RESERVE BANK OF INDIA

ANNUAL REPORT AND TREND AND PROGRESS OF BANKING IN INDIA

1971-72

Reserve Bank of India

Report of the Central Board of Directors on Working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1972. 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 1972

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

AHMEDABAD

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

LETTER OF TRANSMITTAL

Reserve Bank of India.
Central Office,
Bombay.

August 18, 1972

Sravana 27, 1894 (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 1972 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 1972.

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, 1971—June 30, 1972

I. TRENDS IN THE ECONOMY

The dominant feature of the Indian economy during the period July 1971 - June 1972 was the resilience it demonstrated under conditions of unexpected and large increases in domestic expenditure. These increases arose primarily from the influx of refugees from across the border in the East and subsequently the conflict with Pakistan in December 1971 ; they also derived in part from the continuation of Government policies, both at the Centre and in the States, seeking the multiple plan objectives of growth in output, greater social justice and increased self-reliance. Since not all of the addition to domestic spending was matched by increases in industrial and agricultural outputs, the excess demand manifested itself both in higher prices and a bigger trade deficit. The latter was financed through larger utilisation of foreign assistance already available rather than any net draft on foreign exchange reserves. The effects on domestic prices, however, could not be avoided but only moderated and postponed. This was based partly on larger issues from Government's food stocks in the pre-harvest period. But the main efforts undertaken were in the fiscal and monetary fields, to restrain private spending when Government expenditures were rising steeply. Price increases between September 1971 and March 1972 were fairly small reflecting the usual seasonal pattern, but since then, the rise has been larger than anticipated and rather disconcerting.

2. Within this overall picture, changes in the different sectors of the economy took different forms depending on the particular forces operating on them. Not all of these changes or their causes can be precisely identified at this stage ; available information makes it possible to assess only some of them and that too in approximate terms. For example, while there are no data pertaining to private consumption expenditure as such, the trends in aggregate monetary resources indicate an increase in household savings, particularly financial savings, in absolute magnitude as well as in comparison with the Net Domestic Product (NDP) at market prices. Likewise, enough information is available to show that in the Government sector the relative share of consumption expenditure increased at the expense of public savings. In the aggregate, it would appear that domestic saving at current prices constituted a somewhat higher proportion of Net Domestic Product in 1971-72 than in the previous year; and since aid utilisation also was higher, the inflow of foreign resources available for financing investment increased relatively to 1970-71. It thus emerges that despite the unusual circumstances of the year under review, total domestic investment formed a higher proportion of NDP than in the previous years, as may be observed from the table given below. It is important to note that along with this increase, there was also a sizeable increase in prices ; hence the achievement in real terms was probably less impressive.

Table 1 :—Provisional Estimates of Savings and Investment as Per Cent of NDP at Market Prices

Financial Year	1968-69	1969-70	1970-71	1971-72	1973-74 (Mid-term Appraisal Estimate)
1. Domestic saving	8·2	8·6	9·4	10·0	10·2(11·9)
2. Inflow of foreign resources	1·3	0·7	1·1	1·5	0·9(1·2)
3. Investment (1+2)	9·5	9·3	10·5	11·5	11·1(13·1)

(Figures within brackets show ratios implied in the Fourth Plan Document).

3. It will be observed from the data given in subsequent paragraphs that much the larger part of the increase in domestic saving during 1971-72 is reflected in the large increase of aggregate monetary resources with the public. Indeed, while both currency with the public and the deposits of scheduled commercial banks grew during the year under review, the increase in the latter was at a much faster rate than at any time previously. Again reckoned in current prices, this growth was of the order of 21 per cent compared to 17.9 per cent in the previous year ; and within the area of bank deposits, savings and time deposits have risen much faster than demand deposits. Since on the credit side, the general policy was one of restraint and industrial borrowing was slack, deposit accretion outpaced the growth in bank advances, leaving the banks in a highly liquid position.

4. The position at the end of June 1972 was, therefore, one in which the public commanded, both in terms of currency and in the form of bank deposits, a large stock of potential demand, while output trends in the commodity sectors were anything but comfortable. The cushion against further price increases consisted of food stocks amounting to 8.9 million tonnes and to some extent those of raw cotton and jute. For the rest, larger supplies to meet any increase in demand clearly require an upturn in industrial production and a good monsoon ; they also depend on the maintenance of, if not an increase in, imported raw materials and capital goods.

5. Concurrently with these events within the country, there occurred, in the international monetary sphere, changes of a far reaching nature, with implications for India's trade and external payments. Commencing with the U.S. decision in August 1971 to end dollar convertibility as also official support to parity and culminating with the U.K.'s decision in June 1972 to float the pound sterling, the year witnessed a complete change from the Bretton Woods arrangement of fixed parities and defined obligations in the matter of exchange relations. These fluctuations and uncertainties in the international monetary arrangements have inevitably had repercussions on the trade and aid benefits available to developing countries, including India. Having continued the old parity with the dollar until December 1971, the Indian rupee participated in the general realignment of currencies resulting from the monetary agreements of December 1971 and established its central rate for exchange with sterling, subject to the accepted margin of $2\frac{1}{4}$ per cent for fluctuations in either direction. The floating of the pound sterling last June has not resulted in any change in India's policy in this regard.

6. These changes in the exchange system have been a factor additional to tariff and non-tariff barriers abroad affecting India's exports. Export earnings during the fiscal year 1971-72 (April-March) were larger than the previous year's total by only Rs. 32 crores or about 2 per cent.* This was despite the fact that considerable benefit accrued to Indian jute exports because of the closure of mills in Bangladesh for a substantial part of the year. While some of the deceleration in the growth rate of exports was attributable to the external factors mentioned above, there were equally weighty elements within the economy, such as lower levels of output and cost and price increases which contributed to reduced exports of certain commodities.

7. Clearly, a much higher growth in exports than in 1971-72 will be required if the import requirements of the economy are to be met adequately in the future, without undue reliance on aid or an undue draft on foreign exchange reserves. Both for checking a further rise in domestic prices and achieving higher exports, policy has therefore to be directed towards establishing a more viable relationship between rise in domestic expenditure and increases in aggregate output. Since in the coming years an increasingly large part of domestic expenditure will arise from plan and non-plan outlays in the Government sector, the present situation warrants the pursuit of a policy based on minimal resort to deficit financing. Simultaneously, it will be essential to direct the additional deposits mobilised within the banking system to the attainment of larger production and more employment in the economy. It is hoped that these conclusions emerging from developments in the last year

* These figures are based on D.G.C.I.S. data. As will be explained in paragraph 80, if adjustment is made for the change in the recording of exports in 1970-71, the percentage increase in exports in 1971-72 over the previous year would be larger than 2 per cent.

will be taken into consideration in the formulation of the Fifth Plan.

Output, Prices and Policy Measures

8. We turn now to the details of developments in the period July 1971-June 1972.

National Income

Production trends in the economy indicate that the increase in real national income (at 1960-61 prices) was somewhat less than 4 per cent in the fiscal year 1971-72, compared to increases of 5.3 per cent and 4.7 per cent recorded in 1969-70 and 1970-71, respectively. With this record for the first three years of the Fourth Plan, national income would have to grow at a rate of about 7 per cent in the remaining two years if the target (5.5 per cent per annum) postulated in the Fourth Five-Year Plan is to be achieved.

9. The deceleration in national income growth was caused by a decline in the growth rates of both commodity sectors.

Agricultural Output and Supply

Agricultural production which had increased at an average rate of 7 per cent during the preceding two years is likely to show a much smaller rise in 1971-72. Largely because of a decline of about 2.7 million tonnes in bajra, the output of coarse grains has failed to keep pace with the trends in major cereals. Coupled with the shortfalls in pulses, indications are that the foodgrains output may not equal last year's level of 108 million tonnes. This is somewhat of a setback particularly in view of the fact that the area under high-yielding varieties programme was expanded during the year.

10. In spite of stagnation in current output, the foodgrains supply situation was comfortable during 1971-72 because of stocks with the Government. The fall in imports of foodgrains was offset by a sufficiently large rise in the quantity domestically procured, thereby increasing the level of end-year stocks. Foodgrains stocks at the end of June 1972 were 8.9 million tonnes as compared to 8.4 million tonnes last year. Of the total stocks, rice constituted 2.5 million tonnes and wheat 6.1 million tonnes. While this position constitutes a vantage starting point for food management in the coming year, it also indicates that there was not a sufficient drawal on stocks to mitigate the increase in foodgrains prices during the last few months.

11. Among the commercial crops, again, the situation is a mixed one. While cotton and jute have recorded increases in output, the production of oilseeds and sugarcane has declined. Cotton output in 1971-72 estimated by trade at more than 7 million bales sets a new record ; the increase over the year, however, has to be viewed against a relatively low level of output of 5.7 million bales estimated by trade for 1970-71. Jute and mesta also showed an increase of 0.6 million bales to reach a level of 6.8 million bales. Output of five major oilseeds, on the other hand, which had risen substantially in 1970-71 to reach a level of 9.2 million tonnes, is expected to be lower by about a million tonnes in the year under review ; groundnut output is placed lower at 5.7 million tonnes, as against 6.1 million tonnes last year. Sugarcane production, which had declined from the 1969-70 peak level of 13.8 million tonnes to 13.2 million tonnes in 1970-71, is expected to decline further to 12.8 million tonnes in 1971-72.

12. Despite these annual variations, agricultural output generally and that of foodgrains in particular has been showing a rising trend following the adoption of the new agricultural strategy in 1966-67. The coverage of high-yielding varieties programme is expected to reach the target of 18 million hectares fixed for the year as against 14.6 million hectares achieved in 1970-71. Unlike in the previous two years, consumption of chemical fertilizers recorded a substantial rate of increase during 1971-72. The situation, however, does not admit of complacency ; while progress is faster than scheduled in the case of wheat, in others—particularly in jowar, maize and pulses—it has been slower than envisaged. In the case of rice—the most important cereal crop in the country—the initial problems that inhibited the success of high-yielding varieties programmes are being gradually overcome with the release of suitable high-yielding strains with superior grain quality and resistance to pests and diseases. Thus a very considerable part of the potential benefits of the new strategy still remains to be garnered.

13. A problem associated with the proper management of foodgrains is that of storage

and transport. The total storage capacity with the Food Corporation of India (FCI) increased from 7.2 million tonnes in 1970-71 to 8.3 million tonnes in 1971-72 (inclusive of 4.2 million tonnes capacity hired from other Government and private sources). Even so the existing capacity is inadequate in relation to rising storage requirements and the FCI's efforts to construct additional *silos*, particularly in heavy procurement areas of Punjab, Rajasthan and U.P., have suffered on account of steel scarcity. As for transport, inadequate wagon availability on both the broad and meter-gauge systems during the last few years has come in the way of smooth and timely movement of grains from producing centres to the large consuming markets. A large procurement and buffer stocks programme for foodgrains can succeed in the object of evening out fluctuations in different parts of the country only if these impediments are removed and efficient systems of storage and transportation of foodgrains to urban markets assured.

Industrial Output

14. The growth of industrial output has been decelerating for the last three years ; it has declined from 7.1 per cent in 1969 to 4.8 per cent in 1970 and was only 2.9 per cent in 1971, or less than half of the target rate of 8 to 10 per cent envisaged in the Fourth Five-Year Plan.

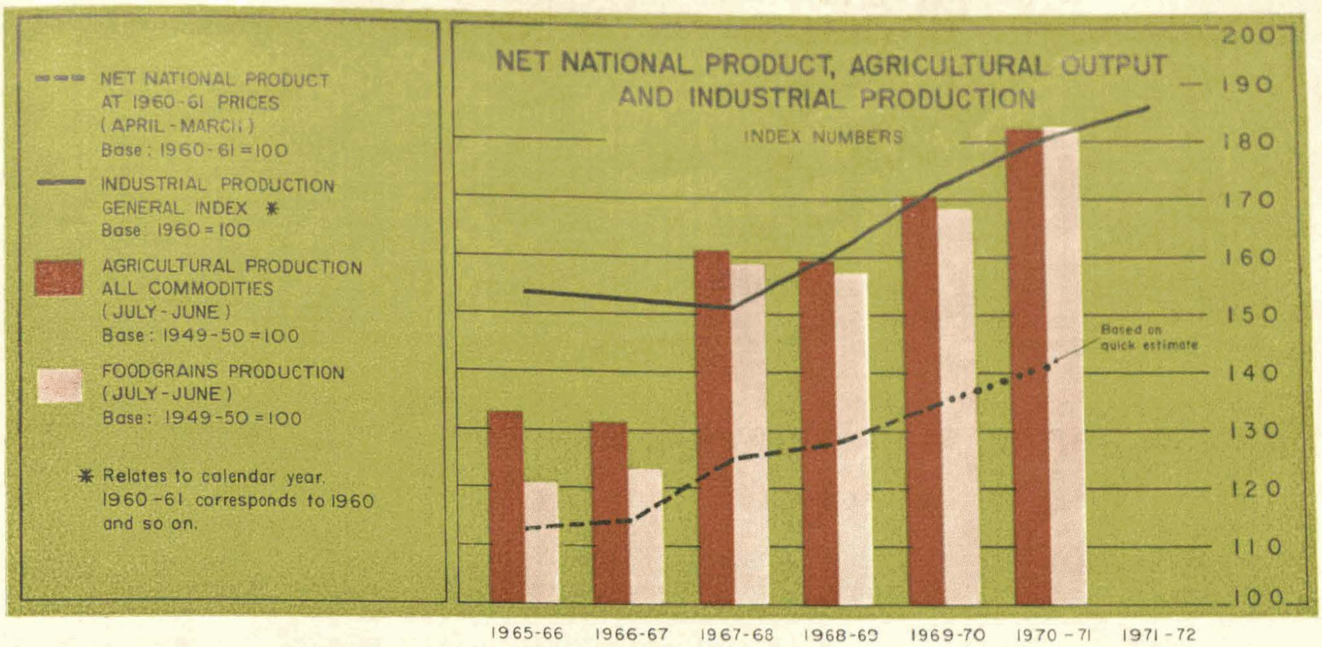
15. A classification of industrial groups by size of their annual growth rates shows that industries recording absolute declines in output have steadily increased from 24 per cent (by weightage) in 1968 to 38 per cent in 1971. Correspondingly, the weightage of industries showing increases in output has gone down from 74 per cent to 60 per cent in the same period.

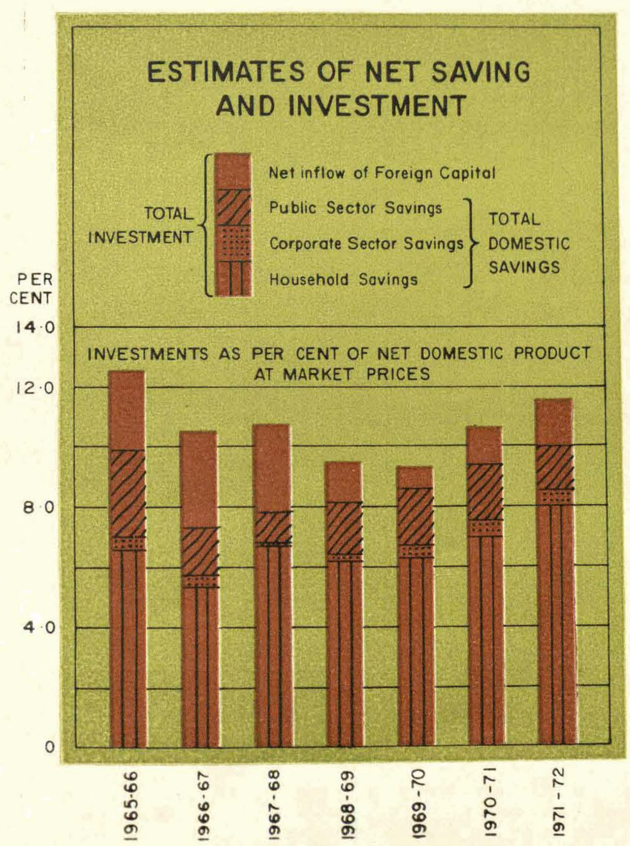
Table 2 :—Classification of Industries by their Growth Rates

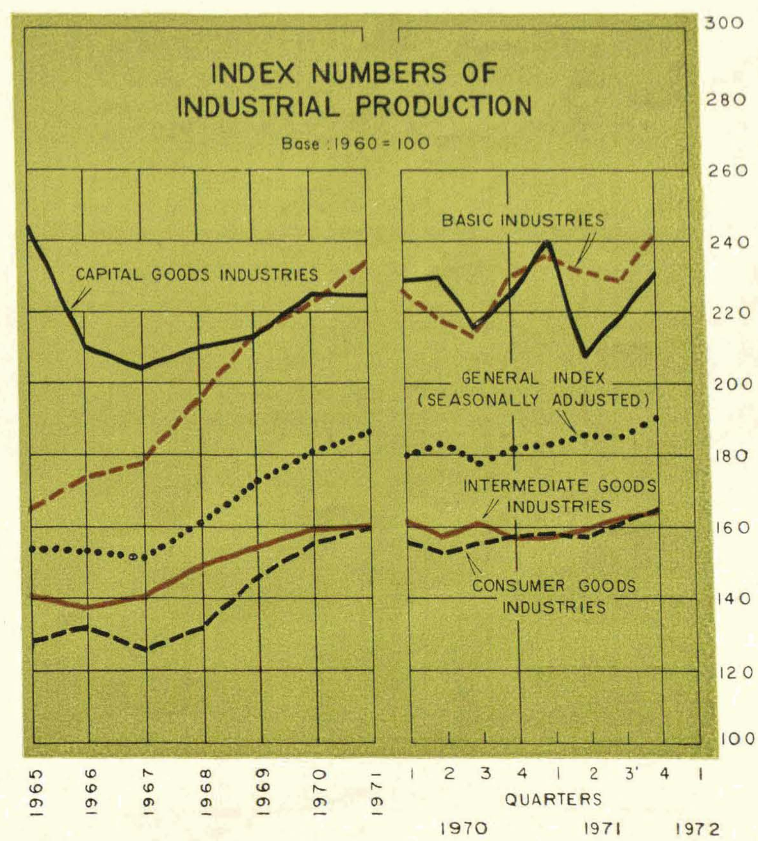
Range of Growth Rates@	In terms of Weights in the General Index (1960=100)				
	1967	1968	1969	1970	1971
Absolute Decline					
Moderate : Less than 5 per cent	35·68	4·43	16·61	16·10	19·98
Marked : 5 per cent and above	25·48	19·04	12·15	13·24	17·59
Of which,					
(i) 10 per cent and above	13·93	9·18	9·79	6·13	5·30
	61·16	**23·47**	**28·76**	**31·34**	**37·57**
Increase					
Moderate : Less than 5 per cent	15·34	23·81	26·69	27·78	27·99
Marked : 5 per cent and above	21·02	50·24	42·07	38·40	31·96
Of which,					
(i) 10 per cent and above	13·20	25·68	28·10	22·42	15·72
	36·36	**74·05**	**68·76**	**66·18**	**59·95**
Total Weight	97·52*	97·52*	97·52*	97·52*	97·52*

@ Growth Rates represent percentage increases over the respective preceding years.

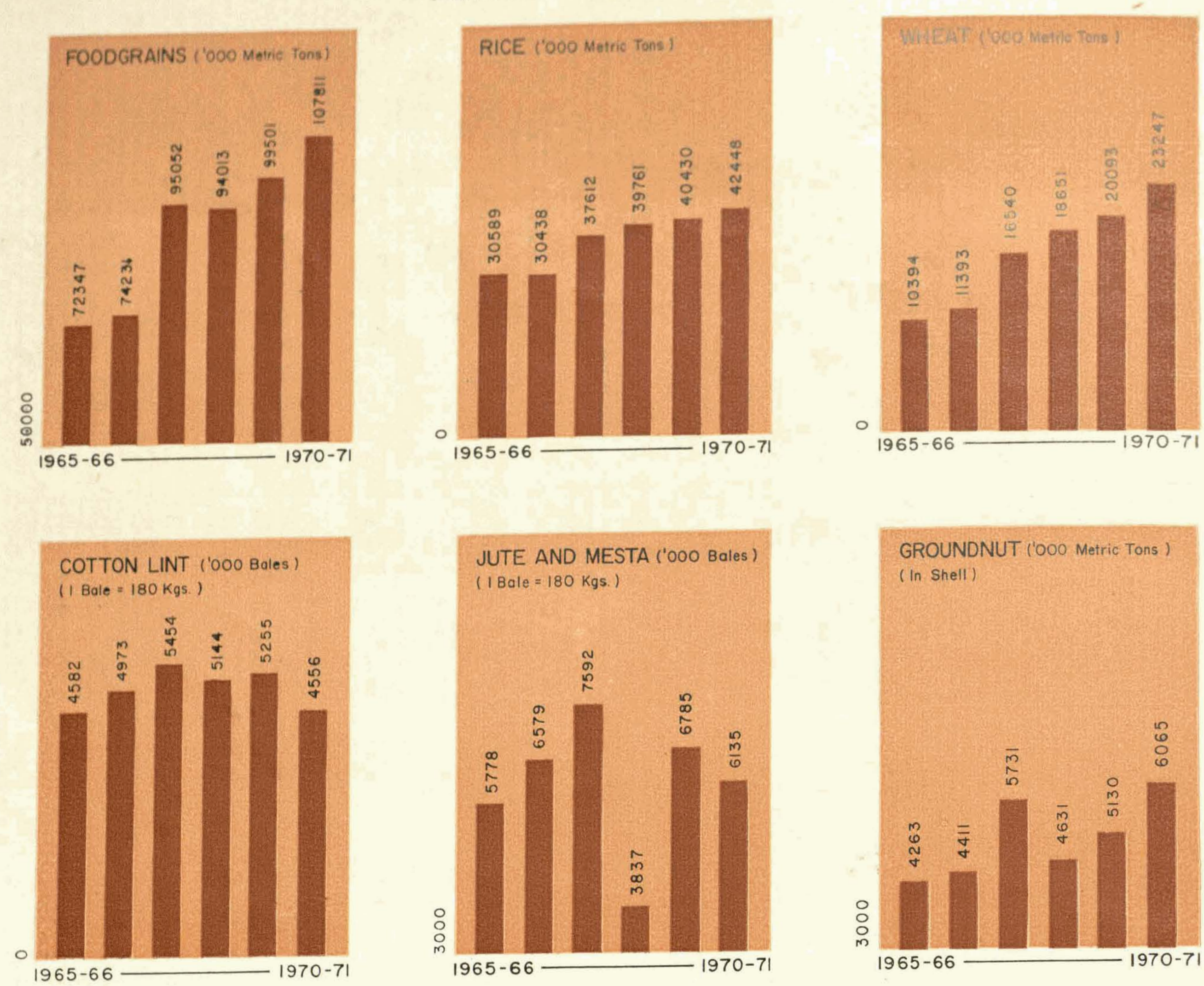
* C.S.O. does not regularly publish the index of industries with the balance of 2·48 percentage points of weightage.


NET NATIONAL PRODUCT, AGRICULTURAL OUTPUT AND INDUSTRIAL PRODUCTION
INDEX NUMBERS
NET NATIONAL PRODUCT AT 1960-61 PRICES (APRIL-MARCH) Base: 1960-61 = 100
INDUSTRIAL PRODUCTION GENERAL INDEX * Base: 1960 = 100
AGRICULTURAL PRODUCTION ALL COMMODITIES (JULY-JUNE) Base: 1949-50 = 100
FOODGRAINS PRODUCTION (JULY-JUNE) Base: 1949-50 = 100
* Relates to calendar year. 1960-61 corresponds to 1960 and so on.
Based on quick estimate
200
190
180
170
160
150
140
130
120
110
100
1965-66
1966-67
1967-68
1968-69
1969-70
1970-71
1971-72


ESTIMATES OF NET SAVING AND INVESTMENT
TOTAL INVESTMENT
Net inflow of Foreign Capital
Public Sector Savings
Corporate Sector Savings
Household Savings
TOTAL DOMESTIC SAVINGS
INVESTMENTS AS PER CENT OF NET DOMESTIC PRODUCT AT MARKET PRICES
PER CENT
14·0
12·0
8·0
4·0
0
1965-66
1966-67
1967-68
1968-69
1969-70
1970-71
1971-72

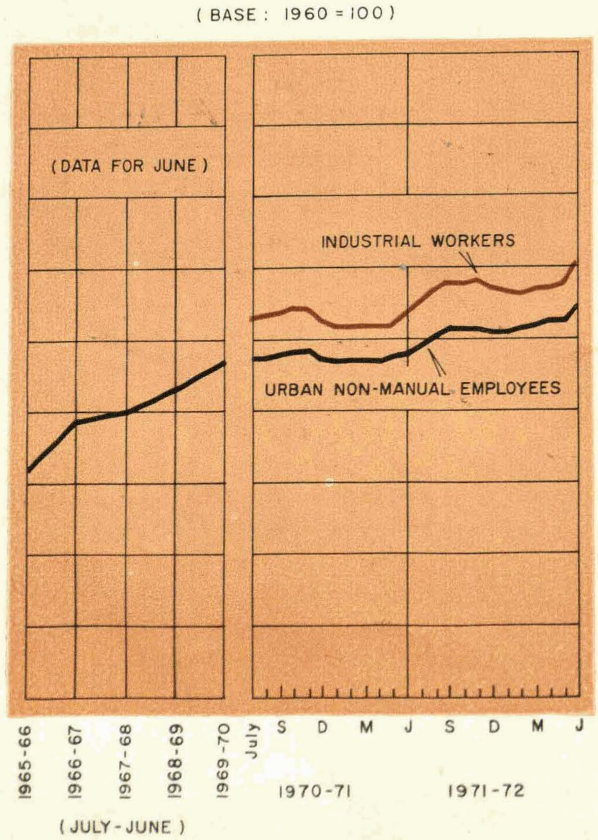

INDEX NUMBERS OF INDUSTRIAL PRODUCTION
Base: 1960 = 100
CAPITAL GOODS INDUSTRIES
BASIC INDUSTRIES
GENERAL INDEX (SEASONALLY ADJUSTED)
INTERMEDIATE GOODS INDUSTRIES
CONSUMER GOODS INDUSTRIES
300
280
260
240
220
200
180
160
140
120
100
1965
1966
1967
1968
1969
1970
1971
1 2 3 4 1 2 3 4 1
QUARTERS
1970
1971
1972

AGRICULTURAL PRODUCTION



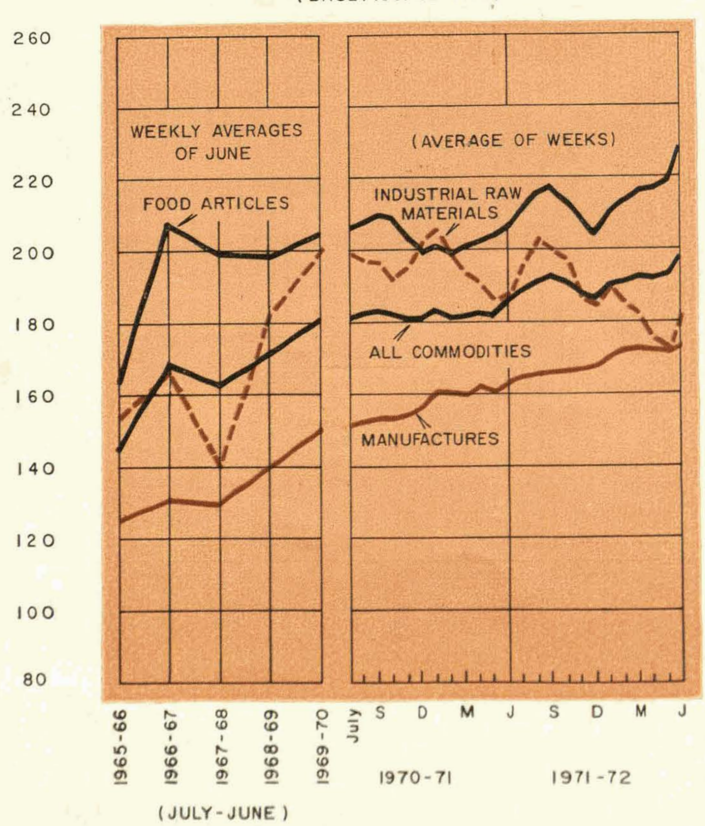
CONSUMER PRICE INDEX NUMBERS ALL-INDIA

(BASE: 1960 = 100)



INDEX NUMBERS OF WHOLESALE PRICES BY GROUPS

(BASE: 1961-62 = 100)



16. Industries showing marked declines of 5 per cent and above in 1971 accounted for about 18 per cent of the total weightage. Included in this group were cotton spinning, industrial machinery, railroad equipment and sugar. Industries showing declines of less than 5 per cent were iron and steel, weaving of cotton textiles and motor cycles and bicycles. Among the industries which showed increases in output in 1971, the weightage of those with increases of 5 per cent and above, came down from 38 to 32 per cent and those which showed increases of 10 per cent and above accounted for 16 per cent as against 22 per cent in 1970. Industries showing marked increases included basic chemicals, cement, all non-ferrous metals, electricity generation and vanaspati.

17. Supply bottlenecks as well as demand constraints were responsible for the persistent declining trend in the overall growth rate of industrial output. Among the former set of factors were shortages of raw materials like raw cotton and oilseeds and basic industrial materials like steel and non-ferrous metals. These shortages contributed to lower production in other industries also. The decline in the output of finished steel, for instance, from 4.8 million tonnes in 1970-71 to 4.6 million tonnes in 1971-72, though marginal, created serious problems for steel-using industries whose increasing demand could be eased only to a limited extent through imports. Accumulation of coal and cement stocks was caused by bottlenecks in rail transport, though slackness in demand for cement from construction activities and for coal from metallurgical consumers also affected their output. Organizational and labour relations problems in some critical sectors such as steel, automobiles and allied industries further contributed to this slack in industrial output. In addition, power shortages also seriously affected the output of some industries.

18. There were some industries which did not work at full capacity because of continued sluggishness in demand. Among these were investment goods industries like steel pipes and tubes, railway wagons building and almost all important machinery manufacturing industries (such as of cement, tea, printing and leather). They have not only been experiencing considerable under-utilisation of capacity but the rate of utilisation has also come down during the past two years. Some of the industries such as steel castings and machine tools, have doubtless shown improvement in the rate of capacity utilisation in 1971 ; even so, they still have substantial capacity unutilised. As mentioned earlier, in a few cases shortages of raw materials, power, etc., contributed to this situation ; however, in all these cases, the major factor responsible for the decline in the growth of output was the persistent sluggishness in demand. There were, on the other hand, certain industries, the demand for which was not a restraining factor, but their output suffered because of lack of capacity. These included paper and paper products, caustic soda, soda ash, automobiles, and agricultural tractors. Both these factors, *viz.*, sluggishness in demand for investment goods and insufficient capacity can be traced to relatively slow increase in aggregate investment during the last few years.

19. The outlook for industrial output in 1972 is somewhat better than in the previous year. There has been an easing of raw material shortages in some cases. For instance, supply of raw cotton for the textile industry has improved but the future outlook has again become uncertain. An increase in investment activity is expected to have a favourable impact on the demand for industrial products. The Government has also taken some measures to encourage industrial output. Blanket permission has been given in January 1972 to 54 critical industries to expand output and diversify to the extent of about 100 per cent above their licensed capacity. The impact of this policy on output has yet to be seen although it may be observed that regulatory constraints on the installation of capital equipment and machinery even in the case of these 54 industries may dampen the effect of the new policy. Special measures have also been adopted to correct organizational deficiencies in the implementation of new public sector projects as well as the working of existing plants. As against these favourable elements, shortages continue in certain fields, such as vanaspati manufacturing industry which is suffering from an inadequate supply of oilseeds. Similarly raw jute output during 1972-73 is now placed at a low level which may affect the output of jute textiles in the second half of 1972.

20. With these trends in output, increased internal demand naturally worsened the price situation. Between June 1971 and June 1972, there was a sharp rise in the wholesale price index of 6.8 per cent which was more than double that in the previous year. With the single exception of industrial raw materials, all the major groups included in the price index shared in the rise. Foodgrains prices, which had declined by 2.4 per cent in 1970-71 (July-June), increased by more than 14 per cent and the prices of manufactured articles showed a rise of more than 5 per cent, on top of an increase of 8.6 per cent in the previous year. In the foodgrains group, prices increased not only in the case of coarse grains and pulses whose output had declined but in respect of wheat as well, despite increase in its output. Rice and wheat prices went up by 10.1 per cent and 3.8 per cent in the year under review in contrast to declines of 2.1 per cent and 2.9 per cent, respectively, in the preceding year. Among other essential commodities the price of sugar shot up by 27.5 per cent over the year. It was only in raw cotton prices, which had increased by more than 20 per cent in the previous year, that there was a sharp fall of over 31 per cent in the year under review, owing to an estimated rise of more than 26 per cent in overall output. The prices of all the other industrial raw materials, *e.g.*, raw jute, oilseeds and sugarcane recorded varying degrees of increases. Similarly in the manufactured articles group, prices of all the important products like cotton manufactures, jute manufactures, chemical products, iron and steel manufactures and paper products showed increases.

Price Situation

21. In consonance with the uptrend in the general price level especially in prices of foodgrains and sugar, consumer price index numbers (*Base:* 1960=100), represented by the all-India Consumer Price Index Numbers for Industrial Workers and Consumer Price Index Numbers for Urban Non-Manual Employees, have also moved up. The average Index for Industrial Workers increased from 186 in 1970-71 (July-June) to 195 during 1971-72 (July-June), recording a larger rise of 4.8 per cent as compared to 3.9 per cent in 1970-71 over 1969-70. The average Index for Urban Non-Manual Employees too rose by 4.6 per cent in 1971-72 (July-June) over 1970-71 as against a rise of 3.6 per cent in 1970-71 over 1969-70. Continuation of this upward pressure on the cost of living has serious cost implications because many establishments in the public and private sectors have clauses linking the wage bill to cost of living variations.

22. While outputs in many cases either declined or rose only by a small percentage, trends on the monetary side were quite the other way. Aggregate monetary spending grew at a faster rate than last year ; this is what emerges, whether we take money supply with the public or aggregate monetary resources as an index of total monetary expenditure in the economy. In conjunction with supply limitations, such an increase in monetary spending could only be consistent with higher prices.

23. Continuation of procurement prices at the previous year's level had the effect of preventing price declines when the new rabi crop arrived in the market. Thus, when the supply position in the market was one of surplus, procurement operations of the Food Corporation of India virtually provided a floor to the farmer's selling price. Urban consumers, therefore, could not benefit from lower prices when adequate supplies were available in the market and the situation for them has worsened recently. In recent weeks owing largely to a short supply in coarse grains as well as to some drought damage to the current year's kharif crop prospects, market prices of wheat along with those of other foodgrains have risen to levels somewhat higher than procurement prices. It is to be noted that small farmers, those who had little or no surplus to sell, or who, having sold part of the output earlier were obliged to buy when prices had gone up, were unable to benefit in this situation. Against this background and in view of the recent price increases, it is all the more important that larger releases through regulated channels are made to prevent further rise in consumer prices. Furthermore, the maintenance of current levels of procurement prices has created the problem of inter-crop imbalances resulting in a shift recently of acreage away from pulses and certain cash crops such as cotton which also are important.

24. The basic point here is that a situation has been created where a decline in production gets immediately reflected in a rise in prices whereas increase in production does not result in a commensurate benefit to the consumer. It may be added that sharp fluctuations in the output and prices of cash crops like raw cotton and raw jute also adversely affect industrial output and balance of payments. Hence the thrust of policy in administering the prices of different commodities should clearly be in the direction of maintaining them at stable levels; but in deciding what these levels should be, it is necessary to keep in mind the income requirements of farmers as well as the interests of the consumer.

BUDGETARY OPERATIONS*

Combined Position of Central and State Governments

25. We turn now to trends in the components of aggregate national expenditure, increases in which contributed to the price situation described above. Starting with the operations of the Central and State Governments, their overall budget deficit@ amounted to Rs. 631 crores** in 1971-72, thus showing a considerable deterioration from the position in 1970-71 (accounts) when the overall deficit amounted to Rs. 431 crores. Compared to the budget estimates for the year, the 1971-72 deficit was higher by Rs. 244 crores. This divergence from the anticipated magnitude arose not because total receipts were less but because total disbursements were much greater than originally budgeted. For 1972-73, after taking into account the yield from additional measures for resource mobilization, the combined overall deficit is estimated at Rs. 242 crores (Table 3).

Trends in Disbursements†

26. Total disbursements (including loans and advances) of the Central and State Governments which had increased by 11.4 per cent in 1969-70 and 9.5 per cent in 1970-71 shot up by 16.5 per cent to Rs. 10,481 crores in 1971-72. Developmental outlay which was anticipated in the budgets of 1971-72 to rise by 15.5 per cent actually rose by 17.4 per cent. But the increase in non-developmental outlay was much sharper; instead of rising by 1.7 per cent it went up by 19.8 per cent. This rise in non-developmental expenditure was mainly on account of additional expenditures on defence, refugee relief and famine relief, which together accounted for Rs. 560 crores of the increase over the original provision. Budget estimates for 1972-73 have provided for a step-up in developmental outlay of 10 per cent and a decline in non-developmental outlay of about 1 per cent. The lower percentage increase in developmental outlay budgeted for 1972-73 is mainly due to the smaller rise in the provisions made by State Governments for education, agriculture, medical and public health and civil works.

Trends in Receipts

27. On the receipts side there was a large rise under both tax and capital receipts. Aggregate tax receipts which had increased by 12.2 per cent in 1969-70 and 13.2 per cent in 1970-71 rose further by 16.5 per cent in 1971-72; Central taxes (inclusive of States' share) increased by larger percentage (20 per cent) in 1971-72 than the States' own tax revenue which rose by 10.2 per cent.

Budgetary Operations of the State Governments—1971-72

28. The combined budgetary deficit* of all the States was Rs. 246 crores in 1971-72—Rs. 92 crores higher than anticipated (Table 4). This was in spite of the fact that the aggregate receipts of the States increased by 21 per cent to Rs. 6313 crores, compared to an increase of a little more than 7 per cent anticipated in the budget. Whereas their own revenue receipts were only slightly higher than anticipated in the budget, resources transferred from the Centre (including gross loans) were very much

* Figures in this Section relate to fiscal years; figures for 1971-72 refer to revised estimates, unless mentioned otherwise.

@ The above figures of the deficit of the Centre are as given in the budget papers; for the concept of the States' deficit, see footnote to paragraph 28.

** On the basis of final accounts the deficit was larger.

† Figures in this paragraph have been adjusted for conversion of loans into equity and transfer to Contingency Fund of India. (See footnote 2 to Table 3 on page 8).

* The withdrawal from cash balances, net sales of securities held by States in their cash balances investment account, net transfer from Revenue Reserve Funds of States and budget figures of net increase in ways and means advances and overdraft from the Reserve Bank of India.

Table 3:—Combined Receipts and Disbursements of Central and State Governments

(Amounts in Rupees Crores)

	1970-71 (Accounts)		1971-72 (Budget Estimates)*		1971-72 (Revised Estimates)		1972-73 (Budget Estimates)*	
	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)	**8564**	**+ 4·1**	**9432**	**+10·1**	**10132 (9850)**	**+18·3 (+15·0)**	**10581 (10651)**	**+ 4·4 (+ 8·1)**
A. Revenue Receipts	5958	+ 10·5	6665	+11·9	7043	+18·2	7842	+11·3
of which:								
Tax Receipts	4735	+ 13·2	5261	+11·1	5516	+16·5	6322	+14·6
B. Capital Receipts	2606	− 8·1	2767	+ 6·2	3089 (2807)	+18·5 (+ 7·7)	2739 (2809)	−11·3 (+ 0·1)
II. Total Disbursements	**8995**	**+ 9·5**	**9819**	**+ 9·2**	**10763 (10481)**	**+19·7 (+16·5)**	**10823 (10893)**	**+ 0·6 (+ 3·9)**
of which:								
Developmental Outlay (a + b)	3590	+ 14·3	4148	+15·5	4427 (4215)	+23·3 (+17·4)	4638	+ 4·8 (+10·0)
(a) Revenue	2400	+ 14·0	2754	+14·8	2825	+17·7	3123	+10·5
(b) Capital	1190	+ 15·0	1394	+17·1	1602 (1390)	+34·6 (+16·8)	1515	− 5·4 (+ 9·0)
Non-Developmental Outlay (a + b)	3675	+ 12·1	3739	+ 1·7	4472 (4402)	+21·7 (+19·8)	4292 (4362)	− 4·0 (− 0·9)
(a) Revenue	3366	+ 6·6	3593	+ 6·7	4264	+26·7	4216	− 1·1
(b) Capital	309	+153·3	146	−52·8	208 (138)	−32·7 (−55·3)	76 (146)	−63·5 (+ 5·8)
III. Overall Surplus (+) or Deficit (−) (I−II)	**−431**		**−387**		**−631**		**−242**	

Notes :—1. Figures are adjusted for inter-Governmental transfers. The combined overall position, however, remains unchanged.

2. Figures in brackets exclude notional capital receipts/disbursements on account of conversion of loan of Rs. 212 crores to public sector undertakings into equity capital (during 1971-72) and of Rs. 70 crores under the Contingency Fund of India (during 1971-72 and 1972-73).

3. The figures of total receipts, capital receipts and overall surplus/deficit as given in this Table and Table 4 would not be comparable with those given in previous Annual Reports since beginning from this year net ways and means advances and overdrafts from RBI (as per State budgets) are treated as financing items and not as capital receipts as was done earlier.

* Includes effects of budget proposals.

Table 4 :—Overall Budgetary Position of States

(Amounts in Rupees Crores)

	1970-71 (Accounts)	1971-72 (Budget Estimates)†	Percentage increase of (2) over (1)	1971-72 (Revised Estimates)	Percentage increase of (3) over (1)	1972-73 (Budget Estimates)*	Percentage increase of (4) over (3)
	(1)	(2)		(3)		(4)	
I. Aggregate Receipts (A+B) ..	**5214**	**5591**	+ 7·2	**6313**	+21·1	**6526** (6643)	+ 3·4
A. Revenue Receipts (i+ii) ..	3519	4026	+14·4	4225	+20·1	4462 (4579)	+ 5·6
(i) States' Own Revenue Receipts	2197	2417	+10·0	2424	+10·3	2646 (2715)	+ 9·2
Of which : Tax receipts	1528	1642	+ 7·5	1684	+10·2	1853 (1917)	+10·0
(ii) Resources transferred from the Centre (a+b)	1322	1609	+21·7	1801	+36·2	1816 (1864)	+ 0·8
(a) Shared Taxes ..	756	901	+19·2	931	+23·1	1010 (1058)	+ 8·5
(b) Grants from the Centre	566	708	+25·1	870	+53·7	806	— 7·4
B. Capital Receipts (i+ii) ..	1695	1565	— 7·7	2088	+23·2	2064	— 1·1
(i) States' Own Capital Receipts	690	754	+ 9·3	771	+11·7	862	+11·8
of which :							
Market borrowings (Gross)	165	152	— 7·9	175	+ 6·1	188	+ 7·4
(ii) Loans from the Centre (Gross)	1005	811	—19·3	1317	+ 31·0	1202	— 8·7
II. Aggregate Disbursements ..	**5360**	**5745**	+ 7·2	**6559**	+22·4	**6633**	+ 1·1
Of which :							
(a) Developmental outlay ..	2575	2970	+15·3	3065	+19·0	3341	+ 9·0
(b) Non-developmental outlay ..	1519	1650	+ 8·6	1985	+30·7	1920	— 3·3
(c) Repayment of loans to the Centre	634	564	—11·0	813	+28·2	785	— 3·4
(d) Loans and advances to third parties	491	437	—11·0	581	+18·3	453	—22·0
(e) Repayment of market loans	59	75	+27·1	77	+30·5	84	+ 9·1
III. Overall Surplus (+) or Deficit) (—) (I—II)	**— 146**	**— 154**		**— 246**		**— 107** (+10)	

Notes : (1) Figures given here do not tally with those given in the budget papers as certain adjustments have been made. (2) See footnote 3 of Table 3.

† Include the effect of budget proposals. * Figures in brackets are after taking into account estimated yield from budget proposals by States and their share in additional taxation proposed by the Centre during 1972-73.

larger. One reason for this was the special assistance provided by the Central Government to some of the States. In spite of this, the deficit increased because aggregate disbursements which were anticipated to be Rs. 5745 crores in the budget were actually higher by Rs. 814 crores. An important factor contributing to this rise was a sharp increase of Rs. 335 crores in non-developmental outlay because of additional expenditure (Rs. 126 crores) on famine relief by some States. Six States *viz.*, Maharashtra, Orissa, Bihar, West Bengal, Uttar Pradesh and Andhra Pradesh spent as much as Rs. 110 crores more for this purpose. Developmental outlay, on the other hand, was stepped up by Rs. 95 crores. Other disbursements showed a rise of Rs. 384 crores over the budget estimates mainly under the repayment of loans to the Centre (Rs. 249 crores) and loans and advances to third parties (Rs. 144 crores).

Overdrafts by States

29. Mention was made in the last year's Report about the persistent overdrafts of certain State Governments with the Reserve Bank of India. During 1971-72 (July-June), the position worsened in this respect. Outstanding overdrafts of 11 States which aggregated Rs. 371 crores as on June 28, 1971 (as against Rs. 82.7 crores on June 27, 1970 for 6 States) reached a level of Rs. 642 crores at the end of April 1972 with as many as 12 States having overdrawn on their accounts. Although this figure reflected to some extent the results of the repayment of the ways and means advances obtained from the Central Government for clearing the overdrafts in the earlier years, the further additions to the total amount caused serious concern in view of the wider repercussions on financial balance in the economy of the unauthorised and unregulated borrowings by the State Governments from the Reserve Bank. At the same time, provision had to be made for meeting the genuine needs of State Governments, particularly in view of the rather limited flexibility in their potential in raising financial resources. The Central Board took an opportunity to raise with the Union Finance Minister the problem of the heavy overdrafts of the States and the need to put an end to them. The question was discussed by the Union Finance Minister with the Chief Ministers/Governors of the State Governments concerned. Following these discussions and consultations between the Reserve Bank of India, the Ministry of Finance and the Planning Commission, a new policy on overdrafts was subsequently formulated.

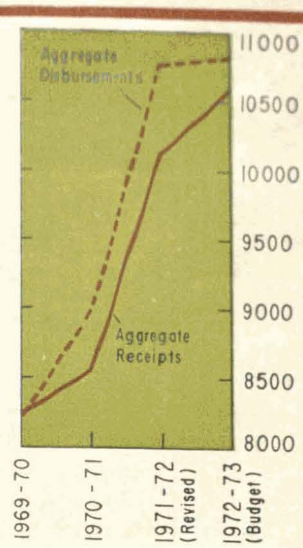
30. The new scheme which came into force with effect from May 1, 1972 required that overdrafts be discontinued from end-April 1972. In view of the increased volume of budgetary transactions of State Governments, the limits for clean or unsecured ways and means advances from the Reserve Bank were enhanced with effect from that date to four times the previous levels. This is in addition to what they can get from secured advances. Overdrafts of all the 12 States on the books of the Reserve Bank were cleared as at the close of business on April 30, 1972. As many as 10 States were granted special ways and means advances totalling Rs. 416 crores by the Centre to clear their overdrafts, while the balance was adjusted against plan assistance (Rs. 32 crores) and payment on account of States' share of income tax (Rs. 195 crores) released as on April 30, 1972.

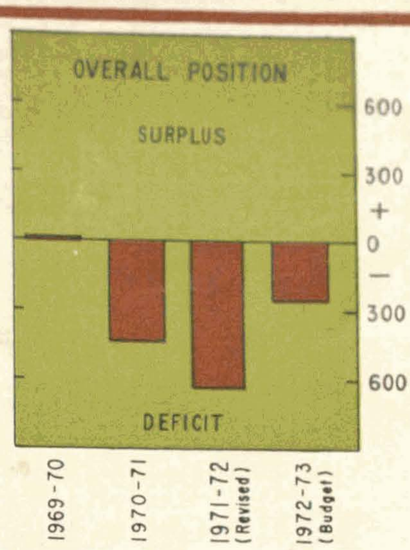
31. Under the new policy no overdrafts are allowed by the Reserve Bank except for purely temporary periods of not more than seven days. In the event of any State Government's overdraft continuing to exceed seven days, suspension of payment on behalf of the concerned State has been made automatic. These steps which represent a tightening of treasury control over States are expected to contain the expenditure, plan and non-plan, of the State Governments within available resources.

32. Since May 1, 1972, no State Government has overdrawn its account with the Reserve Bank of India continuously for a period of more than seven days and even within this period, the amounts actually overdrawn from time to time were marginal. These occasional overdrafts were due to the fact that disbursements by the State Governments concerned could not be exactly anticipated. They were, however, invariably cleared within the time limit of seven days. While the new policy has thus been successful and effective, a permanent improvement in the financial position of the States will also be necessary. Some of the States have re-

COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS

REVENUE AND CAPITAL ACCOUNTS



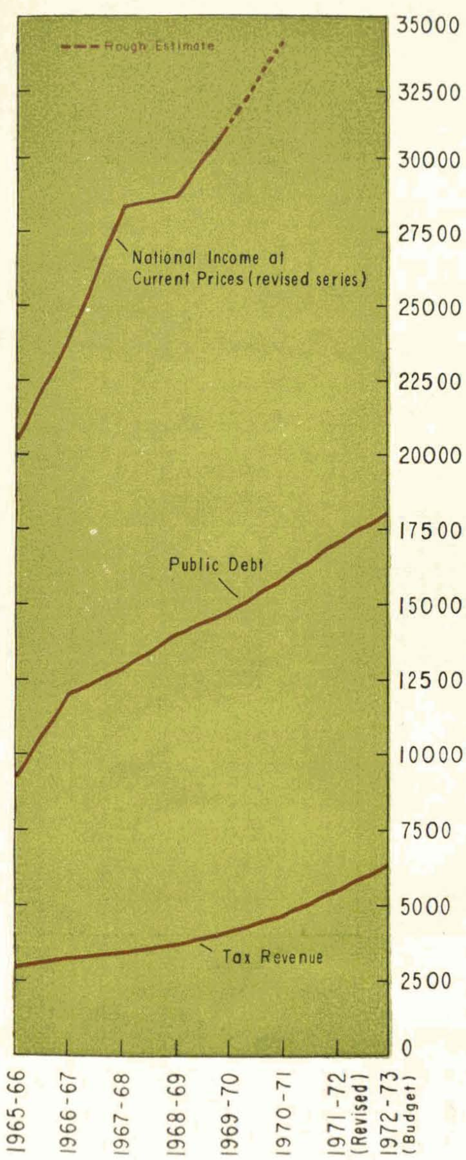


AGGREGATE RECEIPTS DISBURSEMENTS AND OVERALL SURPLUS OR DEFICIT

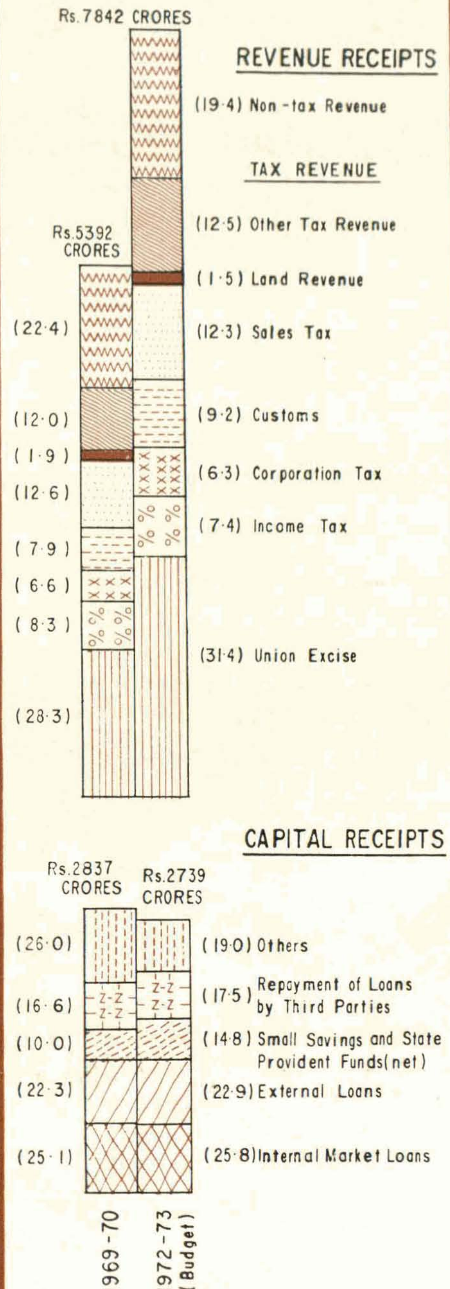
(Crores of Rupees)

TRENDS IN NATIONAL INCOME TAX REVENUE AND PUBLIC DEBT

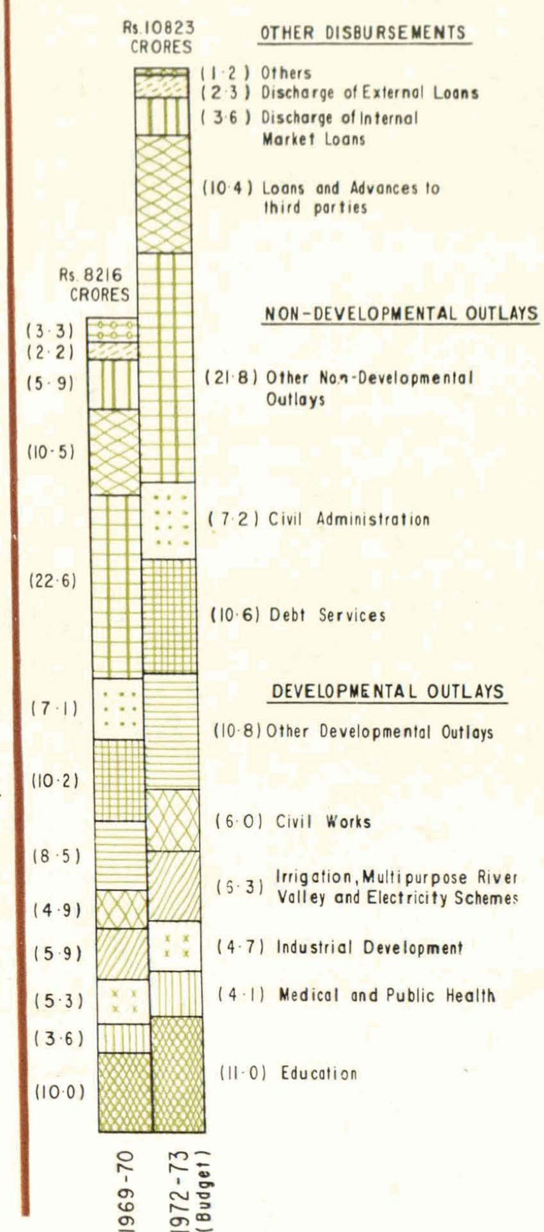
(Crores of Rupees)



PATTERN OF RECEIPTS



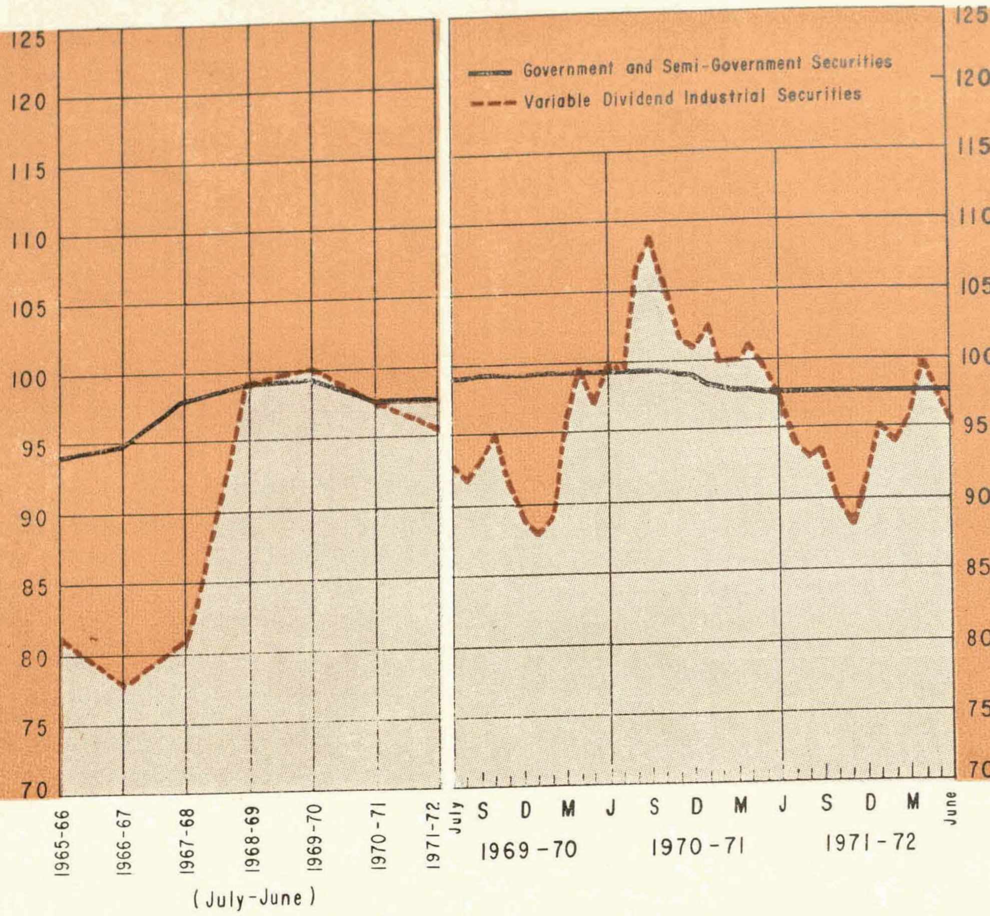
PATTERN OF DISBURSEMENTS



Figures in Brackets are Percentages to Total

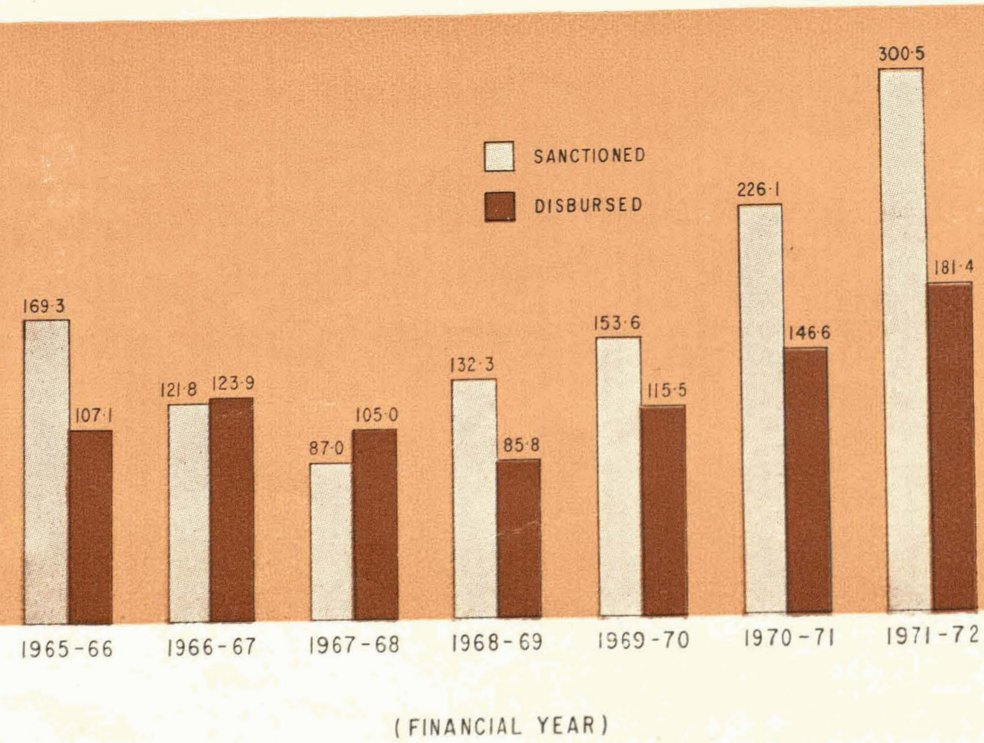
INDEX NUMBERS OF SECURITY PRICES ALL-INDIA

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)



cently announced measures for the mobilisation of additional resources.

33. The problems relating to State finances have to be viewed in the context of resources needed for both plan and non-plan outlays. The Sixth Finance Commission appointed at the end of June 1972 will be examining a whole range of questions in this regard. The terms of reference of the Commission are much wider than in the past. The Commission is expected, for example, to assess the non-plan capital resources of the States, the burden of the revision of salaries of State Government servants as well as the employees of local bodies and the cost of servicing the loans obtained from the Central Government upto the end of the financial year 1973-74. It is also expected to review the policy and arrangements regarding relief expenditure in the States, which are affected by natural calamities. It is expected that the Commission's report will be available by the end of October 1973.

Budgetary Operations of Central Government-1971-72

34. Turning to the Central Government's budgetary operations in 1971-72, there was a sharp rise in total expenditure which increased over the year by Rs. 1146 crores to Rs. 6722 crores* (Table 5). To meet this higher level of expenditure, a large effort to mobilise additional resources was made through imposition of fresh taxation in October and December 1971. In the event total revenue receipts of Government administration at Rs. 3819 crores were about 11 per cent higher than estimated in the budget of which tax revenue at Rs. 2881 crores showed an improvement of Rs. 181 crores (or 6.7 per cent) over the budget anticipation. External assistance for refugee relief exceeded budget anticipation by about Rs. 100 crores.

35. The improvement in receipts was more than offset by a rise in non-developmental expenditure which showed a rise of 23 per cent over the previous year in contrast to an anticipated decline of 6 per cent. This was caused by the expenditure on refugees, defence and additional assistance to some State Governments especially for famine relief. Developmental expenditure, on the other hand, declined slightly as compared to budget estimate. This was in contrast to the position of State Governments whose developmental expenditure was higher than budgeted. In terms of capital formation, actual outlays by the Centre fell short of the budgeted amount by Rs. 42 crores. Savings of Government administration *i.e.*, the difference between revenue receipts and current expenditure, turned out to be only Rs. 95 crores as against the budget anticipation of Rs. 242 crores (Table 6). All of these adjustments were reflected in a deterioration in the Centre's budgetary position, with the overall deficit increasing very substantially as compared with Rs. 233 crores estimated in the budget.

Budget for 1972-73—Centre

36. The budget for 1972-73 aims at enlarging the amount of capital formation and the contribution of Government to the total savings pool, thus reversing the 1971-72 position. The public sector Plan outlay is to rise by 22 per cent or Rs. 710 crores, raising it to Rs. 3973 crores. The Plan provision in the central budget at Rs. 2569 crores* anticipates a rise of 14.7 per cent over 1971-72 budget estimate. Savings of the Government administration are also expected to rise over four-fold ; non-developmental expenditure is to decline by 7.6 per cent and developmental expenditure show an increase of 13.4 per cent. In other words, developmental expenditure which constituted about 47 per cent of total expenditure in 1971-72 is expected to reach 52 per cent in 1972-73. In accordance with the priorities of the Plan, expenditure on social services (*e.g.*, social welfare schemes such as those relating to rural unemployment, rural water supply, rural housing, etc.) as a proportion of total expenditure would go up from 7.4 per cent to 9.7 per cent. Gross capital formation including financial assistance for capital formation at Rs. 2441 crores is expected to be 12 per cent higher and constitute 36 per cent of total expenditure as against 32 per cent in 1971-72. Despite the anticipated

* The figures relating to expenditure (other than plan provision) and receipts of the Central Government referred to here are based on An Economic and Functional Classification of Central Government Budget, Ministry of Finance, Government of India.

* Inclusive of internal resources of departmental undertakings and other resources, Plan provision will be Rs. 2844 crores.

Table 5:—Developmental and Non-Developmental Expenditure of the Central Government

(Amounts in Rupees Crores)

	1970-71 (Accounts)		1971-72 (Budget Estimates)		1971-72 (Revised Estimates)		1972-73 (Budget Estimates)	
	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
Total Expenditure (A+B)	5576*	+13·2	5874	+ 5·3	6722	+20·6	6869	+ 2·2
A. Developmental Expenditure (i+ii)	2659 (47·7)	+13·0	3136 (53·4)	+17·9	3124 (46·5)	+17·5	3544 (51·6)	+13·4
(i) Social Services ..	364 (6·5)	+19·7	578 (9·8)	+58·8	495 (7·4)	+36·0	663 (9·7)	+33·9
(ii) Economic Services@	2295 (41·2)	+12·0	2558 (43·6)	+11·5	2629 (39·1)	+14·6	2881 (41·9)	+ 9·6
B. Non-Developmental Expenditure (i+ii) ..	2917 (52·3)	+13·4	2738 (46·6)	— 6·1	3598 (53·5)	+23·3	3325 (48·4)	— 7·6
(i) General Services ..	1777 (31·9)	+19·2	1627 (27·7)	— 8·4	1898 (28·2)	+ 6·7	1909 (27·8)	+ 0·6
(ii) Unallocable ..	1140 (20·4)	+ 5·5	1111 (18·9)	— 2·6	1700 (25·3)	+49·2	1416 (20·6)	—16·7

Note : Figures in brackets are percentages to total expenditure.

* Includes compensation paid to nationalised banks estimated at Rs. 84 crores and additional subscription to I.M.F. and I.B.R.D. paid in the form of non-negotiable non-interest bearing rupee securities estimated at Rs. 114 crores.

@ Include block grants and loans.

Table 6:—Savings of the Central Government

(Amounts in Rupees Crores)

	1970-71 (Accounts)	1971-72 (Budget Estimates)	1971-72 (Revised Estimates)	1972-73 (Budget Estimates)	Per cent variation of Col. 4 over Col. 3
	(1)	(2)	(3)	(4)	(5)
1. Revenue Receipts of Government Administration (i+ii)	3133	3451	3819	4210	+ 10·2
(i) Tax Revenue	2434	2700	2881	3320	+ 15·2
(ii) Non-tax Revenue	699	751	938	890	— 5·1
2. Current Expenditure	2909	3209	3724	3724	—
3. Savings of the Government Administration (1—2)	224	242	95	486	+411·6
4. Depreciation Provision and Retained Profits of Departmental Commercial Undertakings (i+ii)	179	193	211	255	+ 20·9
(i) Depreciation Provision	123	131	129	137	+ 6·2
(ii) Retained Profits	56	62	82	118	+ 43·9
5. Gross Savings of the Central Government (3+4)	403	435	306	741	+142·2
6. Expenditure on Renewals and Replacements	91	100	95	120	+ 26·3
7. Net Savings (5—6)	312	335	211	621	+194·3
8. Net Investment	428	542	516	604	+ 17·1
9. Excess (+) or shortfall (—) of Net Savings over Net Investment (7—8)	—116	—207	—305	+ 17	
10. Item 3 as per cent of Item 1	7·1	7·0	2·5	11·5	

increase in expenditure in 1972-73, additional net financial liabilities are expected to be lower than in 1971-72. Additional expenditure in 1972-73 is expected to be financed by an increase in revenue receipts of the order of Rs. 391 crores (10.2 per cent over 1971-72); tax revenue at Rs. 3320 crores is projected to show an increase of 15 per cent and non-tax revenue a decline of 5 per cent.

37. The additional resource mobilisation during 1972-73 may be viewed along with the expected revenue from tax measures implemented in 1971-72. Total yield from the 1971-72 measures (including States' share and resources raised by Railways and Posts and Telegraphs) is estimated at Rs. 500 crores in a full year, an unprecedented rise in a single year ; combined with measures taken during 1972-73 the total may be expected to exceed Rs. 650 crores in the current year. Consequently, savings of the Government administration are placed at Rs. 486 crores in 1972-73, a rise of Rs. 391 crores over 1971-72. In other words, savings of Government administration are to constitute 11.5 per cent of revenue receipts, as against 2.5 per cent in 1971-72. Besides, retained profits and depreciation provision of departmental undertakings are anticipated to be of the order of Rs. 255 crores in 1972-73 ; thus total gross savings of the Central Government would rise to Rs. 741 crores from Rs. 306 crores in 1971-72. Net savings of the Central Government (gross savings minus expenditure on renewals and replacements) estimated at Rs. 621 crores in 1972-73 would exceed direct net investment by Rs. 17 crores.

—States

38. The major features of the State budgets for 1972-73 are : (*a*) Aggregate receipts (at 1971-72 rate of taxation) which had increased by about 21 per cent in 1971-72 are expected to show a rise of 3.4 per cent in 1972-73. States' own tax receipts show a rise of 10 per cent, the same as in 1971-72. Capital receipts, however, show a marginal fall of 1.1 per cent due to a decline of Rs. 115 crores in loans from the Central Government, as against a rise of Rs. 312 crores in 1971-72. This decline was partly offset by increases in market borrowings, recovery of loans from third parties and loans from autonomous bodies. (*b*) Aggregate disbursements which had increased by more than 22 per cent in 1971-72 are budgeted to rise marginally by 1.1 per cent in 1972-73. Developmental outlay is to rise by 9 per cent while non-developmental outlay would decline by about 3 per cent. The overall deficit of State Governments is expected to amount to Rs. 107 crores. If allowance is made for Rs. 69 crores expected from the additional measures proposed by some States and their share of Rs. 48 crores in the Centre's fresh tax efforts, this overall deficit would be converted into a surplus of Rs. 10 crores.*

Market Borrowings

39. It will be seen from the above discussion that a fairly large part of the sharp increase in expenditure in 1971-72 was met by additional tax mobilisation. In this context mention should be made also of the borrowings by the Central and State Governments. The combined net receipts of the Central and State Governments from such borrowings amounted in 1971-72 to Rs. 396 crores — *i.e.*, Rs. 161 crores more than in 1970-71. The entire increase was in the net borrowings of the Centre, the States' borrowings increasing only by Rs. 1 crore. In fact, net market borrowing of the Centre during 1971-72 at Rs. 295 crores was Rs. 127 crores more than what had been budgeted. A special feature of the Centre's borrowing programme in 1971-72 was the issue of three National Defence Loans following the declaration of emergency in December 1971, subscriptions to which were received only in cash and aggregated Rs. 111 crores. For 1972-73, the Centre's borrowing programme originally envisaged gross receipts of Rs. 515 crores or Rs. 215 crores net. In the first phase of market floatation in July 1972 the Centre raised Rs. 132 crores (net) from market borrowings. In view of the recent trends in deposits and advances of the banking system, the Centre decided to increase the gross market borrowings for 1972-73 to Rs. 565 crores notified (with the right to retain upto

---

* This overall surplus in 1972-73 would be higher if receipts from market loans to be floated by Maharashtra are taken into account. No credit has been taken by this State in its budget on this account.

Rs. 623 crores of subscription) or a net amount of Rs. 323 crores—which would mean an increase of about Rs. 100 crores over the budget estimates. The State Governments' borrowings in 1972-73 are also expected to be higher at Rs. 133 crores as compared to Rs. 101 crores in 1971-72. Under small savings the net collections in 1972-73 are expected to be Rs. 230 crores as against Rs. 210 crores in 1971-72.

Savings and Investment

40. Together with other receipts on capital account these funds made it possible for the Centre to finance—both directly and through assistance to States, Union Territories, and non-departmental undertakings—net capital formation of Rs. 2081 crores in 1971-72. This represents an increase of Rs. 368 crores over the comparable amount for 1970-71 (Table 7).

Table 7:—Expenditure on Capital Formation by Government of India

(Amounts in Rupees Crores)

	1968-69	1969-70	1970-71	1971-72 (R.E.)	1972-73 (B.E.)
1. Gross Capital Formation	**276**	**393**	**519**	**611**	**724**
(a) Fixed Capital Formation	449	430	485	592	757
(b) Inventories	—173	—37	34	19	—33
2. Net Capital Formation (i.e., excluding expenditure on renewals and replacements)	***193***	***318***	***428***	***516***	***604***
3. Financial Assistance for Capital Formation ..	**1384**	**1219**	**1285***	**1565**	**1717**
(a) to States, Union Territories, etc. ..	761	775	837	1007	1043
(b) to non-departmental commercial undertakings	**623**	**444**	**448**	**558**	**674**
(i) Financial	—	42	70	71	103
(ii) Others	—	402	378	487	571
Total (2+3)	**1577**	**1537**	**1713**	**2081**	**2321**

* Excluding compensation paid to nationalised banks.

41. Similar expenditure on net capital formation by the Government of India for 1972-73 is estimated at Rs. 2321 crores, or Rs. 240 crores more than in the last fiscal year.

42. Comparable data on savings and expenditure on capital formation in the States are not at present available and hence it is not possible to give any estimates for the public sector as a whole. It will, however, be seen from Table 4 that *total* developmental outlay (on both revenue and capital accounts) of State Governments in 1971-72 was only Rs. 490 crores higher than in the previous year. Since the major element in States' developmental expenditure is current outlay on education, public health, civil works, etc. only a small portion of this increase consists of outlay on capital formation. And most of such capital formation was financed by capital transfers from the Centre ; on their own account, the States probably contributed little by way of an addition to public sector savings.

43. Coupled with the heavy losses suffered by the large public undertakings, such as Hindustan Steel, Heavy Engineering Corporation and Heavy Electricals, it seems very likely that public savings declined both absolutely and relatively. However, based on larger loans and grants from the Centre, as well as overdrafts, the States and non-

departmental undertakings apparently maintained, and perhaps increased somewhat, their investment outlays.

44. In the private sector also, it would appear from available indicators that the magnitude of investment was probably higher in 1971-72 than in the previous year. There was a rise in the consents sanctioned to non-banking public limited companies for new capital issues. The market for such issues also showed some recovery from the sluggishness observed in the previous year ; public response was encouraging and some of these issues were over-subscribed. Loans sanctioned and disbursed by term-lending institutions showed a further increase during the year. In the agricultural sphere, the aggregate of finance for investment available from Agricultural Refinance Corporation, Agricultural Finance Corporation, Rural Electrification Corporation and drawals from Reserve Bank's medium-term loans and debentures floated by central land mortgage banks during the year (July 1971-June 1972) shows that the rising trend in the tempo of investment in agriculture has been maintained (Table 8).

45. The main point which emerges from the preceding paragraphs is this. While public saving was smaller in 1971-72 than previously, public investment expenditure increased somewhat. From available indicators, it would also appear that private sector investment probably rose particularly in agriculture and small industries. Apart from any small increase in corporate savings which may have occurred, the bulk of the increase in investments was financed partly by an inflow of foreign savings, but mostly by a rise in the savings of household sector, particularly in the form of financial assets.

46. The increase in household savings in the form of financial assets was evident in the growth of deposits, currency holdings, contributions to provident funds and life insurance, small savings and subscriptions to capital issues of companies. This development is particularly noteworthy because it implies a greater flexibility in the deployment of savings in the economy. For a better appreciation of this feature, it is necessary to look at the details of the variations on the monetary side.

Monetary and Banking Developments

Trends in Money Supply and Monetary Resources

47. Monetary trends in 1971-72 (July-June) show an acceleration in the rate of expansion both of money supply with the public and aggregate monetary resources. Money supply with the public expanded by 13.6 per cent in 1971-72 as against 12.5 per cent in the previous year ; corresponding rates of expansion of aggregate monetary resources were 16.2 per cent and 14.3 per cent, respectively. A notable feature of the expansion in money supply during the year was that, unlike in the previous year, the increase in deposit money (Rs. 592 crores) was considerably larger than that in the currency component (Rs. 423 crores).

48. The dominant factor behind this monetary expansion was the striking increase of Rs. 1176 crores in net bank credit to Government (as against Rs. 931 crores in 1970-71) reflecting the widening budgetary gap referred to in earlier paragraphs.* External transactions of the banking system resulting in a net rise of Rs. 29 crores in foreign exchange assets (which had declined by Rs. 95 crores last year) also contributed to a small increase in money supply. Increase in total bank credit to the commercial sector at Rs. 788 crores was larger than in the previous year by Rs. 67 crores. However, since credit extended to the commercial sector was higher than the amount of time deposits (Rs. 786 crores) mobilised by banks by only Rs. 3 crores, the expansionary impact of net bank credit to commercial sector on money supply was quite nominal (Table 9).

Seasonal Trends

49. These features of the monetary situation were also reflected in seasonal trends. During the traditional slack season of 1971 (May to October) money supply with the public registered for the second successive year an expansion, which

* Net of some accounting adjustments effected during the year, the increase in 'net bank credit to Government' works out to Rs. 1101 crores as compared with Rs. 831 crores during 1970-71, while the rise in net foreign exchange assets during 1971-72 was only Rs. 6 crores. These accounting adjustments have not affected figures of 'money supply.'

Table 8:—Institutional Finance for Investment in Agriculture
(July-June)

(Amounts in Rupees Crores)

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
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	127·81
(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	5·72
2. Agricultural Refinance Corporation (ARC)[2]												
(a) Number of schemes sanctioned				3	10	24	15	89	108	142	100	269
(b) Total financial assistance				2·72	20·60	17·96	10·53	68·16	79·21	92·78	62·15	154·24
(c) ARC's commitments				2·45	16·88	14·18	8·53	58·64	69·32	70·92	53·92	135·13
(d) Disbursements during the year				—	0·45	4·45	2·08	5·67	17·84	28·60	30·62	34·98
3. Agricultural Finance Corporation (AFC)[3]												
(a) Number of schemes sanctioned									6	21	10	6
(b) Total outlay									61·50	45·70	23·33	25·12
(c) Disbursements during the year									0·96	15·77	13·24	11·22
4. Rural Electrification Corporation (REC) ..												
(a) Number of schemes sanctioned [4] ..										47†	73†	127
(b) Total outlay										30·91†	49·15†	83·65
(c) REC's commitments										28·95†	48·82†	73·25
(d) Disbursements during the year										—	26·09†	36·81
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	20·62
(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	14·20	6·15@

Note : In this table figures of investment finance extended by the following institutions are not included because these are not available.

(a) Term finance to agriculture extended 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.

(b) Investment finance provided by co-operative credit agencies out of their owned funds.

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 ARC, the remaining series were those not falling under ARC schemes.
2. The operations reflect schemes sanctioned during the year after excluding schemes withdrawn during the same year.
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 10, 1968 to June 30, 1972, the Corporation sanctioned 39 schemes involving a total outlay of Rs. 153·20 crores and disbursed an amount of Rs. 41·19 crores.
4. Of these, three schemes in 1969-70 and two in 1970-71 related to Rural Electric Co-operatives.

† Revised.

@ The amount drawn against the Reserve Bank's medium-term credit limits during 1971-72 is lower as compared with the preceding year mainly because according to the revised arrangement, the limits for 1971-72 are allowed to be drawn upon till December 1972.

Table 9:—Trends in Money Supply and Monetary Resources (Annual)

(Amounts in Rupees Crores)

	Outstandings at End-June			Variations during July-June		
	1970	1971	1972	1969-70	1970-71	1971-72
1. Currency with the Public	4170	4591	5014	+ 381	+ 421	+ 423
2. Demand Deposits	2465	2871	3463	+ 211	+ 406	+ 592
3. Money Supply (1+2)	6634	7462	8478	+ 591	+ 828	+1016
4. Time Deposits	3098	3660	4446	+ 419	+ 562	+ 786
5. Aggregate Monetary Resources (3+4) ..	9733	11122	12924	+1011	+1389	+1802
6. Net Bank Credit to Government	4824	5755	6931	+ 2	+ 931	+1176
7. Net Foreign Exchange Assets of the Banking Sector	664	569	598	+ 264	— 95	+ 29
8. Government's Net Currency Liabilities to the Public	374	395	405	+ 20	+ 21	+ 11
9. Total (6+7+8)	5862	6719	7934	+ 286	+ 857	+1215
10. Bank Credit to Commercial Sector*	5027	5748	6536	+ 755	+ 721	+ 788
(a) Net Bank Credit to Commercial Sector*	1929	2087	2090	+ 336	+ 158	+ 3
11. Net Non-Monetary Liabilities of Reserve Bank of India (Increase—)	640	817	1066	— 60	— 177	— 249
12. Net Non-Monetary Liabilities of other Banks (Increase—)	517	527	482	+ 29	— 10	+ 45
13. Total (9+10)	10889	12467	14470	+1041	+1578	+2003

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

Note : Net of some accounting adjustments effected during the year, the increase in 'net bank credit to Government' works out to Rs. 1101 crores as compared with Rs. 831 crores during 1970-71. These accounting adjustments have not affected figures of 'money supply', since adjustments have been so made as to neutralise the expansionary influence of one by the contractionary influence of another. However, they have, in effect, overstated net bank credit to Government sector by Rs. 75 crores during 1971-72 and Rs. 100 crores during 1970-71 (July-June) and resulted in appreciation of net foreign exchange assets by Rs. 23 crores during 1971-72. The non-monetary liabilities of the Reserve Bank of India acted as a contractionary factor to the tune of Rs. 98 crores during 1971-72 and Rs. 100 crores during 1970-71.

at Rs. 162 crores was somewhat larger than in the previous slack season. The entire increase was in deposit money, with currency component showing a decline. As will be seen from Table 10, this expansion resulted mostly from additional bank credit to Government and to a small extent from increase in foreign exchange assets. Net bank credit to commercial sector exerted a contractionary effect on money supply.

50. The expansion in money supply during the busy season of 1971-72 (November 1971-April 1972) at Rs. 779 crores (10.5 per cent) was substantially larger than Rs. 581 crores (8.7 per cent) in the previous busy season. While the increase in currency component was higher than that in the previous year busy season, the growth in deposit money was nearly twice as much. Again, the increase in net bank credit to Government at Rs. 820 crores was larger than in the previous busy season. The rise in net bank credit to the commercial sector was, however, much smaller than that in the previous busy season, attributable mainly to a decline of

Rs. 71 crores in food procurement credit (Table 10).

51. Money supply with the public registered an expansion in the first two months of the 1972 slack season as in the corresponding period of the previous slack season. A substantial expansion in net bank credit to Government was the principal factor accounting for this increase. A small increase in net bank credit to commercial sector as against a decline during the corresponding period of last year also contributed to the rise in money supply.

Table 10:—Trends in Money Supply and Monetary Resources (Seasonal)

(Amounts in Rupees Crores)

	Variations during			
	Slack Season		Busy Season	
	1970	1971	1970-71	1971-72
1. Currency with the Public	— 35	— 33	+ 405	+ 442
2. Demand Deposits	+ 178	+ 193	+ 178	+ 339
3. Money Supply (1+2)	+ 144	+ 162	+ 581	+ 779
4. Time Deposits	+ 277	+ 435	+ 261	+ 308
5. Monetary Resources (3+4)	+ 421	+ 597	+ 842	+1087
6. Net Bank Credit to Government	+ 111	+ 388	+ 607	+ 820
7. Net Foreign Exchange Assets of the Banking Sector	+ 36	+ 26	— 84	+ 14
8. Government's Net Currency Liabilities to the Public	+ 6	+ 6	+ 16	+ 7
9. Total (6+7+8)	+ 153	+ 420	+ 539	+ 841
10. Bank Credit to Commercial Sector*	+ 346	+ 249	+ 478	+ 433
(a) Net Bank Credit to Commercial Sector*	+ 70	— 187	+ 216	+ 126
11. Net Non-Monetary Liabilities of Reserve Bank of India (Increase—)	+ 27	— 101	— 113	— 223
12. Net Non-Monetary Liabilities of other Banks (Increase—)	— 106	+ 30	— 61	+ 34
13. Total (9+10)	+ 499	+ 669	+1017	+1274

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

Trends in components of money supply and aggregate monetary resources

52. A noteworthy feature during the last three years has been the declining proportion of currency in the increase in money supply. Thus, of the increase in money supply, currency formed 71 per cent in 1968-69*; the proportion has steadily declined since then to 47 per cent in 1971-72 (Table 11). The same trend emerges if the rate of expansion of currency is compared with that of aggregate monetary resources (Table 12). Another aspect which deserves notice is that of the two components (*i.e.*, current deposits and demand portion of saving deposits) of bank money, the rate of increase in savings deposits has been higher than that of current deposits over a period of years. In 1971-72 total bank money formed 53 per cent of the increase in money supply; of this increase, saving deposits constituted 35 per cent and current deposits only 17 per cent. A slower

* Data in this paragraph refer to financial years.

Table 11:—Marginal relationship between Money Supply and its Components

Financial Year	Money Supply	Currency	Bank Money: Total	Bank Money: Current	Bank Money: Savings	Rates of Growth: Money Supply	Rates of Growth: Currency	Rates of Growth: Current deposits of commercial banks	Rates of Growth: Demand portion of savings deposits
	1.	2.	3.	4.	5.	6.	7.	8.	9.
	(Rs. Crores)								
1961-62	+177 (100)	58·2	41·8	18·6	19·2	6·2	4·9	6·0	18·6
1962-63	+264 (100)	67·4	32·6	15·9	14·0	8·7	8·1	7·2	17·1
1963-64	+442 (100)	51·4	48·6	9·5	36·4	13·4	9·5	6·7	63·4
1964-65	+328 (100)	49·7	50·3	20·7	30·2	8·7	6·3	10·2	23·9
1965-66	+449 (100)	59·0	41·0	12·0	29·6	11·0	9·6	7·4	25·9
1966-67	+421 (100)	38·7	61·3	22·6	30·6	9·3	5·4	12·1	19·9
1967-68	+400 (100)	44·8	55·2	18·5	30·5	8·1	5·6	8·4	15·7
1968-59	+429 (100)	71·3	28·7	12·4	8·6	8·0	9·1	5·5	4·1
1969-70	+608 (100)	53·9	45·9	24·8	24·7	10·5	8·9	15·0	16·0
1970-71	+749 (100)	49·3	50·7	25·0	27·0	11·7	9·2	16·1	18·6
1971-72	+906 (100)	47·0	53·0	17·0	34·7	12·7	9·7	11·4	24·4

Note : 1. Figures in Col. (1) are absolute changes over the year; figures in columns (2) to (5) are % of Col. (1).
2. Current and savings bank money do not add up to total bank money because 'other deposits' with the Reserve Bank and net demand liabilities of state co-operative banks are included in the total.

Table 12—Monetary Resources and Currency

(Amounts in Rupees Crores)

Financial Year	Monetary Resources* (excluding P. L. 480)	Currency	Increase in Monetary Resources	Increase in Currency	Currency-Monetary Resources (Marginal Ratio) [Col. (4) as % of col. (3)]
	1.	2.	3.	4.	5.
1961-62	4102	2201	315	103	32·6
1962-63	4461	2379	359	178	55·2
1963-64	4976	2605	514	226	44·0
1964-65	5477	2769	501	163	32·6
1965-66	6134	3034	657	265	40·4
1966-67	6816	3196	682	162	23·8
1967-68	7460	3376	643	179	27·8
1968-69	8306	3681	845	305	36·2
1969-70	9336	4010	1030	328	31·9
1970-71	10571	4379	1234	369	29·9
1971-72	12233	4806	1661	426	25·6

* Money supply plus time deposits with banks.

increase in the rate of currency expansion can be explained by two factors. In line with growing economic activity especially in the agricultural sector, the transactions demand for currency has increased in the aggregate. Simultaneously, and again in the rural areas particularly, a section of the population which was accustomed to keep its savings in the form of currency has apparently developed the banking habit. This is evidenced by the growing proportion of saving deposits relative to bank money. In other words, along with the rapid expansion of banking services in the country, there is a change in the asset preferences of the public from currency to deposits. Whether this is attributable more to the feeling of security engendered by the nationalization of banks than to the attraction of interest yields, it is difficult to say. Perhaps both have contributed to this change of habit and require to be borne in mind in the formulation of banking policies.

Banking Trends and Credit Policy

Annual Variations: July 1971-June 1972

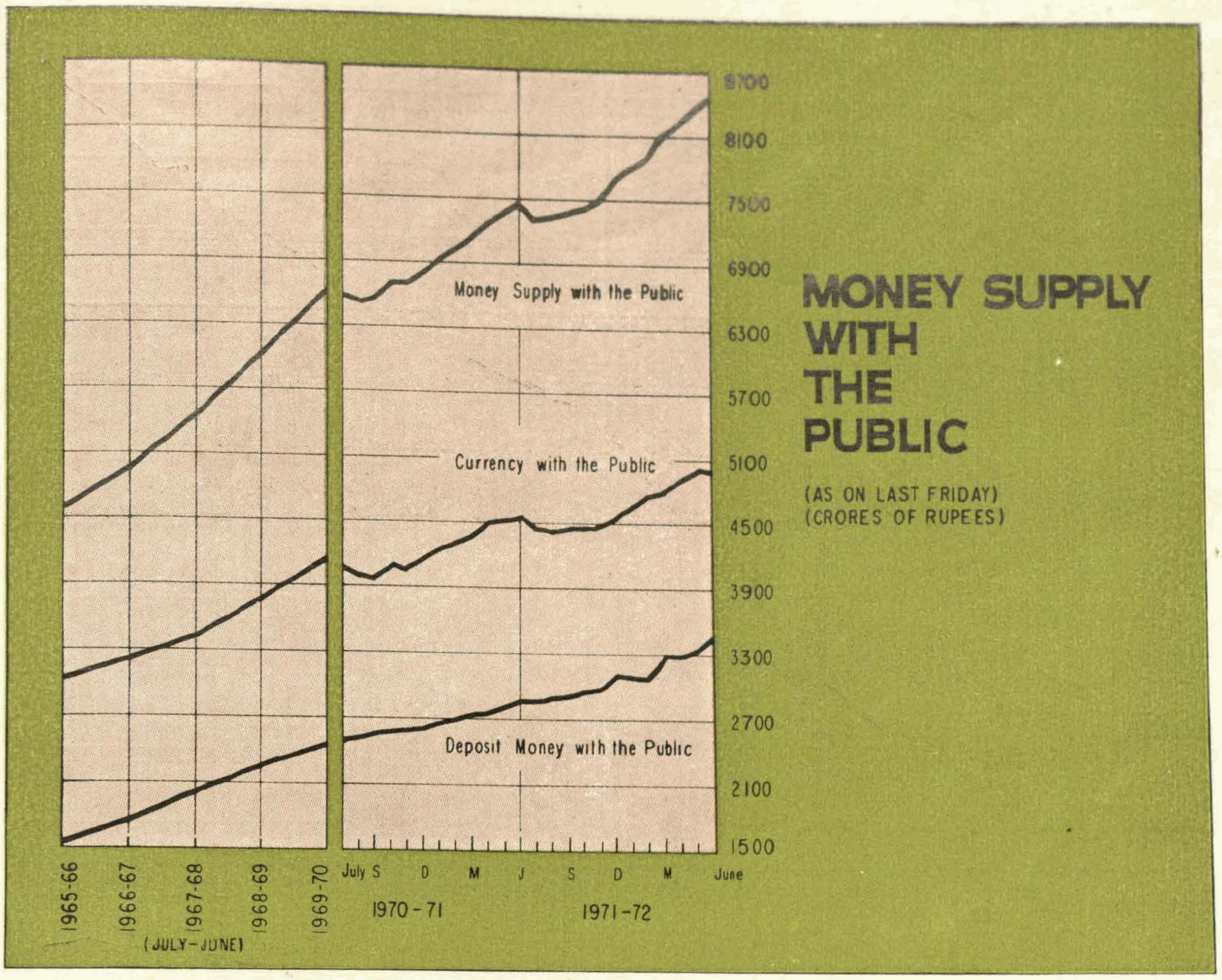
53. Another significant development during 1971-72 was the highly liquid position attained by the banking system due to the accretion of deposits at a rate faster than that of expansion of bank credit. Aggregate deposits of scheduled commercial banks (at current prices) increased by Rs. 1307 crores or at an unprecedented rate of 21 per cent as against Rs. 942 crores or 17.9 per cent in 1970-71. The higher rate of growth in deposits was influenced among other factors by a substantially larger Government deficit in 1971-72 than in 1970-71 and as mentioned above, by the shift in preferences.

54. Total credit extended by scheduled commercial banks during the year expanded by Rs. 614 crores (12.9 per cent) as against Rs. 550 crores (13.1 per cent) in the previous year. Advances for food procurement operations increased by Rs. 164 crores compared to Rs. 172 crores in 1970-71 ; consequently, excluding food procurement advances, the rise in bank credit during the year under review was of a larger order, *viz.*, Rs. 451 crores (10.3 per cent) as compared to Rs. 378 crores (9.4 per cent) last year (Table 13).

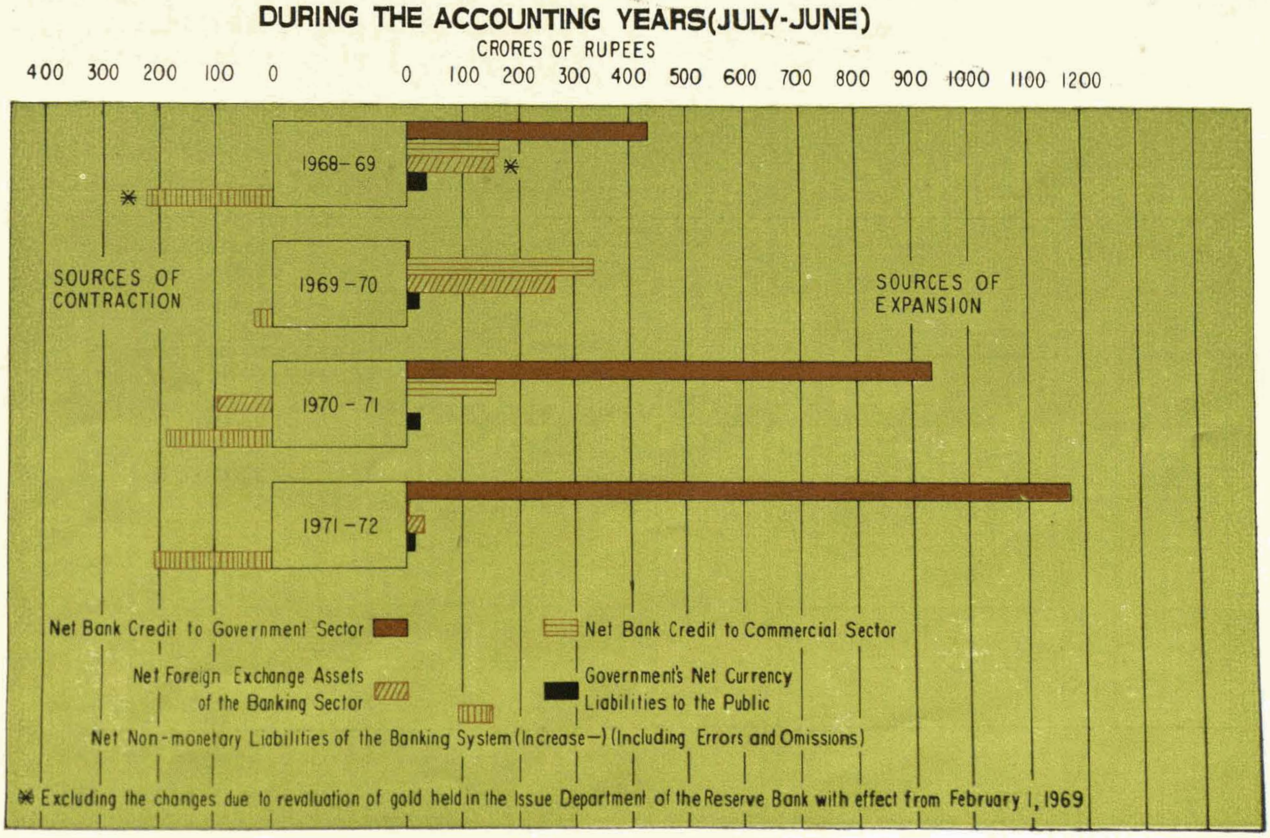
55. Not only was the credit-deposit ratio of commercial banks low in the year under review but their cash ratio was low as well. The improved resources position of banks enabled them to step up their investment in Government and other approved securities as also to reduce their indebtedness to the Reserve Bank. Thus, during the year, banks utilised Rs. 433 crores for increasing their investment portfolio raising their investment-deposit ratio to 29.8 per cent at the end of June 1972. Additionally, they repaid Rs. 165 crores to the Reserve Bank of India and brought down the level of their borrowings at the end of June 1972 to as low a level as Rs. 42 crores, as against Rs. 207 crores a year ago. The comfortable liquidity position of commercial banks was also reflected in the reduced call money rates. In Bombay, at the peak level, they were over 3 per cent lower than in the last year. At the end of June 1972, the rate was in the range of $3\frac{1}{2}$—4 per cent as compared to $4\frac{1}{2}$ per cent a year ago.

Credit Policy for 1971-72 Busy Season

56. The increase in deposits of scheduled commercial banks by a record figure of Rs. 624 crores in the 1971 slack season period enabled the banking system in spite of an expansion in credit of the order of Rs. 163 crores (Rs. 156 crores for food procurement), to conserve funds for deployment in the succeeding busy season (November 1971-April 1972). The banks increased their investments in Government and other approved securities by Rs. 249 crores and reduced their indebtedness to the Reserve Bank by Rs. 172 crores. At the end of the season the level of borrowings from the Reserve Bank was only Rs. 19 crores, as against Rs. 151 crores a year ago and the credit-deposit ratio was much lower (73.1 per cent) than in the previous year (77.0 per cent). With this relatively easy liquidity position at the commencement of the 1971-72 busy season, the banks were well-equipped to meet the demand for advances that was expected to develop. However, the large increase in Government indebtedness to the banking system warranted a cautious approach to credit deployment so as not to aggravate the pressure on prices. At the same time, increased defence needs of the economy had to be met and all possible assistance rendered to

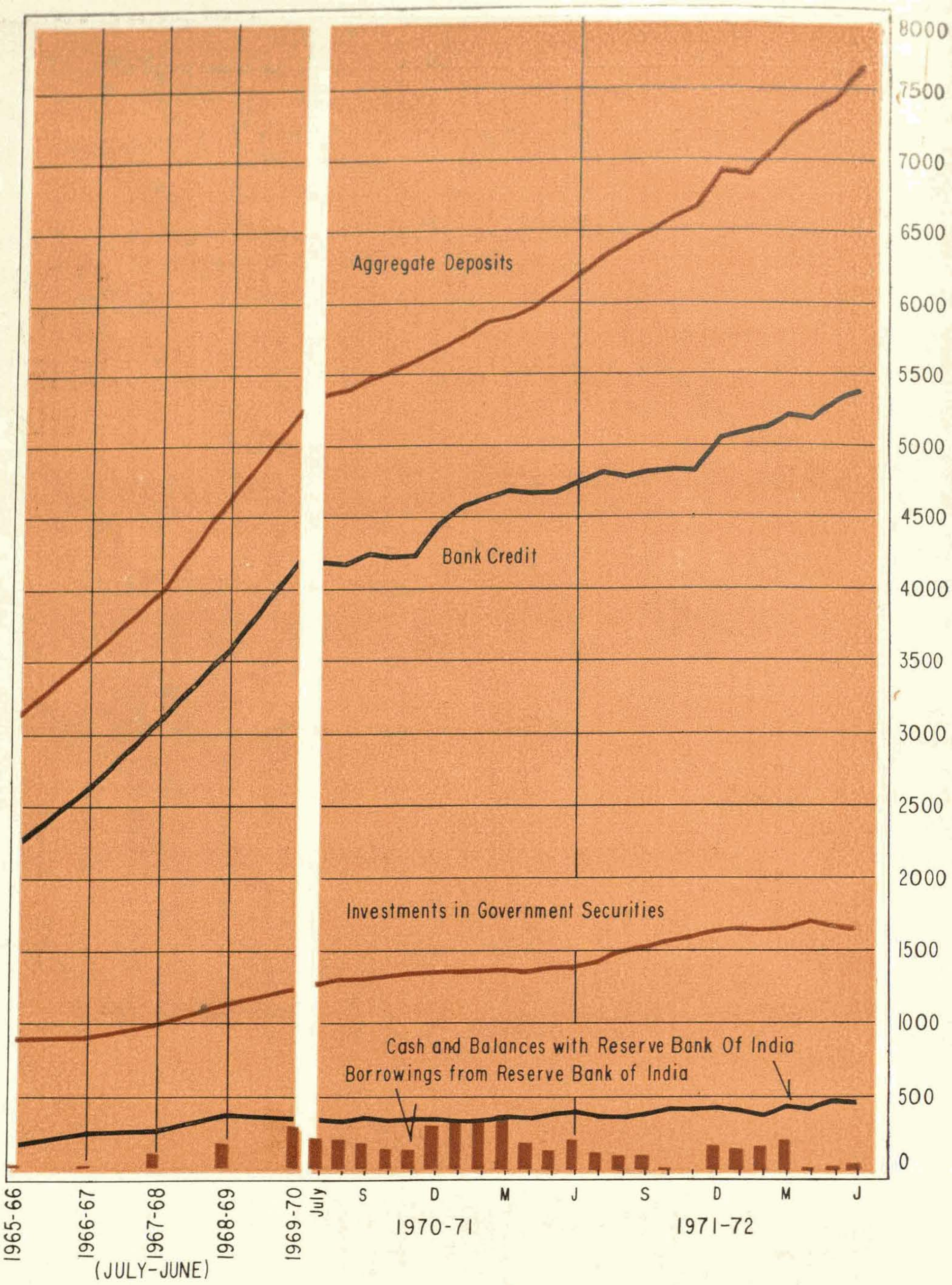


SOURCES OF VARIATIONS IN MONEY SUPPLY WITH THE PUBLIC DURING THE ACCOUNTING YEARS(JULY-JUNE)

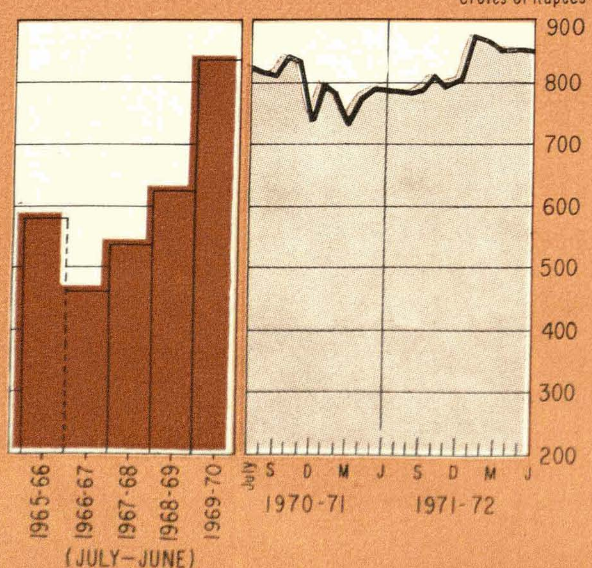


SCHEDULED COMMERCIAL BANKS' DATA

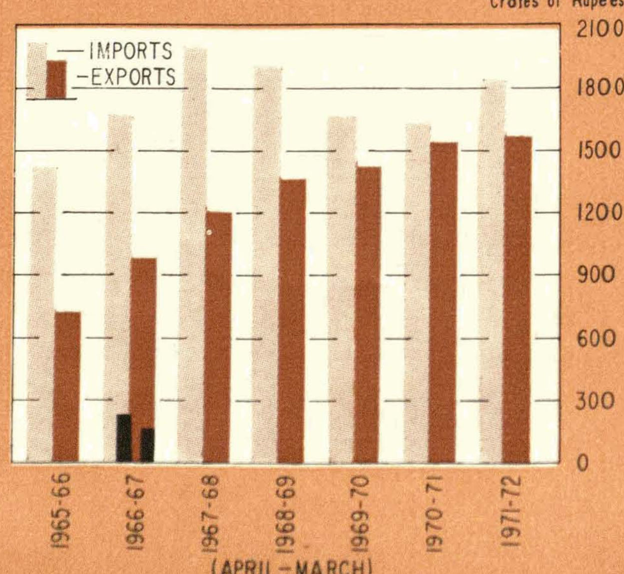
(AS ON LAST FRIDAY)
(CRORES OF RUPEES)



INDIA'S FOREIGN EXCHANGE RESERVES (GROSS)



INDIA'S FOREIGN TRADE



For 1966-67, the in-set bars relate to April and May 1966 which are based on

Table 13:—Annual Variations in Important Banking Data

(Amounts in Rupees Crores)

	End-June 1969	Variations during the year ended June 1969	End-June 1970	Variations during the year ended June 1970	Percentage increase (+)/de-crease (—) over the previous year	End-June 1971	Variations during the year ended June 1971	Percentage increase (+)/de-crease (—) over the previous year	End-June 1972	Variations during the year ended June 1972	Percentage increase (+)/de-crease (—) over the previous year
1. Total Bank Credit	3598·8	+495·9	4212·7	+613·9	+17·1	4762·9	+550·2	+13·1	5377·1	+614·2	+12·9
of which :											
(a) Food Procurement Advances ..	233·2	+ 41·1	206·7	— 26·5	—11·4	378·8	+172·1	+83·3	542·3	+163·5	+43·2
(b) Other Advances	3365·6	+454·8	4006·0	+640·4	+19·0	4384·1	+378·1	+ 9·4	4834·8	+450·7	+10·3
2. Total Investments	1358·9	+198·2	1504·2	+145·3	+10·7	1806·9	+302·7	+20·1	2240·1	+433·2	+24·0
(a) In Government securities ..	1126·3	+150·7	1186·1	+ 59·8	+ 5·3	1375·1	+189·0	+15·9	1664·1	+289·0	+21·0
(b) In other approved securities ..	232·6	+ 47·5	318·1	+ 85·5	+36·8	431·8	+113·7	+35·7	576·0	+144·2	+33·4
3. Cash and Balances with R.B.I. ..	380·3	+110·8	357·6	— 22·7	— 6·0	402·9	+ 45·3	+12·7	447·4	+ 44·5	+11·0
4. Money at call and short notice ..	88·1	+ 37·5	47·9	— 40·2	—45·6	82·7	+ 34·8	+72·7	106·6	+ 23·9	+28·9
5. Aggregate Deposits	4645·8	+676·8	5274·5	+628·7	+13·5	6216·2	+941·7	+17·9	7523·5	+1307·3	+21·0
(a) Demand	2103·5	+228·7	2328·8	+225·3	+10·7	2742·8	+414·0	+17·8	3288·6	+545·8	+19·9
(b) Time	2542·3	+448·1	2945·7	+403·4	+15·9	3473·4	+527·7	+17·9	4234·9	+761·5	+21·9
6. Borrowings from R.B.I.	172·2	+ 68·7	291·5	+119·3	+69·3	207·2	— 84·3	—28·9	42·1	—165·1	—79·7
7. Credit-Deposit Ratio	77·5		79·9			76·6			71·5		
8. Investment-Deposit Ratio	29·3		28·5			29·1			29·8		

increase production and maintain distribution. Further, there was also the need to encourage the flow of credit to priority and hitherto neglected sectors as also to expand banking facilities. Credit policy announced at the commencement of the 1971-72 busy season was attuned to these tasks.

57. In the context of the need for credit restraint, the main plank of policy adopted was to minimise the dependence of commercial banks on Reserve Bank finance. Banks were advised that while the refinance entitlements were designed to take care of the peak requirements of borrowings from the Reserve Bank they should resort to such borrowings only for short periods. The Bank also suggested to commercial banks that the level of their borrowings from the Reserve Bank at the end of April 1972 should not exceed that at the end of April 1971, *i.e.*, Rs. 191 crores. They were informed that the Bank intended to raise, with effect from the first Friday of August 1972, the banks' liquidity requirement by 1 percentage point from 28 per cent to 29 per cent, excluding the statutory 3 per cent balances with the Reserve Bank.*

58. While the emphasis in Reserve Bank policy was on *general* credit restraint, measures were also taken to encourage the flow of resources to certain sectors which were in urgent need of credit. In order to support the efforts of authorities to help industrial units in the Eastern region, some of which were in need of special assistance, commercial banks were asked to help the Industrial Reconstruction Corporation of India by providing working capital assistance to the Corporation's client units. Scheduled commercial banks were instructed to liberalise their lending procedures in respect of the coal industry, to enable it tide over the difficulties experienced by it and to grant medium-term credit both for modernisation of existing rice mills or for installation of new ones.

59. The structure of selective credit controls on bank advances against certain sensitive commodities like foodgrains, oils and oilseeds, sugar and gur and cotton and kapas was broadly maintained. Watch was kept on the supply and price situation of sensitive commodities and adjustments were made in the margin and ceiling requirements in respect of advances against such commodities in accordance with the demand, supply and price situation (Details in this regard are given in Part II of this Report).

60. The outbreak of Indo-Pakistan hostilities on December 3, 1971 necessitated some relaxation in this policy in order to enable commercial banks to meet additional credit requirements of industry for the manufacture and supply of goods for defence purposes and ensure a smooth distribution of goods, particularly in the border area. Banks were asked to grant expeditiously and adequately defence packing-cum-supply credit to manufacturing units and sub-contractors fulfilling defence orders. Banks were assured full refinance facilities at Bank rate irrespective of their net liquidity ratio in respect of their advances for the above purposes. With a view to meeting the increased working capital needs arising from accumulation of stocks and increased production, banks were permitted to enhance credit limits on merits upto 15 per cent to parties covered by the Credit Authorisation Scheme without prior approval of the Reserve Bank.

61. Subject to these policies the expansion in credit during the 1971-72 busy season amounted to Rs. 351 crores compared with that of Rs. 394 crores in the 1970-71 busy season. This smaller expansion was the result of lower credit utilization for food procurement operations, which declined during the season by Rs. 76 crores as against an increase of Rs. 70 crores in the preceding busy season. Bank credit excluding food procurement credit, showed an increase of Rs. 427 crores compared with an increase of Rs. 324 crores during the previous busy season (Table 14). As deposit growth at Rs. 590 crores substantially outstripped the expansion in credit in 1971-72 busy season, dependence on the Reserve Bank was much less than in the previous busy season. At the peak level, increase in borrowings from the Reserve Bank during the 1971-72 busy season was Rs. 233 crores against Rs. 292 crores reached in the preceding busy season. Banks' investments in Government and other approved securities registered a

* Banks have accordingly been advised to raise their holdings of liquid assets by 1 percentage point from first Friday of August 1972.

Table 14:—Seasonal Variations in Scheduled Commercial Banks Data
Busy Season

(Amount in Rupees Crores)

	1967-68	1968-69	1969-70	1970-71	April 1971	1971-72	April 1972
1. Total Bank Credit	+509·5	+426·8	+562·9	+394·2	4675	+351·1	5189
Of which :							
(a) Food Procurement Advances ..	+101·0	+ 8·3	− 27·3	+ 70·3	203	− 76·0	283
(b) Other Advances	+408·5	+418·5	+590·2	+323·9	4472	+427·1	4906
2. Total Investments	−152·7	− 2·4	− 51·3	+115·4	1774	+244·6	2268
(a) In Government securities ..	−182·3	− 43·0	−100·9	+ 39·1	1360	+143·7	1712
(b) In other approved securities ..	+ 29·6	+ 40·6	+ 49·6	+ 76·3	414	+100·9	556
3. Cash and Balances with R.B.I. ..	− 4·2	+ 20·2	+ 7·8	+ 12·4	359	+ 1·9	419
4. Money at Call and Short Notice ..	− 20·5	+ 6·7	− 14·8	− 10·7		− 6·8	
5. Aggregate Deposits	+221·7	+324·9	+320·9	+435·5	5993	+590·3	7207
(a) Demand	+122·1	+145·1	+171·9	+190·2	2631	+295·7	3128
(b) Time	+ 99·6	+179·8	+149·0	+245·3	3362	+294·6	4079
6. Borrowings from R.B.I.	+105·3	+ 70·8	+203·0	+ 40·2	191	+ 4·3	23
7. Credit-Deposit Ratio .. .. (as at the end of the Season)	79·4	78·0	79·4	78·0	78·0	72·0	72·0
8. Investment-Deposit Ratio .. (as at the end of the Season)	29·6	28·9	28·8	29·6		31·5	

sharp rise of Rs. 245 crores, compared to an increase of Rs. 115 crores in the 1970-71 busy season. The credit-deposit ratio at the end of the busy season in April 1972 stood at 72 per cent or 6 percentage points lower than that a year ago.

Sectoral Distribution of Credit— Food Procurement and Exports

62. Estimates of data on sectoral flow of bank credit are available only upto end-December 1971 (*i.e.*, for the half year under review). These data show that between end-June and end-December 1971, while total credit extended by scheduled commercial banks increased by Rs. 294 crores to Rs. 5,052 crores, advances for food procurement operations declined by Rs. 14 crores and stood at Rs. 365 crores at the end of December 1971. Total advances granted by these banks for exports which had shown a rise of Rs. 19 crores in the first half of 1971 rose further by Rs. 77 crores to Rs. 459 crores by the end of December 1971. Of the total increase in scheduled commercial bank credit during this period, 26 per cent went to the export sector as compared to 18 per cent in the corresponding period of 1970. With the priority accorded to the promotion of exports, Reserve Bank continued to provide refinance facilities to banks in respect of credit granted by them for exports. The share of such refinance provided by the Reserve Bank to scheduled commercial banks in its total lending to them rose sharply during the year from 35 per cent at the end of June 1971 to 64 per cent at the end of December 1971. Banks were informed that in granting packing-credit facilities to export units they could relax margin requirements with a measure of discretion. The interest subsidy scheme was also continued and during the period July 1971 to end-June 1972, 37 eligible commercial banks availed of this subsidy to the extent of Rs. 4 crores against export credit provided by them.

—Other Priority Sectors

63. During the period end-June 1971 to end-December 1971 credit to other priority sectors (comprising agriculture, small industries, road transport operators, professionals, self-employed, education, retail trade and small business) increased by Rs. 77 crores or by 7.5 per cent as against Rs. 143 crores or by 16.4 per cent in the corresponding period last year (Table 15). In the event the share of these priority sectors in total

credit of all scheduled commercial banks declined from 22.8 per cent in December 1970 to 21.8 per cent in December 1971.

64. Sector-wise, direct finance to agriculture increased by Rs. 27 crores while indirect finance fell by Rs. 14 crores. In the result, total, advances to agriculture increased by only Rs. 13 crores during the half year ended December 1971 as against by Rs. 58 crores in the corresponding period of 1970. Trends in credit to small-scale industries and other priority sectors like professionals and self-employed, retail trade and small business etc., were not dissimilar to those in the agricultural sector. The expansion in credit to small industry during June-December 1971 was Rs. 45 crores as against Rs. 55 crores in the corresponding period of 1970, while in respect of other priority sectors the order of expansion was Rs. 19 crores as against Rs. 30 crores. The credit to small-scale industry (including term loans and advances granted to craftsmen and other qualified entrepreneurs) extended during 1971-72 (April—March) rose by Rs. 84 crores to Rs. 578 crores* as against an increase of Rs. 100 crores in 1970-71.

65. Slackness in the growth of credit to agriculture was partly due to emphasis given by banks on quality and recovery of their advances and partly due to banks focussing on the strength of their organisational structure for handling credit to this sector and streamlining their policies and procedures in accordance with the guidelines issued to them by the Bank. The slower pace of expansion in bank credit to the small industries sector is attributable partly to the general slack in the industrial sector, affecting the small industries output levels. Greater attention to maintaining a minimum standard of quality was also a contributory factor. It may also be added that the rate of growth in credit recorded in the period immediately following the nationalisation of 14 major banks could not be sustained as the base of advances to these sectors which was narrow in the initial period, has since considerably widened and, therefore, the rate of growth would be necessarily lower. The decline in the share of these sectors in total scheduled bank credit has to be viewed in the light of the above background and thus does not reflect a shift in policy.

Credit to other sectors

66. As Table 15 shows the share of other sectors, particularly large and medium industries and wholesale trade, including Government and other public sector undertakings, increased by Rs. 231 crores and amounted to 70.9 per cent of total advances as against 70.5 per cent at the end of June 1971. Apart from the fact that large and medium industries and wholesale trade have always been the major borrowers from banks, this increase should be viewed against the special defence and distributional orders that had to be fulfilled in this period by industry and trade. Also, the bulk of export trade is included in the figures of advances extended to these sectors. Thus, for meeting fully the genuine credit requirements of the productive sectors of the economy, the general policy of credit restraint was not an obstacle. This is shown by the fact that during the year under review, out of 726 applications received from banks under the Credit Authorisation Scheme of the Reserve Bank, only 3 involving a small amount of Rs. 1.45 crores were rejected as not being need-based.

Differential Rates

67. In the context of credit to weaker sections of the community, mention may be made of the announcement by the Finance Minister on March, 25, 1972 of the Government decision to implement the scheme of concessional interest rates on advances made by public sector banks to selected low income groups, who deserved financial assistance. Following the statement a set of guidelines laying down criteria for identification of persons eligible for loans under the scheme and the conditions under which loans are to be given has been issued to banks. The two basic criteria for the selection of borrowers would be their weak economic status and the productive character of the activity. The differential interest rate is fixed uniformly at 4 per cent *i.e.*, 2 per cent below the Bank rate. The scheme is at the pilot stage now, and it is expected that lending under the scheme will amount to about half of one per cent of the aggregate lendings of banks at the end of the previous year. Although the total quantum of credit—estimated at Rs. 20 crores—

* Provisional.

Table 15:—Sectoral Distribution of Scheduled Commercial Banks' Credit

(Amounts in Rupees Crores)

	Outstandings as on June 1969	Outstandings as on June 1970	Outstandings as on December 1970	Variation (3) over (2)	Outstandings as on June 1971	Outstandings as on December 1971	Variation (6) over (5)
	1.	2.	3.	4.	5.	6.	7.
1. Total Bank Credit	3399	4213	4452	+239	4758	5052	+294
(of which exports)	(263)	(320)	(363)	(+ 43)	(382)	(459)	(+ 77)
2. Food Procurement Operations ..	233	207	217	+ 10	379	365	− 14
3. Agriculture :	188	342	400	+ 58	382	395	+ 13
of which :							
(a) Direct Finance	54	184	240	+ 56	236	263	+ 27
(b) Indirect Finance	134	158	160	+ 2	146	132	− 14
4. Small-scale Industries	286	414	469	+ 55	500	545	+ 45
5. Other priority sectors including retail trade	31	114	144	+ 30	144	163	+ 19
6. Bank credit to large and medium industry, wholesale trade and others@ .. .. [1—(2 + 3 + 4 + 5)]	2661 (78·3)	3136 (74·4)	3222 (72·4)	+ 86	3353 (70·5)	3584 (70·9)	+231
7. Available Aggregate Deposits (excluding cash in hand and balances with RBI, balances with other banks in current account and investments in Government and other approved securities) ..	2833	3350	3530	+180	3932	4251	+319
8. Item 6 as percentage of Item 7 ..	93·9	93·6	91·3	47·8	85·3	84·3	72·4
9. Borrowings from R.B.I.	172	292	302	+ 10	207	171	— 36

Note : (i) Figures for other priority sectors including retail trade are available for public sector banks only and hence have been blown up on the basis of the proportion (86%) of credit of public sector banks to total credit.

(ii) Figures in brackets against Item 6 indicate proportion to total bank credit.

@ Estimated.

under the scheme would not be large, the major advantage would be the initiation of bankers to the policy of using interest rates as an instrument for reducing inequalities of income and wealth.

Bills Rediscounting Scheme

68. The scope of the Bills Rediscounting Scheme introduced in November 1970 with a view to encouraging the growth of bill market was widened during the year with a few modifications (discussed in Part II). Refinancing under the old Bill Market Scheme was discontinued except for the specific purposes of defence packing credit-cum-supply credit and providing funds for food procurement operations and to banks, especially smaller banks, unable to provide eligible paper for other types of borrowings from the Reserve Bank.

69. After an initial phase of decline during July and August 1971 the outstanding level of bills rediscounted increased to Rs. 25 crores at the end of September 1971 as compared to Rs. 10 crores at the end of June 1971. At the commencement of 1971-72 busy season bills rediscounted with the Reserve Bank stood at Rs. 14 crores. As the busy season progressed banks availed of rediscounting facilities on an increasing scale and by end of March 1972, the outstandings were of the order of Rs. 42 crores. With the commencement of the slack season recourse to this faci-

lity declined and at the end of June 1972 bills rediscounted amounted to Rs. 10 crores. Maximum amount of outstanding bills rediscounted under the Scheme during the period from July 1, 1971 to June 30, 1972 amounted to Rs. 45.3 crores.

Credit Planning

70. The rationale and content of credit planning and its significance in the context of overall economic planning and the measures initiated in this direction were referred to in the last year's Report. As a further step for preparing a credit plan for the economy as a whole, a broad exercise of the increase in resources of the banking system and their deployment was undertaken in respect of financial year 1971-72, slack season 1971 and the 1971-72 busy season. For arriving at these estimates, 31 major banks which accounted for 95 per cent of deposits and 96 per cent of advances of the banking system, were asked to supply data in a special proforma designed for the purpose. The proforma included details of accretion of total deposit resources and advances of the banks, deployment of funds State-wise and sector-wise as also the banks' programme of branch expansion in the country. The individual banks' projections were discussed with the Chief Executive and high officials of the bank concerned and wherever necessary the estimates were revised, taking into account the past performance and its expected role in the context of social objectives regarding deposit mobilization and disbursal of loans sector-wise and region-wise. Utilizing the consolidated data from these banks and such information on production trends, prices, etc. as was available, a broad credit plan for the year 1971-72 for the banking system was prepared.

71. In order to have an idea of the credit requirements of the jute, tea and engineering industries, discussions with Jute Manufacturers' Association, Engineering Association and tea interests were held during the year. Similar dialogues with the representatives of other sectors (private and public) in the country are being initiated to help make proper estimates of their credit requirements.

72. The experience of the comprehensive credit plan for 1971-72 and the proforma for 1972-73 credit plan were discussed at the meeting of Economists of commerical banks convened by the Reserve Bank in April 1972. Besides explaining the objectives of the plan, the Economists were requested to send to the Reserve Bank their methods of estimating deposits and sectoral deployment of credit; these are to be discussed with individual bankers.

Regional Credit Planning

73. Although in the credit plan for 1971-72, State-wise classification of deposits and deployment of funds (including investments) was done and inter-State comparisons were made, a complete picture of regional distribution of bank funds was not possible, since the banks were not able to classify State-wise credit on utilisation basis. The banks are not as yet fully aware of the credit requirements of agriculture and small industry in many parts of the country. Nonetheless, a beginning has been made through quick impressionistic surveys carried out by them in respect of districts allotted under the lead bank scheme. Reports for 260 out of 335 districts have been prepared; further, the first phase of identification of unbanked/underbanked centres has been completed. In regard to follow-up action under the lead bank scheme, formation of the district level consultative committee for some districts has been completed. These committees are expected to maintain liaison with State Governments, besides co-ordinating the activities of financial institutions in meeting the credit gaps. While banks have familiarised themselves with the district economy, the scheme has not as yet brought about any substantial increase in banks' involvement in the local economy. In particular, lending to priority sectors has not yet made much headway under this scheme. This is due to the fact that banks have not so far conducted depth studies to assess the credit needs of different small-scale industries and agriculture in most areas. The effort made in this direction has been inadequate upto now. This is due, to a certain extent, to the narrow operational base with which some lead banks have started in their districts. In drawing up the perspective branch expansion programme for 1972-74, this aspect has been taken into account.

74. For evolving a meaningful lending programme, almost all public sector banks have set up offices at regional/divisional level and, in certain cases at the district level, with a mixture of developmental staff and subject matter specialists. With the conduct of area studies and identification of credit gaps with the active co-operation of other institutional agencies in the area and adequate support from State Government in regard to bankable schemes in districts, regional credit planning will become more effective in the coming years.

75. An important aspect of credit planning continues to be the expansion of banking facilities in the less developed regions of the country. Out of 1,612 branches opened during the year as many as 936 (53 per cent) were opened at hitherto unbanked centres and 507 were opened in the 9 relatively underbanked States of Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Manipur, Meghalaya, Orissa, U.P. and West Bengal. These 9 States and Tripura and Nagaland which have also been identified as underbanked States, account for more than half of the population of the country. They had only about one-fourth of the total number of branches at the end of June 1969, but because of the branch expansion policy pursued during the last three years, this proportion has increased to more than 29 per cent at the end of June 1972. Details of the branch expansion programme of the commercial banks are given in Part II of the Report.

Balance of Payments

76. We turn now to the position regarding the external payments balance of the country in 1971-72 (July-June). During this period, the value of foreign exchange reserves increased from Rs. 787 crores to Rs. 846 crores. However, this rise includes Rs. 16 crores by way of the appreciation in the rupee value of the reserve assets held in currencies whose exchange rates went up over the year. In 1970-71, on the other hand, there was a decline of reserves from Rs. 837 crores to Rs. 787 crores, owing largely to an outflow of Rs. 124 crores for repurchases from and additional gold subscription to the IMF. There were no transactions of this nature in 1971-72. If we excluded these special transactions and the value change, the reserves would show an increase of Rs. 43 crores in 1971-72 and of Rs. 72 crores in 1970-71. In other words, the improvement in the payments situation was somewhat less marked than in the previous year.

77. Details of the total external transactions of which the changes in foreign exchange reserves are the final upshot are not yet available. However, whatever information is available shows that import payments have risen. Larger imports of steel, non-ferrous metals and other maintenance items have more than offset the reduction in food imports made possible by the comfortable domestic stocks. Debt servicing payments were larger than in the preceding year, partly on account of the rise in the exchange value of the currencies of some of our creditors. At the same time, export earnings probably went up moderately, in the face of the international currency uncertainties, and despite particularly good performance of jute exports.

78. At the end of the year, the external assistance available in the pipeline will thus have been significantly lower than at the end of the last year. Since December 1971, there have been no fresh aid authorisations from the U.S. With U.S. inaction on the third replenishment of funds for the International Development Association, flow of assistance from that source too has been affected. The breakdown of the international monetary system also led to uncertainty regarding assistance from other sources.

Trade Deficit

79. So far as imports and exports are concerned the D.G.C.I.S. data show that India's trade deficit which had narrowed down considerably since 1968-69 once again widened during 1971-72. The trade deficit in 1971-72 (April-March) amounted to Rs. 286 crores and was substantially higher than the deficit of Rs. 99 crores in 1970-71. This sharp increase was due to a substantial rise of Rs. 219 crores in imports, exports showing a rise of only Rs. 32 crores.

Exports

80. The growth rate of exports during the financial year 1971-72 was 2.1 per cent compared to 8.6 per cent in the preceding year. As pointed out in the last year's Report, a part of the increase in exports in 1970-71 was statistical arising out of the change in procedure for recording exports. If adjustment in the official export figures for 1970-71 is made on this ground, the effect would be to reduce the growth rate in exports in 1970-71, and correspondingly, to raise the growth rate in 1971-72. In the absence of concrete data, these adjusted growth rates cannot be easily determined but it is apparent that the growth rates based on the unadjusted figures are an overestimate for 1970-71 and an underestimate for 1971-72.

81. The trend of exports in 1971-72 can be divided fairly clearly into two periods, *viz.*, April 1971 to July 1971 when they showed a smart rise of 25 per cent over the corresponding period of 1970 and the subsequent period from August 1971 to March 1972 when exports were 7 per cent lower than in the corresponding period of 1970-71. The better performance in the former period was due mainly to the buoyant demand for jute goods consequent on the virtual cessation of shipments from Bangladesh. In the period, after July 1971 exports were adversely affected, *inter alia*, by the dislocation of trade caused by the floating of world's major currencies and the Indo-Pak conflict.

Exports: Commodity-wise

82. Commodity-wise details of exports which are available upto December 1971 show that the modest growth rate of exports (4 per cent during the period April-December 1971 over the corresponding period of 1970) was almost entirely due to the increase in exports of jute manufactures. Among other items, tea recorded a modest rise of 2 per cent due to realization of higher unit values. On the other hand, exports of cotton textiles and yarns, oil cakes and spices recorded some decline (Table 16).

Table 16 :—India's Principal Exports

(Amounts in Rupees Crores)

Commodities	1967-68	1968-69	1969-70	1970-71	April-December 1970	April-December 1971	Increase (+)/ Decrease (—) of (6) over (5): Actual	Increase (+)/ Decrease (—) of (6) over (5): Percentage
	1	2	3	4	5	6	7	8
A. Major non-traditional items								
Engineering goods	35	69	91	126	90	86	— 4	— 4
Iron and steel	55	79	87	91	71	34	—37	—52
Iron ore	75	88	95	117	86	72	—14	—16
Chemicals	16	24	30	36	27	25	— 2	— 7
B. Other items								
Jute yarns and manufactures ..	234	218	207	190	136	216	+80	+59
Cotton yarns and manufactures	86	101	116	118	88	81	— 7	— 8
Tea	180	157	125	148	120	122	+ 2	+ 2
Hides, skins, leather and leather goods including footwear ..	70	87	99	87	64	74	+10	+16
Cashew kernels	43	61	57	52	42	51	+ 9	+21
Oil cakes	45	49	41	55	41	29	—12	—29
Pearls, precious and semi-precious stones, unworked/worked	30	45	42	42	31	38	+ 7	+23
Spices	27	25	34	39	24	23	— 1	— 4
Fish and fish preparations ..	18	23	31	31	24	29	+ 5	+21
Sugar	16	10	9	28	18	27	+ 9	+50
Coffee	18	18	20	25	22	19	— 3	—14
Manganese ore	11	13	11	14	11	8	— 3	—27
Tobacco (unmanufactured) ..	35	33	33	31	26	35	+ 9	+35
C. Total (including others)	**1199**	**1358**	**1413**	**1535**	**1150**	**1194**	+44	+ 4

Note : Data for 1970-71 and 1971-72 are not comparable with those of the previous years owing to the change in procedure (from the finally passed shipping bill to the original copy of the shipping bill) for recording exports adopted by the DGCIS, with effect from November 1, 1970.

Source : DGCIS.

83. If the increase in jute exports is excluded, total exports in the period April-December 1971 would show a decline of Rs. 36 crores. The share of non-traditional exports in the total came down from 24 per cent in April-December 1970 to 18 per cent in the same period in 1971. Increasing domestic demand for steel in the face of lower output reduced the export surplus considerably, while export of iron ore fell mainly due to decline in foreign demand. Shortage of steel and the pull of domestic demand also held down the exports of engineering goods and chemicals which had shown a rising trend in the previous years.

Export Policy

84. Reference was made in the last year's Report to the Export Policy Resolution presented to the Parliament on July 30, 1970 which emphasised the need for expanding India's export earnings at a high rate. In keeping with this objective the industrial licensing policy and the import policy were further geared to the expansion of export-oriented production. As observed earlier, export credit facilities were also extended in a larger measure.

85. A significant development in regard to external trade was the signing of the Trade Agreement in March 1972, between India and Bangladesh. In terms of this agreement India's exports to Bangladesh would comprise, among others, unmanufactured tobacco, cement, coal and cotton yarn, while India's imports from Bangladesh would include, *inter alia*, fish, raw jute and newsprint. The Agreement also provided for special facilities in regard to border trade.

Trends in Imports

86. Imports which had risen somewhat in 1970-71 for the first time after the devaluation of the rupee in June 1966, rose sharply in 1971-72. According to DGCIS data they increased by Rs. 219 crores (13 per cent) to Rs. 1853 crores during 1971-72 as compared to Rs. 52 crores (3 per cent) registered in 1970-71. The increase in imports during the year was partly due to shortfalls in domestic production of certain essential raw materials and steel products; the liberalised import policy followed in respect of maintenance imports was also a contributory factor.

Imports: Commodity-wise

87. Commodity-wise details of imports are available upto December 1971. These show that the increase in imports during April-December 1971 over the corresponding period of the previous year was accounted for entirely by non-food imports. Imports of foodgrains were lower by Rs. 65 crores (or 38 per cent) than in April-December 1970, while non-foodgrains imports were higher by Rs. 247 crores (or 24 per cent). Almost all the major items under non-food imports recorded increases, but the rises were substantial in the case of iron and steel (Rs. 77 crores), machinery and transport equipment (Rs. 75 crores) and mineral oils (Rs. 47 crores) (Table 17). During 1971-72 (April-March) the value of import licences increased by 13 per cent on top of increases of 36 per cent recorded during the year 1970-71 ; this should increase further non-food imports in 1972-73.

Import Policy

88. The import policy for 1972-73, while maintaining the basic framework of previous year's policy laid greater stress on the goal of self-reliance. It provided for greater allocation of imported inputs to selected priority industries, particularly those having substantial export potential or contributing to net savings on imports.

89. The relative deterioration in merchandise trade was partly due to internal factors, such as relatively high prices and larger domestic offtake. On the other hand, there were certain developments abroad which also impeded our exports. UNCTAD III underlined the fact that developed countries are doing little to foster their trade with under-developed countries. The Generalized System of Preferences which has now been adopted by the developed countries such as EEC countries, Japan, Norway, Sweden and U.K. to provide opportunities for expanding exports of manufactured and semi-manufactured goods is riddled with quotas and ceilings.

90. With the floating of the pound sterling, at the end of the year, the international

Table 17J:—India's Principal Imports

(Amounts in Rupees Crores)

Commodities	1967-68	1968-69	1969-70	1970-71	April-December		Increase (+) Decrease (—) of (6) over (5)	
					1970	1971	Actual	Percentage
	1	2	3	4	5	6	7	8
1. Food (excluding cashewnuts) ..	554	372	293	242	187	131	— 56	—30
Cereals and cereal preparations	518	336	261	213	170	105	— 65	—38
2. Raw cotton	83	90	83	99	74	87	+ 13	+18
3. Raw jute and mesta	5	16	5	Negl.	Negl.	—	—	—
4. Cashewnuts	25	31	28	29	22	20	— 2	—10
5. Mineral Oils :	75	133	138	136	96	143	+ 47	+49
of which :								
(a) Petroleum crude and partly refined	60	96	96	106	76	110	+ 34	+45
(b) Others	15	37	42	30	20	33	+ 13	+65
6. Chemicals :	273	283	195	192	135	161	+ 26	+19
of which :								
(a) Fertilisers	139	139	77	61	38	52	+ 14	+37
(b) Others	134	144	118	131	97	109	+ 12	+12
7. Iron and steel	106	86	82	147	102	179	+ 77	+75
8. Non-ferrous metals	89	89	75	120	86	83	— 3	— 3
9. Crude rubber (including synthetic and reclaimed)	4	5	10	4	3	3	—	—
10. Wool and other animal hair ..	12	11	17	16	13	11	— 2	—15
11. Animal and vegetable oils and fats	34	19	30	39	32	32	—	—
12. Paper, paper boards and manufactures thereof	18	18	24	25	17	24	+ 7	+41
13. Pearls, precious and semi-precious stones	12	28	28	25	17	19	+ 2	+12
14. Machinery and transport equipment	503	514	396	384	274	349	+ 75	+27
(a) Machinery other than electric	336	366	280	257	190	211	+ 21	+11
(b) Electrical machinery ..	86	82	64	69	49	72	+ 23	+47
(c) Transport equipment ..	81	66	51	58	35	66	+ 31	+89
15. Others	215	214	178	176	125	123	— 2	— 2
Total	**2008**	**1909**	**1582**	**1634**	**1183**	**1365**	**+182**	**+15**

Source : DGCIS.

currency uncertainties seemed to grow rather than abate. World trade growth decelerated sizeably between 1970 and 1971. Developing countries' terms of trade deteriorated even as their export growth declined. Though revival of activity is now strongly forecast for West Germany and the U.S. the prospects for the growth of world trade in 1972-73 would remain uncertain if credible progress is not achieved in the matter of the reform of the international monetary system.

91. It is in this context that India and the other developing nations have been seeking to be actively associated with the process of the international monetary reform and the continuation without any disruption of the SDR distribution in quantities adequate to meet the developing countries' needs. The difficulties that have ravaged the international payments system in the last few years are entirely due to the failure of the leading industrial countries of the world to manage their output and demand. The ill-effects of this failure are, however, visited upon the developing countries also. A system in which (*a*) creation of international liquidity is internationally controlled, (*b*) adequate additions to liquidity are provided for the orderly growth of international trade and economic development of the less developed countries, and (*c*) acceptable objective criteria are laid down for exchange rate changes to facilitate the adjustment process, is thus a matter of immediate necessity. Obviously, the developing countries need to have adequate voice in formulating such a system and in operating it after its adoption.

Assessment and Prospects

92. The synoptic view given in the preceding paragraphs shows that while the economy was able to withstand successfully the strains of refugee influx and war till the end of last year, it has also exhibited certain disquieting features. The response to an increase in aggregate demand has been more in terms of price increases than of output increases. While there has doubtless been a rise in agricultural output, industrial growth continues to be much slower than envisaged in the Fourth Plan—due partly to shortages in power, transport and certain raw materials. The rise in consumer goods prices has, among other things, worsened industrial relations and this also has had an adverse effect on industrial production. Although larger domestic savings and net capital inflow from abroad have contributed to an increase in domestic investment, the demand for investment goods industries continues to be less than adequate. Likewise, while aggregate receipts of the public sector have gone up, public savings have diminished ; in consequence, deficit spending has been larger. This has in turn affected aggregate monetary resources in the economy.

93. It is against this background that the tasks ahead have to be defined keeping in view the objectives of the Fifth Plan. The fulfilment of these objectives is predicated on a rapid rise in production and strengthening of competitive efficiency. Maximising production would imply promotion of new industries, fuller utilisation of existing capacity and wider spread of new agricultural technology. Equally, the management of demand will be crucial to restraining price increases. Ideally, this will require the adoption of policies relating the increase in money earnings to increases in productivity in the economy, concurrently with increasing savings and redistribution of income. There are, no doubt, both conceptual and practical difficulties in implementing this policy. At the same time, the need for such a policy is evident because the attempt of different sections of the community to increase their shares in the national output will not only be self-defeating but will also make it difficult, if not impossible, to achieve in real terms the planned targets of output.

94. From the point of view of financial policy, this would require two basic lines of action ; first, monetary expansion will have to be kept within limits and, second, institutional facilities will have to be provided on an extensive scale to mobilise the savings of the community. An essential element in controlling monetary expansion would be to limit the extent of deficit financing resorted to by the public sector. As pointed out earlier in the Report, no State Government can now have overdrafts from the Reserve Bank except for a temporary period of one week ; to supplement this a policy of keeping the Reserve Bank credit to the Central Government under restraint would have to be pursued. It is clearly not possible to prescribe any precise limit to

such credit, because of the special responsibilities in regard to defence and development that the Central Government has to shoulder. However, a continuous watch should be kept on the level of deficit financing, taking into account the prevailing elasticity of supply of essential commodities or wage-goods. This implies that maximum efforts should be made to enlarge tax collections through a widening of the tax base, to maximise market borrowings and, in particular, to generate surpluses in the public sector commercial undertakings through increased operational efficiency.

95. The institutional measures in the financial field will require the provision of infrastructure, in the form of extending and deepening banking services. Banking developments in India show that given the requisite manpower and other resources, banks can play a useful role in the development of the less developed regions. With the anticipated increase in the deposits, banks can also extend term-lending and export credit to a larger extent than they have done so far. This would mean that the working capital requirements of industrial, agricultural and other sectors should be capable of being financed without undue difficulties. However, the problem of medium and long-term capital would still remain. It will, therefore, be necessary to continue — and augment — the assistance given through the term-lending institutions; it will also be essential to promote fresh investment for the further widening and diversifying of the industrial base. Apart from encouraging institutional facilities, the Reserve Bank's policy will have to be one of general credit constraint in view of the objective of price stability.

II. PROGRESS IN COMMERCIAL BANKING

96. The banking system continued its efforts, during the year under review, in widening its geographical coverage and in reducing thus the regional imbalances in banking development. The perspective plan of branch expansion proposed for 1972 and the succeeding two years, during which an overall expansion of 5,000 branches is contemplated, is expected to further reduce regional imbalances and also enable banks to integrate their branch expansion programme with their lead responsibilities under the lead bank scheme. The momentum in the growth of deposits of banks witnessed in the recent years is likely to be maintained, in view of the continued emphasis on widening the network of branches.

97. Emphasis on meeting the credit requirements of borrowers of small means, such as small farmers, small-scale manufacturers, retail traders, road transport operators, small businessmen, professionals and self-employed persons also continued during the year with increased accent on qualitative lending. The accent on qualitative lending will be fortified by the liberalisations in respect of guarantee cover provided by the Credit Guarantee Corporation of India Ltd., for credit facilities extended to borrowers of small means in the priority and neglected sectors. The Union Government's decision to implement the differential interest rates scheme, in favour of specified low income categories of persons engaged in specified productive, economic activities and the expectation that public sector banks will lend about Rs. 20 crores under the scheme will increase their involvement in catering to the credit needs of these sectors.

98. Under the Lead Bank Scheme, considerable progress has been made in the preparation of reports based on quick impressionistic surveys. Besides convening Consultative Committees for Banking Development in a number of districts, some efforts have also been made in conducting intensive studies to identify credit gaps.

99. In the field of agriculture, public sector banks are evolving specific area schemes, as for example, schemes in terms of which they endeavour to meet the financial needs of farmers in adopted villages. Apart from reducing the chances of more than one institutional credit agency financing the same borrower, such schemes also enable banks to have better supervision over the end-use of credit provided. The SFDA/MFAL projects are still in the initial stages and the authorities are identifying eligible persons. Commercial bank lending to agriculture will be facilitated further, if action on the report of the Expert Group on State Enactments is taken expeditiously by State Governments.

100. Mention may also be made of the selection by the State Bank of India of 60 centres throughout the country to gain experience in lending to self-employed persons, artisans, craftsmen, etc. To the same category belonged the opening of a multi-service agency branch by the Bank of Baroda for giving technical assistance to potential entrepreneurs. The Reserve Bank is in touch with other banks in regard to evolving similar schemes to augment employment potential.

101. Towards the close of the accounting year, the Regional Consultative Committee for nationalised banks for the central region, comprising Madhya Pradesh and Uttar Pradesh to review banking developments within the region, was convened at Lucknow. The Committee discussed matters relating to the provision of loans to priority sectors and also co-ordination between State Governments and banks. At the meeting, a decision to set up a working group to make substantial efforts to increase lending in rural and semi-urban areas as well as to small borrowers, specially agriculturists was taken.

102. Banks have also recognised the organisational constraints for a dynamic programme of lending to the priority sectors and, therefore, have either reorganised or are in the process of reorganising their existing set-up. In this they have taken note of the need to have an appropriate mix of operational and developmental staff at the head office, as well as regional and district level offices.

103. The following paragraphs bring out details of organisational changes and the

progress in the implementation of various schemes affecting commercial banks.

Branch Expansion

104. Commercial banks opened 1,805 offices in 1971 as against 2,137 offices in 1970 and 1,369 in 1969 making a total of 5,311 for the three years ending December 1971. It is proposed to maintain this momentum in the three-year period ending 1974 under the perspective plan of branch expansion. Under it commercial banks would be able to open at least about 1,500 branches each in 1972 and 1973 and perhaps somewhat more in 1974, adding up to a total of about 5,000 branches. Banks have been advised to be more selective in the matter of further branch expansion, and take into account the objective of providing banking facilities in centres with potential, their responsibility in their lead districts, their areas of operation and the need for giving priority to the relatively under-developed/under-banked States. In addition, banks have been advised to constantly appraise the performance of their branches in relation to their present business and future goals.

105. In the accounting year 1971-72, commercial banks opened 1,612 offices as against 1,890 offices in 1970-71. Of the offices opened during the year, the nationalised banks opened 821 offices and the State Bank of India and its subsidiaries 439 offices. The number of offices opened at unbanked centres was 936 (Table 18).

Table 18:—New offices opened by commercial banks during 1970-71 and 1971-72

	New offices opened by commercial banks						Bank offices as on	
	1970-71			1971-72				
	July-December 1970	January-June 1971	July 1970-June 1971	July-December 1971	January-June 1972	July 1971-June 1972	30th June 1971	30th June 1972
1. State Bank of India	234 (164)	178 (123)	412 (287)	187 (106)	102 (58)	289 (164)	2286	2575
2. Subsidiaries of State Bank of India	86 (64)	87 (55)	173 (119)	66 (39)	84 (46)	150 (85)	1233	1383
3. Fourteen nationalised banks	608 (413)	444 (245)	1052 (658)	540 (321)	281 (149)	821 (470)	6368	7189
4. Other scheduled banks	124 (57)	115 (65)	239 (122)	175 (108)	165 (99)	340 (207)	1875	2238
5. Foreign banks	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	130	130
6. All scheduled commercial banks	1052 (698)	824 (488)	1876 (1186)	968 (574)	632 (352)	1600 (926)	11892	13515
7. Non-scheduled commercial banks	5 (—)	9 (8)	14 (8)	4 (3)	8 (7)	12 (10)	121	105
8. All commercial banks	1057 (698)	833 (496)	1890 (1194)	972 (577)	640 (359)	1612 (936)	12013	13620

Note : Figures in brackets relate to the number of offices opened at unbanked centres.

106. Progress in regard to extending the territorial spread of banking was maintained during the year (Table 19). Of 5,375 offices opened since nationalisation, *i.e.*, from July 1969 to end-June 1972, as many as 3,416 branches were in unbanked centres (63.5 per cent). The under-developed States of Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal accounted for 31.6 per cent of these new offices. Even out of the offices opened at unbanked centres, these States accounted for 34.1 per cent. In Manipur and the

Table 19:—State-wise distribution of bank offices as at the end of June 1970, June 1971 and June 1972

States	No. of offices as at the end of			Opened during 1970-71		Opened during 1971-72		Population per bank office (in thousands) as at the end of	
	June 1970	June 1971	June 1972	Total	Of which un-banked centres	Total	Of which un-banked centres	June 1971	June 1972
1. Andhra Pradesh	722	869	959	147	95	90	44	50	45
2. Assam	95	122	149	26	23	27	22	120	98
3. Bihar	361	453	541	92	62	88	68	124	104
4. Gujarat	919	1105	1234	187	106	129	83	24	22
5. Haryana	219	258	299	39	19	41	29	39	34
6. Himachal Pradesh	62	87	108	25	23	21	19	40	32
7. Jammu & Kashmir ..	74	101	116	27	13	15	8	46	40
8. Kerala	713	845	978	132	100	136	92	25	22
9. Madhya Pradesh	460	566	659	107	62	103	58	73	62
10. Maharashtra	1304	1471	1679	167	86	208	77	34	30
11. Manipur	2	5	6	3	3	1	1	215	178
12. Meghalaya	11	15	16	4	4	1	—	67	63
13. Mysore	954	1124	1292	170	107	168	107	26	23
14. Nagaland	4	5	5	1	1	—	—	103	103
15. Orissa	133	173	192	40	30	19	12	126	114
16. Punjab	465	556	651	91	55	95	59	24	21
17. Rajasthan	432	525	570	93	61	45	25	49	45
18. Tamil Nadu	1213	1371	1484	164	107	115	73	30	28
19. Tripura	6	12	12	6	6	—	—	130	130
20. Uttar Pradesh	932	1147	1324	215	142	177	107	77	67
21. West Bengal	588	684	760	96	67	76	40	65	58
Union Territories :									
22. Andaman & Nicobar Islands	2	2	4	—	—	2	1	57	29
23. Arunachal Pradesh	—	3	5	3	3	2	2	156	94
24. Chandigarh	26	28	33	2	—	5	—	9	8
25. Dadra & Nagar Haveli ..	1	3	4	2	2	1	1	25	19
26. Delhi	318	350	385	32	2	35	1	12	10
27. Goa, Daman & Diu ..	101	111	118	10	9	7	4	8	7
28. Laccadive, Minicoy and Amindivi Islands	—	2	2	2	2	—	—	16	16
29. Mizoram	—	—	1	—	—	1	1	—	332
30. Pondicherry	13	20	24	7	4	4	2	24	20
Total : ..	**10131**	**12013**	**13620**	**1890**	**1194**	**1612**	**936**	**46**	**40**

Union Territories of Arunachal Pradesh, Dadra and Nagar Haveli and Mizoram, all the offices opened during the year were at unbanked centres.

107. With the addition of 1,612 branches in 1971-72, population covered per bank office declined from 46,000 at the end of June 1971 to 40,000 in June 1972. Such decline was noticed in all the States except Nagaland and Tripura, and among the Union Territories, Laccadive, Minicoy and Amindivi Islands. There are only two districts which are still unbanked ; licences for opening of branches therein have already been issued to banks.

108. In spite of a slight decline in the rate of growth of branches in the year, the shift in favour of opening branches in rural areas continued during the year (Table 20). The proportion of bank branches in rural areas increased from 35.6 per cent of the total a, the end of June 1971 to 38.7 per cent at the end of June 1972.

109. A recent study of the performance of banks in eight metropolitan centres, *viz.* Ahmedabad, Bangalore, Bombay, Calcutta, Delhi, Hyderabad, Kanpur and Madras, revealed that good deposit potential existed in these centres and that metropolitan centres

Table 20:—Centre-wise distribution of commercial bank offices

Centre	No. of offices as at the end of									
	June 1969		June 1970		June 1971		December 1971		June 1972	
	No.	*% to total*	No.	*% to total*	No.	*% to total*	No.	*% to total*	No.	*% to total*
(*i*) Rural ..	1832	*22·4*	3062	*30·2*	4279	*35·6*	4889	*37·5*	5267	*38·7*
(*ii*) Semi-urban. ...	3322	*40·1*	3695	*36·5*	4016	*33·4*	4224	*32·6*	4351	*31·9*
(*iii*) Urban ..	1447	*17·5*	1583	*15·6*	1778	*14·8*	1850	*14·3*	1916	*14·1*
(*iv*) Metropolitan/Port towns ..	1661	*20·0*	1791	*17·7*	1940	*16·2*	2022	*15·6*	2086	*15·3*
Total..	8262	*100·0*	10131	*100·0*	12013	*100·0*	12985	*100·0*	13620	*100·0*

offered scope for opening more bank offices. It was also felt that increase in the number of offices in the large cities will offer relief to the existing offices, particularly in business localities, which find it difficult to cope with the rapid increase in business and help them in siphoning off the overflowing business and thereby bring about improvement in customer service too. In view of these considerations, the population norm per bank office was reduced from 10,000 to 5,000 for metropolitan areas and certain urban centres. Further, the requirement of banks to open the requisite number of offices in rural/semi-urban areas to get entitlement for opening urban offices including those at metropolitan and port towns, was relaxed so that more offices in metropolitan cities/port towns may be opened. According to the revised norm, a bank which has 60 per cent or more of its offices in rural/semi-urban areas is eligible for opening one office *each* in an urban and a metropolitan/port town for every two offices opened in rural/semi-urban areas ; and in other cases it will be for every three offices opened in rural/semi-urban centres. In order to accelerate the pace of issue of licences relating to metropolitan centres, meetings of representatives of banks were held at six centres, *viz.*, Bombay, Calcutta, Delhi, Hyderabad, Madras and Bangalore and allocations were made for opening 728 offices in these cities. Banks have also been allowed to open 303 more offices in urban centres. These steps are expected to tap the deposit potential in urban areas and relieve the pressure on existing bank offices there, and at the same time, maintain the momentum of the programme of expanding banking facilities in rural areas.

110. Allowing for changes in the number of offices due to amalgamations, transfer of assets and liabilities and inclusion in and exclusion from the Second Schedule to the Reserve Bank of India Act, 1934, the number of offices of scheduled commercial banks increased by 1623. Offices of non-scheduled commercial banks, however, declined by 16 (Table 21). At the end of June 1972, the number of offices of scheduled and non-scheduled commercial banks stood at 13,515 and 105, respectively ; *at the end of June 1971, the corresponding* numbers were 11,892 and 121.

Lead Bank Scheme

111. In the last year's Report, mention was made about the steps taken for the purpose of enabling banks to conduct quick, impressionistic surveys of districts allotted to them under the Lead Bank Scheme. Since then there has been good progress in the completion of lead surveys by banks. Thus far, survey reports in respect of 260 out of 337 districts allotted to banks have been completed. In the preparation of reports, banks have ensured that a number of districts in the under-developed States of Assam, Bihar, West Bengal, Orissa, Madhya Pradesh and Uttar Pradesh are covered ; in fact, about 80 per cent of districts in these States have already been covered.

112. During the year, the Reserve Bank of India convened a meeting at Jaipur for

Table 21 :—Number of offices opened and closed by scheduled and non-scheduled commercial banks in India

	New offices opened	Changes due to amalgamations, mergers, transfers of assets and liabilities and inclusion in and exclusion from the Second Schedule to the Reserve Bank of India 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 :					
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 (234)	+ 54	−4	+1102	11040
1971					
January-June	824 (178)	+ 32	−4	+ 852	11892
July-December	968 (187)	+ 28	—	+ 996	12888
1972					
January-June	632 (102)	—	−5	+ 627	13515
Non-Scheduled Banks :					
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
July-December	4	− 28	—	− 24	97
1972					
January-June	8	—	—	+ 8	105
All Commercial Banks :					
1969					
January-June	576	—	−3	+ 573	8262
July-December	793	—	−5	+ 789	9051
1970					
January-June	1080	—	—	+1080	10131
July-December	1057 2230	—	−4	+1053	11184
1971					
January-June	833	—	−4	+ 829	12013
July-December	972 11055	—	—	+ 972	12985
1972					
January-June	640	—	−5	+ 635	13620

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.

allocation of centres identified in the lead bank surveys. With this, the Reserve Bank has convened seven such meetings, and 833 unbanked centres have been allotted to various commercial banks at these conferences. Banks have also been convening similar meetings at district level for allocation of unbanked centres identified in the lead surveys.

113. Under the perspective programme of branch expansion, banks which have been designated as lead banks have been required to indicate to all other banks and the Reserve Bank of India the names of centres where bank offices could be opened, so that the branch expansion programmes of banks in their lead and non-lead districts can be co-ordinated. This will also help align branch expansion programme of banks with their lead responsibilities.

114. As a follow-up action under the scheme, banks have constituted district level consultative committees to serve as a forum for discussion among banks and other financial institutions for exchanging information about borrowers and lending to priority sectors, identifying bankable schemes in the districts and evolving methods of financing them in a co-ordinated manner. Such committees have been set up in about a hundred districts. Banks have also been advised to maintain liaison with officers of State Governments.

115. An important plank of the Lead Bank programme is that banks would conduct studies in depth as a follow-up of the quick surveys to evolve schemes for financing local projects. Although some progress has been made in this regard, the number of surveys conducted and districts covered by such studies is not adequate in relation to the requirements. This is mainly due to the fact that banks did not have an adequate complement of technically competent personnel in the fields of agriculture and small industries to discharge their lead responsibilities. As mentioned earlier, steps are being taken to overcome this obstacle through reorganisation and re-staffing schemes.

Financing of agriculture by commercial banks

116. Mention was made in the last year's Report about the issue by the Bank of guidelines on agricultural financing to commercial banks. In line with these guidelines, commercial banks have been streamlining their loan policies and procedures for agricultural lending. However, the growth of advances to agriculture by commercial banks slowed down during the year ; this is due partly to increased attention given to the qualitative aspects of loans and effective supervision of end-use. Banks are also getting away from thinly dispersing their efforts over wide areas and are now evolving concentrated programmes of area schemes, cluster approach, village adoption approach, group loans, etc. Illustrative of this is the decision of the State Bank of India to select 150 centres throughout the country to open agricultural development branches. Each of these will be provided with technical and other field staff, and is expected ultimately to cover anything upto 100 villages. Since many of the centres identified are in areas covered by Government programmes for small farmers and other weaker sections of the community, the involvement of commercial banks in SFDA/MFAL areas is likely to increase substantially. Once the list of eligible persons is made available to banks by SFDA/MFAL project authorities, they will be able to provide loan assistance to them for raising of crops, dairy farming, augmentation of irrigation facilities, etc. In these areas, banks may have to do some extension work depending upon their organisational strength. Special schemes have also been formulated by banks themselves for intensive financing of agriculture.

117. At a meeting of heads of agricultural finance departments of major commercial banks convened by the Reserve Bank of India in April 1972, the reasons for the general slow-down of agricultural advances and the strategy of area approach adopted by banks were discussed. Demarcation of areas to one bank exclusively was considered not desirable as it would negate the concept of multi-agency approach to agricultural lending. The command area of a branch stipulated at ten miles is not a rigid norm but illustrative of the emphasis on ability to supervise loans. The meeting also decided that commercial

banks should obtain from their branches information on demand, collection and outstanding of loans on a quarterly basis.

118. To facilitate larger financing of agriculture by commercial banks, there is need for expeditious action on the recommendations of the 'Expert Group on State Enactments having a bearing on commercial banks lending to agriculture.' The report was forwarded to the Chief Ministers/Chief Secretaries of the various State Governments by the Governor of the Reserve Bank in September 1971 requesting early enactment by the State Legislatures of the model bill recommended by the Group and thereby extending to agriculturists borrowing from commercial banks, facilities similar to those available to them when they borrow from co-operatives. Some of the State Governments have taken steps in respect of some of the administrative measures recommended by the Expert Group. But action in regard to enacting legislation on the lines indicated by the Expert Group, has not taken concrete shape in most of the States.

Credit Guarantee Corporation of India Ltd.

119. The Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 introduced by the Corporation with effect from April 1, 1971, was substantially liberalised during the year, in order to extend the benefit of the guarantee to a larger number of eligible borrowers and loans. Under the liberalisation, effective January 1, 1972, there are no limits on the amount to be lent direct to farmers and agriculturists for various purposes with the Corporation's guarantee. The purposes covered include cultivation of crops (other than tea, coffee or rubber) or development or improvement of land or allied agricultural activities like pisciculture and sericulture. In addition, guarantee is provided under certain conditions against seasonal loans which are not repaid owing to crop failure as a result of natural or other calamities or adverse circumstances beyond the farmers' control and are converted into term or instalment credits. The maximum period for the repayment of credit facilities for sugarcane cultivation has been extended from 15 to 24 months and in respect of repayment of credit for purposes other than seasonal agricultural operations, the period has been extended from five to ten years.

120. Till December 31, 1971 the Corporation guaranteed only those credit facilities which were extended by commercial banks after April 1, 1971. Under the liberalised provisions, however, guarantee is available in respect of all credit facilities outstanding at the commencement of business as on January 1, 1972, irrespective of the date on which the credit facilities were sanctioned or availed of, provided the borrowers concerned and the credit facilities extended satisfied the liberalised provisions. However, outstanding credit facilities as on January 1, 1972, which were already recalled or treated as bad or doubtful or utilised for adjustment of earlier bad or doubtful debts or where the borrowers have suspended their activities or business are excluded. Guarantee facility is available, under the liberalised provisions, to credit institutions to the extent of Rs. 1 lakh as against Rs. 50,000 hitherto in respect of loans to transport operators for purchase of vehicles. Dealers in fertilisers with a larger annual turnover upto Rs. 5 lakhs (previously Rs. 2 lakhs) and owners of petrol stations and other retail outlets for mineral oils with annual turnover upto Rs. 5 lakhs (previously Rs. 1 lakh) have been made eligible under the scheme.

121. The Corporation introduced two other schemes during the year. The Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme introduced on July 1, 1971, covering loans granted by the State Financial Corporations including the Tamil Nadu Industrial Investment Corporation Ltd., is similar to the Small Loans Guarantee Scheme referred to earlier. It covers credit facilities to transport operators, small hoteliers, business enterprises engaged in generation or distribution of electricity or any other form of power or in the development or management of any contiguous area of land as an industrial estate, *i.e.*, to borrowers to whom the financial corporations are in a position to grant financial assistance and who are not already covered under the credit guarantee scheme for small-scale industries administered by the Reserve Bank of India on behalf of the Central Government. The Financial Corporations Guarantee Scheme was

also liberalised effective January 1, 1972 so as to cover all eligible credit facilities outstanding as on January 1, 1972 and transport finance upto Rs. 1 lakh per operator.

122. The Service Co-operative Societies Guarantee Scheme, which came into force from October 1, 1971, guarantees credit facilities sanctioned to service co-operative societies assisting artisans and workers engaged in any form of industrial activity. This facility is available to all the scheduled commercial banks in the country/ other credit institutions eligible to participate in this scheme, are the State and Central co-operative banks in the States and Union Territories to which the provisions of the Deposit Insurance Corporation Act, 1961 have been extended.

123. The credit facilities covered under the various schemes of the Corporation as at end-December 1971, amounted to Rs. 109.72 crores under the Small Loans Guarantee Scheme in respect of 63 out of 71 scheduled commercial banks ; and under the Financial Corporation Guarantee Scheme to Rs. 2.6 crores in respect of 13 out of 18 financial corporations. As regards the Service Co-operative Societies Guarantee Scheme, credit facilities covered amounted to Rs. 1.89 lakhs in respect of one bank. The Corporation has set up a working group to examine the question of extension of guarantee cover for co-operative credit granted to farmers and agriculturists and other borrowers.

124. During the year ended December 31, 1971, the Corporation received by way of guarantee fees a sum of Rs. 4.05 lakhs in respect of the Small Loans and Financial Corporations Guarantee Schemes. No claims have been received by the Corporation so far. For meeting the claims on the Corporation, it is proposed to build up a Reserve for Unexpired Guarantee Risks by crediting to it an amount which will not be less than 50 per cent or more than 100 per cent of the guarantee fees collected during the year, less the claims paid in that year. Accordingly, the entire guarantee fee of Rs. 4.05 lakhs received during 1971 has been credited to the Reserve for Unexpired Guarantee Risks.

Differential Interest Rates

125. The Union Finance Minister announced in the Parliament on March 25, 1972 Government's decision to implement the scheme of differential interest rates on advances by public sector banks. The differential interest rate under the scheme is for the present to be uniformly fixed at 4 per cent. The Reserve Bank conveyed to banks the Government decision and the criteria laid down for identifying persons who will be eligible for loans under the scheme and the conditions under which loans should be given.

126. An endeavour which should have the capability of standing on its own after some period will be eligible for assistance under the scheme. The sectors from among which banks are to locate parties eligible for loans under the scheme include scheduled tribes/ scheduled castes and others engaged, on a modest scale, in agriculture and/or allied activities ; people occupied in the collection or elementary processing of forest products ; people collecting fodder in difficult areas and selling them to farmers or traders ; people physically engaged on a modest scale in cottage and rural industries and vocations ; indigent students of merit going in for higher education, physically handicapped persons pursuing a gainful occupation and orphanages and Women's Homes where saleable goods are made and for which there is no adequate and dependable source of finance. A person to be eligible for a loan under the scheme should not have family income of more than Rs. 2,000 per annum if resident in an urban or semi-urban area, or Rs. 1,200 per annum if resident in a rural area. In addition, he should not have land exceeding one acre if irrigated and 2.5 acres if unirrigated.

127. While loans to individuals are not barred, banks are, in the beginning, to look for groups in particular. Loans under the scheme will be provided both for working capital and for term credit for a period not exceeding five years for acquisition of fixed assets. It is expected that ordinarily the former will not exceed Rs. 500 and the latter Rs. 2,500. Margin requirements may be waived. Banks may, however, take hypothecation of assets purchased with loans. Each loan is to be covered under the existing credit

guarantee schemes and the guarantee fee will be borne by the banks. Repayment schedules will be worked out taking into account sustenance requirements of the borrower; and there is provision for a grace period, not exceeding two years, in the case of term loans.

128. The scheme is only at the pilot stage and is to be implemented in certain selected backward districts. Districts covered by SFDA/MFAL projects are not covered by the scheme. Each bank is to select at least one in every eight or ten branches in the selected districts, with suitable representation to rural, semi-urban and urban areas. It is expected that the quantum of lending under the scheme by each bank will correspond to about half a per cent of its aggregate lending at the end of the previous year.

Bills Rediscounting Scheme

129. The Bills Rediscounting Scheme introduced in November 1970, with a view to encouraging the growth of a bill market in India, was modified during the year so as to expand its coverage. On July 30, 1971 the scheme was extended to cover bills of exchange arising out of sale of goods to Government departments and quasi-Government bodies as well as to Statutory Corporations and Government companies provided such bills conformed to the requirements of the Scheme. On October 25, 1971 in order to avoid delays and reduce the work involved in delivering and redelivering the rediscounted bills, to and from the Reserve Bank, it was decided to dispense with the actual lodgement of bills each of the face value of Rs. 2 lakhs and below by the banker with the Reserve Bank and to authorise the banks to hold such bills with themselves as agents of the Reserve Bank. The minimum amount of a bill eligible for rediscount with the Reserve Bank was reduced from Rs. 5,000 to Rs. 1,000. Effective April 6, 1972, bills of exchange drawn on and accepted by the Industrial Credit and Investment Corporation of India Ltd., on behalf of its purchaser constituents singly or jointly with them, were also made eligible for rediscount under the Scheme, provided an eligible scheduled commercial bank offered them for rediscount. Further, with a view to widening the scope of the new bills rediscounting scheme, the Bank has taken the opportunity to suggest to banks in appropriate cases that book debt limits might be converted into bill limits to the extent feasible. In addition the banks are also asked to avail of bills rediscounting facilities on an increasing scale in respect of bills discounted by them.

130. The Scheme gained further momentum during the year and the scheduled commercial banks made larger use of the Scheme during the 1971-72 busy season. After an initial decline during July and August 1971, the outstanding level of bills rediscounted increased to Rs. 25 crores at the end of September 1971 as compared with Rs. 10 crores at the end of June 1971. At the beginning of 1971-72 busy season bills rediscounted with Reserve Bank of India amounted to Rs. 14 crores. With the progress of the busy season, banks availed of rediscounting facilities on an increasing scale and at the end of March 1972 the outstandings were of the order of Rs. 42 crores; with the commencement of the slack season, this amount came down and at the end of June 1972, stood at Rs. 9.9 crores.

131. A measure of the increasing extent to which the Bills Rediscounting Scheme is being availed of by banks is evident from the fact that despite the comfortable liquidity position, bills rediscounted with the Bank in the 1971-72 busy season amounted to Rs. 45 crores, at the peak level (17-3-1972) as against Rs. 14.1 crores (30-4-1971) at the peak level in the 1970-71 busy season.

Credit Authorisation Scheme

132. The Credit Authorisation Scheme had undergone a major transformation in the middle of 1970 and been widened to cover credit appraisal by scheduled commercial banks to impose financial discipline on large borrowers. This new regulatory system has, over the past two years, evolved itself into an effective mechanism for ensuring the proper use of bank credit; banks have also perceptibly toned up their credit appraisal procedures and are making efforts to further rationalise them. With the standards of credit appraisal in banks showing improvement, certain changes which were really in the nature of a 'tidying up operation' in the requirement of prior authorisation of

the Bank, were effected during the year with a view to enabling banks to meet urgent demands of their borrowers for genuine purposes without prior authorisation. Further credit facilities which banks could, on their own, grant to the borrowers covered by the Credit Authorisation Scheme are, mainly, temporary/interim credit limits up to Rs. 10 lakhs for three months; purchase of third party outstation cheques/bank drafts; temporary excess drawings up to 5 per cent of the limit or Rs. 10 lakhs (whichever is lower); advances against uncleared effects, restoration of limits to the original levels, and reallocation of limits already authorised by the Bank.

133. During the administration of the Scheme, it was observed that while projecting the peak requirements of bank finance, some banks were showing unpaid stocks also as being available for computing the permissible bank finance for purposes of fixing the borrowers' credit limits. This practice resulted in 'double financing' which enabled the borrowers to get finance from sellers as also from the banks in respect of identical inventories; the borrowers could, thus, provide margins to the banks out of the borrowed funds instead of from their own funds. Although this aspect was informally discussed by the members of the Study Group (which was appointed for the purpose of drawing up the proforma statements referred to in last year's Report), it was then felt that considering the conditions obtaining in the country (where there is a heavy reliance on bank finance), the Bank may not, at least for sometime in the beginning, insist upon exclusion of such unpaid stocks while arriving at the permissible bank finance. The position has been reviewed by the Bank in the light of the experience gained after the revision of the Scheme and it is considered desirable that all banks should follow a uniform practice in regard to the treatment of the unpaid stocks. Accordingly in January 1972, the Bank issued instructions that while projecting the peak requirements of finance, banks should take into account the unpaid stocks and make suitable adjustment therefor, so as to curb double financing. These instructions to banks are also in line with the views of the 'Dehejia Committee.' The Bank is aware that in several cases the element of double financing cannot be eliminated forthwith without impairing the productive activity, and in such circumstances, banks are required to rectify the position in a phased manner. In any case, they should ensure that the existing quantum of double finance is not perpetuated or enlarged, particularly while fixing the *additional* credit limits for their borrowers; in so far as the existing quantum of double finance is concerned, the banks may progressively regularise the position, allowing the borrowers sufficient time for the purpose.

134. The Indo-Pak hostilities in December 1971 created an abnormal situation and it was also necessary to make sustained efforts to keep up the tempo of production in the various spheres. To help the defence effort and to facilitate the productive activities which needed immediate bank credit, relaxations in the Bank's prior authorisation were made. Thus in the case of the textile industry and dealers in textiles, banks could, without prior authorisation, grant increased credit limits up to a maximum of 15 per cent of the existing authorised limits against inventories till July 1972@. Certain banks were requested to take immediate steps to see that the supply of credit to the shoddy and woollen mills which were executing defence orders from D. G. S. & D., was adequate and timely. It was suggested to banks that they could grant, without prior authorisation, 'defence packing-cum-supply' credit limits both at the pre-delivery and post-delivery stages for manufacture and supply of goods to the defence authorities, as also for augmenting production in general and ensuring smooth distribution of goods, particularly in the border areas. Banks were further allowed to grant, without prior authorisation, suitable enhancements up to 15 per cent in the existing credit limits to the manufacturing units for their working capital requirements. Besides, banks were allowed to sanction credit limits to certain industries, so as to enable them to meet their temporary/seasonal needs. Thus, in the case of jute industry which was facing financial problems on account of considerable increase in the availability of raw jute supplies in the 1971-72 jute season, certain banks were advised to

@ Since extended upto December 1972.

grant additional working capital limits without prior authorisation. Similarly, banks could grant to the sugar mills for the 1971-72 crushing season credit limits up to 80 per cent of those allowed against sugar during the 1969-70 season. Again, in the case of the coal industry, in order to help it in overcoming the difficulties arising out of the transport bottlenecks, banks were advised to grant to that industry additional credit limits up to a maximum of 15 per cent till December 1972. Sympathetic and prompt consideration was also given to the requests from the industrial units in the Eastern region as also in the under-developed/backward areas.

135. It may also be mentioned that as there were persistent complaints of delays/defaults by the sugar mills in paying the dues to the cane growers on account of cane supplied to them despite liberal credit facilities made available by banks against stocks of sugar, which should have normally been utilised for payment to the cane growers, banks were advised that while granting credit limits against stocks of sugar, they should introduce suitable regulatory procedures for ensuring prompt payment by the mills to the cane growers.

136. A reference was made in the last year's Report regarding the requirement of prior authorisation under the Scheme for sanctioning by banks (singly or jointly with other institutions) individual medium or long-term loans exceeding Rs. 25 lakhs repayable over a period of more than 3 years to any single party, irrespective of the totality of credit limits available to it from the banking system as a whole. As a result of this measure, there has been greater co-ordination in the activities of banks and term-lending institutions. It is also observed from the quarterly statements received from banks since the quarter ended September 24, 1971 (showing particulars of term loans exceeding Rs. 10 lakhs and repayable after 3 years sanctioned by them to the industrial concerns in the private sector), that term loans for larger amounts are now being sanctioned mainly on participation basis with the term-lending institutions or under the Refinancing Scheme of IDBI.

137. During the year July 1971-June 1972, 727 applications were received from banks for authorisation of credit limits under the Scheme, as against 338 during the year ended June 1971. The applications were mostly for working capital requirements and with the exception of only three applications, all these were authorised. However, in certain cases, while according authorisation, the Bank did not allow the additional/enhanced credit limits to the full extent applied for because, in its view, lower limits were adequate for the purposes stated taking into account the financial requirements of the concerns applying for the credit limits. Further, while authorising the credit limits, suitable stipulations were laid down in several cases, and some suggestions for improving the financial structure/position were also made. These were usually on matters such as non-payment of guarantee commission, subordination of promoters' funds to bank advances, inter-corporate lending/investments, requirement of bank's approval for declaration of dividends, etc. and were designed to bring about better financial discipline.

Credit Controls

138. Announcing the credit policy for the 1971-72 busy season, the Governor indicated that the broad features of the earlier credit policy would be continued and the structure of refinance facilities would remain broadly the same except for some modifications in regard to refinance for food procurement advances (described in the chart appended).

Selective Credit Controls

139. In the field of selective credit controls, while those in regard to advances against raw cotton and kapas, foodgrains, oilseeds, vegetable oils (including vanaspati) were relaxed during the year, controls on advances against sugar, gur and khandsari were re-imposed.

140. To ensure adequate supply of credit to mills for buying and stocking *raw cotton*, the Bank modified on August 3, 1971 the provisions of margin control on advances against raw cotton and kapas, enabling specified categories of mills to carry stocks equivalent to an additional two weeks' con-

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

UPTO END OCTOBER 1971

Net Liquidity Position	At 4½%	At Bank Rate (6%)	Remarks
1	2	3	4
	I. Export Credit :		
Irrespective of net liquidity ratio.	Upto an amount equal to 10% of the annual average in 1970.	An additional amount of 10% of the annual average in 1970.	Borrowings equal to 20% of the annual average of export credit in 1970 will not impair the net liquidity ratio.
	II. An amount equivalent to the increase in advances over the prescribed base period in respect of :		
-do-	(a) lending to primary co-operative credit societies in selected districts of A.P., Haryana, M.P., U.P. and Mysore.	(a) short-term lending to small-scale industries covered by guarantee of C.G.O. (b) short-term direct lending to agriculturists.	**Base Period :** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.*, for the quarter January-March 1971, base will be the average for the quarter January-March 1970.
	III. Bills Rediscounting Scheme :		
-do-	—	Rediscounting of bills under the new Scheme.	Outstanding liability in respect of bills rediscounted under the new Scheme will not impair the net liquidity ratio.
	IV. Food Procurement Advances :		
-do-	—	Upto 75% of the increase over the outstanding level of such advances as on October 30, 1970, till end July 1971, upto 60% in August and upto 50% thereafter.	

Contd.

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

EFFECTIVE NOVEMBER 1, 1971

Net Liquidity Position	At 4½%	At Bank Rate (6%)	Remarks
1	2	3	4
		I. Export Credit :	
Irrespective of net liquidity ratio.	Upto an amount equal to 10% of the annual average in 1971.	An additional amount of 10% of the annual average in 1971.	Borrowings equal to 20% of the annual average of export credit in 1971 will not impair the net liquidity ratio. 1971 base to be effective from January 1, 1972.
	II. An amount equivalent to the increase in advances over the prescribed base period in respect of :		
-do-	(a) lending to primary co-operative credit societies in selected districts of A.P., Haryana, M.P., U.P. and Mysore.	(a) short-term lending to small-scale industries covered by guarantee of C.G.O. (b) short-term direct lending to agriculturists.	**Base Period :** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.*, for the quarter January-March 1972, base will be the average for the quarter January-March 1971.
		III. Bills Rediscounting Scheme :	
-do-	—	Rediscounting of bills under the new Scheme.	Outstanding liability in respect of bills rediscounted under the new Scheme will not impair the net liquidity ratio till the end of October 1972.
		IV. Food Procurement Advances :	
-do-	—	10% of the outstanding level of food procurement advances as on the last Friday of October 1971 and an additional ⅓ of the increase over the level as on the last Friday of October 1971.	
		V. 'Defence Packing-cum-Supply' Credit :	
-do-	—	Upto the total outstanding level.	The facility will be available under the old Bill Market Scheme under section 17(4) (c) of the Reserve Bank of India Act, 1934 (vide Governor's circular DBOD. No. GCS. BC. 142/C. 483-71 dated December 11, 1971).

Note : Minimum net liquidity ratio for Bank rate refinance is 34%. An enhanced rate of interest is chargeable on the excess borrowings of a bank. It would be the rate raised by 1% per annum above the level of Bank rate for a shortfall of every one point or a fraction thereof in the bank's net liquidity ratio (below 34% at present). However, when the net liquidity ratio falls below 26% a maximum enhanced rate of 15% will be charged.

sumption of cotton. Credit policy for the new cotton season announced on November 18, 1971 revised downward the minimum margin for advances granted to parties other than mills against the new cotton crop to 50-70 per cent from 60-75 per cent earlier, depending on the marketing periods of the different varieties of cotton. Further, with a view to encouraging local production, advances against new long staple varieties of cotton were exempted from ceiling control; however, they were subjected to a minimum margin of 40 per cent (later reduced to 25 per cent) and minimum rate of interest at 12 per cent. In regard to fixing of credit limits for parties other than mills, banks were permitted to maintain a level of credit during each four-month period commencing from October 1971-January 1972, equivalent to 100 per cent of the average aggregate level of credit maintained by each party in the corresponding four-month period in the 1970-71 season. Further relaxations of the control on advances against cotton and kapas were made on March 27, 1972 by way of reducing minimum margin in respect of new cotton crop by 10 percentage points, and by relating credit limits equivalent to the peak level of credit in the corresponding four-month period in the previous season. The specified periods of consumption by textile mills in respect of which the margins were fixed were increased by four weeks in all cases.

141. In the case of *foodgrains,* while advances against maize and barley were completely exempted from credit control with effect from August 7, 1971, advances against wheat were exempted from the ceiling control. Further, advances against rationed foodgrains granted to wholesale and retail dealers appointed/licensed by Government and operating under statutory rationing/fair price distribution system in all the States and Union Territories were completely exempted from the credit controls. In view of the improved supply position, controls on foodgrains were further relaxed by the Bank on January 3, 1972. Advances against wheat to roller flour mills were exempted from margin control. For the new offices opened on or after January 1, 1970 at a centre with a population of 1 lakh or below, a higher combined additional limit of Rs. 50,000 for each such office was allowed. Advances against foodgrains to traders covered by the guarantee of the Credit Guarantee Corporation of India Ltd., were exempted from *ceiling and margin control* upto a maximum of Rs. 20,000, provided the trader undertook to borrow against foodgrains from only one bank. On April 19, 1972, banks were permitted to increase their advances against foodgrains by 10 per cent (beginning from March-April 1972) compared to the level in the corresponding period of previous year.

142. On August 7, 1971, the control on advances against *oilseeds and vegetable oils* including vanaspati was made applicable only to advances against groundnut, mustardseed/rapeseed, castorseed and linseed, oils thereof and vanaspati. An additional limit equivalent to 15 per cent of the level of advances in the corresponding two-month period in 1970 was allowed in respect of (*i*) oilseeds and (*ii*) vegetable oils including vanaspati in oilseeds producing areas and/or for accommodating new parties particularly oil mills in the unorganised sector. On January 3, 1972 advances against rapeseed/mustardseed oil and those against oilseeds, vegetable oils and vanaspati to vanaspati manufacturers and registered oil mills were freed from ceiling control. Further, advances upto a maximum limit of Rs. 20,000 to traders against oilseeds, oils thereof and vanaspati covered by the guarantee scheme of the Credit Guarantee Corporation of India Ltd., were exempted from margin and ceiling controls, provided the trader undertook to borrow against them from only one bank. In view of the prevailing price situation of groundnut, the minimum margin on bank advances against groundnut was reduced from 75 per cent to 60 per cent on May 30, 1972. Further, the minimum margin on advances to vanaspati manufacturers against vanaspati was also reduced to 60 per cent.

143. In view of the rising trend in prices of *sugar, gur and khandsari* and with a view to discouraging speculative holding of stocks of these commodities, the Bank reimposed control on advances against these commodities on September 23, 1971. A minimum margin of 50 per cent was fixed (which was subsequently raised to 65 per cent on December 27, 1971) and a minimum rate of

interest of 12 per cent was prescribed on advances against these commodities granted to parties other than sugar manufacturers and to sugar mills in respect of such stocks which had left the factory premises and on which excise duty had been paid. Banks were also required to charge a minimum margin of 40 per cent on advances against lapsed releases of sugar subject to certain conditions. Advances against stocks of sugar pledged/hypothecated with banks which were intended for export were exempted from the purview of the control.

144. Following the declaration of war by Pakistan, bank advances against sugar, gur and khandsari, oilseeds and vegetable oils (including vanaspati) foodgrains and cotton and kapas were exempted from controls on December 11, 1971 in border and near-border districts initially upto end-February 1972 and subsequently till the end of October 1972.

145. With a view to encouraging the use of storage facilities provided by warehouses of Central and State Warehousing Corporations a reduction of 10 per cent was allowed (as in the case of foodgrains) in respect of other controlled commodities also on April 19, 1972, in the minimum margin to be maintained by banks in respect of their advances against warehouse receipts issued by such Corporations.

146. On May 30, 1972, the processing/manufacturing units covered under the Rural Industries Projects were exempted from the provisions of selective credit controls relating to advances against foodgrains, oilseeds, oils, vanaspati, cotton and kapas and sugar, gur and khandsari in view of the difficulties experienced by these units in procuring finance from banks.

Working Group on Jute Industry

147. The special scheme recommended by the Working Group for providing some relief to jute industry by way of charging a concessional rate of interest on borrowings representing that portion of the mill's production which is exported, a mention of which was made in last year's Annual Report (para 291), is still under the consideration of Government.

Working Group on Tea Industry

148. The Working Group on Finance for Tea Industry, appointed by the Reserve Bank in September 1971, submitted its report in February 1972. The Group has made several recommendations for ensuring the flow of (both short-term and long-term) institutional credit to this industry. As it was felt that the short-term credit needs of tea gardens were more acute, a circular letter endorsing the relevant recommendations of the Group, was issued by the Reserve Bank of India to all the scheduled commercial banks on March 8, 1972.* The other recommendations of the Group are under consideration.

Working Group on Coal Industry

149. The Reserve Bank constituted, in January 1972, a Working Group to study the immediate financial problems of coal industry and to review the existing institutional arrangements including bank credit for financing the industry, especially in the Eastern region, *viz.*, Bihar and West Bengal.

Study Group on Cashew Industry

150. A Study Group was set up by the Reserve Bank in March 1972 to review commercial bank lending to cashew industry with reference to its export and employment potential.

Report of the Banking Commission

151. The Banking Commission, appointed by the Government of India in February 1969 under the Chairmanship of Shri R. G. Saraiya, submitted its report on February 9, 1972. The major recommendations of the Commission relate to restructuring of commercial and co-operative banks, measures for widening their functional coverage, improving their operational efficiency, legislative reforms and areas for further research and study.

152. Besides these, the Commission has also made recommendations regarding credit planning, non-banking financial institutions, indigenous bankers, management development, training and recruitment for banks, and an information system in the context of the

* For text, see R.B.I. Bulletin, April 1972 pp. 674-675.

need for improving the institutional framework of the banking system.*

153. The recommendations of the Commission are under consideration of the Government of India and the Bank.

Committee on Banking Statistics

154. With a view to simplifying and speeding up the Uniform Balance Book and other associated returns and suggesting modifications therein in the light of the current requirements of data, the Reserve Bank constituted a Committee on Banking Statistics in April 1972. The Committee is expected to submit its report early.**

Other Organisational Matters

Foreign Branches of Nationalised Banks

155. As regards the branches of nationalised banks in Uganda, the necessary formalities having been practically finalised, the taking over of Bank of India (Uganda) Ltd., by Bank of Baroda (Uganda) Ltd., is expected to be completed shortly. The proposal to form a new company to take over the business of the eleven branches of three Indian banks in Malaysia, details of which were given in the last year's Report, has since been finalised and the scheme of reconstruction of these branches filed with the Ministry of Finance, Government of Malaysia under Section 14 of the Malaysian Banking Ordinance, 1958. A copy of the scheme has also been submitted to the Bank Negara Malaysia. It is expected that the new Malaysian Company will be registered very shortly.

156. Two of the four Indian banks operating in Singapore do not satisfy the statutory minimum capital requirements of the local legislation. Banks have been given time till January 1973 to comply with the requirements. Action is being taken to amend the scheme prepared under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act so as to change the capital structure of the banks concerned.

157. Mention may also be made here of a team, comprising an officer each from the Reserve Bank and the Union Ministry of Finance and Custodian of a bank that visited Singapore and Hong Kong to study the working of branches of nationalised Indian banks at these centres from the point of view of examining the extent of delegation and decentralisation of powers between the Head Office and foreign branches, scope for improving profitability of branches, the role of these branches in the promotion of Indian exports to and investments in South East Asia and attracting investments in India from people of Indian origin resident in the area. Besides, the team was also to examine the desirability of continuing the separate identity of the different Indian banks at the same centre. The team came to the conclusion that to facilitate flexibility of operation, considerable scope for grant of discretionary powers and extra-discretionary powers, subject to ratification by Head Office later, to Managers of banks at these centres existed. Posting of senior officers in foreign branches and suitable reorganisation of Head Office set-up to expeditiously handle business of foreign branches have also been recommended. The building up of a commercial and economic intelligence cell composed of a couple of bankers, initially in Singapore, to assist Indian exports and joint ventures has been suggested. Banks are advised to offer a concession in the rate of interest to importers importing from India. The importance of building up foreign trade financing, which is lucrative has been emphasised. To get involved intimately in local business, the need to employ local persons in supervisory cadres, evolving documentation procedures for loans suited to local conditions and paying more attention to domestic industry, particularly small-scale ones, are felt to be important. On the question of the desirability of continuing the separate identity of branches of Indian banks at the same centre, the team believed that while it would depend upon the shape that the organisational structure banks will take in India, in the wake of the recommendations of the Banking Commission, it would be of advantage to retain,

* For a summary of the recommendations of the Commission, see Reserve Bank of India Bulletin, May 1972—pp. 826-837.

** The Committee submitted its report on August 7, 1972 and its recommendations have been accepted by the Bank.

for the time being, the separate identity of the Indian banks at these two centres.

Credit Information

158. Mention was made in the last year's Report of the systematic revision in March 1971 of the system of collection and processing of credit information on the borrowers of banks and other notified financial institutions with a view to enhancing its utility to these institutions. Effective from February 14, 1972, the form of application seeking information from the Bank relating to credit facilities enjoyed by their constituents has been revised. Under the revised procedure, the Reserve Bank now furnishes more comprehensive information including the total number of banks (without disclosing their names) that finance the constituents. Along with the enlargement of the scope of the information furnished, the facility of obtaining credit information directly from the Reserve Bank, instead of routing the applications through the Head Offices, has been extended to the various branches of banks and financial institutions. During the year under review credit information in respect of 2,255 applications was furnished to applicant banks/financial institutions as against 1,458 applications during the previous year.

159. It may be mentioned that pursuant to the view taken at the first meeting of the co-ordination committee of public sector banks held on November 1, 1969, that there should be greater exchange of credit information among all banks, a Study Group was constituted. The Study Group has submitted its report to the Reserve Bank. According to the Group, existing legal provisions provide adequate protection to banks for exchange of meaningful credit information not only in respect of borrowers but also in respect of prospective borrowers who have only deposit accounts with banks. In view of the organisational inadequacy inhibiting systematic collection of credit information from market sources in new areas and on small borrowers, the Group has recommended the setting-up of an autonomous body called Credit Information Trust, as a long-term measure, for the benefit of the entire banking industry. A time bound programme for implementing its recommendations has also been outlined by the Group. A copy of this report has been forwarded to all commercial banks for their comments.

Inspection of Banks

160. In pursuance of the Reserve Bank's programme of periodical inspection of commercial banks with a view to assessing their financial position as well as methods of operation, 35 scheduled banks and 2 non-scheduled banks were inspected, or taken up for inspection under Section 35 of the Banking Regulation Act, 1949 during the period. Besides, the inspection of foreign branches of Indian banks in Fiji Islands, Guyana, Japan, Hong Kong and Thailand was carried out/taken up during the period. In addition, scrutiny of the affairs of two banks, one for judging whether there is a *prima facie* case for misfeasance proceedings under Section 45 L(4) of the Banking Regulation Act and the other for issue of a certificate under Section 44(1) of the Banking Regulation Act, 1949 was carried out.

161. During the year under review, centre-wise inspection of branches of commercial banks, to which a reference was made in the last year's Report, was conducted at 76 centres served by 364 offices of commercial banks.

162. Apart from the above inspection, a study of the systems and procedures obtaining in banks was initiated, during the period under review, to broadly identify the areas of deficiencies therein and to suggest improvements, wherever necessary, to enable the bank concerned to accomplish, in the best possible way, the objectives for which it exists, including the social objectives, and to eliminate, to the extent possible, the incidence of frauds. Studies in respect of two banks were made and the reports sent to the banks concerned for necessary action.

Bank Mergers

163. During the period under review, the business of the Indian offices of Eastern Bank Ltd. (which had four offices in India) was taken over by the Chartered Bank with effect from July 1, 1971.

164. The Purbanchal Bank Ltd., a public limited company incorporated on January 18, 1972, with its registered office at Gauhati (Assam), was granted a licence to carry on the business of banking in India on June 14, 1972. It commenced business on July 3, 1972 on which date its name was also included in the Second Schedule to the Reserve Bank of India Act, 1934. The bank's paid-up capital as on May 23, 1972 amounted to Rs. 8.06 lakhs divided into 13,430 equity shares of Rs. 100 each, Rs. 60 per share paid-up. Out of the above amount, the contribution made by the United Bank of India amounted to Rs. 2.70 lakhs in respect of 4,500 shares allotted to it. According to the Prospectus issued by the bank, out of its issued capital of Rs. 25,00,000 consisting of 25,000 equity shares of Rs. 100 each, an amount of Rs. 9,00,000 consisting of equity shares of Rs. 100 each has been reserved for subscription by United Bank of India, Directors and their relatives, friends and associates. (If any of the shares are not so taken up they will be utilised in meeting applications from the public).

Licensing of Banks

165. With the cancellation of licence to the Eastern Bank Ltd. and the grant of licence to the Purbanchal Bank Ltd. during the year, the number of licensed banks stood unchanged at 46 at end-June 1972. The number of banks in whose cases licences have been cancelled increased to 51 as at the end of June 1972. Besides, there were 22 banks in the public sector which are not required to hold a licence.

166. During the period under review, a licence under Section 22 of the Banking Regulation Act, 1949 to carry on banking business in India was refused to one existing bank consequent upon the transfer of its liabilities and assets in its New Fund business to another bank. The total number of banks to which licences were refused stood at 283 as at the end of June 1972.

Liquidation Proceedings

167. During the period under review, six non-scheduled banks were dissolved by the High Court and one bank went into voluntary liquidation. The Bank of Karaikudi Ltd. (Madras Area) ceased to function as a banking company under Section 36(A)(2) of the Banking Regulation Act, 1949, while the name of the Inter-Provincial Banking Corporation Ltd. (Calcutta Area) was struck off the register under Section 560(5) of the Companies Act, 1956.

168. After obtaining the necessary directives from Central Government, the inspection of three banks under Section 45Q of the Banking Regulation Act, 1949 was taken up. Of these, the inspection of one bank was completed and the relative Inspection Report forwarded to Government and the respective High Court, on December 10, 1971. The inspection of the other two banks remained suspended as the relative records were not available.

Clearing House Facilities

169. As part of the Bank's policy of extension of banking facilities, 22 clearing houses were established during the year bringing the total number of clearing houses in the country to 157; of these, nine are managed by the Reserve Bank of India, 119 by the State Bank of India and 29 by the subsidiaries of the State Bank of India.

170. Following the recommendations of the Workshop held under the auspices of the National Institute of Bank Management in December 1969, the Bank took up with the State Bank of India, in February 1970, the question of examining the feasibility of opening clearing houses at places with a population of 50,000 or more, as per the 1961 Census, which are being served by more than three or four banks. The State Bank of India has been taking steps to open clearing houses on the above basis. Of the 22 clearing houses established during the period under review, 16 were opened at such centres. A fresh list of centres eligible for opening clearing houses as per the 1971 Census is being prepared and will be furnished to the State Bank of India for drawing up its future programme for setting up clearing houses at the centres. The question of opening additional clearing houses at metropolitan centres is also engaging the Bank's attention.

Working Results of Public Sector Banks

All Public Sector Banks

171. An analysis of working results of 22 public sector commercial (*i.e.* State Bank of India, its seven subsidiaries and 14 nationalised Indian banks) reveals that their profits* at Rs. 12.8 crores, for the year 1971 showed an improvement of Rs. 2.7 crores (26.2 per cent) over that for 1970. The total income of these banks increased by Rs. 101.0 crores (24.5 per cent) during 1971 as compared to a rise of Rs. 76.3 crores (22.7 per cent) during 1970. The increase in the income during 1971 was mainly due to the rise in earnings from interest and discount, which rose by Rs. 91.6 crores in 1971 as compared to a rise of Rs. 71.5 crores in 1970. The rise in interest income was mainly due to the stepping-up of the rates of interest on advances following the rise in Bank rate from January 9, 1971 and the increase in the level of their advances. The total expenses of these banks increased by Rs. 98.3 crores (24.5 per cent) in 1971 as compared to an increase of Rs. 75.2 crores in 1970. Interest paid on deposits and borrowings showed an increase of 27.0 per cent as compared to a rise of 19.9 per cent in 1970, partly owing to the rise in interest rates on deposits and borrowings. The rise in the expenditure on salaries and allowances amounting to Rs. 35.9 crores (21.7 per cent) in 1971 was, however, lower than that in 1970, when it had increased by Rs. 36.5 crores or 28.4 per cent, reflecting smaller increase in the number of banking offices in 1971 than in 1970.

State Bank Group

172. Total income of the State Bank of India improved from Rs. 112.7 crores in 1970 to Rs. 142.1 crores in 1971. Income from commission, exchange and brokerage increased by Rs. 3.4 crores in 1971 as compared with a fractional increase of only Rs. 0.6 crore in 1970. The Bank's expenditure also increased by Rs. 28.3 crores (25.7 per cent) in 1971. In 1970, the rise in total expenses was of the order of Rs. 21.4 crores or 24.1 per cent. The profits of the State Bank of India, at Rs. 3.8 crores in 1971, recorded an increase of Rs. 1.1 crores (40.0 per cent) as against a small decline of Rs. 10 lakhs in 1970. Out of these profits, the Bank transferred Rs. 2.0 crores to Reserve Fund and provided Rs. 1.3 crores for dividend to shareholders.

* Net of provision for taxes and for bonus to staff. The bonus provision has been included under establishment expenses.

173. The seven subsidiary banks of the State Bank increased their income from Rs. 32.5 crores in 1970 to Rs. 40.2 crores in 1971 mainly on account of larger interest earnings from loans and advances. Since their expenditure also increased by almost the same extent as the income, their profits showed a marginal decline of Rs. 2 lakhs in 1971 as against a rise of Rs. 10 lakhs in 1970. Out of the profits, these banks transferred Rs. 12 lakhs to reserves and provided Rs. 36 lakhs for payment of dividend.

Nationalised Banks

174. The fourteen nationalised banks, after meeting all their expenses and providing for usual provisions, transferred to the Government of India Rs. 4.43 crores in 1971 as compared to Rs. 4.17 crores in 1970.

175. The working results of the fourteen nationalised banks for 1971 reveal an improvement in their profits@ from Rs. 6.9 crores in 1970 to Rs. 8.5 crores in 1971. This improvement in profits occurred despite a sharp rise in their expenditure.

176. The total income of these banks increased by Rs. 63.8 crores to Rs. 330.6 crores in 1971 ; in 1970, it had increased by Rs. 49.4 crores. Interest payment on deposits and borrowings increased by Rs. 34.4 crores in 1971 as compared to a rise of Rs. 21.3 crores in the preceding year. However, the increase of establishment expenditure was only Rs. 20.1 crores during 1971 as compared to Rs. 22.3 crores in 1970. The profits of these banks, therefore, rose by Rs. 1.6 crores in 1971, as compared to a rise of Rs. 1.1 crores during the preceding year. Out of the profits during 1971, the nationalised banks transferred Rs. 3.94 crores to reserves and Rs. 4.43 crores to Government of India.

@ The figures given are after adjustment for payment of bonus.

Working of Scheduled Commercial Banks other than Public Sector Banks

All Private Sector Banks with Deposits of over Rs. 10 crores

177. The working results of 25 private sector scheduled commercial banks (including foreign banks) with deposits of over Rs. 10 crores as at the end of December 1971 showed an improvement in their profits* from Rs. 3.9 crores in 1970 to Rs. 4.6 crores in 1971, *i.e.*, an increase of 16.3 per cent. The total income of these banks went up by Rs. 18.7 crores (26 per cent). The increase in income was mainly due to an improvement in earnings from interest and discount, which rose by Rs. 15.5 crores to Rs. 74.4 crores in 1971. The rise was mainly due to higher rates of interest charged by them on advances, following the rise in Bank rate from January 9, 1971 and an increase in the level of their advances. The interest paid on deposits and borrowings showed an increase of Rs. 8.5 crores (27.4 per cent) in 1971 partly due to the rise in interest rates on deposits and borrowings and partly due to increase in interest-bearing deposits. There was also a rise in the expenditure on salaries and allowances by Rs. 4.50 crores, an increase of 22.8 per cent over 1970. A part of the rise in the expenditure on salaries and allowances was accounted for by an increase of 249 in the number of offices in 1971.

Private Sector Indian Scheduled Banks

178. The total income of private Indian scheduled banks with deposits exceeding Rs. 10 crores improved from Rs. 27 crores in 1970 to Rs. 35.6 crores in 1971, an increase of 31 per cent over the year. The increase in income was mainly due to interest and discount earned at Rs. 30.8 crores in 1971 as against Rs. 23.2 crores in the previous year. The substantial increase in the income was not, however, reflected in a corresponding increase in net profits, which increased only by Rs. 0.4 crore during the year. The increase in gross income was more or less offset by increase in interest on deposits and borrowings and salaries and allowances, etc. Some of the banks in this group, however, showed a better performance mainly due to a higher level of advances and consequently improved earnings from interest.

Foreign Banks

179. There was an increase of Rs. 10.3 crores (22.9 per cent) in the gross income of six foreign banks in 1971. Their establishment expenses during the last three years expressed as a percentage to gross income have declined from 27.1 per cent in 1969 to 25.2 per cent in 1971, the comparable ratios of 14 major nationalised banks being 32.9 per cent and 30.9 per cent, respectively. The published net profits of these banks showed an improvement from Rs. 2.8 crores in 1970 to Rs. 3.1 crores in 1971, a rise of 10.7 per cent over the year. The percentage of net profits of these banks as a group to working funds was higher as compared with the Indian scheduled commercial banks due to the following factors: (*a*) the foreign banks operate mostly in metropolitan cities, (*b*) they deal mainly in foreign exchange business, and (*c*) they generally have large-scale transactions. The Indian banks, on the other hand, deal not only with these types of business but also make advances to farmers, small industries and other small borrowers both in urban and rural areas.

Control over Non-Banking Companies

180. An important development during the year was the amendment, in December 1971, of the directions issued to non-banking companies so as to bring within their purview, unsecured loans from shareholders as also loans guaranteed by directors, ex-managing agents or secretaries and treasurers. Such loans, which were hitherto exempt from the restrictions relating to deposits, have now been subjected to a separate ceiling of 25 per cent of the net owned funds of companies with effect from January 1, 1972. A period of three years and three months has been provided for the adjustment of excess, if any, over the ceiling prescribed, of the unsecured loans mentioned above. To provide for the genuine business requirements of companies, however, certain categories of loans, particularly loans obtained on guarantees furnished by Government and any loan obtained from foreign sources have been specifically exempted from the purview of the directions.

* Net of provision for taxes and bonus to staff. The bonus provision has been included under establishment expenses.

181. Since the last year's Report, activities of some 'Finance Corporations' accepting deposits from the public and lending money at usurious rates of interest have also been noticed in the Punjab, Madhya Pradesh, Andhra Pradesh and Gujarat. 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 respective Governments.

182. The Government of Andhra Pradesh brought into force the Andhra Pradesh Chit Funds Act, 1971 on July 1, 1971. The question of amending the existing law relating to 'chitties' in Kerala and Tamil Nadu is under consideration of the State Governments. The Government of Mysore and the Union Territory of Goa, Daman and Diu are contemplating enactment of chit fund legislations.

183. According to the survey of deposits with non-banking companies based on the returns as on March 31, 1969, 2,241 companies out of a total number of 27,961 joint stock companies (financial and non-financial) at work submitted returns to the Reserve Bank of India. The total number of accounts reported was about 6.25 lakhs. The total amount of deposits (including exempted loans not counting as deposits at Rs. 270.76 crores) held by them as at the end of March 1969 was Rs. 593.65 crores. The corresponding figure as at the end of March 1968 was Rs. 477.89 crores (including exempted loans amounting to Rs. 209.59 crores). Unsecured borrowings to the extent of Rs. 121.64 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 are included in the figure of deposits as at March 31, 1969. The corresponding figure at the end of March 1968 was Rs. 79.60 crores.

Deposit Insurance Corporation

184. The number of insured commercial banks was reduced from 82 to 81 due to merger of one bank with another. No liability arose to the Corporation in this case. During the period under report no fresh liability of the Corporation arose in respect of insured deposits. The total claims paid or provided for by the Corporation since its inception upto June 30, 1972 amounted to Rs. 113.04 lakhs in respect of 14 banks, while the total repayments received, so far, in respect of the subrogated claims aggregating Rs. 113.04 lakhs since the inception, amounted to Rs. 49.99 lakhs.

185. There was no change in the limit of insurance cover which stood at Rs. 10,000 per depositor. According to the latest available data, 96.3 per cent of deposit accounts and 62.1 per cent of the deposits in insured banks were protected by the insurance scheme as at the end of September 1971. The rate of insurance premium which was five paise per annum per Rs. 100 of deposits, payable by insured banks on their assessable deposits, was reduced to four paise per Rs. 100 from October 1, 1971.

Deposit Insurance Scheme in the Co-operative Field

186. The deposit insurance scheme was extended to the co-operative banks in the States of Andhra Pradesh, Madhya Pradesh and Maharashtra and the Union Territory of Goa, Daman and Diu with effect from July 1, 1971. The Corporation on that date registered as insured banks 385 eligible co-operative banks. During the period under report, however, the registration of five of these co-operative banks was cancelled as they ceased to be eligible co-operative banks and their names were also excluded from the list of "Primary Co-operative Banks" by the Agricultural Credit Department of the Bank. During the same period, eleven primary co-operative banks were registered as insured banks as they attained the status of primary co-operative banks by fulfilling all the conditions laid down in Section 2(*ciii*) of the Reserve Bank of India Act, 1934 read with Section 5(*ccc*) of the Banking Regulation Act, 1949 (as applicable to co-operative societies). Thus, the total number of insured co-operative banks stood at 391 as at the end of June 1972.

187. The Reserve Bank of India is actively pursuing the matter with the remaining State Governments/Union Territories in order to enable the Deposit Insurance Corporation extend the benefit of the scheme to the co-operative banks operating in these areas.

III. DEVELOPMENTS IN CO-OPERATIVE BANKING

188. The Bank has endeavoured during the year under review to bring about a qualitative improvement in the overall co-operative credit administration in the country. Important developments in this sphere were (*a*) the raising of the proportion of credit earmarked for small and weak farmers; (*b*) provision of credit separately for kharif and rabi crops with a view to rationalising credit needs and the corresponding flow of funds; (*c*) encouraging increased use of farm inputs; (*d*) facilitating orderly marketing of agricultural produce by providing a separate line of credit for the purpose; (*e*) regulating the advances against cotton to discourage undue holding back of stocks; (*f*) introduction of further refinements in the lending policies, especially in the sphere of term-lending with a view to ensuring effective use of the limited resources; (*g*) enforcing financial discipline to ensure better management of the resources; and (*h*) undertaking special studies to identify the credit gaps in the co-operatively weak States with a view to rectifying, to the extent possible, the imbalance in co-operative development.

Agricultural Credit Board and its Standing Committees

189. Among the important subjects considered by the Agricultural Credit Board during the year were the recommendations of the Expert Group on State Enactments Having a Bearing on Commercial Banks Lending to Agriculture and of the Committee on Differential Interest Rates, in so far as those related to agricultural loans. While the recommendations made by the former Committee for extending the concessions and privileges enjoyed by the co-operative banks to commercial banks engaged in the business of agricultural credit were endorsed, it was felt that the scheme of differential rates recommended by the latter should be initially implemented by the co-operative banks on a pilot basis in a few selected areas covered by SFDA and MFAL projects.

190. The Board also considered the question of co-ordinating the activities of the co-operative and commercial banks in the financing of agriculture. In view of the importance of co-ordination at the national level of all activities pertaining to the institutional credit support to agriculture, it was felt that it would be appropriate for the Board to perform this function through a Standing Committee of its own. It has, therefore, been decided to constitute a Standing Committee with the Governor of the Bank as its Chairman and the representatives of the co-operative and commercial banks and the Government of India and some of the State Governments, as members.

inancing of mall Farmers

191. Forty-six SFDA and 41 MFAL projects have been set up in the country on a pilot basis as referred to in the last year's Report. Special studies of SFDA programmes initiated last year at the instance of the Planning Commission, were also carried out this year. The working of Chhindwara SFDA project was studied by a team of officers from the Bank during the year. The team laid considerable emphasis on identification of farmers with reference to the income concept and suggested that it should be followed up by a 'specific programme' approach. The observations of the team have been communicated to the Planning Commission.

192. With a view to ensuring the availability of credit to the small and other economically weak farmers, the central co-operative banks were required to show, as mentioned in the last year's Report, not less than 10 per cent of their outstandings under the short-term agricultural borrowings from the apex bank for financing such farmers. The percentage was increased to 20 during the year. Of the 182 reporting central banks, 117 had complied with the requirement in 1971-72.

193. To minimise the burden of the initial investment for credit eligibility, the ratio of shareholdings to borrowings has been relaxed in the case of small farmers whereby a contribution of only 5 per cent need be made in the first year and 2½ per cent in each of the subsequent two years in respect of short-term loans and 5 per cent in a lumpsum for medium-term loans. In the case of primary land development banks, the small farmers need contri-

bute only 2 per cent in the first year and 1 per cent in each of the subsequent three years, thus raising the total shareholdings to 5 per cent of the borrowings.

194. As for investment credit, the concessions relate to the granting of a longer period of repayment and providing of lower margin money by the small farmers. Term loans upto Rs. 2000 could be granted to the small farmers out of funds borrowed from the Bank against personal security instead of mortgage security for purposes, such as poultry keeping and dairy farming.

Commercial Banks Financing Credit Societies

195. The transitional scheme of financing primary agricultural credit societies by commercial banks introduced in 1970 continued to operate during the year in 49 districts of five States, viz., Andhra Pradesh, Haryana, Madhya Pradesh, Mysore and Uttar Pradesh. Recently the scheme has been extended to two districts of Orissa and the commercial banks in these districts are expected to finance the societies allotted to them from the kharif 1972 season. During the second year of the scheme, the crop loans advanced by the commercial banks to societies recorded an increase of Rs. 176 lakhs over the loans disbursed in the first year and the average amount of loan per society during the same period increased by Rs. 0.12 lakh to Rs. 0.50 lakh. Besides production credit, the commercial banks had also sanctioned term credit for development purposes to the extent of Rs. 39 lakhs upto the end of March 1972. With a view to revitalising the societies functioning in these areas, the Bank has sanctioned loans to State Governments out of the Long-term Operations Fund on liberal terms for share capital contribution to such societies.

196. A Study Team appointed by the National Institute of Bank Management at the instance of the Bank studied the working of the scheme in Mysore State and observed that a remarkable achievement had been made under the scheme, and in the interest of consolidation and extension of this type of financing of agriculture, it has suggested, among others, the appointment of paid managers and greater contribution from the State Government for meeting the cost of the paid staff. The Bank has been keeping a close watch over the progress of the scheme.

Co-operative Development

197. The Fourth Plan Mid-Term Appraisal brought to light regional disparities in the distribution of agricultural credit and the need for rectifying this imbalance was engaging the attention of the Bank and the Government of India. A central sector scheme for rehabilitation of the weak central co-operative banks so as to improve the availability of agricultural credit in backward areas/States was formulated by the Government in consultation with the Bank. Under the scheme, a detailed investigation of the overdues of the central banks and the primaries is called for with a view to writing off irrecoverable loans and the amount eligible for such write-off is to be shared at the rate of about 20 per cent by each of the three tiers in the co-operative credit structure. The Bank is actively associated with the implementation of the scheme. As many as 74 banks were identified as weak by the Bank in accordance with the norms laid down in the scheme and follow-up action has also been initiated.

198. With a view to exploring the possibilities of expansion of agricultural credit in the co-operatively backward States, a micro-study of the credit situation was considered necessary and in pursuance of a recommendation made by the Planning Commission in this behalf, the Government of India have appointed an Expert Team to undertake the study in Assam, Bihar, Orissa, Rajasthan and Uttar Pradesh. For West Bengal, the Bank's Governor appointed in January 1972 a team with the Chief Officer, Agricultural Credit Department as the Chairman to review the position of agricultural credit, district by district, and make appropriate recommendations to improve the agricultural credit situation. The latter team submitted its report in June 1972.

Co-operative Credit Policy, Procedures and Operations

199. With a view to enforcing discipline in the operations of credit limits sanctioned for seasonal agricultural operations, the Bank continued the policy of granting limits separately for kharif and rabi crops and also fixing minimum

levels to which the borrowings of central co-operative banks should be brought down during any month of the year reflecting a re-turn flow of bank credit. The special line of credit for marketing of cotton and *kapas* falling within the sphere of selective credit control was continued; and the Bank sanctioned, during the year, limits for the marketing of crops other than cotton and *kapas* as well. The Bank also provided, for the first time, financial accommodation to the marketing societies connected with sale of minor forest produce of tribals.

200. The overall performance of the co-operative credit institutions, viz., the State and central co-operative banks, the State land development banks and the primary agricultural credit societies during the three years ended 1970-71 is presented inTable 22.

Table 22:—Progress of Co-operative Credit Movement

(Amounts in Rupees Crores)

Type of institution	1968-69	1969-70	1970-71 (Provisional)
(*a*) *State co-operative banks* :			
(*i*) Number	25	25	25
(*ii*) Owned funds	75	83	92
(*iii*) Deposits	216	234	279
(*iv*) Borrowings from the Reserve Bank of India	227	249	245
(*a*) of which, short-term agricultural	184	216	190
(*v*) Working capital	567	619	685
(*vi*) Loans issued	667	707	723
(*vii*) Loans outstanding	459	510	534
(*a*) of which, short-term agricultural	227	276	287
(*viii*) Percentage of (*iv a*) to (*vii a*)	81	78	66
(*b*) *Central co-operative banks* :			
(*i*) Number	341	340	340
(*ii*) Owned funds	155	174	193
(*iii*) Deposits	351	382	419
(*iv*) Borrowings from the Reserve Bank/apex bank	291	331	N.A.
(*v*) Working capital	830	928	1030
(*vi*) Loans issued	860	873	969
(*vii*) Loans outstanding	641	740	801
(*c*) *State land development banks* :			
(*i*) Number	19	19	19
(*ii*) Owned funds	36	46	58
(*iii*) Debentures outstanding	426	571	725
(*iv*) Working capital	488	638	807
(*v*) Loans issued	144	153	168
(*vi*) Loans outstanding	395	510	638
(*d*) *Primary agricultural credit societies* :			
(*i*) Number (in thousands)	168	163	161
(*ii*) Membership („)	29173	29766	30961
(*iii*) Owned funds	215	242	265
(*iv*) Deposits	57	63	70
(*v*) Borrowings	540	618	675
(*vi*) Loans issued	504	540	578
(*vii*) Loans outstanding	619	711	784

201. From the above, it may be observed that as against the loans of Rs. 534 crores outstanding at the level of State co-operative banks for various purposes, the amount owed to the Reserve Bank was of the order of Rs. 245 crores or about 46 per cent. It should, however, be noted that State co-operative banks have been increasingly relying on their own resources and consequently their dependence on the Reserve Bank borrowings for short-term agricultural loans has been progressively showing a declining trend.

Reserve Bank's Financial Assistance to Co-operatives

202. The data presented in Table 23 bring out the sustained increase in the financial accommodation provided by the Bank to the co-operative sector under the various heads and for various purposes, particularly in the context of the recent technological developments in agriculture.

Short-term Finance

203. Important measures effected during the year in respect of short-term finance are as follows : (*i*) The Girijan Co-operative Development Corporation which was recognised by the Bank for channelling agricultural credit to the tribal cultivators in some of the districts of Andhra Pradesh was sanctioned a short-term credit limit of Rs. 40 lakhs during the year. (*ii*) The Bank, for the first time, granted a limit of Rs. 1.50 lakhs during 1971-72 on behalf of one central bank in Orissa for the marketing of minor forest produce. (*iii*) With regard to the finance for the purchase, stocking, distribution, etc., of fertilizers, Bank accommodation to State co-operative banks was provided only in case the apex marketing societies were unable to obtain the necessary funds from commercial banks. As part of this policy the rate of interest hitherto charged at the Bank rate was raised to 2 per cent above the Bank rate from 1972, with a view to bringing the lending rates more or less on par with those of commercial banks. (*iv*) The Bank continued to provide financial accommodation under Section 17(2)(*bb*) of the Reserve Bank of India Act for financing the production and marketing activities of the handloom/powerloom weavers' societies at a concessional rate of interest at 1½ per cent below the Bank rate. Accommodation was also provided to the State co-operative banks for financing other cottage and small-scale industrial units coming under the 22 approved groups.

Medium-term Finance

204. In the sphere of medium-term finance, the Bank took special measures to ensure that the central co-operative banks conformed broadly to the discipline enforced by land development banks in regard to term lending. Central banks have been advised to make sure of the ground-water potential before sanctioning loans for sinking of new wells, installation of pump-sets, etc.

205. The Bank had further recognised the advances for purchase of milch cattle and poultry keeping made to the small and economically weak farmers for being reckoned within the stipulation of 40 per cent lendings to 'approved purposes' with a view to availing of accommodation from the Reserve Bank. The list of 'approved' purposes for medium-term agricultural loans has been widened by including such activities undertaken alongside agriculture as pig breeding, sheep and goat rearing, purchase of storage bins by agriculturists and purchase of rubber rollers under farm machinery. It has also been decided that to ensure the accommodation being utilised fully, medium-term credit limits now sanctioned for the co-operative year will henceforth be sanctioned for the calendar year from 1973.

206. The Bank continued the grant of medium-term credit to 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. Rephasing of conversion loans was allowed to one State co-operative bank due to persistent crop failure in its region. Besides, four State co-operative banks were sanctioned short-term credit limits of Rs. 9.65 crores at the Bank rate against the pledge of government/trustee securities representing investment of their stabilization funds for granting conversion facilities to the central co-operative banks. The drawals against these limits till June 1972 amounted to Rs. 7.1 crores and the

Table 23:—Reserve Bank Credit to Co-operatives, 1970-71 and 1971-72

(Amounts in Rupees. Crores)

Purpose of Finance	1970-71 (July-June) Limits sanctioned	Drawals	Repayments	Outstandings	1971-72 (July-June) Limits sanctioned	Drawals	Repayments	Outstandings
I. Short-term								
(i) Seasonal agricultural operations (at 2% below Bank rate)	390·11	424·49	449·76	188·84	394·04	468·51	505·27	152·08
(ii) Marketing of crops other than cotton and kapas					3·18	3·59	2·96	0·66
(iii) Marketing of cotton and kapas	10·65	8·56	9·52	1·03	11·70	10·25	10·10	1·19
(iv) Purchase and distribution of fertilisers (at 2% above Bank rate) (1)	16·80	11·27	21·11	4·22	24·75	23·04	18·49	8·76
(v) Production and marketing of handloom products (at 1½% below Bank rate) (5)	10·12	12·36	10·95	7·83	12·76	14·92	13·24	9·51
(vi) Financing other cottage and small-scale industries	0·47	0·02	—	0·02	0·86	0·59	0·20	0·33
(vii) Purchase and sale of yarn (at Bank rate) ..	0·80	0·04	0·06	0·03	0·97	0·14	0·17	Nil
(viii) Loans to ARC (at Bank rate)	8·00	11·80	4·28	7·52	8·00	1·36	8·88	Nil
II. Medium-term								
(i) Agricultural purposes (at 1½% below Bank rate)	18·76	14·20	10·34	24·31(3)	20.62	6·15	9·76	20·70(3)
(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas (at 1½% below Bank rate)	21·80	13·64	4·33	13·66(2)	31·39	24·08	12·04(2)	25·70(2)
III. Long-term								
(i) Loans to State Governments for contribution to share capital of co-operative credit institutions	11·88(5)	12·49(4)	4·40	41·93	16·38	14·14	4·72	51·34
(ii) Long-term loans to ARC (at 4·25% per annum)	—	—	—	—	5·00	5·00	—	5·00

(1) Prior to 1972, purchase and distribution of fertilisers was financed at the Bank rate by the Bank. However, from January 1972, the interest rate was raised 2% above the Bank rate with a view to aligning it to the lending rates of the commercial banks. Data relate to calendar years 1970 and 1971.
(2) Including rephasement.
(3) Including those against limits sanctioned at the Bank rate.
(4) Including extended loans of the order of Rs. 75·96 lakhs sanctioned during 1969-70.
(5) Data for financial year.

amount outstanding as on June 30, 1972 was Rs. 5.4 crores.

Share Capital Loans

207. The liberal policy in respect of sanction of loans out of the National Agricultural Credit (Long-term Operations) Fund to the State Governments was continued. This has the purpose of benefiting State Government contributions to the share capital of (*a*) weak central co-operative banks under a specific programme of rehabilitation, (*b*) viable societies in the special programme areas such as the SFDA/MFAL projects, (*c*) commercial banks financing societies, etc. In respect of the central banks facing the problem of inadequate liquid resources the Bank had in specific cases also sanctioned loans for share participation on special terms ; such loans carried interest at 4 per cent and are repayable in three equal annual instalments.

208. During the financial year ended March 1972, loans aggregating Rs. 15.81 crores (excluding renewals to the extent of Rs. 0.57 crore) were granted to 14 State Governments from out of the Long-term Operations Fund for contribution to the share capital of five apex banks, 108 central banks, 6,999 primary agricultural credit societies, 10 central land development banks, 85 primary land development banks, 31 primary urban co-operative banks and one state industrial co-operative bank.

Long-term Finance

209. The Bank had, as in the past, ensured adequate institutional support to the debenture programmes of land development banks. As against the debenture programme of Rs. 140 crores for 1971-72 earlier envisaged, the land development banks actually issued debentures for Rs. 125.39 crores. Much of this (Rs. 107 crores) was subscribed by institutions such as Life Insurance Corporation of India, State Bank of India, other commercial banks, and the Reserve Bank of India, besides the State and Central Governments. The balance of Rs. 25 crores came from mutual support.

210. At a meeting of the representatives of the principal investors and central land development banks convened by the Bank in February 1972, the debenture programme for 1972-73 was approved at Rs. 122 crores as against the lending programme of Rs. 155 crores. The debenture programme was modified to ensure involvement of land development banks' own resources and to make them utilise the disposable resources profitably. The supported programme was placed at Rs. 100 crores and the balance of Rs. 22 crores was expected to be raised by way of self-help.

211. An important policy change during the year was the modification of the extent of supported programme in relation to overdues at the central land development bank level so that heavy over-dues in certain pockets of a State did not affect the eligibility for institutional support for the State as a whole to carry on the developmental programmes. The apex banks were, however, required not to finance the primary banks/branches if the overdues exceeded 50 per cent of the demand. As a special case primaries/branches with overdues exceeding 50 per cent were made eligible for loans from the apex bank for minor irrigation purposes provided such loans did not exceed 25 per cent of the total loans issued in 1969-70 or 1970-71 whichever was higher. Again, primaries/branches in the weaker States, i.e., four Eastern States and Rajasthan and Jammu & Kashmir were also eligible for loans for financing the small farmers, irrespective of their overdues.

212. The Bank continued to lay emphasis as in the previous years on the purpose for which loans should be advanced by the land development banks. The condition that at least 90 per cent of the loans advanced should be for productive purposes, of which 70 per cent constituted easily identifiable purposes as in the past, was maintained during the year also.

213. With a view to bringing about co-ordination between the lending policies of land development banks in respect of schemes financed by the Agricultural Refinance Corporation and the Reserve Bank, the land development banks were advised (*a*) to ensure ground-water potential before granting loans for minor irrigation purposes ; (*b*) to fix minimum land holding in respect of loans for different purposes to

prevent over-capitalisation of investment or under-utilisation of sources ; (*c*) to fix the period of loans on the basis of repaying capacity of borrowers and the useful life of the assets created from the investment and (*d*) to insist on reasonable contribution by the borrower towards the cost of investment.

214. During the financial year ended March 31, 1972, land development banks issued rural debentures for an aggregate amount of Rs. 4.09 crores, the Bank's contribution being Rs. 1.33 crores. Considering the limited saving potential in the rural areas of the Eastern States, and Rajasthan and Jammu & Kashmir and the loss of crop in the war affected areas of Punjab, the land development banks in these States were allowed a reduce programme of rural debentures at 2½ per cent instead of 5 per cent of the ordinary debenture programmes.

Loans to the Agricultural Refinance Corporation

215. During the year, the Reserve Bank of India Act, 1934, and the Agricultural Refinance Corporation Act, 1963 were amended for enabling the Bank to grant long-term loans to the Corporation from the Long-term Operations Fund, as recommended by the All-India Rural Credit Review Committee. The Corporation availed of Rs. 5 crores sanctioned during the year. In addition, the Reserve Bank continued to give short-term loans to the Corporation (Table 23).

Co-operative Banking Regulation

216. With the inclusion of certain non-agricultural credit societies in the list of primary co-operative banks during the year, the number of co-operative banks coming under the purview of the Banking Regulations Act, 1949, has increased from 1,315 at the end of March 1971 to 1,337 at the end of June 1972 (29 State, 366 central and 942 primary banks).

217. During the year 1971-72, two State co-operative banks and three primary co-operative banks were issued licences to commence banking business in India under Section 22 of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies), raising the total number of licensed co-operative banks to 38. The number of offices of the co-operative banks which stood at 4,931 as on June 30, 1971 increased to 5,164 as on December 31, 1971. Licences were granted to the State and primary co-operative banks for opening 74 new offices as against 76 granted during 1970-71.

218. There were eight State and central co-operative banks which did not comply with the provisions of Section 11(1) of the Banking Regulation Act, 1949. The financial position and working of these banks was closely watched. Out of 21 primary co-operative banks which did not comply with these provisions, applications of 11 banks had been recommended for exemption to the Government of India for a period of one year from March 1, 1972 ; four banks had subsequently complied with the provisions. The remaining were under consideration.

219. Of 744 co-operative banks inspected during the year, 99 were inspected by the officers of State co-operative banks on behalf of the Reserve Bank under Section 35(1) of the Banking Regulation Act, 1949. During the period from July 1, 1971 to June 30, 1972, 721 inspection reports—15 State co-operative banks, 219 central co-operative banks, 11 State and district industrial co-operative banks, 9 central land development banks, 5 State handloom weavers' societies, 3 apex marketing societies and 459 primary co-operative banks—were issued.

220. As mentioned in the last year's Report, the scheme of deposit insurance was extended to the co-operative banks in the three States of Andhra Pradesh, Madhya Pradesh and Maharashtra and the Union Territory of Goa, Daman and Diu with effect from July 1, 1971. The remaining State Governments have been advised to enact suitable legislation for enabling the extension of the scheme to co-operative banks in their States.

221. The selective credit control measures for regulating the advances by co-operative banks against cotton were continued during the year with a view to arresting the tendency to hold back the stocks in anticipation of rise in prices. Co-operative banks which were found to be utilising their funds for

procurement and buffer stocking operations were asked to desist from doing so and have been advised to conduct such operations only on agency basis.

Training Facilities

222. During the year, orientation study facilities were provided by the Agricultural Credit Department to the senior officers of the Government of Tamil Nadu, Assam, Gujarat, Madhya Pradesh and Goa, Daman and Diu. In addition, seven foreign dignitaries from Malaysia, Thailand, Ceylon, Iran, Trinidad and Bangladesh visited the Department and studied its working. The details of the training imparted to the Staff of the Reserve Bank, co-operative banks and of SFDA/MFAL project personnel by the institutions managed by the Bank are discussed under the section of Education and Training.

223. Besides, the Department organised at the Co-operative Bankers Training College, Poona, the first seminar of the Chief Executive Officers of primary urban banks in July 1971 and the fourth Seminar of the Chief Executive Officers of the State co-operative banks and central land development banks in February 1972. The main purpose of these seminars was to provide a forum for the participants to discuss their problems and exchange their views and experiences, particularly to bring about a measure of understanding of the difficulties in the execution of the approved policies so as to improve/take measures for the effective implementation.

Agricultural Refinance Corporation

224. During 1971-72, the Corporation approved 269 schemes of agricultural development and sanctioned financial assistance for an amount of Rs. 154.24 crores as against 100 schemes involving financial assistance to the extent of Rs. 62.15 crores sanctioned in the previous year. Of the 269 schemes, 176 are to be financed by the central land development banks, 11 by State co-operative banks and 82 by scheduled commercial banks involving refinance to the extent of Rs. 115.12 crores, Rs. 11.03 crores and Rs. 8.98 crores, respectively.

225. Of the schemes approved during the year, 198 were for minor irrigation, 40 for plantation/horticulture, 13 for land reclamation, 3 for fisheries and 5 for construction of godowns, 4 for poultry and 2 for development of dairy farming, and 1 each for soil conservation and sheep breeding and 2 for farm mechanization. Besides the above schemes, 342 schemes were under various stages of scrutiny in the Corporation as on June 30, 1972.

226. During the year, the Corporation approved reduction in the financial outlays in respect of 103 schemes sanctioned earlier and an upward revision in the financial outlay of 30 others. Extension of period was given in respect of 13 schemes on requests from the financing institutions due to operational difficulties. Taking into account the revision in the financial outlay in respect of certain schemes sanctioned earlier as a result of rephasing, withdrawal of schemes, etc., the total number of schemes sanctioned by the Corporation as on June 30, 1972 was 711; the total financial assistance and Corporation's commitment thereunder were Rs. 404.75 crores and Rs. 350.79 crores, respectively.

227. The disbursements made by the Corporation during 1971-72 aggregated Rs. 34.8 crores of which refinance by way of subscription to special development debentures of the land mortgage/development banks amounted to Rs. 28.40 crores. Disbursements made to the scheduled commercial banks and State co-operative banks amounted to Rs. 3.26 crores and Rs. 3.32 crores, respectively. The disbursements made by the Corporation since its inception upto June 30, 1972 amounted to Rs. 124.69 crores.

Increase in ARC's Resources

228. The Corporation augmented its resources during the year under review from three sources, Government of India, Reserve Bank of India and open market. An amount of Rs. 10.4 crores was raised by way of borrowings from the Government of India, under Section 20(*i*)(*b*) and (*c*) of the Agricultural Refinance Corporation Act, 1963. These consist of a sum of Rs. 3.3 crores received as IDA credits under Gujarat, Andhra Pradesh and Haryana Agricultural Credit Projects and Rs. 0.05 crore as IBRD credits under Tarai Seeds Project and Rs. 7 crores under normal schemes. An amount of Rs. 5 crores has been sanctioned by the Reserve Bank from the National Agricultural Credit

(Long-term Operations) Fund. The Corporation has availed of Rs. 5 crores which is to be repaid in ten equal annual instalments. The Corporation raised an amount of Rs. 8.25 crores under III series of 5¾ per cent ARC Bonds. With this, the total borrowings from the open market amounted to Rs. 27.71 crores. During the year, seven scheduled commercial banks and six State co-operative banks repaid principal amounting to Rs. 0.12 crore and Rs. 0.38 crore, respectively. The Corporation also issued an additional share capital of Rs. 5 crores to enable it to borrow additional funds required to meet the growing demands from eligible institutions. The Government of India stood guarantee in regard to the repayment of principal and payment of a minimum dividend of 4.5 per cent in respect of this second issue of shares. The paid-up share capital of the Corporation thus stood at Rs. 10 crores as on June 30, 1972.

229. The following important items of policy and procedures during the year under review deserve mention.

(*a*) The contribution of State Governments to special development debentures floated by the central land development banks to finance minor irrigation schemes had been reduced to 10 per cent, instead of the normal 25 per cent with effect from the co-operative year 1967-68. This relaxation, which has been extended thereafter from year to year, which was current upto June 30, 1972 has now been extended upto June 30, 1974.

(*b*) A reference was made in the last year's Annual Report regarding the extension of the concession of 100 per cent refinance in respect of viable schemes sponsored by the Small Farmers Development Agencies (SFDA) through eligible institutions upto June 30, 1972. This facility has now been extended upto June 30, 1973. As on June 30, 1972 fifteen such SFDA schemes for development of minor irrigation—five in Uttar Pradesh, four in Madhya Pradesh, three in Andhra Pradesh and one each in Haryana, West Bengal and Rajasthan—were sanctioned by the Corporation. The total financial assistance sanctioned by ARC in respect of these schemes came to Rs. 14.37 crores.

(*c*) The Corporation has also agreed to give 100 per cent refinance in respect of schemes formulated by the Marginal Farmers and Agricultural Labour (MFAL) agencies and submitted through the central land development banks, State co-operative banks and scheduled commercial banks provided they are economically feasible and technically sound. This facility which was introduced this year has now been extended upto June 30, 1973. During the year under review, one scheme for development of minor irrigation in the Union Territory of Pondicherry was sanctioned by the Corporation. The total financial assistance and ARC's commitment in respect of this scheme was Rs. 0.16 crore.

Consultancy Service

230. The Corporation set up a Consultancy Service located in Lucknow on August 9, 1971. The main objects for which the Consultancy service has been set up are referred to below :

(*i*) To help the financing agencies in getting through the procedures of locating, investigating, appraising projects and canvassing cultivators' support.

(*ii*) To make the State Governments' technical service available to the financing banks in the process of investigation and appraisal.

(*iii*) To provide technical investigation in cases where the State Governments have no arrangements of their own for ground water investigation, etc.

(*iv*) To assist the Land Development Banks in job evaluation processes for purposes of streamlining their organization, simplification of procedures, avoidance of delay in searching title and determination of norms of staff for supervision and control over lending operations.

Briefly, the Consultancy Service will concentrate on formulation of projects and will help accelerate the formulation of viable schemes of agricultural development in the Eastern States.

Financing of Tea Industry

231. As mentioned earlier, the RBI had constituted in September 1971 a Working Group on finance for tea industry consisting of representatives of the tea industry, RBI and important financial institutions to review the existing institutional arrangements for meeting the credit needs of

the tea plantations. A senior officer of ARC was associated with this group as a member.

Inland Fisheries

232. The Corporation had earlier circulated to financing banks guidelines for preparation of schemes for development of inland fisheries. For the first time the Corporation sanctioned, through a commercial bank, a scheme for development of inland fisheries in West Bengal.

Technical evaluation of minor irrigation schemes

233. Although commercial banks have been sponsoring a number of area development schemes for minor irrigation, it was observed that a majority of the minor irrigation schemes received in the Corporation lacked essential details on technical aspects, particularly on the ground-water availability. In order to expedite the evaluation of such schemes, the commercial banks have been advised by ARC in April 1972, to make arrangements to study the technical feasibility of the proposals and send the schemes to ARC alongwith a technical feasibility report from one of the experts on the panel of ARC in respect of each scheme. The terms of reference for the technical experts have also been advised to the banks.

234. The Agricultural Refinance Corporation Act, was amended during the year (i) to make the term 'pisciculture' broad-based to include development of fisheries, both inland and marine, catching of fish and all activities connected therewith or incidental; and (ii) to enable ARC to borrow from the RBI out of its National Agricultural Credit (Long-term Operations) Fund.

235. As reported in the last year's Report, IBRD/IDA had sanctioned seven agricultural credit projects. During the year, 3 more projects were approved by IDA. The details of which are given below :

Name of the Project	Assistance from IDA		Amount to be routed through ARC	
	$ million	Rs. crores	$ million	Rs. crores
1. Mysore Agricultural Credit Project	40·000	29·11	36·700	26·71
2. Maharashtra A.C.P.	30·000	21·83	25·401	18·49
3. Development of markets in Bihar	14·000	11·61	12·850	9·35

Table 24:—Purpose-wise distribution of schemes sanctioned by the ARC during 1970-71 and 1971-72 (July-June)

(Amounts in Rupees Crores)

	July 1970—June 1971				July 1971—June 1972			
	No. of schemes sanctioned @	Total financial assistance on schemes sanctioned	ARC's commitments to total financial assistance	Disbursements made during the year	No. of schemes sanctioned @	Total financial assistance on schemes sanctioned	ARC's commitments to total financial assistance	Disbursements made during the year
	1	2	3	4	5	6	7	8
1. Development of minor irrigation works ..	55	49·41	44·52	23·06	198	116·30	104·30	26·77
2. Development of land	9	6·21	4·53	4·37*	13	10·44	7·90	2·34
3. Plantation and horticulture	26	3·16	2·32	1·99	40	11·00	8·36	2·06
4. Farm mechanization	1	0·76	0·57	0·11	2	4·76	3·63	0·36
5. Development of poultry farming	2	0·04	0·03	—	4	0·08	0·06	—
6. Development of fisheries	2	0·25	0·15	0·37	3	0·81	0·59	0·58
7. Dairy development ..	3	1·42	1·07	—	2	0·66	0·55	0·40
8. Construction of godowns	2	0·90	0·73	0·72	5	9·43	9·17	2·47
9. Soil conservation ..					1	0·25	0·19	—
10. Sheep breeding ..					1	0·51	0·38	—
Total : ..	**100**	**62·15**	**53·92**	**30·62**	**269**	**154·24**	**135·13**	**34·98**

@ Excludes schemes sanctioned and withdrawn during the same year.
* Includes disbursements on account of soil conservation schemes.

IV. DEVELOPMENTS IN INDUSTRIAL FINANCE

Industrial Development Bank of India

IDBI's Promotional Functions—New Initiatives

236. In order to promote industrial development particularly in backward areas, the IDBI has been engaged in a series of promotional functions regarding identification of project ideas and bringing them into fruition. With this end in view, as reported in the last year's Report, the IDBI with the assistance of other term-lending institutions as also the Reserve Bank had initiated in 1970 surveys of industrial possibilities in backward States. Upto the end of June 1971, such surveys were completed in respect of 10 States and one Union Territory; in respect of one State and three Union Territories, the surveys were completed during 1971-72. Survey of the only remaining backward State is being undertaken, while in the remaining two Union Territories, it is proposed to be taken up shortly. The IDBI has also carried out, with the assistance of other financial institutions as well as consultancy services, some district surveys as in the districts of Trivandrum and Mysore and the Rayalaseema belt of Andhra Pradesh. The IDBI is making arrangements with a University in West Bengal in respect of the survey of Purulia district, the most backward in the State. In respect of some project ideas identified in some States, preliminary feasibility studies have already been arranged and in respect of others, such studies are being undertaken.

237. The search for potential entrepreneurs is being intensified. The IDBI is in touch with SIDCs in some States as well as with some business houses for undertaking the implementation and management of some identified projects in the joint sector and providing on-the-job training to potential managers who could take over the management functions after an agreed period. The IDBI is playing the role of a catalytic agent in bringing together, under its leadership, all-India and State level institutions, as also the lead banks and the Industries Departments of State Governments, to form an Inter-Institutional Group in each State to take co-ordinated action on issues connected with industrial projects. Such Inter-Institutional Groups have already been formed in seven States.

Technical Consultancy Service Centre

238. In Kerala, the Inter-Institutional Group has sponsored a technical consultancy service centre, called the Kerala Industrial and Technical Consultancy Organisation (KITCO), for assisting it with regard to the various aspects of project work. It is envisaged that such technical consultancy service centres would be formed in some other backward States. A list of technical consultancy services available in the country has been prepared. The IDBI also established during 1971-72 close liaison with international organisations such as International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB), and the United Nations Industrial Development Organisation (UNIDO).

239. It was mentioned in the last year's Report that with a view to fostering industrial development in the less developed areas of the country, the IDBI introduced two schemes of concessional finance in May/July 1970—one of concessional refinance to SFCs/banks in respect of all of their eligible loans upto Rs. 20 lakhs to small and medium-sized projects in the specified areas and another of direct assistance on concessional terms for setting up of projects in backward areas. The above concessions were extended from December 13, 1971 to existing units undertaking substantial expansion in the specified backward areas.

240. The other significant developments during the year were: (*i*) further liberalisation of the refinancing and rediscounting schemes of assistance and (*ii*) opening of 3 more branch offices by IDBI at Hyderabad, Kanpur and Bhubaneswar* which would function as information centres and contact points for State level institutions, Government agencies as well as potential entrepreneurs.

IDBI's Operations

241. During the year under review, the quantum of financial assistance sanctioned and disbursed under all the three schemes of finance, *viz.*, direct assistance (other than

* Opened on July 1, 1972.

for exports), refinance of industrial loans, and machinery bills rediscounting, was sizeably larger than in 1970-71. Total sanctions in respect of these categories of finance together rose from Rs. 97.7 crores in 1970-71 to Rs. 141.8 crores in 1971-72 and disbursements from Rs. 54.2 crores to Rs. 73.7 crores.

242. Sanctions of direct assistance to industrial concerns (other than for exports) in the forms of loans, underwriting and guarantees rose from Rs. 47.2 crores (in respect of 31 projects) in 1970-71 to Rs. 65.9 crores (in respect of 37 projects) in 1971-72. Disbursements of direct assistance during 1971-72 aggregated Rs. 11.4 cores as against Rs. 8.6 crores in 1970-71. With the acceptance by the Government of India of the recommendations of the Industrial Licensing Policy Inquiry Committee and in terms of the guidelines formulated by the Government in regard to conversion into equity of a part of loan assistance given by all-India term-financing institutions, the IDBI has started stipulating the conversion clause in appropriate cases.

243. Effective sanctions of refinance of industrial loans also increased from Rs. 24.5 crores covering 1406 applications in 1970-71 to Rs. 30.6 crores covering 2003 applications in 1971-72. Bulk of the increase in refinance was accounted for by assistance in respect of loans to small-scale industries including small road transport operators.

244. Under the IDBI scheme for rediscounting of machinery bills to facilitate sales of indigenous machinery to prospective purchaser-users on deferred payment basis the amount of bills rediscounted has gone up from Rs. 28.5 crores in 1970-71 to Rs. 45.3 crores in 1971-72.

Export Assistance

245. In regard to export assistance, while sanctions under direct participation loans have increased over the 1970-71 level from Rs. 11.3 crores to Rs. 19.3 crores, the sanction under refinance of medium-term export credit was lower at Rs. 3.3 crores compared to Rs. 13.7 crores during 1970-71. The decline in the latter may be attributable to (a) the comfortable funds position of banks, (b) the exporter availing himself of direct export-credit from the IDBI in participation with banks, and (c) difficulty relating to shipping space in the wake of the Indo-Pakistan hostilitiy.

IRCI

246. The Industrial Reconstruction Corporation of India (IRCI) which was set up at the initiative of the IDBI in April 1971, for the provision of reconstruction and rehabilitation assistance to sick and closed units has made a significant beginning. It functions not as a mere lending institution, but as a reconstruction agency interested in finding out the causes for the present predicament of the assisted units and attempting to remove them. Its activities include restructuring of the management, providing technical and managerial guidance either through its staff or by procuring suitable personnel from outside. It also assures itself of an agreement between the labour and the management before its financial assistance is given. Since its inception upto the end of June 1972, the IRCI sanctioned loan assistance on softer terms and guarantee facilities to 48 units for Rs. 7.4 crores. The employment involved in these 48 units was 38,326. Utilisation of assistance amounted to Rs. 2.7 crores in respect of 30 units.

Subscriptions to Shares and Bonds of other Financial Institutions

247. During the year, the IDBI contributed Rs. 3.2 crores to the public and special debentures of ICICI, bringing the total assistance to that institution since inception upto the end of June 1972 to Rs. 18.9 crores. The IDBI also contributed during the year Rs. 41.3 lakhs to the share capital of IFCI and now holds Rs. 4.59 crores, i.e. 50 per cent of the paid-up share capital of that institution. The IDBI further contributed Rs. 1.37 crores to the paid-up capital of the Industrial Reconstruction Corporation of India (IRCI) bringing the total contribution to Rs. 2.75 crores (including Rs. 25 lakhs subscribed by IDBI on behalf of the IFCI, pending an amendment of the IFC Act, which does not at present permit such subscriptions). Besides, the IDBI subscribed Rs. 80 lakhs to the share capital of three SFCs, bringing the total subscription to shares and bond issues of SFCs to Rs. 7.7

crores. IDBI has also subscribed to 51 per cent of KITCO's Rs. 2 lakhs paid-up capital.

Other Term-lending Institutions

ICICI and IFCI

248. On the other hand, the quantum of assistance provided by the other term-lending institutions has declined somewhat during the year under review. The ICICI's sanctions of direct loans (rupee and foreign currency), underwriting and direct subscriptions together declined from Rs. 43.9 crores in 1970-71 (April-March) to Rs. 39.7 crores in 1971-72, but disbursements increased from Rs. 28.9 crores to Rs. 30.3 crores. The decline in sanctions was mainly brought about by foreign currency loans which were Rs. 22.5 crores in 1971-72 as compared with Rs. 29.0 crores in 1970-71. There was also a marginal decline in underwriting. IFCI's sanctions (excluding guarantees) declined marginally from Rs. 32.3 crores to Rs. 32.1 crores as a result of decline in foreign currency loans and underwriting, but disbursements increased from Rs. 17.4 crores to Rs. 20.3 crores.

Operations of State Financial Corporations

249. The operations of 18 State Financial Corporations, including the Tamil Nadu Industrial Investment Corporation, have continued to show a rising trend. The total loans sanctioned by them increased from Rs. 49.0 crores during 1970-71 (April-March) to Rs. 63.4 crores during 1971-72 (or by 30 per cent) and disbursements from Rs. 32.9 crores to Rs. 38.8 crores (by 17.9 per cent). Loans outstanding as on March 31, 1972 totalled Rs. 154.6 crores and were over 21 per cent higher than a year ago. The bulk of the financial assistance continued to be granted to the small-scale industries, and share of such assistance in the total sanctions and disbursements was Rs. 51.2 crores and Rs. 27.1 crores, i.e., 80 per cent and 69.8 per cent, respectively.

250. In order that the SFCs may play an effective role in stepping up the tempo of industrial development of the States as well as to discuss important problems the States were confronted with, a conference of Chairmen and Managing Directors of the Corporations was convened by the Finance Minister on November 3, 1971 at New Delhi. In pursuance of one of the recommendations, a Working Group under the Chairmanship of Shri R. K. Talwar (Chairman, State Bank of India) was set up to examine the scope for, and formulate the mechanics of co-ordination between SFCs and commercial banks in assisting industries in the small and medium sectors.

251. In the light of the recommendations of the Working Group on Resource Mobilisation, Profitability, etc., of SFCs, certain amendments to the SFCs Act have been proposed to the Government of India for their consideration.

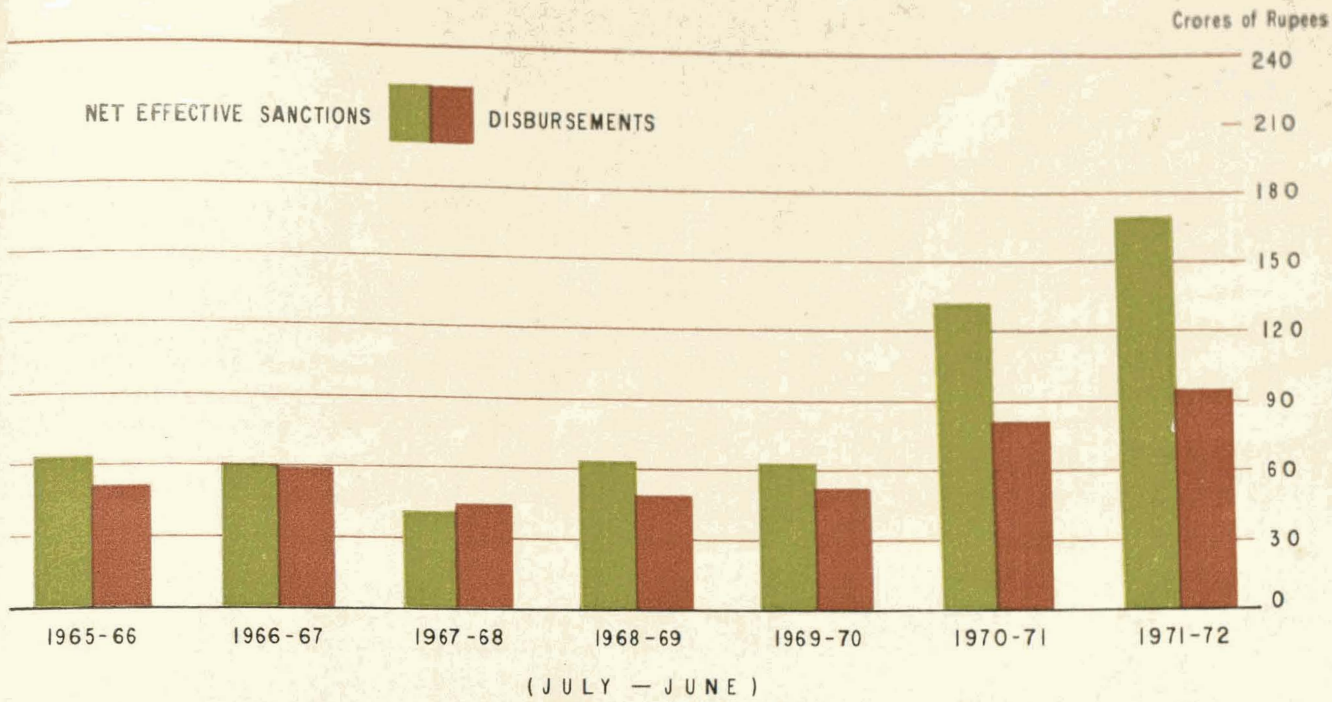
Financing of Small-scale Industries

Credit Guarantee Scheme

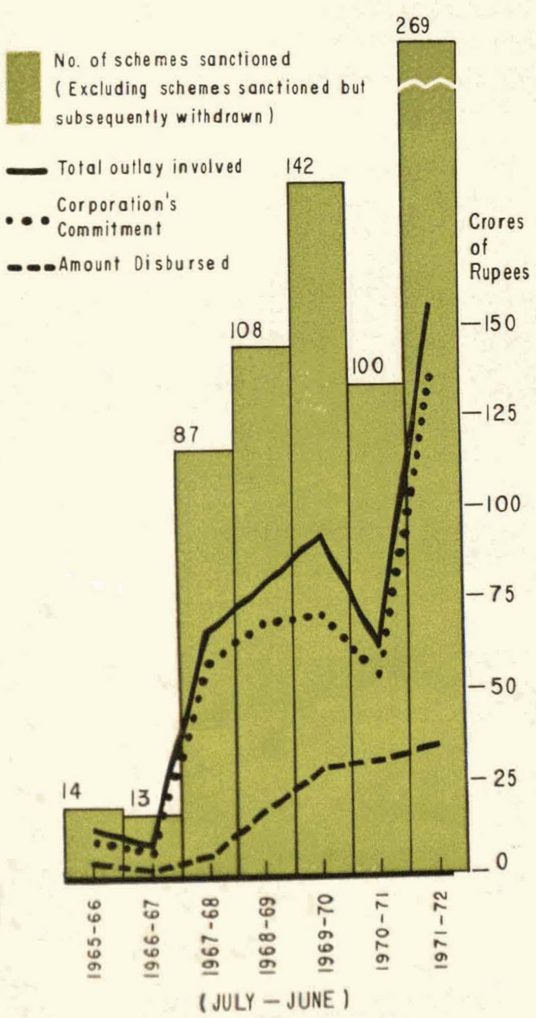
252. The modified Credit Guarantee Scheme has made considerable progress during the year. So far, 173 credit institutions including all major commercial banks, State Financial Corporations and co-operative banks have joined the modified scheme. During the year under review, 72 unlicensed primary urban co-operative banks were included in the list of approved credit institutions, of which 22 have joined the scheme by executing the necessary agreement. The scope of the scheme was also extended to 'agro-service units', i.e., units engaged in hiring out, servicing and repairing of agricultural implements, etc., sale of such agricultural implements, spare parts and inputs and offering of technical services such as soil testing.

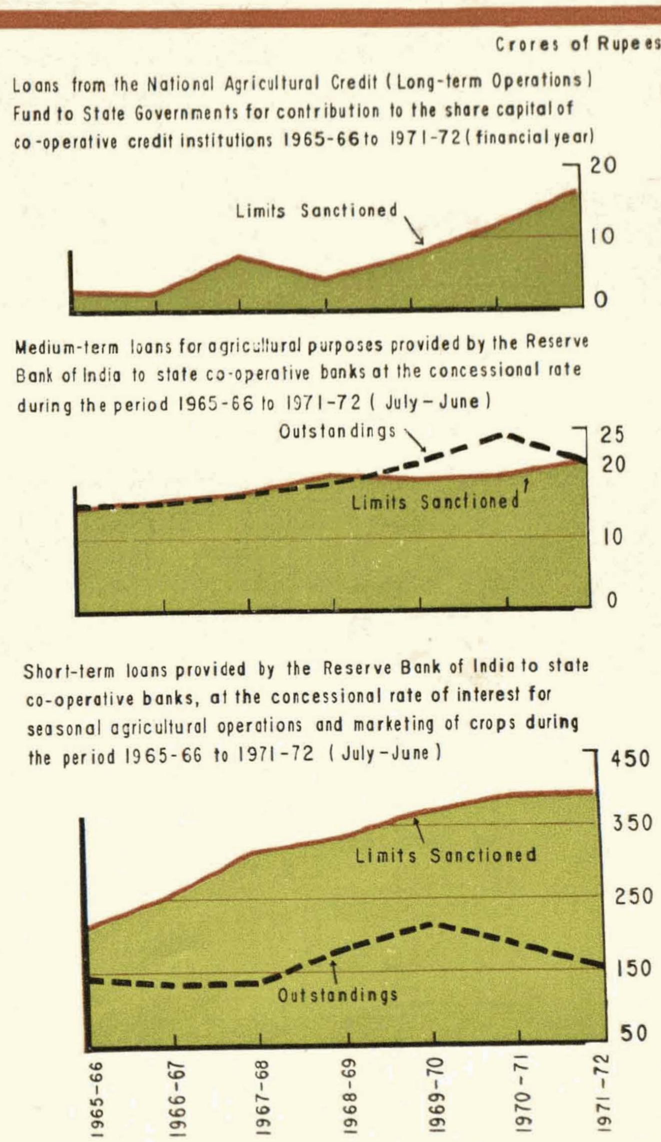
253. The amount of guarantees outstanding as at the end of June 1972 amounted to Rs. 913.3 crores as against Rs. 791.0 crores as at the end of June 1971. Since the introduction of the Scheme in July 1960 upto the end of June 1972, there have been 281 claims for an aggregate sum of Rs. 43.3 lakhs which were paid to the credit institutions. However, as at the end of May 1972, amounts reported in default (which may eventually lead to settlement of claims) covered 4,425 accounts for Rs. 1431.1 lakhs as against 2,129 accounts for Rs. 800.8 lakhs as at the end of May 1971.

ASSISTANCE SANCTIONED AND DISBURSED BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA



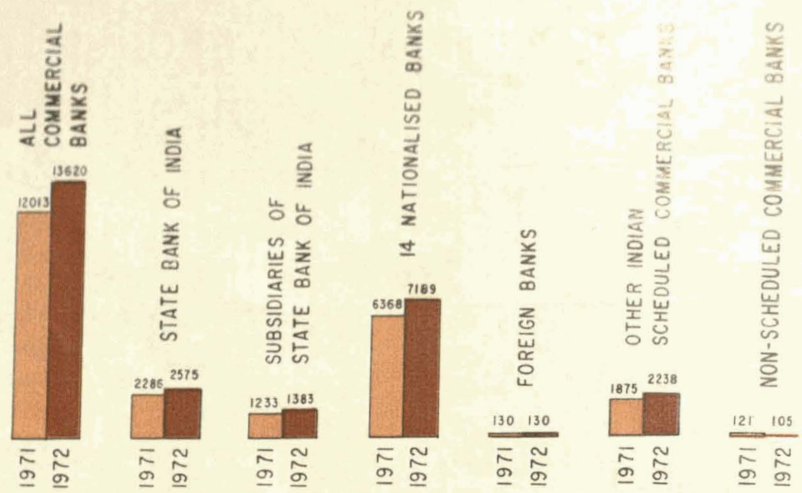
OPERATIONS OF AGRICULTURAL REFINANCE CORPORATION





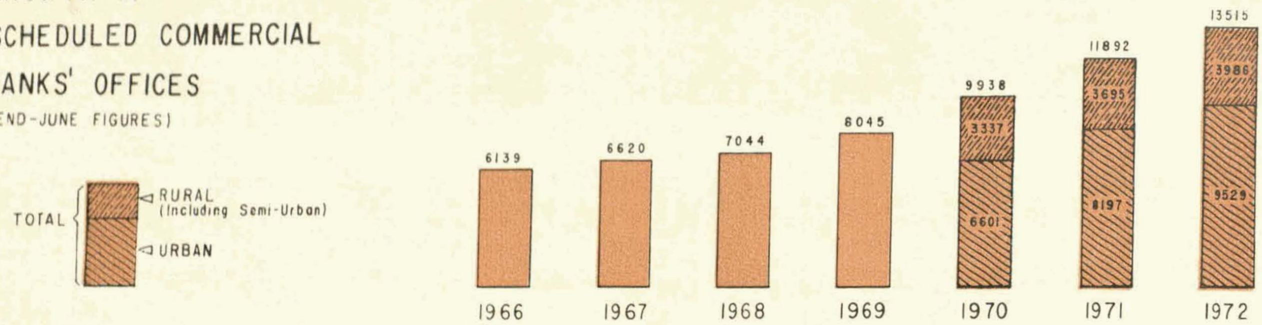
NUMBER OF OFFICES OF COMMERCIAL BANKS IN INDIA

(END-JUNE FIGURES)



GROWTH IN SCHEDULED COMMERCIAL BANKS' OFFICES

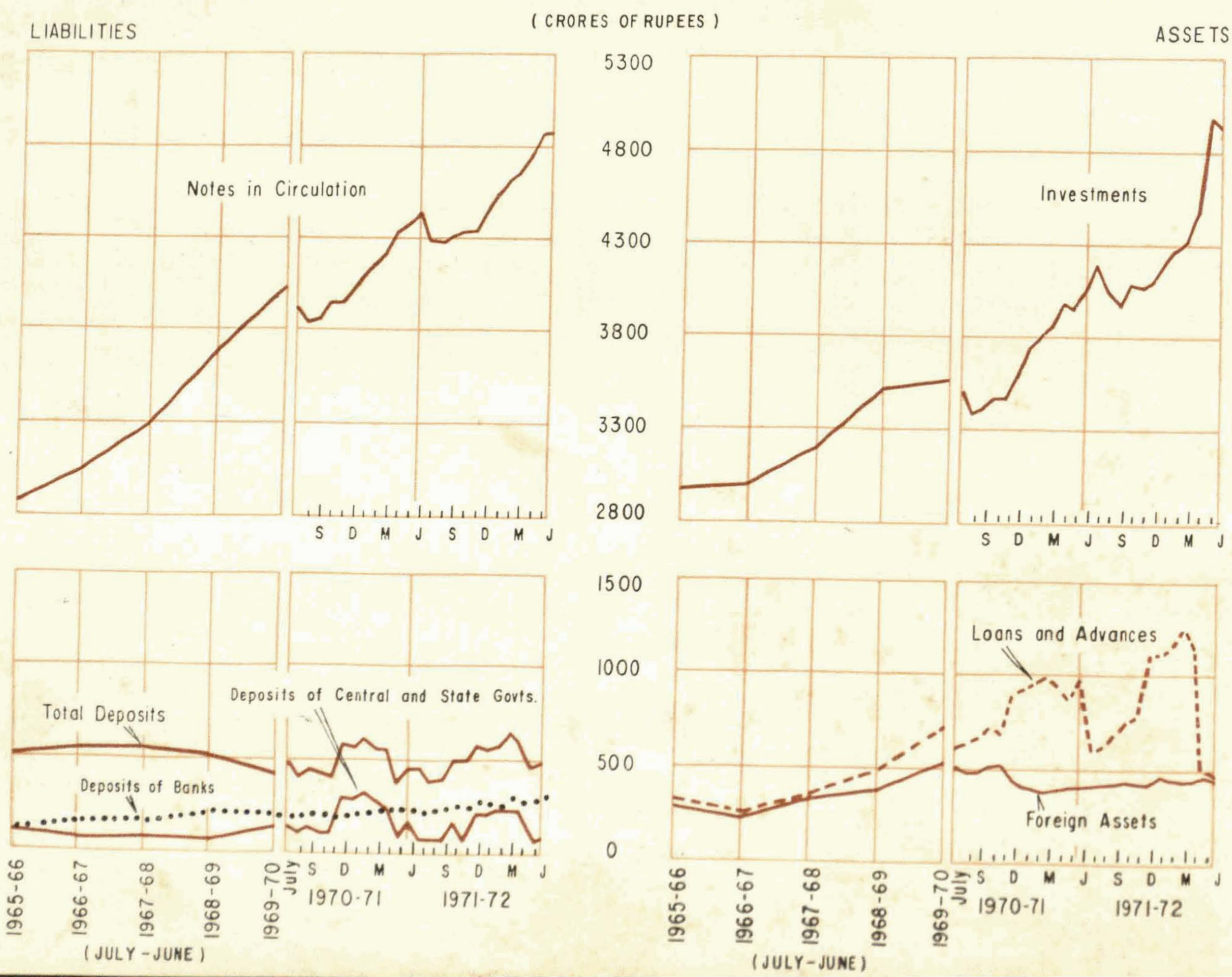
(END-JUNE FIGURES)



RESERVE BANK OF INDIA

ISSUE AND BANKING DEPARTMENTS COMBINED

(AS ON LAST FRIDAY)



254. The Reserve Bank as the Guarantee Organisation has been liberalising the Scheme's provisions whenever considered appropriate to do so. Accordingly, in order to encourage the credit institutions to grant credit facilities, on a more liberal basis to small-scale units located in the Eastern and Western border areas affected by the recent conflict with Pakistan, some of the major provisions of the Scheme have been temporarily liberalised by the Government of India on the advice of the Bank. The liberalisation, which took effect from December 16, 1971, envisaged the enhancement of the extent of guarantee cover to 90 per cent of the amount in default or the amount guaranteed whichever is less. Simultaneously, the ceilings on the amount recoverable from the Guarantee Organisation by way of claims were also raised from Rs. 7.5 lakhs and Rs. 2.5 lakhs to Rs. 10 lakhs and Rs. 4 lakhs in respect of working capital advances and term loans, respectively. The temporarily liberalised provisions, initially effective upto March 31, 1972, were further extended upto June 30, 1972 ; advances covered under the liberalised provisions and recalled during the period when the relaxations are in force or during the next six months would, however, be eligible for the relative higher cover. On the recommendation of the Reserve Bank the Government have since extended the liberalised provisions for a further period of six months, i.e., upto December 31, 1972 in the Western region and discontinued the facility in the Eastern region having regard to the normal conditions now prevailing in that area.

255. With a view to ensuring that the credit institutions exercise due diligence and care both in the sanctioning and supervising of the advances to small-scale industrial concerns as well as in recovering the dues from them, the Guarantee Organisation conducts a test check of the accounts of small-scale units with the branches of the credit institutions. The coverage under test check was raised from 5 per cent of the reporting branches involving 425 branches during the first year of the operation of the modified scheme to 10 per cent involving 906 branches during the second year. It has been decided to maintain the coverage at 10 per cent for the third year also. Thus, by the end of the third year (1972-73), the Guarantee Organisation would have covered one-fourth of the reporting branches under the test check programme. The deficiencies observed through such inspections are taken up with the concerned credit institutions for rectification. Further, in respect of the accounts under default, the Guarantee Organisation, as a matter of procedure, inspects those accounts in order to have a first-hand knowledge of the problems faced by the credit institutions in continuing their assistance to them. Where the units show promise of retrieving their position, the Guarantee Organisation suggests that the lending banks nurse these accounts ; these efforts have yielded satisfactory results in certain cases.

Scheduled Commercial Banks' Advances to Small-scale Industries

256. The credit extended by scheduled commercial banks to small-scale industries recorded a further rise, but at a slower pace, during the period under review. The total credit (including term-loans and advances granted to craftsmen and other qualified entrepreneurs) extended during 1971-72 (April—March) rose by Rs. 84 crores to Rs. 578 crores*, which compares with an increase of Rs. 100 crores in 1970-71 and Rs. 132 crores in 1969-70. The increase in the number of units financed during the period under review (18,811) was also smaller than in the previous year (21,810). However, the share of advances granted to the small-scale sector in the total bank credit went up from 10.6 per cent as at the end of March 1971 to 11.1 per cent in March 1972.

257. Two features in the flow of bank credit to small industries in recent years are noteworthy : the first is the steady decline in the average amount of credit limit sanctioned per unit from Rs. 91,700 in March 1970 to Rs. 83,100 in March 1971 and further to Rs. 75,700 in March 1972 indicating a gradual shift towards financing of smaller units in the small-scale sector. The second is the greater involvement of banks in financing small industries in industrially backward States, such as Assam, Bihar, Orissa and Uttar Pradesh, as reflected in the rising share of advances to small-scale industries in these States.

* Provisional.

258. Beginning with June 1971, arrangements have been made to obtain data on a continuing basis regarding term-loans granted by commercial banks to small-scale industries. The data indicate that banks have played a significant role in the financing of fixed investments in this sector. As at the end of March 1972, the term loans sanctioned by banks to small industries amounted to Rs. 132 crores covering 27,739 units. The amount outstanding at Rs. 89 crores as at the end of March 1972 formed about 15 per cent of the total outstanding bank credit to this sector.

259. Besides the State Bank of India and its subsidiaries, which had formulated special schemes for financing craftsmen and qualified entrepreneurs as early as 1967, all the nationalised banks and 18 other banks have also by now formulated similar schemes. The total credit limit sanctioned to these classes of borrowers as at the end of March 1972 amounted to Rs. 24 crores covering 8,076 units and the amount outstanding was Rs. 15 crores.

260. Credit extended by the SBI Group to small-scale industries as at the end of March 1972 amounted to Rs. 231 crores showing an increase of Rs. 34 crores over the March 1971 level which compares with the increase of Rs. 45 crores in the same period last year. The net increase in the number of units financed by the SBI Group between March 1971 and March 1972 was 5,788 as against 11,796 in the corresponding period of 1971. In the case of the 14 nationalised banks, while the increase in outstanding credit during 1971-72 was Rs. 40 crores as against Rs. 45 crores in 1970-71, the number of units financed during this period (12,719) was higher than in the corresponding period last year (9,151).

261. The pace of expansion of credit granted by scheduled commercial banks to the small road and water transport operators was also lower during 1971-72 than in 1970-71. The net increase in the credit extended to this sector during 1971-72 was Rs. 12 crores or about half the increase in the previous year (Rs. 23 crores). As at the end of March 1972, the limits sanctioned amounted to Rs. 82 crores spread over 33,052 units, the balance outstanding being Rs. 60 crores.

262. As on the last Friday of March 1972, 14 banks had sanctioned credit limits for setting up of industrial estates for small-scale industries ; the amount involved was Rs. 5.4 crores. The net rise in outstanding credit to this sector during April 1971-March 1972 (Rs. 1.6 crores) was a little more than half the rise of Rs. 2.8 crores in the corresponding period of the preceding year.

263. Mention may be made here that the Report of the Working Group on Financing of Industrial Estates set up by the Reserve Bank in 1970 is expected to be released shortly.

Committee on Settlement of Bills

264. The Committee set up by the Reserve Bank of India in October 1970 under the Chairmanship of Shri V. D. Thakkar to review the special credit schemes of the commercial banks had expressed its concern at the delay in the settlement of bills of small entrepreneurs by large industries. The Reserve Bank of India, accordingly constituted in April 1971 a Committee to study the problem of payment of bills by large and medium industries to small enterprises and entrepreneurs in respect of supplies made to them and to work out suitable arrangements so as to ensure speedy settlement of claims. The Committee extended the scope of the enquiry to cover the delay in payment of bills to small entrepreneurs by Government Departments/public sector undertakings. The Committee has made a number of useful and practical suggestions for minimising the delay in the payment of bills of small industries and these have been commended to the institutions and agencies concerned to take early steps to implement them, thereby removing one of the bottlenecks in the growth of small industrial enterprises in our country.

Unit Trust of India

Unit Scheme, 1964

265. Sales of units during 1971-72 (July-June) at Rs. 15.1 crores were lower as compared to Rs. 18.0 crores during 1970-71.

266. Units of the face value of Rs. 2.6 crores were repurchased during 1971-72 as against Rs. 3.2 crores during 1970-71. The

total amount of units sold and outstanding with the Trust as on June 30, 1972 amounted to Rs. 104.7 crores, the total number of unit holders registered with the Trust being over 4,34,000. Unit sales during 1971-72, as in 1970-71, were adversely affected by the removal, under the 1970 Finance Act, of the special tax advantage which unit holders were enjoying on their income from units (referred to in the last year's Report). This factor together with the increase in interest rates on National Savings Certificates and those offered by nationalised banks on fixed deposits reacted adversely on the relative attractiveness of units as a medium of investment.

267. The total investments of the Trust aggregated Rs. 119.3 crores as on June 30, 1972. Of these, ordinary shares accounted for Rs. 44.6 crores (37.4 per cent), preference shares for Rs. 13.9 crores (11.7 per cent), and debentures for Rs. 41.9 crores (35.1 per cent). The balance of Rs. 18.8 crores (15.8 per cent) represented investments in Government Securities and Corporation Bonds, advance deposits for debentures and preference shares which the Trust had agreed to underwrite, advance call deposits, application money for purchase of shares and call and short notice deposits.

Unit Scheme, 1971

268. This Scheme was introduced on October 1, 1971 primarily as an adjunct of the Unit-linked Insurance Plan. At a later stage, the Trust may want to throw the Scheme open for all investors but for the time being at least the sale of units under the Scheme is made for the limited purpose of participation in the Unit-linked Insurance Plan. The object of this Plan is to provide investors, especially from the relatively small and medium-income groups of the community, a facility for regular savings and investment of their savings in the units of the Trust, combined with the advantage of insurance cover during the period of the Plan. The Plan has so far made slow progress with total sales amounting to Rs. 3.1 lakhs under 464 applications upto June 30, 1972. However, with the additional tax advantage granted in the Finance Act 1972, viz., the treatment of the contributions made under the Plan for income-tax purposes on the same basis as insurance premia and contributions to provident fund, the popularity of the Plan is likely to increase considerably.

V. DEVELOPMENTS IN EXCHANGE CONTROL

269. As pointed out in Part I, the year under review was characterised by uncertainties in the international currency markets following the U.S. decision in August 1971 not to convert officially-held dollars and the U.K. announcement in June 1972 to float the pound. These events had their effect on the exchange rate of the rupee also.

Exchange rates—Sales and Purchases of Sterling by Reserve Bank

270. The U.S. Government announced on August 15, 1971 that they would cease to convert officially-held dollars into gold or other reserve assets, following which the U.K. authorities announced that with effect from August 23, 1971, the dollar-sterling rate would be allowed to move in response to market forces although the parity of the pound sterling would remain unchanged at U.S. \$2.40=£1. The dollar-sterling rate would not, however, be allowed to fall below \$2.38=£1 but that when it tended to rise it would be allowed to float upwards without a ceiling at \$2.42 per pound. Following these developments the Government of India announced that there would be no change in the gold (and, therefore, the U.S. dollar) parity of the Indian rupee and that the Reserve Bank of India would buy and sell pound sterling, for ready delivery, at rates to be determined every day having regard to the par value of the Indian rupee as fixed in June 1966 (which was U.S. \$13.3333=Rs. 100) and the (floating) exchange rates for dollars in terms of sterling in the London market on the preceding working day by adding in the case of buying spot rate and deducting in the case of selling spot rate, a margin of £0.0175. This basis of fixing rates came into force from August 24, 1971. The margin was later reduced to £0.0125 with effect from September 8, 1971.

271. Forward purchases of sterling by the Reserve Bank of India which were suspended temporarily from August 23, 1971, were resumed with effect from August 28, 1971, for delivery upto six months at £5.5556 for Rs. 100.

272. Following the realignment of the parities of major international currencies on December 18 and 19, 1971, when a new rate for sterling in terms of the U.S. dollar was fixed 8.57 per cent higher than before (with the U.S. dollar devalued through an increase in the price of gold from \$35.00 to \$38.00 per fine ounce and the gold parity of the pound sterling remaining unchanged), the Government of India decided to de-link the rupee from the dollar and to adopt a central rate in terms of sterling, equivalent to the average of buying and selling rates of sterling based on the closing London quotations for dollars on December 17, 1971, i.e., immediately before the realignment. This rate was Rs. 100=£5.2721 or £1=Rs. 18.9677. The IMF was accordingly informed that India would take advantage of the wider band of 2.25 per cent on either side of the central rate for fluctuation of the buying and selling rates for sterling. The system was enforced from December 20, 1971. The authorised dealers were advised by the Reserve Bank, that its spot buying and selling rates based on the central rate of Rs. 100=£5.2721 would be as follows :

Buying — £5.2851 = Rs. 100

Selling — £5.2592 = Rs. 100

273. Forward purchases of sterling suspended from December 20, 1971 were resumed by the Bank with effect from December 28, 1971. The Bank offered forward cover facilities upto 9 months, at rates to be determined on the following basis :

Period of delivery	*Rate of Exchange*
Upto 3 months	RBI's prevailing spot buying rate *plus* a margin of £0.0125 per Rs. 100.
Upto 9 months	RBI's prevailing spot buying rate *plus* a margin of £0.0250 per Rs. 100.

Contracts with an initial delivery period of three months were allowed to be extended for further three or six months at a charge of £.0.0125 per Rs. 100 per quarter. Further extension upto a total period of 12 months from the date of the original contract on payment of charges on the same basis was allowed in both the cases with effect from March 15, 1972. Thus, in effect, forward cover was available upto 12 months.

274. After the decision of the U.K. authorities on June 23, 1972 to allow sterling to float and the uncertain conditions in the international foreign exchange markets, the Bank's rates for buying and selling spot sterling were fixed with effect from June 26, 1972 at £5.2910 per Rs. 100 buying and £5.2632 per Rs. 100 selling. Forward purchases of sterling by the Reserve Bank were suspended.

275. After reviewing the position, these rates were revised, effective July 4, 1972, as follows :

Buying — £5.3333 per Rs. 100

Selling — £5.3050 per Rs. 100

The Bank resumed purchase of sterling on a forward basis upto 6 months on July 5, 1972 at the following rates :

Period	*Rate of Exchange*
Upto 3 months	£5.3458 per Rs. 100
Upto 6 months	£5.3583 per Rs. 100

Forward contracts booked for an initial delivery period of 3 months were allowed to be extended for a further period of 3 months at a charge of £0.0125 per Rs. 100.

276. In the sphere of Exchange Control the Rules relating to travel, studies, etc., were revised during the year 1971-72 largely to take into account the exchange rate and price changes.

Travel abroad for business etc. purposes

277. The practice of classifying some businessmen as top-ranking for the purpose of release of exchange at higher scales for travel abroad on business grounds has been abolished by the Government of India. Hereafter businessmen will be classified into two categories, viz., (i) senior businessmen and (ii) travelling salesmen.

Release of exchange for higher studies

278. In view of the increase in the cost of living in U.K. and changes in exchange rates of Continental currencies, the Government of India decided to enhance the scale for release of exchange to students/trainees for their maintenance from £600 to £ 700 per annum generally for all countries other than U.S.A. and Canada and to £750 per annum in the case of students at Oxford and Cambridge Universities. This scale is exclusive of tuition fees for which actual amounts as certified by the foreign university/institution will continue to be released as hitherto.

Exchange Quota for Haj Pilgrimage

279. Consequent on the revaluation of the Saudi Arabian riyals in the wake of re-alignment of the parities of major international currencies on December 18—19, 1971 (the gold parity of the riyals remained unchanged so that its par value has gone up by 8.57 per cent in terms of U.S. dollars), the exchange quota for persons performing Haj Pilgrimage has been revised upward from Rs. 1,575 to Rs. 1,670 per adult (above the age of 16 years) and from Rs. 790 to Rs. 835 for each child between the ages of 14 and 16 years to enable the pilgrims to receive the same amount of foreign currency as before.

Surrender of Foreign Balances : Special Exemption

280. With a view to encouraging qualified Indians residing abroad to return to India for securing suitable employment, or for exploring the possibilities of setting up small-scale industrial units in this country, certain exemptions were granted in respect of regulations covering surrender of foreign currency balances. They would be permitted on application to retain their foreign currency balances for a period of three years from the date of their return to India, instead of having to surrender them within 30 days of the date of arrival. Under this facility, the balances will be allowed to be used by the holders to pay for imports of machinery, raw materials and components for which import licences will be issued on a liberal basis. The balances can also be surrendered with the right to re-transfer them abroad within a period of three years or

such further extended period which the Reserve Bank may allow.

Exchange Control with Bangladesh

281. Steamship/airline companies and travel agents have been permitted with effect from May 15, 1972 to book passages to Bangladesh for residents of India against payment of fares in Indian rupees subject only to the completion of form 'P'. No prior approval on form 'P' from the Reserve Bank need be obtained and no restriction has been imposed on the number of trips to Bangladesh undertaken by any passenger. Visits to Bangladesh will also not be counted as visits abroad for purposes of Foreign Travel Scheme, 1970.

Travel

282. Indian nationals or persons of non-Indian nationality, who are permanently residing in India will be released exchange for meeting expenses for travel to Bangladesh for business (including attending conferences), studies, training, medical treatment, etc. The exchange will be made available only in Indian rupee travellers' cheques marked clearly as 'encashable only in Bangladesh in Bangladesh Taka'. The Bangladesh Bank has agreed to grant similar facilities to residents of Bangladesh for their visits to India.

283. Residents of India proceeding to Bangladesh for private visits are permitted to take out with them Indian currency notes up to Rs. 500 (other than notes of the denomination of Rs. 100 or higher) per person per trip. Similar limits have also been fixed by the Bangladesh authorities for residents of Bangladesh to take out Taka notes with them on visits to India.

284. Authorised dealers have been advised that all transactions between Bangladesh and India other than those falling under the limited payments rupee trade arrangements will be allowed to be settled in sterling or any sterling area currency (except Pakistan rupees) or Indian rupees or Bangladesh Taka and will generally be subject to the same regulations as applicable to transactions with other countries outside India. The Bangladesh Bank has also similarly agreed to release sterling for settlement of approved transactions with India.

Other transactions

Table 25 :— Data Relating to Exchange Permits Issued and 'P' Forms Approved

A. Foreign Exchange Permits Issued for Study/Training Abroad during the period July 1971-June 1972

Country	Technical Courses		Non-Technical Courses	
	Number of Permits Issued	Amount of Exchange Released (Rs.000s)	Number of Permits Issued	Amount of Exchange Released (Rs.000s)
U.K. and Europe..	508	37,88	551	16,96
U.S.A. and Canada	1132	2,60,02	603	1,03,81
Other Countries ..	201	13,54	78	2,19

B. Foreign Exchange Permits Issued for Travel Abroad for Purposes Other than Study/Training during the period July 1971-June 1972

	Number of Permits Issued	Amount of Exchange Released (Rs. 000s)
Business	10716	6,62,86
Medical treatment	576	57,95
Study tours	1082	46,04
Attendance at conferences ..	1413	28,34
Miscellaneous	5678	1,33,33

C. Number of 'P' Form Applications Approved during the period July 1971—June 1972

Purpose	No. of 'P' Forms Approved
Joining head of family	11778
Visits to relatives	9288
Export promotion	256
Employment abroad	4253
Emigration for permanent settlement ..	6083
Students/Trainees	3130
Miscellaneous	23190

VI. SURVEYS AND SEMINARS ORGANISED BY THE RESERVE BANK

Surveys

285. The decennial All-India Debt and Investment Survey 1971-72, being conducted by the Bank in collaboration with the National Sample Survey (NSS) Organisation of the Government of India and the Statistical Bureaux of the State Governments, was in progress during the year under review. The field work on the demand side investigations for the Survey is being carried out by the National Sample Survey Organisation for the Central Sample and that on the State matching sample and the Reserve Bank matching sample by the Statistical Bureaux of the State Governments. The demand side investigations for the Survey are conducted through canvassing of three schedules and a supplementary schedule, among 1,44,000 rural and 53,000 urban households covered by the Central, State and Reserve Bank samples. An additional village schedule will also be canvassed among the 12,000 villages selected for the demand side investigation. The Bank has set up Statistical Cells in the various State Headquarters to ensure smooth flow of filled-in schedules from the field and to carry out scrutiny and editing of the schedules.

286. At the instance of the Bank's Agricultural Credit Department, the Division of Rural Surveys of the Economic Department undertook the Field Study on Crop-wise Scales of Finance in Kerala State. The object of the study was to collect the requisite material to serve as guidelines to District Central Co-operative Banks in arriving at realistic scales of finance for paddy and other important crops in Kerala. The Division also conducted a field study on the working of jointly-owned private wells and Government-sponsored community wells in Karad Taluk, Satara District, Maharashtra. This was undertaken with a view to evolving some guidelines to Small Farmers Development Agencies, land development banks and other appropriate credit institutions for taking up the financing of similar joint ventures in other areas as a measure of promoting minor irrigation schemes in the country for the benefit of cultivators, especially the small farmers. The Division's regular Survey of Co-operative Bank Advances and Deposits was also in progress during the year.

287. The Division of Rural Economics of the Economic Department also conducted during the period under review three studies, viz., (i) a field study on the operations of a mobile bank, (ii) study in collaboration with the Bank's Agricultural Credit Department on cash credit system for financing coconut cultivation in Kerala and (iii) an on-the-spot study of cotton markets in the Vidarbha region. Officers of this Division participated in an inter-departmental study on the working of the scheme of financing primary agricultural credit societies by commercial banks in Haryana, Mysore and Madhya Pradesh.

288. The Division of International Finance of the Economic Department finalised during the year the results of the survey of unclassified receipts during the quarter July-September 1970 (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 the authorised dealers) referred to in the last year's Report, and a detailed note analysing the results was published in the November 1971 issue of the Bank's Bulletin. The purpose-wise pattern revealed by this survey was more or less the same as that obtained in the earlier survey. No change was, therefore, called for in the basis on which the unclassified receipts are allocated to different purposes in the balance of payments statistics. The results of the survey for 1971 which covered the quarter April-June are being finalised. The survey for 1972, which covers the three-month period, February-April, is in progress. The Division continued to undertake on an annual basis the survey of freight and passage fare payments and receipts relating to Indian and foreign shipping and airline companies.

289. The Division of International Finance also continued to call for quarterly foreign investment survey reports from branches of foreign companies and Indian joint

stock companies. The assessment of India's international investment position in 1968-69, based primarily on these reports, is under preparation.

290. During the year, the Division of Trade of the Economic Department launched two surveys, a Survey of Foreign Collaboration in Indian Industry and a Survey of Indian Joint Ventures Abroad. While the latter is a fresh Survey being conducted for the first time by the Bank, the Survey of Foreign Collaboration in Indian Industry is a follow-up of a similar Survey initiated in 1965, the results of which were published in 1968. The Surveys, already in progress, cover the period 1964-65 to 1969-70.

Seminars

291. A seminar of the economists of the public sector banks was held by the Reserve Bank in April 1972 to discuss the role of the economists working in banks in collecting appropriate statistics, involvement in policy and credit planning in evolving special schemes for priority sectors and deposit mobilisation and in pre-investment and post-investment appraisal of schemes in lead bank areas. In the same month the Bank also held a seminar of the heads of agricultural finance departments of the major commercial banks to discuss the problems faced by the banks in increasing finance to the agricultural sector and recovering loans advanced for agricultural development.

VII. EDUCATION AND TRAINING

292. Realising the importance of general as well as intensive training for the personnel at all levels—junior, supervisory and senior executive—not only in respect of its own but also in respect of the commercial banks, of co-operative institutions and even of Government Departments concerned with the execution of special schemes linked with institutional credit, the Reserve Bank has established various training institutions. These institutions have been carrying out a series of training courses. The year under review saw considerable expansion of activities in this regard.

National Institute of Bank Management

293. In terms of its long-term objectives, the National Institute of Bank Management (NIBM) expanded further during the period July 1971-June 1972 its capabilities to help the banking industry in training and developing its senior personnel, to provide a series of consultancy services, and to disseminate professional knowledge and information. During this period, in all nineteen programmes were offered in which four hundred and nineteen officers from banks in India and from abroad participated. These included advanced management training, senior executive course, executing development programme, branch management programme, credit management, workshop for trainers, first man-power development seminar, workshop for performance planning, and training for export finance.

294. On the research side, which is the core of the Institute's activities, various studies in the areas of development banking and regional economic potential, credit risk analysis for agricultural lending, business planning and implementation for rural banking, financing of agriculture, investment and credit planning for maximisation of employment were launched and either completed or were in full swing Broadly, the research programme concentrated on contribution either to policy formulation or to the Institute's training programmes and consultancy for the banking industry.

295. The consultancy projects undertaken during 1971 pertained to: (a) organisational planning, (b) decision-making systems, (c) management development and (d) recruitment. A reorganisation project for meeting the rapid expansion of the Bank of Maharashtra has been undertaken and the report has been submitted. The Institute provided consultancy help to Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank and Indian Banks' Association for the selection of clerical and officer staff using the battery of tests developed at the Institute. A total of 8,947 candidates was tested for clerical positions and 5,755 candidates for officers' cadre.

296. NIBM started the publication of a quarterly journal titled *Prajnan*; its first issue was published in January 1972. Three other publications, viz., Directory of Courses—1971-72 Edition, Programmed Text on Inland Remittances and NIBM Brochure were also issued.

Bankers Training College, Bombay

297. During the period under review, the College conducted five courses on Credit Appraisal and two courses each for legal officers of term-lending institutions and banks and for supervisory inspection staff of commercial banks. The College also conducted, for the first time, an in-company course on Credit Appraisal for the officers of Central Bank of India. Two courses each in Senior Banking and Foreign Exchange and one course each on Intermediate Banking, on Personnel and Organisation, and on Organisation and Methods were also conducted at the College. As mentioned in the last year's Report, two new courses, viz., a course on Project Appraisal (Financial) and another on Market Analysis for the Officers of term-lending institutions as also for such officers of commercial banks as are handling term loans were introduced at the College during the period. The former course has since been merged with the Credit Appraisal Course.

298. The College is also conducting courses for the Bank's own officers. Two Central Banking courses for Staff Officers Grade I and a Credit Appraisal course for the officers of the Bank's Department of Banking Operations and Development and

the IDBI were conducted at the College during the period. Further, two new courses, a course for the faculty attached to the Bank's own training institutions and a Central Banking-Advanced Course for the Senior Staff Officers Grade III were instituted. A few senior officers of commercial banks also attended the Central Banking-Advanced Course.

299. The total number of officers from banks and financial institutions including Bank's own officers who received training in the College during the period was 685. Since the inception of the College in 1954, 4525 officers have received training in the different courses conducted by the College.

300. The College proposes to introduce very soon a course on Industrial Relations in Banking for the benefit of both the 'staff' and the 'line' executives of commercial banks and financial institutions and conduct short courses on Bank Statistics and Export Finance and a Seminar on Financing of Small-Scale Industries. The College also proposes to offer a two-tier course in Branch Management, in collaboration with the Indian Institute of Management, Ahmedabad for branch managers and accountants of commercial banks. The College is also working on an integrated course for middle level executives of commercial banks.

301. Further, the College is now designing a two-tier Afro-Asian Regional Course on Development Banking in collaboration with the Economic Development Institute, Washington, for executives and senior officers of development banks from various countries in Asia and Africa. The course is likely to be offered in early 1973.

Co-operative Bankers Training College, Poona

302. During the period under review, two courses for the managerial staff of State/central co-operative banks and one course each for the managerial staff of urban banks and central banks financing industrial co-operatives were held. Three courses for the branch agents of State/central co-operative banks, five courses for the land development banks (three general courses and two courses on project planning and appraisal) and three agricultural finance courses, one each for the senior and the middle level personnel of commercial banks and the officers of the Reserve Bank, were also held during this period. In addition, one refresher course each, for the managerial staff of State/central and urban co-operative banks and one special course each, for the managerial staff of land development banks in Tamil Nadu and Mysore States, were also held at the College. A special course for project officers and assistant project officers of Small Farmers Development Agencies/Marginal Farmers and Agricultural Labourers projects was introduced at the College and three such courses were held. The College also instituted short-term courses and two such courses on Banking Regulation Act and one course for the managerial staff of State/central co-operative banks on financing of weavers' societies were conducted during this period.

303. The number of officers from co-operative, land development and commercial banks who received training in the College during the period was 723. Since the inception of the College in September 1969, as many as 1443 officers have received training in the different courses conducted by the College.

304. Besides these courses, two seminars, one each for the chief executive officers of State co-operative banks/central land development banks and urban co-operative banks were organised.

Staff Training College, Madras

305. The College continued to conduct the General Course on Central Banking for Staff Officers Grade II (Direct Recruits and Promotees) and Assistants and the Inspection Course for officers of the Bank's Department of Banking Operations & Development, the Industrial Finance Department and the Agricultural Credit Department on a regular basis. The College has also conducted two Induction Courses for Staff Officers Grade I/Grade II (Direct Recruits). The total number of employees who have so far received training in the college is 3386.

306. The Zonal Training Centres at Bombay, Madras and New Delhi continued to conduct courses for junior and senior clerks of the Bank. The Zonal Training Centre at Calcutta could not be reopened during the period due to certain administrative exigencies. The total number of clerical staff who have so far received training in the various Zonal Training Centres is 6961.

Zonal Training Centres

Other Matters of Education and Training

307. Under the standing arrangements with the Administrative Staff College of India, Hyderabad, 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, Management Institutes and a few other similar institutes. The Bank also deputed its officers to participate in the courses conducted by the I.M.F., the I.B.R.D. and the Asian Institute of Economic Development & Planning, Bangkok. The Bank deputed its officers to participate in the SEANZA Central Banking Course and other courses of interest to it organised by some other foreign institutions. Besides, officers were also deputed for study visits/ training to banking and financial institutions in the U.K., West Germany, Sweden, France and Italy.

Deputation of Staff

308. 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, 1971, as also the Hindi version of the revised edition of the Functions and Working of the Reserve Bank of India. Besides, the Hindi translation of the revised exchange Control Manual (sixth edition) was sent to Government for publication in a special issue of the Gazette of India. The Bank also continued to offer assistance to its associate institutions, viz., the Industrial Development Bank of India, Agricultural Refinance Corporation, Unit Trust of India, Deposit Insurance Corporation and Credit Guarantee Corporation of India Ltd., for Hindi translation of their annual reports as well as their press communiques, advertisements, notifications, notices, etc.

Promotion of Hindi in R.B.I.

309. In compliance with the provisions of the Official Languages Act, 1963, the Bank continued to issue press communiques/notes/ releases/summaries, notices, advertisements and notifications simultaneously in English and Hindi. The letters and communications received in Hindi from the members of the public, the Central Government and the State Governments were entertained and replied to in Hindi.

310. At one of its meetings, the Official Languages Implementation Committee set up in the Department of Banking, Ministry of Finance appreciated the significant progress made by the Bank in the field of progressive use of Hindi. At its instance, a seven-member Official Languages Implementation Committee was set up in the Bank under the Chairmanship of the Chief Manager with the object of accelerating the progressive use of Hindi in the Bank. The Committee held its first meeting on March 24, 1972 and reviewed the progress made so far in the progressive use of Hindi in the Bank and in the Hindi teaching programme under the Bank's Hindi Teaching Scheme.

311. The Hindi classes continued to be conducted by the Bank under its own teaching scheme at different centres on voluntary basis for the benefit of the Bank's employees. The incentives provided for passing Hindi examinations were also continued during the year. The incentive of honorarium to the typists of the Bank for passing the Hindi Typewriting Examination continued to be offered. With a view to accelerating the pace of Bank's Hindi Teaching Scheme, the question of providing additional incentives to our employees was also taken up for consideration.

VIII. ACCOUNTS AND OTHER MATTERS

312. During the accounting year ended June 30, 1972, the Bank's income after making the usual and necessary provisions amounted to Rs. 222.17 crores as compared with the last year's income of Rs. 196.46 crores.

	Year 1971-72	Year 1970-71
	Rs.	Rs.
(i) Interest on Ways and Means Advances to State Governments	15·32 crores	10.21 crores
(ii) Interest on Loans and Advances to the State Governments (other than on Ways and Means Advances referred to at item (i) above) and Commercial and Co-operative Banks	20·56 crores	21·74 crores
(iii) Interest on Rupee Securities and Discount on Rupee Treasury Bills	156·25 crores	133·51 crores
(iv) Interest and Discount on Foreign Securities, Investments and Treasury Bills	22·58 crores	29·29 crores
(v) Commission and profit or gain by Exchange	6·40 crores	1·39 crores
(vi) Other income	1·06 crores	0·32 crore
Total	**222·17** crores	**196·46** crores
Less Transfers to Funds as stated in Para 313	65·00 crores	60·00 crores
	157·17 crores	136·46 crores

313. 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. 19 crores, Rs. 6 crores and Rs. 40 crores, respectively, as against Rs. 18 crores, Rs. 2 crores and Rs. 40 crores, respectively, during the year 1970-71.

314. Out of the balance of income amounting to Rs. 157.17 crores after allowing for the total expenditure amounting to Rs. 37.17 crores during the year as against Rs. 36.46 crores in the previous year, the surplus of profit set aside for payment to Central Government was Rs. 120 crores as against Rs. 100 crores paid last year.

315. The rise of Rs. 25.71 crores in the total income from Rs. 196.46 crores to Rs. 222.17 crores was mainly due to increase in interest on rupee securities and treasury bills reflecting (*i*) the effect during a full year of the increase in the Bank rate by one per cent with effect from the January 9, 1971 (*ii*) the creation of *ad hoc* treasury bills for the Central Government for meeting the Centre's deficit and (*iii*) the high level of the State Governments' overdrafts during the year. The increase of Rs. 0.71 crore in the expenditure was mainly due to nominal increases in the various items of expenditure.

Auditors

316. The Accounts of the Bank have been audited by M/s. Ray and Ray, Calcutta, M/s. A. F. Ferguson & Co., Bombay, M/s. Suri & Co., Madras and M/s. Thakur Vaidyanath Aiyar & Co., New Delhi who were appointed by Government of India as auditors of the Reserve Bank of India by the notification No. F. 3(24)-BC/71 dated October 5, 1971 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act. In addition to the Bombay, Calcutta, Madras and New Delhi Offices, accounts at Bangalore and Patna Offices have been audited by the Bank's statutory auditors this year. The remuneration of

the auditors has been fixed at Rs. 15,000 per office.

The Central Board

317. The term of office of Shri P. N. Damry, Deputy Governor, was extended by the Central Government for a period of two years with effect from February 13, 1972.

318. Shri P. L. Tandon and Dr. V. Shanmugasundaram retired as Directors of Central Board on the expiry of their terms of appointment on January 14, 1972. The Board wishes to place on record its appreciation of the services rendered by the retired Directors.

319. Consequent on his appointment as Comptroller and Auditor General of India, Shri A. Baksi ceased to be a Director, with effect from March 26, 1972.

320. Shri S. M. Joshi and Dr. Bhabatosh Datta were appointed as Directors of the Central Board of the Reserve Bank of India with effect from February 7, 1972 under Section 8(1)(*c*) of the Reserve Bank of India Act, 1934. Shri C. P. Srivastava was also appointed as Director of the Central Board under the same Section with effect from February 17, 1972.

321. Seven meetings of the Central Board were held during the year, one each at Lucknow, Bombay, Madras, Calcutta, Bhubaneswar, New Delhi and Shillong. The Committee of the Central Board held 51 meetings of which 6 were held in New Delhi, 2 in Calcutta, 1 in Madras and the rest in Bombay.

322. Shri V. G. Pendharkar, Executive Director, left India on April 14, 1972 to take up the appointment of Economic Adviser to the Bank of Tanzania under the Technical Assistance Programme of I.M.F.

Local Board

323. Shri Dayalji G. Patel resigned his office as a member of the Western Area, Local Board, Bombay, with effect from April 26, 1972. There was no other change in the composition or in the membership of the Local Boards during the year under report.

Opening and Closing of Offices and Changes in Organisation and Management

324. A sub-office of the Issue Department was set up at Ahmedabad with effect from December 1, 1971 and the Note Cancellation Section functioning at that centre was merged with the sub-office. Deposit Accounts Department was also opened on December 1, 1971, at that centre.

Bank's Premises

New Office Premises

325. A contract has been placed for the construction of the diaphragm wall for the proposed multi-storeyed building in the Mint compound at Bombay and the work is in progress.

Leased Premises for Office Use

326. The State Archives Building where the sub-office of the Issue Department at Bhubaneswar is to be located has been taken possession of. Arrangements have been made to take on lease necessary premises for opening a Regional Office of the Department of Banking Operations & Development at Bhubaneswar. Arrangements have also been made to take on lease office accommodation in a building under construction at Jaipur for housing the existing departments at that centre and for opening a sub-office.

Residential Quarters

327. The Bank is continuing its efforts to provide residential quarters which are heavily subsidised at all important centres. During the year under review, the construction of 16 quarters for clerical staff at Madras was completed, while construction of 1038 quarters for clerical and subordinate staff—272 at New Delhi, 444 at Calcutta, 218 at Kanpur and 104 at Nagpur—is in progress. As regards Staff Officers Gr. I and II the construction of 54 quarters at Bangalore is nearing completion, while construction of 152 quarters at Bombay is in progress. Further residential projects which will provide another 850 flats for clerical and sub-ordinate staff at New Delhi, Madras, Bangalore, Hyderabad and Bhubaneswar are

in the planning/tender stage, while 258 flats for Staff Officers Gr. I and II at New Delhi and Kanpur are in the planning stage.

328. Efforts are being made to secure land for construction of quarters at centres where no plot has been secured or where the number of quarters provided is inadequate.

Employer-Employee Relations

329. Negotiations were held between the Bank and the All-India Reserve Bank Employees' Association on remaining items which were not covered by the earlier settlement. A settlement was signed on May 7, 1972 on combined seniority for the clerical staff of all departments and automatic switchover of eligible non-clerical staff to clerical cadre. Simultaneously the Bank has communicated its decision to the Association on a scheme for making promotions to the Staff Officers Gr. II in the Bank on the basis of a written test as against the present method of screening through a system of interviews. The Bank has also advised the Association that the number of posts earmarked for and to be filled by direct recruits to the cadre of Staff Officer Gr. II will be $17\frac{1}{2}$ per cent of the sanctioned strength of Staff Officers Gr. II (as it will be from time to time) and that half of the posts for direct recruits will be reserved for and filled by members of the staff who qualify at the recruitment test.

330. The Bank has also set up a Committee known as "Reserve Bank of India Officer-Cadres Review Committee." The composition of the Committee is as follows :

Mr. Justice J. L. Nain, Bombay High Court, Bombay	*Chairman*
Shri V. Isvaran, I.C.S. (Retd.) Prof. N. S. Ramaswamy, Director, National Institute For Training In Industrial Engineering, Bombay	*Members*

The Committee is to review the existing emoluments-structure, promotion policy and procedure, methods of 'in-service' training, etc., of the officers of the Bank. The Committee met on several occasions during the year under review to hear the views of the All-India Reserve Bank Supervisory Staff Association, Reserve Bank of India Officers' Association and the Bank. The report of the Committee is expected in a few months.

Employees' Housing Loan Scheme

331. During the year under report Housing Loans were sanctioned as under :

	No. of Societies	Amount Rs.
A. New Co-operative Housing Societies	11	39,13,679
Additional loans to Co-operative Housing Societies already formed	4	4,19,772
		43,33,451
	No. of Employees	**Amount Rs.**
B. **Individual members of staff**		
New loans	168	30,72,004
Additional loans to employees who had already availed of loans earlier	36	4,54,527
		35,26,531

The total amount of 'society' and 'individual' loans sanctioned since the introduction of the scheme in 1961 amounts to Rs. 3,27,27,611.00 and Rs. 1,13,71,634.00, respectively. In all 2,069 employees have availed themselves of this facility.

RESERVE BANK OF INDIA

BALANCE SHEET AS AT JUNE 30, 1972

ISSUE DEPARTMENT

LIABILITIES	Rs. P.	Rs. P.	ASSETS	Rs. P.	Rs. P.
Notes held in the Banking Department ..	28,79,48,120·00		Gold Coin and Bullion :— ..		
			(a) Held in India ..	182,53,10,862·72	
			(b) Held outside India	......	
Notes in circulation ..	4877,73,13,265·50		Foreign Securities ..	221,65,38,085·47	
Total Notes issued ..		4906,52,61,385·50	Total		404,18,48,948·19
			Rupee Coin		28,05,41,745·87
			Government of India Rupee Securities ..		4474,28,70,691·44
			Internal Bills of Exchange and other Commercial Paper ..		......
Total Liabilities ..		**4906,52,61,385·50**	**Total Assets** ..		**4906,52,61,385·50**

BANKING DEPARTMENT

LIABILITIES	Rs. P.
Capital Paid-up	5,00,00,000·00
Reserve Fund	150,00,00,000·00
National Agricultural Credit (Long-Term Operations) Fund	209,00,00,000·00
National Agricultural Credit (Stabilisation) Fund	45,00,00,000·00
National Industrial Credit (Long-Term Operations) Fund	175,00,00,000·00
Deposits :—	
(a) Government	
(i) Central Government	47,03,13,413·14
(ii) State Governments	7,91,08,468·66
(b) Banks	
(i) Scheduled Commercial Banks ..	296,76,30,028·10
(ii) Scheduled State Co-operative Banks	18,42,05,095·16
(iii) Non-Scheduled State Co-operative Banks	99,77,914·40
(iv) Other Banks	76,52,821·40
(c) Others	214,39,88,634·13
Bills Payable	75,52,14,714·43
Other Liabilities	285,28,09,886·83
Total Liabilities	**1531,09,00,976·25**

ASSETS	Rs. P.
Notes	28,79,48,120·00
Rupee Coin	2,77,688·00
Small Coin	2,08,240·65
Bills Purchased and Discounted :—	
(a) Internal	9,85,75,721·88
(b) External	......
(c) Government Treasury Bills	311,17,49,668·84
Balances held abroad *	195,27,24,607·67
Investments**	448,18,03,896·33
Loans and Advances to :—	
(i) Central Government	......
(ii) State Governments ‡	38,01,00,000·00
Loans and Advances to :—	
(i) Scheduled Commercial Banks† ..	27,10,79,000·00
(ii) State Co-operative Banks††	169,11,51,249·00
(iii) Others	10,88,91,800·00
Loans, Advances and Investments from National Agricultural Credit (Long-Term Operations) Fund	
(a) Loans and Advances to :—	
(i) State Governments	53,05,82,256·54
(ii) State Co-operative Banks ..	20,70,01,632·00
(iii) Central Land Mortgage Banks ..	......
(iv) Agricultural Refinance Corporation	5,00,00,000·00
(b) Investment in Central Land Mortgage Bank Debentures	10,60,77,030·00
Loans and Advances from National Agricultural Credit (Stabilisation) Fund	
Loans and Advances to State Co-operative Banks	25,70,39,464·00
Loans, Advances and Investments from National Industrial Credit (Long-Term Operations) Fund	
(a) Loans and Advances to the Development Bank	92,82,33,544·00
(b) Investment in bonds/debentures issued by the Development Bank	......
Other Assets	84,74,57,057·34
Total Assets	**1531,09,00,976·25**

Contingent liability on partly paid shares Rs. 9,48,388·69 (Sterling Investments of £ 50,000 converted @ Rs. 100= £5·2721)

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

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

(ii) Includes Rs. 5,17,76,414·16 (equivalent of £ 50,000 and U.S. $ 6,982,500) held abroad.

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

† Includes Rs. 45,00,000 advanced to scheduled commercial banks against usance bills under Section 17 (4) (c) of the Reserve Bank of India Act.

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

S. JAGANNATHAN, *Governor.*
P. N. DAMRY, *Deputy Governor.*
R. K. HAZARI, *Deputy Governor.*
V. V. CHARI, *Deputy Governor.*
S. S. SHIRALKAR, *Deputy Governor.*

K. N. R. RAMANUJAM,
Chief Accountant.
Dated the 8th August 1972.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1972

INCOME	Rs. P.
Interest, Discount, Exchange, Commission, etc. £	157,16,50,995·40

EXPENDITURE	
Establishment	20,93,25,621·86
Directors' and Local Board Members' Fees and Expenses ..	65,527·68
Auditors' Fees	90,000·00
Rent, Taxes, Insurance, Lighting, etc.	1,02,10,648·99
Law Charges	2,16,523·57
Postage and Telegraph Charges	11,87,907·87
Remittance of Treasure	67,29,577·01
Stationery, etc.	27,98,163·31
Security Printing (Cheque, Note Forms, etc.)	4,80,22,762·31
Depreciation and Repairs to Bank Property	1,06,19,459·89
Agency Charges	7,28,37,842·14
Contributions to Staff and Superannuation Funds	......
Miscellaneous Expenses	95,46,783·63
Net available balance	120,00,00,177·14
Total	**157,16,50,995·40**

Surplus Payable to the Central Government	120,00,00,177·14

RESERVE FUND ACCOUNT

By Balance on 30th June 1972	150,00,00,000·00
By transfer from Profit and Loss Account	Nil
Total	**150,00,00,000·00**

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

K. N. R. RAMANUJAM,
Chief Accountant

S. JAGANNATHAN, *Governor*
P. N. DAMRY, *Deputy Governor.*
R. K. HAZARI, *Deputy Governor.*
V. V. CHARI, *Deputy Governor.*
S. S. SHIRALKAR, *Deputy Governor.*

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June 1972.

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

RAY & RAY,
A. F. FERGUSON & CO.,
THAKUR VAIDYANATH AIYAR & CO.,
SURI & CO.
Auditors.

Dated the 8th August 1972.