are expected to yield in 1971-72 Rs. 45.3 crores (inclusive of measures to streamline administration and recovery of arrears) ; Haryana has, however, announced only a minor tax concession but the loss in tax revenue is negligible.

Market Borrowings

69. The combined net receipts from market borrowings by Centre and State Governments in 1970-71 amounted to Rs. 235 crores—Rs. 11 crores more than those in 1969-70. Net borrowings by the States in 1970-71 were Rs. 17 crores more than in 1969-70 whereas those of the Centre were Rs. 6 crores lower than in 1969-70.

70. As in the past, the Centre's borrowing programme for 1970-71 was completed in two phases. Total subscriptions in regard to the 5½ per cent 2000 Loan floated on April 11, 1970 for an aggregate amount of Rs. 275 crores amounted to Rs. 290 crores comprising Rs. 150 crores in cash and Rs. 140 crores by way of conversion. The 4½ per cent Loan 1977 and the 5½ per cent 2000 Loan (re-issue) issued on October 15, 1970 for a total sum of Rs. 125 crores brought in together Rs. 138 crores (Rs. 76 crores in cash and Rs. 62 crores by way of conversion). Of the total amount of Rs. 293 crores of maturing loans, the amount offered for conversion was Rs. 202 crores. After providing for cash repayments of the unconverted portion of maturing loans (Rs. 91 crores), net market borrowings of the Centre during 1970-71 aggregated Rs. 135 crores—Rs. 27 crores less than the amount (Rs. 162 crores) originally budgeted for.

71. For 1971-72, the Central Budget has taken credit for Rs. 500 crores (gross) as receipt from market borrowings. The first phase of the Central Government's market borrowing programme was completed on July 1, 1971, when three loans were floated for a total amount of Rs. 375 crores ; total subscriptions amounted to Rs. 405 crores (Rs. 298 crores in conversion and Rs. 107 crores in cash).

72. On July 15, 1970 fifteen State Governments issued 5¾ per cent Development Loans maturing after 12 years for an aggregate amount of Rs. 142.50 crores. All the loans were issued at par. Maturing loans of 12 States for a total amount of Rs. 57 crores were offered for conversion into their respective loans. All the loans were over-subscribed as in the last year ; the over-subscription exceeded 10 per cent of the notified amount. After making partial allotment, subscriptions amounting to Rs. 157 crores were accepted ; of this, cash subscriptions amounted to Rs. 125 crores and conversion, Rs. 32 crores. After providing for cash repayments (Rs. 25 crores) on account of maturing loans not tendered for conversion, net borrowings amounted to Rs. 100 crores in 1970-71 as against Rs. 83 crores in 1969-70.

Collections from Small Savings

73. Net collections from small savings during 1970-71 are placed at Rs. 188* crores compared with Rs. 129 crores realised during the year 1969-70 ; the provisional figures of total (net) collections exceeded the revised estimates for 1970-71 by Rs. 43 crores. Out of total net collection of Rs. 188 crores, a little less than two-thirds (about 65 per cent) was accounted for by the two new savings media, *viz.*, Post Office Time Deposit Scheme (Rs. 73 crores) and National Savings Certificates—II issue (Rs. 50 crores). For 1971-72, the Union Budget has taken credit for Rs. 180 crores from this source. There were no additions to the existing media of small savings during this year. But consequent upon the change in the Bank rate, the interest rates on all the existing media were enhanced with effect from January 15, 1971. The changes in the interest rates thus effected range from ¼ per cent to ¾ per cent on the different small savings scrips. Moreover, the limits of deposits in the 7-year National Saving Certificates (II and III issues taken together) have been increased from Rs. 25,000 to Rs. 50,000 for individual holding and from Rs. 50,000 to Rs. 1,00,000 for joint holdings with effect from August 1, 1971.

* Net collections from small savings are now estimated at Rs. 197 crores for 1970-71 for which break-up is not yet available.

74. Net receipts from Public Provident Fund Scheme estimated at Rs. 5 crores in the 1970-71 budget are placed at Rs. 2.5 crores in the Revised Estimates. However, actual collection amounted to Rs. 4.6 crores as compared with Rs. 2.5 crores in 1969-70. The collections under this item are placed at Rs. 4 crores for 1971-72.

Gilt-edged Market

75. The gilt-edged market remained generally steady during the first half of the year under review while in the second half, following the Bank rate rise an easy trend set in. The R. B. I.'s All-India Index for Government and semi-Government securities (*Base*: 1961-62=100) remained unchanged at the end-June 1970 level of 99.3 till the first week of November 1970 and slided down to 98.9 by end-December 1970. With the stepping up of the Bank rate by a full percentage point with effect from January 9, 1971, prices in the gilt-edged market eased further, the Index declining to 98.2 by end-January and 97.6 by end-June 1971. While the Index for Central Government Securities slipped down by 2.1 points to 96.9 over the year, those for State Government and semi-Government Securities declined by 0.2 point and 0.1 point to 100.3 and 101.2, respectively. The Bank's open market operations continued to be directed towards maintaining orderly conditions in the market and alignment of the yield pattern to the prevailing structure of interest rates through adjustments in its buying and selling rates. Purchases and sales of securities by the Bank during the accounting year aggregated Rs. 275.7 crores and Rs. 359.8 crores respectively, resulting in net sales of Rs. 84.1 crores, as compared with the net sales of Rs. 30.0 crores in the preceding year.

Private Corporate Sector

76. New investment activity in the private corporate sector did not indicate any clear uptrend during the year under review. The slower pick-up in public sector investment expenditure appeared to have caused a slackening to some extent in new investment activity in the private corporate sector. In regard to financing of investment, as compared with 1969-70, there was greater dependence on loan finance, resulting in larger financial assistance sanctioned and disbursed by the term-lending institutions, while new capital issues were substantially lower. As regards the actual capital raised, there was a rise in respect of equity and preference shares while capital raised through debentures showed a sharp decline. Public response to new issues was encouraging. Corporate performance, as indicated by a preliminary study of dividend announcements, showed some improvement. The equity prices scaled new heights in October 1970 but reacted thereafter and remained subdued during the greater part of the year.

Capital Consents

77. There was a decline in consents/acknowledgements of proposals accorded to non-Government public limited companies for new capital issues in the form of shares (excluding bonus) and debentures. The amount consented at Rs. 52.5* crores in 1970-71 (July-June) was considerably lower than Rs. 89.0 crores in 1969-70. A substantial part of the decline was in respect of consents for 'further' issues, which were lower at Rs. 31.9 crores as against Rs. 69.6 crores in 1969-70. Consents for 'initial' issues were slightly higher at Rs. 20.5 crores than Rs. 19.5 crores in the previous year. Security-wise, consents were granted for equity issues of Rs. 32.5 crores and debentures of Rs. 11.6 crores in 1970-71 as against Rs. 43.4 crores and Rs. 37.8 crores, respectively, in 1969-70. Consents for the issue of preference shares at Rs. 8.3 crores were marginally higher than Rs. 7.8 crores in the previous year.

78. As regards bonus issues, it may be recalled that Government had issued new guidelines for finalising proposals made since April 1970. During 1970-71 (July-June) consents accorded to non-Government public limited companies for bonus issues declined to Rs. 34.1* crores from Rs. 45.4 crores in the previous year. The guidelines for issue of bonus shares were further amended in May 1971 with a view to protecting the interests of general investors. According to the latest amendments, the proportion of residual reserves required to be retained after the pro-

* Provisional.

posed capitalisation has been raised from 20 per cent to 33$\frac{1}{3}$ per cent of the increased paid-up capital of the company. It is also stipulated that along with the proposal for issue of bonus shares, the management should give clear indication of their intention regarding the first annual dividend payable on the expanded capital of the company and obtain the shareholders' approval for it.

New Issue Activity

79. The new capital issues activity slackened during July 1970-June 1971. The amount of capital issued through prospectuses and rights was lower at Rs. 50.7 crores* than Rs. 81.5 crores in 1969-70 (July-June). Security-wise, the decline was mainly in debentures, though equity and preference issues were also lower to some extent. Besides, the decline was exclusively under 'further' issues which fell sharply to Rs. 17.0 crores from Rs. 54.2 crores in 1969-70. 'Initial' issues, on the other hand, continued to show a rising trend and were higher at Rs. 33.7 crores than Rs. 27.3 crores in 1969-70. Consequently, 'initial' issues constituted a major proportion of the total new issues made during 1970-71. Public response to capital issues indicated further improvement and a number of issues were oversubscribed. Institutional underwriters provided the bulk of underwriting support, but available data indicate that with improvement in public response, the proportion of the amount devolving on underwriters declined to 23.4 per cent of the total amount underwritten in 1970 from 27.6 per cent in 1969.

Assistance by Term-lending Institutions

80. Term-lending institutions sanctioned substantially higher financial assistance during 1970-71 (April-March) than in 1969-70. Aggregate financial assistance sanctioned by these institutions** in the form of loans, underwriting of and direct subscriptions to shares and debentures increased to Rs. 231.7* crores from Rs. 153.6 crores in 1969-70 (April-March). Disbursements@ amounted to Rs. 147.5* crores as against Rs. 115.5 crores in 1969-70. The Industrial Development Bank of India (IDBI) sanctioned a substantially higher amount of loans*** amounting to Rs. 80.3* crores during April 1970—March 1971 as against Rs. 46.9 crores in April 1969—March 1970 and its disbursements were also higher at Rs. 51.1* crores as compared with Rs. 43.3 crores.

81. The Life Insurance Corporation and the Unit Trust of India continued to lend support to the private corporate sector by their underwriting and investment operations. The Unit Trust of India provided during 1970-71 (April-March) a larger assistance of Rs. 15.2* crores by way of underwriting of, and direct subscriptions to shares and debentures as compared with Rs. 9.9 crores in the previous year. The Life Insurance Corporation had sanctioned Rs. 10.8 crores during 1969-70 (April-March) for the underwriting of, and direct subscription to shares and debentures as against Rs. 14.4 crores in 1968-69 (April-March).

82. A reference was made earlier to the Dutt Committee's Report regarding the development of "joint sector" in Indian industry. In pursuance of the Committee's recommendations, Government announced on May 1, 1971 certain guidelines for conversion of loans into equity in respect of such industrial units which receive large financial assistance from the all-India long-term financial institutions. According to these guidelines, the financial institutions while sanctioning rupee loans of Rs. 50 lakhs and more to one company would normally provide, in the loan covenant, for the option of converting loan into equity consistent with the maintenance of a reasonable debt-equity ratio. In respect of loans ranging between Rs. 25 lakhs and Rs. 50 lakhs, the financial institutions may use their discretion and in cases of loans not exceeding Rs. 25 lakhs, the institutions may not stipulate for the conversion of loans into equity.

83. Thus, an increasingly active role is envisaged for public sector in the field of industrial development, and in this connection, mention may be made of the Reserve Bank's directive to commercial banks stipulating

* Provisional.
** IDBI, IFCI, ICICI, SFCs and SIDCs.
@ Including disbursements on account of guarantees.

*** Including refinance to banks and rediscounts.

Table 14—Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions during 1969-70 and 1970-71

(Rupees Crores)

Name of the Institution	Loans				Underwriting of and Direct Subscription to Shares and Debentures				Total			
	1970-71		1969-70		1970-71		1969-70		1970-71		1969-70	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
Industrial Development Bank of India	80·3* [17·0]	51·1* [13·7]	46·9* [7·8]	43·3* [5·7]	4·3	4·7	6·2	1·8	84·6 [17·0]	55·8 [13·7]	53·1 [7·8]	45·1 [5·7]
Industrial Finance Corporation of India	31·1 (5·8)	16.5† (2·6)	17·2 (1·8)	16·4† (1·9)	3·8	0·9	1·4	1·1	35·0 (5·8)	17·4 (2·6)	18·6 (1·8)	17·5 (1·9)
Industrial Credit and Investment Corporation of India	37·6 (28·0)	26·1 (21·5)	17·9 (13·7)	16·1 (11·8)	5·4	3·1	4·9	3·7	43·0 (28·0)	29·2 (21·5)	22·8 (13·7)	19·8 (11·8)
State Financial Corporations	48·8	32·7†	32·9	21·4†	0·5	0·3	0·5	0·3	49·3	33·0	33·4	21·7
State Industrial Development Corporations** ..	16·3	9·2	20·3	7·5	3·5	2·9	5·4	3·9	19·8	12·1	25·7	11·4
Total ..	214·1	135·6	135·2	104·7	17·5	11·9	18·4	10·8	231·7	147·5	153·6	115·5
Unit Trust of India ..	—	—	—	—	15·2	8·4	9·9	8·1	15·2	8·4	9·9	8·1
Life Insurance Corporation of India‡	—	—	2·6	1·7	—	—	10·8	10·1	—	—	13·3	11·8

Note : (i) Figures in brackets relate to foreign currency loans. (ii) Data for 1970-71 are provisional.
* Comprising direct loans; refinance to banks and rediscounts; refinance to SFCs indicated separately within square brackets is excluded to avoid double counting since this is covered under loans of SFCs.
† Including disbursements on account of guarantees.
** Data relate to 10 SIDCs, the GIIC and the SICOM.
‡ Figures for 1970-71 are not available.

that in the event of their granting or renewing a credit limit of over Rs. 50,000 against the security of shares to a borrower, the shares so pledged should be transferred to their names and that they should have exclusive voting rights in respect thereof. Towards the end of the year under review, the management of all general insurance companies was also taken over by Government.

Equity Prices

84. On the major stock exchanges, the rising trend in equity prices noticed since mid-February 1970 was accelerated in the following months, culminating in a new peak level in the first week of October 1970. The market sentiment was favourably influenced by the investment incentives provided in the Union Budget for 1970-71, scarcity of good floating scrips, favourable monsoon and prospects of improved crop output and sustained flow of encouraging corporate news. The Reserve Bank's All-India Index of Prices of Variable Dividend Industrial Securities (*Base* : 1961-62=100) spurted up from 100.0 during the week ended June 27, 1970 to a new peak of 110.1 by October 3, 1970. Prices, however, tended to drift lower thereafter upto the first week of January 1971 when the equity Index reached the level of 101.4. Though the Bank rate was raised, effective from January 9, 1971, the flow of encouraging corporate news imparted some steadiness to equity prices in the remaining weeks of

January 1971. Thereafter, prices again turned easy and by June 26, 1971, the equity price Index moved down to 97.5, recording a fall of 11.4 per cent from the peak level reached on October 3, 1970. Over the accounting year also, the Index showed a fall of 2.5 per cent as compared with the rise of 0.7 per cent during 1969-70 (July-June). The bearish factors which affected the market sentiment were : the reported difficulties experienced by cotton textile mills on account of sharp rise in raw cotton prices ; apprehensions regarding conversion of loans provided by public financial institutions to companies into equities ; the Government instructions to the stock exchanges to square-up all outstanding forward business ; and the Union Budget proposals for 1971-72, which were considered by the market as not very encouraging to the private corporate sector.

Corporate Dividends

85. A preliminary study of dividend announcements by public limited companies indicates that corporate performance during 1970-71 was somewhat better than in 1969-70. Of the 630 public limited companies which closed their accounts between April 1970 and March 1971, 200 or 32 per cent of the companies raised their dividend rates in 1970-71 as against 195 or 31 per cent in 1969-70 ; the number of companies which maintained dividends at the same rates as in the previous year was 198 or 31 per cent as against an equal number in 1969-70. Of the remaining 232 companies, 100 companies or 16 per cent reduced their dividends, the corresponding figures for the preceding year being 79 companies or 13 per cent. On the other hand, the number of companies paying 'nil' dividends was lower at 132 or 21 per cent in 1970-71 as against 158 or 25 per cent last year. In regard to actual rates of dividends, there was a marked increase in the number of companies paying dividends between 11 and 20 per cent from 186 (30 per cent) in 1969-70 to 216 (34 per cent) in 1970-71. The number of companies paying dividends between 6 and 10 per cent was lower at 188 (30 per cent) as against 202 (32 per cent) last year, while those paying dividends above 20 per cent constituted 3 per cent of the total number of companies in both the years.

Investment Finance for Agriculture

86. The tempo of investment in agriculture financed by various institutional agencies gained further momentum during the year under review. Finance provided in the form of disbursements for agricultural schemes by ARC, AFC and REC and drawals from the Reserve Bank's medium-term loans and debentures floated by Central Co-operative Land Development Banks together showed a substantial increase during 1970-71 over the level in 1969-70. Disbursements made by AFC showed some fall while those by ARC registered an increase. Drawals from Reserve Bank's medium-term loans maintained the previous year's level. The Rural Electrification Corporation made during the year a maiden disbursement of as much as Rs. 26.04 crores. The year under review experienced a fewer number of schemes sanctioned and lower levels of commitments made by ARC and AFC, while the REC's sanctions and commitments showed a sharp increase (Table 15). Commercial banks' lendings to agriculture for medium-term purposes also made a considerable headway ; so also the medium-term loans disbursed by the Central and State co-operative banks.

Trends in Money Supply

87. The year 1970-71 (July-June) was characterised by a markedly higher increase in money supply with the public (Rs. 814 crores) than in the preceding year (Rs. 592 crores). The growth rate during the year worked out to 12.3 per cent as compared with 9.8 per cent in 1969-70. Total monetary resources, which comprise money supply and time deposits with the banks, also registered a larger increase of Rs. 1363 crores or 14.0 per cent as against Rs. 1011 crores or 11.6 per cent (Table 16). There was thus a considerable step-up in aggregate demand in the economy. Component-wise, absolute increase in currency continued to be larger than that in demand deposits, but in terms of growth rates, deposit money showed a considerably higher rate than currency. Time deposits increased even faster, both in terms of absolute figures and rate of growth, than either currency or demand deposits. Of the total increase in aggregate monetary resources, time

Table 15—Investment Finance for Agriculture

(July—June)

(Rupees Crores)

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
1. *Debentures floated by Central Co-operative Land Mortgage/Development Banks*1											
(*a*) Ordinary debentures	9·97	10·50	19·25	23·34	34·81	43·10	52·05	64·51	103·42	114·82*	119·49
(*b*) Rural debentures	1·55	2·24*	1·57	1·84	3·23	4·33	2·93	1·57	5·00	1·10	4·78
2. *Agricultural Refinance Corporation (ARC)*2											
(*a*) No. of schemes sanctioned ..				3	10	24	15	89	108	142	100
(*b*) Total outlay				2·72	20·60	17·96	10·53	68·16	79·21	92·78	62·15
(*c*) ARC's commitments				2·45	16·88	14·18	8·53	58·64	69·32	70·92	53·92
(*d*) Disbursements during the year				—	0·45	4·45	2·08	5·67	17·84	28·60	30·62
3. *Agricultural Finance Corporation (AFC)*3											
(*a*) No. of schemes sanctioned									6	21*	10
(*b*) Total outlay									61·50	45·70*	23·33
(*c*) Disbursements during the year									0·96*	15·77*	13·24
4. *Rural Electrification Corporation (REC)*4											
(*a*) No. of schemes sanctioned ..										49*	74
(*b*) Total outlay										32·01*	49·71
(*c*) REC's commitments										29·79*	49·38
(*d*) Disbursements during the year										—	26·04
5. *Reserve Bank of India: Medium-term loans*											
(*a*) Amount sanctioned	4·68	9·56	9·31	14·01	14·39	14·11	15·49	16·57	19·00	18·30	18·76
(*b*) Drawals during the year ..	5·69	7·39	4·18	7·45	7·91	7·45	8·37*	9·12	8·98*	11·48	11·38

Note : Figures of investment finance made available by commercial banks other than by way of contribution to the debentures floated by central co-operative land mortgage/development banks and participation with the Agricultural Finance Corporation, are not available. Similarly, figures of investment finance provided by co-operative credit agencies out of their owned funds are also not available.

1. Co-operative land mortgage/development banks also floated special development debentures to the extent of Rs. 18.00 lakhs in 1961-62, Rs. 5·41 lakhs in 1963-64, Rs. 1·45 lakhs in 1965-66, Rs. 1·23 lakhs in 1966-67, Rs. 0·32 lakh in 1967-68 and Rs. 0·18 lakh in 1968-69. While the first series of special development debentures were floated prior to the inception of A.R.C., the remaining series were those not falling under A. R. C. schemes.
2. The operations reflect schemes sanctioned during the year after excluding schemes withdrawn during the same year. In earlier Reports operations of each year were presented after taking into account : (i) withdrawals made during the same year and also withdrawals made in subsequent years, (ii) reductions in the financial outlays made in subsequent years and (iii) rephasing of schemes, if any. As on June 30, 1971 after accounting for withdrawals and rephasing of schemes, the cumulative number of schemes sanctioned is 458 involving financial assistance of Rs. 293·00 crores, the Corporation's commitments being Rs. 248·66 crores.
3. The data presented relate to schemes sanctioned during the year after taking into account withdrawals of schemes/changes in outlays, if any, during the same year but without taking into account cancellation of schemes and changes in outlays, if any, subsequently. After taking into account these factors, since its inception, i.e., from April 1, 1968 to June 30, 1971, the Corporation sanctioned 33 schemes involving a total outlay of Rs. 128·08 crores and disbursed an amount of Rs. 29·97 crores.
4. Of this, three schemes in 1969-70 and two in 1970-71 related to Rural Electric Co-operatives.

* Revised.

deposits accounted for 40.3 per cent while currency with the public and deposit money accounted for 31.3 per cent and 28.4 per cent, respectively.

88. Among the factors accounting for monetary expansion during 1970-71, net bank credit to Government, with the phenomenal increase of Rs. 924 crores, was a predominant factor reflecting generally the growing imbalance in the budgetary operations and particularly the problem of overdrafts by the State Governments. Bank credit to the commercial sector showed a smaller expansion both in absolute terms as well as in terms of the growth rate. The rate of expansion was not uniform throughout the year ; the expansion was of a considerably higher order during the first half of the accounting year July-December 1970 (Rs. 330 crores) than during the corresponding half of 1969 (Rs. 153 crores), while during the second half the trend was reversed with an expansion of only Rs. 299 crores during January-June 1971 as against Rs. 602 crores during January-June 1970. The expansionary impact of these factors was offset, to some extent, by (*i*) a decline of Rs. 97 crores in net foreign exchange assets of the banking sector, which in 1969-70 had recorded an increase of Rs. 264 crores, and (*ii*) a rise of Rs. 110 crores in net non-monetary liabilities of the banking system. The reduction in net foreign assets reflects partly a pick-up in imports following import liberalisation and partly a larger decline in aid utilisation following shrinkages in both aid-financed food imports and non-project aid, discussed in subsequent paragraphs.

Table 16—Trends in Money Supply and Monetary Resources (Annual)

(Rupees crores)

	Variations during July-June		
	1968-69	1969-70	1970-71
1. Currency with the Public	+ 341 (+ 9·9)	+381 (+10·1)	+427 (+10·2)
2. Demand Deposits	+225 (+11·1)	+211 (+ 9·4)	+387 (+15·7)
3. Money Supply (1+2)	+566 (+10·3)	+592 (+ 9·8)	+814 (+12·3)
4. Time Deposits	+ 473 (+21·5)	+ 419 (+15·6)	+ 549 (+17·7)
5. Total Monetary Resources (3+4)	+1039 (+13·5)	+1011 (+11·6)	+1363 (+14·0)
6. Net Bank Credit to Government	+ 433 (+ 9·9)	+ 2 (—)	+ 924 (+19·2)
7. Net Foreign Exchange Assets of the Banking Sector	+ 153@ (+84·6)	+ 264 (+66·0)	— 97 (—14·6)
8. Government's Net Currency Liabilities to the Public	+ 33 (+10·4)	+ 20 (+ 5·6)	+ 18 (+ 4·8)
9. Total (6+7+8)	+ 619@ (+12·7)	+ 286 (+ 5·1)	+ 845 (+14·4)
10. Bank Credit to Commercial Sector*	+ 641 (+17·6)	+ 755 (+17·7)	+ 629 (+12·5)
(*a*) Net Bank Credit to Commercial Sector*	+ 167 (+11·7)	+ 336 (+21·1)	+ 80 (+ 4·1)
11. Net Non-Monetary liabilities of R.B.I. (Increase—)	— 95@	— 60	— 177
12. Net Non-Monetary Liabilities of other banks (Increase—)	— 125	+ 29	+ 67
13. Total (9+10)	+1260@ (+14·8)	+1041 (+10·6)	+1474 (+13·5)

Note : Figures in brackets represent percentage variations.

@ Excluding changes due to revaluation of gold held in the Issue Department of the Reserve Bank with effect from February 1, 1969.

* Includes advances made to public sector enterprises and State Governments for commercial purposes.

Table 17—Trends in Money Supply and Monetary Resources (Seasonal)

	Variations during the			
	Slack Season		Busy Season	
	1969	1970	1969-70	1970-71
1. Currency with the Public	— 149 (— 4·0)	— 34 (— 0·8)	+517 (+14·3)	+400 (+ 9·7)
2. Demand Deposits of Banks	+ 91 (+ 4·2)	+ 177 (+ 7·3)	+ 186 (+ 8·3)	+ 172 (+ 6·6)
3. Money Supply (1+2)	— 58 (— 1·0)	+ 143 (+ 2·2)	+ 703 (+12·0)	+ 572 (+8·5)
4. Time Deposits	+ 248 (+ 9·6)	+ 277 (+ 9·2)	+ 163 (+ 5·7)	+ 244 (+ 7·4)
5. Monetary Resources (3+4)	+ 190 (+ 2·2)	+ 420 (+ 4·4)	+ 866 (+10·0)	+ 816 (+ 8·2)
6. Net Bank Credit to Government	— 14 (— 0·3)	+ 111 (+ 2·3)	+ 130 (+ 2·8)	+ 620 (+12·5)
7. Net Foreign Exchange Assets of the Banking Sector	+ 59 (+15·4)	+ 36 (+ 5·9)	+ 168 (+38·0)	— 85 (—13·2)
8. Government's Net Currency Liabilities to the Public	— (—)	+ 6 (+ 1·6)	+ 19 (+ 5·5)	+ 15 (+ 4·1)
9. Total (6+7+8)	+ 45	+ 153	+ 317	+ 550
10. Bank Credit to Commercial Sector*	+ 136 (+ 3·3)	+ 311 (+ 6·4)	+ 602 (+14·2)	+ 448 (+ 8·7)
(a) Net Bank Credit to Commercial Sector* ..	— 111 (— 7·3)	+ 34 (+ 1·8)	+ 438 (+31·1)	+ 204 (+10·9)
11. Net Non-Monetary Liabilities of R.B.I. (Increase —)	+ 15	+ 27	— 77	— 113
12. Net Non-Monetary Liabilities of other banks (Increase —)	— 6	— 71	+ 25	— 69
13. Total (9+10)	+ 181 (+ 1·9)	+ 464 (+ 4·4)	+ 919 (+ 9·4)	+ 998 (+ 9·0)

Note : Figures in brackets represent percentage variations.
* Includes advances made to public sector enterprises and State Governments for commercial purposes.

Seasonal Trends

89. During the slack season of 1970 (May-October), money supply with the public registered a contra-seasonal expansion of Rs. 143 crores as against a contraction of Rs. 58 crores in the 1969 slack season (Table 17). The expansion in money supply stemmed mainly from an increase of Rs. 111 crores in net bank credit to Government and an accrual of Rs. 36 crores to net foreign exchange assets of the banking system. Bank credit to the commercial sector also contributed significantly to the monetary expansion.

90. Seasonal expansion in money supply during the busy season of 1970-71 (November 1970—April 1971) was, however, smaller at Rs. 572 crores (8.5 per cent) as compared with the increase of Rs. 703 crores (12 per cent) during the 1969-70 busy season. Rise in currency component at Rs. 400 crores was Rs. 117 crores smaller than that in the last

busy season. Increase in demand deposits was also smaller by Rs. 14 crores. Increase in time deposits was, however, Rs. 81 crores larger than in the 1969-70 busy season.

91. Increase in net bank credit to Government during the 1970-71 busy season was markedly larger at Rs. 620 crores as against the rise of Rs. 130 crores in the last busy season. However, foreign exchange assets declined by Rs. 85 crores, whereas in the previous busy season there was a rise of Rs. 168 crores. Adjusting for the increase in time deposits, expansion in net bank credit to the commercial sector at Rs. 204 crores in the 1970-71 busy season was smaller than that at Rs. 438 crores in the preceding busy season. Bank credit for procurement of foodgrains increased by Rs. 70.3 crores during the period. Expansion of bank credit to the commercial sector during the first two months of the busy season (November-December 1970) was relatively of a higher order (Rs. 199 crores) than during the subsequent four months (Rs. 249 crores). There was also a rise of Rs. 182 crores in net non-monetary liabilities of the banking system which had a contractionary impact on money supply. This together with the decline in net foreign exchange assets and a smaller increase in net bank credit to the commercial sector were responsible for the smaller increase in money supply during the 1970-71 busy season.

92. During the first two months of the current slack season (May-June 1971) there was a contra-seasonal expansion in money supply, as in the corresponding months of 1970 slack season. While net bank credit to Government registered a substantial rise as against a small decline in the comparable period of the previous slack season, net bank credit to the commercial sector recorded a decline as against an increase in the 1970 season.

Banking Trends and Credit Policy

93. In the first half of the year under review, bank credit was expanding at a pace faster than bank deposits and, therefore, commercial banks had turned increasingly to the Reserve Bank for accommodation. Such accommodation had touched as on January 1, 1971, a record level of Rs. 351 crores, a steep increase from Rs. 150 crores as at the end of October, 1970 when the traditional slack season was to have ended and when, therefore, banks' borrowings should have been nominal. This high level of borrowings, which had been in addition to Government's borrowings from the banking system, accentuated the pressure on the general price level which had emanated from physical shortages. During this period, the general price level was about 5 to 6 per cent above the level a year ago. The Bank, therefore, tightened general credit control by raising the Bank rate from 5 to 6 per cent effective from January 9, 1971 and by stepping up the 'net liquidity ratio' from 33 per cent to 34 per cent with effect from January 29, 1971. At the same time, to assist them in deposit mobilisation, the banks were asked to raise rates of deposits by ¼ to ½ percentage point. In regard to lending rates consequent upon changes in the Bank rate and the net liquidity ratio, the banks were asked to ensure that, on an average, increase in the rate charged by them on advances was only about 1 per cent. In view of the rising pressure on prices of cotton, oilseeds and vegetable oils, selective controls on advances against these were tightened further. While all these measures had their immediate impact as reflected in a considerably reduced rate of expansion in bank credit thereafter, quantum of increase in commercial bank credit was still relatively high and, therefore, the situation was not one which could have been viewed with complacency. Therefore, in a mid-season review of the credit situation on February 4, 1971, the Governor stressed the need for continued restraint in bank credit and for greater efforts towards deposit mobilisation. Besides, with the objective of rendering the bank lending system more purpose-oriented, the Governor impressed upon banks that they have a promotional role in bringing about a more wide—spread use of bill of exchange as an instrument of credit and that the refinance facilities under the newly introduced Bill Rediscounting Scheme would be available at the Bank rate round the year. As a further concession, bills rediscounted under the Scheme after June 30, 1971 would not impair the banks' entitlement to refinance at the Bank rate irrespective of their net liquidity ratio position. Steps were also taken to expand the

scope of this Scheme by including other categories of bills.

94. In furtherance of the objective of nationalisation, the flow of credit to priority and hitherto neglected sectors was accelerated. Since the nationalisation upto June 1971, roughly three fourths of deposit growth net of statutory investment has been absorbed in credit to agriculture, small industry, road transport operators, retail trade and small business, professional and self-employed persons and education. In incremental bank credit during this period, the share of advances to these sectors worked out to 68 per cent. The share of credit to these sectors rose from 14.5 per cent of total advances at the end of June 1969 to 23.8 per cent at the end of March 1971.

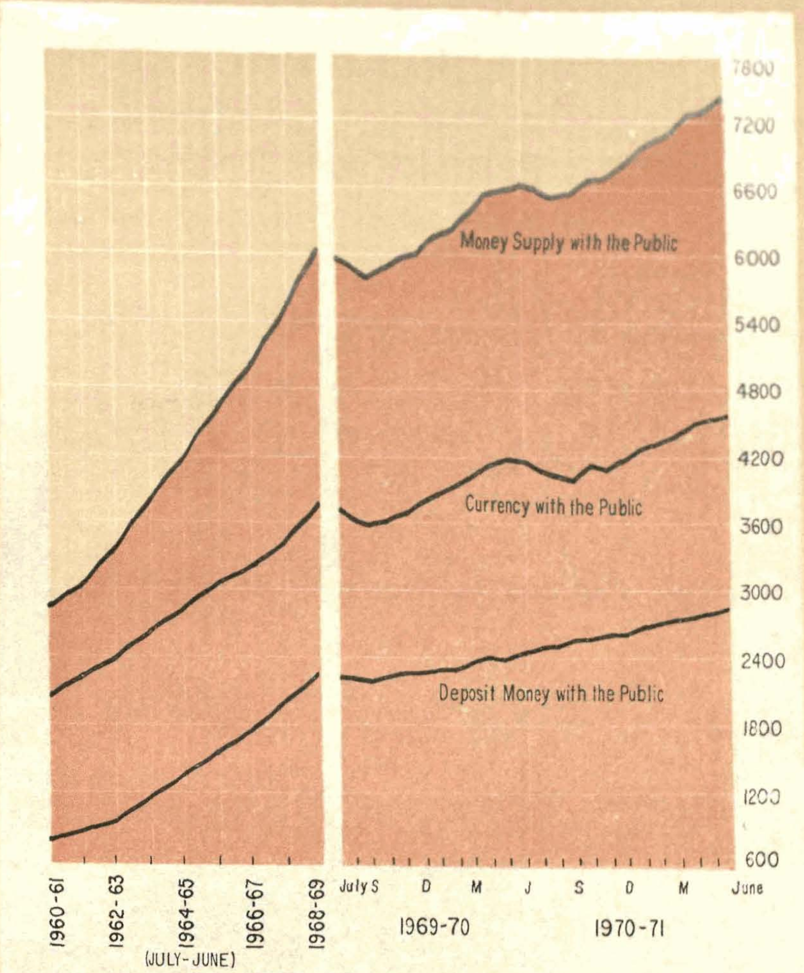
95. There was also a substantial rise in advances for food procurement operations which increased from Rs. 207 crores on June 26, 1970 to Rs. 379 crores on June 25, 1971. These advances increased further to Rs. 431 crores on July 30, 1971 (last Friday).

Annual Variations (July 1970-June 1971)

96. For the year as a whole, scheduled commercial banks' credit recorded a smaller expansion while deposit growth was considerably larger than in 1969-70. Banks were, therefore, in a position to increase their investment and cash balances and also repay a part of their borrowings from the Reserve Bank.

97. Total scheduled commercial banks' credit recorded during 1970-71, an increase of Rs. 563.1 crores or 13 per cent as compared with Rs. 613.9 crores or 17 per cent in 1969-70 (July-June). On the other hand, accretion to deposits amounted to Rs. 915.4 crores or 17 per cent in 1970-71 as compared with Rs. 628.7 crores or 13 per cent in 1969-70. The rate of expansion in bank credit was not uniform during the year, the increase in the earlier half of the year at Rs. 239.8 crores being considerably higher than that in the corresponding half of the previous year at Rs. 17.1 crores, while in the latter half, the expansion was Rs. 323.3 crores as against Rs. 596.8 crores in the corresponding half of the previous year. Credit-deposit ratio at 77.2 per cent as at the end of June 1971 was 2.7 percentage points lower than the ratio a year ago (79.9 per cent). Of the total increase of Rs. 915.4 crores in deposits in 1970-71, time deposits accounted for 56.7 per cent as against 64.1 per cent of the increase in 1969-70. Increase in 1970-71 in the investments of scheduled commercial banks in Government and other approved securities by Rs. 294.7 crores was more than double that in 1969-70 (Rs. 145.3 crores). The investment-deposit ratio reached 29.0 per cent on June 25, 1971 as against 28.5 per cent on June 26, 1970. Cash and balances with the Reserve Bank of India showed, during the year, an increase of Rs. 35.9 crores as against a decline of Rs. 22.7 crores in the previous year, but on account of the steep increase in deposits, the cash ratio at 6.4 per cent actually fell by 0.4 percentage point. The outstanding level of borrowings from the Reserve Bank at Rs. 207.2 crores as on June 25, 1971 showed a fall of Rs. 84.3 crores over the level (Rs. 291.5 crores) a year ago. During the year as a whole, however, despite rise in deposits, borrowings of the commercial banks from the Reserve Bank were consistently higher than in the coresponding weeks of the previous year upto April 1971, touching a peak of Rs. 443 crores on March 19, 1971 before declining in the following weeks to Rs. 190.7 crores at the end of the 1970-71 busy season. On June 25, 1971 they were Rs. 207.2 crores as against Rs. 291.5 crores on June 26, 1970 (Table 18).

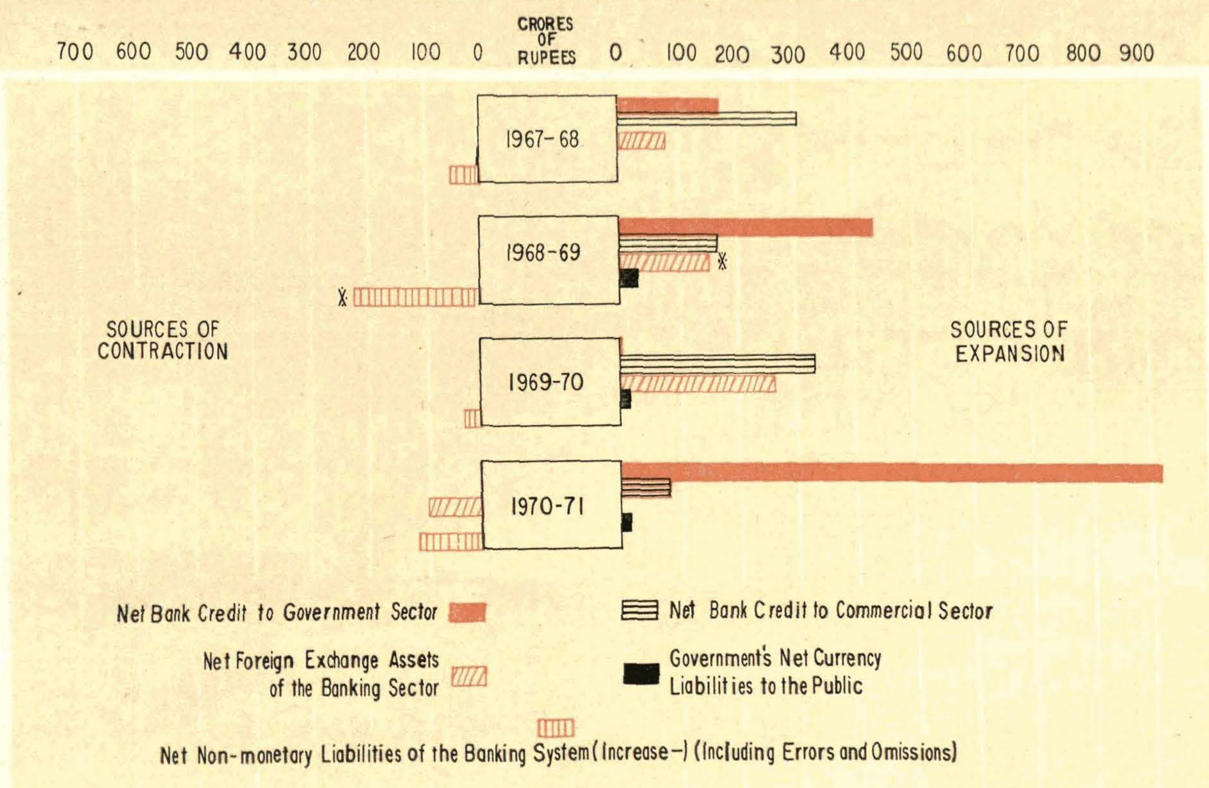
98. With strained liquidity position of banks, the call money rate in Bombay which ruled between 4 and 6 per cent during July to December 1970 started moving up in early 1971 reaching a peak of 13 per cent in the first week of Feburary 1971, after which it came down steadily to $6\frac{1}{2}$ per cent on April 30, 1971. The rate at the end of June 1971 was $4\frac{1}{2}$ per cent as against $6\frac{1}{2}$ per cent at the end of June 1970. In the previous year, however, the rate ruled between $3\frac{1}{2}$ and $4\frac{1}{2}$ per cent during July 1969 to January 1970 after which it showed a continuous rise and reached 9 per cent on March 31, 1970; thereafter, it came down to $6\frac{1}{2}$ per cent on April 30, 1970. In Calcutta, the rate ranged between $4\frac{1}{2}$ to $5\frac{3}{4}$ per cent upto November 1970; from July 1970, it rose steadily reaching



MONEY SUPPLY WITH THE PUBLIC

(AS ON LAST FRIDAY)
(CRORES OF RUPEES)

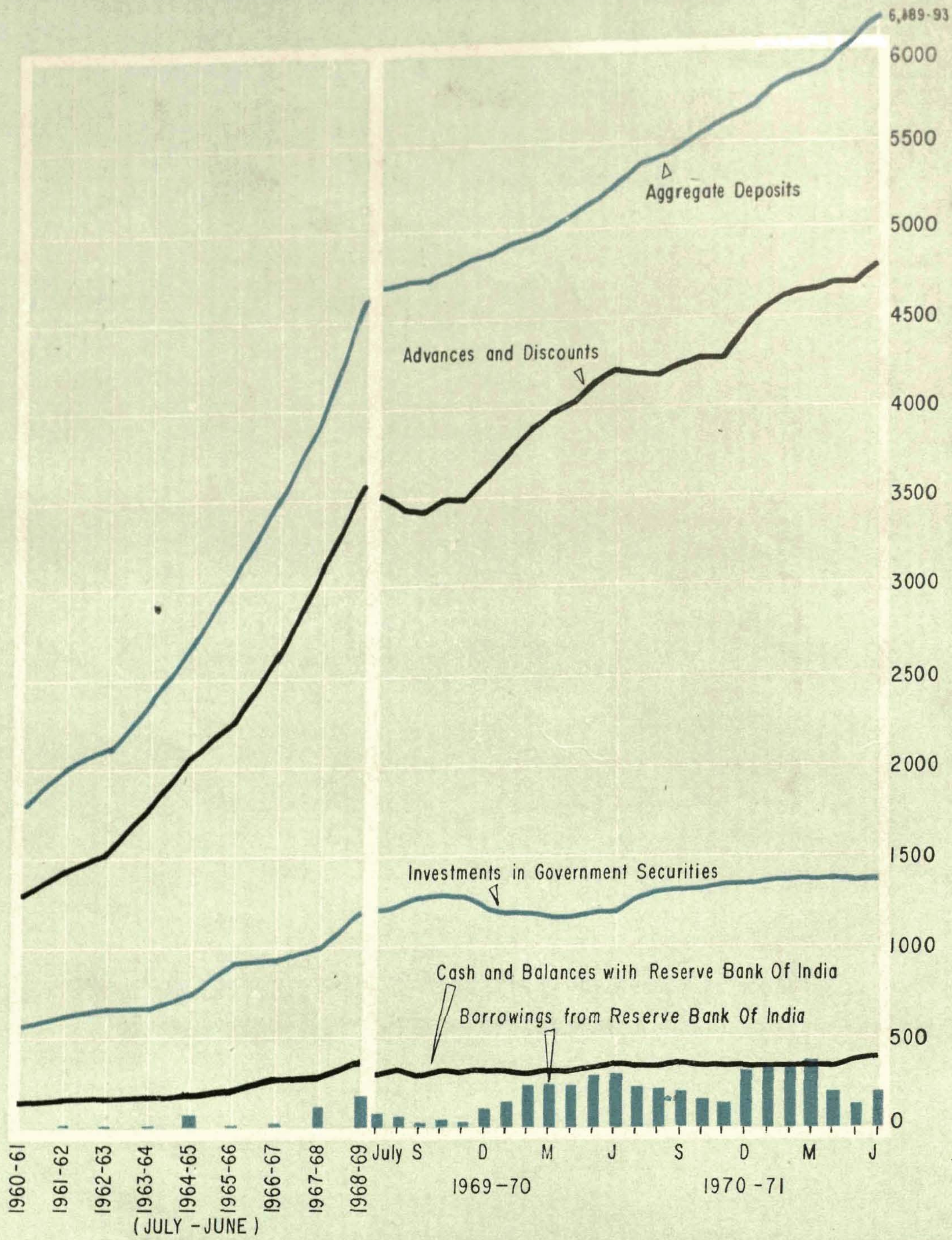
SOURCES OF VARIATIONS IN MONEY SUPPLY WITH THE PUBLIC DURING THE ACCOUNTING YEARS (JULY-JUNE)



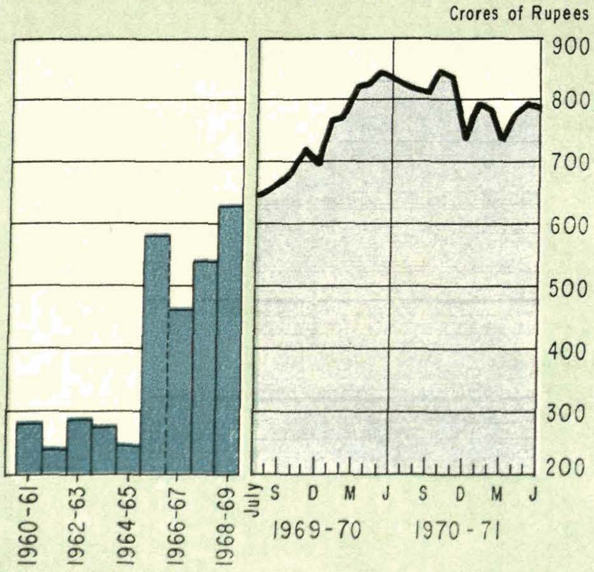
*Excluding the changes due to revaluation of gold held in the Issue Department of the Reserve Bank with effect from February 1, 1969

SCHEDULED COMMERCIAL BANKS' DATA

(AS ON LAST FRIDAY)
(CRORES OF RUPEES)



INDIA'S FOREIGN EXCHANGE RESERVES (GROSS)



INDIA'S FOREIGN TRADE

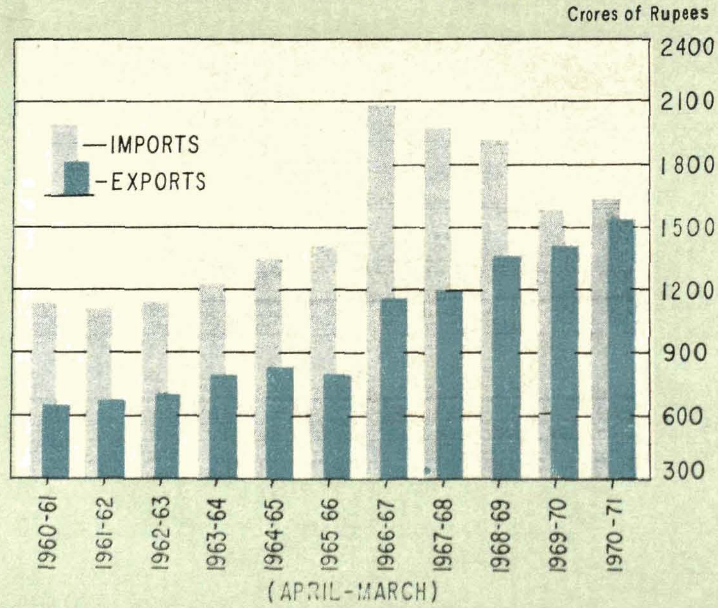


Table 18—Annual Variations in Important Banking Data

(Rupees Crores)

	End-June 1968	Variation during the year ended June 1968	End-June 1969	Variation during the year ended June 1969	End-June 1970	Variation during the year ended June 1970	End-June 1971*	Variation during the year ended June 1971
1. Total Bank Credit	3102·9	+471·8	3598·8	+495·9	4212·7	+613·9	4775·8	+563·1
2. Total Investments	1160·7	+ 90·8	1358·9	+198·2	1504·2	+145·3	1798·9	+294·7
(a) in Government securities ..	975·6	+ 53·0	1126·3	+150·7	1186·1	+ 59·8	1369·4	+183·3
(b) in other approved securities	185·1	+ 37·8	232·6	+ 47·5	318·1	+ 85·5	429·5	+111·4
3. Cash and Balances with the Reserve Bank of India ..	269·5	+ 10·7	380·3	+110·8	357·6	— 22·7	393·5	+ 35·9
4. Money at call	50·6	— 7·1	88·1	+ 37·5	47·9	— 40·2	74·8	+ 26·9
5. Aggregate Deposits	3969·0	+452·0	4645·8	+676·8	5274·5	+628·7	6189·9	+915·4
(a) Demand	1874·8	+210·2	2103·5	+228·7	2328·8	+225·3	2725·1	+396·3
(b) Time	2094·2	+241·8	2542·3	+448·1	2945·7	+403·4	3464·8	+519·1
6. Borrowings from the Reserve Bank of India	103·5	+ 92·0	172·2	+ 68·7	291·5	+119·3	207·2	— 84·3

* Provisional (as on June 25, 1971).

Source : Returns submitted under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from the Reserve Bank of India which are based on borrowing advices from regional offices of the Reserve Bank of India.

Table 19—Seasonal Variations in Scheduled Commercial Banks Data

(Rupees Crores)

	Slack Season 1969	Busy Season 1969-70	Slack Season 1970	Busy Season 1970-71	Slack Season upto June 25, 1971*	Slack Season upto June 26, 1970
1. Bank Credit	+ 31·3	+562·9	+225·6	+409·2	+ 85·5	+157·2
2. Investments in Government securities and other approved securities	+239·5	— 53·8	+187·6	+128·5	+ 11·5	+ 32·9
(a) in Government securities ..	+208·3	—100·9	+155·3	+ 53·7	— 4·8	+ 20·9
(b) in other approved securities	+ 31·2	+ 47·1	+ 32·3	+ 74·8	+ 16·3	+ 12·0
3. Cash and Balances with the Reserve Bank of India	+ 26·7	+ 7·7	+ 31·2	+ 7·9	+ 39·1	+ 42·3
4. Money at call	— 25·8	— 14·8	— 5·6	— 5·8	+ 41·9	+ 3·6
5. Aggregate Deposits	+348·1	+320·9	+448·6	+421·1	+211·2	+165·5
(a) Demand	+115·0	+171·9	+174·3	+186·3	+ 98·2	+ 62·5
(b) Time	+233·1	+149·0	+274·3	+234·8	+113·0	+103·0
6. Borrowings from the Reserve Bank of India	— 67·5	+203·0	— 86·0	+ 40·2	+ 16·5	+ 55·0

* Provisional.

Notes : (1) Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from the Reserve Bank of India which are based on weekly borrowing advices from regional offices of the Reserve Bank of India.

(2) The variations are based on the last Friday figures of April and October.

the peak of 12 per cent in February 1971 and declined thereafter to 5½ per cent on April 30, 1971. In the previous year, the rate moved between 3 and 5½ per cent from July 1969 upto end-February 1970, rising up later to 9¾ per cent on March 31; it closed at 7 per cent on April 30, 1970. The rate at the end of June 1971 was 4¾ per cent as against 5½ per cent last year.

Seasonal Trends

99. The slack season of 1970 was marked by a virtual absence of any slackness in credit; bank credit recorded a sharp contra-seasonal expansion, and though deposits also rose substantially, strain on liquidity of the banking system was felt almost throughout the season. In the 1969 slack season also there was a contra-seasonal expansion of Rs. 31.3 crores in bank credit but in the slack season of 1970 it was much more pronounced, amounting to Rs. 225.6 crores. This increase was due both to a smaller contraction of advances against seasonal commodities as well as a larger expansion in advances against non-seasonal items. Though deposit accretion was higher, both in absolute as well as relative terms, at Rs. 448.6 crores (8.8 per cent) as against Rs. 348.1 crores (7.8 per cent) in the 1969 slack season, the credit-deposit ratio at the end of 1970 slack season at 77.0 per cent was about 4 percentage points higher than the ratio a year ago (72.9 per cent). The continued pressure on banks' resources resulted in a smaller quantum being put in investments, *viz.*, Rs. 188 crores as against Rs. 240 crores in the previous slack season, and a smaller proportion of the borrowings from the Reserve Bank being repaid (36 per cent) than in the 1969 slack season (68 per cent).

100. In the light of the credit and price situation and in the context of the need envisaged in the Fourth Plan for reaching a certain proportion of additional deposits to be invested by banks in Government and other approved securities, Governor asked banks, in August 1970, to step up their holdings of assets that go to make the statutory liquidity ratio from 27 per cent to 28 per cent from the last Friday of August 1970. Simultaneously, the minimum net liquidity ratio for purposes of determining the penal rate of interest chargeable on the excess borrowings of a bank from the Reserve Bank was also raised by one percentage point to 33 per cent effective from the last Friday of August 1970. (Earlier, these ratios had been raised by one percentage point each to 27 per cent and 32 per cent, respectively from the last Friday of April 1970). Measures were also announced to regulate advances against shares with a view to preventing the use of bank finance for speculative purposes. Refinance facilities under the existing Bill Market Scheme for the 1969-70 season which were to lapse by the close of June 1970 were, however, continued beyond June 30, 1970 in respect of bank advances to priority sectors as well as for purposes of food procurement and distribution.

Credit Policy for 1970-71 Busy Season

101. The new busy season had started with an unprecedentedly high level of banks' borrowings from the Reserve Bank at Rs. 150 crores. Announcing the credit policy for the busy season of 1970-71 on November 10, 1970, Governor prevailed upon the banks to step up mobilisation of deposits to meet the increasing demand for credit, particularly for the priority sectors, and assured continued availability of refinance from the Reserve Bank at Bank rate/concessional rate for all legitimate productive activities. While fully appreciating the need for credit restraint, a higher level of credit expansion in the busy season of 1970-71, as compared with the earlier years, was considered unavoidable on account of the need to maintain the tempo of economic expansion and the need to continue the provision of credit for priority sectors and backward areas. It was pointed out to the banks that their aim should be to absorb expansion of credit even in respect of priority sectors within their own deposit resources over a period of time and recourse to the Reserve Bank should be had only in the ultimate resort and as far as possible for short periods. The Reserve Bank would, however, continue to make available, discretionary accommodation in deserving cases at the Bank rate to ease liquidity pressure on banks arising from sudden or specially heavy demands of credit.

102. With a view to providing additional finance to the banking system in the busy season for normal seasonal operations, the

Table 20—Seasonal Pattern of Principal Ratios of Scheduled Commercial Banks

(Rupees Crores)

	October 1969		April 1970		October 1970		April 1971		June 1971*		June 1970	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1. Bank Credit	3492·6	72·9	4055·5	69·4	4281·1	77·0	4690·3	78·5	4775·8	77·2	4212·7	79·9
2. Investments in Government and other approved securities	1525·1	31·8	1471·3	28·8	1658·9	29·8	1787·4	29·9	1798·9	29·0	1504·2	28·5
(a) in Government securities	1266·1	26·4	1165·2	22·8	1320·5	23·7	1374·2	23·0	1369·4	22·1	1186·1	22·5
(b) in other approved securities ..	259·0	5.4	306·1	6·0	338·4	6·1	413·2	6·9	429·5	6·9	318·1	6·0
3. Cash and Balances with Reserve Bank	307·6	6·4	315·3	6·2	346·5	6·2	354·4	5·9	393·5	6·4	357·6	6·8
4. Money at Call and Short Notice ..	59·1	—	44·3	—	38·7	—	32·9	—	74·8	—	47·9	—
5. Aggregate Deposits	4788·1	100·0	5109·0	100·0	5557·6	100·0	5978·7	100·0	6189·9	100·0	5274·5	100·0
(a) Demand	2094·4	43·7	2266·3	44·4	2440·6	43·9	2626·9	43·9	2725·1	44·0	2328·8	44·2
(b) Time	2693·7	56·3	2842·7	55·6	3117·0	56·1	3351·8	56·1	3464·8	56·0	2945·7	55·8
6. Borrowings from Reserve Bank ..	33·5	—	236·5	—	150·5	—	190·7	—	207·2	—	291·5	—

Notes : (1) The percentages are ratios to aggregate deposits.

(2) Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from Reserve Bank of India which are based on weekly borrowing advices received from regional offices of the Reserve Bank of India. All figures relate to the last Friday of the month.

* Provisional (Refers to June 25th).

Reserve Bank effected some changes in its system of refinance. Thus, while refinance at Bank rate/concessional rate would continue to be made available in respect of increases over a prescribed base period to the priority sectors, the base period itself was, however, moved forward and in calculating the increase in 1970-71, the base period was changed to the average level of such credit in the corresponding quarter of the previous year (1969-70 instead of 1968-69).

103. The Reserve Bank had already announced in August 1970 the introduction of the new Bills Rediscounting Scheme with effect from November 1, 1970. The scheme is expected to even out liquidity within the banking system and minimise banks' recourse to the Reserve Bank, as such recourse will normally be only when the banking system as a whole is short of funds rather than when only a few banks are in need of funds. The salient features of the scheme and also the subsequent modifications are discussed in later paragraphs.

104. In regard to advances of banks for food procurement/storage/distribution purposes to the Food Corporation of India, State Governments and/or their authorised agencies, the Bank announced that refinance would be made available at the Bank rate upto 50 per cent of the increase in such advances over the actual level of such advances as on October 30, 1970. In April 1971, this refinance facility was increased to 75 per cent for the period April 9, 1971 to June 30, 1971, and was later extended till end-July 1971. This facility is to be reduced to 60 per cent for August 1971 and thereafter to 50 per cent of the increase in such advances over the specified base date (October 30, 1970). The Bank also indicated that it would consider the provision of discretionary accommodation to banks at the Bank rate in deserving cases in order to ease pressure on liquidity of individual banks arising out of sudden or specially heavy demand for credit.

105. By the end of 1970, there were indications of developing pressures of credit and monetary expansion on the price situation. Thus, in the first two months of the busy season of 1970-71, credit expanded by Rs. 147.3 crores as compared with a rise of Rs. 123.3 crores in the corresponding two months of the preceding busy season. Increase in money supply over the year ended December 25, 1970 too was considerably larger at Rs. 755 crores (12 per cent) as against an increase of Rs. 647 crores in the preceding year. In December 1970, the general price level was higher by 6.5 per cent than in the corresponding month of 1969.

106. There was also an increased recourse by banks to borrowings from the Reserve Bank which recorded an increase of Rs. 152.2 crores at the end of December 1970 over the outstanding level of Rs. 150 crores at the beginning of the busy season. It was felt that with the progress of the busy season, the pressure would intensify further. It was, therefore, considered necessary to restrain the rate of credit expansion along with the provision of incentives for stimulating savings and assisting deposit mobilisation. With this end in view, the Bank rate was raised from 5 per cent to 6 per cent with effect from January 9, 1971. Following this, the minimum 'net liquidity ratio' was also raised by one percentage point from 33 per cent to 34 per cent effective from January 29, 1971. The liquidity ratio for the purpose of Section 24 of the Banking Regulation Act, together with the cash reserve requirements under Section 42 of the Reserve Bank of India Act, however, continued to remain unchanged at 31 per cent. Banks were advised that while adjusting rates of interest on their advances consequent upon these changes, they should ensure that, on an average, increase in their lending rates was only about one percentage point. As for the priority sectors, however, the Reserve Bank continued to provide refinance on the existing basis, *viz.*, (i) at $4\frac{1}{2}$ per cent, irrespective of the net liquidity ratio, against the increase in credit over the specified base period in respect of export credit and credit to primary agricultural co-operative credit societies in the selected districts in terms of the scheme instituted for this purpose ; (ii) at the Bank rate, irrespective of the net liquidity ratio, in regard to the increase in short-term lending to small-scale industries and agriculturists over the specified base period and rediscounting of bills under the new Bills Rediscounting Scheme, and (iii) at the Bank rate in respect of bank advances for food procurement operations upto 50

per cent of such advances as on October 30, 1970.

107. With a view to encouraging savings and further assisting deposit mobilisation, the ceiling rates on various categories of deposits were increased. The rate on savings accounts was increased from 3½ to 4 per cent. The rate on deposits for 15 days to 45 days was stepped up from 1.25 to 2.00 per cent and that on 46 days to 90 days from 2.50 per cent to 3.00 per cent. An increase of one quarter of one per cent was announced in respect of various other maturity categories of deposits upto one year and an increase of ½ per cent in the maturity categories of deposits for one year and over upto 5 years. The maximum rate payable was fixed at 7¼ per cent in respect of deposits for periods above 5 years. Smaller banks were to be allowed, as before, to quote rates slightly higher than those offered by larger banks.

108. Selective credit controls were also modified on specified commodities, wherever necessary, in the context of changed supply and price situation. Details of these measures are given in Part III of this Report.

109. At the time of the mid-term review of monetary and credit situation on February 4, 1971, the Governor while expressing satisfaction at the slowing down of the rate of expansion in bank credit and reduction in borrowings from the Reserve Bank consequent upon tightening of the credit control measures, stressed the need for continued restraint in credit and for greater efforts towards deposit mobilisation. The Governor assured the banks of availability of refinance facilities on the existing basis but made it clear that discretionary accommodation would be available at the Bank rate only in exceptional cases. While granting such accommodation, account would be taken, among other things, of efforts made by a bank towards deposit mobilisation, purposeful credit planning, its commitments towards financing of food procurement operations and the problems faced by the bank in regard to its operations in backward areas. The Governor also advised banks to exercise strict scrutiny of the purpose as well as terms and conditions of credit extended by shroffs while discounting *multani* hundis, since banks were directly lending to small borrowers on an increasing scale. With the objective of rendering the lending system of banks more purpose-oriented and related to actual needs of borrowers for a specified period of time, the Governor also advised banks, at the meeting on February 4, 1971, to initiate measures for a gradual replacement of the existing cash credit system with bills and loans. The scope of the new rediscounting scheme for bills has been expanded to include other categories of bills. The rediscounting facilities under the scheme would be available throughout the year and rediscounting of bills by banks after June 30, 1971 would not impair their net liquidity ratio. It was also decided to close, as of June 30, 1971, the existing Bill Market Scheme under which refinance was made available to banks against the security of bills, though, as mentioned earlier, the Scheme was continued in respect of bank advances for food procurement and distribution.

110. The Reserve Bank also fixed in February 1971, a maximum penal rate of 15 per cent for excess borrowings by banks. Hitherto, the rate of interest charged by the Reserve Bank increased by one percentage point above the Bank rate for a shortfall of every one percentage point or a fraction thereof in the bank's net liquidity ratio below 34 per cent. The ceiling of 15 per cent would afford relief to the banks when their borrowings from the Reserve Bank increased to such a level as to reduce their net liquidity ratio below 26 per cent. At the same time, certain safeguards were provided for giving discretionary accommodation in exceptional cases.

111. In February 1971, the basis of refinance facilities against export credit was reviewed in the context of the ceiling of 6 per cent on interest rate on export credits sanctioned by banks and with a view to reducing an element of uncertainty about the quantum of refinance available at 4½ per cent and at Bank rate over the year as a whole. According to the revised arrangement, refinance was to be available irrespective of the net liquidity ratio upto an amount equal to 10 per cent of the annual average of export credit in 1970 at the concessional rate of 4½ per cent, and an additional amount upto 10

per cent of the annual average of export credit at the *Bank rate*. However, with a view to bringing about a proper alignment of the structure of interest rates charged by scheduled commercial banks on export credit, the Reserve Bank increased, with effect from April 17, 1971, the ceiling rate on export credit from 6 per cent to 7 per cent per annum for pre-shipment (packing credit) and post-shipment credits other than credit provided for exporters on deferred payment terms. The maximum rate of interest on deferred payment terms was continued at 6 per cent and the subsidy of 1.5 per cent under the Export Credit (Interest Subsidy) Scheme continued as before on all export credit provided.

112. On April 17, it was decided to reduce the minimum amount of a single bill offered for rediscounting under the Bills Rediscounting Scheme from Rs. 10,000 to Rs. 5,000; the value of bills offered at any time for rediscounting by a bank would, however, continue to be not less than Rs. 50,000.

Table 21—Seasonal Trends in Bank Credit : Security—wise Classification

(Rupees Crores)

	Busy Season	Slack Season		Busy Season upto mid-April	
	1968-69	1969	1970	1969-70	1970-71†
Seasonal Advances $	**+206·8**	**—192·0**	**—172·9**	**+116·3**	**+199·1**
Paddy and Rice	+ 41·1	— 29·0	— 31·1	— 6·8	+ 20·7
Wheat	— 33·7	+ 14·4	+ 14·5	— 59·5	— 6·6
Other foodgrains	+ 9·0	— 3·1	— 30·9	+ 2·1	+ 14·1
Sugar	+ 98·9	— 44·6	— 49·9	+ 85·7	+ 73·6
Gur	+ 3·7	— 3·6	— 3·8	+ 3·6	+ 6·4
Groundnuts	+ 11·8	— 13·7	— 10·2	+ 12·2	+ 8·3
Other oilseeds	+ 13·9	— 17·0	— 11·3	+ 9·0	+ 7·3
Vegetable oils	+ 1·6	— 10·2	— 8·9	+ 12·4	+ 15·3
Cotton and kapas	+ 68·1	— 86·9	— 53·7	+ 54·9	+ 63·9
Raw jute	+ 1·0	— 6·1	— 9·8	+ 14·4	+ 8·2
Tea	— 8·6	+ 7·8	+ 22·2	— 11·7	— 12·1
Non-Seasonal Advances‡	**+131·4**	**+185·0**	**+382·4**	**+318·8**	**+105·2**
Cotton textiles	+ 0·5	+ 1·0	— 4·3	+ 39·2	+ 36·5
Jute textiles	+ 6·1	— 0·8	+ 11·0	+ 9·9	— 6·0
Iron, steel and engineering goods*	— 12·7	+ 44·9	+ 49·6	+ 83·8	+ 43·1
Chemicals, dyes, paints, drugs and pharmaceuticals £	+ 48·2	+ 7·4	— 3·5	— 14·6	+ 40·4
Electrical goods	— 6·7	+ 18·4	n.a.	n.a.	n.a.
Assets of Industrial concerns—					
Fixed or floating	+ 4·7	+ 10·3	+ 8·0	+ 19·0	+ 11·9
Shares of joint stock Companies	+ 3·0	— 1·5	— 3·0	+ 2·3	— 4·1
Government and other trustee securities	— 1·7	+ 0·6	n.a.	n.a.	n.a.
Gold and silver bullion and ornaments	+ 1·5	+ 8·4	n.a.	n.a.	n.a.
Total Secured Advances	**+338·2**	**— 7·0**	**+209·5**	**+435·1**	**+304·3**
Unsecured Advances	**+ 55·8**	**+ 25·2**	**+ 19·0**	**+ 73·7**	**+120·5**
Total Advances	**+394·0**	**+ 18·2**	**+228·5**	**+508·8**	**+424·8**

† Estimates based on mid-April 1971 returns received from selected branches of banks.
$ Excluding plantations other than tea.
‡ Including plantations other than tea.
* Includes advances against vehicles.
£ Includes advances against fertilisers.
n.a. = not available.

Source : Fortnightly/Monthly Survey of Banks' Advances classified according to security. These figures may not tally with those given in Table 19 as these relate to reporting branches only.

Table 22—Scheduled Commercial Banks' Advances to Agriculture, Small Scale Sector and Exports.

(Amounts in Rupees Crores)
(Number of Accounts in thousands)

	State Bank of India and Subsidiaries		14 Nationalised Banks		Total Public Sector Banks		Other Scheduled Commercial Banks		Total	
	No. of Accounts*	Amount	No. of Accounts*	Amount	No. of Accounts*	Amount	No. of Accounts*	Amount	No. of Accounts*	Amount
1. Total for Agricultural Purposes :										
June 1970	240	141·91	392	159·73	632	301·64	210	40·13	842	341·77
March 1971	280	142·97	521	194·57	801	337·54	255	40·98	1056	378·52
of which :										
Direct Finance to Farmers :										
June 1970	239	55·51	374	104·87	613	160·38	205	23·60	818	183·98
March 1971	279	72·01	505	134·72	784	206·73	247	28·35	1031	235·08
2. Total Small-Scale Sector (a+b+c):										
June 1970	42	167·79	45	226·96	87	394·74	9	50·83	96	445·57
March 1971	52	204·83	60	278·13	112	482·96	11	60·81	123	543·77
(*a*) Road and Water transport Operators :										
June 1970	2	4·55	9	19·86	11	24·41	2	6·22	13	30·63
March 1971	4	7·86	16	31·48	20	39·34	3	8·12	23	47·46
(*b*) Small-Scale Industries :										
June 1970	40	163·24	36	206·32	76	369·56	8	44·49	84	414·05
March 1971	48	196·97	44	243·55	92	440·52	8	52·62	100	493·14
(*c*) Setting up Industrial Estates :										
June 1970	—	—	—	0·77	—	0·77	—	0·12	—	0·89
March 1971	—	—	—	3·10	—	3·10	—	0·07	—	3·17
3. Exports :										
June 1970	—	92·02	—	158·04	—	250·06	—	70·44	—	320·49
March 1971**	—	103·37@	—	173·58+	—	276·95	—	86·46	—	363·41+

Note: The figures are as on the last Friday of the month.
* Figures relate to number of units in respect of item No. 2 (Small-Scale Sector).
** Provisional.
@ Includes provisional figures of State Bank of India.
+ Excludes the figures of Punjab National Bank.
Source : Special returns received from banks.

Banking Trends During 1970-71 Busy Season

113. During the busy season of 1970-71, bank credit expanded by Rs. 409.2 crores as against an expansion of Rs. 562.9 crores in the previous busy season, the deceleration in the growth of bank credit being attributable to the credit control measures taken by the Reserve Bank in early 1971. While between October 30, 1970 and the first week of January 1971 (just prior to raising the Bank rate), bank credit had expanded by Rs. 265 crores as against Rs. 241 crores during the corresponding period of the previous year, expansion in the subsequent period amounted to Rs. 144 crores as against Rs. 322 crores recorded, in the corresponding period of the previous busy season.

114. Advances for food procurement operations recorded an increase of Rs. 77 crores or about a fifth of the total bank credit expansion of Rs. 380 crores during the busy season as against a contraction of the order of Rs. 27.3 crores in such advances during the previous busy season. On the other hand, credit for other purposes recorded a smaller expansion at Rs. 302.9 crores as against Rs. 590.2 crores during the previous busy season.

115. Security-wise analysis of bank credit (based on estimates) in the 1970-71 busy season (upto April 16, 1971) shows that there was an increase in advances against foodgrains (Rs. 28 crores) as against a contraction (Rs. 64 crores) during the corresponding period of the previous busy season. Expansion in respect of other seasonal advances like sugar, oilseeds and raw jute was smaller than in the previous busy season. In respect of gur and vegetable oils, there were larger increases, and contraction in regard to tea advances was about the same as in the previous busy season. Among non-seasonal advances, there was a sharp increase in advances against chemicals, dyes, etc., as against a contraction in the corresponding period of the previous busy season, while cotton textiles and iron and steel products and assets of industrial concerns recorded smaller increases as compared with the increases in the previous busy season ; jute textiles showed a contraction as against an expansion in the previous busy season. Advances against shares of industrial concerns declined as compared with a moderate increase during the previous busy season. In contrast to the trend in secured advances, expansion in regard to unsecured advances was substantial. The major part of rise in unsecured advances arose out of the accounting procedure followed after July 1970 in respect of the participation of the nationalised banks with the State Bank of India in financing food procurement operations. Advances given by the nationalised banks were in lieu of usance promissory notes lodged by the Food Corporation of India with the State Bank of India and as such were shown under unsecured advances. In the earlier years, on the other hand, these were shown as advances secured against hypothecation of stocks.

116. Increase in aggregate deposits of scheduled commercial banks during the 1970-71 busy season amounted to Rs. 421.1 crores which was higher by Rs. 100.2 crores as compared with the increase in the previous busy season. Consequently, the credit-deposit ratio at the end of April 1971 was lower at 78.5 per cent by 0.9 percentage point as compared with the ratio a year ago. Increase in time deposits (Rs. 235 crores) during the 1970-71 busy season was substantially higher (Rs. 86 crores) than the increase in the previous busy season, attributable perhaps to the upward revision of deposit rates by $\frac{1}{4}$ to $\frac{1}{2}$ per cent. In respect of demand deposits also, the increase (Rs. 186 crores) was larger by Rs. 14 crores as compared with the increase in the previous busy season. The relative shares of the two components in the total deposits remained the same at the end of April 1971 as in April 1970 at 44 and 56 per cent for demand and time deposits, respectively.

117. Despite this increase in deposits, the order of recourse of commercial banks to the Reserve Bank of India during the busy season of 1970-71 was higher than in the previous busy season, though the level at the end of the busy season (Rs. 190.7 crores) was very much lower as compared with the level a year ago (Rs. 236.5 crores). The busy season having commenced at a very high level of Rs. 150.5 crores, the borrowings increased steadily touching the peak of Rs. 443 crores on March 19, 1971 before declining in the subsequent weeks to Rs. 191 crores on April 30, 1971. The level at the end of the busy season of

1970-71 was Rs. 40 crores above the level at the end of October 1970 which, however, compared favourably with the increase of Rs. 203 crores during the previous busy season. Investments in Government and other approved securities recorded an increase of Rs. 114.2 crores during the busy season of 1970-71 as against a disinvestment of Rs. 53.8 crores during the 1969-70 busy season raising the ratio of investments in Government and other approved securities to deposits from 28.8 per cent at the end of April 1970 to 29.9 per cent at the end of April 1971. Perhaps, the stepped-up liquidity requirements acted as a constraint on the ability of commercial banks to shift resources from investments in Government securities to bank credit. The cash and balances with the Reserve Bank recorded a marginally larger increase (Rs. 7.9 crores) than that in the previous period (Rs. 7.7 crores).

118. The curtailment of refinance facilities by the Reserve Bank in the face of unabated demand for credit was naturally reflected in the trend of call money rates as discussed earlier. To enlarge the call money market, the Reserve Bank allowed in November 1970 the Life Insurance Corporation and the Unit Trust of India to place their surplus funds with banks as money at call and short notice. Earlier, in September 1970, the State Bank of India was permitted by the Reserve Bank to enter the call money market. The subsidiaries of the State Bank which were hitherto operating only as borrowers were also permitted to operate as lenders enabling them to place their surplus funds in the inter-bank call money market.

Export Finance

119. The preferential treatment accorded to exports in the form of refinance facilities given to banks at the concessional rate/Bank rate, irrespective of net liquidity ratio, for financing export credit was continued by the Reserve Bank during the year. As on the last Friday of June 1971, outstanding amount of refinance stood at Rs. 35.5 crores in regard to packing credit for exports and Rs. 36.6 crores in respect of post-shipment credit. Though the level was much lower than that a year ago, the share of export refinance in the total refinance remained around 35 per cent. During the busy season, however, the outstandings were throughout much higher than in the previous year, refinance against export credit reaching a peak of Rs. 134 crores on April 2, 1971 out of the total borrowings of Rs. 356 crores.

120. The banks also continued to avail themselves of the interest subsidy in regard to export credit provided by them. During the period under review, claims from 45 eligible commercial banks were received and an aggregate amount of Rs. 4.09 crores was paid to them. Out of this amount, Rs. 2.19 crores represented the subsidy in respect of pre-shipment credit and Rs. 1.90 crores for post-shipment credit.

121. Available figures in regard to scheduled commercial banks' advances to exporters indicate a steady increase in export credit from Rs. 321.93 crores as at the end of March 1970 to Rs. 363.41 crores as at the end of March 1971, the 14 nationalised banks and the State Bank group accounting for about three fourths of the total.

122. Major credit policy measures taken in respect of export credit have already been outlined earlier. Among procedural relaxations effected, the important one was the advice given by the Reserve Bank, in November 1970, to scheduled commercial banks that the norm relating to the debt-equity ratio in respect of exporter-borrowers may be relaxed on merits insofar as export credits were concerned and the amount due under the term-debt availed of against exports on deferred payment basis may be excluded while calculating this ratio.

Advances to Agriculture, Small-Scale Industries

123. One of the major objectives of nationalisation of the 14 major scheduled commercial banks was to channelise the flow of credit to the hitherto neglected sectors. Accordingly, the question of helping the small borrowers was given the highest priority in the formulation of policies of the commercial banks. Progress of scheduled commercial banks in this regard is presented in Table 23 on the basis of available data. Between June 1970 and March 1971, the number of borrowal accounts

increased in respect of agriculture from 8.4 lakhs to 10.6 lakhs and the number of borrowing units in respect of small-scale industries increased from 0.8 to 1.0 lakh, road and water transport operators from 13,000 to 23,000. Over the same period, outstanding advances rose, in the case of agriculture from Rs. 342 crores to Rs. 379 crores, small-scale industries from Rs. 414 crores to Rs. 493 crores and road transport operators from Rs. 31 crores to Rs. 47 crores. As a proportion of aggregate advances of all scheduled commercial banks, advances to agriculture increased from 8.1 to 8.2 per cent, in respect of small-scale industries from 9.8 to 10.6 per cent and in the case of exports from 7.6 to 7.8 per cent between end-June 1970 and end-March 1971.

124. The progress made by the 14 nationalised banks in the field of extending credit to the weaker sections of society is evident from the fact that there was a notable rise in the number of borrowal accounts as well as bank advances to retail trade and small business, self-employed and professional persons and for education. Between June 1970 and March 1971, the borrowal accounts in respect of retail traders and small business increased from 0.9 lakh to 1.1 lakhs, professionals and self-employed persons from 28,000 to 38,000 and borrowal accounts for education purposes from 5,000 to 7,000. Over the same period, outstanding advances to retail trade and small business rose from Rs. 43 crores to Rs. 53 crores. Professional and self-employed persons were given advances totalling Rs. 8 crores, compared with only Rs. 6 crores in June 1970. Advances for education were as much as Rs. 3.7 crores in March 1971 as against Rs. 2.1 crores in June 1970. (Table 23)

125. In July 1970, a Committee under the Chairmanship of Shri V. D. Thakkar was constituted to review the special credit schemes of banks with particular reference to their employment potential. On the basis of the Committee's recommendations, the Reserve Bank issued guidelines to all commercial banks in March 1971 (details are referred to in Part III of this Report). Also, the Bank through a circular letter issued in December 1970, provided guidelines to all commercial banks for financing of agricultural development, with a view to improving the quality of lendings and helping small and potentially viable farmers to move to a higher technological plane. The Committee set up in September 1970 for examining the question of differential interest rates had submitted its report in June 1971 (for details see Part III). The Credit Guarantee Corporation was set up to administer a comprehensive credit guarantee scheme for loans to small borrowers in the priority and hitherto neglected sectors. The Scheme came into force in April 1971 covering credit facilities (upto certain limits) extended to transport operators, traders, self-employed persons, owners of business enterprises and farmers engaged in cultivation, etc.

Table 23—Advances to 'Other Sectors' by 14 Nationalised Banks.

	June 1970		March 1971	
	No. of Accounts ('000s)	Amount (Rs. lakhs)	No. of Accounts ('000s)	Amount (Rs. lakhs)
Retail trade and small business ..	88	4282	107	5279
Professional and self-employed persons ..	28	617	38	818
Education ..	5	205	7	372

Bills Rediscounting Scheme

126. In the previous year's Report mention was made of the constitution of a Study Group by the Reserve Bank of India, in February 1970, to go into the question of enlarging the use of bill of exchange as an instrument of credit and the creation of a bill market in India. The Group submitted its Report in June 1970. It recommended that the Reserve Bank should take steps towards the creation of a bill market in India by encouraging the use of bill of exchange as an instrument of credit. According to the Study Group, the creation of a genuine bill market would impart flexibility to the money market, even out liquidity within the banking system and enable the Reserve Bank to exercise more effective control over the money market.

Table 24—Growth in Scheduled Commercial Banks' Offices, Deposits and Credit in India

(Amounts in Rupees Crores)

		Offices (Nos.)		Deposits (excluding inter-bank deposits)					Credit (excluding inter-bank credit)		
		Total	Annual Increase	Demand Deposits	Time Deposits	Aggregate Deposits	Annual Increase	Percentage Rise	Bank Credit	Annual Increase	Percentage Rise
End-June 1965	..	5727	+ 498	1275·1	1433·0	2708·1	+323·4	+13·6	2068·4	+294·6	+16·6
End-June 1966	..	6139	+ 412	1477·3	1645·9	3123·2	+415·1	+15·3	2271·4	+203·0	+ 9·8
End-June 1967	..	6620	+ 481	1664·6	1852·4	3517·0	+393·8	+12·6	2631·1	+359·7	+15·8
End-June 1968	..	7044	+ 424	1874·8	2094·2	3969·0	+452·0	+12·9	3102·9	+471·8	+17·9
End-June 1969	..	8045	+1001	2103·5	2542·3	4645·8	+676·8	+17·0	3598·8	+495·9	+16·0
End-June 1970	..	9938	+1893	2328·8	2945·7	5274·5	+628·7	+13·5	4212·7	+613·9	+17·1
End-June 1971*	..	11892	+1954	2725·1	3464·8	6189·9	+915·4	+17·4	4775·8	+563·1	+13·4

*Provisional (as on June 25, 1971).

Note : Data are based on weekly returns submitted by banks, under Section 42(2) of the Reserve Bank of India Act, 1934, except number of offices.

127. The Reserve Bank accepted the main recommendations of the Study Group and in November 1970, introduced a new bills rediscounting scheme in terms of Section 17(2) (*a*) of the Reserve Bank of India Act. The main features of the Scheme including the modifications introduced therein are given below :

(*i*) all licensed scheduled commercial banks including the public sector banks will be eligible to offer bills of exchange to the Reserve Bank for rediscount ;

(*ii*) the scheme covers only genuine trade bills which evidence sale of goods ;

(*iii*) the bill should be drawn on and accepted by the purchaser's bank and where the latter is not a licensed scheduled bank the bill should in addition bear the signature of a licensed scheduled bank ; the bill may also be drawn on the buyer and the buyer's bank jointly and accepted by them jointly ;

(*iv*) the bill should normally be of a usance not exceeding 90 days and in exceptional cases it may have usance upto 120 days provided at the time of offering to the Reserve Bank for rediscount, the bill should have maturity not exceeding 90 days ;

(*v*) the bill should bear at least two good signatures ;

(*vi*) the scheme would exclude bills of exchange arising out of sales of such commodities as Reserve Bank may indicate from time to time ;

(*vii*) the rediscounting facilities for the present would be made available at the Reserve Bank's offices at Bombay, Calcutta, Madras and New Delhi; and

(*viii*) to avoid rediscounting of a number of small bills, such bills should be given in bunches. The amount of a single bill offered for rediscount should not be less than Rs. 5,000 and the total value of bills offered at a time should not be less than Rs. 50,000.

128. The Bank has already commenced rediscounting such bills for the scheduled commercial banks. The refinance facilities under the scheme are made available to banks throughout the year and bills rediscounted by banks with the Reserve Bank after June 30, 1971 will not impair the banks' entitlement to refinance at the Bank rate, irrespective of their net liquidity position. The outstanding amount of bills of exchange held by the Reserve Bank reached a peak level of Rs. 16.73 crores on May 28, 1971 ; it stood at Rs. 10.39 crores on June 25, 1971.

Participation Certificates

129. An interesting development in commercial banking during the period was the introduction of a Scheme of Participation Certificates by some banks. A participation certificate is an instrument whereby a bank can sell to a third party (the transferee) a part or all of a loan made by the bank to a client (the borrower). The objective behind the introduction of participation certificates is to provide for greater mobilisation of funds, reduce recourse to the Reserve Bank and diversify the availability of financial instruments. It offers a short-term investment asset at an attractive rate of interest to the financial institutions and is a useful adjunct to the new Bill Market Scheme (referred to earlier). Since the Participation Certificates are issued only to the financial institutions, the funds that become available to the banks through the issuance of such certificates represent inter-institutional transactions. The Participation Certificates make it possible for the banks to acquire surplus resources of other financial institutions, ranging upto 6 months. The bank issuing the Participation Certificates can, among other things, assume the role of a prime agency which alone deals with the customer, obviating the need on his part to deal with several lending agencies simultaneously. Some Indian and foreign banks functioning in India have issued Participation Certificates to financial institutions such as banks, Life Insurance Corporation of India, Unit Trust of India, insurance companies and similar other financial institutions incorporated in India. For the present, the scheme approved so far pertains to only working capital requirements. The amount of Participation Certificates outstanding as on June 30, 1971 was Rs. 15.43 crores.

130. With a view to examining the scope for, and implications of the creation of a market for instruments of debt covering medium and long-term loans, the Reserve Bank constituted in October 1970 a Study Group on Term Loan Participation Arrangements. The Study Group submitted its report in March 1971. The report noted that the creation of an active market in the instruments of term loans will have a number of advantages, but there are also certain limitations in the existing financial market arrangements which have to be overcome for the emergence of a market for the proposed instruments. The findings and recommendations are under consideration.

Balance of Payments

Trends in Reserves During 1970-71

131. The external payments position during the year under review was in sharp contrast with that in the previous two years. Foreign exchange reserves which had shown substantial increases of $ 118 million in 1968-69 (July-June) and $ 278 million in 1969-70 (July-June) registered a decline of $66 million during 1970-71 (July-June). Excluding the effect of special factors such as transactions with the International Monetary Fund, the refund of IBRD special deposits and the appreciation of the Deutsche Mark component of the country's reserve assets following the revaluation of Deutsche Mark in October 1969 as also the suspension of its par value since May 10, 1971, the reserves would show a nominal rise of less than a million dollars as compared with $ 360 million in 1969-70 and $261 million in 1968-69.

132. Repurchases of drawings from the Fund amounted during the year to $ 135 million, as against $ 187 million in the preceding year. With these repurchases the entire outstanding drawings from the Fund were settled. Under the fifth quinquennial general review, India's quota in the Fund was increased in December 1970 from $ 750 million to $ 940 million and in connection with the gold component (one-fourth) of this increase an outlay of $ 30 million was made for the purchase of gold. For the first time

since January 1957 India re-established a reserve position with the Fund in December 1970 ; at end-June 1971 the reserve position amounted to \$ 76.1 million. On January 1, 1971, India received the second allocation of Special Drawing Rights of \$ 101 million which was lower than the \$ 126 million allocated a year earlier. Service charges paid to the Fund were also lower : \$ 6 million as against \$ 13 million in the preceding year. Thus, although transactions with the Fund accounted for an outgo of \$ 70 million in 1970-71, there was a strengthening of the second line of reserves in the form of India's drawing power on the Fund.

133. India was designated by the Fund for acceptance of SDRs from other SDR participants in exchange for convertible currencies to the extent of \$ 14 million each during July-September 1970 and October-December 1970 and \$ 48 million during January-March 1971. Under these designations, India accepted SDRs worth \$ 41 million between July 1970 and June 1971.

Payments Position in 1970

134. Details of balance of payments transactions for the year ended June 1971 are not yet available. The latest balance of payments compilations relate only to the calendar year 1970 and show that India's external payments position worsened during this year as compared with 1969. Amongst the factors responsible for this deterioration were the large import bill and lower utilisation of external assistance. On the other hand, exports were only nominally higher than in 1969.

Overall Trends

135. Over the year while the aggregate import bill increased by Rs. 115.1 crores, exports moved up nominally by Rs. 11.5 crores and the trade deficit widened in consequence from Rs. 165.2 crores to Rs. 268.8 crores (Table 25). On the invisibles account, including official transfer payment transactions, there was a deficit of Rs. 25.0 crores, which was more than thrice the deficit in 1969. A part of this deterioration was, however, made good by the net receipt of Rs. 13.1 crores by way of non-monetary gold movement, representing the contra entry for gold transferred from the non-monetary stock for meeting a part of the gold tranche of India's additional quota in the Fund. Following the deterioration under merchandise as well as invisibles, the deficit on current account widened over the year by Rs. 108.0 crores to Rs. 280.7 crores. Taking into account the unidentified outflow shown under "errors and omissions," which nearly halved over the year, the total deficit amounted to Rs. 297.9 crores in 1970, nearly 47 per cent higher than in 1969. As the net inflow from capital transactions was also lower, the accretion to the reserves at Rs. 44.4 crores was lower over the year by Rs. 132.0 crores.

Imports

136. The continuous decline in the annual aggregate import bill since the devaluation of the rupee in June 1966 was reversed during the year under review when it moved up by Rs. 115.1 crores to Rs. 1,678.3 crores. Imports financed out of own resources accounted for the entire rise. Aid financed imports, on the other hand, declined mainly because of the tapering off of commodity assistance, particularly foodgrain imports, under the U.S. P. L. 480 Title I programme. In fact, the improved domestic supply position made it possible to reduce foodgrain imports by about 18 per cent. But domestic shortages of other items such as raw cotton and metals made larger imports necessary. Further, imports of machinery and capital equipment also picked up. The additional outlay on the import of these items far exceeded the saving resulting from the fall in foodgrain imports and led to the reversal of the earlier declining trend in the annual aggregate import bill.

137. Sector-wise, imports on both private and Government accounts increased over the year by Rs. 47.0 crores and Rs. 68.1 crores to Rs. 655.2 crores and Rs. 1,023.1 crores, respectively. On private account, the two major items showing a rise were imports of raw cotton and machinery. The fall in imports of mineral oils, vegetable oils and raw jute only partly offset the rise under other items. On Government account, the decline in foodgrain imports was more than made up by the increase in imports of non-food

Table 25—India's Balance of Payments (Preliminary)

(Rupees Crores)

	January-March 1970	April-June 1970	July-September 1970	October-December 1970	January-December 1970	January-December 1969
A. *Current Account*						
Imports c.i.f. (*a*) Private	168·3	166·0	166·4	154·5	655·2	608·2
(*b*) Government	244·6	239·9	276·6	262·0	1023·1	955·0
Total Imports (a+b)	412·9	405·9	443·0	416·5	1678·3	1563·2
Exports f.o.b.	349·6	331·8	339·8	388·3	1409·5	1398·0
Trade Balance	**— 63·3**	**— 74·1**	**—103·2**	**— 28·2**	**—268·8**	**—165·2**
Non-Monetary Gold Movement (Net)	—	—	—	+ 13·1	+ 13·1	—
Official Transfer Payments (Net)	— 0·3	+ 5·2	+ 27·3	+ 20·3	+ 52·5	+ 43·4
Other Invisibles (Net)	— 26·5	— 5·2	— 16·8	— 29·0	— 77·5	— 50·9
Current Account (Net)	**— 90·1**	**— 74·1**	**— 92·7**	**— 23·8**	**—280·7**	**—172·7**
B. Errors and Omissions (Net)	**+ 22·2**	**+ 16·9**	**— 15·3**	**— 41·0**	**— 17·2**	**— 30·4**
C. Capital Account						
Private Capital (Net)	**— 5·5**	**— 2·2**	**— 6·2**	**— 3·9**	**— 17·8**	**— 27·1**
(*a*) Long-term	— 5·5	— 2·3	— 6·2	— 3·8	— 17·8	— 29·4
(*b*) Short-term	—	+ 0·1	—	— 0·1	—	+ 2·3
Banking Capital (Net)	**+ 1·4**	**+ 17·1**	**— 10·6**	**— 14·7**	**— 6·8**	**— 3·7**
Official Capital (Net)	**+198·7**	**+ 58·0**	**+ 98·6**	**+ 11·6**	**+366·9**	**+410·3**
(*a*) Loans	+226·2	+139·6	+115·6	+162·5	+643·9	+777·9
(*b*) I.M.F.	— 42·8	— 52·6	—	— 52·6	—148·0	—111·1
(*c*) Amortisation	— 28·8	— 38·0	— 43·5	— 70·1	—180·4	—185·9
(*d*) Miscellaneous	+ 44·1	+ 9·0	+ 26·5	— 28·2	+ 51·4	— 70·6
Capital Account (Net)	**+194·6**	**+ 72·9**	**+ 81·8**	**— 7·0**	**+342·3**	**+379·5**
D. Movement in Reserves (A+B+C) Increase (+) / Decrease (—)	**+126·7**	**+ 15·7**	**— 26·2**	**— 71·8**	**+ 44·4**	**+176·4***

* Excludes the appreciation in the Deutsche Mark component of the reserves following the revaluation of the D-mark in October 1969.

items, notably non-ferrous metals, capital equipment and communication stores.

Exports

138. The growth in exports slowed down considerably over the year. Exports increased marginally by Rs. 11.5 crores to Rs. 1,409.5 crores. For the major part of the year, a combination of several factors adversely affected exports. World demand for some of our traditional export items such as jute goods, cashew kernels, etc., weakened ; domestic shortages of agricultural and industrial raw materials, notably raw cotton, steel and non-ferrous metals reduced export availabilities and the strike at Calcutta port immobilised exports in June 1970. It was only towards

the end of the year that the situation tended to ease and exports began to recover. As in 1969 even the nominal improvement noticed for the year as a whole was entirely brought about by non-traditional items, notably engineering goods, iron ore, manganese ore and sugar. The combined exports of the traditional items, on the other hand, continued to decline largely because of the fall under jute manufactures, hides and skins, and cashew kernels.

Invisibles

139. Official transfer payment transactions resulted in a surplus of Rs. 52.5 crores, which was larger by Rs. 9.1 crores than in 1969 (Table 25). With gross receipts remaining unchanged over the year, the entire improvement reflected the saving in the gross outgo due to the termination of the annual contributions to the Indus Basin Development Fund, the last instalment of which was paid in 1969. The deficit on account of the other invisible transactions widened from Rs. 50.9 crores to Rs. 77.5 crores. Here again, the situation worsened because of the increase in the gross outgo which was offset only in part by the increase in gross receipts. Over the year, gross payments moved up by Rs. 41.5 crores to Rs. 496.2 crores. A little more than half of this increase represented the additional outgo on investment income account and the balance reflected the step-up in the payments on account of travel, transportation and miscellaneous service transactions. For sometime now the gross outgo on investment income account, which amounts to more than half of the total gross outgo, has been growing steadily and over the year it went up by Rs. 23.2 crores to Rs. 271.5 crores. More than half of the additional outgo in 1970 was accounted for by interest payments on loans and credits, which amounted to Rs. 203.5 crores as against Rs. 186.8 crores in 1969. Gross receipts went up by Rs. 14.9 crores to Rs. 418.7 crores. The main contribution to the increase in gross receipts in 1970 was made by investment income receipts following the higher interest rates prevailing abroad. Earnings from miscellaneous and transportation services also showed some improvement. The increases were moderated, to a large extent, by the fall in private unilateral transfers from abroad.

Capital Transactions

140. The net inflow from capital transactions, which was nearly halved in 1969, declined further by Rs. 37.2 crores to Rs. 342.3 crores. While there was an improvement in regard to private capital movements, those relating to banking and official sectors turned less favourable than before. Larger drawings on loans and the reverse movement of oil companies' funds stepped up the gross inflow to the private sector with the result that the *net* private capital outflow declined from Rs. 27.1 crores to Rs. 17.8 crores. In the banking sector, on the other hand, the net outflow, which amounted to Rs. 6.8 crores, nearly doubled over the year ; as in 1969 almost the entire net outflow was brought about by an increase in authorised dealers' foreign currency assets.

141. In the official sector there was a further setback in the net inflow, which declined by Rs. 43.4 crores to Rs. 366.9 crores. The two major factors here were the fall in the utilisation of external assistance loans and the relatively large outgo by way of repurchases from the I.M.F. The utilisation of external assistance loans declined from Rs. 780.6 crores to Rs. 647.0 crores mainly because of the sizeable contraction in loan disbursements from P.L. 480 counterpart funds. Repurchases from the I.M.F. amounted to Rs. 148.0 crores as against Rs. 111.1 crores in 1969. Amortisation payments, which amounted to Rs. 182.6 crores, however, were marginally lower than last year. A redeeming feature of the situation was the favourable turn under miscellaneous capital transactions, which brought about a net inflow of Rs. 51.4 crores as compared to a net outflow of Rs. 70.6 crores in 1969, offsetting to a sizeable extent the adverse movements under other official capital transactions. This favourable outturn reflected partly the contra entry for the allocation of SDRs (Rs. 94.5 crores) and partly the changes in rupee liabilities to the U.S. Government arising out of transactions under the P.L. 480 Title I programme.

Regional Trends

142. The worsening of the overall current account position was largely a reflection of the widening of the deficit on current account with the dollar area and O.E.C.D.

countries (Table 26). The deficit with these two areas alone increased over the year by Rs. 150.7 crores and Rs. 63.0 crores to Rs. 302.2 crores and Rs. 149.5 crores, respectively. There was also some weakening of the position with the sterling area in that the surplus declined by Rs. 8.4 crores to Rs. 105.7 crores. With the 'rest of non-sterling area,' on the other hand, the position improved considerably, the surplus moving up from Rs. 4.5 crores to Rs. 102.2 crores. The deficit with international institutions, which amounted to Rs. 37.0 crores, was also lower than in 1969 due mainly to the reduced outgo on account of official transfer payment transactions, following the termination of the annual contributions to the Indus Basin Development Fund referred to earlier.

Table 26—India's Regional Balance of Payments on Current Account (Preliminary)

(Rupees crores)

	January-March 1970	April-June 1970	July-September 1970	October-December 1970	January-December 1970	January-December 1969
Sterling Area						
Imports c.i.f.	65·1	69·9	62·2	70·6	267·8	255·4
Exports f.o.b.	87·8	80·2	90·0	106·5	364·5	351·4
Trade Balance	+ 22·7	+ 10·3	+ 27·8	+ 35·9	+ 96·7	+ 96·0
Non-Monetary Gold Movement (Net)	—	—	—	—	—	—
Official Transfer Payments (Net) ..	— 0·5	— 0·8	— 0·3	+ 0·4	— 1·2	+ 7·3
Other Invisibles (Net)	+ 6·0	+ 2·5	+ 3·3	— 1·6	+ 10·2	+ 10·8
Current Account (Net)	**+ 28·2**	**+ 12·0**	**+ 30·8**	**+ 34·7**	**+105·7**	**+114·1**
Dollar Area						
Imports c.i.f.	133·9	155·1	164·0	134·9	587·9	494·3
Exports f.o.b.	57·8	50·8	54·5	69·8	232·9	290·6
Trade Balance	— 76·1	—104·3	—109·5	— 65·1	—355·0	—203·7
Non-Monetary Gold Movement (Net) ..	—	—	—	+ 13·1	+ 13·1	—
Official Transfer Payments (Net) ..	+ 1·8	+ 5·0	+ 28·1	+ 18·8	+ 53·7	+ 41·9
Other Invisibles (Net)	— 6·0	+ 1·6	+ 0·4	— 10·0	— 14·0	+ 10·3
Current Account (Net)	**— 80·3**	**— 97·7**	**— 81·0**	**— 43·2**	**—302·2**	**—151·5**
O.E.C.D. Countries:						
Imports c.i.f.	58·6	54·5	61·8	70·5	245·4	194·4
Exports f.o.b.	32·3	30·4	27·7	31·6	122·0	132·3
Trade Balance	— 26·3	— 24·1	— 34·1	— 38·9	—123·4	— 62·1
Non-Monetary Gold Movement (Net) ..	—	—	—	—	—	—
Official Transfer Payments (Net) ..	+ 1·7	+ 1·3	+ 0·3	+ 1·3	+ 4·6	+ 9·9
Other Invisibles (Net)	— 3·4	— 8·3	— 6·4	— 12·6	— 30·7	— 34·3
Current Account (Net)	**— 28·0**	**— 31·1**	**— 40·2**	**— 50·2**	**—149·5**	**— 86·5**
Rest of Non-Sterling Area:						
Imports c.i.f.	155·3	126·4	155·0	140·5	577·2	619·1
Exports f.o.b.	171·7	170·4	167·7	180·4	690·2	623·7
Trade Balance	+ 16·4	+ 44·0	+ 12·7	+ 39·9	+113·0	+ 4·6
Non-Monetary Gold Movement (Net) ..	—	—	—	—	—	—
Official Transfer Payments (Net) ..	— 0·1	— 0·1	—	—	— 0·2	—
Other Invisibles (Net)	— 12·8	+ 7·0	— 5·1	+ 0·3	— 10·6	— 0·1
Current Account (Net)	**+ 3·5**	**+ 50·9**	**+ 7·6**	**+ 40·2**	**+102·2**	**+ 4·5**
International Institutions:						
Imports c.i.f.	—	—	—	—	—	—
Exports f.o.b.	—	—	—	—	—	—
Trade Balance	—	—	—	—	—	—
Non-Monetary Gold Movement (Net) ..	—	—	—	—	—	—
Official Transfer Payments (Net) ..	— 3·2	— 0·2	— 0·8	— 0·2	— 4·4	— 15·7
Other Invisibles (Net)	— 10·3	— 8·1	— 9·1	— 5·1	— 32·6	— 37·7
Current Account (Net)	**— 13·5**	**— 8·3**	**— 9·9**	**— 5·3**	**— 37·0**	**— 53·4**

143. While the trade surplus with the sterling area remained more or less the same as before and that with the 'rest of non-sterling area' registered a marked improvement, the trade deficits with the dollar area and the O.E.C.D. countries widened sizeably (Table 26). Barring imports from the 'rest of non-sterling area,' which were marked down, those from the remaining three areas registered a rise. In fact, the spurt in the overall import bill was more than accounted for by the rise in imports from the dollar area and the O.E.C.D. countries. Exports to sterling area and the 'rest of non-sterling area' increased, the improvement in the case of latter being sizeable. But the gain was wiped out to a large extent by the decline in exports to the dollar area and the O.E.C.D. countries.

144. With all the regions there was a deterioration in the position on invisibles account, including official transfer payment transactions. While the surplus with the sterling and dollar areas dwindled, the deficits with the O.E.C.D. countries and the 'rest of non-sterling area' widened. In the case of the sterling area, dollar area and the O.E.C.D. countries, these transactions tended to aggravate the position on current account. With the 'rest of non-sterling area,' on the other hand, the widening of the deficit offset in part the gain in the trade balance.

Foreign Trade

Change in Compilation Procedure

145. While the foregoing discussion on the balance of payments is confined to the calendar year 1970, as data for later months are not yet available, on merchandise transactions, data are available for the financial year 1970-71 in the statistics compiled by the DGCIS. According to these statistics, exports during the financial year 1970-71 (April-March) amounted to \$ 2,041 million as compared with \$ 1,884 million in the previous year showing a growth rate of 8 per cent as against 4 per cent in 1969-70. A part of the increase registered in 1970-71 is statistical, resulting from the change in procedure, for recording exports, adopted by the DGCIS which became effective from November 1970. Exports, which were previously recorded on the basis of actual shipments made (*i.e.*, finally passed shipping bills), are now being compiled as and when the consignments are approved for shipment (*i.e.*, on the basis of original copy of the shipping bills, adjusting, however, for short and shutout shipments details of which are received during the month of reporting). There is thus a built-in lead now in the recording of exports.* Hence an assessment of the export performance in 1970-71 has to make due allowance for the change in the procedure for reporting, which has resulted in the data for the second half of the financial year being partly assembled on the old basis and partly on the new basis.

146. During April-September 1970, exports amounted to \$ 928 million, \$ 6 million lower than in the corresponding period of 1969. The dip in exports was primarily due to lower exports of jute manufactures which declined sharply during the period by as much as \$ 46 million. The other major items that registered declines were tea (\$ 18 million), hides and skins and leather (\$ 15 million), coffee (\$ 3 million) and cotton textiles (\$ 2 million). The shortfalls in these items were, to some extent, made good by larger earnings from engineering goods (\$ 23 million), iron ore (\$ 11 million), oil cakes (\$ 9 million), iron and steel (\$ 6 million), spices (\$ 5 million) and sugar (\$ 3 million) (Table 27).

147. The slowing down of exports during the first half of 1970-71 may be attributed to several factors, both domestic and international. Apart from the ten weeks' strike of the bargemen in the port of Calcutta during May-July 1970, which adversely affected exports in these months, exports slowed down also because of a constraint on the supply of basic inputs such as special categories of steel, aluminium and other non-ferrous metals and raw cotton. Externally, there was a slackness in the demand for some of our export items, especially for jute carpet backing, marine products, hides, skins and leather and cotton yarn.

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* It may be recalled that in 1965-66, the basis for recording the exports data was changed from shipments approved during a month to actual shipments made during that month, so as to compile statistics on a more realistic basis. In that year, exports were statistically understated as a direct consequence of the change in recording. In 1970-71 with a reversal in the method of reporting, exports will be overstated.

Table 27—India's Principal Exports

(U.S. $ Million)

	1965-66	1968-69	1969-70	1969-70 (April-September)	1970-71 (April-September)	Increase (+) Decrease (—) of (5) over (4) Actual	Percentage
	1	2	3	4	5	6	7
A. Items showing a rise							
Iron Ore	89	118	126	52	63	+11	+21
Engineering goods	37	92	120	56	79	+23	+41
Iron and steel	26	105	116	52	58	+ 6	+12
Cashew kernels	58	81	77	41	43	+ 2	+ 5
Oil cakes	73	66	55	25	34	+ 9	+36
Chemicals	23	32	40	20	21	+ 1	+ 5
Spices	49	34	46	13	18	+ 5	+38
Sugar	23	14	10	8	11	+ 3	+38
Manganese ore	23	18	15	7	8	+ 1	+14
B. Items showing a fall							
Jute yarn and manufactures ..	384	291	276	145	99	—46	—32
Cotton yarn and manufactures ..	148	134	154	74	72	— 2	— 3
Tea	241	209	166	83	65	—18	—22
Hides, skins, leather and leather goods including footwear ..	90	116	132	68	53	—15	—22
Pearls, precious and semi-precious stones, unworked/worked ..	31	60	56	30	28	— 2	— 7
Coffee	27	24	26	22	19	— 3	—14
Fish and fish preparations ..	14	30	42	21	20	— 1	— 5
C. *Total*	***1693***	***1811***	***1884***	***934***	***928***	***— 6***	***— 1***

Source : DGCIS.

148. In order to arrest the declining trend in exports, Government took several measures, particularly to improve the supply position of essential raw materials and also to gear up the export efforts. In September 1970, the Government liberalised the import policy for steel so as to make available an adequate quantity of special types of steel required by the export units of engineering products. Under this policy, imports of certain scarce categories of steel were allowed to the extent of either 50 per cent of actual consumption in 1969-70 or the actual requirement for production against firm export orders in addition to the regular quota alloted to the individual units.

149. Reflecting partly the impact of the various promotional measures undertaken by the Government and partly the improved domestic availabilities of both raw materials and export surpluses, exports began to look up from October 1970. Although a precise appraisal of the expansion in exports during the second half of 1970-71 *vis-a-vis* 1969-70 is not possible owing to the statistical limita-

tions referred to earlier, nevertheless the recorded data point to a spurt in exports in terms of value during October-December 1970. The recorded value of exports during the quarter October-December at $ 605 million was 32 per cent higher than in the corresponding quarter of 1969, only a part of which represents the true increase. The increase was shared by almost all the items, both traditional and non-traditional. In January-March 1971, the spurt in exports seems to have tapered off, with exports declining to $ 508 million at which level they show an increase of just 3 per cent over the corresponding quarter of 1970. In the first quarter of 1971-72 (April-June 1971), exports moved up marginally to $ 512 million and when compared with the corresponding period of 1970 they were higher by 13 per cent. Exports have thus generally maintained an upward trend since October 1970 as compared with the previous year.

Exports : Comodity-wise

150. The commodity-wise details available for April-December 1970 show that exports of engineering goods, iron ore and chemicals continued to increase, although the growth in exports of iron and steel has been modest due to increasing domestic demand. Among traditional commodities, tea recorded an improvement, benefiting to some extent from the Mauritius Agreement concluded in early 1970. In regard to jute goods, the downtrend in exports noticed in the past few years has continued, with the slackening of the U.S. demand particularly for carpet backing and with increasing competition from Pakistan and synthetic substitutes, although this trend is likely to be arrested during the current year, *albeit* temporarily, owing to tragic developments in East Bengal. As for cotton piecegoods, the problem is one of keeping down costs and improving our competitiveness ; further, with the proposed imposition of an import duty by the U.K. from January 1, 1972, our exports to that country would be adversely affected. In regard to iron and steel, the pull of domestic demand would render it difficult for us to maintain a high rate of growth. As for engineering goods, the main constraint is the shortage of certain special categories of steel and the rising domestic costs which affect production.

Adoption of G. S. P.

151. In regard to export prospects, a favourable development is the adoption of the Generalised System of Preferences (GSP) by the developed countries for the developing countries which would provide opportunities to increase our exports of manufactured and semi-manufactured items. The E.E.C. countries and Japan have implemented the GSP with effect from July 1, and August 1, 1971, respectively. The U.S.A and U.K. are expected to follow suit sometime in 1972. The export front is indeed beset with many difficulties, but with the new mood of the advanced countries, it should be possible to accelerate the growth in exports, given the active co-operation of the industry and trade and under the stimulus of the export promotion drive of the Government.

Export Policy Resolution

152. In regard to export promotion, an important development during the year was the presentation of the Export Policy Resolution to the Parliament on July 30, 1970, which emphasised the need for expanding India's export earnings at a high rate so that the country may be self-reliant and reduce its dependence on external assistance. To achieve this objective, the Resolution outlined a number of measures, which included, *inter alia*, (i) the adoption of appropriate policies and measures designed to promote investment in the development of the promising sectors of the economy, (ii) more precise identification of products in each of the broad sectors of the economy which have long-term export potential, (iii) facilitating expansion of export-oriented units, (iv) special encouragement to producers and exporters of equipment for development of the infra-structure, industrial machinery, machine tools and consumer durables to meet the emerging requirements of other developing countries, and (v) strengthening and expansion of credit facilities for exporters.

Trade Development Authority

153. In pursuance of the Export Policy Resolution, the Government set up a new organisation, namely, the Trade Development Authority (TDA) in July 1970 to assist enterprises to build up their exports through a package of personalised services in the field of trade information,

research and analysis, merchandising and export production and promotion. In February 1971, the TDA announced a package of services for its member units interested in exporting selected products (mainly engineering goods) to the U.S.A, the U.K., Canada, Western Europe and Japan.

Other Measures

154. Among other measures taken during the year, mention may also be made of the abolition of the 25 per cent *ad valorem* export duty on the export of coir fibre effective from July 30, 1970, and the enlargement of the institutional framework to promote export efforts in respect of specified items. The new institutions set up during the year included the Cashew Corporation, the Cotton Corporation, the Jute Corporation and the Projects and Equipment Corporation.

Trends in Imports

155. Imports, on the basis of the DGCIS data, amounted to $ 2171 million during 1970-71 showing a rise of $ 61 million (3 per cent) over the level in 1969-70. The rise in imports, which has taken place for the first time after the devaluation of the rupee, was wholly accounted for by non-food items and reflects the growing needs of industry for imported raw materials, intermediates, components and spares emanating from the continued increase in industrial production.

Imports: Commodity-wise

156. Commodity-wise details of imports are available upto December 1970. They show that foodgrain imports during April-December 1970 were $ 43 million (16 per cent) lower than in April-December 1969. Non-food imports recorded a rise of $ 58 million (4 per cent) during this period. Under non-food imports, sharp increases have taken place under iron and steel ($ 61 million or 81 per cent), non-ferrous metals ($ 49 million or 75 per cent), chemicals other than fertilisers ($ 15 million or 13 per cent), raw cotton ($ 16 million or 20 per cent) and cashewnuts ($ 4 million or 16 per cent). Imports of machinery and transport equipment and fertilisers declined by 9 per cent and 34 per cent, respectively. Among the machinery group, imports of electrical machinery increased by 7 per cent which was, however, more than offset by the declines of 12 per cent and 10 per cent in the imports of non-electrical machinery and transport equipment (Table 28). The rise in the imports of iron and steel and non-ferrous metals was the result of special efforts made to import these commodities on an emergency basis to meet the demand from export industries. The reduction in non-electrical machinery imports, which has taken place despite an improvement in investment activity, reflects the progress made in the field of import substitution in the machine building industry.

Import Policy

157. The import policy has been liberal for the export industries in particular and for priority industries in general. In 1969-70 and 1970-71, the value of import licences increased by 27 per cent and 36 per cent, respectively, reflecting the increase in the demand for imported raw materials by the industry. This should result in a significant increase in non-food imports during 1971-72. In fact, in the first quarter of 1971-72, *i.e.*, April-June 1971, imports aggregated $ 650 million recording an increase of 25 per cent over the level during the corresponding period of the previous year.

External Assistance

Authorisations

158. In the fiscal year 1970-71, authorisations totalled $ 981 million, recording a rise of 18 per cent over the year, in contrast with the fall of 25 per cent in the preceding year. Loans and grants authorised went up by 33 per cent from $ 737 million to $ 981 million to bring about the rise in the total assistance authorisations ; there were no authorisations of P.L. 480 aid * which amounted to $ 98 million in the preceding year (Table 29).

Project and Non-project Aid

159. As in the last two years, loans predominated in the fresh aid authorised during 1970-71. They accounted for 92 per cent of the total aid authorised, grants making up the balance of 8 per cent. Of the total loan authorisations in 1970-71,

* On April 1, 1971, however, a fresh P.L. 480 agreement was signed for $150 million, the amount being increased by $7·5 million in May 1971 to accommodate additional supplies of soyabean oil.

Table 28—India's Principal Imports

(U.S. $ Million)

Commodities	Annual			April-December		Percentage Change of		
	1965-66	1968-69	1969-70	1969-70	1970-71	(4) over (3)	(4) over (2)	(6) over (5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Food : (excluding cashewnuts) ..	712	495	391	299	250	—21	—45	—16
Cereals and cereal preparations ..	676	449	348	269	226	—23	—49	—16
2. Raw cotton	97	120	110	82	98	— 8	+13	+20
3. Raw jute and mesta	53	22	7	7	Negl.	—68	—87	
4. Cashewnuts	32	42	37	25	29	—12	+16	+16
5. Mineral oils :	143	177	183	135	127	+ 3	+28	— 6
Of which :								
(*a*) Petroleum crude and partly refined	73	128	128	95	102	—	+75	+ 7
(*b*) Others	70	49	55	40	25	+12	—21	—38
6. Chemicals : ..	221	378	246	192	181	—35	+11	— 6
Of which : (*a*) Fertilizers	82	186	90	76	50	—52	+10	—34
(*b*) Others	139	192	156	116	131	—19	+12	+13
7. Iron and steel	206	115	108	75	136	— 6	—48	+81
8. Non-ferrous metals	145	119	99	65	114	—17	—32	+75
9. Crude rubber (including synthetic and reclaimed)	10	7	13	11	4	+86	+30	—64
10. Wool and other animal hair	11	15	23	17	18	+53	+109	+ 6
11. Animal and vegetable oils and fats ..	32	26	39	36	43	+50	+22	+19
12. Paper, paper board and manufactures thereof ..	28	24	32	24	23	+33	+14	—4
13. Pearls, precious and semi-precious stones unworked/worked	3	37	38	27	23	+ 3	+1167	—15
14. Machinery and transport equipment :	1034	685	524	399	365	—24	—49	— 9
(*a*) Machinery other than electric ..	701	488	372	286	253	—24	—47	—12
(*b*) Electrical machinery	184	109	85	61	65	—22	—54	+ 7
(*c*) Transport equipment	149	88	67	52	47	—24	—55	—10
15. Others	232	283	240	169	167	—15	+ 3	— 1
Total	**2959**	**2545**	**2090***	**1563**	**1578**	**—18**	**—29**	**+ 1**

Source : DGCIS.
* The figure has been revised to $2110 million but commodity-wise details are not available.

Table 29—External Assistance*

(U.S. $ Million)

	Loans**	Grants	P.L. 480 Aid@	Total (1+2+3)
	(1)	(2)	(3)	(4)
1. Amount undisbursed as at the end of March 1966	**2,194**	**115**	**226††**	**2,535**
2. Authorisations during				
(a) 1966-67	1,425	106	524	2,055
(b) 1967-68	595	22	324	941
(c) 1968-69	1,052	93	96	1,241
(d) 1969-70	697	40	98	835
(e) 1970-71	906	75	—	981
Total	**4,675**	**336**	**1,042**	**6,053**
3. Utilisation during				
(a) 1966-67	903	126	480	1,509
(b) 1967-68	1,074	81	415	1,570
(c) 1968-69	1,008	97	113	1,218
(d) 1969-70	900	39	143	1,082
(e) 1970-71	892	58	50	1,000
Total	**4,777**	**401**	**1,201**	**6,379**
4. Amount undisbursed as at the end of March 1971	**2,078†**	**52†**	**—£**	**2,130**

* Excludes (*a*) grants under U.S. P.L. 480 Title II and III and (*b*) special deposits placed by the I.B.R.D. with the Reserve Bank of India during 1967-68.

** Includes authorisations and utilisation of P.L. 480 Convertible Local Currency Credits.

@ Represents rupee deposits against import of goods under U.S. P.L. 480 Title I programme; disbursements out of these funds by way of loans and grants are, therefore, excluded from columns 1 and 2.

†† Adjusted for the lapsed agreements by $184 million.

† Adjusted for the devaluation of Pound Sterling and Danish Kroner in November 1967, of French Franc in August 1969 and for the revaluation of Deutsche Mark in October 1969, except in case of loans from the IBRD and the IDA which are reckoned at the parities prevailing at the time of authorisation and drawals of individual instalments.

£ Adjusted for the lapsed agreements by $67 million.

loans for $ 317 million (35 per cent) were tied to specific projects, while loans for $ 556 million (about 61 per cent) were not tied to any projects ; the balance of $ 33 million (4 per cent) of the authorisation was provided as debt relief. The share of non-project aid in the loan authorisations increased from 45 per cent in 1969-70 to 61 per cent in 1970-71 as the U.S.A. and the I.D.A. made available substantial amounts in non-project loans.

Debt Relief

160. Total debt relief assistance (either in the form of fresh refinancing credits, postponements of payments due, rescheduling of debt or cancellation/reduction of interest) authorised during 1970-71 amounted to $ 88 million, $ 23 million lower than in the previous year (Table 30). The bulk of this decline was due to the fact that the U.K. made available its debt relief assistance for 1970-71 amounting to $ 18 million in the preceding year itself. Japan and West Germany increased their debt relief assistance by $ 6 million and $ 5 million, respectively. Debt relief assistance amounted to only 15 per cent of the total debt service charges during 1970-71.

Table 30—Debt Relief Assistance

(U.S. $ Million)

	Authorisation					Utilisation				
	1966-67	1967-68	1968-69	1969-70	1970-71	1966-67	1967-68	1968-69	1969-70	1970-71
A. By way of refinancing credits										
1. Austria	0·9	0·5	0·9	1·1	1·5	0·4	0·9	0·9	1·1	1·5
2. Belgium	—	—	1·1	1·1	1·1	—		1·1	1·1	1·1
3. France	—	—	5·0	—	10·0	—	—	3·7	1·3	10·0
4. Germany (West)	—	7·2	14·6	15·5	20·8	—	7·2	14·6	16·3	20·8
5. Italy	—	—	5·5	7·4	—	—	—	—	—	5·5
6. United Kingdom	23·5	32·5	18·0	36·0	—	23·0	32·5	18·0	36·0	
Total—A ..	**24·4**	**40·2**	**45·1**	**61·1**	**33·4**	**23·4**	**40·6**	**38·3**	**55·8**	**38·9**
B. By way of postponement of payments										
1. I.B.R.D. ..	—	15·0	15·0	15·0	15·0	—	15·0	15·0	15·0	15·0
2. U.S.A.	—	—	8·7	8·7	8·7	—	—	8·7	8·7	8·7
3. Canada	—	10·7	0·8	0·9	—	—	0·7	0·8	0·9	
Total—B ..	—	**15·7**	**24·5**	**24·6**	**23·7**	—	**15·7**	**24·5**	**24·6**	**23·7**
C. By way of rescheduling of payments										
1. Japan	2·5	6·2	16·8	19·6	25·4	2·5	6·2	16·8	19·6	25·4
Total—C ..	**2·5**	**6·2**	**16·8**	**19·6**	**25·4**	**2·5**	**6·2**	**16·8**	**19·6**	**25·4**
D. By way of grants										
1. Austria	—	—	0·5	0·5	0·5	—	—	0·5	0·5	0·5
2. Canada	—	9·3	1·1	—	—	—	9·3	1·1	—	
3. Germany (West)	—	—	4·8	4·8	4·7	—	—	4·8	5·0	4·7
4. Netherlands ..	—	—	0·6	0·6	0·7	—	—	0·6	0·6	0·7
Total—D ..	—	**9·3**	**7·0**	**5·9**	**5·9**	—	**9·3**	**7·0**	**6·1**	**5·9**
Grand Total ..	**26·9**	**71·4**	**93·4**	**111·2**	**88·4**	**25·9**	**71·8**	**86·6**	**106·1**	**93·9**

Trends in Utilisation

161. The amount of assistance actually utilised in any given period largely reflects authorisations in the preceding periods, but for the completely untied part of the current authorisations. In 1970-71, however, the fall of 8 per cent over the year, to $ 1,000 million arose mainly from the tapering off of the P.L. 480 Commodity assistance. Utilisation of P.L. 480 Title I aid declined sharply from $ 143 million to $ 50 million. At $ 892 million, utilisation of loans was only $ 8 million lower than in 1969-70, while the grants utilised went up from $ 39 million to $ 58 million.

162. Although the utilisation declined, the cost of servicing of official external debt continued to grow. After rescheduling and postponement of debt service charges of $ 41 million in 1969-70 and $ 46 million in 1970-71, the actual servicing payment rose by 9 per cent from $ 506 million to $ 550 million (Table 31). The net utilisation of external assistance thus declined from $ 576 million to $ 450 million or to one-third of the level three years ago. As a proportion of the aid utilised, the servicing payments went up over the year from 47 per cent to 55 per cent, while as a proportion of the exports they increased from 27 per cent to 29 per cent.

Debt Servicing

Table 31—Inflow of Foreign Assistance : Gross and Net

(U.S. $ Million)

Year	Gross aid utilisation	Amortisation payments	Interest payments	Total debt service (2 + 3)	Net inflow of aid (1 — 4)
	(1)	(2)	(3)	(4)	(5)
1961-62	711	121	70	191	520
1962-63	933	101	81	182	751
1963-64	1,239	113	96	209	1,030
1964-65	1,520	145	110	255	1,265
1965-66	1,622	162	141	303	1,319
1966-67	1,509	210*	153	363	1,146
1967-68	1,570	275*	163	438	1,132
1968-69	1,218	276*	182@	458	760
1969-70	1,082	317*	189@	506	576
1970-71	1,000	339*	211@	550	450

* Excludes amounts rescheduled/postponed as under :

	1966-67	1967-68	1968-69	1969-70	1970-71
Japan	3	6	17	19	25
I.B.R.D.	—	15	15	15	15
U.S.A.	—	—	6	6	6
Canada	—	1	1	1	—
Total	**3**	**22**	**39**	**41**	**46**

@ Excludes interest payments postponed by the U.S.A. amounting to $3 million each in 1968-69, 1969-70 and 1970-71.

163. Cumulatively, external assistance authorised from August 15, 1947 to March 31, 1971 amounted to $ 18,225 million, of which $ 12,666 million or nearly 70 per cent was in the form of loans, $ 4,400 million or 24 per cent was in the form of P.L. 480/665 and Third Country Currency assistance from the U.S.A. and the balance of $ 1,159 million or 6 per cent was in the form of grants. The assistance utilised upto the end of March 1971 is placed at $ 15,832 million, loans accounting for $ 10,574 million or 67 per cent, P.L. 480/665 and Third Country Currency assistance for $ 4,149 million or 26 per cent and grants for $ 1,109 million or 7 per cent (Table 32).

Cumulative Assistance

Table 32—Aggregate External Assistance (Cumulative)

(U.S. $ Million)

	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total
Authorisations				
1. Upto Third Plan	7,991	823	3,358	12,172
2. During 1966-67	1,425	106	524	2,055
3. During 1967-68	595	22	324	941
4. During 1968-69	1,052	93	96	1,241
5. During 1969-70	697	40	98	835
6. During 1970-71	906	75	—	981
Total	**12,666**	**1,159**	**4,400**	**18,225**
Utilisation				
1. Upto Third Plan	5,797	708	2,948	9,453
2. During 1966-67	903	126	480	1,509
3. During 1967-68	1,074	81	415	1,570
4. During 1968-69	1,008	97	113	1,218
5. During 1969-70	900	39	143	1,082
6. During 1970-71	892	58	50	1,000
Total	**10,574**	**1,109**	**4,149**	**15,832**

Note: Please refer to footnotes to Table 29.

Table 33—Aggregate External Assistance : Source-wise

(U. S. $ Million)

	Authorised upto March 1971				Utilised upto March 1971			
	Loans	Grants	P. L. 480/665 Aid and Third Country Currency Assistance	Total	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total
I.B.R.D./I.D.A. ..	2,371	—	—	2,371 (13·0)	2,047	—	—	2,047 (12·9)
U.S.A. ..	4,367	382	4,400	9,149 (50·2)	3,955	353	4,149	8,457 (53·4)
U.S.S.R. ..	1,362	16	—	1,378 (7·6)	893	14	—	907 (5·7)
West Germany ..	1,260	28	—	1,288 (7·1)	1,110	27	—	1,137 (7·2)
United Kingdom ..	1,276	16	—	1,292 (7·1)	1,124	15	—	1,139 (7·2)
Japan ..	478	1	—	479 (2·6)	451	1	—	452 (2·9)
Others ..	1,552	716	—	2,268 (12·4)	994	699	—	1,693 (10·7)
Total ..	**12,666**	**1,159**	**4,400**	**18,225** (100·0)	**10,574**	**1,109**	**4,149**	**15,832** (100·0)

Note: Please refer to footnotes to Table 29.
Figures in brackets represent percentages to total.

164. The U.S.A. accounted for 50 per cent of the total authorisations and 53 per cent of the total utilisation. The I.B.R.D. and I.D.A. together accounted for 13 per cent and the U.K. and West Germany for 7 per cent each of the total authorisations as well as the total utilisation, and the U.S.S.R. accounted for 8 per cent of the total authorisations and 6 per cent of the total utilisation (Table 32).

Liberalisation of Aid Terms

165. In the last three years, a number of countries providing development assistance to India have liberalised in varying degrees the terms on which it is made available. During the year under review, Sweden and France liberalised the terms of their assistance. The loan authorised by Sweden in 1970-71 has a maturity of 50 years as compared with that of 25 years in the case of loans authorised earlier and carries no interest while the interest is charged at 2 per cent per annum on the previous loans. The interest rate on the loans provided by the French Treasury was reduced by ½ per cent per annum to 3 per cent per annum. Much, however, remains to be done in this respect, as would be clear from the relevant information given in this and earlier Reports, before the assistance received is placed on the norms recommended by the Pearson Commission. The Commission advocated in 'Partners in Development' that development loans "henceforth be provided at interest of no more than 2 per cent, a maturity of between 25 and 40 years and a grace period from 7 to 10 years."

Aid Pledged for 1971-72

166. The Aid India Consortium at its meeting held in Paris in June 1971 gave indications of a total assistance of $1,250 million for 1971-72, excluding the assistance to be given for evacuees from the East Bengal. The indicated amount comprises non-project assistance of $560 million, debt relief assistance of $90 million, project assistance of $500 million and food aid of $100 million. It is to be hoped that unlike in recent years the Consortium indications would be fully translated into actual authorisations. It may be noted that the third replenishment of the resources of the I.D.A. which should have been completed by June 1971 has been delayed for want of suitable action by the major developed countries.

Foreign Investment Policy

167. During the year, the official policy continued to encourage the flow of foreign investments into selected industrial fields. Under the new industrial licensing policy announced in February 1970, the details of which were discussed in the previous year's Report, the 'Larger Industrial Houses' and foreign enterprises are permitted to set up industries in the 'core' and the 'heavy investments' sectors, except industries reserved for the public sector under the Industrial Policy Resolution, 1956. Further, under the notification dated July 25, 1970 'Larger Industrial Houses' and foreign concerns would be able to establish undertakings or expand production in industries in other sectors provided they undertook specific export commitments. This was done "as part of Government's policy that industrial capacity would have to be consciously and specifically built up in order to facilitate production for exports, particularly in respect of those items where India has a comparative advantage and where favourable trends are emerging in the international markets." The minimum export commitment to be so undertaken is to achieve within a period of three years a level of exports equal to 75 per cent of the new or additional production in case of products which are reserved for production in the small-scale sector and 60 per cent or more in case of other products.

168. On July 20, 1970, the Government published an illustrative list of 121 items from engineering industries—such as industrial machinery, electrical engineering and metallurgical—and chemical industries, where a significant technological gap exists and where there is scope for foreign collaboration. The actual terms and conditions for collaboration are to be decided on the merits of each case within the broad framework of Government's policy on these matters. At the same time the Government indicated that requirements under the current policy regarding technical collaboration could be relaxed in some measure, wherever clearly justified, for export-oriented schemes and to small-scale units.

169. The total value of consents granted by the Controller of Capital Issues to joint stock companies for non-resident participation in share capital and for borrowings from abroad by way of loans amounted to Rs. 12 crores during 1970-71 as against Rs. 20.1 crores during 1969-70. The fall consisted of Rs. 5.4 crores in respect of fresh share capital participation, Rs. 0.1 crore in case of bonus shares and Rs. 2.6 crores in case of loans from abroad. During the year there were no consents for loans from abroad. The collaboration agreements approved during 1970 numbered 183 as compared with 134 during 1969.

International Monetary Situation

170. The international monetary scene was relatively calm during the major part of the year under review. However, massive outflows of short-term funds from the U. S. following the adoption of an easy monetary policy by the U.S.A., despite an adverse international payments position, led, early in May 1971, to a currency crisis. The U. S. balance of payments recorded a substantial deficit of $10.7 billion in 1970. In the first quarter of 1971, the deficit amounted to $5.5 billion, thus showing an annual rate which was more than double that in 1970. Movements of short-term capital funds were largely responsible for turning the surplus of $2.7 billion in 1969 on the U. S. balance of payments on official settlements basis into a massive deficit in 1970 ; on current account the position had in fact shown some improvement in 1970 over the position in 1969. The trade surplus increased from U. S. $0.6 billion in 1969 to U. S. $2.2 billion in 1970. However, the inflow of private liquid funds of over $8 billion in 1969 was reversed and there was an outflow of similar funds of $6 billion in 1970.

171. The continuing recession in economic activity in the U. S. necessitated a shift in its monetary policy from restriction to ease. In the result, a considerable interest rate differential emerged in favour of the European centres. Sizeable short-term capital movements induced by this differential were mainly responsible for the widening of the balance of payments deficit in the first quarter of 1971. By April 1971, a rise in the New York Treasury Bill rates and a round of reductions in the official discount rates in Western Europe narrowed down the interest differential. But the massive flows that had already come into Europe in response to the interest differential had imparted a measure of liquidity to the continental economies which some countries, including West Germany, considered unacceptable and difficult to neutralise.

172. In this context, the role of exchange rate changes, the responsibility of the U. S. to adjust its external accounts rapidly, the nature of the regulation-free Euro-dollar market, and the working of the existing international payments adjustment mechanism generally became matters of more open high level discussions and pronouncements, and led in turn to a massive speculative outflow from the U. S. in anticipation of a change in currency parities, particularly of the Deutsche mark.

173. In this situation, the German and Dutch authorities decided to allow their currencies to float on the markets. Switzerland and Austria upvalued their currencies by 7.07 per cent and 5.05 per cent, respectively, and Belgium transferred all capital payments from the official market in which the dollar is supported by the National Bank of Belgium to the free market in foreign exchange, all current payments being simultaneously restricted to the official market.

174. The magnitude and volatility of short-term capital movements accentuate the strains caused by payments imbalances and inhibit the monetary autonomy of national authorities. As the Euro-dollar market not only provided a highly efficient channel for these movements but was also a significant source of such funds, the central banks of the Group of Ten reached around the end of the year under report, an agreement to abstain from making further deposits in the market and are considering methods to regulate the market.

International Liquidity and LDCs

175. Simultaneously with the consideration of measures to control the transmission mechanism by regulating the Euro-dollar market, attention is being given to the problem of excessive international liquidity. In this connection, it has to be

noted that by far the larger share of the total addition to international liquidity in 1970 accrued to the developed nations. Aggregate world reserves consisting of gold, foreign exchange, SDRs and reserve positions in the Fund rose by $14.2 billion as against only $0.74 billion in 1969. The reserves of less developed countries increased by $2.6 billion as against $1.5 billion in 1969, but those of developed nations swelled by $11.7 billion whereas they had fallen by $0.7 billion in the previous year. Increases in total foreign exchange holdings alone accounted for $12.1 billion of the total addition to international liquidity in 1970. Foreign exchange holdings of less developed countries rose by only $1.9 billion while those of the developed nations went up by as much as $10.2 billion, reflecting the huge dollar outflows principally to industrial Europe and Japan. The allocation of SDRs to the tune of $853 million at the beginning of 1970 accounted for about one-third of the modest increase in the reserves of the less developed countries during the year.* In the case of developed countries, however, the allocation of $2.6 billion of SDRs accounted for less than one-fourth of the rise in their reserves.

176. The developing countries did not materially benefit from the huge additions to international liquidity during the year under review. Indeed, but for the SDR allocations, their position would have been less healthy than in 1969. Healthy international economic relationships demand orderly creation of additional liquidity. To this end, SDRs, the new instrument of liquidity, need to be protected and vigorously developed ; and adjustments needed to prevent the kind of excessive liquidity creation that took place in 1970—and has continued in 1971 also—should not impose any sacrifices on the economies of developing countries seeking to develop at a socially tolerable pace.

U.K.'s Entry into E.E.C.

177. Another development of major international monetary significance is the likely entry of the U. K. into the European Economic Community, which foreshadows a fairly rapid change in the role of sterling. The U. K. has made clear to the EEC her "readiness to envisage an orderly and gradual reduction of official sterling balances" after her accession. Apart from the understanding given by the U. K. to the EEC, the shedding of the reserve role of sterling is also widely being discussed. For the present official holders of sterling, including India, changes in the status of sterling would be a matter of considerable importance. Alternative reserve assets as well as alternative intervention currency/currencies would have to be found. The arrangements moreover should not entail any losses either in terms of liquidity, earning power, or exchange value. From this point of view the proposal reported to be made by one of the EEC partners is fraught with considerable danger. The proposal is that the existing holders of sterling balances should be guaranteed a lower percentage than at present of their holdings while extending the period of guarantee.

International Monetary Reform

178. The May 1971 currency crisis in Europe has expectedly given a further impetus to the efforts to reform the international monetary mechanism. Accordingly, increased flexibility for day to day market rates of exchange appears to have gained wider approval during the year as one instrument of reform. Simultaneously, however, there has been a move towards a lowering of the margin for fluctuations in the rates of the EEC currencies among themselves. The EEC Finance Ministers had decided to make a beginning on June 15, 1971 towards a reduction in the maximum possible swings among their currencies in terms of one another. But the floating of the D-mark and the Netherlands guilder from May 10, 1971 has prevented this step being taken as scheduled. Fixed market exchange rates among the EEC currencies may confer material benefits on the EEC economies. But if this development takes place simultaneously with a widening, under the IMF statutes, of the margins within which the members' currencies may fluctuate on the markets, the non-EEC currencies would be at a disadvantage *vis-a-vis* the EEC currencies. The currencies of less developed economies would be at a significantly greater disadvantage in view of their relatively weaker economic position.

* This reserve gain itself was unevenly distributed among the less developed countries: countries whose exports consist *chiefly* of petroleum, minerals or manufactures accounted for half of the gain of the group.

World Trade and Aid Flows

179. World trade in 1970 recorded in terms of value the same rate of growth—$14\frac{1}{2}$ per cent—as in 1969, while the growth in volume was $8\frac{1}{2}$ per cent or $2\frac{1}{2}$ percentage points lower than in the preceding year. The performance of the developing countries was impaired by the adverse movement in their terms of trade. Exports of the less developed countries increased in volume by 8 per cent as against 7 per cent in 1969, but in value they rose by 11 per cent as against $11\frac{1}{2}$ per cent in the preceding year. The growth in the value of developed countries' exports from 15 per cent to $15\frac{1}{2}$ per cent over the year, however, was accompanied by a fall in the growth of volume from 11 per cent to 9 per cent.

180. Reference was made in the last year's Report to the norms recommended in the Pearson Report in regard to the development assistance to less developed countries, and it was also pointed out that the actual assistance flows in 1969 fell short of those norms. It is widely held that adequate international liquidity encourages the flow of assistance by removing balance of payments constraints on potential providers of developmental assistance. Despite substantial accretions to the exchange reserves of most developed nations, however, the assistance flows did not materially improve in 1970. The net financial flows from members of the O.E.C.D. to developing countries showed some increase over the year owing to the growth of export credits and private investment, while official development assistance remained at about the same level as in 1969. But, as a percentage of the GNP of the donor countries, official developmental flows from the O.E.C.D. member countries declined over the year, while the total net financial flows remained at about the same level.

Assessment and Prospects

181. The review of the developments in the Indian economy during the Bank's accounting year 1970-71 in the foregoing paragraphs indicates that although the economy was able to attain for the second year in succession the targeted rate of growth in the Fourth Plan, it is currently passing through quite a difficult period. Foremost among the aspects of the economy which is causing concern is the price situation. The year began with a strong upward pressure on prices. Subsequently, as a result of the various measures taken, prices eased off. However, in the recent months the rising trend has asserted itself once again. All the commodity groups except 'industrial raw materials' have been on the uptrend. Amongst industrial raw materials, raw cotton prices have shown a phenomenal increase. A number of 'manufactures' have registered large increases. These include items like chemicals, machinery and transport equipment and manufactures, which are important from the point of view of future growth of the industry and exports.

182. On the supply side, while four successive years of good monsoons have eased the food situation and a comfortable stock position has been built up with the Government, there are indications that the current monsoon may not maintain this record. Sizeable areas have been affected, some by severe floods and others by severe drought. As far as food crops are concerned, this may cause perhaps no more than a small set-back to the growth rate. As regards cash crops, the performance of which is rather uneven and generally disappointing, the situation in the immediate future is likely to remain difficult.

183. The rate of growth of industrial production has fallen considerably short of the targeted rate for the Fourth Plan; and, of late, a certain amount of deceleration seems to have developed in the growth rate. Important *basic* industries like iron and steel and coal and *capital goods* industries like industrial machinery and transport equipment have all recorded absolute declines. Among *consumer goods*, cotton textile output continued to stagnate. Shortages of raw materials, continued slackness in public sector investment, power and transport bottlenecks and strained industrial relations have all contributed to the deceleration.

184. As regards the demand side, money supply continues to expand at a high rate. The main expansionary factor has been net bank credit to Government which has showed

phenomenal increase. Bank credit to the commercial sector by contrast showed a smaller expansion both in absolute terms as well as in terms of the growth rate. Over the year, banks reduced their borrowing from the Reserve Bank by nearly one-third of the outstanding level. The larger bank credit to Government reflects generally the growing imbalance in the budgetary operations, arising mainly on account of the considerably smaller growth rate of total receipts despite a slowdown in the rate of growth in total disbursements. The imbalance is particularly marked in the case of the State Governments, which used up more than twice the amount of Reserve Bank credit as compared to the Central Government. Though the Central Government has taken a number of measures in the budget for 1971-72 to raise tax revenues to meet the growing needs of development and to provide temporary shelter to the evacuees from East Bengal, the dimensions of the evacuee problem have grown so vastly as to place an intolerable burden on the resources. The overall budgetary position of the State Governments continues to add to the monetary expansion at a substantial rate.

185. Investment in the economy has shown a moderate degree of improvement both in the public and the private sectors. More important, investment in priority sectors such as small-scale industries and agriculture has been facilitated considerably as a result of the various measures taken to increase the flow of finance to these sectors. All the same, the total volume of investment needs to be stepped up significantly if the Fourth Plan expectations are to be fulfilled.

186. In the external sector of the economy there are signs of increasing pressure. The trade as well as the current account deficits for the calendar year 1970 were somewhat larger than those for the calendar year 1969. The main cause for this is the increasing demand for imports arising out of shortages in domestic production of important raw materials and basic manufactures like raw cotton and steel. Exports have shown some signs of an improvement in the growth rate recently after a long period of low growth. However, there are as yet no clear indications that the country has achieved a high rate of growth in exports on a long-term basis. Domestic shortages of raw materials have hampered progress by raising the cost structure and causing delays in export production.

187. Many of these difficulties, it is true, have been the result of the operation of temporary factors and should soon disappear. This applies particularly to those sectors of industrial production where shortages of raw materials have been the main bottleneck. The recent liberalisation in import policy would assist industry and exports considerably in this respect. More important, in the longer perspective, the economy has made considerable progress in gearing up the institutional structure for short and long-term credit closely with the planning process initiated last year, and this was carried further. The public sector banks have enlarged their territorial coverage sizeably by opening nearly 1900 new branches mostly in the rural and semi-urban areas, providing banking facilities to a large number of previously unbanked centres. Following completion of techno-economic surveys, systematic measures have been adopted by IDBI to promote viable industrial projects in the backward areas. Another important development in this direction is the setting up of the Industrial Reconstruction Corporation of India for rehabilitation of closed industrial units or those facing the risk of closure by way of reconstruction in eastern India. The nationalised banks have oriented their lending policies in the light of national policies and priorities and have shown notable progress in implementation of schemes designed specifically for the benefit of borrowers of small means. The establishment of the Credit Guarantee Corporation which would provide guarantee for lendings by these banks to small borrowers other than small-scale industries for which these facilities already existed, would provide the banks valuable support. Under the Lead Bank Scheme, district surveys have been completed in about 165 districts by the public sector banks and the process of co-ordination for allocation of newly identified centres between the banks has been initiated ; this should pave the way for co-ordinated action in implementation of district credit plan. The Small Farmers Development Agencies and the Marginal Farmers and Agricultural Labour Agencies have been set up in a large number of selected districts. In the industrial

sector, with a view to improving the existing system of distribution of raw materials, besides widening the scope of the MMTC and STC, three institutions, viz., the Cotton Corporation, the Jute Corporation and the Cashew Corporation have been newly constituted and have already started functioning. In respect of the Industrial Policy there was a distinct policy reorientation in favour of industries established in backward regions and those in the small-scale sector. Positive steps were also taken to foster the development of 'joint sector' on the lines of the Dutt Committee Report.

188. Progress also continues to be made in the spread of the new technology in agriculture. Larger utilisation of the irrigation potential, wider spread of improved seeds and fertilisers, and better farming practices mean that the basic need of the public for foodgrains can be satisfied reasonably. However, there are still large areas subject to the vagaries of the monsoon. Also, even in foodgrains most of the breakthrough is in respect of wheat. Efforts at evolving dry farming techniques and further exploitation of deeper aquiferous of ground water call for the highest priority. Again, in a predominantly rice eating country the long-term solution of the food problem requires a breakthrough in rice technology. This in turn means that research efforts in this regard need to be further strengthened. Progress in developing an appropriate technology for the cash crops continues to remain inadequate. Research efforts are being pursued to overcome these inadequacies.

189. These developments suggest that the economy is in a better position than ever before to attain a high sustained rate of growth. With the progress that is being made in agriculture a vast market for industrial products is beginning to wake up. To tap it fully would require a strong and sustained upsurge in industrial production requiring in turn a step-up in investment by both the public and the private sectors. It will also require overcoming the various organisational deficiencies that have come to light in recent years in both the public and the private sectors of industry and an improvement in the industrial relations.

190. The most important need of the moment, however, is the maintenance of a reasonable degree of price stability in the economy. The massive increases in money supply that are taking place largely as a result of the budgetary operations of the governmental sector pose a difficult problem in this regard. Unless a reasonable degree of balance is achieved between these increases in money supply and the increases in real income, there is a likelihood of the price situation getting out of hand once again. Balance is also necessary between the governmental sector and the private sector as to the use of bank credit. This would call for the most careful control on the use of bank credit by both the sectors, in addition to such measures as direct controls in suitable cases for protection of the weaker sections.

II. DEVELOPMENTS IN INDUSTRIAL FINANCE

IDBI's Operations and Policies

191. During the year under review, the Industrial Development Bank of India (IDBI) intensified its efforts to widen the scope and enlarge the size of its operations. Apart from streamlining its set-up and refining its methods and criteria regarding the operations of its existing schemes of finance, it adopted special measures to promote viable industrial projects, particularly in the backward areas. The IDBI is playing a role of a catalytic agent in inducing and bringing together, under its leadership, various all-India and State level institutions, including the lead banks and the Industries Departments of State Governments to form an inter-institutional group to take decisions on a wide range of problems. These range from identification of a project to preparation of detailed project reports and provision of technical and financial assistance possibly on a consortium basis. Surveys to identify concrete projects, initiated during 1969-70 in collaboration with other term-lending institutions, were completed during the year in eight States and four Union Territories. The survey reports relating to four States and one Union Territory were finalised and follow-up action initiated. The possibilities of setting up projects that have emerged from these surveys

are being discussed with the concerned State Governments. In some cases, even before such discussions, the feasibility studies of some identified project ideas are being made in association with some private technical consultancy services.

192. An important measure for stimulating the setting up of industrial projects in backward areas is the system of differential interest rates, to which a reference was made in the Annual Report for the year 1969-70. The changes effected in IDBI's lending rates during the year under review further widened the interest rates differentials. Thus, in October 1970, when it raised the normal rate of interest on direct loans to industrial concerns (other than for exports) and again, in January 1971, when it raised the refinance/rediscount rates following the raising of the Bank rate by the Reserve Bank, the concessional rates for direct loans and refinance in respect of industrial units in backward areas were kept unchanged.

193. During the year, IDBI took further steps to encourage the flow of institutional finance to the small-scale sector. These include simplification of procedures for sanction and disbursement of refinance to State Financial Corporations (SFCs) in respect of term loans upto Rs. 2.00 lakhs, thus making the refinance scheme near-automatic.

194. Among its existing schemes of assistance in the field of export finance, IDBI has emerged as a major partner along with commercial banks. It has set up two groups, viz., the Informal Consultative Group and the *Ad-hoc* Working Group, comprising members, in both the groups, from IDBI, commercial banks, the Reserve Bank and Export Credit Guarantee Corporation (ECGC). The objective of the Consultative Group is to discuss broad problems and policies in the field of export finance and identification of possibilities in the fields of exports of goods and services, and turn-key jobs and joint ventures abroad. The *Ad-hoc* Working Group is to provide guidance to exporters at the pre-bid stage and to expedite the processing of cases. IDBI also gave wide publicity to the export schemes operated by it and conducted seminars of bankers in Bombay, Calcutta, New Delhi and Madras on the techniques of financing exports on deferred payment basis so as to share ideas and experience in the field.

195. During 1970-71, IDBI constituted Regional Committees at Calcutta, Madras and New Delhi to help and guide the regional offices opened at these centres during the previous year and to take decisions for sanction of assistance upto specified limits. The regional offices together with the branch offices opened so far in 9 other centres would enable IDBI to have a first hand knowledge of the regional problems and to establish live contacts with State level institutions as well as with potential entrepreneurs.

196. Another important development during the year was the setting up of the Industrial Reconstruction Corporation of India Ltd., at the initiative of IDBI, on April 12, 1971, as a joint stock company with its headquarters at Calcutta. It has authorised and subscribed capital of Rs. 25 crores and Rs. 10 crores, respectively. The IDBI has subscribed 50 per cent of the share capital, and the balance was shared by the Industrial Finance Corporation of India (IFCI), the Life Insurance Corporation of India (LIC), the Industrial Credit and Investment Corporation of India Ltd., (ICICI), the State Bank of India and the nationalised banks. The Corporation will endeavour to rehabilitate closed industrial units or those facing the risk of closure, by way of reconstruction of share capital, strengthening of management, diversification of products, improvement in technology and labour relations, and rendering financial assistance on soft terms.

197. During the year under review, IDBI's size of operations, both sanctions and disbursements under all the schemes of finance, was markedly larger than during 1969-70. Total sanctions of assistance (excluding guarantees) at Rs. 131.1 crores during 1970-71 were double the level in 1969-70 (Rs. 65.2 crores). Disbursements were also higher by about 50 per cent, having risen from Rs. 52.3 crores in 1969-70 to Rs. 78.4 crores in 1970-71. Since its inception till the end of June 1971, IDBI's assistance sanctioned (excluding guarantees) totalled Rs. 466.2 crores and disbursements Rs. 358.4 crores. Assistance outstanding as on June 30, 1971 amounted to Rs. 265.3 crores. Besides, guarantees sanc-

tioned upto the end of June 1971 amounted to Rs. 31.0 crores.

198. IDBI's direct assistance (other than for exports) in the form of loans, underwriting and guarantees sanctioned to industrial concerns increased from Rs. 16.3 crores in 1969-70 in respect of 22 projects to Rs. 51.4 crores in 1970-71 covering 33 projects. Special attention continued to be paid to comparatively small projects introducing new technology set up by technician-entrepreneurs, and during the year, it sanctioned assistance to two such projects. Besides assisting 16 other projects (including three public sector projects), which envisaged the setting up of new capacity or expansion/diversification of existing capacity in various types of industries, supplementary assistance was granted to 15 projects for meeting the over-run in project cost and/or relieving the strain on the financial position of industrial concerns. It has been the policy of IDBI to assist public as well as private sector projects which are economically viable and which could be managed efficiently during their gestation period as well as later.

199. In the sphere of refinance of industrial loans, sanctions during the year at Rs. 25.6 crores were higher by 79 per cent as compared with Rs. 14.3 crores in 1969-70. Refinance assistance in respect of loans to small-scale industries and small road transport operators continued to increase both in absolute terms and as a proportion to total refinance. Of the total refinance assistance sanctioned for Rs. 25.6 crores in respect of 1,483 applications during 1970-71, those granted to small-scale industrial units and small road transport operators amounted to Rs. 14.8 crores in respect of 1,388 applications ; assistance sanctioned to these sectors more than doubled as compared with that in 1969-70 (Rs. 6.1 crores). As a proportion of total refinance, such assistance increased from 43 per cent in 1969-70 to 58 per cent in 1970-71.

200. The scheme for rediscounting of machinery bills has benefited several machinery manufacturers and users of machinery. The face value of bills rediscounted rose from Rs. 24.1 crores in 1969-70 to Rs. 28.5 crores in 1970-71. Total assistance under the scheme upto the end of June 1971 amounted to Rs. 89.9 crores, benefiting in all 209 machinery manufacturers and 1,059 purchaser-users of machinery. In order to acquaint the discounting banks with the procedural matters relating to the scheme and also to benefit from their experience in operating it, IDBI conducted recently four seminars of commercial bank officers associated with the scheme at Bombay, New Delhi, Calcutta and Madras.

201. The IDBI's assistance under the export finance scheme also registered a notable increase during the year under review. Sanctions under this head rose from Rs. 12.5 crores in 1969-70 to Rs. 26.1 crores in 1970-71. This covers both direct loans and guarantees to exporters (Rs. 12.4 crores) and refinance of export credits (Rs. 13.7 crores). The assistance sanctioned covered exports of a wide range of engineering products such as steel rails, bars and railway track equipment, diesel engines, railway wagons, textile machinery, transmission line towers, automobiles and spares, etc.

202. During the year, IDBI contributed Rs. 1.8 crores to the special debentures of ICICI. The amount disbursed to ICICI since inception upto the end of June 1971 totalled Rs. 15.7 crores. Besides, IDBI subscribed, upto the end of June 1971, Rs. 6.9 crores to the bonds and share issues of 16 SFCs.

Other All-India Term-Lending Institutions

203. The size of operations of the other all-India term-lending institutions also showed an appreciable rise during the year under review. Thus, the operations of the ICICI showed a marked increase in sanctions (rupee and foreign currency loans, underwriting and direct subscriptions) from Rs. 22.8 crores in 1969-70 (April-March) to Rs. 43.0 crores in 1970-71. Its disbursements at Rs. 29.2 crores in 1970-71 were also considerably higher than in 1969-70 (Rs. 19.8 crores). The increase in sanctions was mainly brought about by increases in foreign currency and rupee loans. In the case of the IFCI, while total sanctions (rupee and foreign currency loans, underwriting and direct subscriptions) registered a notable increase from Rs. 18.6 crores in 1969-70 to Rs. 35.0 crores in 1970-71, disbursements during the year at

Rs. 17.4 crores were more or less at the same level as in the previous year.

Operations of State Financial Corporations

204. Total loans sanctioned by 18 SFCs (including the Tamil Nadu Industrial Investment Corporation) during the period April 1, 1970 to March 31, 1971 increased by over 50 per cent to Rs. 49.0 crores from Rs. 32.2 crores in 1969-70. Disbursements during the period were also noticeably higher at Rs. 32.9 crores as compared with Rs. 21.4 crores during the previous year. Loans outstanding as on March 31, 1971 stood at Rs. 127.9 crores, registering a net increase of Rs. 23.4 crores over the outstanding as on March 31, 1970. Of the total sanctions and disbursements during 1970-71, the share of small-scale industries was Rs. 35.8 crores (73.1 per cent) and Rs. 22.7 crores (69 per cent), respectively. Till January 1971, i.e., before the Bank rate was raised, the effective lending rate of SFCs to small-scale industries ranged between 7 per cent and 8 per cent subject to availability of refinance from IDBI at a concessional rate of $4\frac{1}{2}$ per cent per annum. Consequent upon the increase in the Bank rate from 5 per cent to 6 per cent, IDBI raised its concessional rate of refinance from 4.5 per cent to 5 per cent subject to the rate charged to borrowers by the financial institutions not exceeding 8.5 per cent. Correspondingly, nine SFCs raised their lending rates generally by 0.5 per cent. On loans to other units, the effective lending rate was between 7.5 per cent and 10.5 per cent. Four SFCs charged interest at 6 per cent per annum to borrowing units in backward areas.

205. In pursuance of the recommendations of the 14th Conference of representatives of SFCs, a Working Group on Resource Mobilisation, Profitability and Allied Problems of SFCs was set up in April 1970. The Group's Report submitted in December 1970 is at present under consideration of the Reserve Bank of India.

Financing of Small-Scale Industries

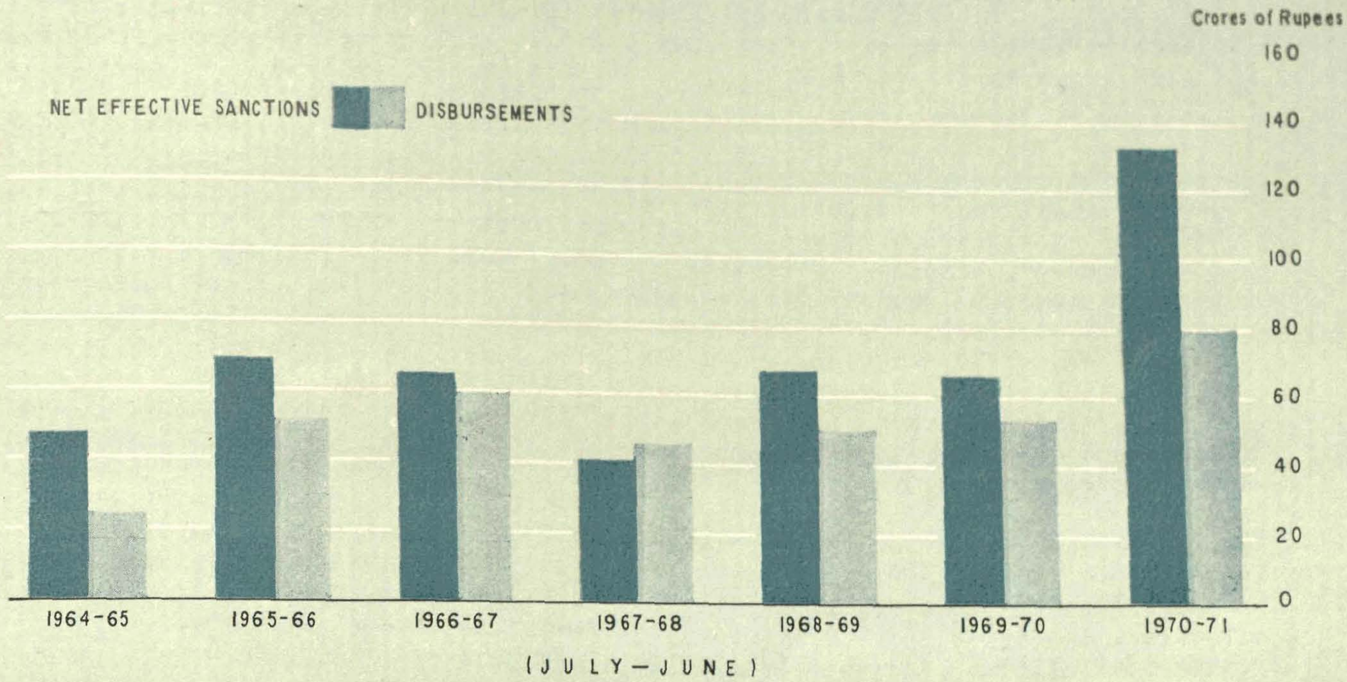
Credit Guarantee Scheme

206. The Credit Guarantee Scheme as modified with effect from February 1, 1970 (details of which were given in the previous year's Report) made considerable progress during the year under review. By the end of June 1971, 149 credit institutions including all the major commercial banks, and 56 co-operative banks and State Financial Corporations had joined the modified Scheme. The amount of guarantees outstanding as at the end of June 1971 stood at Rs. 790.97 crores as against Rs. 661.77 crores at the end of June 1970. Since the inception of the Guarantee Scheme in July 1960 upto the end of June 1971, claims of guarantee obligations numbering 200 for an aggregate sum of Rs. 27.15 lakhs were paid to the credit institutions. However, as at the end of March 1971, amounts reported in default, which might eventually lead to settlement of claims, covered 1,799 cases for Rs. 589.04 lakhs, as against 463 cases for Rs. 141.97 lakhs as at the end of June 1970.

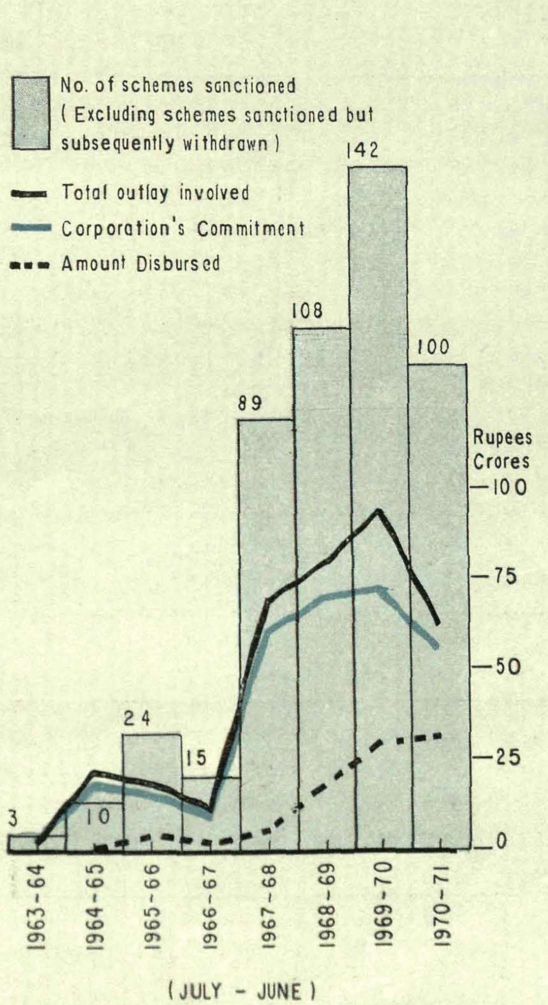
207. One of the important objectives of the modified Scheme is to introduce an element of automaticity in the guarantee cover available to credit institutions. This has been achieved in asmuchas the credit facilities granted to small-scale industries by banks/ Corporations are deemed to be guaranteed as soon as they are granted and reported to the Guarantee Organisation (RBI) in the prescribed quarterly statements. Further, under the modified Scheme, the Guarantee Organisation bears a larger risk than under the earlier Scheme. To ensure that credit institutions exercise due vigilance and care in sanctioning and recovering advances to small-scale industrial units, the Guarantee Organisation has introduced a programme of test checks of quarterly statements by deputing its officers to the branches of banks. During the first year of the operation of the modified Scheme, 5 per cent of the reporting branches were selected for test checks.

208. As the Guarantee Scheme has been introduced with a view to enlarging the flow of institutional credit to small-scale industries, the Guarantee Organisation operates the Scheme in a manner helpful to the small industries, particularly the weaker units. On a suggestion made by the Guarantee Organisation, 74 banks (including major commercial banks) and 16 State Financial Corporations have agreed to bear themselves the guarantee fee at 1/10 of 1 per cent instead of recovering it from their constituents. With the guarantee facilities afforded under

ASSISTANCE SANCTIONED AND DISBURSED BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

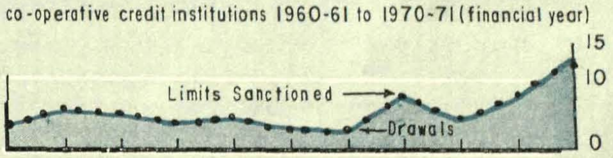


OPERATIONS OF AGRICULTURAL REFINANCE CORPORATION

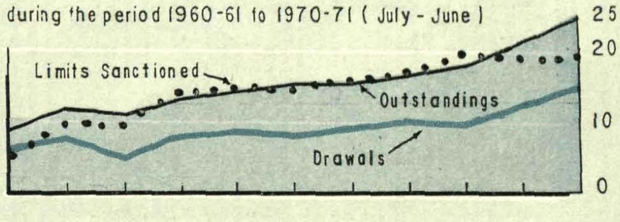


Crores of Rupees

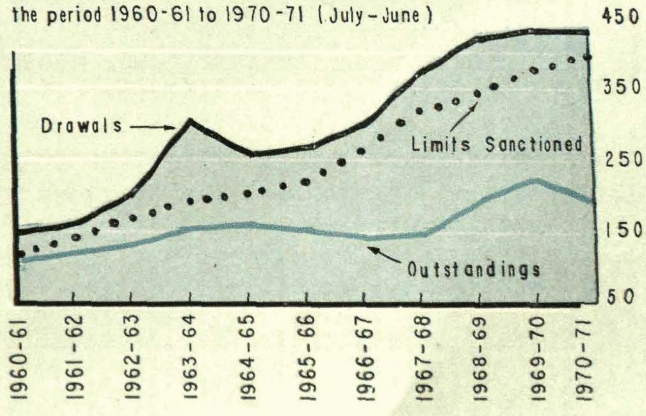
Loans from the National Agricultural Credit (Long-term Operations) Fund to State Governments for contribution to the share capital of co-operative credit institutions 1960-61 to 1970-71 (financial year)



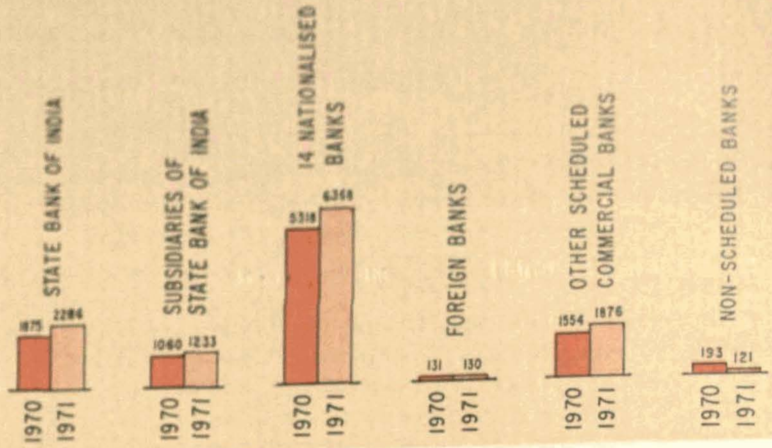
Medium-term loans for agricultural purposes provided by the Reserve Bank of India to state co-operative banks at the concessional rate during the period 1960-61 to 1970-71 (July - June)



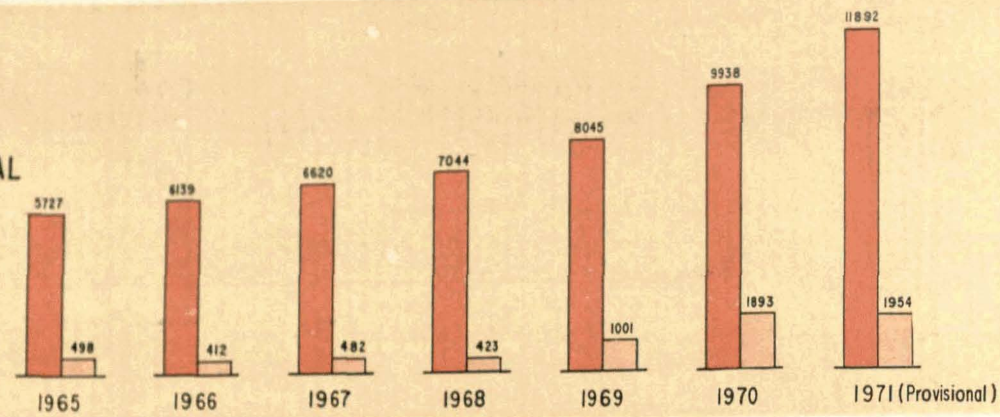
Short-term loans provided by the Reserve Bank of India to state co-operative banks, at the concessional rate of interest for seasonal agricultural operations and marketing of crops during the period 1960-61 to 1970-71 (July-June)



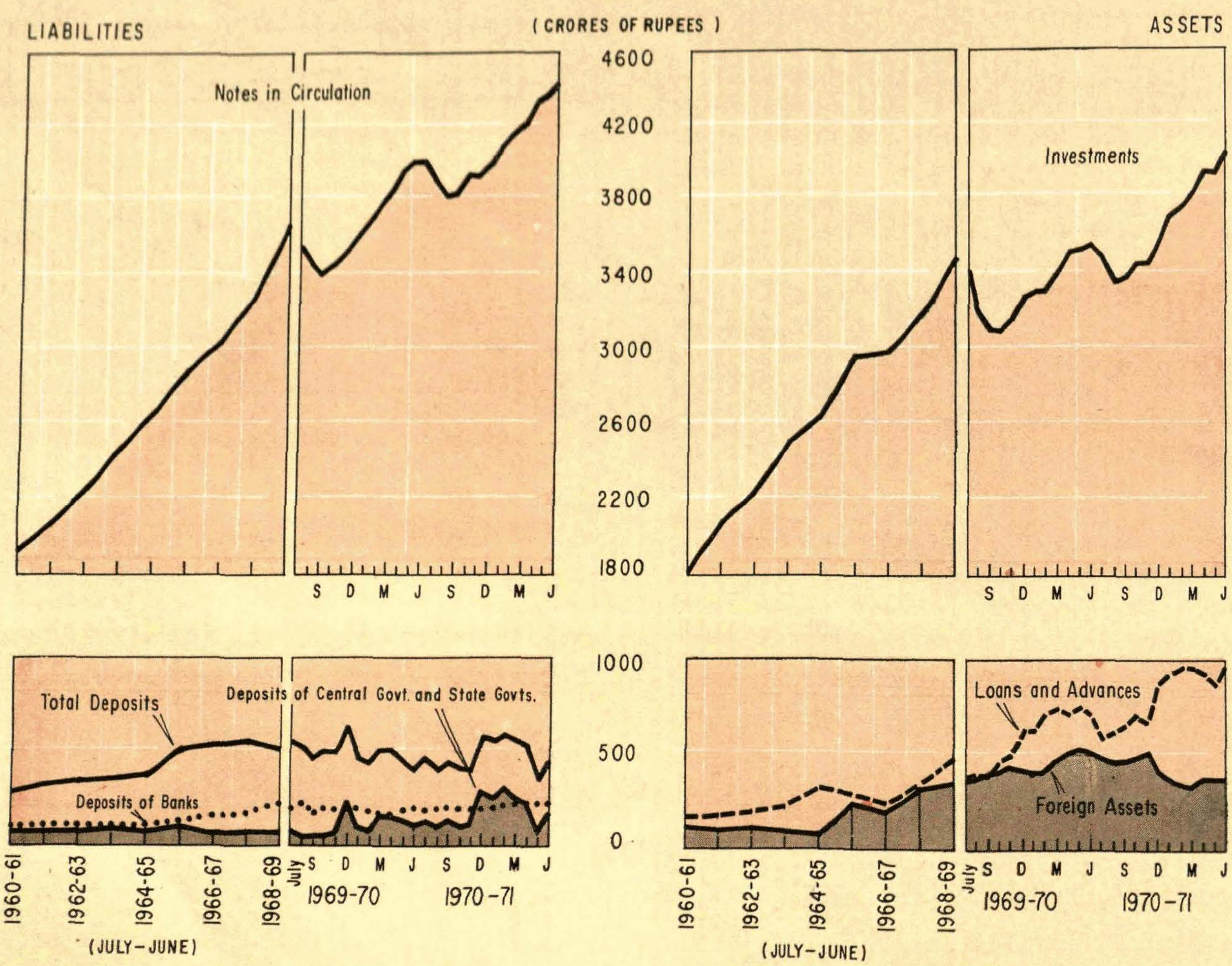
NUMBER OF OFFICES OF COMMERCIAL BANKS IN INDIA
(END-JUNE FIGURES)



GROWTH IN SCHEDULED COMMERCIAL BANKS' OFFICES
(END-JUNE FIGURES)



RESERVE BANK OF INDIA
ISSUE AND BANKING DEPARTMENTS COMBINED
(AS ON LAST FRIDAY)



the Scheme, credit institutions are expected to liberalise, where necessary, their terms of lending to small-scale industries, particularly in regard to margin requirements. Soft loans or loans on a clean basis, wherever deserving, might be extended by credit institutions, especially in respect of schemes promoted by qualified technicians/entrepreneurs. The Guarantee Scheme covers such soft or clean advances. Where a unit defaults in the payment of its dues to a bank, the Guarantee Organisation examines expeditiously the possibility of rehabilitating it and in deserving cases, the credit institution is urged to undertake a programme of nursing.

Scheduled Commercial Banks' Finance to Small-Scale Industries

209. During the 9 month period July 1970 to March 1971, total credit limits sanctioned by scheduled commercial banks to small-scale industries recorded a rise of Rs. 83.8 crores to Rs. 868.3 crores over and above the increase of Rs. 156.8 crores in limits sanctioned in the corresponding period of 1969-70. The number of units financed increased from 89,307 to 1,03,550 or by 15.9 per cent. The amount of outstanding advances totalled Rs. 493.1 crores as at the end of March 1971, showing a rise of Rs. 79.1 crores as against an increase of Rs. 108.3 crores during July 1969—March 1970. The relatively smaller rise in credit extended by banks to small-scale industries during the period under review has to be viewed in the context of spurt in advances to this sector since June 1968, the rise in credit between June 1968 and June 1970 being Rs. 224 crores. It is also significant to note that the proportion of bank credit to small-scale industries in total bank credit has gone up from 9.8 per cent in June 1970 to 10.6 per cent in March 1971, indicating that the impact of credit stringency witnessed during the latter part of 1970-71 busy season was felt less on the flow of credit to small-scale industry sector than on other sectors. The share of industrially backward States in advances to small-scale industries has gone up since June 1968, the increase being particularly marked in respect of Andhra Pradesh, Bihar and Uttar Pradesh. The amount of term loans (including instalment credit) sanctioned by scheduled commercial banks to small-scale industrial units as at the end of December 1970 was of the order of Rs. 112 crores, the outstanding against which amounted to Rs. 76 crores, *i.e.*, about 16 per cent of the total credit to this sector.

210. The banks in the public sector (the State Bank of India and its subsidiaries and 14 nationalised banks) accounted for 89 per cent of the total outstanding credit to small-scale industries, the share of the State Bank of India and its subsidiaries being 40 per cent. The credit limits sanctioned by the State Bank of India Group to small-scale industries as at the end of March 1971 amounted to Rs. 320.4 crores recording a rise of Rs. 28 crores over the June 1970 level. This increase was less than half the rise in the corresponding period of 1969-70. The outstanding credit by this Group to small-scale industries at Rs. 197 crores as at the end of March 1971 showed a rise of Rs. 33.7 crores (or 21 per cent) over the level at the end of June 1970. The amount of loans sanctioned by the State Bank of India Group, under their Scheme for financing craftsmen and other qualified entrepreneurs, more than doubled from Rs. 3.4 crores covering 297 units as at the end of March 1970 to Rs. 7.1 crores covering 562 units as at the end of March 1971.

211. The 14 nationalised banks sanctioned to small-scale industrial units credit limits for an aggregate amount of Rs. 459 crores as at the end of March 1971, showing a rise of Rs. 47 crores (or 11 per cent) between June 1970 and March 1971. The number of units financed by these banks increased by 5779 during the period. Outstanding credit at Rs. 244 crores at end-March 1971 showed an increase of Rs. 37.2 crores which was somewhat lower than the increase in the corresponding period of 1969-70 (Rs. 50.7 crores).

212. A reference was made in the last year's Report to the special schemes formulated by banks to finance technically qualified entrepreneurs on liberal terms. Data available for seven nationalised banks show that these banks had, under their respective schemes, sanctioned Rs. 1.35 crores covering 540 entrepreneurs as at the end of December 1970.

213. There was a further step-up in the scale of assistance by scheduled commercial banks to small road and water transport operators. Credit limits sanctioned to this sector as on the last Friday of March 1971 amounted to Rs. 63.9 crores, showing a rise of Rs. 23.2 crores over end-June 1970 level as compared with the rise of Rs. 20.8 crores in the corresponding period of 1969-70. The amount of outstanding credit at Rs. 47.5 crores as at the end of March 1971 was about 50 per cent higher than that as at the end of June 1970 (Rs. 30.6 crores). There was also a marked increase in the credit extended by scheduled commercial banks for setting up industrial estates, the amount of limits sanctioned being Rs. 3.74 crores as at the end of March 1971 as against Rs. 1.17 crores as at the end of March 1970, and the amount outstanding being Rs. 3.17 crores as compared with Rs. 36 lakhs.

Unit Trust of India

214. Sale of units during the period July 1, 1970 to June 30, 1971, amounted to Rs. 18.00 crores as against Rs. 22.83 crores in the corresponding period of the preceding year ; the corresponding repurchases were Rs. 3.19 crores and Rs. 2.03 crores. A moderate set-back noticed in 1970-71 reflected mainly the hardening of the interest rates in the economy, which improved the competitive position of other investment media available to investors in the relatively small and medium income groups. Another important factor was the extension, under the Finance Act, 1970, of exemption from income-tax to income (upto Rs. 3,000) earned from investments in practically all types of financial assets ; till then this exemption was restricted to income upto Rs. 1,000 each from investment in the Trust units and dividends on shares in Indian companies (apart from the whole of the interest earned on a number of small and postal savings schemes).

215. The aggregate value of units sold and outstanding with the Trust as of June 30, 1971 amounted to over Rs. 92.25 crores, the total number of unit-holders registered with the Trust being over 3,80,000. As of June 30, 1971, overall investments of the Trust aggregated Rs. 105.14 crores. Of these, ordinary shares accounted for Rs. 39.66 crores (37.7 per cent), preference shares for Rs. 13.08 crores (12.4 per cent), debentures for Rs. 40.89 crores (38.9 per cent) and Government securities and bonds of financial corporations for Rs. 0.45 crore (0.4 per cent). The balance of Rs. 11.06 crores (10.6 per cent) represented advance deposits for debentures which the Trust had agreed to underwrite/subscribe, application money for purchase of shares and debentures, advance call deposit and call and short notice deposits.

216. There was a further expansion in the network of agents and stock brokers who canvass sale of units among the investing public. The number of approved agents and brokers as on June 30, 1971 stood at 2,756 and 320, respectively, as against 2,303 and 315 as on the corresponding date last year. Besides sales over the counter at the Trust's Offices, units continued to be on sale at all the branches of leading banks and at about 18,000 post offices throughout the country.

217. Reference was made in the last Report to the Children's Gift Plan, 1970, launched by the Trust from July 1, 1970, which provides a facility to parents, close relatives of a minor child and others to accumulate capital in the form of units for the benefit of the child. The Plan has made a good start, sale of units under it till June 30, 1971 amounting to over Rs. 56 lakhs under more than 2,300 applications. A 'Unit-Linked-Insurance Plan' is being formulated in co-operation with the Life Insurance Corporation of India and this is proposed to be introduced shortly. The main objective of this Plan is to provide investors, especially from the relatively small and middle-income groups of the community, a facility for regular savings and investment of these savings in units of the Trust combined with the advantage of life insurance cover during the period of the Plan.

III. PROGRESS IN COMMERCIAL BANKING

218. The nationalisation of major commercial banks was done 'to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives.' The entire gamut of Government's economic policy has been re-oriented in recent years with a view to bringing about a better regional balance and also a more egalitarian economic base. The Lead Bank Scheme and programmes for branch expansion would no doubt bring about a wider territorial spread of banking facilities. With a view to subserving, in a positive way, the social priorities through the banking system, a beginning has already been made in refining the existing methods and criteria used by the banks. The nationalised banks have considerably diversified their lending policies ; simultaneously, the Reserve Bank on its part has been endeavouring to provide precise measures and guidelines in this regard. In concrete terms, while the credit needs of organised sectors of industry and trade, which the banks hitherto almost solely met, continue to be provided for, institutional credit facilities at reasonable rates of interest are extended to a large number of borrowers of small means, such as small farmers, small-scale manufacturers, retail traders, road-transport operators, small businessmen, professionals and self-employed persons. For the small-scale industries sector, a Credit Guarantee Scheme has been in operation now for more than a decade. This Scheme was systematically revised last year and the guarantee cover for the banks' lending to such industries was made almost automatic. But, there are still smaller borrowers than the small-scale industries who had been almost neglected by the banking system. With a view to facilitating the extension of credit to such borrowers whose activities possess considerable employment potential, appropriate guidelines have been issued by the Bank. Guidelines have also been issued in respect of banks' lendings to agriculture, another field which was till recently practically outside the commercial banking lending system. Bank lending for such categories does, however, involve an element of risk and needs some cover of guarantees and therefore, a new public limited company known as the Credit Guarantee Corporation of India Ltd., has been set up and the Corporation has formulated definite schemes of giving guarantee.

219. The following paragraphs bring out details of organisational changes and various schemes for bank lendings and the Reserve Bank guidelines thereon.

Scheme for Broad-based Board for Nationalised Banks

220. A reference was made in the previous year's Report to the constitution, by the Central Government, of the first Boards of Directors for each of the fourteen nationalised banks with effect from July 18, 1970. With the constitution of the first Boards of Directors, the Reserve Bank's directive of February 16, 1970, requiring the nationalised banks to obtain its prior approval for certain specified types of transactions, was withdrawn on August 14, 1970 and the banks were advised that the matters referred to therein should thenceforward be decided by their respective Boards of Directors. Subsequently, a scheme called the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 was framed by the Central Government under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. Under the Scheme, each nationalised bank will have on its Boards directors not exceeding 15. Sub-section 3(*a*) of Section 9 of the Act lays down that every Board of Directors constituted under the Nationalised Banks (Management and Miscellaneous Provisions) Scheme framed under sub-section 1 of Section 9 shall include representatives of the employees and depositors of such banks and such other persons as may represent the interests of each of the following categories, *viz*., farmers, workers and artisans. The Scheme provides for two representatives of the employees of the bank and one of the depositors, besides providing one representative each of the interests of farmers, workers and artisans. Government are also empowered to appoint not more than five directors from amongst persons having special knowledge or practical experience in respect of one or more matters which are likely to be useful

for the working of the nationalised banks There will also be not more than two whole-time Directors, of whom, one shall be the Managing Director. Besides, there will be one official of the Reserve Bank of India and one official of the Central Government on each of the Boards.

221. The Scheme also makes provision for the appointment in each nationalised bank of two employees on the Board of Directors—one from among those who are workmen in the bank and the other from the employees in the bank other than workmen. The director from the employees who are workmen is to be appointed by the Government out of a panel of three names furnished by the Representative Union in the concerned bank. The other director from amongst employees who are not workmen would be appointed by the Government in consultation with the Reserve Bank of India.

222. A Representative Union has been defined in the Scheme as a Union registered under the Trade Unions Act, 1926 (16 of 1926) or a federation of such Unions, where such Union or federation, as the case may be, is certified, after due verification by the Chief Labour Commissioner (Central), as having the largest number of workmen employed in the nationalised bank as members who have regularly paid their dues to the Union or to any of the Unions constituting the federation. This is subject to a minimum of 15 per cent of the total number of workmen employed in the concerned nationalised bank being verified members of the Union or federation. The First Schedule to the Scheme prescribes the procedure to be followed for verification of membership of Unions operating in nationalised banks.

223. Under the Act, referred to above, the Scheme is required to be placed before both the Houses of Parliament for a minimum period of thirty days before it could be brought into force. The Scheme was accordingly placed before both the Houses of Parliament on November 17, 1970 and was discussed by the two Houses in December, 1970.

Foreign Branches of Nationalised Banks

224. With regard to their overseas branches, the nationalised banks are taking suitable steps according to local laws in each country for effecting the transfer of the properties and other assets, etc., standing in the names of the then existing banks to the corresponding new banks. As mentioned in the previous year's Report, in Uganda, the two nationalised banks concerned, *viz.*, Bank of Baroda and Bank of India, have formed subsidiary companies to comply with the local legal requirements. The Government of Uganda had earlier acquired 60 percent of shares in these companies. This position has recently undergone a change and the Government share-holding in the company has been reduced to 49 per cent. Negotiations are now in progress for taking over the subsidiary Bank of India by the subsidiary Bank of Baroda. In the case of the branches in Malaysia, as foreign State-owned or State-controlled banks are not permitted to carry on banking business in that country, it is proposed to form a new company to take over the business of the eleven branches of the three Indian banks, *viz.*, Indian Bank, Indian Overseas Bank and United Commercial Bank. The three corresponding new banks in India and Malaysian citizens of Indian origin would each hold 33⅓ per cent of the paid-up capital of the proposed company. 30 per cent of the paid-up capital would be allotted to other Malaysian citizens, companies and corporations resident in Malaysia and the remaining 3⅓ per cent would be unrestricted. As for branches in Singapore, the Parliament of that country has passed the Banking Act, 1970 which came into force in January, 1971. Under Section 9 of the Act, no bank whose Head Office is situated outside Singapore shall be granted licence unless (*i*) its issued and paid-up capital is not less than the equivalent of 6 million Singapore dollars (about Rs. 1.47 crores), and (*ii*) it holds net Head Office funds not less than 3 million Singapore dollars (about Rs. 73.50 lakhs), in respect of its business in Singapore at all times in the form of approved assets. The banks are required to comply with these provisions within a period of two years from the date of coming into operation of the said Act, *i.e.*, by the end of December, 1972. Further, every bank in Singapore is required to pay such annual licence fee as may be prescribed by their

Government. For the year 1971, licence fee of S. $ 50,000 for the main branch and S. $ 5,000 for each of the sub-branches in Singapore has been prescribed and the four banks, *viz.*, United Commercial Bank, Bank of India, Indian Bank and Indian Overseas Bank, have paid the requisite fees for the year.

225. The future set-up of the foreign branches of the Indian banks is under consideration.

Lead Bank Scheme

226. The previous year's Report contained genesis, objectives and basic programmes of the Lead Bank Scheme introduced by the Bank in December 1969. The basic objective was one of orienting banking development in the country towards an "area approach" and thus ensuring that the developmental needs of all regions and all sections of the community are served by the banking system in conformity with national priorities. Under the Scheme, all the districts in the country were allotted among public sector banks and a few of the private sector banks. Each bank is expected to survey the potential for banking development in the allotted districts, to identify institutional and credit gaps and to take the initiative in endeavouring to fill them and thus intensively involve itself in the process of economic advancement of the districts concerned : in sum, the promotion of the development of the district through the medium of banks. The immediate task before the banks, therefore, was to acquire a basic knowledge of the districts allotted to them so as to enable them to formulate suitable schemes of action. For this purpose, banks were asked to carry out quick and impressionistic initial surveys of resources and potentials of the districts allotted to them. On completion of surveys for some of the districts allotted to each bank, with a view to bringing about greater co-ordination amongst themselves and the district developmental programmes and laying down the basis of follow-up programme of action, a team of three officers from the Reserve Bank and the Union Finance Ministry held intensive, individual discussions regarding the surveys with the Custodians/Chairmen and Senior Officials so as to improve the scope of the survey and highlight the significance of the scheme and the follow-up action needed.

227. Good progress has been made by the banks in completion of surveys of the districts allotted to them. The Survey reports in respect of 165 districts out of 335 have been completed and the reports in respect of most of the other districts are in the process of preparation.

228. To set the pattern of mutual co-operation among banks and illustrate the manner of allocation of identified centres, the Bank convened regional conferences of bankers at six cities, *viz.*, Madras, Calcutta, Patna, Kanpur, Bhopal and Delhi in which, of the 1,194 unbanked centres identified by the lead banks in the course of their surveys, 383 centres were allotted to lead banks and 341 centres to other banks. Banks have been told that, as far as possible, the process of branch expansion in identified centres in each district should be done under the auspices of the concerned 'lead bank.' Following this pattern, banks have been convening meetings to finalise allotment of centres identified by them.

229. To provide a basis for appropriate follow-up action at the district level including co-ordination of commercial banks' programmes with the district development programmes, some banks have already set up Co-ordination Committees comprising representatives of financial institutions operating in the district and district officials.

Credit Planning

230. Credit planning or a rational allocation of the resources available with banks, is an important aspect of economic planning and policy. The significance of such planning is enhanced when banks have to operate principally with the deposits they are able to mobilize and when recourse to borrowings from the central banks is restricted and is itself tuned to overall plan and monetary requirements. For the system as a whole, the Reserve Bank undertakes formulation of a broad credit plan, taking account of the national priorities, the anticipated pace of deposit accretion, general economic situation and likely developments in different sectors. The first step in the formulation of a credit plan is to provide allocation for certain pre-emptions such as investments in Government securities and the requirements of certain

essential governmental commercial operations like food procurement, buffer stock operations, etc. Another important step is that of arriving at aggregative estimates for key sectors, including the priority sectors. Separate estimates are made for the busy and slack seasons, particularly in respect of sectors susceptible to seasonal changes.

231. Against the background of this broad credit plan for the system as a whole, the individual credit plan of each bank is viewed. Discussions are held periodically with each individual bank to assist it in working out its programme for deployment of funds, taking account of the special circumstances in which each bank operates and with the objective of serving national priorities while maintaining reasonably good profitability. To this end, advice is given to raise the credit-deposit ratio in cases where it is low. Since any scheme for fuller utilisation of resources presupposes a substantial 'roll over' of credit, banks are asked to explore the scope for redeployment of existing credit and linking it to genuine productive purposes. There is, besides, the effort to enlarge the use of the bill of exchange as an instrument of credit under the new Bill Market Scheme. As an initial step in this direction, banks are endeavouring to change over from the existing practice of lending against book debts of companies, etc., to that of discounting bills drawn in respect of such transactions. Also in this context, the need to ensure the recovery of loans, extended particularly to sectors in which the banks are yet relatively inexperienced, is stressed. Considering the complexity of the tasks ahead, banks are asked to devote urgent attention to the building up of a strong organisational set-up to undertake comprehensive credit plans for the future.

Credit Authorisation Scheme

232. The Credit Authorisation Scheme, which was introduced by the Reserve Bank in 1965 as one of the measures to align bank credit in accordance with Plan priorities, has undergone a major transformation during the year under review. The focus, which was purpose-oriented, has been widened to cover credit appraisal on the part of the scheduled commercial banks with a view to imposing financial discipline on the larger borrowers. For the purpose of proper assessment of the credit requirements in the light of the past performance as revealed by the financial statements of borrowers and the end-use of the credit, the Bank had, in terms of the circular letter of June 30, 1970, introduced a comprehensive set of forms for credit appraisal, as finalised by the Study Group set up for the purpose. Accordingly, banks are now required to collect and study data furnished by borrowers on (*a*) utilisation of the existing credit limits, (*b*) total working capital requirements and bank finance permissible together with the data relating to the borrowing company's ability to meet the gap between the two, (*c*) comparative financial position for the previous 3 years, (*d*) cash flow and (*e*) in respect of term loans, project cost and financing thereof. The other aspects now required to be looked into are inter-corporate lending and investments, excessive inventory build-up, diversion of short-term funds for acquisition of fixed/non-current assets, payment of guarantee commission inspite of the secured nature of facilities or the low worth of the guarantors, etc. In other words, banks would now be required to lend on the basis of credit appraisal and actual needs of the borrowers. The regulatory system now evolved by the Bank, with a better co-ordination with the scheduled commercial banks, will permit a proper evaluation and financial appraisal and is expected to be a more effective mechanism for appropriate use and dispersal of bank credit. Banks have been advised that the collection of data in the prescribed forms should not be considered as an end in itself, but as a tool for taking judicious decisions on the proposals for credit facilities. It has also been suggested to them that systematic collection and processing of financial data should serve as guide for forecasting the credit requirements of the borrowers in the light of their past performance. As some of the banks indicated in this connection that their officers may require training in the matter of processing the applications for credit facilities in a systematic manner, the Bank has decided to have series of courses at the Bankers Training College, Bombay for imparting the necessary training.

233. In May 1971, the Scheme which was originally applicable to credit limit of Rs. 1 crore or more was further extended to cover

individual term credit limits exceeding Rs. 25 lakhs as well. Accordingly, the banks were asked to seek prior authorisation* under the Scheme for sanctioning (singly or jointly with other institutions) individual medium or long-term loans exceeding Rs. 25 lakhs repayable over a period of more than three years to any single party, irrespective of the totality of the credit limits available to it from the banking system as a whole. This measure was also considered necessary as term loans are now granted by scheduled commercial banks on a significant scale, and there is, therefore, an imperative need for co-ordination in the activities of the banks and term-lending institutions. This type of discipline is all the more necessary as the working capital requirements of the industrial concerns would, in any case, have to be met by the commercial banks. Further, the scheduled commercial banks have been asked to furnish to the Bank a quarterly statement (commencing from the quarter ending September 24, 1971) showing certain particulars of all term loans exceeding Rs. 10 lakhs and repayable after three years, sanctioned by them during each quarter.

234. The working of the Credit Authorisation Scheme has, however, been operated with flexibility in order to ensure adequate availability of credit to industrial concerns which developed financial strains and needed sizeable and, sometimes, immediate credit facilities. Thus, in order to relieve the sugar industry from acute financial difficulty which it was facing, the Bank, in April 1971, advised 12 major banks (which were mainly financing sugar mills) that they need not seek the Bank's prior approval for sanctioning increased credit limits to the individual sugar units to the extent of 125 per cent of the previous season's maximum outstandings.

235. Also, in order to assist industrial units in the Eastern Region which is beset with many political and labour problems, the Credit Authorisation Scheme has been liberalised so that the commercial banks can grant temporary or urgent credit facilities to the individual units (including coal companies) in the region, without prior authorisation. In fact, all feasible proposals for larger credit facilities or for financing all sick units have generally been expeditiously cleared both at the bank level as also under the Scheme. Similarly, the problems of the industries in Orissa and Assam, where their growth has been comparatively slow, have also been properly looked into as far as the credit facilities to larger borrowers are concerned.

236. During the year July 1970—June 1971, 338 applications were received from banks for authorisation of credit limits under the Scheme. The proposals were mostly for the purpose of meeting the working capital requirements and a few were for financing expansion/modernisation, etc., of the concerns engaged in defence/export-oriented and other priority industries. As for the rejection of certain applications, the main reasons were : (*i*) Gross under-utilisation of the existing limits ; (*ii*) Cornering or stock-piling of raw materials ; (*iii*) Concentration of bank advances in the hands of a single party ; (*iv*) Excessive reliance on bank borrowings, the company's own resources having been diverted for inter-corporate investments/lending ; (*v*) Advances sought from a commercial bank to avoid the financial discipline imposed by the Industrial Development Bank of India and other term financial institutions ; and (*vi*) Advances which would indirectly defeat the purpose of selective credit control, *i.e.*, clean loans or advances against other assets, e.g., shares, block assets, etc., to dealers in commodities covered by the directives.

Branch Expansion

237. The progress recorded in the expansion of branch net-work of the commercial banks during 1970 was unprecedented. Taking the commercial banks as a whole, as against 677 and 1,369 branches opened during the years 1968 and 1969, respectively, the new branches opened during 1970 totalled 2,137. The performance of fourteen nationalised banks in this regard was particularly impressive. These banks

* Prior authorisation under the Scheme is not necessary in respect of (i) term-loans by way of post-shipment credit relating to exports (ii) term-loans granted to Electricity Boards and Public Sector Undertakings and those granted against guarantee of Central and State Governments and (iii) term-loans granted on the *pari pasu* basis with the Industrial Development Bank of India and Agricultural Refinance Corporation or under their refinancing schemes.

opened as many as 1,285 bank branches during 1970 as against 913 in 1969 and 405 in 1968. Equally impressive was the progress made by the State Bank and its subsidiaries, which together opened 626 new branches during 1970 as compared with 199 in 1969 and 161 in 1968.

238. The tempo of branch expansion continued during the first half of 1971. Thus, there was a further addition of 833 bank branches opened by commercial banks together during this period ; of these, 444 were opened by the 14 nationalised banks and 265 by the State Bank group (Table 34).

Table 34—New Offices Opened by Commercial Banks during 1969-70 and 1970-71

	New Offices opened by commercial banks						Bank Offices	
	1969-70			1970-71				
	July-Dec. 1969	Jan.-June 1970	July-June 1969-70	July-Dec. 1970	Jan.-June 1971	July-June 1970-71	As on June 30, 1970	As on June 30, 1971
1. State Bank of India ..	65 (36)	190 (149)	255 (185)	234 (164)	178 (123)	412 (287)	1875	2286
2. Subsidiaries of State Bank of India ..	54 (29)	116 (96)	170 (125)	86 (64)	87 (55)	173 (119)	1060	1233
3. Fourteen nationalised banks ..	508 (313)	677 (517)	1185 (830)	608 (413)	444 (245)	1052 (658)	5318	6368
4. Other scheduled banks	144 (78)	85 (45)	229 (123)	124 (57)	115 (65)	239 (122)	1554	1875
5. Foreign banks ..	1 (—)	— (—)	1 (—)	— (—)	— (—)	— (—)	131	130
6. All scheduled commercial banks ..	772 (456)	1068 (807)	1840 (1263)	1052 (698)	824 (488)	1876 (1186)	9938	11892
7. Non-scheduled commercial banks ..	21 (14)	12 (9)	33 (23)	5 (—)	9 (8)	14 (8)	193	121
All commercial banks ..	793 (470)	1080 (816)	1873 (1286)	1057 (698)	833 (496)	1890 (1194)	10131*	12013*

Note : Figures within brackets relate to offices opened at unbanked centres.
* Excluding offices closed during the year.

239. The Bank's Annual Report for 1969-70 had contained the details of a programme of branch expansion drawn up by the Reserve Bank in December 1969, under which 22 public sector banks and 8 private sector banks were required to open, during the year 1970, 1,350 offices, including 1,186 at unbanked centres. As against this target, the concerned banks opened 1,155 offices including 997 at unbanked centres.

240. For the accounting year 1970-71 as a whole, the opening of new offices by all commercial banks totalled 1,890 as against 1,873 in 1969-70 (Table 34). Of the 1,890 offices opened during 1970-71, fourteen nationalised banks accounted for 1,052 offices and State Bank of India and its subsidiaries for 585 offices. Of the total, 1,194 offices were opened at unbanked centres.

241. The territorial spread of banking has also gained considerable momentum since bank nationalisation. Thus, out of 3,763 new branches opened during the first two years of nationalisation (from July 1, 1969 upto end-June 1971), as many as 2,480 branches (66.0 per cent) were opened in the hitherto unbanked centres (Table 35). Even out of these offices opened in the hitherto

Table 35—State-wise Distribution of Bank Offices as at end-June 1969, end-June 1970 and end-June 1971.

States/Union Territories	No. of offices as at the end of June 1969	June 1970	June 1971	Opened during 1969-70 Total	Of which at unbanked centres	Opened during 1970-71 Total	Of which at unbanked centres	Population per bank office (in thousands) as at the end of June 1969	June 1971
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
States									
1. Andhra Pradesh	567	722	869	155	101	147	95	75	50
2. Assam	81	107	137	26	19	30	27	188	108
3. Bihar	273	361	453	89	65	92	62	207	124
4. Gujarat	752	919	1105	167	104	187	106	34	24
5. Haryana	172	219	258	47	32	39	19	57	39
6. Himachal Pradesh	42	62	87	21	20	25	23	80	39
7. Jammu and Kashmir	35	74	101	39	29	27	13	114	46
8. Kerala	601	713	845	112	72	132	100	35	25
9. Madhya Pradesh	343	460	566	117	104	107	62	116	73
10. Maharashtra	1118	1304	1471	186	87	167	86	44	34
11. Mysore	756	954	1124	198	147	170	107	38	26
12. Nagaland	2	4	5	2	1	1	1	205	103
13. Orissa	100	133	173	33	23	40	30	212	126
14. Punjab	346	465	556	119	88	91	55	42	24
15. Rajasthan	364	432	525	68	48	93	61	70	49
16. Tamil Nadu	1060	1213	1371	155	122	164	107	37	30
17. Uttar Pradesh	747	932	1147	185	138	215	132	119	77
18. West Bengal	504	588	684	84	65	96	67	87	65
Union Territories									
19. Andaman, Nicobar Islands ..	1	2	2	1	—	—	—	82	57
20. Chandigarh	20	26	28	6	—	2	—	7	9
21. Dadra and Nagar Haveli ..	—	1	3	1	1	2	2	—	25
22. Delhi	274	318	350	44	9	32	2	10	12
23. Goa, Daman and Diu ..	85	101	111	16	10	10	9	8	8
24. Laccadiv and Minicoy Islands..	—	—	2	—	—	2	2	—	16
25. Manipur	2	2	5	—	—	3	3	497	214
26. NEFA	—	—	3	—	—	3	3	—	148
27. Pondicherry	12	13	20	1	—	7	4	31	24
28. Tripura	5	6	12	1	1	6	6	276	130
Total ..	**8262**	**10131**	**12013**	**1873**	**1286**	**1890**	**1194**	**65**	**46**

un-banked centres, as much as 34 per cent were opened in the relatively underdeveloped States of Uttar Pradesh, Bihar, Orissa, West Bengal, Assam, Madhya Pradesh and Jammu and Kashmir. In the Union Territories of Dadra and Nagar Haveli, Manipur and Tripura, all the new offices opened during the period were in the hitherto un-banked centres. The proportion of new offices opened in the hitherto unbanked centres to the total number of new offices opened during 1969-70 and 1970-71 was more than 67 per cent in eight States, *viz.*, Madhya Pradesh (74 per cent), Tamil Nadu (72 per cent), Assam (82 per cent), Uttar Pradesh (68 per cent), Rajasthan (68 per cent), Mysore (69 per cent), West Bengal (73 per cent) and Bihar (70 per cent).

242. The phenomenal increase in branch expansion is also reflected in a sharp decline in the national average of population covered by bank offices from 65,000 per office as at the end of June 1969 to 46,000 per office at the end of June 1971. Similarly, the average population per bank office has been brought down in all the States and substantially in most of the States (Table 35). The number of districts without bank offices which stood at 13 at the end of December 1967 came down to 3 at the end of June 1971 and even in these 3 districts 6 licences have been issued for the opening of branches.

243. Table 36 brings out the centre-wise distribution of bank branches in the country.

Table 36—Centre-wise Distribution of Commercial Bank Branches

	No. of branches as at the end of							
	June 1969		June 1970		Dec. 1970		June 1971	
	No.	*% to total*	No.	*% to total*	No.	*% to total*	*No.*	*% to total*
(i) Rural	1,832	*22·4*	3,062	*30·2*	3,766	*33·6*	4,279	*35·6*
(ii) Semi-urban	3,322	*40·1*	3,695	*36·5*	3,880	*34·6*	4,016	*33·4*
(iii) Urban	1,447	*17·5*	1,583	*15·6*	1,673	*15·0*	1,778	*14·8*
(iv) Metropolitan/Port-towns ..	1,661	*20·0*	1,791	*17·7*	1,865	*16·8*	1,940	*16·2*
Total	**8,262**	*100·0*	**10,131**	*100·0*	**11,184**	*100·0*	**12,013**	*100·0*

It may be noticed that in the programme of branch expansion by commercial banks, there was a distinct shift in favour of rural areas during the period under review. The proportion of bank branches in rural areas increased from 22.4 per cent of the total as at the end of June 1969 to 30.2 per cent at the end of June 1970 and to 35.6 per cent as at the end of June 1971.

244. Allowing for the change in number of offices due to transfer of assets and liabilities, closure of offices, inclusion of banks in the Second Schedule, etc., the number of offices of scheduled commercial banks increased by 1,954. Offices of non-scheduled banks, however, declined by 72 during the period (Table 37). As at the end of June 1971, the number of offices of scheduled and non-scheduled banks stood at 11,892 and 121, respectively. At the end of June 1970, the corresponding figures were 9,938 and 193, respectively.

245. In the context of the urgent need for mobilising deposits and inculcating the habit of thrift amongst students, workmen, etc., it has been decided to encourage commercial banks to open extension counters at places like schools, colleges, factories, etc., and conduct restricted types of business. Such counters will be attached to the nearest offices of the concerned banks.

246. It was also mentioned in the previous year's Report that banks were asked to submit proposals for their branch expansion in banked centres, including metropolitan

Table 37—Number of Offices Opened and Closed by Scheduled and Non-Scheduled Commercial Banks in India

	New offices opened	Changes due to amalgamation, mergers, transfers of assets and liabilities and inclusion in and exclusion from the Second Schedule to the R. B. I. Act, 1934	Existing offices closed	Overall variation in the number of offices	Number of offices at the end of the period
	1	2	3	4	5
Scheduled Commercial Banks :					
1968					
January-June	222 (37)	+10	— 4	+ 228	7044
July-December	443 (50)	+ 1	— 6	+ 438	7482
1969					
January-June	565 (24)	+ 1	— 3	+ 563	8045
July-December	772 (65)	+53	— 3	+ 822	8867
1970					
January-June	1068 (190)	+ 3	—	+1071	9938
July-December	1052 (164)	+54	— 4	+1102	11040
1971					
January-June	**824 (178)**	**+32**	**— 4**	**+ 852**	**11892**
Non-Scheduled Commercial Banks					
1968					
January-June	7	—10	—3	— 6	203
July-December	5	— 1	—	+ 4	207
1969					
January-June	11	— 1	—	+10	217
July-December	21	—53	— 1	—33	184
1970					
January-June	12	— 3	—	+ 9	193
July-December	5	—54	—	—49	144
1971					
January-June	**9**	**—32**	**—**	**—23**	**121**
All Commercial Banks					
1968					
January-June	229	—	— 7	+ 222	7247
July-December	448	—	— 6	+ 442	7689
1969					
January-June	576	—	— 3	+ 573	8262
July-December	793	—	— 4	+ 789	9051
1970					
January-June	1080	—	—	+1080	10131
July-December	1057	—	— 4	+1053	11184
1971					
January-June	**833**	**—**	**— 4**	**+ 829**	**12013**

Notes: (1) Figures within brackets relate to the State Bank of India.
(2) Data exclude administrative, seasonal, temporary, non-banking offices and offices outside India.

cities and Port towns. On the basis of the programmes received from various banks, permission was granted to banks for opening 309 offices in urban centres. While issuing licences in this regard, the norm that was kept in view was that in the case of banks which have more than 60 per cent of their offices in rural and semi-urban centres, one office in an urban centre was allowed for every two offices opened in rural and semi-urban centres ; in the case of other banks one office in an urban centre was allowed for every three offices in semi-urban and rural centres. Licences for such centres on the basis of individual applications received from banks are being continued to be issued under same norm requirements. In view of the scope for increasing the number of bank offices in the metropolitan centre of Calcutta, following considerable rise in population as revealed by the 1971 Census, it has been decided, effective July 1, 1971, that the eligibility of banks to open offices at Calcutta need not be linked to performance in branch expansion in rural and semi-urban areas.

Special Credit for Schemes with Employment Potential

247. As a sequel to the discussions which the Union Finance Minister had with the Custodians of public sector banks in July 1970, the Reserve Bank of India set up a Committee under the Chairmanship of Shri V. D. Thakkar to review the special credit schemes of banks with particular reference to their employment potential. The Committee submitted its report in December 1970. After identifying the employment potential including self-employment, in various sectors of the economy, the Committee reviewed the various credit schemes introduced by the banks to help the self-employed. The Committee noted that none of the special schemes formulated by banks really offered any special facilities for the relatively weaker sections of the society. With a view to enabling banks to assist entrepreneurship and provide employment, the Committee evolved the following guidelines for action.

(*i*) Sufficient discretionary powers to administer the schemes should be given to the branch agents who should be given sufficient orientation about the scope and content of the programmes and the objectives that are sought to be achieved. The Committee emphasised the urgent need for a massive and rapid training programme for the branch officials ;

(*ii*) In several categories of small entrepreneurs, the promoters' technical and such other intangible and non-financial contributions will have to be given due weightage as security, and assistance should be provided at lower margins or even without margins where warranted ; and

(*iii*) It should be possible for a bank to charge, on a term loan, a lower rate of interest in the initial stage, and a higher rate of interest subsequently. The schedule of repayment should take into account the gestation period and the income-generating capacity of the unit. Bank should not insist on the guarantee of third parties for the grant of loans as a matter of course.

248. The Committee has suggested Model Simplified Forms for use by Professionals and by Retailers, etc., and has stressed that application forms should be made available in all local languages. Banks should organise adequate follow-up and supervision arrangements and also arrangements for effecting recovery of advances according to schedule.

249. Other important suggestions made by the Committee are briefly as follows. If adequate assistance is not available from the Life Insurance Corporation or other agencies for the construction of Industrial Estates for small entrepreneurs, particularly in the urban and metropolitan areas, commercial banks will have to take an effective part in helping construction of such estates as also household and cottage industries. Further, equipment leasing, a facility made available by banks in some of the advanced countries, might be of some assistance in India. The Reserve Bank may work out a suitable programme for reducing delay in payment of bills to small entrepreneurs by large and medium industries and Government Departments and public sector concerns. In order to evolve a co-ordinated arrangement for helping the pro-

fessional and self-employed categories, the Committee has recommended the setting up of a Multi-Services Agency. This Agency will make arrangements for collection of information on the prospective borrower. The Committee is of the opinion that such Agency should be immediately set up in metropolitan cities and larger towns, as well as in certain chosen operational bases in the relatively backward areas in the country. The Multi-Services Agency will have no financing function but will only be a co-ordinating/planning/advisory body.

250. The recommendations of the Committee were accepted by the Reserve Bank of India. As a follow-up measure, the Reserve Bank of India has issued guidelines to all commercial banks on the special credit schemes of banks, in March 1971.

251. It has been noted in the guidelines that banks have been dispensing credit to different categories of self-employed persons on an increasing scale in recent months and a stage has been reached when the portfolio of financial assistance to this sector requires to be handled on a continuing and organised basis. The assistance that is provided should be essentially need-based, consistent with economic viability of the proposition being financed. Credit schemes should be implemented at the branch level with adequate degree of flexibility which calls for appropriate delegation of authority to branch agents. Since the branch agents have a key role to play, a rapid training programme will have to be organised urgently to provide the necessary orientation to the branch officials. In order to make the credit assistance more meaningful, banks will have to consider as to how best integrated financial and management assistance could be arranged or organised, taking into account the totality of the requirements of the borrowers; the setting up of Multi-Service Agency may be one way of achieving this purpose. Adequate follow-up and supervisory arrangements should be organised to keep track of the end-use of funds and for effecting recovery of the advances according to schedule. As recommended by the Committee, the Bank has also constituted a Working Group for evolving a programme of liquidation of the outstanding dues of large industries to small entrepreneurs.

Credit Guarantee Scheme for Priority and Neglected Sectors

252. For some time past, the Government of India was considering the question of formulating a scheme for a simple but wide-ranging system of guarantees or other comparable facilities for lending by banks to individual borrowers in sectors which had remained relatively neglected so far. A Working Group under the Chairmanship of Shri S. S. Shiralkar, then Additional Secretary, Department of Banking, of the Union Finance Ministry (now Deputy Governor, Reserve Bank of India) was constituted to examine this matter.

253. The Working Group felt that the risks of lending to small borrowers, as affecting particular banks or in particular areas including the relatively unbanked States and backward regions, might be appreciable and also uneven and came to the conclusion that in the interest of the banking system as also in the wider public interest, these risks should be pooled and covered under a common and centralised guarantee scheme.

Credit Guarantee Corporation

254. Based on the Group's recommendation a new Public limited company known as the Credit Guarantee Corporation of India Ltd., was promoted by the Reserve Bank of India to administer one or more credit guarantee schemes. This company was registered under the Companies Act, 1956 on the 14th January 1971. The authorised capital of the Corporation is Rs. 10 crores, of which Rs. 2 crores divided into 20,000 equity shares of Rs. 1,000 each, has been initially issued and is fully paid-up. The shares have been taken up by the Reserve Bank of India, the State Bank of India and its subsidiaries and the scheduled commercial banks. The Board of Directors of the Corporation consists of six members, of whom two (including the Chairman) represent the Reserve Bank and the remaining four represent the scheduled commercial banks. The Corporation formulated the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 and brought it into force from April 1, 1971. It covers credit facilities, within certain specified limits, granted by scheduled commercial banks to the small borrowers. The categories of borro-

wers covered by the scheme are individual transport operators or an association of not more than six such operators, individuals, firms and co-operative societies trading in fertilisers and goods other than fertilisers, professional and self-employed persons, individuals and firms owning business enterprises and farmers engaged in cultivation and allied agricultural operations. The Corporation covers seventy-five per cent of the amounts which are bad or doubtful of recovery, the other twenty-five per cent being borne by the lending organisations. A guarantee fee of one half of one per cent per annum is charged on the amounts outstanding on account of the eligible credit facilities. Suitable safeguards for ensuring that the facilities are used for bonafide and productive purposes are provided in the scheme. The scheduled commercial banks participating in the scheme have executed or agreed to execute agreements undertaking to report the advances covered by the blanket guarantee, to conduct the guaranteed advances according to the relevant rules prescribed by the banks, to segregate the registers, documents and other records pertaining to the guaranteed accounts and to undertake certain other obligations in relation to the Corporation. Quarterly statements showing the aggregate amount of guaranteed credit facilities granted to various sectors at the end of each quarter are being obtained from the banks. A test check of the guaranteed advances is proposed to be undertaken by the Corporation with the assistance of the external auditors and internal inspection machinery of the banks and the Reserve Bank of India.

Financing of Agriculture by Commercial Banks

255. Agricultural finance as a part of total commercial bank lending has become increasingly important and presently accounts for about one-tenth of the total bank credit. In view of the wide divergence in the practices followed in regard to the procedures of appraisal, post-credit supervision and recovery, the Reserve Bank issued in December 1970, guidelines to all commercial banks for financing of agricultre. The guidelines were prepared on the basis of a study carried out by the Bank into the methodology of operations, policy and procedures adopted by the banks for financing agriculture. The guidelines emphasise that the main objective of commercial banks' lending to agriculture is to assist cultivators to move to a higher technological plane of activity. Credit for agriculture would have to be purposive and should be provided not only to already viable cultivators for further increasing their surpluses but, more importantly, to marginal and potentially viable cultivators. The discretionary powers allowed to the branch agent should be such that at least 80 per cent of the proposals can be cleared by him, without reference to the Central Office. The branch agent should collect and have for ready reference, the basic agricultural data, and the scales of finance should be worked out considering all the inputs required as well as the off-farm income or resources available to cultivators. For both short and medium-term loans, the repayment schedule of loans should coincide with the time when the cultivator has sold his produce and is fluid. The branch agent should keep the recovery procedures fair but firm. It is necessary for the bank branches to establish close relationship with other institutions in the area and to be informed about the programme of the Agricultural Refinance Corporation in their areas.

Committee on Differential Interest Rates

256. The Finance Minister had suggested at his meeting with the Chairman/Custodians of the public sector banks on July 22, 1970 that lower interest rates could be charged to carefully selected low income groups deserving financial assistance from banks, and higher rates might be charged to the more affluent borrowers. In pursuance of this suggestion, the Reserve Bank of India constituted, in September 1970, a Committee under the Chairmanship of Dr. R. K. Hazari, Deputy Governor of the Bank, to examine the question of differential interest rates. The terms of reference of the Committee were (*i*) to review the scope and the extent to which differential interest rates are already being charged by banks to borrowers in each sector, (*ii*) to determine the criteria for identifying the borrowers who could be granted the benefit of a lower interest rate within each sector, (*iii*) to indicate the range of the differential that could be allowed in each sector and (*iv*) to examine if any other

concessions could be granted either in lieu of or in addition to lower interest rates.

257. The Committee which submitted its report in May 1971 has observed that an objective and practicable criterion for identification of the borrowers for the purpose of charging differential interest rates by banks can only be the size of the loan which need not be uniform for all sectors. As a measure of automaticity for the selection of small borrowers, linking of the scheme of differential interest rates with the new Credit Guarantee Scheme for covering small loans to borrowers in the priority and neglected sectors has been suggested. In the opinion of the Committee, too wide a range of differential would be inadvisable. Taking into consideration the various practical problems involved in introducing a wide differential range, the Committee suggested interest rates varying between $8\frac{1}{2}$—10 per cent to the preferred classes of borrowers. In addition, as a measure of relief to small borrowers, the Committee has recommended that the Guarantee fees under the Credit Guarantee Scheme in the case of small borrowers should be borne by the lending bank. The Committee has also pointed out that concessions by way of relaxations on securities and margins are of major significance and has suggested some concessions as an indication of the lines along which banks could proceed. The Committee has suggested that the question of co-operative institutions adopting its recommendations should be examined. The recommendations made by the Committee are under the consideration of the Reserve Bank and the Government.

258. Dr. Ashok Mitra, a member, submitted a note of dissent suggesting a range of interest rates varying from $\frac{1}{2}$ per cent to 20 per cent.

Measures for Deposit Mobilisation

259. While commercial banks are making concerted efforts at deposit mobilisation through a series of additional measures and schemes, the Reserve Bank, with a view to assisting them in this task, relaxed in August 1970, the restrictions on the payment of brokerage on deposits, thus allowing such payments to agents employed for the door-to-door collection of deposits under special schemes introduced by the banks. On October 24, 1970, the Bank issued a circular to the commercial banks, once again impressing upon them the need for and the importance of substantial step-up in deposit mobilisation. Although it was not the Reserve Bank's intention to offer any specific guidelines or standardised suggestions, it was pointed out that staff involvement in the campaigns for deposit mobilisation through proper group awards, etc., fixing up appropriate targets for each branch and a bank as a whole, organisation of deposit mobilisation campaigns, etc., might help augmenting banks' resources on a substantial scale.

260. A meeting of the Chief Economists and Chief Development Officers of 20 major banks to discuss the various aspects of deposit mobilisation was convened by the Reserve Bank of India on December 23 and 24, 1970 at Bombay. The participants discussed the different facets of deposit mobilisation, such as branch net-work, types of branches, intra-institutional and inter-institutional competition, incentives to staff and depositors, publicity media, instruments of saving, interest elasticity of deposits and special studies and surveys needed for estimating deposit potential.

Meetings of Small Bankers

261. Two meetings of small private sector bankers (i.e., those with deposits of less than Rs. 50 crores) in the Southern and Northern Regions were convened by the Reserve Bank of India at Madurai on May 14 and 15, 1971 and at Delhi on June 9, 1971. The Chief Executive Officers of the small banks in the respective regions were invited to participate in the meetings which were presided over by the Deputy Governor of the Reserve Bank in charge of Banking. Discussions at the meeting centred on various aspects of the operational problems of the banks such as deployment of funds, lending to priority sectors, the lead bank scheme, deposit mobilisation and training, organisation and management. Steering Groups, headed by the Chief Officer, Department of Banking Operations and Development, Reserve Bank of India and consisting of Chairmen of some of the banks as members were set up to formulate proposals for the establishment of training

centres for training the personnel of small banks.

Advances against Shares

262. With a view to discouraging and preventing bank finance from being utilised for speculative purposes and/or other unhealthy practices, it was decided to regulate advances against shares and a directive in this regard was issued by the Reserve Bank on August 28, 1970. In terms of this directive, every commercial bank, which grants or renews an advance *limit of over Rs.* 50,000 against the security of shares to a borrower, is required to stipulate that the shares shall be transferred to its name and that it should have exclusive voting rights in respect thereof which it may exercise in any manner whatsoever, and that it should get the shares transferred to its name expeditiously.

263. The directive provides that no commercial bank shall exercise voting rights in respect of the shares held by it as pledgee except with the prior approval of the Reserve Bank and in accordance with such directions as may be given by the Reserve Bank.

264. In the case of shares lodged by a share-broker as security against advances, the provisions of the directive will apply only if the shares are held for a period longer than three months. This provision is intended to enable the sharebrokers to carry on their normal business operations without any difficulty.

265. With a view to ensuring that no hardship or inconvenience is caused to genuine investors in raising funds for their bonafide needs, limits of advances against shares upto Rs. 50,000 have been exempted from the purview of the directive.

Advances on Personal Guarantees of Directors, etc.

266. The Bank made a review of the practices of banks and term-lending institutions taking personal guarantees from directors and other managerial personnel of borrowing concerns while sanctioning loans. The review revealed a gradual rise of entrepreneurial class in the place of managing agency system and the professionalisation of managerial cadres and the improvements in the techniques of financial and technical appraisal of proposals for assistance. In view of these findings, it was felt that there is no longer need for taking personal guarantees as a matter of course from directors and other managerial personnel of borrowing concerns while sanctioning loans. The Reserve Bank, therefore, provided in July 1970, guidelines to lending institutions to help them identify the circumstances under which a guarantee may or may not be necessary. It has been stressed in the guidelines that care should be taken to ensure that the system of guarantees is not used by the directors and other managerial personnel as a source of remuneration from the borrowing concerns.

Selective Credit Controls

267. During the year under review modifications were made from time to time in both the general as well as selective credit controls. The former are given in paragraphs of Part I. These included, among others, the change in the Bank rate from 5 per cent to 6 per cent with effect from January 9, 1971, the raising of the net liquidity ratio and the introduction of the new Bill Market Scheme. The selective credit controls related to advances against raw cotton and kapas, foodgrains, oilseeds and vegetable oils including vanaspati. The main measures taken in this regard are indicated below :

268. On October 23, 1970, the Reserve Bank effected a moderate liberalisation regarding advances against *raw cotton* and *kapas* with a view to aiding the marketing of the new crop ; the ceiling limit on advances to cotton mills was removed and a graded system of margins was prescribed for mills as well as for others. However, in view of the subsequent sharp contra-seasonal rise in the prices of cotton, the control in this regard was tightened on December 12, 1970 in order to discourage hoarding of raw cotton stocks with the help of bank finance. The minimum margin on advances against raw cotton was raised and the ceiling limit on advances to parties other than mills was reduced. In view of the difficulty experienced by the cotton

trade in marketing of cotton, owing to, *inter alia*, delayed harvesting of certain varieties of indigenous cotton, certain relaxations were announced by the Reserve Bank on June 30, 1971. Thus, the four-month period (February-May 1971) during which the minimum margin of 60 per cent was applicable in respect of advances against cotton and kapas marketed during the period October 1970—January 1971 to parties other than cotton mills was extended by two months upto August 1971 ; earlier, the validity period had been extended by one month from May to June 1971.

269. In view of the rising trend of advances against cotton textiles, banks were advised on February 4, 1971 to reduce their advances against cotton textiles and raise the minimum margin from 25 per cent to 40 per cent. In April 1971, the major banks were advised to apply the higher margin selectively, keeping in view the position of sick mills and financially weak units.

270. In respect of advances against *foodgrains*, the Bank modified its control on December 17, 1970 in view of the prevailing and prospective supply position. Thus, *inter alia*, suitable changes were made with a view (*i*) to enable commercial banks in extending direct credit to farmers against standing crops and to help in orderly marketing of such crops, (*ii*) to assist the banks in expanding their agricultural business in rural and semi-urban areas and (*iii*) to enable banks to grant advances to foodgrains processing units such as *dal* mills (but other than rice mills), at centres with a population of 50,000 or below.

271. In view of the sharp rise in prices of oil seeds and vegetable oils, despite prospects of a good oilseeds crop, the Bank tightened its control on January 25, 1971 by raising the minimum margin from 60 per cent to 75 per cent on advances against oilseeds, vegetable oils and vanaspati. However, in view of the current supply and prices position in regard to mustardseed and rapeseed in the country, the minimum margin was lowered on advances against these oilseeds from 75 per cent to 60 per cent, as well as on bank advances against soyabeans. These advances were also exempted from ceiling control.

272. Further, in order to mitigate the difficulties of borrowers in the States of Assam, Nagaland, Meghalaya and Jammu and Kashmir and in the Union Territories of Manipur, NEFA and Tripura, the Bank granted complete exemption from the controls on advances against foodgrains, oilseeds and vegetable oils as well as cotton and kapas in these areas.

273. A chart showing the position in regard to selective credit controls is appended.

Selective Credit Controls: Co-operative Banks

274. Having regard to the supply position of indigeneous cotton and kapas and the trends in prices, a directive was issued during the year 1970-71 stipulating the co-operative banks to maintain a margin of 30 per cent in respect of advances to co-operative cotton mills if the relative security offered was by way of hypothecation, and 20 per cent if it was by way of pledge. These margins could be reduced to 10 per cent against pledge and hypothecation if the credit limits were fully guaranteed by the State Government in regard to repayment of principal and payment of interest. In regard to others, the margins, as in the past, continued to be 25 and 40 per cent against pledge and hypothecation, respectively. The restrictions imposed in the directive issued in regard to the ceiling on advances against the security of cotton and kapas were continued at the same level, viz., 20 per cent of the total liabilities in the case of a central co-operative bank (or a State co-operative bank operating in a Union Territory) and 10 per cent in the case of a State co-operative bank. The aggregate level of advances for the purposes of directive would not include advances to co-operative cotton mills but only advances to parties other than such mills. The exemptions accorded in respect of advances against imported cotton as well as certain types of indigenous cotton were continued.

275. The restriction imposed on certain central co-operative banks in regard to the level of their credit against the security of gur was rescinded in September 1970. The banks were, however, required to maintain the normal margin of 25 per cent against pledge and 40 per cent against hypothecation in respect of this commodity.

SELECTIVE CREDIT CONTROLS : POSITION AS ON JUNE 30, 1971

Minimum Margin (1)	Minimum Rate of Interest (2)	Level of credit (3)	Exemptions (4)	Prohibition (5)
		Foodgrains		
1. 25% for advances : (i) to the duly appointed agents of the Food Corporation of India against stocks held as agents, (ii) to roller flour mills against stocks of *wheat* purchased from F.C.I. 2. 30% for advances against *maize* to parties other than starch manufacturing units. 3. 35% for advances : (i) against *maize* to starch manufacturing units ; (ii) against *paddy* to rice mills ; (iii) against stocks of foodgrains other than paddy and rice to foodgrain processing units (other than rice mills) located at centres with a population of 50,000 or below for stocks equivalent to four weeks' consumption of such units. 4. 40% for advances against official warehouse receipts covering stocks of foodgrains. 5. 50% for all other advances.	10% per annum for all parties	Ceiling for each two-month period commencing from January-February 1971 : 100% of the average aggregate level of credit maintained in the corresponding two-month period in 1970 (separately in respect of advances against paddy and rice, wheat and 'other foodgrains'). *Additional limit :* Combined limit of Rs. 25,000 for advances against any one or all of the three groups of foodgrains (viz., paddy and rice, wheat and other foodgrains) for each new branch opened on or after 1-1-1970 at a centre with a population of 50,000 or below.	1. The following types of advances are *completely* exempted from the control : (i) Advances to State Government and millers and wholesale dealers who are appointed as procuring agents by a State Government subject to the condition that such procuring agents are acting exclusively as agents of the concerned State Government and are precluded from purchasing/distributing paddy or rice or converting paddy into rice on behalf of themselves or other parties. (ii) Advances to the Food Corporation of India (excluding advances granted to its duly appointed agents). (iii) Advances against high yielding/hybrid seeds produced under contract with the National Seeds Corporation Ltd., Delhi, or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government or of any certification agencies authorised under the Seeds Act, 1966 and seeds notified under Section 5 of the said Act. (iv) Advances granted to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives. (v) Advances granted to co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors in the State of Maharashtra to deal in paddy and rice, jowar and nagli (ragi). (vi) Advances against rationed foodgrains to wholesalers and retailers appointed by the West Bengal Government for distribution of rationed articles in the statutorily rationed areas of West Bengal. (vii) Advances in the States of Assam, Meghalaya, Nagaland, Jammu and Kashmir and in the Union Territories of Manipur, NEFA and Tripura.	Granting of credit limit to parties other than traders dealing in foodgrains licensed by the Government of Maharashtra for distribution of paddy and rice, jowar and nagli (ragi) in Maharashtra is prohibited.

Minimum Margin (1)	Minimum Rate of Interest (2)	Level of credit (3)	Exemptions (4)	Prohibition (5)
			(viii) Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of foodgrains. 2. The following types of advances are exempted from *margin* and *ceiling* controls : (i) Advances against the security of barley and (ii) Advances directly granted to farmers and primary co-operative societies for extending credit to their cultivator-members against foodgrains which represent an extension of advances granted earlier against the standing crop for a period of two months from the date of harvesting the said crop provided that the amount of each of such credit limits does not exceed Rs. 2,500 per farmer or the amount of the crop loan outstanding, whichever is lower. 3. The following types of advances are exempted from *ceiling* control : (i) Advances to roller flour mills against the security of wheat purchased from the F.C.I. (ii) Advances against maize to all parties, and (iii) Advances against foodgrains other than paddy and rice to foodgrains processing units such as dal mills (but other than rice mills) at centres with a population of 50,000 or below.	
		Groundnuts and 'Other Oilseeds'		
1. 75% separately in respect of advances granted against : (i) Groundnuts and (ii) 'Other Oilseeds' (except or the following categories of advances). 2. 25% for— (*a*) advances against stocks of edible oilseeds equivalent to two months' consumption of each mill in the States of Orissa, Bihar and West Bengal ;	12% per annum	For each two-month period commencing from January-February 1971, separate ceiling for each of (i) Groundnuts and (ii) 'Other Oilseeds' as follows : 70% of the average aggregate level of credit maintained during the corresponding two-month period in 1967 against groundnuts and 'Other Oilseeds'.	I. Advances against (*i*) cottonseeds (ii) rapeseeds/mustardseeds and (iii) soyabeans are exempted from *ceiling* control. II. Advances against (i)non-edible oilseeds other than linseed and castorseed and (ii) edible variety of copra in Kerala and Mysore are exempted from *margin* and *ceiling*. III. Following types of advances are *completely* exempted from control : (*a*) Advances to the Food Corporation of India and the State Trading Corporation. (*b*) Credit limits in favour of exporters of oilseeds, de-oiled and/or de-fatted cakes in respect of oilseeds and/or extractions of oilseeds in	

Minimum Margin (1)	Minimum Rate of Interest (2)	Level of credit (3)	Exemptions (4)	Prohibition (5)
(*b*) advances against cottonseeds to oil mills. 3. 60% for— (*a*) advances against rapeseeds/mustardseeds and (*b*) advances against soyabeans			respect of specific firm export contracts and/or against export bills. (*c*) Advances to the Wholesale Consumers' Co-operative Stores and the State and National Federations of Consumers' Co-operatives. (*d*) Advances against the security of sal-seeds. (*e*) Advances to all parties in the States of Assam, Meghalaya, Nagaland and Jammu and Kashmir and the Union Territories of Manipur, NEFA and Tripura. (*f*) Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of oilseeds.	
Vegetable Oils and Vanaspati				
1. 75% for advances against Vegetable Oils and Vanaspati (except for the following types of advances) 2. 25% for advances against : (i) stocks of oils processed from linseed oil and castorseed oil for use as industrial raw material by factories in Bihar, Orissa and West Bengal ; (ii) cottonseed oil to vanaspati manufacturers. 3. 40% for advances to vanaspati manufacturers against vegetable oils to the extent of stocks of such oils used as raw material equivalent to 6 weeks' consumption of each factory located in Eastern Zone worked out on the basis of average of weekly consumption during October 1969 to March 1970.	12% per annum	Ceiling for each two-month period commencing from January-Ferurary 1971, as follows : 70% of the average aggregate level of credit actually maintained during the corresponding two-month period in 1967.	I. Advances against (i) Vegetable oils and Vanaspati to Vanaspati Manufacturers and registered oil mills and (ii) cottonseed oil are exempted from *ceiling* control. II. Advances against non-edible vegetable oils and oils or extractions thereof processed from non-edible vegetable oils other than linseed oil and castorseed oil are exempted from *margin* and *ceiling* control. III. Following types of advances are *completely* exempted from control : (*a*) Advances to the Food Corporation of India and the State Trading Corporation against stocks of vegetable oils and vanaspati. (*b*) Advances to vanaspati manufacturers against the stocks of soyabean oil imported under the P.L. 480 Agreement and of sunflower oil imported as a gift or on commercial basis from the Government of U.S.S.R. and distributed by the S.T.C. and/or State Governments to vanaspati manufacturers. (*c*) Advances against stocks of vanaspati held by vanaspati manufacturers for being delivered to the Army Purchase Organisation in the Ministry of Food and Agriculture, Government of India, in pursuance of contracts entered into or to be entered into with the said Organisation by the said manufacturers.	

Minimum Margin (1)	Minimum Rate of Interest (2)	Level of credit (3)	Exemptions (4)	Prohibition (5)
4. 50% for advances to vanaspati manufacturers against vegetable oils to the extent of stocks of oils used as raw material equivalent to 6 weeks' consumption of each factory located in Northern Zone and 4 weeks' consumption of each factory located in Southern and Western Zones, worked out on the basis of average of weekly consumption during October, 1969 to March 1970.			(*d*) Advances against stocks of vegetable oils and vanaspati in favour of exporters of de-oiled and/or de-fatted cakes in respect of specific firm export contracts and/or against export bills.	
For New Vanaspati Factories : The margin is tc be related to 6/4 weeks' requirement depending on the location of the factory, based on the average actual weekly consumption from the date of its establishment and,			(*e*) Packing credit advances to the exporters of de-oiled and/or de-fatted cakes on the basis of firm export orders/letters of credit against the security of oilseeds and/or other raw material to the extent of the value of raw material required for producing cakes covered by the export order, even though the value of the raw material exceeds the value of the relative export order ; provided (i) such advances to the extent of the value of by-product oil shall be adjusted by the sale proceeds of the by-product oil or in cash as soon as the oil is extracted and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bill, and (ii) advances against the by-product oil granted in a separate account are exempted for a period of 30 days from the date of advance.	
For Vanaspati Units likely to start production in future : The margin is to be related to 6/4 weeks' requirement depending on the location of the factory, based on one-third of the average weekly productive capacity of the unit for the first six months and thereafter based on the average actual weekly consumption during the preceding six months.			(*f*) Advances to Wholesale Consumers' Co-operative Stores and the State and National Federations of Consumers' Co-operatives.	
			(*g*) Advances in the States of Assam, Meghalaya, Nagaland, and Jammu and Kashmir and Union Territories of Manipur, NEFA and Tripura.	
			(*h*) Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.	
Cotton and Kapas				
To Mills : A. *For weak mills :* I. *Mills under Authorised Controller : Mills under Chief Executive Authority : Government run/owned /managed mills/*	12% per annum for all parties.	1. No ceiling for advances to mills 2. For others : Ceiling for each four-month period commencing from October 1970-January	I. *The following types of advances are completely exempted from control :* 1. Advances against stocks of imported cotton and kapas.	

Minimum Margin (1)	Minimum Rate of Interest (2)	Level of credit (3)	Exemptions (4)	Prohibition (5)
authorised agencies (including State Textile Corporation) and Mills in Orissa. (i) 20% for stocks of 6 weeks' consumption. (ii) 35% for stocks in excess of 6 weeks' consumption.		1971 as follows : 75% of the peak level in the corresponding four-month period in any of the preceding 3 years, viz., 1969, 1968 and 1967, whichever is highest. *Provided for the Period June-September 1971 :* Ceiling same as in the preceding four-month period, viz., February-May 1971 (i.e., equivalent to 75% of the peak level in the four-month period of February-May in any of the preceding three years, viz., 1969, 1968 and 1967.	2. Advances in respect of pre-shipment credit for cotton exports, provided the advance is made in respect of a firm export order and is repaid on negotiation of the relevant export bill on shipment. 3. Advances against the security of or by way of purchase or discount of export bills relating to export of cotton from India. 4. Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of cotton and kapas. 5. Advances against the security of stocks of exportable varieties of cotton, viz., Bengal Deshi, Yellow Pickings, Zodas, Sweepings, etc., provided that firm export orders in respect of the stocks have been received by the parties and lodged with the banks.	
II. *Financially weak mills covered by Working Group on Bank Credit for Cotton Textile Industry :* (i) Same as maintained prior to January 21,1970 directive for stocks of 6 weeks' consumption (ii) 35% for stocks in excess of 6 weeks' consumption.			6. Advances in the States of Assam, Meghalaya, Nagaland, Jammu & Kashmir and in the Union Territories of Manipur, NEFA and Tripura. II. Advances against cotton and kapas to manufacturer of surgical cotton (absorbent cotton wool), provided that such stock is held by the borrower for manufacture of surgical cotton and not for resale are exempted from *margin* and *ceiling* controls.	
B. *Other Mills :* I. *Mills in States other than in West Bengal :* (i) 25% for stocks of 6 weeks' consumption. (ii) 40% for stocks between 6-8 weeks' consumption (iii) 60% for stocks in excess of 8 weeks' consumption. II. *Mills in West Bengal :* (i) 20% for stocks of 10 weeks' consumption.			III. The following types of advances are exempted from *margin* control : (i) Advances to cotton mills in respect of pre-shipment credit against such stocks of indigenous cotton and kapas as are required for the manufacture of cotton textiles (including yarn) in respect of which firm export orders have been received either directly by the mills or by the merchant-exporters through whom the mills are exporting provided the contracts with merchant-exporters are registered with Cotton Textiles Export Promotion Council. If firm export orders are received by the mills directly, the advances should be repaid on negotiation	

Minimum Margin (1)	Minimum Rate of Interest (2)	Level of credit (3)	Exemptions (4)	Prohibition (5)
(ii) 35% for stocks in excess of 10 weeks' consumption.			of the relevant export bill on shipment.	
To Others : A. *For Old Stocks* (i.e., marketed prior to October 1970) of cotton and kapas : 75%			(ii) Advances to sick mills in West Bengal and mills owned/managed/run by the Government of West Bengal or by its authorised agencies against the stocks equivalent to 10 weeks' consumption of each mill.	
B. *For New Stocks :* (i) Marketed in October 1970-January 1971 : (*a*) 60% — October 1970—January 1971 (*b*) 60% — February 1971—August 1971 (*c*) 75% — Thereafter. (ii) Marketed in February 1971—May 1971 : (*a*) 60% — February 1971—May 1971 (*b*) 60% — June 1971—September 1971 (*c*) 75% — Thereafter. (*iii*) Marketed in June 1971—September 1971 : (*a*) 60% — June 1971—September 1971 (*b*) 60%—October 1971—January 1972 (*c*) 75% — Thereafter.				

Other Organisational Matters

Reconstitution of Boards of Private Banks

276. In accordance with the requirements of Section 10A of the Banking Regulation Act 1949, which had come into force on February 1, 1969, the process of reconstitution of the Boards of Directors has been completed by all the banking companies in the private sector except three small banks with deposits of less than Rs. 10 crores. Of the 9 Indian banks in the private sector with deposits of Rs. 10 crores *and above* (as on February 1, 1969), eight banks had complied with the legal provisions before June 1970 and the remaining one took steps in this direction during the year under review. Among the banks having deposits of *less than* Rs. 10 crores, 34 banks have already reconstituted their Boards of Directors (of which 14 during the year under review), while in the case of 3 banks which have found difficulty in complying with the provisions of law, the Central Government has, on the recommendation of the Reserve Bank, granted exemption upto August 1, 1971, and the matter is being pursued with them.

277. In terms of Section 10B of the Banking Regulation Act, 1949, every Indian banking company in the private sector is required to have a whole-time Chairman who shall be entrusted with the management of its affairs. Out of 47 banks in the private sector at present, 41 banks have already complied with this requirement. In the case of the remaining banks, the Central Government has granted extension of time limit upto August 1, 1971. However, even in respect of these six banks, proposals submitted by two banks have been agreed to by the Reserve Bank in principle and the remaining four banks have been advised to take early steps to comply with the requirements of law within the time allowed.

278. In terms of Section 35B of the Banking Regulation Act, 1949, banking companies in the private sector are required to obtain the prior approval of the Reserve Bank regarding appointment/re-appointment of their Chief Executive Officers as also for any amendment in respect of the provisions relating to appointment/remuneration of their directors/ Chief Executive Officers. Applications from private banking companies numbering 213 for the appointment/re-appointment or remuneration of their Chief Executive Officers were disposed of during the year July 1, 1970 to June 30, 1971. Of these, 191 applications were approved and 22 rejected.

Inspection of Banks

279. In pursuance of the Reserve Bank's programme of periodical inspections of banks with a view to assessing their financial position as well as methods of operation, 40 scheduled banks and 7 non-scheduled banks were either inspected or taken up for inspection under Section 35 of the Banking Regulation Act, 1949 during the year July 1970 to June 1971. Besides, the inspection of foreign branches of Indian banks in Malaysia, U. K., Singapore and Ceylon was carried out/taken up. Inspection of two banks in liquidation was also carried out and of one more bank taken up under Section 45Q of the Act for ascertaining whether there were any substantial irregularities in their winding up proceedings.

280. During the year under review, centre-wise inspection of branches of commercial banks was introduced with the object of finding out *inter alia* the functioning of these branches *vis-a-vis* national objectives, specially in the field of mobilisation of deposits and financing of the weaker and neglected sections of the community and suggesting ways and means of bringing about improvement in their functioning. Such inspections were conducted at 58 centres served by 565 offices of commercial banks.

Bank Mergers

281. The Bank continued its selective policy of strengthening the privately managed commercial banking system through processes of voluntary amalgamation and the transfer of liabilities and assets as per statutory provisions. One bank in the Delhi area, namely, Sahukara Bank Ltd., which was working under a scheme of arrangement, transferred its assets and liabilities in the New Fund to another bank (New Bank of India Ltd.) in the same area under Section 293(1) of the Companies Act, 1956 during the year

under review. A proposal to amalgamate a scheduled bank, viz., Bareilly Corporation (Bank) Ltd. in the Kanpur area with another scheduled bank, viz., Benares State Bank Ltd., in the same area on a voluntary basis was approved by the Bank in principle and the banks were advised to proceed further in the matter.

282. No bank was granted moratorium by the Central Government under Section 45 of the Banking Regulation Act, 1949 during the year. The total number of banks granted moratoria since September 1960 remained unchanged at 60 with deposits amounting to Rs. 49.95 crores. The details regarding the consequential arrangements such as amalgamation with other banks, liquidation (voluntary or otherwise), etc., and protection of depositors' interest were detailed in the last year's Report.

283. In terms of the schemes of amalgamation under Section 45 of the Banking Regulation Act, 1949, the shareholders of the banks which have been amalgamated with other banks are required to be paid the surplus amount left with the transferee banks after paying the depositors in full. The shareholders of 12 transferor banks have been paid in full while *pro rata* payments are being made to the shareholders of 14 other transferor banks.

Licensing of Banks

284. During the year under review, licences under Section 22 of the Banking Regulation Act, 1949 to carry on banking business in India were granted to two banks, viz., Lord Krishna Bank Ltd., and Jammu and Kashmir Bank Ltd. During the period, the licences held by 14 major Indian commercial banks were cancelled, since they had ceased to carry on banking business in India consequent on their undertakings having been transferred to and vested in the corresponding new banks in terms of Section 4 of the Banking Companies (Acquisition and Transfer of Under takings) Act, 1970. Thus, the number of banks in whose cases licences have been cancelled increased to 50, while the total number of licensed banks stood reduced to 46 as at the end of June 1971. Besides, there were 22 banks in the public sector comprising the State Bank of India, its seven subsidiaries and the 14 corresponding new banks set up to carry on the business of above mentioned nationalised undertakings, which are not required to obtain a licence.

285. During the year under review, a licence under Section 22 of the Act to carry on banking business in India was refused to one existing bank, viz., Punjab and Kashmir Bank Ltd., while an application of a company for grant of a licence under the Section to commence banking business in India was rejected. The total number of banks to which licences were refused stood at 282 as at the end of June 1971. The existing undertaking of one of the fourteen nationalised banks has also applied for grant of a fresh licence to commence banking business in India and its application is pending.

Liquidation Proceedings

286. During the year under review, 10 non-scheduled banks were dissolved by the High Court. One bank went into voluntary liquidation after obtaining from the Reserve Bank a certificate under Section 44(1) of the Banking Regulation Act, 1949 while 2 banks went into Court liquidation.

287. The Bank scrutinised 215 returns submitted by the liquidators of the banks under Section 45R of the Banking Regulation Act, 1949, with a view to ensuring that legal requirements were complied with and that the liquidation proceedings were not unduly delayed.

288. Directives were received from the Central Government for the inspection of 3 banks under Section 45Q of the Banking Regulation Act, 1949.

Credit Information

289. The Reserve Bank's Credit Information Division made a systematic revision in March 1971 of the system of collecting and processing credit information on the borrowers of the banks in order to widen the scope of such information and maintain more up-to-date data and thus enhance its utility to the banks. In the context of the nationalisation of major banks that underscores the social objectives of the banking development, the credit information now obtained on the borrowers covers certain wider aspects such

as purpose of credit, occupation of borrower, etc. Keeping the above considerations in view, the form and content of the return have been appropriately revised and the banks have been provided with comprehensive guidelines for compiling the return. Further, with a view to facilitating easy compilation of the return by banks, the Reserve Bank has adopted (with suitable modifications) a code system on the lines prescribed for "Uniform Balance Books—Statistics relating to bank credit", which was already advised to the banks earlier. As it was observed that the compilation of credit information on a quarterly basis at the previously existing levels (viz., secured limits of Rs. 5 lakhs and over and unsecured limits of Rs. 1 lakh and over) involved considerable time and effort on the part of banks as well as in processing the data in the Reserve Bank, it was decided to obtain data on the larger borrowers (covering all secured limits of Rs. 10 lakhs and over and unsecured limits of Rs. 2 lakhs and over) quarterly, whereas data on the borrowers having secured limits of Rs. 5 lakhs and over and unsecured limits of Rs. 1 lakh and over would be obtained only half-yearly, i.e., at the end of June and December. Banks have also been advised to make increasing use of the credit information available with the Reserve Bank while processing all applications for larger limits. With the introduction of the revised return, it would be possible to furnish more up-to-date credit information to banks. During the year July 1, 1970 to June 30, 1971, the Division furnished information in respect of 1,458 applications to 34 applicant banks/institutions.

Clearing House Facilities

290. During the year under review, the clearing house facilities were further expanded as part of the Bank's policy of extension of banking facilities in the country. Thus, during the year (July 1970 to June 1971) 28 more clearing houses were established, bringing the total number of clearing houses functioning in the country to 135. Of these, 9 are managed by the Reserve Bank of India, 102 by the State Bank of India and 24 by the Subsidiaries of the State Bank of India.

Working Group on Jute Industry

291. The Report of the Working Group on credit problems of the jute industry, a mention of which was made in the last year's Report, was examined by the Bank. The Group had recommended, *inter alia,* that a separate scheme be formulated for providing some relief to the industry by way of charging a concessional rate of interest on the borrowings in respect of that portion of the mills' production which is exported. The Group had also indicated the broad guidelines of the scheme. After examination, the suggestion was found acceptable to the Bank and hence, it would be circulated to the banks on obtaining Government's concurrence in the matter. The other recommendations of the Group were also found generally acceptable and the Indian Banks' Association had been advised to request the member banks to implement them.

Working Results of Commercial Banks

All Scheduled Commercial Banks

292. An analysis of the working results of 69* scheduled commercial banks including those of nationalised banks, which have published their profit and loss accounts for the year 1970 reveals that there was a noticeable improvement in their profits during the year as compared with 1969 ; thus, their profits rose from Rs. 21.6 crores to Rs. 26.3 crores. The total income of these banks increased by Rs. 87.9 crores (22 per cent) during 1970 as against an increase of Rs. 42.8 crores (12 per cent) in 1969. The increase has been due to the spurt in earnings from 'interest and discount' which rose by Rs. 82.7 crores or by 25 per cent during 1970 as compared with the rise of Rs. 36.3 crores or by 12 per cent in 1969. The rise in earnings from 'commission, exchange and brokerage' was smaller in 1970 when compared with the rise in 1969. The total expenses of the 69 banks increased by Rs. 83.2 crores (22 per cent) in 1970 as compared with Rs. 41.4 crores (12 per cent) in 1969. Expenditure on 'salaries, allowances and Provident Fund contributions' showed an increase of 27 per cent in 1970 over 1969 as against an increase of 11 per cent in 1969. 'Interest paid on deposits and borrowings'

* Covers all major banks including 13 foreign banks.

also showed an increase, the rate of increase being 19 per cent in 1970 as compared with 11 per cent in 1969.

State Bank Group

293. Total income of the State Bank of India improved from Rs. 91.4 crores in 1969 to Rs. 112.7 crores in 1970, and total expenditure rose from Rs. 85.9 crores to Rs. 107.3 crores. The larger rise in expenditure than in income was due to the sizeable increase in establishment expenses (Rs. 10.9 crores) and in interest paid on deposits and borrowings (Rs. 8.6 crores) during the year. Consequently, the balance of profit recorded a marginal fall from Rs. 5.50 crores in 1969 to Rs. 5.40 crores in 1970. Out of the profits, the State Bank transferred Rs. 1.09 crores to reserves, earmarked Rs. 2.70 crores for payment of bonus to staff and Rs. 1.29 crores as dividend to shareholders, the allocations in all these cases being the same as in 1969. The Subsidiary banks increased their earnings from Rs. 26.7 crores in 1969 to Rs. 32.5 crores in 1970, while their expenditure rose somewhat less from Rs. 25.8 crores to Rs. 31.2 crores. As a result, their profits improved from Rs. 95 lakhs in 1969 to Rs. 1.33 crores in 1970. These banks transferred Rs. 13 lakhs to reserves, paid Rs. 35 lakhs as dividend to the State Bank and earmarked as bonus to staff a sum of Rs. 77 lakhs. While the transfer to reserves was less than in 1969, payment of dividend to the State Bank and of bonus to staff was higher than in 1969.

Nationalised Banks

294. The nationalised banks published in December 1970 their first balance sheets and profit and loss accounts as on December 31, 1969. These fourteen banks have, after meeting all their expenses and after providing for the usual and necessary provisions, transferred out of profits for 1969 a total amount of Rs. 3.69 crores to the Reserve Fund (as against Rs. 1.80 crores transferred by the predecessor banks before nationalisation out of profits for 1968). Out of their net profits earned during the period since the date of nationalisation, surplus profits transferred by them to the Central Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 aggregated Rs. 2.33 crores.

295. The working results of the 14 nationalised banks for the year 1970, published by them recently, reveal a marked improvement in the profits (before payment of bonus to staff, but after tax) earned by them, which amounted to Rs. 13.8 crores in 1970 as against Rs. 10.9 crores in 1969. This has occurred despite a sharp rise in their establishment expenses following the opening of a record number of branches and increased commitments due to the revision of wages and salaries of bank staff.

296. The total income of these banks increased from Rs. 217.6 crores in 1969 to Rs. 266.7 crores in 1970 and their total expenses from Rs. 206.7 crores to Rs. 252.9 crores. The increase in their earnings was largely due to the upward revision of banks' lending rates following the removal by the Reserve Bank of the ceiling of 9.5 per cent on lending rates in February 1970 and the prevalence of a relatively high credit-deposit ratio during the year.

297. Out of their profits, the nationalised banks earmarked Rs. 2.8 crores for the Reserve Fund, allocated Rs. 6.9 crores as bonus to staff and transferred the balance of Rs. 4.2 crores to Central Government as per statutory requirements.

Control over Non-Banking Companies

298. A reference was made in the last year's Report regarding the large increase in the number of 'Finance Corporations' in South India, particualrly in Mysore State, which have been accepting deposits from the public at relatively higher rates of interest. Since these corporations are partnership firms, the provisions of the directions issued to non-banking companies in regard to acceptance of deposits are not applicable to them at present. The question of enforcing the provisions of the local Money-Lenders Acts in relation to these corporations and of amending these enactments so as to provide for certain additional safeguards has been taken up with the Governments of Mysore and Tamil Nadu.

299. The Legislative Assembly of Andhra Pradesh has passed a Bill to regulate the business of chit fund companies. The question of amending the existing law relating to 'chitties' in Kerala is still under consideration of the State Government. The Government of Mysore has been considering the question of enacting local legislation for this purpose.

300. According to the survey of deposits with non-banking companies, based on the returns as on March 31, 1968, 2,398 companies out of a total number of 27,338 joint stock companies (financial and non-financial) at work submitted returns to the Reserve Bank of India and they reported 5.30 lakhs of accounts. The total amount of deposits (including exempted loans not counting as deposits at Rs. 209.59 crores) held by them as at the end of March 1968 was Rs. 477.89 crores as against Rs. 430.51 crores as at the end of March 1967 (including exempted loans amounting to Rs. 186.60 crores). The amount of deposits includes unsecured borrowings to the extent of Rs. 79.60 crores by companies from foreign sources such as World Bank, U.S.A.I.D., I.D.A., C.D.F.C. and the Ex-im Bank (as these do not fall in the category of exempted loans) as against the estimated amount of Rs. 92 crores at the end of March 1967.

Deposit Insurance Corporation

301. The number of insured banks declined to 82 at the end of June 1971 from 83 as at the end of June 1970, due to transfer of assets and liabilities of one bank to another insured bank. No new bank was registered during the year under review. During the period no fresh liability of the Corporation arose in respect of insured deposits. The liability of the Corporation in respect of one bank amalgamated under Section 45 of the Banking Regulation Act, 1949 referred to in the last year's Report, was determined after scrutiny of the lists of depositors and was paid. The total claims paid or provided for by the Corporation since its inception upto June 30, 1971 amounted to Rs. 113.04 lakhs in respect of 14 banks. During the year, the Corporation received reimbursement of Rs. 1.43 lakhs in respect of subrogated claims paid or provided for by it, raising the total amount of reimbursements received upto June 30, 1971 to Rs. 37.54 lakhs.

302. There was no change in the limit of insurance cover which was raised from Rs. 5,000 to Rs. 10,000 per depositor in April 1970. The rate of premium payable by insured banks on their deposits also remained unchanged at 5 paise per Rs. 100 per annum. According to the latest available statistics, 96.4 per cent of the deposit accounts and 61.9 per cent of the amount of deposits in insured banks were protected by the insurance scheme as at the end of September 1970.

Deposit Insurance Scheme in the Co-operative Field

303. Some of the States have already amended the State Co-operative Societies' Acts to facilitate extension of Deposit Insurance Scheme to co-operative banks in their respective States. A notification extending the provision of Deposit Insurance Corporation (Amendment) Act, 1968 with effect from July 1, 1971 to the co-operative banks in the States of Andhra Pradesh, Madhya Pradesh, Maharashtra and the Union Territory of Goa, Daman and Diu has also been issued by the Government of India. The Deposit Insurance Corporation has registered, as on July 1, 1971, 385 eligible co-operative banks in the States and Union Territory mentioned above. With a view to ensuring uniformity in the amendments to be carried out by the Governments of other States/Union Territories, model amendments were circulated to them by the Agricultural Credit Department for amending their respective co-operative societies' Acts for the purpose of extending the Deposit Insurance Scheme to co-operative banks in their jurisdiction.

Banking Commission

304. In the last year's Report, mention was made about the constitution of five Study Groups by the Commission to examine and report on different aspects of banking.

305. The Study Groups on Indigenous Bankers and Bank Procedures have completed their work and the other Study Groups are about to finalise their reports. As regards the

Study Group on Legislation Affecting Banking, the first part of the report has been finalised and the second part is under preparation. The surveys of Small-Scale Industries and Small Artisans undertaken by Universities and other bodies on behalf of the Commission have been completed and the major part of the report has been received by the Commission. The National Council of Applied Economic Research which was entrusted with a survey of bank services to depositors has completed it and submitted its report to the Commission.

306. During this period, the Commission visited the States of Rajasthan, Jammu and Kashmir, West Bengal, Bihar and Uttar Pradesh. It also met the officials of the Government of Kerala at Trivandrum. The Commission's programme of visiting the various States came to an end in June 1971. The Commission visited New Delhi and held discussions with the Finance Minister. The Commission has also held meetings in Bombay with bankers, experts and others. The Commission is expected to finalise its report by the end of 1971.

Table 38—Commercial Banking Trends at a Glance

(As on the last Friday of June)

		1966	1967	1968	1969	1970	1971
I.	**Number of Banks**						
	(*i*) Scheduled Banks	76	74	73	73	72	74
	(*ii*) Non-Scheduled Banks	31	24	19	16	13	12
II.	**Number of Offices**						
	(*i*) Scheduled Banks	6139	6620	7044	8045	9938	11892
	(*ii*) Non-Scheduled Banks	240	216	203	217	193	149
III.	**Aggregate Deposits (Rs. Crores)**						
	(*i*) Scheduled Banks	3123·2	3517·0	3969·0	4645·8	5274·5	6189·9
	(*ii*) Non-Scheduled Banks	25·0	24·5	26·2	28·0	13·8	14·7
IV.	**Demand Deposits (Rs. Crores)**						
	(*i*) Scheduled Banks	1477·3	1664·6	1874·8	2103·5	2328·8	2725·1
	(*ii*) Non-Scheduled Banks	9·1	9·1	10·2	11·7	8·4	9·3
V.	**Time Deposits (Rs. Crores)**						
	(*i*) Scheduled Banks	1645·9	1852·4	2094·2	2542·3	2945·7	3464·8
	(*ii*) Non-Scheduled Banks	15·9	15·4	16·0	16·3	5·4	5·4
VI.	**Deposits as percentage of National Income** (%)	15·3	14·8	14·1	16·3	17·0	18·0*
VII.	**Total Bank Credit (Rs. Crores)**						
	(*i*) Scheduled Banks	2271·4	2631·1	3102·9	3598·8	4212·7	4775·8
	(*ii*) Non-Scheduled Banks	15·0	15·1	12·8	16·4	3·5	3·1
VIII.	**Credit-Deposit Ratio** (%)						
	(*i*) Scheduled Banks	72·7	74·8	78·2	77·5	79·9	77·2
	(*ii*) Non-Scheduled Banks	60·0	61·6	48·9	58·6	25·4	21·1
IX.	**Investments in Government Securities (Rs. Crores)**						
	(*i*) Scheduled Banks	918·8	922·6	975·6	1126·3	1186·1	1369·4
	(*ii*) Non-Scheduled Banks	5·6	5·4	6·6	6·7	3·4	4·0
X.	**Investment-Deposit Ratio** (%)						
	(*i*) Scheduled Banks	29·4	26·2	24·6	24·2	22·5	22·1
	(*ii*) Non-Scheduled Banks	22·4	22·0	25·2	23·9	24·6	27·2
XI.	**Cash and Balances with R.B.I. (Rs. Crores)**						
	(*i*) Scheduled Banks	195·3	258·8	269·5	380·3	357·6	393·5
	(*ii*) Non-Scheduled Banks	1·7	1·9	2·1	2·5	0·9	1·1
XII.	**Cash-Deposit Ratio** (%)						
	(*i*) Scheduled Banks	6·3	7·4	6·8	8·2	6·8	6·4
	(*ii*) Non-Scheduled Banks	6·8	7·8	8·0	8·9	6·5	7·5

Notes : (1) The figures for non-scheduled banks in the last column relate to August 1970.
(2) The figures for June 1971 are provisional.
(3) The figures for non-scheduled banks for 1970 and 1971 are provisional.
* Based on National Income at current prices (estimated).

IV. DEVELOPMENTS IN CO-OPERATIVE BANKING

307. The year under review was characterised by consolidation of gains made in previous years in the direction of adoption of progressive loaning policies and mobilisation of deposits by co-operative banks and in opening a line of credit to the small and economically weak farmers as well as to tribals engaged in agriculture and allied occupations. The crop loan system which has come to be adopted as a normal feature of lending by the co-operative banks, by and large, had undergone further refinements in the context of larger use of inputs by the agriculturists. The credit support that was extended to the co-operative banks consequent on these developments was also accompanied by efforts to ensure that the co-operative banks observed seasonality in their lending and recoveries. With a view to progressively decreasing the reliance of the banks on the Reserve Bank, the Bank fixed targets for deposits for the bigger of the central co-operative banks in the country. This was also a preparatory measure for the eventual linking of the Bank's lending rates to deposit mobilisation, as recommended by the All-India Rural Credit Review Committee. Similarly, in the case of land development banks, their rural debenture programme which was meant to mobilise rural savings, was linked to their ordinary debenture programme. The Bank continued its efforts in filling up the credit gaps in the areas of weak central co-operative banks by continuing the implementation of the scheme of financing primary societies by commercial banks, in maintaining the credit flow in areas which were affected by widespread natural calamities by making use of credit stabilisation arrangements, and in strengthening the co-operative credit structure by suggesting concrete schemes for rehabilitation of weak central co-operative banks.

Agricultural Credit Board

308. The Agricultural Credit Board which was set up by reconstituting the erstwhile Standing Advisory Committee on Rural and Co-operative Credit on the recommendation of the All-India Rural Credit Review Committee, held its first meeting on August 3, 1970 and considered the Review Committee's various recommendations regarding the measures to be adopted by the Reserve Bank and other agencies of development for ensuring timely and adequate farm credit. In pursuance of the decisions of this Board, the State Governments and the co-operative banks were advised to take the action required of them in implementing the recommendations. As for the recommendations pertaining to its own functions and policies, the Bank has already initiated action for their implementation.

309. The Agricultural Credit Board also constituted two Standing Committees to advise it on problems of financing certain specialised fields of co-operative activity such as small-scale and cottage industries, long-term investment in agriculture, marketing, etc. The two Standing Committees had their first meetings during the year under review. While the Standing Committee I considered, among others, the problems relating to financing of small-scale and cottage industries, distribution and marketing in the agricultural sector, etc., the Standing Committee II reviewed the progress made in the sphere of credit facilities offered by the Bank for agricultural production and investment. Some of the important decisions arrived at by these Standing Committees related to the Bank providing separate line of credit for marketing of crops including processing, refinance for the marketing of minor forest produce and the purposes for which medium-term loans might be advanced by co-operative banks. The Agricultural Credit Board had also appointed a Study Group for a detailed examination of the recommendation of the Review Committee regarding the linking of the rate of interest on loans from the Bank to the efforts at deposit mobilisation by central co-operative banks. The Study Group, which met once during the year, considered various implications of the issues referred to it. The Group's report is awaited.

Financing of Small, Marginal and other Economically Weak Farmers

310. In pursuance of the recommendation of the Rural Credit Review Committee, the Government of India have approved the establishment of 46 Small Farmers Development Agencies (S.F.D.A.) and 37 Marginal Farmers and Agricultural Labour projects (M.F.A.L.)

in selected districts. The Bank has been actively assisting the co-operative banks and other credit institutions in the S.F.D.A./M.F.A.L. areas in attuning their policies and procedures to the needs of the small and marginal farmers and in augmenting their own resources so as to meet the credit needs fully. Simultaneously, the Bank took steps to ensure that credit needs of small and economically weak farmers are met even in areas outside these projects.

311. In pursuance of a suggestion from the Planning Commission, the Bank undertook special studies of some S.F.D.A. projects. These study reports indicated guidelines on the methodology to be adopted in identifying the small farmers and in ascertaining the credit and other needs of such farmers, keeping in view the cropping pattern, availability of irrigation facility, scope for subsidiary occupations, etc. Measures were also suggested for strengthening the existing credit agencies and for building up the requisite infra-structure. In order to spell out the role and also to discuss the problems faced by co-operative banks in implementation of the programmes for the benefit of small farmers, the Bank convened regional conferences of representatives of central co-operative banks and State Governments at Ahmedabad, Bangalore, Chandigarh and Calcutta. The central co-operative banks were also called upon to use a predetermined percentage of their borrowings from the State co-operative bank for financing the small farmers.

Commercial Banks' Financing of Agricultural Credit Societies

312. The transitional scheme of financing of primary agricultural credit societies by commercial banks in the areas of weak central co-operative banks, introduced last year with the financing of the Kharif 1970 operations, was continued during the year under review. Under the scheme, 1,974 societies in 49 districts of Andhra Pradesh, Haryana, Madhya Pradesh, Mysore and Uttar Pradesh were allotted to 300 branches of 20 commercial banks including the State Bank of India Group. As at the end of June 1971, the commercial banks advanced loans aggregating Rs. 6.93 crores to 1,546 societies. In addition, liabilities amounting to Rs. 2.13 crores in respect of 589 societies were also taken over by the commercial banks, thus bringing their total involvement, under the scheme, to Rs. 9.06 crores. The progress achieved under the scheme has been encouraging in Andhra Pradesh, Haryana and Mysore. Despite the procedural and organisational difficulties initially faced in implementing the scheme, a fair measure of success might be said to have been achieved, and the progress could further be accelerated subject to concerted efforts being made by all the agencies concerned. The commercial banks, financing agricultural credit societies under the scheme, are eligible for refinance facility from the Reserve Bank at a concessional rate of interest of $4\frac{1}{2}$ per cent. Their advances to the societies for issue of loans to members against pledge of agricultural produce (subject to credit control measures) are also exempted from ceiling as well as margin requirements for a period of two months from the date of harvest of the relevant crop, provided the amount of loan per member is restricted to a maximum amount of Rs. 2,500 or the crop loan outstanding, whichever is lower. These concessions serve as incentives to the commercial banks in providing adequate credit support to the societies.

Co-operative Development

313. The above scheme of commercial banks' financing of primary agricultural credit societies was introduced at the instance of the Bank, pending the strengthening of the co-operative credit structure in the concerned areas. Efforts in this direction were continued and specific programmes of rehabilitation of weak central co-operative banks in areas where the above scheme was in operation and elsewhere were drawn up by the Bank and, after detailed discussions with the representatives of the State Governments and co-operative banks concerned, these programmes were recommended for implementation. The important suggestions related to : (i) strengthening of the capital structure of the central co-operative banks ; (ii) rationalization of loaning policies and procedures ; (iii) strengthening of the administrative and supervisory arrangements for recovery of overdues and future loans ; (iv) financial assistance from the State Governments to augment the bad debt reserves ; and (v) mobilization of deposits. During

the year under review, discussions were held with representatives of Andhra Pradesh, Madhya Pradesh and Mysore States on various issues and problems connected with rehabilitation schemes. The Bank is closely following the progress of these measures.

314. Between January and May 1971, the Deputy Governor in-charge of rural credit held discussions on the more important aspects and problems of co-operative credit and development with the representatives of 12 State Governments. During these discussions, the persisting weaknesses were pointed out and the remedial measures suggested relating to mobilization of deposits by co-operative banks, mounting overdues, reorganization of the primary agricultural credit societies on the accepted pattern, rehabilitation of weak central co-operative banks and problems of land development banks.

Co-operative Credit : Policy, Procedures and Operations

Special Measures for Small/Weak Farmers

315. An important stipulation introduced by the Reserve Bank during the year in regard to the provision of financial accommodation to State co-operative banks for seasonal agricultural operations and marketing of crops was that a portion of the credit limit sanctioned by the Bank to each central co-operative bank should be earmarked for financing small and economically weak farmers. To start with, central co-operative banks were advised to show at least 10 per cent of outstandings of borrowings from the concerned State co-operative banks as on June 30, 1971 as covered by outstandings of loans to societies against small/marginal or economically weak farmers. This percentage would be increased to 20 by the end of June 1972.

316. With the object of helping agricultural operations of the tribals in Andhra Pradesh, the Girijan Co-operative Corporation was recognised by the Bank for the purpose of channelling agricultural credit to tribal cultivators in three districts, where the normal co-operative credit structure was either weak or unwilling to finance the tribals. The Bank also decided to provide refinance facilities to State co-operative banks for advances made to forest marketing co-operatives for the marketing of minor forest produce of tribals.

Separate Credit Limits for Marketing of Crops

317. The Rural Credit Review Committee recommended that the Reserve Bank might sanction separate credit limits for "seasonal agricultural operations" and "marketing of crops". While the Bank had already introduced the practice of sanctioning separate credit limits for the marketing of cotton and kapas in 1968-69, it has now been decided that from 1971-72 onwards separate limits should be sanctioned for marketing all other crops also. The objective is to see that the limit meant for seasonal agricultural operations is not diverted towards financing marketing of crops.

Progress of Bank's Financial Accommodation

318. The financial accommodation from the Bank for agricultural purposes has been progressively increasing year after year with the growing demand for agricultural credit. The 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. 370.16 crores during 1969-70 to Rs. 390.11 crores during 1970-71. The drawals during the year aggregated Rs. 424.49 crores as against Rs. 425.09 crores in 1969-70. Repayments were of the order of Rs. 449.76 crores as against Rs. 394.06 crores in 1969-70. The outstandings as on June 30, 1971 stood at Rs. 188.84 crores as compared with Rs. 214.11 crores as on June 30, 1970 (Table 39). The special short-term credit limits sanctioned to State co-operative banks for financing marketing of cotton and kapas during the year 1970-71 were Rs. 10.65 crores as against Rs. 7.75 crores during 1969-70. The aggregate drawals were Rs. 8.56 crores, repayments Rs. 9.52 crores and outstandings Rs. 1.03 crores. The figures for 1969-70 were Rs. 9.33 crores, Rs. 8.24 crores and Rs. 1.99 crores, respectively.

Table 39—Short-term Loans Provided by the Reserve Bank of India to State Co-operative Banks at the Concessional Rate of Interest for Seasonal Agricultural Operations and Marketing of Crops (1960-61 to 1970-71)

(Rs. crores)

Year		Limits sanctioned	Drawals	Out-standings
1960-61	..	111·79	142·91	100·88
1961-62	..	138·18	154·22	115·20
1962-63	..	163·94	199·72	124·28
1963-64	..	186·21	298·18	146·54
1964-65	..	199·86	253·33	150·51
1965-66	..	212·66	260·36	143·67
1966-67	..	257·50	292·29	135·38
1967-68	..	314·15	364·89	137·17
1968-69	..	337·52	411·15	183·09
1969-70	..	370·16	425·09	214·11
1970-71	..	390·11	424·49	188·84

Seasonality in Lending and Recovery

319. In order to ensure the financial discipline of seasonality in lending and recovery of loans, the Rural Credit Review Committee recommended closed periods for drawals on the short-term credit limits sanctioned by the Bank. The Agricultural Credit Board felt that the principle of seasonality could as well be achieved by requiring the central banks to bring down the level of outstandings under borrowings from the apex bank to a given minimum level during any part of the year, which would also ensure that the banks were not left with unduly large surpluses at any time. The minimum levels upto which the borrowings on the short-term loans by the central co-operative banks should be reduced have been arrived at by mutual discussions between the Bank and the representatives of some selected States/Central co-operative banks. The State co-operative banks in consultation with Co-operative Departments of their States have been asked to fix similar limits for other central co-operative banks on mutually agreed lines taking into account broadly the cropping pattern of the district, etc.

Finance for Fertilizers

320. The Bank continued to provide financial accommodation to the State co-operative banks at Bank rate under Section 17(4)(c) of the Reserve Bank of India Act, against Government guarantee, for financing the apex marketing societies for purchase, stocking and distribution of chemical fertilizers. Since December 1969, accommodation for the purpose was considered only in cases where the State co-operative marketing societies were unable to obtain the necessary funds from commercial banks. This accounted for the decline in the aggregate limits sanctioned by the Bank to State co-operative banks for the purpose during the calendar year 1970. The limits sanctioned, drawals and outstandings at the end of the year were Rs. 16.80 crores, Rs. 11.27 crores and Rs. 4.22 crores, respectively. The corresponding figures for 1971 (upto the end of June) are Rs. 19.25 crores, Rs. 17.43 crores and Rs. 3.43 crores. The position in this regard is under constant review with a view to ensuring that the legitimate credit needs of fertilizer marketing are met by commercial and co-operative banks, appropriately supplemented by the Bank.

Co-operative Sugar Factories

321. A short-term credit limit of Rs. 7.50 crores was sanctioned to one State co-operative bank on behalf of ten co-operative sugar factories under Section 17(4)(c) of the Reserve Bank of India Act at 2 per cent above the Bank rate for financing the working capital requirements of co-operative sugar factories against stocks of sugar by way of pledge. The total drawals aggregated Rs. 5.32 crores and the outstandings as on June 30, 1971 were Rs. 4.32 crores.

Loans to ARC

322. The Agricultural Refinance Corporation was sanctioned for the year 1970-71 a short-term credit limit of Rs. 8.00 crores at the Bank rate under Section 17(4) (E) of the Reserve Bank of India Act against the security of special development debentures purchased by it. The aggregate drawals on the limit amounted to Rs. 11.80 crores and the outstandings as on June 30, 1971 were Rs. 7.52 crores.

Medium-term Finance

323. In the sphere of medium-term loans for agricultural purposes, the Bank's policy was aimed at encouraging loans for identifiable purposes such as construction of wells, purchase of pumpsets and agricultural implements, etc. As certain studies made in this connection revealed that a good portion of the medium-term loans

advanced by a number of central banks was meant for purposes which were not clearly identifiable, it was decided to regulate the grant of medium-term credit limits in 1970-71 in such a way as to bring about a definite shift towards loans for identifiable productive purposes. Accordingly, for availing of the accommodation from the Bank, a central bank was required to advance at least 40 per cent of its medium-term loans for any one or more of the four purposes, viz., (i) construction of wells and other minor irrigation schemes, (ii) repairs to wells and other irrigation sources, (iii) purchase of machinery such as, pumpsets, and (iv) purchase of agricultural implements. Precautions were also taken to see that the central co-operative banks did not come up with ambitious programmes in areas where land development banks had drawn up schemes with the assistance of the Agricultural Refinance Corporation and that there was proper co-ordination between the central banks and the land development banks in the sphere of term lending.

Finance for Milch Cattle Purchase

324. In 1966, the Bank had approved the channelling of its finance for purchase of milch cattle through milk supply societies in an area where a co-operatively organised dairy development project was in effective operation. Following the recommendation of the Rural Credit Review Committee, the Bank, in December 1970, agreed to these loans being granted by the milk supply societies to their members even if the pasteurisation, processing and marketing of milk and milk products were undertaken by a private or government dairy. With a view to enabling the small farmers to take up dairying or poultry activities alongside agriculture, it was decided in June 1971 that medium-term loans might be advanced upto a limit of Rs. 2,000 without insisting on the mortgage of immovable property or charge on land.

Medium-term Limits

325. During the year, the aggregate of medium-term credit limits sanctioned under Section 17(4AA) read with Section 46A(2)(b) of the Reserve Bank of India Act at 1½ per cent below the Bank rate was Rs. 17.55 crores as against Rs. 18.30 crores sanctioned in the previous year. In addition, one State co-operative bank was sanctioned loans aggregating Rs. 1.21 crores for purchase of shares in co-operative sugar factories at the Bank rate. The drawals (including those limits sanctioned at the Bank rate) were Rs. 14.20 crores during 1970-71 as against Rs. 11.48 crores in 1969-70 and the outstandings as on June 30, 1971 were Rs. 24.31 crores as against Rs. 20.45 crores at the end of the previous year (Table 40).

Table 40—Medium-Term loans for agricultural purposes provided by the Reserve Bank of India to State Co-operative Banks at the concessional rate (1960-61 to 1970-71)

(Rs. crores)

Year	Limits sanctioned	Drawals	Outstandings
1960-61 ..	4·68	5·69	8·81
1961-62 ..	9·56	7·39	11·67
1962-63 ..	9·31	4·18	10·56
1963-64 ..	14·01	7·45	13·00
1964-65 ..	14·39	7·91	14·32
1965-66 ..	14·11	7·45	14·96
1966-67 ..	15·49	8·37	15·41
1967-68 ..	16·57	9·12	16·47
1968-69 ..	19·00	8·98	17·60
1969-70 ..	18·30	11·48	20·45
1970-71 ..	18·76	14·20	24·31

326. As in the past, during 1970-71 medium-term credit limits aggregating Rs. 21.80 crores at 1½ per cent below the Bank rate were sanctioned to four State co-operative banks from out of the National Agricultural Credit (Stabilization) Fund to enable them to convert the short-term loans into medium-term loans to tide over the difficulties arising out of natural calamities. The total drawals from the Fund during the year were Rs. 13.64 crores and the outstandings with State co-operative banks were Rs. 13.66 crores as on June 30, 1971. Besides, two State co-operative banks were sanctioned short-term credit limits of Rs. 7.00 crores at the Bank rate against the pledge of Government/Trustee securities representing the investments out of their Stabilization Funds for granting conversion facilities to the Central co-operative banks in their areas. The drawals against these limits till June 1971 amounted to Rs. 4.18 crores and the amount outstanding as on June 30, 1971 was Rs. 2.50 crores.

327. The Bank generally provided financial accommodation under Section 17(2) (bb) of the Reserve Bank of India Act for financing the production and marketing activities of weavers' societies at concessional rate of interest at $1\frac{1}{2}$ per cent below the Bank rate. Accommodation was also provided for the first time, as per terms and conditions finalised last year, under the same Section to State co-operative banks for financing the other cottage and small-scale industrial units coming under the 22 'approved' groups. During the financial year 1970-71, 11 State co-operative banks were sanctioned credit limits aggregating Rs. 10.12 crores as against Rs. 8.18 crores during 1969-70, under Section 17(2) (bb) read with Section 17(4) (c) of the Reserve Bank of India Act at $1\frac{1}{2}$ per cent below the Bank rate for financing the production and marketing activities of weavers' societies. The drawals amounted to Rs. 12.36 crores as against Rs. 9.49 crores during the previous year and outstandings as on March 31, 1971 stood at Rs. 7.83 crores as against Rs. 6.42 crores at the end of the previous year. Three State co-operative banks were sanctioned credit limits of Rs. 80.00 lakhs under Section 17(2) (a) read with Section 17(4)(c) of the Reserve Bank of India Act for financing yarn business of apex handloom weavers' societies as against Rs. 69.00 lakhs sanctioned last year. Drawals aggregated Rs. 4.00 lakhs and outstandings at the end of March 31, 1971 were Rs. 2.93 lakhs. Four State co-operative banks were for the first time sanctioned limits aggregating Rs. 46.59 lakhs at Bank rate on behalf of 4 central co-operative banks and 8 primary (urban) co-operative banks for financing approved cottage and small-scale industrial units. A sum of Rs. 1.95 lakhs drawn against these limits was fully outstanding as on March 31, 1971.

Urban Co-operative Banks

328 The primary (urban) co-operative banks are catering to the banking and credit needs of urban clientele constituting generally small traders, small businessmen, artisans, factory workers, salaried persons, etc., in urban and semi-urban areas. With a view to bringing about reorientation in their loaning policies, the Bank had been advising the State co-operative banks that refinance to urban co-operative banks should be on a reimbursement basis. Such refinance was to be limited to 50 per cent, 66 $\frac{2}{3}$ per cent and 75 per cent of the loans and advances provided by the urban banks, for consumption expenditure, commerce and trade and small-scale industries, respectively. As indicated earlier, the primary (urban) co-operative banks are eligible for refinance facilities under Section 17(2) *(bb)* or (4) *(c)* of the Reserve Bank of India Act for financing the production and marketing activities of 22 broad groups of cottage and small-scale industrial units at Bank rate. For the first time during the financial year 1970-71, the Bank had sanctioned credit limits aggregating Rs. 42.45 lakhs to the Gujarat and Manipur State Co-operative Banks on behalf of 8 primary (urban) banks. The Bank continued to provide loans to State Governments from the National Agricultural Credit (Long-term Operations) Fund to enable them to contribute to the share capital of primary (urban) banks on a selective basis. During the financial year 1970-71, a sum of Rs. 10.30 lakhs was sanctioned for contribution to share capital of 19 primary (urban) banks.

Special Assistance from N.A.C. (L.T.O.) Fund

329. The terms and conditions governing financial accommodation from the Bank's National Agricultural Credit (Long-term Operations) Fund to the State Governments for contributing to the share capital of co-operative credit institutions were liberalised during the year under review. Accordingly, the financially weak central co-operative banks, which are under a scheme of rehabilitation, are now eligible for contribution in excess of 50 per cent of their total paid-up capital, even if the percentage of overdues to demand exceeds 30 but not more than 50. Primary agricultural credit societies operating in the areas of weak central co-operative banks and of S.F.D.A./M.F.A.L. projects are eligible for contributions upto Rs. 10,000 irrespective of the level of overdues. Contributions above Rs. 10,000 are subject to the conditions regarding overdues, issue of loans for productive purposes, etc. It is also considered adequate for the purpose of State contribution, to link shareholdings to borrowings at not less than 10 per cent, instead of 20 per cent as hitherto at the primary level.

Long-term Finance

330. During the financial year 1970-71, loans aggregating Rs. 11.85 crores (excluding renewals of the previous year to the extent of Rs. 0.03 crore) were sanctioned to 14 State Governments out of the National Agricultural Credit (Long-term Operations) Fund under Section 17(4) (AA) read with Section 46A(2) (*a*) of the Reserve Bank of India Act for contribution to the share capital of 6 State co-operative banks, 105 central co-operative banks, 4,076 primary agricultural credit societies, 8 central land development banks, 146 primary land development banks and 19 primary (urban) co-operative banks. Further, a sum of Rs. 75.96 lakhs sanctioned during 1969-70 was extended for drawals during 1970-71. The aggregate drawals of the State Governments during the financial year 1970-71 amounted to Rs. 12.49 crores as against Rs. 6.80 crores during 1969-70 (Table 41). The total amount outstanding against the State Governments on this account was Rs. 41.93 crores as on March 31, 1971 as against Rs. 33.83 crores as on March 31, 1970.

Table 41—Loans from the National Agricultural Credit (Long-term Operations) Fund to State Governments for Contribution to the Share Capital of Co-operative Credit Institutions-1960-61 to 1970-71

(Rs. crores)

Year*		Limits sanctioned including renewals	Drawals
1960-61	..	3·23	2·75
1961-62	..	5·60	5·43
1962-63	..	4·94	4·91
1963-64	..	3·35	3·30
1964-65	..	4·38	4·18
1965-66	..	2·68	2·68
1966-67	..	2·47	2·27
1967-68	..	7·37	7·36
1968-69	..	4·13	3·78
1969-70	..	7·49	6·80
1970-71	..	11·88	12·49@

* Financial year.

@ Including extended loans of the order of Rs. 75·96 lakhs sanctioned during 1969-70.

Special Measures to Improve the Co-operative Long-term Lending Institutions

331. A reference was made in the last year's Report to the ordinary debenture programme of the land development banks fixed at Rs. 141.20 crores for the year 1970-71. The programme was revised downward to Rs. 139.20 crores due to reduced support from the Central and State Governments. Against the above approved programme, the land development banks issued debentures for an aggregate amount of Rs. 123.56 crores during the financial year ended March 31, 1971. The subscriptions actually collected by the banks aggregated Rs. 127 crores. The Central and State Governments subscribed Rs. 36.62 crores, the Reserve Bank of India, the State Bank of India and the Life Insurance Corporation of India together Rs. 22.15 crores (the Reserve Bank's contribution being Rs. 4.16 crores) and the commercial banks, Rs. 29.91 crores. The shortfall in the approved programme was partly due to organisational failures in the land development banks and partly to the progressive improvement in the quality of scrutiny of loan applications resulting in a reduction in the volume of loans for unproductive purposes.

332. The Bank convened a meeting of the representatives of the principal investors and the central land development banks in March 1971 to finalise the debenture programme for the financial year 1971-72. A programme of Rs. 140 crores was tentatively agreed upon for the year. The support available towards the programme from the Central and State Governments was placed at Rs. 34 crores. The public sector institutions were expected to provide Rs. 27 crores and the commercial banks, Rs. 30 crores. In view of the arrangements made for ensuring adequate support to the debenture programme of the land development banks from different governmental and institutional sources, the Bank continued to lay emphasis, as in previous years, on the purposes for which loans should be advanced by the land development banks. Thus, the condition that at least 90 per cent of the loans advanced should be for productive purposes, of which 70 per cent for easily identifiable purposes, was continued for the year 1971-72.

333. Since 1969-70, only such of the land development banks, overdues of which at the primary level were less than 15 per cent of the demand for the year as at the end of the previous co-operative year, were eligible for 100 per cent of the support provided for under the debenture programme. The banks in which the recovery of loans did not reach the above level were eligible only for a lower support on a tapering-off basis. An important consideration which prevailed in imposing the above condition was the expectation that the denial of full support to the debenture programme of the land development banks with higher levels of overdues would compel them to initiate appropriate action for the recovery of the overdue loans.

334. The Bank had also been endeavouring during the last two years to impress upon the land development banks the need to adopt operational procedures and policies oriented towards agricultural development. The need for the observance of some discipline in regard to loaning by the land development banks had lately assumed urgency because of the terms of the agreements entered into between the Agricultural Refinance Corporation and the land development banks with the International Development Association in respect of the agricultural credit projects sanctioned by the latter. The land development banks, accordingly, are required to adopt, even in regard to their normal lendings, the terms and procedures similar to, or consistent with, those stipulated in the project agreements in respect of the project lendings. Efforts were also continued to bring about qualitative improvements in regard to other aspects of working of land development banks, particularly resources management.

335. The Rural Credit Review Committee which reviewed the policy in regard to the floatation of rural debentures by land development banks recommended that the rural debenture programme should be linked to their ordinary debenture programme. The Committee suggested that the rural debenture programme should not be less than 5 per cent of the ordinary debenture programme in any State. The Agricultural Credit Board generally endorsed the above recommendation and suggested that a beginning might be made towards implementing the recommendation from the year 1970-71. In pursuance of this recommendation, the land development banks were advised in December 1970 to float during 1970-71 one or more series of rural debentures for an amount aggregating at least 2½ per cent of the approved ordinary debenture programme for the year. During the financial year ended March 31, 1971, the land development banks issued rural debentures for an aggregate amount of Rs. 4.39 crores, the Bank's contribution to these debentures being Rs. 0.18 crore. The Bank's total holdings of rural debentures as on March 31, 1971 were Rs. 8.59 crores.

Number of Co-operative Banks

336. As on June 30, 1971, there were 1,315 co-operative banks—29 State, 366 Central and 920 primary banks—coming under the purview of Banking Regulation Act 1949 as against 1,317 co-operative banks (28 State, 366 Central and 923 primary) at the beginning of the year. The decline in the number of banks during the year was mainly due to deletion of certain non-agricultural credit societies from the list of primary co-operative banks.

337. With a view to tightening the control on advances of State and Central co-operative banks against security of cotton and kapas, selective control measures were taken during the year under review, as discussed on page 81.

Agricultural Refinance Corporation

Sanctions and Disbursements

338. During the year 1970-71, the Corporation sanctioned refinance in respect of 100 schemes@ of agricultural development relating to a wide range of irrigation and land development purposes. The total financial assistance involved in these schemes was of the order of Rs. 62.15 crores. The Corporation's commitment under these schemes was Rs. 53.92 crores.

339. Out of 100 schemes sanctioned during the year under review, 67 schemes are to be implemented through the central land development banks, the refinance provided in their

@ Excluding two schemes sanctioned but subsequently withdrawn.

case being in the form of contribution towards the special development debentures to be floated by the concerned banks. Six schemes are to be implemented through the State co-operative banks and the remaining 27 by the scheduled commercial banks, the refinance in their cases being in the form of loans.

340. The 100 schemes sanctioned, during the year under review, include 55 schemes for the development of minor irrigation works, 9 schemes for the development of land, 26 schemes of plantation and horticulture and 1 scheme of farm mechanisation. Of the remaining, 2 schemes are for the development of poultry farming, 2 for the development of fisheries, 3 for dairy development and 2 for the construction of godowns.

341. A noteworthy development during the year was the break-through achieved in regard to financing schemes for dairy development. The three dairy schemes sanctioned during this year involve financial assistance of the order of Rs. 142.25 lakhs for purchase of milch cattle by the cultivators engaged in mixed farming activities combining dairying with agriculture and also professional non-agriculturist milkmen of the co-operative milk societies. Yet another significant development was the refinance facilities provided by the Corporation for the first time to a State Agro-Industries Corporation through a scheduled commercial bank. The Agro-Industries Corporation will be providing services to cultivators for land-levelling by obtaining funds from the scheduled commercial bank which will be refinanced by the Corporation. Similarly, for the first time, the Corporation approved minor irrigation schemes for benefiting small farmers—one in Haryana through the Haryana Minor Irrigation Tubewells Corporation in Naraingarh *tehsil* of Ambala district for financial assistance of Rs. 161.50 lakhs for 170 deep tubewells and the other in West Bengal in the Hoogly district involving financial assistance of Rs. 18 lakhs for sinking 300 shallow tubewells. The two scheme areas fall under the Small Farmers' Development Agencies and the Corporation has provided 100 per cent refinance. More such schemes are under active consideration. The Corporation was also able to help cultivators to solve their storage problems in two more States, *viz.*, Mysore and Haryana, by sanctioning one scheme each involving financial assistance of Rs. 71.10 lakhs in Mysore and Rs. 19.42 lakhs in Haryana. This is in addition to the earlier schemes of storage sanctioned by the Corporation in three States, *viz.*, Gujarat, Punjab and Uttar Pradesh. The Corporaion has made special efforts to promote more and more schemes for areas and States not fully developed and in this connection, has sent its officers for formulating schemes which could be sponsored by the concerned financing institutions and the State Governments. The Chairman of the Corporation had also discussions with the representatives of States in this regard which were followed up by the Managing Director and other officers of the Corporation. Special meetings were also held between the officials of the Government of India, the senior officials of the State Governments and of the Corporation to promote more schemes in these States.

342. During the year, the Corporation approved reduction in the financial assistance in respect of some schemes sanctioned earlier as also the rephasing of some schemes so as to extend the period of floatation of the special development debentures. Taking into consideration the changes in the outlay of some schemes sanctioned earlier as a result of rephasing as also withdrawal of schemes sanctioned during the earlier years, etc., the total number of schemes sanctioned by the Corporation during the eight years of its working as on June 30, 1971 is 458, the total financial assistance and the Corporation's commitment thereunder being Rs. 293.00 crores and Rs. 248.66 crores, respectively.

343. The disbursements made by the Corporation during the year amounted to Rs. 30.62 crores, raising the total disbursements as at the end of June 1971 to Rs. 89.71 crores. Out of the amount of Rs. 30.62 crores disbursed during the year, a sum of Rs. 26.65 crores was disbursed to the central land development banks, Rs. 1.19 crores to State co-operative banks and Rs. 2.78 crores to scheduled commercial banks. During the year, 8 scheduled commercial banks and 5 State co-operative banks made repayments of principal due, amounting to Rs. 31.12 lakhs and Rs. 26.57 lakhs, respectively.

Augmenting of Resources

344. During the year, the Corporation augmented its resources as under : (*i*) Rs. 22 crores by way of borrowings from the Government of India under Section 20(1) (*c*) of the Agricultural Refinance Corporation Act and (*ii*) about Rs. 8.53 crores from the open market by floating $5\frac{3}{4}$ per cent ARC Bonds 1982 (II Series). Further, the Corporation's short-term borrowings during the period from the Reserve Bank, under Section 20(1) (*b*) of the Agricultural Refinance Corporation Act, 1963, aggregated Rs. 11.80 crores of which Rs. 4.28 crores were repaid to Reserve Bank of India in April 1971.

Policies and Procedures

345. The following policy and procedural changes were effected during the year under review : (*a*) The Corporation has raised its interest rate on its refinance to $6\frac{1}{2}$ per cent per annum in respect of schemes to be sanctioned on or after November 23, 1970.

(*b*) The special concession of 10 per cent contribution by State Governments to the special development debentures, floated by the Central land development banks in respect of minor irrigation schemes sanctioned by the Corporation was further extended upto June 30, 1972.

(*c*) The Corporation decided, as a special case, to provide 100 per cent refinance in respect of viable schemes, sponsored by Small Farmers Development Agencies through the eligible institutions and sanctioned by the Corporation, upto June 30, 1971. This concession, initially granted for one year, has now been further extended upto June 30, 1972.

(*d*) After the nationalisation of the 14 scheduled commercial banks, these banks as also the State Bank of India and its subsidiaries have been involved in a greater measure in advancing loans for agricultural development. The Corporation follows a flexible policy in regard to the extent of refinance provided to commercial banks. It provides refinance to such banks by taking into consideration their liquid resources position. During the year, the Corporation took various steps for simplification of procedure for refinancing commercial banks.

346. It was mentioned in the last year's Report that the International Bank for Reconstruction and Development and its affiliate, the International Development Association, had approved three projects in financing capital investment for modernizing and increasing the productive capacity of agriculture. During the year under report, agreements were signed between the International Development Association, Government of India and the Corporation in respect of four more projects for which IDA would provide financial assistance of Rs. 67.80 crores ($ 90.40 million); out of this Rs. 61.67 crores will be made available through the Corporation as under :

	IDA Credit			Amount to be routed through A.R.C. (Rs. crores)
Haryana Agricultural Credit Project	$ 25	million	Rs. 18·75 crores	18·75
Tamil Nadu Agricultural Credit Project	$ 35	,,	Rs. 26·25 crores	22·35
Andhra Pradesh Agricultural Credit Project	$ 24·40	,,	Rs. 18·30 crores	18·09
Agricultural Aviation Project	$ 6·00	,,	Rs. 4·50 crores	2·48

The Corporation is actively associated with the implementation of these projects both as the sole refinancing agency and as the agency which is to satisfy itself about the inherent soundness of the schemes from technical and economic aspects. During the year the Corporation's Regional Office at Kanpur was shifted to Lucknow.

V. DEVELOPMENTS IN EXCHANGE CONTROL

Mauritius Travel Scheme, 1970

347. In the sphere of Exchange Control, the process of liberalisation of the Rules relating to travel referred to in the last year's Report was further carried forward during the year under review. Under the Mauritius Travel Scheme, 1970, introduced with effect from August 7, 1970, passages may be booked by airline/steamer companies and travel agents for any person who is a resident of India for visiting Mauritius once in three years. Such persons travelling to Mauritius by Air India will be eligible for release of exchange for U.S. $ 100. Any visits to Mauritius with grant of foreign exchange by the Reserve Bank of India for business or other purposes or under 'P' form approval given by the Reserve Bank will be ignored for the purposes of this Scheme and any visits to countries other than Mauritius under the Foreign Travel Scheme, 1970 will not debar a person from availing of the Mauritius Travel Scheme. Similarly, a visit to Mauritius under the Mauritius Travel Scheme, 1970, will not debar a person from availing of the benefits of Foreign Travel Scheme, 1970, if otherwise admissible.

Exchange Entitlement of U.S. $100

348. The facility of release of exchange of U.S. $ 100 or its equivalent admissible to persons travelling on flights/sailing of Air India/Shipping Corporation of India has since been extended to :—

(*a*) persons eligible to avail of the Foreign Travel Scheme, 1970 for visiting Afghanistan or Burma travelling by flights of Indian Airlines on round-trip tickets without any further ticket for travel to any other countries under the Scheme ; and

(*b*) persons who hold non-endorsable round-trip tickets issued under the Foreign Travel Scheme, 1970 for travel on the vessels of the Scindia Steam Navigation Co., Ltd.

Sale of Foreign Currency Notes and Coins

349. Until March 1971, the Exchange bureaux of Authorised dealers in foreign exchange and licensed money-changers functioning at air ports and docks were permitted to sell foreign currency notes and coins subject to prescribed limits and procedural formalities to outgoing travellers from India except

(*a*) transit passengers, and

(*b*) passengers holding open-dated tickets (including return tickets) issued outside India.

This facility has been extended with effect from March 23, 1971 to all travellers of Indian nationality including those falling under the excepted categories (*a*) and (*b*) mentioned above. In other words, sale of foreign currency notes and coins would be permissible to a traveller who is an Indian national (i.e., a person holding an Indian passport, whether issued in India or abroad), irrespective of the currency in which his ticket had been paid for and the place where the ticket had been issued.

Assistance to Refugees from East Bengal

350. As a measure of assistance to refugees from East Bengal, Authorised Dealers in foreign exchange have been permitted to open freely, without any exchange control formalities normally applicable to non-residents, current/savings/fixed deposit accounts in the names of persons who have come away from East Bengal and are temporarily resident in India. These accounts will be treated as resident accounts and operations thereon allowed freely.

Issue of Authorised Dealers' Licences

351. With a view to encouraging the smaller banks to participate in the foreign exchange business of the country, licences to deal in foreign exchange have recently been issued to the following banks : Benares State Bank Ltd., Varanasi, The New Bank of India Ltd., New Delhi, and Vijaya Bank Ltd., Bangalore.

352. The following table gives data relating to release of foreign exchange and number of 'P' Form applications approved for travel abroad for various purposes during the year ended June 1971.

Foreign Exchange permits and 'P' Form Approvals

I. Foreign Exchange Permits

Purpose of Travel	No. of Permits	Amount of Exchange Sanctioned (Rs. 000s)
Study/Training :		
(a) U.K. and Europe		
(i) Technical ..	501	35,18
(ii) Non-technical	625	28,45
(b) U.S.A. and Canada		
(i) Technical ..	2,366	5,78,38
(ii) Non-technical	1,182	2,58,44
(c) Other Countries		
(i) Technical ..	194	17,99
(ii) Non-technical	120	6,63
Business	10,892	6,58,72
Medical treatment ..	499	52,03
Study tour	850	33,43
Attending conferences ..	1,129	20,37
Miscellaneous	8,360	2,14,65
Total ..	**26,718**	**19,04,27**

II. 'P' Form :

Purpose of Travel	No. of 'P' Forms Approved
Joining Head of Family	11,838
Visit to Relatives	8,797
Export Promotion	196
Employment Abroad	4,352
Emigration for Permanent Settlement ..	7,916
Students/Trainees	3,256
Miscellaneous	19,741
Total	**56,096**

VI. SURVEYS AND SEMINARS ORGANISED BY THE RESERVE BANK

353. At the instance of the Government of India, the Bank sponsored an All-India Survey to assess the extent, nature and structural characteristics of indebtedness of non-manual employee households in urban areas. The National Sample Survey Organisation carried out the field work of canvassing an appropriate schedule in about 9,000 urban blocks in their 25th Round during 1970-71.

354. The Bank is finalising the arrangements for conducting the decennial "All-India Debt, and Investment Survey, 1971-72" in collaboration with the National Sample Survey Organisation of the Government of India and the State Governments.

355. The Department of Statistics prepared a study based on the analysis of the accounts of 1,501 non-Government, non-financial medium and large public limited companies for 1967-68 in collaboration with the Economic Department and published it in the October 1970 issue of the Bank's Bulletin. The Survey of Industrial Situation relating to the period January-June 1970 was published in the January 1971 issue of the Bank's Bulletin.

356. A Special Study on the Branch Expansion Activities of commercial banks and the performance of new branches for the period July 1969 to September 1970 was conducted in the Credit Planning Cell of the Bank. The study showed that a pronounced thrust towards both special and functional spread of commercial banking has followed the nationalisation of 14 major commercial banks in July 1969. Findings of the study were published as a supplement to the November 1970 issue of the Bank's Bulletin. A Special booklet containing (*i*) Special Credit

Schemes of Banks : Guidelines, (*ii*) Report of the Committee on Banks' Credit Schemes with reference to employment potential, (*iii*) Guarantee Schemes for Small loans to priority and neglected sectors, (*iv*) Guarantee Schemes for loans to Small-scale Industries and (*v*) Financing of Agriculture by Commercial Banks : Guidelines, was brought out by the Bank. This booklet was also published as a supplement to the February 1971 issue of the Bank's Bulletin. The Report of the Committee on Differential Interest Rates has also been published in a book form.

357. The last year's Report referred to the decision of placing on a continuing basis a survey, undertaken by the Division of International Finance, Economic Department, of unclassified receipts (*i.e.*, receipts in amounts below Rs. 10,000 or its equivalent for which no purpose-wise details are required to be reported to the Exchange Control Department by authorised dealers). The results of the survey of unclassified receipts during the quarter October-December 1969 were published in the March 1971 issue of the Bank's Bulletin. For the year 1970, the survey conducted covered the quarter July—September, the results of which are currently being processed. The survey for 1971, which covers the quarter April-June, is in progress. The survey of freight and passage fare payments and receipts relating to Indian and foreign shipping and airline companies continued to be undertaken by the Division of International Finance on an annual basis. The Division also continued to call for quarterly reports from branches of foreign companies and Indian joint-stock companies for the foreign investment survey. Based primarily on these reports, an article on "India's International Investment Position in 1967-68" was published in the March 1971 issue of the Bank's Bulletin. Besides presenting India's international investment position at the end of 1967-68, the article estimated broadly, on the basis of partial data, the position at the end of 1968-69. In addition, this study presented adjusted data on the country's overall balance of payments, taking into account the additional information derived from the foreign investment survey reports.

358. At the instance of the Agricultural Credit Department, the Division of Rural Surveys of the Economic Department undertook the Field Study of Savings Potential of Farmers in five selected districts in five States. The object of the study was to attempt an estimation of the savings potential of farmers resident in rural areas of the selected districts and to find out how and to what extent such deposit potential was being tapped by institutional agencies. The Division also conducted, jointly with the Agricultural Credit Department, another field study for the 'Assessment of Repaying Capacity and Valuation of Hypothec for Land Development Bank Loans' in five districts in five States. The object of the survey was to evolve a suitable methodology for enabling Land Development Banks to conduct field studies with the purpose of shifting their lending policies from security basis to production basis. Further, the methods of valuation of hypothec followed by the Land Development Banks were also sought to be studied, as the current methods of valuation were neither satisfactory nor scientific and needed to be replaced by the method of capitalising income as sugested by the All-India Rural Credit Review Committee. Further, the Division finalised the Report on the field study into availability of Co-operative Credit to Small Farmers. This study was undertaken in eight selected districts from eight States with a view to (*a*) assessing the availability of credit from co-operatives to small farmers for their agricultural needs, (*b*) appraising the main factors that influence the availability of such credit, and (*c*) examining whether vested interests were operating within the co-operatives and, if so, whether they affected the availability of credit to small farmers.

359. Besides these *ad hoc* surveys, the Division was engaged in two relatively long-term surveys. The object of one survey was to study the extent to which co-operative credit was contributing towards agricultural production and helping borrowers to increase their productive capacity, and that of another, was to study the credit and other related problems of small farmers in the context of different agro-economic environments in the country. The regular mailed question-

naire Survey of Co-operative Bank Advances and Deposits continued to be attended to. The Division also brought out a publication entitled 'Studies in Agricultural Credit.'

360. The results of the Survey of Finances of Local Authorities, 1965-66 and 1966-67, carried out by the Division of Fiscal Analysis, Economic Department, were published in the September 1970 issue of the Bank's Bulletin ; the data received for the Survey of Finances of Local Authorities for 1967-68 and 1968-69 are being processed. The Annual Survey of Ownership of Central and State Government Securities as on March 31, 1969 was published in the May 1971 issue of the Bank's Bulletin and the data received for the Survey as on March 31, 1970 are being processed.

VII. EDUCATION AND TRAINING

361. Prominent activities of the National Institute of Bank Management covering training, research and consultancy services to help the individual banks in improving their operational efficiency and performance during the year are indicated below :

362. During the year 1970, the NIBM conducted the following courses :

Courses

(1) Five one-week prototype field-workshops-cum-training programmes on Agricultural Finance for nearly 1,500 officers from banks, (2) Small-scale Industry Finance for training the Trainers in financing small-scale industry, (3) Instructors' Training Programmes primarily for one bank at a time ; training was imparted to participants from Bank of Baroda and Central Bank of India in 1970, (4) Training Programmes for Staff Training Colleges for Branch Managers, (5) Executive Development Programme consisting (*a*) Senior Executive Course meant for persons at the Regional Manager's level and (*b*) Advance Management Seminar meant for Deputy General Manager's/Assistant General Manager's level, (6) Functional Management Programmes—a two-week Manpower Development Programme for 28 participants, two from each bank, (7) Sectoral Management Programme on Export Finance for participants of Commercial banks, IDBI, ECGC, ICICI and Ministry of External Affairs, (8) Training Management Programmes to train the Instructors of the staff training colleges of Eastern region banks held at Calcutta for instructors from United Bank, United Commercial Bank and Allahabad Bank and (9) Overseas Training Programme conducted at the request of Bank of Bumiputra, Malaysia by one of the NIBM faculty members in Malaysia on Agricultural Finance.

Research

363. With a view to developing a better understanding of problems as well as to resolve practical problems, the Institute initiated research projects on various aspects of banking such as : environmental and management studies, credit and portfolio management, deposit mobilisation, credit research analysis, export potential development, integrated information and control system, management control system, manpower forecasting, industrial relations and communications, recruitment, etc.

Workshops

364. A Workshop on 'Recruitment and Selection' meant for Personnel Department Executives of Commercial Banks was held towards the end of December 1970. A Steering Group has been constituted for a high level workshop on 'Business Planning' to be held in mid-1971.

Teaching Material

365. In order to develop a more suitable training technology, the NIBM with the help of a few Staff Training College Instructors from the banks is preparing Programmed Learning Texts on : (*i*) Remittances, (*ii*) Safe Deposit Vault, and is working on, (*iii*) Scrutiny of Cheques, (*iv*) Deposit Accounts and (*v*) Collection. The Institute has planned to launch a major programme of preparing a large number of such self-instructional material to cover most repetitive banking operations. Further, number of teaching

cases were prepared by the Indian Institute of Management, Ahmedabad, for the use of the Senior Management Courses, which were organised during the year. The NIBM itself has collected a number of cases to add to this library. In addition, a number of business games and simulation exercises also have been prepared.

Publication and Information Dissemination

366. NIBM published reports on the 'workshops' organised by it on the following subjects :

(*i*) Financing Small-scale Industries, (*ii*) Financing Agriculture, (*iii*) Deposit Mobilisation, (*iv*) Customer Service, (*v*) Management Development in Banking Industry and (*vi*) Financing Exports. Two more publications of NIBM were : (*i*) Review Committee on the Training Programmes of Commercial Banks and (*ii*) *Directory of Courses* 1970-71, containing details of training courses conducted by the various Staff Training Colleges of Commercial Banks and other Research and Management Institutions.

Consultancy

367. The Institute has provided consultancy services to the Bank of India, the Indian Bank, the Andhra Bank and the Indian Overseas Bank for the selection of direct recruitment using the battery of tests which have been developed. Again the Institute is working with the Andhra Bank and the Indian Bank on a Business Development Consultancy. The aims of the consultancy are (*i*) Business Development Plan over a period of three to five years, (*ii*) Organisational structure of the bank to suit its changing character, and (*iii*) Manpower planning and management development, including training, to meet the future needs. The Institute has agreed to help the Union Bank and the Central Bank of India in the formulation and implementation of the management development programme. Progress has been made in (*i*) devising personnel inventory, (*ii*) job description leading to an appraisal system, and (*iii*) manpower planning. Both banks have agreed to make this information available to other banks.

General

368. On the basis of the work done in 1969 and in 1970, the NIBM has proposed for the year 1971, a major programme of work in the following : (*i*) the training of higher banking personnel, (*ii*) development of new training and teaching material, especially the self-instructional texts, (*iii*) a large number of important research projects, and (*iv*) expanded consultancy services particularly in areas of recruitment and selection testing, credit risk analysis and business development.

Bankers Training College

369. The Bank continued to sponsor and organise the training courses for the supervisory staff of commercial banks. During the period under review, the College conducted 4 Senior Courses, 3 Intermediate Courses, 2 courses each on Industrial Finance and Organisation and Methods and one course each on Foreign Exchange, and Personnel and Organisation. One course for supervisory inspection staff of commercial banks was also conducted. Two new courses introduced at the College during the period under review were : a course for legal officers of term-lending institutions and banks attending to term loan proposals, and a Credit Appraisal Course for the Officers of commercial banks in middle management level attending to appraisal of credit proposals for relatively large amounts. The total number of officials from banks and financial institutions who received training in the College during the period is 477 (including 3 officials from foreign countries). Since the inception of the College in 1954, 4,447 officials have received training in the different courses conducted by the College. The College proposes to institute soon a course on Project Appraisal (Financial) and a course on Market Analysis and Demand Projections for the officers of term-lending institutions as also for such officers of commercial banks who handle term loans. Recently, the College has also been assigned the task of conducting courses exclusively for the Bank's own officers. An inspection-oriented foreign exchange course for the officers of the DBO & D, and the first Central Banking Course I for the Staff Officers Grade I, were conducted during the period under review. The second Central

Banking Course I is at present in session at the College.

Co-operative Bankers Training College, Poona

370. The Bank also continued to arrange courses on co-perative banking for the personnel of State, central and urban co-operative banks and land development banks. During the period under review, two courses each for the managerial staff of State/central co-operative banks, urban co-operative banks and land development banks as also for branch agents of State/central co-operative banks were held at the College. On agricultural finance, one course each for the senior personnel and for the middle level personnel of commercial banks was conducted during the period. A special course on agricultural finance was organised for the Bank's officers of the DBO & D with a view to equiping them with the knowledge of latest development in the sphere of agricultural credit, particularly in the context of the lending portfolio of commercial banks.

371. The new courses introduced at the College during the period under review were : (*a*) a course for the managerial staff of State/primary land development banks, (*b*) a course for the managers/deputy managers of central banks financing industrial co-operatives, (*c*) a refresher course for the managerial staff of State/central co-operative banks, and (*d*) a refresher course for the managerial staff of urban co-operative banks. While the course for managerial staff of State/primary land development banks was arranged four times, the other courses were conducted once each during the period under review.

372. The total number of officials from the co-operative, the land development and the commercial banks who received training in the College during the period is 509 (including two officials from foreign countries). Since the inception of the College in 1969, 720 officials have received training in the different courses conducted by the College. The College also conducted a seminar for the staff teaching agricultural finance in colleges run by commercial banks. The Principal of the College has recently taken over the additional charge of the Vaikunth Mehta National Institute of Co-operative Management with which the Bank entered into a collaboration agreement last year.

Staff Training College, Madras

373. The Staff Training College, Madras continued to conduct the General Course on central banking for Staff Officers Grade II and Assistants, and the Inspection-oriented Course for officers of the DBO&D and the ACD, on a regular basis. The total number of employees who have so far received training in the College is 2,947.

Zonal Training Centres

374. The Zonal Training Centres at Bombay, Madras and New Delhi continued to conduct courses for the junior and senior clerks of the Bank. The Zonal Training Centre, Calcutta could not be reopened as expected due to certain administrative exigencies. The total number of clerical staff who have received training so far in the various Zonal Training Centres is 6,210.

Deputation of Staff

375. Under the standing arrangements with the Administrative Staff College of India, Hyderabad, the Bank's officers were deputed to attend management development courses conducted by the College. Officers were also sent to participate in some of the courses conducted by the Bankers Training College for the officers of commercial banks and financial institutions as also to short-term courses on management development organised by the All-India Management and State level Associations, Productivity Councils, Management Institutes and a few other similar institutes. During the period under review, the Bank also deputed its officers to participate in the 8th SEANZA Central Banking Course held in Manila, the Central Banking Course conducted by the Bank of England, and other courses of interest to the Bank organised by some foreign institutes. Officers were also deputed for study visits/training to banking and financial institutions in the U.K., Japan, West Germany, Australia, Indonesia, etc.

Promotion of Hindi in R.B.I.

376. During the year under review, the Bank brought out the Hindi version of the Annual Report on the Working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1970 with annexures of selected statements in Hindi from the Report on Currency and Finance, 1969-70 and the Hindi version of important circulars issued by the Bank to scheduled commercial banks. The Bank continued to offer assistance to the Industrial Development Bank of India, Agricultural Refinance Corporation, Unit Trust of India and Deposit Insurance Corporation for Hindi translation and publication of their Annual Reports. The revised edition of the Functions and Working of the Reserve Bank of India and the non-statutory portion of the revised Exchange Control Manual (sixth edition) were translated into Hindi and the latter was furnished to Government. The Bank also brought out a Hindi version of the forms, to be supplied to the Registrars of Co-operative Societies in Hindi-speaking States, for collection of statistics relating to the Co-operative Movement in India.

377. In compliance with the provisions of the Official Languages Act, 1963, as amended in 1967, the Bank continued to issue Press Communiques/Notes/Releases/Summaries, Notices, Advertisements and Notifications simultaneously in English and Hindi. Letters and communications received in Hindi from the public, the Central Government and the State Governments were entertained and replied to in Hindi wherever necessary.

378. The Hindi classes continued to be conducted by the Bank under its own teaching scheme at various centres on voluntary basis for the benefit of the Bank's staff. The incentives provided for acquiring proficiency in Hindi were continued during the year under review. With a view to encouraging the typists of the Bank to learn Hindi typewriting, the incentive of honorarium has been offered for passing the Hindi Typewriting Examination.

VIII. ACCOUNTS AND OTHER MATTERS

379. During the accounting year ended June 30, 1971, the Bank's income, after making statutory and other provisions, amounted to Rs. 136.46 crores as against Rs. 105.45 crores in the previous year. The total expenditure for the year amounted to Rs. 36.46 crores as against Rs. 30.45 crores in the previous year. The net profit set aside for payment to Central Government was Rs. 100 crores as against Rs. 75 crores paid last year.

380. 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 were Rs. 18 crores, Rs. 2 crores and Rs. 40 crores, respectively, as against Rs. 17 crores, Rs. 2 crores and Rs. 20 crores, respectively, during 1969-70.

381. The rise of Rs. 31.01 crores in the income during 1970-71 was mainly due to increased interest earned on investments in securities, loans and advances to State Governments, banks, etc., as also larger discount on Rupee Treasury Bills. The increase of Rs. 6.01 crores in the expenditure was mainly on account of establishment charges owing to the payment of (*i*) arrears of salary consequent on revision of pay scales of Staff in Classes II, III and IV and (*ii*) interim relief and *ad hoc* refixation of salaries of Officer Staff.

Auditors

382. The accounts of the Bank have been audited by M/s. A. F. Ferguson & Co., Bombay, M/s. Ray and Ray, Calcutta, M/s. Suri & Co., Madras and M/s. Thakur Vaidyanath Aiyar & Co., New Delhi who were appointed by the Government of India as auditors of Reserve Bank of India by the notification No. F. 3(50)-BC/69 dated the 28th April 1971 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act. With a view to ensuring a wider coverage of offices of the Bank by the Bank's statutory auditors, the books