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R.B.I.

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Annual Report and Trend and Progress of Banking in India 1973-74



510/272
R.B.I.

SUPPLEMENT TO THE RESERVE BANK OF INDIA BULLETIN, AUGUST 1974

Reserve Bank of India

Report of the Central Board of Directors on the Working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1974. 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 1973-74

CENTRAL BOARD OF DIRECTORS

(As on June 30, 1974)

Governor

SHRI S. JAGANNATHAN

Deputy Governors

DR. R. K. HAZARI

SHRI V. V. CHARI

SHRI S. S. SHIRALKAR

SHRI R. K. SESHADRI

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

PROF. M. L. DANTWALA

SHRI A. N. HAKSAR

DR. BHARAT RAM

SHRI C. RAMAKRISHNA

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

DR. P. B. GAJENDRAGADKAR

DR. A. M. KHUSRO

DR. BHABATOSH DATTA

SHRI M. P. CHITALE

DR. K. KANUNGO

DR. V. KURIEN

SHRI G. PARTHASARATHI

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

SHRI N. C. SEN GUPTA

Secretary,
Government of India,
Ministry of Finance,
Department of Banking.

MEMBERS OF LOCAL BOARDS

WESTERN AREA

PROF. M. L. DANTWALA

SHRI K. C. MAITRA

SHRI CHARLES M. CORREA

SHRI M. S. PADMANABHAN

EASTERN AREA

SHRI A. N. HAKSAR

DR. SADASIV MISRA

SHRI G. SAHA

SHRI G. C. PHUKAN

SHRI HITEN BHAYA

NORTHERN AREA

DR. BHARAT RAM

SHRI K. N. SAPRU

SHRI PREM PANDHI

DR. RAMA MOHAN LALL

SOUTHERN AREA

SHRI C. RAMAKRISHNA

SHRI M. V. ARUNACHALAM

SHRI C. R. RAMASWAMY

SHRI M. K. RAMACHANDRA

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
BHUBANESWAR
BOMBAY (FORT)
BYCULLA (BOMBAY)
CALCUTTA
HYDERABAD
KANPUR
MADRAS
NAGPUR
NEW DELHI
PATNA

LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.

August 12, 1974

Sravana 21, 1896 (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 1974 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 1974.

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, 1973-June 30, 1974

I. OVERALL TRENDS IN THE ECONOMY

A variety of internal and international factors combined to make 1973-74 (July-June) a year of unprecedented inflation. Prices moved up more rapidly and over a wider area than in the preceding years. Despite the measures taken to curb these tendencies, expectations throughout the year continued to favour further price increases. Both manufacturers and consumers tended to buy not only for current use but for meeting future needs as well. These demand pressures were intensified to some extent by the use of unaccounted money for the purchase of goods and services. Simultaneously, price increases of the past were being translated into higher costs in virtually all sectors of the economy. Altogether, the situation at the end of the year was such that unless adequate steps were taken, there was a danger of further accentuation of inflationary tendencies.

2. Though, in regard to prices, the year 1973-74 witnessed a continuation of the trends of previous years, there were several developments which were different. While the carry-over stocks of agricultural commodities were generally lower and the grain prices in the world markets were considerably higher, the overall availability of many agricultural commodities was better than in 1972-73, because of an improved *kharif* crop and continuation of food imports. With better supplies of both indigenous and imported raw materials, together with strong demand in the domestic as well as world markets, conditions were also favourable for maintenance, if not an augmentation, of industrial output. There were, at the same time, power and transport bottlenecks impeding industrial production in the economy. Even so, the increase in aggregate output during 1973-74 was clearly larger than in the two preceding years. This did not, however, get reflected in any moderation of price movements, partly because aggregate domestic expenditure continued to expand, but principally on account of shortcomings in regard to procurement and dis-

tribution of food articles, provision of power and transport facilities and maintenance of industrial peace.

3. As observed earlier, besides demand pressures, cost factors were also responsible for pushing up prices in the last twelve months. The continuing increase in the prices of wage-goods led inevitably to a revision of pay and other emoluments in both public and private sectors, enhancing labour costs generally. The controlled prices of many agricultural and industrial commodities were raised substantially and these, together with the annual additions to excise and sales taxes, pushed up production costs in a chain reaction. Side by side with these internal developments, steep increases in world prices of food articles as well as of basic metals and chemicals intensified the pressure on costs and prices in India. In the last quarter of 1973, the situation was worsened by the large increase in the price of petroleum and petroleum products. Speculative currency movements and floating exchange rates magnified the uncertainties in world markets generally, and contributed to the transmission of inflationary influences from one country to another. India could not be, and was not, immune to these influences from abroad.

4. It is, in other words, necessary to recognise that price increases in India were neither an isolated nor a purely monetary phenomenon. In fact, there was in 1973-74 a marginal deceleration in the growth rate of money supply and aggregate monetary resources. *Prima facie*, therefore, no easy explanation of the rapid acceleration in prices can be found in the rate of growth of money supply. The monetary trends and policies should be considered along with the position in regard to output, supply and spendings by different sectors, which explain in part the responses on the monetary side. It is thus pertinent to review briefly trends in these real factors prior to an assessment of the

monetary and credit trends, as well as the measures taken for dealing with them.

Trends in Output and Supplies

5. The provisional estimates of national income prepared by the Central Statistical Organisation indicate for 1972-73 a rate of growth of only 0.4 per cent (at 1960-61 prices) showing a further decline from the low of 1.7 per cent registered in 1971-72. Though official estimates for 1973-74 are not yet available, there is little doubt that in this year a substantial improvement in the growth rate of national income was achieved. In Government of India's

Economic Survey for 1973-74, prepared in February 1974, for instance, national income in real terms (at 1960-61 prices) is estimated to have recorded a rise of about 6 per cent. While the increase might well have been of this order, it should be noted that the improvement was in relation to a year of very poor performance.

6. The reversal in the declining trend in national income in 1973-74 is attributable primarily to sizeable improvement in agricultural output, both of foodgrains and other products. The estimates of commodity-wise output during 1971-72 to 1973-74, along with targets for 1973-74 are presented in Table 1.

TABLE 1 :—TRENDS IN AGRICULTURAL PRODUCTION

	Unit	1971-72	1972-73	1973-74@	1973-74 Targets
<i>Total Foodgrains</i>	Million tonnes	105.2	95.2	106.0-108.0	115.0
Kharif foodgrains	"	63.0	57.1	67.0	67.0
Rabi foodgrains	"	42.2	38.1	39.0-41.0	48.0
Cereals	"	94.1	85.7	96.3	103.0
Rice	"	43.1	38.6	45.0	45.0
Wheat	"	26.4	24.9	24.0	30.0
Pulses	"	11.1	9.5	11.2	12.0
<i>Non-Foodgrains</i>					
Cotton (Raw)	Million bales of 180 Kgs.	6.6 (7.1)	5.5 (6.5)	6.5 (6.6)	6.5
Jute & Mesta	"	6.8	6.0	7.3	7.5
Oilseeds	Million tonnes	8.8	6.7	9.3	9.4†
Groundnuts	"	6.2	3.9	6.0	—
Sugarcane	"	11.6	12.6	13.0@@	13.4†

@ Likely achievement.

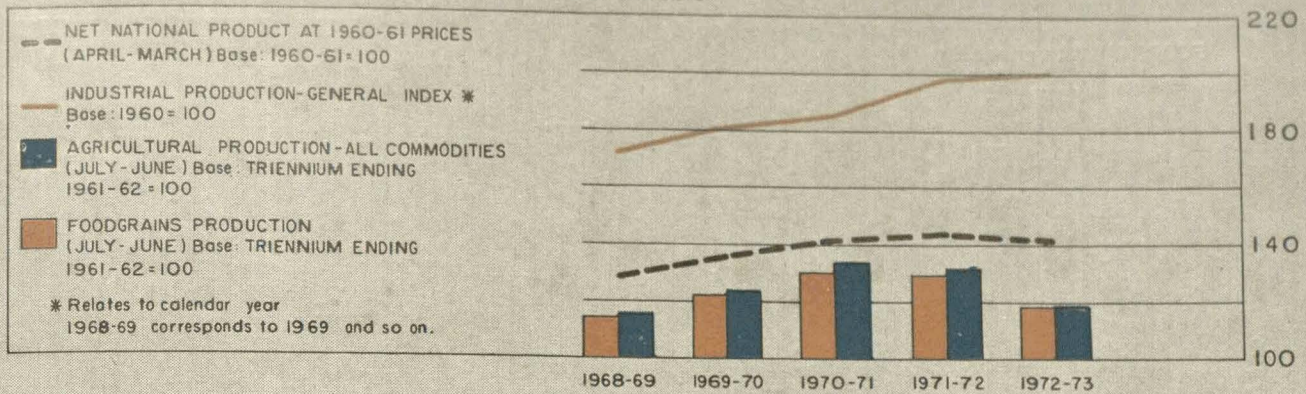
@@ Unofficial estimate.

† Selected output projections—Draft Fifth Five Year Plan, Planning Commission, Government of India.

Note: Figures in brackets indicate trade estimates.

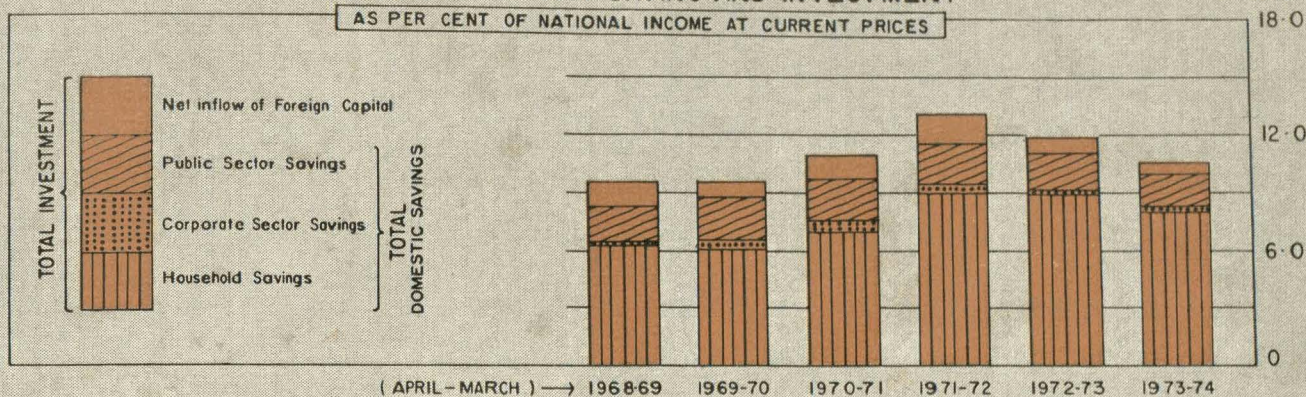
NET NATIONAL PRODUCT, AGRICULTURAL OUTPUT AND INDUSTRIAL PRODUCTION

INDEX NUMBERS



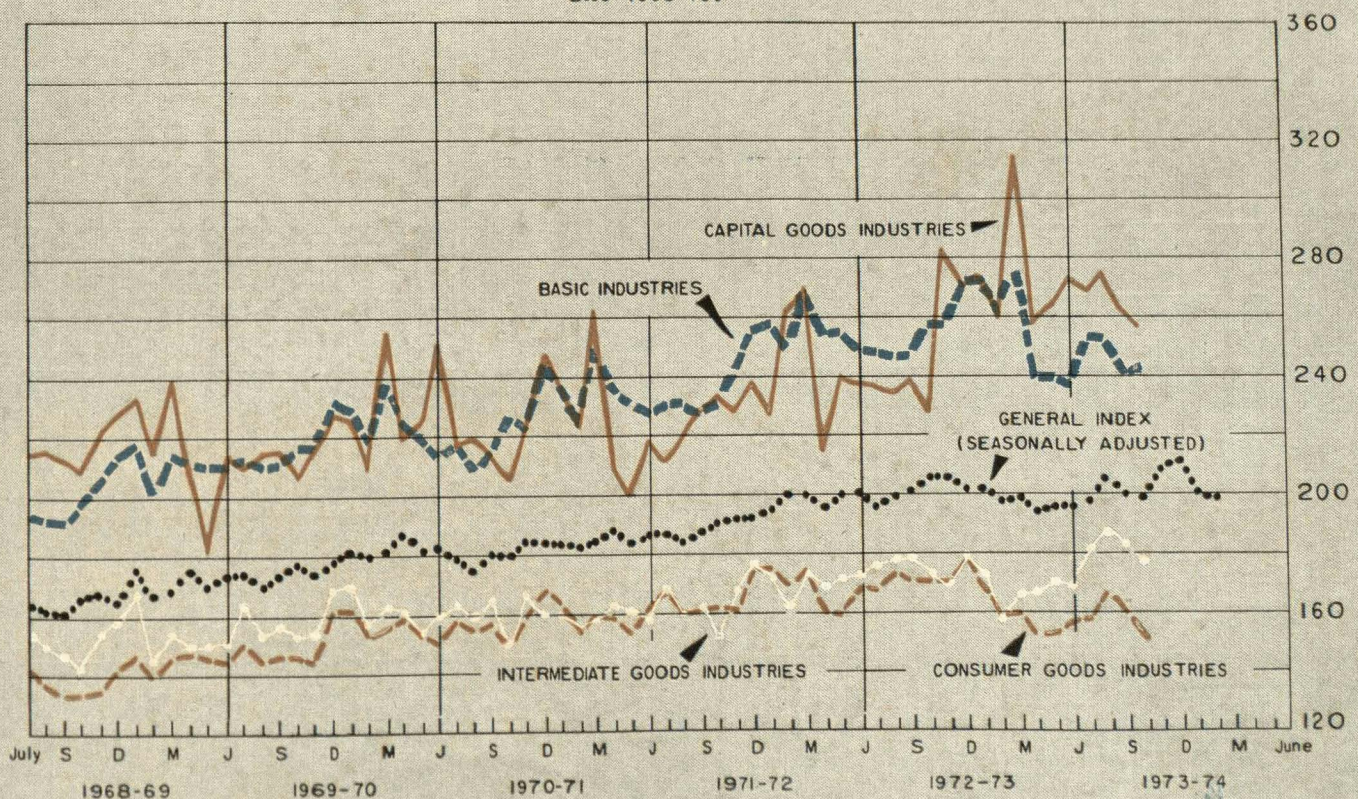
ESTIMATES OF NET SAVING AND INVESTMENT

AS PER CENT OF NATIONAL INCOME AT CURRENT PRICES

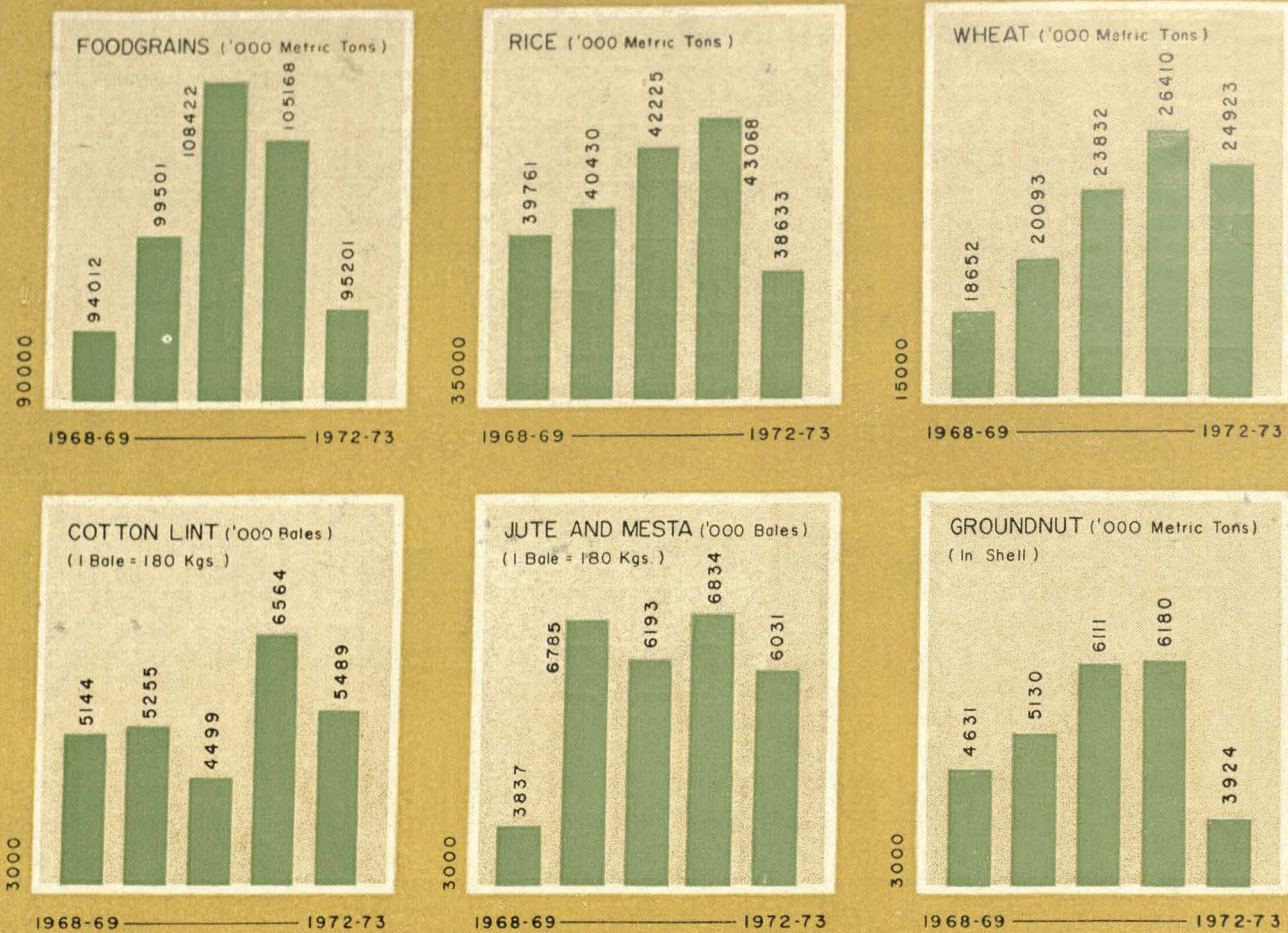
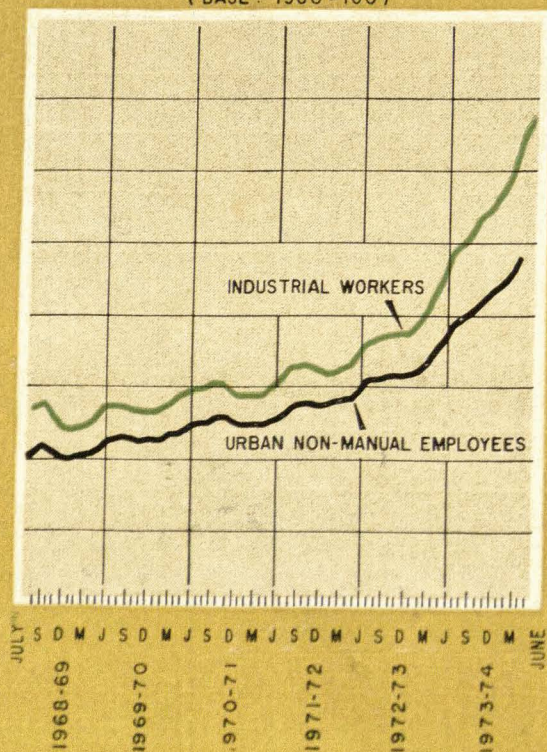
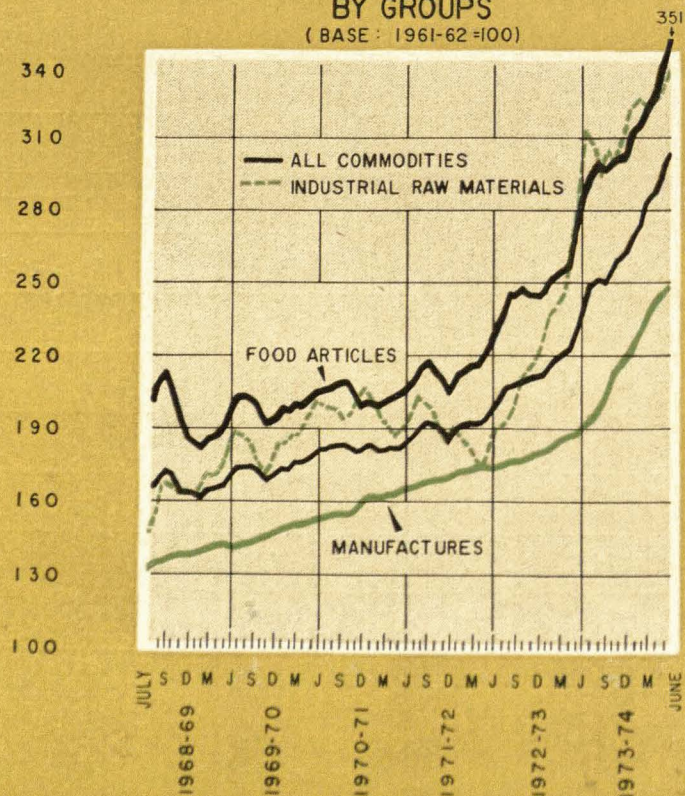


INDEX NUMBERS OF INDUSTRIAL PRODUCTION

Base: 1960=100



AGRICULTURAL PRODUCTION

CONSUMER PRICE INDEX NUMBERS
ALL-INDIA
(BASE: 1960 = 100)INDEX NUMBERS OF WHOLESALE PRICES
BY GROUPS
(BASE: 1961-62 = 100)

7. It will be observed that despite sizeable increase over the previous year, the level of foodgrains output would be considerably short of the overall target of 115 million tonnes, on account of non-attainment of targets in respect of wheat, coarse grains and pulses. Output of rice, on the other hand, registered a remarkable rise and is likely to have attained the target set for the year. Available estimates, unofficial in some cases, in respect of several commercial crops suggest that target levels of output might be more or less attained in most of the cases. However, this achievement barely compensated for the declines of 0.8 per cent and 9.1 per cent in agricultural output in 1971-72 and 1972-73, respectively. Taking into account the increase in population in the meantime, per capita availability in respect of most of the commodities could not therefore have been better than in 1970-71 or 1971-72. Furthermore, due to the sharp decline of output in 1972-73 there was, in addition to the demand for current consumption, the demand for replenishment of depleted stocks. Aided by strong expectation of a price rise, these continued pressures further aggravated the shortages.

8. In a similar situation last year, trading in wheat by the private wholesale traders had been banned from April 1973. The policy of monopoly trading was expected to strengthen the procurement efforts of the public agencies. However, procurement during the 1973-74 *rabi* marketing season was 4.5 million tonnes—only three-fourths of the revised target of 6 million tonnes and slightly more than one-half of the original target (8 million tonnes). The actual procurement was even lower than that in the previous *rabi* season (5 million tonnes). Despite the import of 4.3 million tonnes of foodgrains (mainly wheat) in the fiscal year 1973-74, a major portion of which was received by the end of December, there was little scope for addition to stocks with the public sector in the context of poor procurement and large volume of issue. As a result, stocks of wheat at the end of December 1973 aggregated only 1.0 million tonne as against 1.9 million tonnes and 5.2 million tonnes at the end of December 1972 and December 1971, respectively. However, since the stock position in

respect of rice and coarse grains was better, the overall stocks were maintained at 3.4 million tonnes at the end of December 1973—same as at the end of previous year.

9. Procurement of 4.1 million tonnes (rice and coarse grains) during the *kharif* season of 1973-74 (till end-June 1974) compared favourably with the procurement of 2.8 million tonnes during the corresponding period in 1972-73, but it was not at all commensurate with either incremental *kharif* production or increased demand. Increases ranging between 20-31 per cent allowed in the procurement prices of paddy/rice, jowar and maize for the marketing season of 1973-74 did not have as much impact on procurement as was hoped. In regard to wheat, for the marketing season of 1974-75, besides raising the procurement price, the policy of monopoly in wholesale trade was given up and private traders were permitted to operate under a system of licensing and control. The most important feature of this arrangement is the obligation on the part of the wholesaler to hand over to the Government 50 per cent of his purchases at a fixed price of Rs. 105 per quintal leaving the remaining 50 per cent to be sold by him directly at prices subject to certain maxima. Till end-June 1974 the Food Corporation of India (FCI) had purchased 1.1 million tonnes of wheat from traders and State Government agencies. Together with the direct purchases of 0.4 million tonne, the additions to the supplies available with the FCI at 1.5 million tonnes were lower than the procurement of 4.1 million tonnes by it in the corresponding period of 1973-74. Even after taking into account the 50 per cent of purchases retained by private traders for sale in the open market, market arrivals were considerably lower than in the last year.

10. In regard to industrial performance details are not available for the major part of the year under review.

Industrial Output In the calendar year 1973, however, there was virtual stagnation (0.7 per cent rise) in overall industrial production as compared to the 7.1 per cent rise in 1972. A variety of factors, among other, power shortages, transport bottlenecks, paucity of raw materials and labour unrest contributed to this stagnation. Information available for the

first three quarters (upto September 1973) suggests that the declining trend in industrial output was widespread. Nearly 60 per cent

(by weightage) of the industries showed declines in production as against 10 per cent in 1972 (Table 2).

TABLE 2:—CLASSIFICATION OF INDUSTRIES BY THEIR GROWTH RATES

Range of Growth Rates@	In terms of weights in the General Index : (1960 = 100)				
	Full Year			January-September	
	1970	1971	1972	1972	1973+
A. Increase					
(1) Moderate : Less than 5 per cent	27.78	27.99	31.98	19.37	23.07
(2) Marked : 5 per cent and above	38.40	31.96	55.16	66.44	14.50
Of which :					
10 per cent and above	22.42	15.72	15.89	22.74	3.59
(3) Weight (1 + 2)	66.18	59.95	87.14	85.81	37.57
B. Decline					
(4) Moderate : Less than 5 per cent	16.10	19.98	5.53	6.19	43.43
(5) Marked : 5 per cent and above	13.24	17.59	4.85	5.52	16.52
Of which :					
10 per cent and above	6.13	5.30	1.99	1.82	8.64
(6) Weight (4 + 5)	31.34	37.57	10.38	11.71	59.95
Total Weight (A + B)	97.52*	97.52*	97.52*	97.52*	97.52*

@ Growth rate represent percentage increases in output over the respective preceding years.

+ Provisional.

* C. S. O. does not regularly publish the index of industries with the balance of 2.48 percentage points of weightage.

11. Among the different groups of industries, production in respect of consumer goods industries was the worst affected (Table 3). This group suffered a decline of 5.9 per cent in production in the period upto September 1973 as against a 5.5 per cent rise in the corresponding period of 1972. Vanaspati industry, for instance, suffered a large fall of 25 per cent in output despite 39 per cent increase in the output of the oilseeds. 'Basic Industries' and 'Intermediate Goods Industries' which had recorded increases of 8.9 per cent and 7.3 per cent, respectively, in output during 1972, also registered severe setbacks. While there was a modest increase (0.7 per cent) in the production of iron and steel industry, domestic availabilities remained

inadequate and together with shortages in other basic inputs, particularly power, non-ferrous metals, etc., restrained the utilisation of capacity in various industries and contributed thereby to supply shortages. Even so, production of 'Capital Good Industries' recorded a noticeable rise of 13.6 per cent (as against 7.3 per cent in the corresponding period of 1972). It may be mentioned, however, that since in some cases figures are in terms of value of production, price changes may account for a part of the rise. But greater utilisation of past inventories of basic metals like steel and aluminium would furnish an evidence of growth in physical output. Improved performance of the public sector enterprises also reflected this trend.

TABLE 3:—TRENDS IN INDUSTRIAL PRODUCTION (BASE : 1960 = 100)
(BASED ON C.S.O.'s INDEX OF INDUSTRIAL PRODUCTION)

(Variations during the year ; per cent)

Groups 1.	Weights 2.	January-September*					
		1969 3.	1970 4.	1971 5.	1972 6.	1973 7.	1972 8.
General Index (Crude)	100.00	+ 7.1	+ 4.8	+ 2.9	+ 7.1	-0.1@	+ 7.3
Use-Based Classification							
1. Basic Industries	25.11	+ 8.9	+ 4.6	+ 5.5	+ 8.8	-0.4	+ 8.9
2. Capital Goods Industries	11.76	+ 1.8	+ 5.0	- 0.1	+ 8.6	+13.6	+ 7.3
3. Intermediate Goods Industries	25.88	+ 4.2	+ 2.8	+ 1.0	+ 6.7	+ 0.1	+ 7.3
4. Consumer Goods Industries	37.25	+10.2	+ 6.5	+ 3.2	+ 5.3	- 5.9	+ 5.5
Input-Based Classification							
1. Agro-based Industries	44.08	+ 5.5	+ 4.5	- 0.3	+ 5.1	- 2.7	+ 5.8
2. Metal-based Industries	16.55	+ 5.8	+ 5.7	+ 2.5	+ 7.0	+ 6.6	+ 5.6
3. Chemical-based Industries	8.94	+10.3	+ 8.0	+ 6.9	+12.9	- 0.6	+13.6
Sectoral Indicators							
1. Transport Equipment and Allied Industries	10.90	+ 0.4	—	+ 0.5	+ 6.4	+ 5.1	+ 7.8
2. Electricity and Allied Industries	8.42	+14.2	+11.5	+ 9.0	+ 8.4	- 1.4	+ 9.3

* Provisional.

@ In the calendar year 1973, industrial production increased marginally by 0.7 per cent.

12. While there was some improvement in the availability of raw materials and in power supply during the first half of 1974, industrial activities suffered considerable dislocation on account of strikes and political disturbances in several areas. On balance, it is possible that industrial output in the aggregate registered only a marginal change as compared to the corresponding six months of 1973. However, because of the higher costs of production, any increase in output that might have occurred had little impact on the supply prices of finished goods.

Trends in Aggregate Expenditure

13. In regard to the demand factors, while the precise magnitude of aggregate expenditure is not known as yet, there is little doubt that intense demand pressures persisted throughout the year. Expenditures in the Government sector as well as in the

private sector contributed to this state of affairs.

14. According to the revised estimates of the Central and State Governments' budgets for 1973-74, their combined expenditure, which is an important component in the aggregate expenditure, recorded a rise of 10.2 per cent over 1972-73 (Table 4). Despite an increase of 11.0 per cent in receipts, in terms of the revised estimates, there would have been a combined overall deficit of Rs. 861 crores.¹ But the latest figures available now

¹ In the case of the Centre the deficit is measured by net increase in outstanding Treasury bills and withdrawal from cash balance and in the case of States by decline in cash balances, net sales of securities held by the States in their cash balance investment accounts, encashment of securities held in revenue reserve funds and net increases in RBI credit in the form of ways and means advances and overdrafts (repayable within 7 working days with effect from May 1, 1972) as presented in State budgets.

show that the magnitude of actual deficit was substantially less at Rs. 495 crores.² The final figures of receipts and disbursements corresponding to this deficit are not available as yet. There is, however, evidence to suggest that actual expenditure, particularly of the Central Government, was lower than indi-

cated in the revised estimates. To that extent the magnitude of the increase in Government expenditure indicated below, on the basis of revised estimates, is likely to understate the impact of measures taken by the Government for containing demand pressures. This limitation of the data should be borne in mind.

TABLE 4:—COMBINED RECEIPTS AND DISBURSEMENTS OF CENTRAL AND STATE GOVERNMENTS

(Amounts in Rupees Crores)

			1972-73 ² (Accounts)	1973-74 (Budget Estimates)@		1973-74 (Revised Estimates)		1974-75 (Budget Estimates)@	
			Amount	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
			1.	2.	3.	4.	5.	6.	7.
I.	Total Receipts (A+B)	.. ..	11449	12587	+ 9.9	12711*	+11.0	14300	+12.5
	A. Revenue Receipts	.. ..	8233	9060	+10.0	9201	+11.8	10193	+10.8
	Of which :								
	Tax Receipts	.. ..	6432	7175	+11.6	7250	+12.7	8023	+10.7
	B. Capital Receipts	.. ..	3216	3527@@	+ 9.7	3510*	+ 9.1	4107	+17.0
II.	Total Disbursements	.. ..	12319	12876	+ 4.5	13572*	+10.2	14401	+ 6.1
	Of which :								
	A. Developmental Outlay (a+b)		5745	6538	+13.8	6516	+13.4	6885	+ 5.7
	(a) Revenue		4213	4912	+16.6	4797	+13.9	4926	+ 2.7
	(b) Capital		1532	1626	+ 6.1	1719	+12.2	1959	+14.0
	B. Non-Developmental Outlay (a+b)	.. ..	4217	4426	+ 5.0	4618	+ 9.5	5053	+ 9.4
	(a) Revenue		4034	4230	+ 4.9	4431	+ 9.8	4765	+ 7.5
	(b) Capital		183	196	+ 7.1	187	+ 2.2	288	+54.0
III.	Overall Surplus (+)/Deficit (—) (I—II)	.. ..	— 870	— 289		— 861		— 101	

Notes :

(1) Figures are adjusted for inter-Governmental transfers on the basis of data available in the State Government Budgets. The combined overall position, however, remains unchanged.

(2) Figures given here are not comparable with those given in the earlier Reports due to changes in budgetary classification adopted in 1974-75. Figures for the earlier years are also presented in this table according to the revised classification.

(3) To maintain uniformity, data available for Gujarat, Haryana and Tamil Nadu on the basis of old classification for 1972-73 and 1973-74 have been broadly classified in to the revised form.

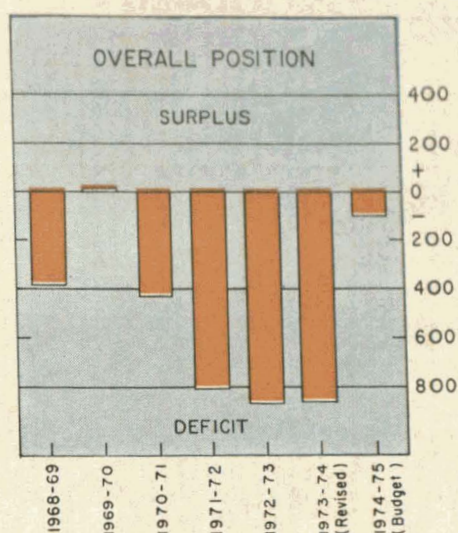
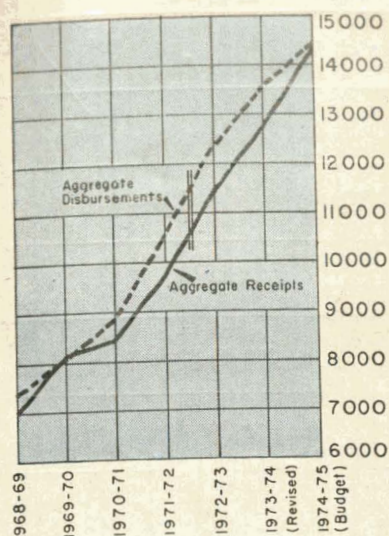
@ Includes effects of Budget proposals. However, the figures of aggregate receipts and tax receipts for 1974-75 (Budget Estimates) do not include the expected yield of Rs. 136 crores during 1974-75 from the additional tax proposals incorporated in the Finance Bill No. 2 of the Central Government presented to the Parliament on July 31, 1974.

@@ Excludes market borrowings (Rs. 3 crores) by Jammu and Kashmir Electricity Board.

* Excludes P.L. 480 transactions under the Indo-U.S. Agreement, 1974.

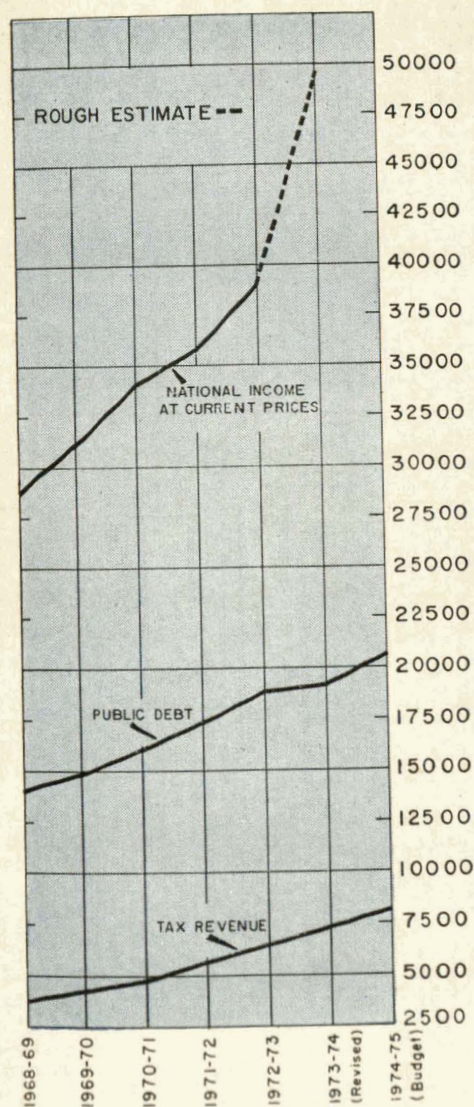
² Comprising deficit of Rs. 320 crores of the Centre as measured by net increase in outstanding Treasury bills and variation in cash balance and Rs. 175 crores of States as measured by variation in cash balance, ways and means advances from the Reserve Bank and holdings of Treasury bills as per RBI records.

COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS REVENUE AND CAPITAL ACCOUNTS

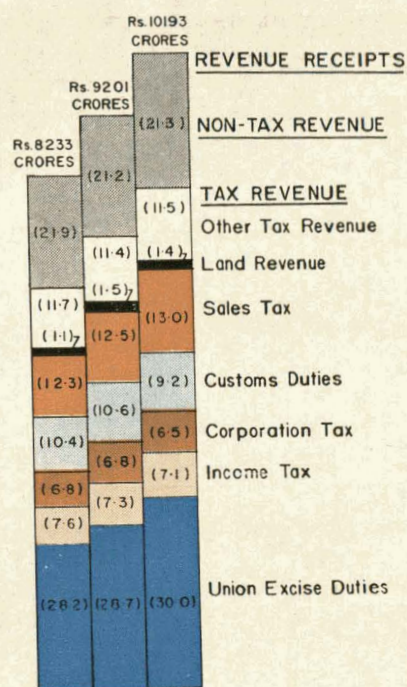


AGGREGATE
RECEIPTS,
DISBURSEMENTS
AND
OVERALL
SURPLUS
OR
DEFICIT
(CRORES OF RUPEES)

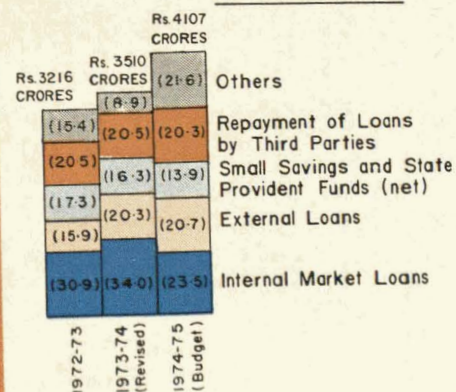
TRENDS IN NATIONAL INCOME, TAX REVENUE AND PUBLIC DEBT (CRORES OF RUPEES)



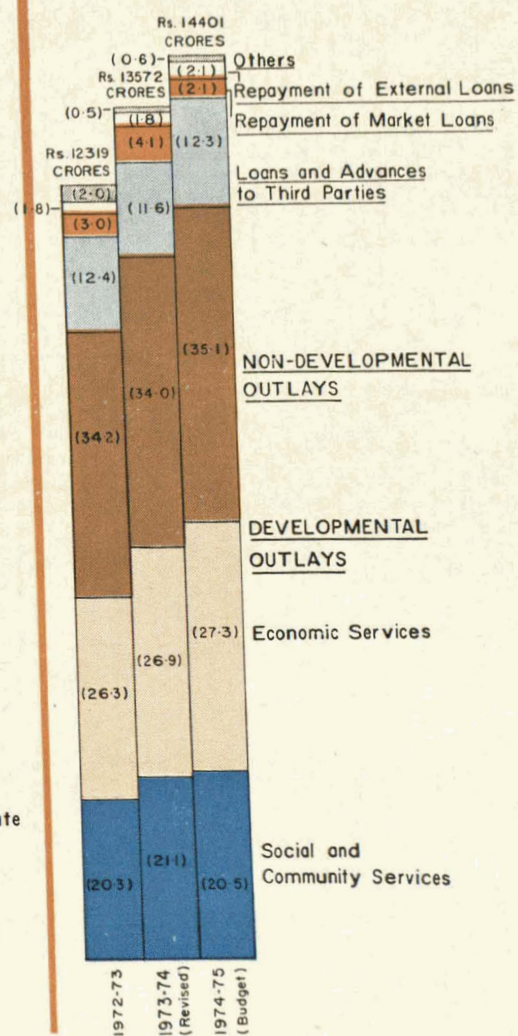
PATTERN OF RECEIPTS



CAPITAL RECEIPTS



PATTERN OF DISBURSEMENTS

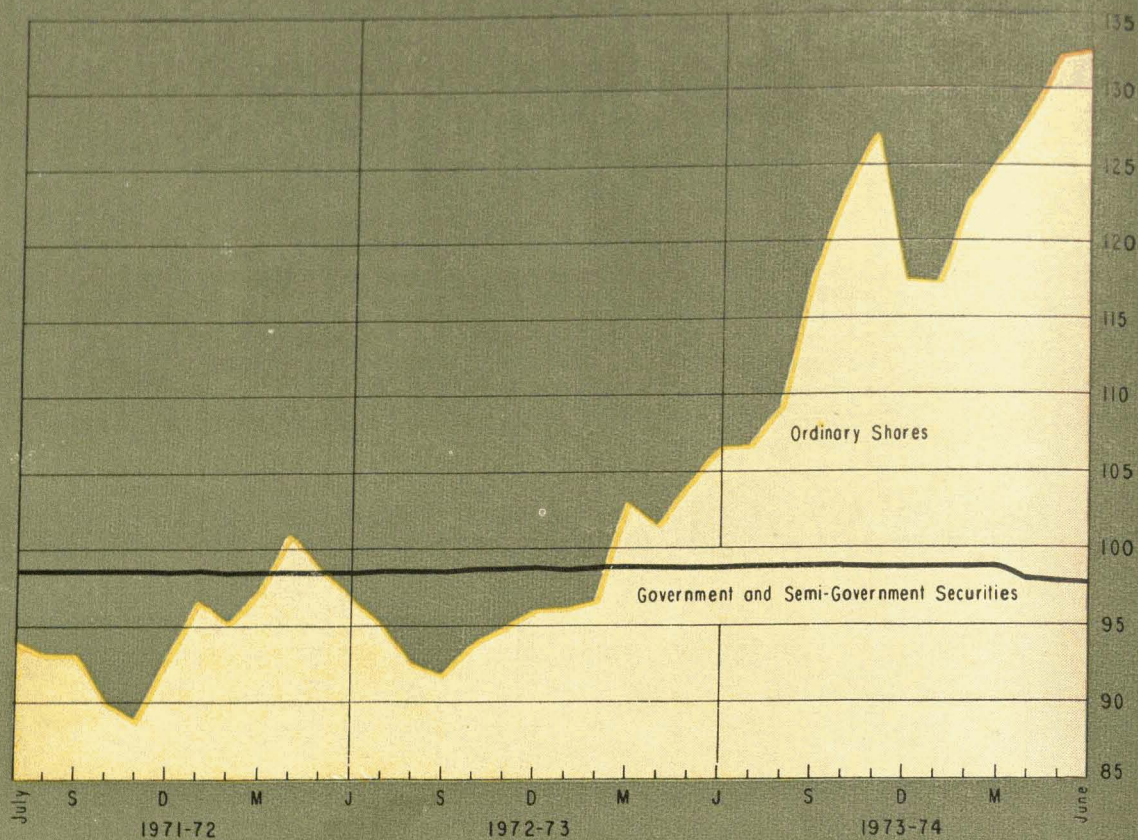


Figures in Brackets are Percentages to Total

INDEX NUMBERS OF SECURITY PRICES ALL-INDIA

Base: 1970-71=100

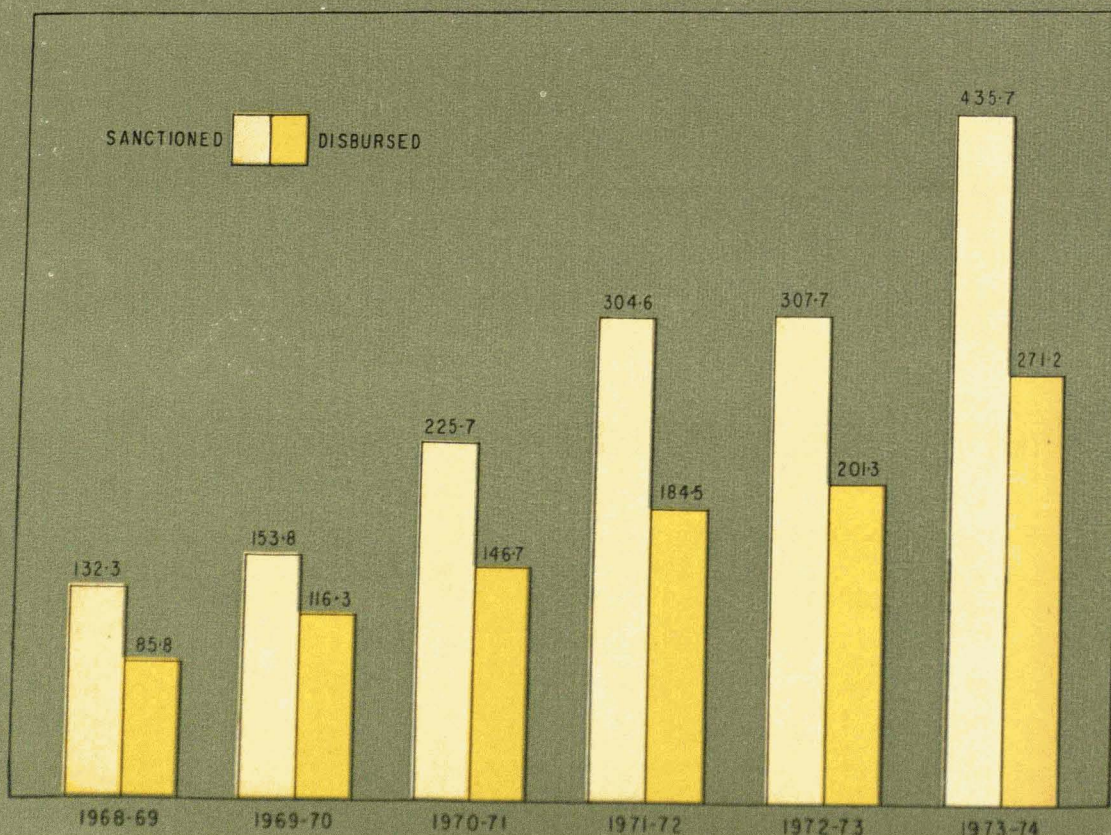
(Last week ended Saturday)



ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING FINANCIAL INSTITUTIONS

(IDBI, IFCI, ICICI,
SFCs and SIDCs)

(CRORES OF RUPEES)



15. Central Government's expenditure, which was to have declined by 2.6 per cent in terms of the 1973-74 (April-March) budget estimates recorded an increase of 5.8 per cent (Table 5). The deviation from the budgetary anticipation was solely ascribable to a rise of 14.2 per cent in non-developmental expenditure; developmental expenditure, largely its investment component, recorded a fall of 2.6 per cent. A number of expenditure control measures taken by the Central Government helped the 'budget deficit' to be limited to Rs. 320 crores,⁴ and net RBI Credit to Government sector as a whole to Rs. 764 crores. However, it was only in the last few months of the fiscal year that reduced spending by Government was achieved. In the period April 1973 to December 1973 for instance, net RBI Credit to Government amounted to Rs. 405 crores, as compared with Rs. 212 crores in the corresponding period of 1972. Thus, by the time significant cuts in Government spending became operative, budgetary operations had contributed to a sizeable increase in money incomes in the private sector. Part of the economy in the Government sector was achieved, apparently, by a postponement of payments to contractors and suppliers to the public sector, and through the substitution of budgetary support to public enterprises by borrowing from the banks. Even so, it was for the Central Government a major achievement to have brought down the actual budgetary deficit to a level much lower than in the preceding two years. Net RBI Credit to the Central Government during January-March 1974 increased by Rs. 158 crores as against Rs. 501 crores during the corresponding period of the previous year. Likewise, despite some delays in adjustments by a few States, there was little or no financing of State Government expenditure in the shape of overdrafts from the RBI. If these performances are bettered in 1974-75 they could have a very salutary effect on the inflationary situation in the coming months.

3 Discussion is based on the Economic and Functional classification of the Central Government budget.

4 The revised estimates of the Central budget for 1973-74 indicate an overall deficit of Rs. 650 crores as mentioned earlier but according to the later data, deficit works out to Rs. 320 crores. Details of receipts and disbursements corresponding to this figure are, however, not available.

16. The State Governments kept their combined deficit more or less within the limit anticipated in their budgets. As against the originally anticipated deficit of Rs. 202 crores in 1973-74, the deficit as per revised estimate was only marginally higher at Rs. 211 crores (Table 6). More recent data indicate that the deficit was of the order of Rs. 175 crores. States were able to contain their deficit despite an increase of Rs. 252 crores in the aggregate disbursements over the budget estimates. There was an increase of Rs. 290 crores in gross loans from the Centre, offset to the extent of Rs. 122 crores by a decline in grants and shared taxes. Thus, the transfer of resources from the Centre to the States in the form of loans, grants and shared taxes increased by Rs. 168 crores. However, excluding repayment of loans to the Centre the aggregate expenditure went up by Rs. 110 crores; the major part of which (Rs. 75 crores) was met by an increase in the own receipts of States. States' own tax and non-tax receipts were higher by Rs. 142 crores and Rs. 14 crores, respectively. This improvement in the revenue receipts was offset to the extent of Rs. 81 crores by a shortfall in the own capital receipts of States.

17. While the non-developmental expenditure (Rs. 1878 crores) was slightly higher (17.1 per cent) than anticipated in the budget (16.1 per cent), developmental expenditure (Rs. 4760 crores) registered an increase of 17.0 per cent as against a rise of 15.3 per cent estimated earlier. But the improvement was mainly on account of regrouping of certain expenditure items under the revised system of functional classification adopted from 1974-75.⁶ Under this system, for instance, expenditure on natural calamities which was treated as non-developmental expenditure hitherto is being classified as developmental expenditure. Exclusive of this item (Rs. 375 crores in 1973-74 as against Rs. 296 crores in 1972-73) developmental expenditure increased by 16.3 per cent in

5 Figures for Kerala and Manipur have been taken from the interim budgets presented by these States.

6 To facilitate comparison, data for 1972-73 (Accounts) and 1973-74 (B.E) and (R.E.) have also been presented by States on the basis of the revised classification.

TABLE 5:—DEVELOPMENTAL AND NON-DEVELOPMENTAL EXPENDITURE OF THE
CENTRAL GOVERNMENT

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		(Amounts in Rupees Crores)													
		1969-70 (Accounts)		1970-71 (Accounts)		1971-72 (Accounts)		1972-73 (Accounts)		1973-74 (Budget Estimates)		1973-74 (Revised Estimates)		1974-75 (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	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
Total Expenditure (A+B)	..	4925 (100.0)	+ 8.8	5576@ (100.0)	+13.2	6710 (100.0)	+20.3	7849 (100.0)	+17.0	7642 (100.0)	— 2.6	8301 (100.0)	+ 5.8	8654 (100.0)	+ 4.3
A. Developmental Expenditure (i+ii)	..	2352 (47.8)	+ 5.2	2659 (47.7)	+13.1	3126 (46.6)	+17.6	3949 (50.3)	+26.3	4056 (53.1)	+ 2.7	3847 (46.3)	— 2.6	4244 (49.0)	+10.3
(i) Social Services	..	304 (6.2)	+10.5	364 (6.5)	+19.7	452 (6.7)	+24.2	664 (8.5)	+46.9	746 (9.8)	+12.3	638 (7.7)	— 3.9	625 (7.2)	— 2.0
(ii) Economic Services*	..	2048 (41.6)	+ 4.5	2295 (41.2)	+12.0	2674 (39.9)	+16.5	3285 (41.8)	+22.8	3310 (43.3)	+ 0.8	3209 (38.6)	— 2.3	3619 (41.8)	+12.8
B. Non-Developmental Expenditure (i+ii)	..	2573 (52.2)	+12.3	2917 (52.3)	+13.4	3584 (53.4)	+22.9	3900 (49.7)	+ 8.8	3586 (46.9)	—8.1	4454 (53.7)	+14.2	4410 (51.0)	— 1.0
(i) General Services	..	1492 (30.3)	+ 6.4	1777 (31.9)	+19.2	2018 (30.1)	+13.6	2329 (29.7)	+15.4	2146 (28.1)	— 7.9	2495 (30.1)	+ 7.1	2509 (29.0)	+ 0.6
(ii) Unallocable	..	1081 (21.9)	+21.6	1140 (20.4)	+ 5.5	1566 (23.3)	+37.4	1571 (20.0)	+ 0.3	1440 (18.8)	— 8.3	1959 (23.6)	+24.7	1901 (22.0)	— 3.0

Note : Figures in brackets are percentages to total expenditure.

@ Includes compensation paid to nationalised banks estimated at Rs. 84 crores and additional subscription to the IMF and IBRD paid in the form of non-negotiable, non-interest bearing rupee securities estimated at Rs. 114 crores.

* Include Block grants and loans.

TABLE 6:—OVERALL BUDGETARY POSITION OF STATES

	(Amounts in Rupees Crores)						
	1972-73 (Accounts)	1973-74 (B.E.)		1973-74 (R.E.)		1974-75 (B.E.) ^{\$}	
	Amount	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
	1	2	3	4	5	6	7
I. Aggregate Receipts (A+B) ..	7794 (7373)	7715 (7797)	— 1.0 (—)	[+4.6 (+5.8)]	8040 (+3.2)	7920 (8108)	— 1.5 (+ 0.8)
A. Revenue Receipts (i+ii) ..	4912	5383 (5465)	+ 9.6 (+11.3)	5499	+12.0	5866 (6054)	+ 6.7 (+10.1)
(i) States' Own Revenue Receipts ..	2925	3125 (3165)	+ 6.8 (+ 8.2)	3321	+13.5	3592 (3754)	+ 8.2 (+13.0)
Of which : Tax Receipts ..	1928	2016 (2055)	+ 4.6 (+ 6.6)	2197	+14.0	2371 (2502)	+ 7.9 (+13.9)
(ii) Resources Transferred from Centre (a+b) ..	1987	2258 (2300)	+13.6 (+15.8)	2178	+ 9.6	2274 (2300)	+ 4.4 (+ 5.6)
(a) Shared taxes ..	1061	1146 (1188)	+ 8.0 (+12.0)	1175	+10.7	1196 (1222)	+ 1.8 (+ 4.0)
(b) Grants from the Centre ..	926	1112	+20.1	1003	+ 8.3	1078	+ 7.5
B. Capital Receipts (i+ii) ..	2882 (2461)	2332	—19.1 (— 5.2)	2541 (+ 3.3)	—11.8	2054	—19.2
(i) States' Own Capital Receipts ..	932@	1030* @	+10.5	949@	+ 1.8	1020	+ 7.5
Of which : Market Borrowings (Gross)	216£	194£*	—10.2	167£	—22.7	265	+58.7
(ii) Loans from the Centre (Gross) ..	1950 (1529)	1302	—33.2 (—14.8)	1592 (+ 4.1)	—18.4	1034	—35.1
II. Aggregate Disbursements ..	7374	7999	+ 8.5	8251	+11.9	8083	—2.0
Of which :							
(a) Developmental Outlay (i+ii) ..	4068	4689	+15.3	4760	+17.0	4868	+ 2.3
(i) Social and Community Services ..	2160	2455	+13.7	2500	+15.7	2442	— 2.3
Of which : Expenditure on Natural Calamities ..	296	272	— 8.1	375	+26.7	71	—81.1
(ii) Economic Services ..	1908	2234	+17.1	2260	+18.4	2426	+ 7.3
(b) Non-Developmental Outlay ..	1604	1863	+16.1	1878	+17.1	1909	+ 1.7
(c) Repayment of Loans to the Centre ..	690	779	+12.9	921	+33.5	511	—44.5
(d) Loans and Advances to Third Parties ..	721	558	—22.6	609	—15.5	574	— 5.7
(e) Repayment of Market Loans ..	82£	1£	—98.8	5£	—93.9	100	+1900.0
III. Overall Surplus (+) or Deficit (—) (I—II) ..	+ 420 (— 1)	— 284 (— 202)		— 211		— 163 (+ 25)@@	

Notes:

- Figures given here are not comparable with those given in earlier Annual Reports due to changes in budgetary classification.
- In the case of Gujarat, Haryana and Tamil Nadu the data given for 1972-73 (Accounts) and 1973-74 (B.E. & R.E.) on the basis of old classification have been broadly converted into revised classification.
- Figures in brackets for 1972-73 (Accounts) relating to aggregate receipts, capital receipts and loans from the Centre exclude Rs. 421 crores of net ways and means assistance received from the Centre to clear States' outstanding overdrafts with the Reserve Bank of India. The overall surplus/deficit has been adjusted accordingly.
- Figures in brackets for 1973-74 (B.E.) are after taking into account estimated yield from budget proposals by the States (Rs. 40 crores) and their share in Centre's additional taxation (Rs. 42 crores).
- Figures in brackets for 1974-75 (B.E.) are after taking into account estimated yield from budget proposals by the States (Rs. 162 crores) and their share in Centre's additional taxation (Rs. 26 crores).
- Figures in square bracket indicate percentage growth rate over the bracketed figures in 1972-73 (Accounts).
- Figures for Manipur and Kerala are provisional.
- @ In the case of Gujarat the entire amounts for Suspense (net) and Floating Debt (net) are excluded instead of Cash Balance Investment Account (net) and Ways and Means Advances and Overdrafts from R.B.I. (net).
- * To ensure uniformity in the presentation of data, market borrowings of Rs. 3 crores by Jammu and Kashmir Electricity Board are excluded.
- £ In the case of Gujarat and Tamil Nadu entire permanent debt has been taken into account.
- @@ This surplus will go up to Rs. 38 crores if the States' share (Rs. 13 crores) in Centre's additional tax measures proposed on July 31, 1974 is taken into account.

1973-74 as against 17.1 per cent anticipated in the budget estimates.

18. Compared to the revised estimates of 1973-74 the budgetary position of State Governments in 1974-75 shows an improvement; the overall position will change from a deficit of Rs. 211 crores in 1973-74 to a surplus of Rs. 25 crores in 1974-75.

**Budgetary
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of State
Governments :
1974-75**

This improvement in the position of States is partly due to the relief available to them by way of rescheduling of debt and larger grants from the Centre in terms of the recommendations of the Sixth Finance Commission; it also reflects their efforts in mobilising additional resources of Rs. 162 crores through fresh measures and accretion of Rs. 26 crores as their share in Centre's additional taxation. Thus, while the normal rate of increase (i.e., excluding tax changes) in States' own tax receipts in 1974-75 will be 7.9 per cent, inclusive of additional tax measures the rate of growth in tax revenues is estimated to rise to 13.9 per cent, more or less the same as in 1973-74. Consequently, revenue receipts of the State Governments are estimated to rise by Rs. 555 crores. However, due to a sharp decline in capital receipts, aggregate receipts of the States in 1974-75 at Rs. 8108 crores will be only slightly higher (Rs. 68 crores or 0.8 per cent) than in 1973-74. Aggregate disbursements at Rs. 8083 crores, on the other hand, would be 2.0 per cent (Rs. 168 crores) lower than the 1973-74 level. Developmental expenditure which had recorded a rise of 17.0 per cent in 1973-74 is estimated to increase by 2.3 per cent. Excluding the expenditure on natural calamities, developmental expenditure would record an increase of 9.4 per cent. Non-developmental expenditure is budgeted to rise by 1.7 per cent as against 17.1 per cent in 1973-74.

19. Thus, on the basis of available data it would appear that State Governments have tried to restrain demand pressures emanating from their budgetary operations. Their own resource mobilisation effort in 1974-75 is expected to be noticeably better than in 1973-74. However, in view of the increased provision that will have to be made for additional dearness allowance payments to the State Government employees, more steps will have to be

taken for raising additional resources if demand pressures arising from these are to be averted.

20. Since details of constituent elements of State Governments' expenditure are not available, an analysis of the total impact of the public sector is not possible. However, trends in Central Government's expenditure clearly indicate its contribution to demand pressures. Current expenditure, even excluding interest transfers, increased by 6.1 per cent during 1973-74 as against a decline of 1.1 per cent in terms of budget anticipation. Wages and salaries expenditure increased by 11.4 per cent (as against 10.0 per cent in 1972-73) representing largely implementation of the recommendations of the Third Pay Commission. What is more disturbing is further accentuation of this trend in the expenditure forecast for 1974-75. Current expenditure of the Central Government, exclusive of interest payments, is estimated to rise by 12.1 per cent in 1974-75 mainly on account of a 15.0 per cent rise in non-developmental expenditure. The contribution to the demand pressures in 1974-75 through the Centre's budgetary operations becomes more clear when wages and salaries expenditure of the departmental undertakings is taken into account. Inclusive of the latter, wages and salaries expenditure is estimated to rise by about one-fifth—an unprecedented rate of increase for a single year. In view of the sharp rise in Consumer Price Indices since the presentation of the budget, there will obviously be a still larger increase in this component of Government expenditure. It is for this reason that steps have recently been taken to neutralize partially the effect of this addition on the demand for consumer goods by immobilising, in the form of compulsory deposit of 50 per cent of the increase in additional dearness allowance and all of additional salaries and wages (exclusive of the normal increases according to the grade or following promotion to higher grade) payable to employees as a result of any revision. A scheme of compulsory deposit for non-corporate income-tax payers has also been introduced to immobilise an estimated amount of Rs. 50 crores during 1974-75. Further, the Finance Minister also introduced Second Finance Bill on July 31, 1974 to mop up addi-

**Current
Expenditure**

tional resources to the tune of Rs. 123 crores (excluding States' share of Rs. 13 crores) during 1974-75 (and Rs. 210 crores in a full year excluding States' share of Rs. 22 crores). Besides, the budgetary provisions in respect of plan and non-plan expenditure are being scrutinised with a view to reducing the level of expenditure.

21. As in the case of any other disbursement, a reduction in Government investment expenditure would have a contractionary impact on current demand, the measure of this impact depending on the relative propensities to spend of the beneficiaries of such expenditure. In pursuance of its anti-inflationary objectives

Government had, therefore, to hold back some of the expenditure on capital formation particularly because there was little or no scope for further reduction in other disbursements. Against a budgeted increase of 9.7 per cent, the growth rate of capital formation expenditure was only 4.1 per cent in 1973-74 (RE) (Table 7). For 1974-75 also, it would appear that the brunt of restraint in Government spending will have to be borne by capital formation expenditure. Taking into account the rise in the cost of investment goods, it seems unlikely that real capital formation in the Government sector will show any significant increase in fiscal year 1974-75. Obviously, unlike any cuts in consumption expenditure, this part of economy in Government expenditure could have adverse repercussions on future additions to real supply.

TABLE 7 :—EXPENDITURE ON CAPITAL FORMATION BY GOVERNMENT OF INDIA

		(Amounts Rupees Crores)						
		1969-70	1970-71	1971-72	1972-73	1973-74 (Bud- get Esti- mates)	1973-74 (Revi- sed Esti- mates)	1974-75 (Bud- get Esti- mates)
		(Ac- counts)	(Ac- counts)	(Ac- counts)	(Ac- counts)			
I.	Gross Direct Fixed Capital Formation	430	485	566	665	913	749	865
II.	Increase in Inventories	—37	34	31	12	—16	19	3
III.	Net Direct Capital Formation (Gross Direct Fixed Capital Formation <i>minus</i> Expenditure on Renewals and Replacements <i>plus</i> Increase in Inventories)	318	428	506	538	759	609	721
IV.	Financial Assistance for Capital Formation (a+b+c)	1219	1285 (1369)*	1564	1950	1986	1966	2226
(a)	States and Union Territories	692	740	885	1062	1167	1212	1091
(b)	Non-Departmental Commercial Under- takings (1+2)	444	448 (532)*	545	731	676	633	996
1.	Financial Concerns	42	70 (154)*	63	139	117	111	190
2.	Others	402	378	482	592	559	522	806
(c)	Other Parties @	83	97	134	157	143	121	139
Total (I+II+IV)		1612	1804 (1888)*	2161	2627	2883	2734	3094

Note : In this table expenditure on capital formation is shown on gross basis.

* Including compensation paid to nationalised banks.

@ Comprising assistance to local authorities and others.

22. To some extent, this stagnation in investment activity may be attributed to a slackening in the supply of savings in the economy. According to the provisional estimates, the marginal ratio of household sector's savings to national income at current prices declined sizeably. While there was some improvement in respect of contractual savings in the form of insurance premia and provident fund contributions, there was a deceleration in the rate of growth in bank deposits. Furthermore, with continued switch in favour of currency and physical assets—a phenomenon not altogether unexpected in an inflationary situation—the relative share of these two types of assets in the total savings has gone up. Thus, in addition to reduced level of savings and implicit increase in current expenditures, the shift in household sector's savings away from the controlled sector may have impaired the effectiveness of anti-inflationary policy measures. Savings of the private corporate sector would not appear to have recorded any rise even in absolute terms over the 1972-73 level.

23. The public sector's draft of the community savings in the form of net market borrowings by the Central and State Governments at Rs. 638 crores in 1973-74 was, of course, higher than in 1972-73 by Rs. 26 crores; more significantly, this increase was on top of the very high level achieved in 1972-73. Central Government, which had originally budgeted for net market borrowings of Rs. 326 crores (Rs. 880 crores gross) raised Rs. 472 crores through three floatations (Table 8) or Rs. 6 crores less than in 1972-73. State Governments, on the other hand, raised Rs. 166 crores—Rs. 32 crores more than in 1972-73. Net small savings collections which had amounted to Rs. 341 crores in 1972-73 are estimated to have increased to Rs. 411 crores in 1973-74. However, tax receipts which constitute the main source of 'Government' savings, increased at a rate of only 12.7 per cent in 1973-74 as against 15.6 per cent rise in 1972-73. Apart from mopping up additional resources of the order of Rs. 330 crores (Centre and States together) through fresh tax measures incorporated in the budget, the Central Government imposed additional levies on motor spirit in November 1973 mainly to reduce its demand.

TABLE 8:—MARKET BORROWINGS OF THE GOVERNMENT OF INDIA DURING 1973-74

(Amounts in Rupees Crores)

Loans floated	Issue Price (Rs. per cent)	Offered	Amount			Repayment in cash for uncon- verted maturing securities	Net Market Borrow- ings (3—6)	
			Subscribed					
			Cash	Conversion	Total (3+4)			
		1	2	3	4	5	6	7
4½ per cent Loan, 1980	100.00		10	108	117		
4½ per cent Loan, 1981	99.75		95	31	126		
5 per cent Loan, 1984	99.50		43	157	200		
5½ per cent Loan, 1987	100.00		165	79	244		
5½ per cent Loan, 2003	100.00		185	153	338		
Total during 1973-74		940	499	527	1025	27	472

Note : Details may not add up to totals on account of rounding.
Source : Reserve Bank of India records.

24. Increases in current expenditure of the Government sector have already been indicated. As a result of these, contrary to the budgetary expectation of saving 14.6 per cent of the current income of the Central Government administration in 1973-74, only 8.3 per cent could be

saved, despite a modest increase in current income over the budget estimates (Table 9). With a sharp reduction in gross savings of the departmental undertakings, mainly ascribable to net loss incurred by Railways, the ratio of savings of the public sector to national income is estimated to have declined considerably in 1973-74 notwithstanding a

TABLE 9 :—SAVINGS OF THE CENTRAL GOVERNMENT

(Amounts in Rupees Crores)

	1969-70 (Ac- counts)	1970-71 (Ac- counts)	1971-72 (Ac- counts)	1972-73 (Ac- counts)	1973-74 (Bud- get Esti- mates)	1973-74 (Revis- ed Esti- mates)	1974-75 (Bud- get Esti- mates)	Percentage Vari- ation of Column	
								(6) over (4)	(7) over (6)
	1	2	3	4	5	6	7	8	9
1. Revenue Receipts of the Government Administration (i+ii)	2882	3133	3817	4335	4815	4833	5290	+11.5	+ 9.5
(i) Tax Revenue	2189	2434	2903	3418	3915	3858	4278	+12.9	+10.9
(ii) Non-tax Revenue	693	699	914	917	900	975	1012	+ 6.3	+ 3.8
2. Current Expenditure	2640	2909	3777	4114	4110	4431	4938	+ 7.7	+11.4
Of which :									
Wages and Salaries	746	839	982	1080	1135	1203	1476	+11.4	+22.7
3. Savings of the Government Administration (1-2)	242	224	40	221	705	402	352	+81.9	-12.4
4. Depreciation Provision and Retained Profits of Depart- mental Commercial Under- takings (i+ii)	160	179	229	226	278	108	220	-52.2	+103.7
(i) Depreciation Provision	115	123	128	142	148	150	157	+ 5.6	+ 4.7
(ii) Retained Profits	45	56	101	84	130	- 42	63		
5. Gross Savings of the Central Government (3+4)	402	403	269	447	983	510	572	+14.1	+12.2
6. Expenditure on Renewals and Replacements	75	91	91	139	137	159	148	+14.4	- 6.9
7. Net Savings (5-6)	327	312	178	308	846	351	424	+14.0	+20.8
8. Net Investment	318	428	506	538	759	609	721	+13.2	+18.4
9. Excess (+) or shortfall (-) of Net Savings over Net Investment (7-8)	+9	-116	-328	-230	+ 87	-258	-297		
10. Item 3 as per cent of Item 1	8.4	7.1	1.1	5.1	14.6	8.3	6.7		

marginal improvement in savings of non-departmental undertakings. Altogether, it would appear that the upsurge in consumption expenditure at current prices has been relatively more than the increase in national income. Hence net domestic saving as a proportion of net national income apparently declined to 9.9 per cent, a ratio lower than in 1972-73 (Table 10). Net inflow of external resources is also estimated to have declined marginally compared to the previous year. Consequently, the increase in net investment at current prices was smaller than that in net national income; and net investment as a proportion of national income declined sharply.

TABLE 10 :—PROVISIONAL ESTIMATES OF DOMESTIC SAVINGS AND INVESTMENT AS PER CENT OF NATIONAL INCOME AT CURRENT PRICES

	Financial year (April-March)		
	1971-72	1972-73	1973-74
1. Net Domestic Saving	11.4	11.0	9.9
2. Inflow of foreign resources (Net)	1.5	0.8	0.6
3. Aggregate Investment (1+2)	12.9	11.8	10.5

25. The situation in the external world, as indicated earlier, was not such as to moderate the effects of the supply-demand imbalances in the domestic sector. The performance in the sphere of exports was certainly impressive in several respects. Exports recorded a remarkable increase of 23 per cent over the previous financial year. In the context of high levels of demand in the rest of the world, India's exports continued to be buoyant and unit value realisations in respect of several traditional and non-traditional items improved (Table 11). Another important feature of the export performance was a 35.0 per cent increase in 1973-74 (April-December) in exports to OECD countries (as against an average annual rate of 6.3 per cent during the last 4 years); the share of these exports to total export jumped to 59 per cent

from the average of 52 in the last 4 years. The fall in the premium that gold fetched on the domestic market over its international prices, and the reduction in the discount at which the rupee was quoted in unofficial markets abroad would indicate that there was also a fall during the year in the diversion of foreign exchange resources to finance smuggling. The substantial increase in the net sales of foreign exchange to the Reserve Bank by the authorised dealers during the year July 1973-June 1974 over the preceding year may presumably be attributed to these factors. Import payments, however, have been significantly higher over the year as referred to below. At the same time, net inflow of external resources is, as mentioned earlier, estimated to have been somewhat lower than in the preceding year. In the result, excluding the total drawals of Rs. 355 crores from the I.M.F. and omitting the net increase attributable to the appreciation of some of the currencies held, the foreign exchange reserves declined in 1973-74 by Rs. 117 crores as against the marginal rise of Rs. 3 crores in 1972-73.

26. Increase in imports was much larger than that in exports (Table 12). Owing to the phenomenally high prices of cereals in the world markets and their limited availability, food imports had to be necessarily restricted. Even so, apart from the Soviet Wheat Loan, food imports on commercial basis absorbed a large chunk of free foreign exchange resources. Indications are that largely because of food purchases, payments on Government account were nearly two-thirds larger than in 1972-73. In respect of non-food imports also there was a general and considerable hardening of prices. Price increases were especially steep in respect of non-ferrous metals and fertilizers. The steep increase in the price of oil and oil products towards the end of 1973 added further to the import bill. Consequently, even after allowing for some reduction in the quantum of imports other than food, there was a large rise in the value of non-food imports as compared to the preceding year's level. For the year as a whole, according to provisional estimates, there was a trade deficit of Rs. 225 crores in 1973-74 as against the surplus of Rs. 164 crores in 1972-73. Altogether, shortages and high commodity prices abroad offered very restricted scope for alleviating

domestic shortages through imports. In addition, the escalation in import costs pushed up considerably the costs of domestically manu-

factured items. This was particularly noticeable in the case of metal-using and petrochemical industries.

TABLE 11 :—INDIA'S PRINCIPAL EXPORTS

(Amounts in Rupees Crores)											
Commodities	1968-69	1969-70	1970-71	1971-72	1972-73	April-December		Increase (+)/Decrease (—) of (7) over (6)			
						1972	1973*	Actual	Percentage		
	1	2	3	4	5	6	7	8	9		
A. Major Non-traditional items											
Engineering goods	69	91	126	111	130	95	105	+	10	+	11
Iron and steel	79	87	91	41	42	30	39	+	9	+	30
Iron ore	88	95	117	105	110	80	89	+	9	+	11
Chemicals	24	30	36	35	41	30	33	+	3	+	10
B. Other items											
Jute yarn and manufactures	218	207	190	265	250	193	184	—	9	—	5
Cotton yarn and manufactures	101	116	118	116	150	108	168	+	60	+	56
Tea	157	125	148	156	147	120	115	—	5	—	4
Hides, skins, leather and leather goods including footwear	87	99	87	103	188	125	133	+	8	+	6
Oilcakes	49	41	55	40	75	41	120	+	79	+	193
Cashew kernels	61	57	52	61	69	57	63	+	6	+	11
Diamonds	30	26	28	37	63	45	53	+	8	+	18
Spices	25	34	39	36	29	18	30	+	12	+	67
Fish and fish preparations ..	23	31	31	42	54	40	60	+	20	+	50
Sugar	10	9	28	30	13	9	22	+	13	+	144
Coffee	18	20	25	22	33	23	38	+	15	+	65
Manganese ore	13	11	14	11	9	7	6	—	1	—	14
Tobacco (unmanufactured)	33	33	31	42	61	50	51	+	1	+	2
Clothing	15	22	30	38	56	40	61	+	21	+	53
Castor oil	10	3	6	6	23	14	24	+	10	+	71
Cotton raw and waste ..	16	18	16	119	25	21	19	—	2	—	10
Woollen carpets and floor rugs	11	11	10	13	20	15	18	+	3	+	20
C. Total (including others) ..	1,358	1,413	1,535	1,608	1,961	1,391	1,692	+	301	+	22

* Provisional.

Note : Data for 1970-71, 1971-72 and 1972-73 are not comparable with those for the previous year and for 1973-74 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 DGCI & S between November 1, 1970 and March 31, 1973.

Source : DGCI & S.

TABLE 12:—INDIA'S PRINCIPAL IMPORTS

(Amounts in Rupees Crores)

Commodities	1968-69	1969-70	1970-71	1971-72	1972-73	April— December		Increase (+)/ Decrease (—) of (7) over (6)	
						1972	1973	Actual Percentage	
	1	2	3	4	5	6	7	8	9
1. Food (excluding cashewnuts)	372	293	242	169	128	55	308	+ 253	+ 460
<i>Of which :</i>									
Cereals and cereal preparations	337	261	213	131	81	22	282	+ 260	+1182
2. Raw cotton	90	83	99	113	91	76	48	— 28	— 37
3. Raw jute and mesta	16	5	Negl.	Negl.	1	1	12	+ 11	+1100
4. Cashewnuts	31	28	29	28	32	23	21	— 2	— 9
5. Mineral oils	133	138	136	195	204	149	280	+ 131	+ 88
<i>Of which :</i>									
(a) Petroleum	96	96	106	147	145	106	200	+ 94	+ 89
(b) Others	37	42	30	48	59	43	80	+ 37	+ 86
6. Chemicals	283	195	192	218	248	156	227	+ 71	+ 46
<i>Of which :</i>									
(a) Fertilisers	139	77	61	81	90	47	95	+ 48	+ 102
(b) Others	144	118	131	137	158	109	132	+ 23	+21
7. Iron and steel	86	82	147	238	217	160	160	—	—
8. Non-ferrous metals	89	75	119	102	192	77	96	+ 19	+ 25
9. Crude rubber (including synthetic and reclaimed) ..	5	10	4	4	4	3	3	—	—
10. Wool and other animal hair	11	17	16	14	12	10	14	+ 4	+ 40
11. Animal and vegetable oils and fats	19	30	39	46	25	15	52	+ 37	+ 247
12. Paper, paperboards and manufactures thereof	18	24	25	35	31	18	20	+ 2	+ 11
13. Pearls, precious and semi-precious stones	28	28	25	26	42	30	56	+ 26	+ 87
14. Machinery and Transport equipment	514	396	395	471	496	349	433	+ 84	+ 24
<i>Of which :</i>									
(a) Machinery other than electrical	366	280	258	271	285	210	291	+ 81	+ 39
(b) Electrical machinery	82	64	70	105	124	85	81	— 4	— 5
(c) Transport equipment	66	52	67	95	87	54	61	+ 7	+ 13
15. Others	214	163	166	166	164	115	129	+ 14	+ 12
Total	1,909	1,567	1,634	1,825	1,797	1,237	1,859	+ 622	+ 50

Source : DGCI & S.

Price Situation

27. These imbalances in supply and demand made worse by inflationary psychology and cost escalations were bound to influence the behaviour of prices. The Wholesale Price Index recorded a rise of 27.9 per cent in 1973-74 (end-June 1973—end-June 1974) as against a rise of 21.5 per cent in the comparable period last year (Table 13). As in the last year, a steep rise in the prices of 'Food Articles' was the major element in the ascent of the price index. Sharp increases in the

cereal prices were partly due to substantial revisions in procurement prices and in the case of wheat, also on account of change in the basis of computing the index. To a large extent, however, much lower rates of growth in actual output of wheat and coarse grains than envisaged originally, contributed to serious imbalance between the supply and demand from a steadily increasing population. Stagnant production in recent years explained a further rise in the price index of pulses. In respect of sugar and edible oils, increased production could only slightly subdue the rates of increase.

TABLE 13 :—TRENDS IN INDEX NUMBERS OF WHOLESALE PRICES OF SELECTED COMMODITIES
(BASE: 1961-62 = 100)

Group/Commodity	Weights*	Percentage Variations			
		End-June over End-June			
		1970-71	1971-72	1972-73	1973-74
1	2	3	4	5	6
All Commodities	1000	+ 3.1	+ 6.8	+21.5	+27.9
I. Food Articles	413	+ 1.2	+10.9	+23.6	+25.6
Foodgrains	(35.8)	—2.4	+14.5	+17.7	+35.8
1. Cereals	(29.3)	— 3.9	+11.1	+16.2	+41.4
(i) Rice	(16.2)	— 2.1	+10.1	+16.9	+36.7
(ii) Wheat	(7.8)	— 2.9	+ 3.8	+ 1.9	+65.7
(iii) Jowar	(2.2)	+ 1.6	+20.9	+28.3	+29.7
(iv) Bajra	(1.1)	—25.6	+45.1	+56.5	+ 0.7
2. Pulses	(6.5)	+ 3.3	+26.8	+22.6	+18.8
Edible oils	(13.0)	—17.3	+ 3.8	+64.3	+24.0
II. Liquor and Tobacco	25	+ 5.4	+10.9	+14.2	+23.9
III. Fuel, Power, Light and Lubricants	61	+ 7.9	+ 2.7	+ 7.3	+64.2
IV. Industrial Raw Materials	121	— 5.0	— 3.6	+60.3	+13.6
1. Cotton raw	(18.5)	+20.3	—31.3	+58.5	+44.3
2. Jute raw	(9.6)	— 4.8	+ 3.5	— 0.4	—16.9
Oilseeds	(43.3)	—16.5	+ 3.3	+79.2	+11.6
1. Groundnuts	(20.8)	—19.7	+ 5.4	+112.5	— 5.9
V. Chemicals	7	+ 5.3	+ 2.8	+ 4.5	+36.9
VI. Machinery and Transport Equipment	79	+ 7.5	+ 5.9	+ 5.9	+33.7
VII. Manufactures	294	+ 8.6	+ 5.4	+ 8.8	+32.3
(a) Intermediate Products	(19.5)	+10.3	+ 5.5	+16.5	+43.0
(b) Finished Products	(80.5)	+ 8.2	+ 5.3	+ 6.4	+28.8
Textiles	(38.6)	+13.3	+ 3.4	+ 3.2	+28.7
(i) Cotton Manufactures	(26.8)	+13.9	+ 3.2	+ 6.6	+24.4
(ii) Jute Manufactures	(8.1)	+14.8	+ 2.2	—11.5	+43.1
Metal Products	(13.0)	+ 7.4	+11.9	+ 6.1	+24.6
Chemical Products	(9.2)	+ 4.0	+ 3.2	+ 3.6	+42.8

* Figures in brackets refer to weightage assigned to respective main groups.

28. The Wholesale Price Index of 'Industrial Raw Materials' increased further by 13.6 per cent during the year on top of a rise of 60.3 per cent in 1972-73. Hardening of raw cotton prices, mainly on account of a large step-up in the demand for superior variety of indigenous cotton from the mill sector to meet increased demand for cotton textiles at home and abroad, was the major contributor to the rise in the index. Improved availability in the case of raw jute led to a fall in its price whereas in the case of groundnut, its larger output only subdued the rising trend in the oilseeds prices; taking the two years together, however, price rise in respect of agricultural raw materials, particularly groundnut and raw cotton, was substantial. This would suggest the urgent need for policy measures to avoid these increases from having chain reaction on wage goods prices and wage demands.

29. A distinctive element in the price situation in 1973-74 was the steep rise of 31.8 per cent (as against 8.8 per cent) in the price index of industrial manufactures. This increase partly reflected the lagged impact of sizeable increase in industrial raw materials' cost in 1972-73. An increase of 64.2 per cent—unprecedented for a single year—in the price index of 'Fuel, Power, Light and Lubricants' indicates the steep rise in domestic energy costs following the very large increase in the price of imported crude. Sharp increases in the cost of metals and chemicals, domestic as well as imported, mainly contributed to the rise of 24.6 per cent and 42.8 per cent, respectively, in the final product prices of the 'metals' and 'chemicals' industries. Increases permitted in the administered prices of various items, in order to rectify the distortion in relative parities between the administered and the other prices, was also a factor responsible for the uptrend in the price index.

30. The degree of accentuation in the Consumer Price Indices viz., All-India Consumer Price Index Numbers for Industrial Workers and Consumer Price Index for Urban Non-Manual Employees, was even more marked. Between July 1973 and May 1974, the All-India Consumer Price Index for Industrial Workers (Base : 1960=100) went up by 26.2 per cent (against 13.4 per cent in the corresponding period last year); that

for Urban Non-Manual Employees registered a rise of 10.4 per cent between July 1973 and February 1974 (against 3.7 per cent in the comparable period last year). The trends in consumer indices are particularly disquieting because of the chain reaction of revisions in wage incomes on cost-push and demand-pull pressures.

31. In regard to the prices of wage goods, what is at least as important as their impact on cost is the social tension and labour unrest that is created in the wake of the uptrend. Left to the market forces, price stability of either the wage goods or other industrial inputs cannot be assured when demand-supply imbalances exist and are magnified by an inflationary psychology. Under such conditions, it becomes all the more important to operate the public distribution system effectively and on a substantial scale. However, as already observed, the short-comings of the public agencies in procuring or purchasing supplies commensurate with the levels of output or with the distributional responsibilities assumed was one of the most disconcerting aspect of the economy in 1973-74. On the whole, in the last two years the public distribution system cannot be considered to have met with success either in ensuring stability of prices of wage goods or in making available adequate supplies through controlled outlets. In view of the poor procurement performance during the *rabi* season, and the continuing increase in the prices of food articles especially, serious consideration should be given to working out more effective arrangements for procurement of supplies from the forthcoming *kharif* crop.

32. In the absence of any element of compulsion in the procurement machinery, traders and farmers held back supplies from the market. The large accumulation of liquid resources outside of the organised money market, which has taken place over a period of years, made it possible for farmers and traders to hoard a considerable volume of supplies. Furthermore, although it cannot be quantified, a significant portion of incomes originating in the trading sector remains outside the purview of the tax system. While this situation required, among others, measures to check the availability of additional liquidity for such speculative activities, great

care had to be taken so that in the process certain objectives such as exports, food procurement by public agencies, production of basic consumer and capital goods, did not suffer for lack of working capital. The trends in the monetary and credit spheres are reviewed in the paragraphs that follow against this background.

Monetary and Credit Policies

33. While there is little doubt that an increase in money supply was an important factor in sustaining further advances in aggregate expenditure, it is necessary to avoid undue exaggeration of the inflationary impact of purely monetary factors. At the macro-level, with a sizeable improvement in the growth rate of real income in 1973-74 and a marginal deceleration in the rate of growth of money supply, the divergence between these two was less marked than in 1972-73. If there were a strict co-relation between price changes and the gap between these two rates, there ought to have been at least some moderation in the degree of price rise. But prices in fact increased much faster than in previous years, indicating that the inflationary conditions did not derive solely from these relative variations at the aggregate level.

34. Besides supply shortages, part of the explanation should perhaps be sought in the manner in which the distribution of the existing stock as well as of incremental money supply between different sectors has influenced effective spending in the economy. Despite a gradual decline over the years in its relative share, currency still constitutes the major component of money supply in India; and since 1971-72, the distribution of incremental money supply has been such as to maintain a more or less constant ratio of currency to money supply. Currency with the public increased by 8.5 per cent in 1971-72, 17.1 per cent in 1972-73 and 14.0 per cent in 1973-74. Precise information is not available on the pattern of holding of this currency stock by different sections of the community or the uses which such stock sustains. Some of it will clearly be held, for transaction purposes, by the large body of consumers whose incomes leave little margin for any kind of saving. But, in all probability a good part

of currency stock is held and used by the more affluent farmers, traders and professional classes. Apart from financing consumption expenditure, transactions based on these holdings have often been outside the legal markets, and added to tax evasion. They have also facilitated the holding of stocks by agriculturists, traders, small businesses and so forth, thus accentuating the pressure on prices. Simultaneously, however, there were in the public sector, organized industry, exports and internal trade sectors demands for funds for working capital and investment which could not be satisfied through a draft on the available stock of bank money. These demands, traditionally met through recourse to borrowing from the banking system, were enlarged by the continuing increase in costs and added to the pressure on the resources of commercial banks.

35. Taking a closer look at the trends during 1973-74, money supply registered an expansion of Rs. 318 crores in the slack season (May-October) of 1973, mainly during the month of October (Table 17). Large increases in bank credit to the Government sector as well as to the commercial sector contributed to this expansion. There was a rise of Rs. 602 crores in net bank credit to the Government sector and of Rs. 432 crores in gross bank credit to the commercial sector as against the increases of Rs. 462 crores and Rs. 193 crores, respectively, in the 1972 slack season. Significantly, however, while the Reserve Bank's net claims on the Government sector had declined by Rs. 69 crores during the 1972 slack season, these went up by as much as Rs. 412 crores in the 1973 slack season. This factor was primarily responsible for an increase of Rs. 93 crores (marginal currency-money supply ratio of 29 per cent) in the currency component of money supply in the 1973 slack season as against the decline of Rs. 178 crores in the 1972 slack season. The increase in banks' investment in Government securities in 1973 slack season was at Rs. 190 crores smaller than the investment of Rs. 530 crores in the preceding slack season; but it is to be borne in mind that with the large investment made in 1972 when the banks were very liquid, the latter had built up a sizeable cushion over the statutory liquidity requirement. Moreover, a deceleration in the growth of banks' investment in Government securities.

TABLE 14:—MONETARY RESOURCES : CERTAIN KEY INDICATORS

Year : July-June (Outstanding as on Last Friday)	Percentage increase over previous year											Average Ratio (Per cent)				
	Cur- rency	Bank Money Supply	Time deposits	Aggregate Monetary Resources	Re- serve Money	Cur- rency	Bank Money Supply	Time deposits	Aggregate Monetary Resources	Re- serve Money	Cur- rency to Money supply	Cur- rency to Monetary Resources				
(Amounts in Rupees Crores)																
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		
1961-62	2205	841	3045	1307	4353	2379	7.9	6.9	7.6	16.6	10.2	7.3	72.4	50.7
1962-63	2392	971	3363	1316	4679	2581	8.5	15.5	10.4	0.7	7.5	8.5	71.1	51.1
1963-64	2636	1180	3816	1365	5181	2840	10.2	12.2	13.5	3.7	10.7	10.0	69.1	50.9
1964-65	2823	1353	4175	1515	5690	3027	7.1	14.7	9.4	11.0	9.8	6.6	67.6	49.6
1965-66	3056	1557	4613	1745	6357	3290	8.3	15.1	10.5	15.2	11.7	8.7	66.2	48.1
1966-67	3213	1753	4966	1948	6914	3508	5.1	12.6	7.7	11.6	8.8	6.6	64.7	46.5
1967-68	3448	2029	5477	2206	7683	3800	7.3	15.7	10.3	13.2	11.1	8.3	63.0	44.9
1968-69	3789	2254	6043	2679	8721	4261	9.9	11.1	10.3	21.4	13.5	12.1	62.7	43.4
1969-70	4170	2465	6634	3098	9732	4596	10.1	9.4	9.8	15.6	11.6	7.9	62.9	42.8
1970-71	4591	2871	7462	3660	11122	5035	10.1	16.5	12.5	18.1	14.3	9.6	61.5	41.3
1971-72	4979	3544	8523	4476	12999	5605	8.5	23.4	14.2	22.3	16.9	11.3	58.4	38.3
1972-73	5829	4133	9962	5491	15453	6737	17.1	16.6	16.9	22.7	18.9	20.2	58.5	37.7
1973-74*	6666	4721	11387	6428	17815	7580	14.4	14.2	14.3	17.1	15.3	12.5	58.5	37.4

* Provisional. £ Including 'other deposits' with R. B. I.

Note : Reserve Money comprises currency with the public and cash with banks, "other" deposits with the Reserve Bank of India and banks' balances with the Reserve Bank of India.

TABLE 15 :—MONETARY RESOURCES : CERTAIN KEY RATIOS

Year (July-June)	Increases over previous year (Amounts in Rupees Crores)						Marginal Ratios (Per cent)	
	Currency	Bank Money	Money Supply	Time Deposits	Aggregate Monetary Resources	Reserve Money	Currency to Money Supply	Currency to Aggregate Monetary Resources
1	2	3	4	5	6	7	8	9
1961-62	162	54	215	186	402	161	75.3	40.3
1962-63	187	130	318	9	326	202	58.8	57.4
1963-64	244	209	453	49	502	259	53.9	48.6
1964-65	187	173	359	150	509	187	52.1	36.7
1965-66	233	204	438	230	667	263	53.2	34.9
1966-67	157	196	353	203	557	218	44.5	28.2
1967-68	235	276	511	258	769	292	46.0	30.6
1968-69	341	225	566	473	1038	461	60.2	32.9
1969-70	381	211	591	419	1011	335	64.5	37.7
1970-71	421	406	828	562	1390	439	50.8	30.3
1971-72	388	673	1061	816	1877	570	36.6	20.7
1972-73	850	589	1439	1015	2454	1132	59.1	34.6
1973-74*	837	588	1425	937	2362	843	58.7	35.4

* Provisional.

TABLE 16 :—TRENDS IN MONEY SUPPLY AND MONETARY RESOURCES (ANNUAL)

(Amounts in Rupees Crores)

	Outstandings at the end of June			Variations	
	1972	1973	1974	1972-73	1973-74
	1	2	3	4	5
A. MONEY SUPPLY WITH THE PUBLIC (1+2) ..	8523	9962	11387	+1439	+1425
1. Currency with the Public	4979	5829	6666	+ 850	+ 837
2. Demand Deposits	3544	4133	4721	+ 589	+ 588
B. FACTORS AFFECTING MONEY SUPPLY VARIATIONS (1+2+3+4-5)					
1. Net Bank Credit to Government (a + b) ..	6989	8416	9091	+1427	+ 675
(a) Reserve Bank's Net Credit to Government ..	5194	6149	6570	+ 955	+ 421
(b) Other Banks' Credit to Government ..	1795	2268	2521	+ 473	+ 253
2. Bank Credit to Commercial Sector (a + b)* ..	6683	7878	9602	+1195	+1724
(a) Reserve Bank Credit to Commercial Sector ..	206	290	652	+ 84	+ 362
(b) Other Banks' Credit to Commercial Sector ..	6477	7588	8950	+1111	+1362
3. Net Foreign Exchange Assets of the Banking Sector	605	595	678	- 10	+ 83
4. Government's Net Currency Liabilities to Public ..	419	482	514	+ 63	+ 32
5. Non-Monetary Liabilities of Banking Sector (a + b + c)	6174	7409	8498	+1235	+1089
(a) Time Deposits with Banks	4476	5491	6428	+1015	+ 937
(b) Net Non-Monetary Liabilities of RBI ..	1066	1143	1473	+ 77	+ 330
(c) Residual	632	775	597	+ 143	- 178
C. AGGREGATE MONETARY RESOURCES [A + B 5(a)]	12999	15453	17815	+2454	+2362

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

was to be expected, in the context of the RBI policy of impounding of deposits adopted from May 1973 onwards, with the objective of preventing undue extension of credit on the basis of banks' own resources. The investment-deposit ratio of scheduled commercial banks at the end of 1973 slack season

stood at 32.9 per cent as compared with 36.3 per cent at the end of the preceding slack season. Net bank credit to the commercial sector on the other hand declined by a smaller magnitude (Rs. 248 crores) in 1973 slack season than (Rs. 286 crores) in the previous slack season.

TABLE 17:—TRENDS IN MONEY SUPPLY AND MONETARY RESOURCES (SEASONAL)

(Amounts in Rupees Crores)

	Variations during			
	Slack Season		Busy Season	
	1972	1973	1972-73	1973-74
A. MONEY SUPPLY WITH THE PUBLIC (1+2)	+ 71	+ 318	+1289	+1266
1. Currency with the public	— 178	+ 93	+ 944	+ 786
2. Demand Deposits	+ 249	+ 226	+ 344	+ 480
B. FACTORS AFFECTING MONEY SUPPLY VARIATIONS (1+2+3+4+5)				
1. Net Bank Credit to Government (a + b)	+ 462	+ 602	+ 884	+ 266
(a) Reserve Bank's Net Credit to Government	— 69	+ 412	+ 971	+ 193
(b) Other Banks' Credit to Government	+ 530	+ 190	— 86	+ 73
2. Bank Credit to Commercial Sector (a + b)*	+ 193	+ 432	+1039	+1276
(a) Reserve Bank Credit to Commercial Sector	+ 3	+ 54	+ 39	+ 290
(b) Other Banks' Credit to Commercial Sector	+ 190	+ 378	+1000	+ 986
3. Net Foreign Exchange Assets of the Banking Sector	— 71	+ 2	+ 50	+ 77
4. Government's Net Currency Liabilities to Public	+ 3	+ 22	+ 48	+ 18
5. Non-Monetary Liabilities of Banking Sector (a + b + c)	+ 517	+ 739	+ 731	+ 372
(a) Time Deposits with Banks	+ 480	+ 680	+ 503	+ 256
(b) Net Non-Monetary Liabilities of R.B.I.	— 29	+ 60	+ 147	+ 206
(c) Residual	+ 66	— 1	+ 81	— 90
C. AGGREGATE MONETARY RESOURCES [A+B5 (a)]	+ 551	+ 999	+1792	+1521

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

36. The expansionary trends in money supply gathered considerable momentum, in the busy season as in the previous year. Even so, the increase during the period October-April 1973-74, was at Rs. 1266 crores (12.8 per cent) lower than in the preceding busy season (Rs. 1289 crores or 15.5 per cent). However, unlike in the last busy season, when, owing to large budgetary deficits, net bank credit to the Government sector was a significant element in money supply expansion, in the 1973-74 season such

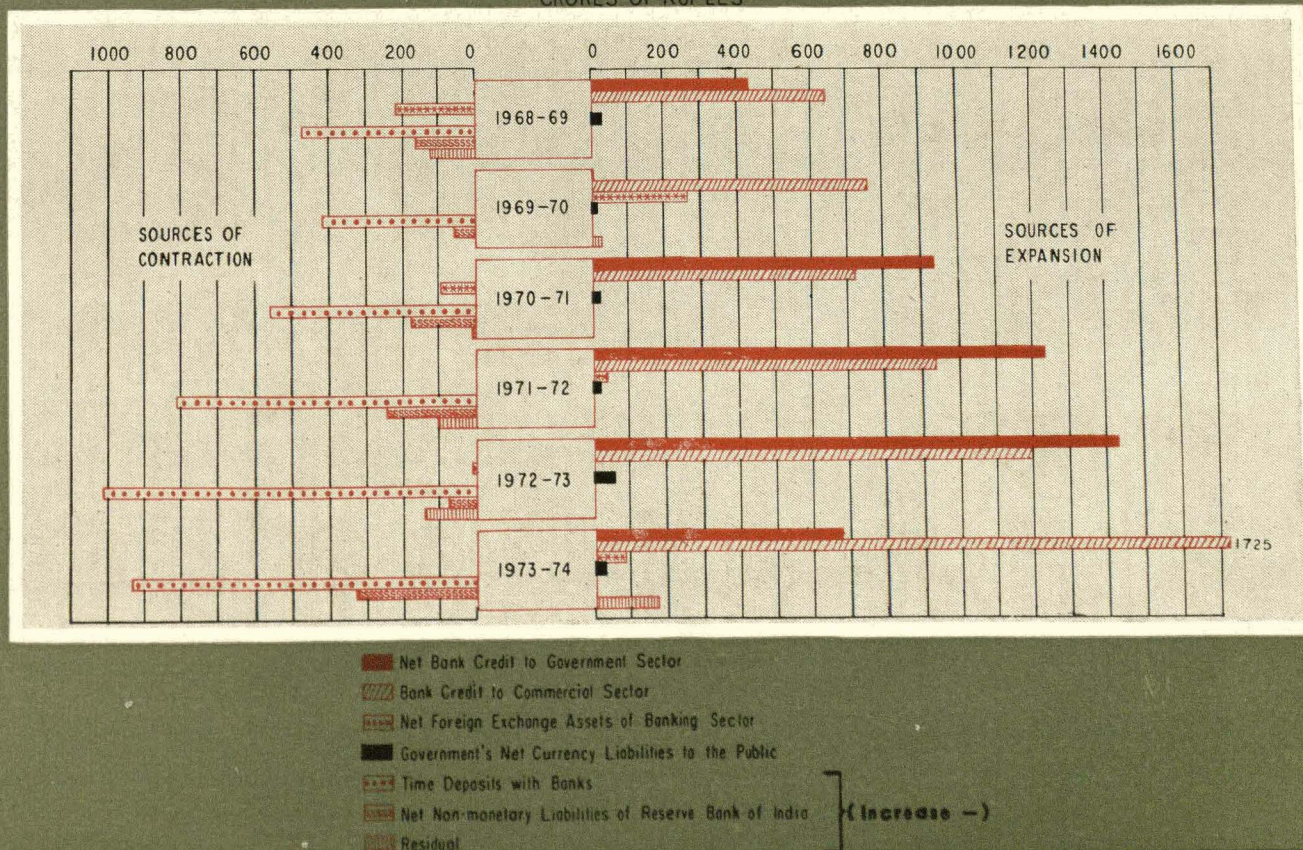
credit increased by only Rs. 266 crores; at this level it was only one-third of the increase in 1972-73 busy season and the lowest in the last four busy seasons. Net RBI Credit to Government registered an increase of only Rs. 193 crores in the 1973-74 season as against Rs. 971 crores and Rs. 672 crores, respectively, during the preceding two busy seasons. However, for the fiscal year 1973-74 as a whole the increase in net RBI credit to the Government sector at Rs. 746 crores was only marginally lower than the credit of Rs. 800 crores during the previous year.

The graph displays four data series over a six-year period from July 1968 to June 1974. The vertical axis represents the amount in billions of dollars, ranging from 1000 to 18000. The horizontal axis shows time in months, with labels for July, September, December, March, and June for each year.

- Monetary Resources (Black line):** Shows the most rapid growth, starting at approximately 7500 billion dollars in July 1968 and reaching nearly 18000 billion dollars by June 1974.
- Money Supply with the Public (Red line):** Starts at about 5500 billion dollars and grows to approximately 11500 billion dollars.
- Currency with the Public (Black line):** Starts at about 3500 billion dollars and grows to approximately 6500 billion dollars.
- Deposit Money with the Public (Red line):** Starts at about 2000 billion dollars and grows to approximately 4500 billion dollars.

The graph illustrates that while all four measures of money have increased, Monetary Resources and the Money Supply with the Public have grown at a much faster rate than Currency with the Public and Deposit Money with the Public.

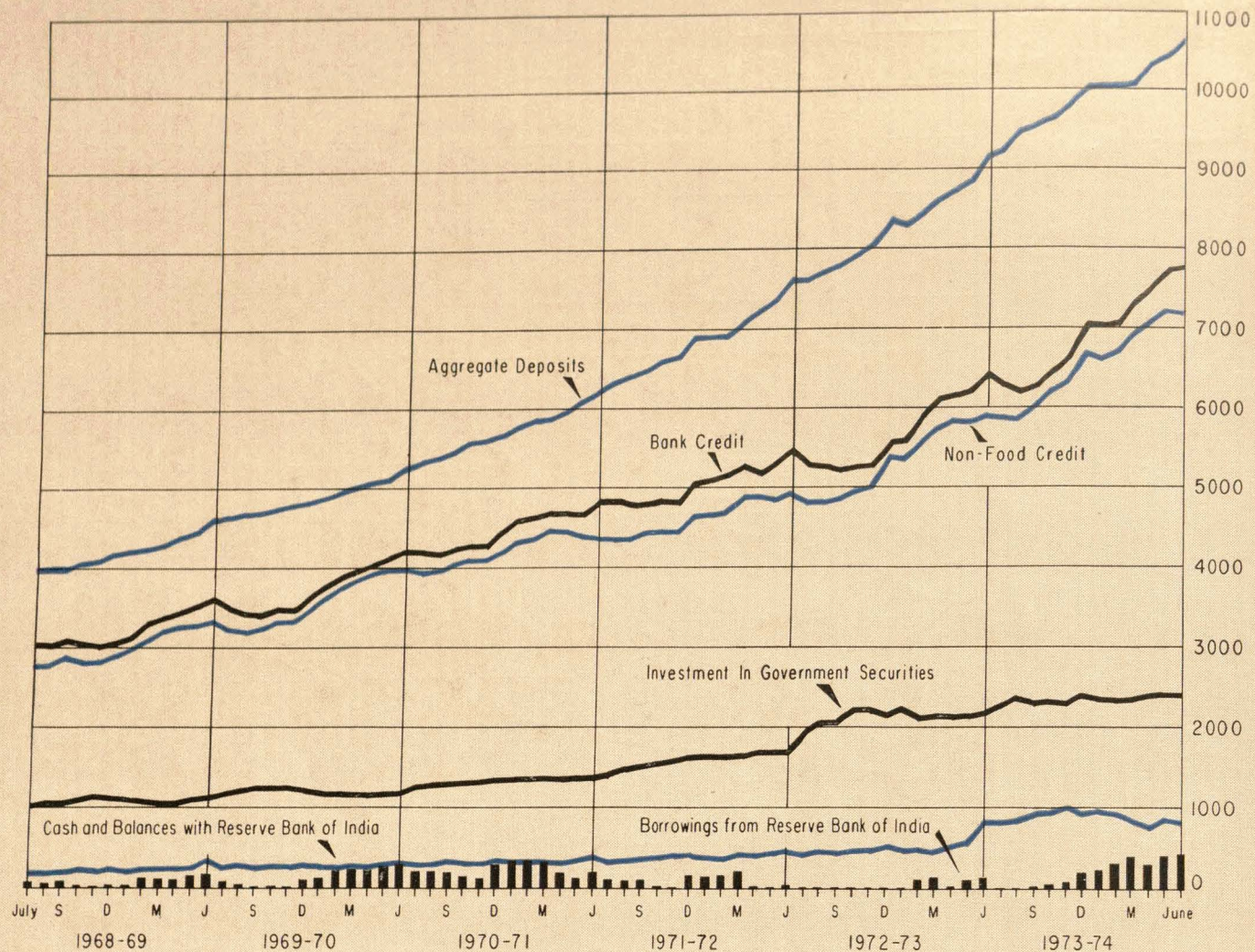
CRORES OF RUPEES



SCHEDULED COMMERCIAL BANKS - SELECTED ITEMS

(AS ON LAST FRIDAY)

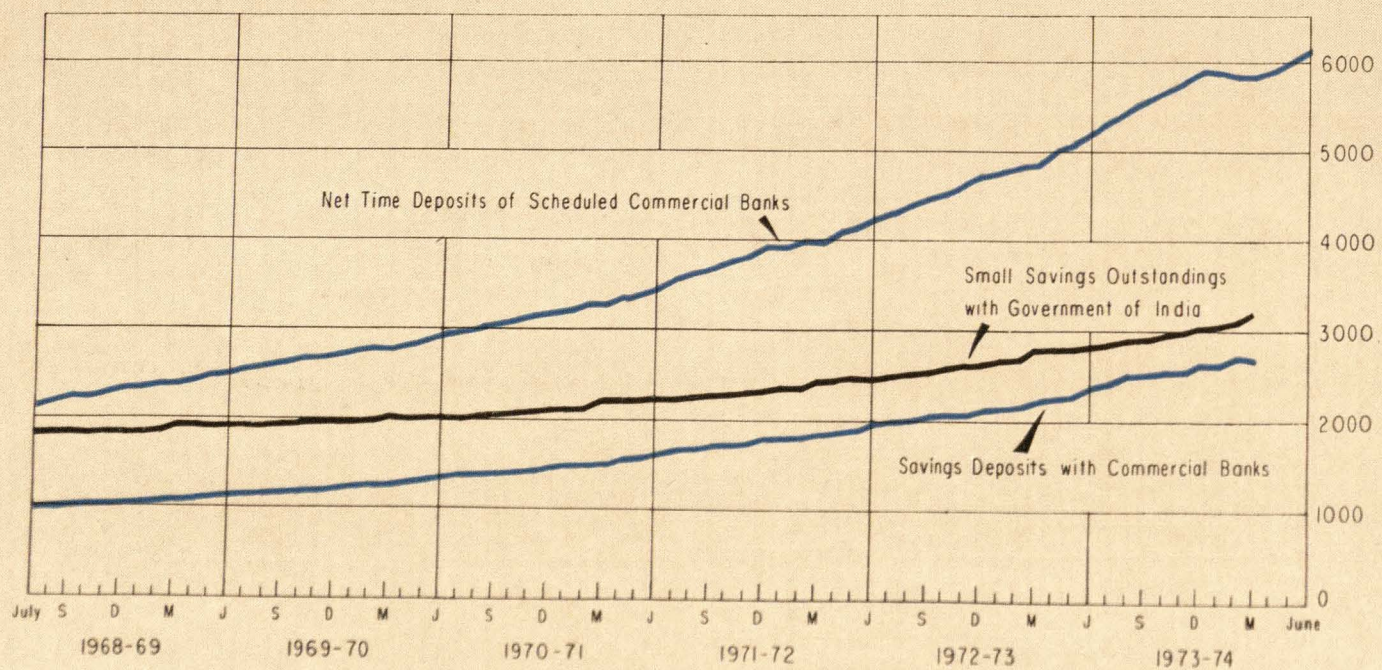
Crores of Rupees



NET FINANCIAL ASSETS-SELECTED ITEMS

(AS ON LAST FRIDAY)

Crores of Rupees



37. There was on the other hand no let up in the demands on the banking system from the commercial sector which included the trading and manufacturing agencies in the public sector. After a relatively small order of expansion in bank credit in 1971-72 busy season (7.3 per cent), there was a large increase of Rs. 916 crores or 17.4 per cent in gross bank credit (including bills discounted) in 1972-73 busy season (Table 18). The addition to food procurement advances being nominal at Rs. 5 crores, virtually all of the 1972-73 busy season increase was due to non-food advances. Of this, export credit as well as credit to the public sector undertakings

rose at a faster rate; and together with advances to the priority sector, they accounted for a little over one-third of the total credit expansion. Despite this increase in credit, the banking system did not experience any serious strain on its resources because of a large accretion of deposits and the fact that the credit growth had been very slow in the twelve months preceding October 1972. Recourse to borrowing from the Reserve Bank showed an increase of only Rs. 17 crores. The credit-deposit ratio at the end of 1972-73 busy season was 70.3 per cent as against 71.7 per cent at the end of 1971-72 busy season and 79.4 per cent at the end of 1969-70 busy season.

TABLE 18:—SEASONAL VARIATIONS IN SCHEDULED COMMERCIAL BANKS DATA

(Amounts in Rupees Crores)

SEASONAL VARIATIONS										
			Slack Season 1971	Busy Season 1971-72	Slack Season 1972	Busy Season 1972-73	Slack Season 1973	Busy Season 1973-74	Slack Season Upto July 12, 1974*	Busy Season Upto July 13, 1973
			1	2	3	4	5	6	7	8
1.	Aggregate Deposits	.. ..	+624	+624	+705	+811	+900	+682	+449	+442
	(a) Demand	.. ..	+202	+310	+262	+335	+252	+452	+183	+163
	(b) Time	.. ..	+422	+314	+443	+476	+648	+230	+266	+279
2.	Bank Credit	.. ..	+163	+355	+67	+897	+314	+1037	+332	+162
	Of which :									
	(a) Food Procurement Advances	.. ..	+156	— 71	— 1	+ 5	— 57	+189	+109	+134
	(b) Other Advances	.. ..	+ 7	+426	+ 68	+892	+371	+848	+223	+ 28
3.	Investment in Government and other approved securities	.. ..	+254	+239	+620	+ 4	+282	+155	+151	+120
	(a) In Government Securities	.. ..	+208	+144	+519	— 89	+187	+ 71	+ 97	+113
	(b) In other Approved Securities	.. ..	+ 46	+ 95	+101	+ 93	+ 95	+ 84	+ 54	+ 7
4.	Cash and Balances with R.B.I.	.. ..	+ 46	+ 15	+ 57	+ 60	+443	—217	+ 36	+199
	(a) Cash in hand	.. ..	+ 24	+ 1	+ 27	+ 20	+ 24	—	+ 26	+ 18
	(b) Balances with R.B.I.	.. ..	+ 22	+ 14	+ 30	+ 40	+419	—217	+ 10	+181
5.	Money at Call and Short notice	.. ..	+ 72	— 9	+ 13	+ 72	— 41	—103	+ 28	— 23
6.	Borrowings from R.B.I.	.. ..	—172	+ 4	— 16	+ 17	+ 56	+253	+ 6	— 9
7.	Inland Bills purchased and discounted by the Reserve Bank of India.	.. ..	—	— 3	— 10	+ 19	+ 15	+244	— 16	— 2
	Credit-Deposit Ratio (end-season)	.. ..	73.1	71.7	66.2	70.3	67.0	72.6	72.7	68.7
	Credit (Excluding food procurement)-	}	67.7	67.7	62.6	67.0	64.6	68.5	67.7	64.1
	Deposit Ratio (end-season)									
	Investment-Deposit Ratio (end-season)	.. ..	30.6	31.3	36.3	33.0	32.9	32.2	32.2	32.7

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

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

38. After the large expansion in bank credit in the 1972-73 busy season, the situation was held in check during most of the 1973 slack season. Between end-April 1973 and end-August 1973, the net expansion in total bank credit was confined to Rs. 48 crores. There was, however, a large expansion of Rs. 266 crores in the last two months of the 1973 slack season i.e., between end-August and end-October. During the slack season period, bank deposits were impounded in stages by an increase in reserve requirements from 3 to 7 per cent.

39. Following this early upsurge, the 'conventional' busy season of 1973-74 (October-April) witnessed, as in the 1972-73 season, a sharp increase in gross bank credit (all scheduled commercial banks) of Rs. 1281 crores or 19.7 per cent. About Rs. 244 crores of this expansion was financed through inland bills purchased and rediscounted by the Reserve Bank; banks also increased their dependence on the Reserve Bank for refinance facilities by as much as Rs. 253 crores. This marked increase in reliance on the Reserve Bank was, in part, an offset to the increase in statutory cash reserves of commercial banks from a minimum of 3 per cent to a minimum of 7 per cent of demand and time liabilities. Sluggishness in the growth of deposits particularly in the first quarter of calendar year 1974 mainly added to the need for such recourse. Significant increases in food procurement advances (Rs. 189 crores), export credit (Rs. 214 crores) and credit to public sector undertakings (Rs. 125 crores) were a material factor in causing a larger credit expansion than was anticipated at the start of the busy period. Reflecting the relative increases in credit and deposits, the credit—deposit ratio at the end of the busy season (April 26, 1974) stood at 72.6 per cent as compared to 70.3 per cent at the end of April 1973 and 78.0 per cent at the end of April 1971.

40. *Prima facie*, the increase in bank credit to the commercial sector as a whole (especially if considered without regard to the individual elements which make up the total) appears disturbing and has naturally evoked some adverse comments on the management of credit. Many of these comments derive from inadequate appreciation of the multipli-

city of factors involved, and it would perhaps be helpful to look at these in some detail.

CREDIT POLICY

41. During the slack season of 1973 a series of monetary measures designed to increase the cost and reduce the availability of credit were undertaken. These included (1) a sizeable curtailment of the lendable resources of commercial banks through a step up in cash reserve requirements in two stages—one in June from 3 to 5 per cent and the other in September from 5 to 7 per cent of demand and time liabilities, (2) an increase in the Bank rate from 6 to 7 per cent, (3) stipulation of minimum lending rate chargeable by commercial banks (at 10 per cent, raised subsequently to 11 per cent), (4) the near total withdrawal of concessionary refinance facilities from the Reserve Bank, (5) step up in the net liquidity ratio to 40 per cent, and (6) an increase in the maximum rate of interest chargeable by the Reserve Bank on its lending to commercial banks from 12 to 15 per cent. Impounding of deposits and introduction of a discretionary element in Reserve Bank refinance facility were the two main ingredients of this approach to exercise an effective control on the size as well as the sectoral pattern of credit expansion.

42. These measures (i.e. 1, 2, 4 and 5 of the measures mentioned above) were introduced in the slack season itself (May to August/September) in order to avoid dislocation, give the banks an advance indication regarding the stipulations that would prevail in the busy season and in order to enable them to plan and adjust their operations in such a way that their busy season credit expansion could cater to the legitimate requirements of production and exports, without exacerbating inflationary pressures. The slack season credit trends also indicated that further measures were necessary to reinforce this approach. Although only a modest increase in bank credit had been recorded between end-April and end-August 1973, there was a considerable expansion in the months of September and October, the increase in these two months being of the order of Rs. 266 crores. Credit-deposit ratio at the end of 1973 slack season stood at 67.0 per cent as against 66.2 per cent at the end of slack season 1972; and com-

mercial banks had to increase their borrowings from the Reserve Bank by as much as Rs. 52 crores to sustain this level of advances.

43. In deciding on credit policy for the 1973-74 busy season, these features of the 1973 slack season, coming on top of the sizeable expansion in credit in 1972-73 busy season had to be taken into account. For planning purposes, it was taken that deposit growth in the period October 1973-April 1974 would be and large be of the same order as in the 1972-73 busy season viz., a growth rate of approximately 10 per cent or an increase of about Rs. 800-850 crores in absolute sum. The effects of the energy crisis on domestic prices, the extent of world price inflation that was to follow, and the extraordinary opportunity for maximising export earnings could not all be fully incorporated in the quantitative assessment made in the process of formulation in October 1973, of the busy season policy.

44. Assuming the continuance in the growth of deposit resources at the rate that had been prevailing and anticipating an increased demand for working capital at a time of rising prices, steps were taken in November 1973 to limit the resort to accommodation from Reserve Bank of India. The normal facility of virtually automatic borrowings from Reserve Bank of India under various sub-sections of Section 17 of the Reserve Bank of India Act was restricted to a stipulated proportion, which varied between 1 and 2 per cent of a bank's total demand and time liabilities for different periods upto end-May 1974. There was also an increase of two percentage points to 32 per cent (with effect from December 8, 1973) in the statutory liquidity ratio under Section 24 of the Banking Regulations Act which restricted the capacity of banks to add to their advances to commercial sector through a liquidation of investments in Government and approved securities. To ensure further that the overall volume of credit expansion was contained, a quantitative ceiling was in addition stipulated for the busy season. This measure, which had no precedent in the various packages of measures adopted so far in India for implementing a restrictive credit policy, was conceived in terms of the banking system as a whole, because of wide differences between the capabilities and

commitments of individual banks in regard to provision of credit in the busy season. The ceiling permitted approximately 10 per cent rise in non-food credit over the outstanding amount of such credit at the end of September 1973 level. In absolute terms, the permissible expansion for non-food credit during busy season was indicated as Rs. 600—Rs. 650 crores. Allowing for increase in bank credit that had already taken place upto end-October 1973, it was expected that an increase of Rs. 400—Rs. 450 crores in bank advances, together with around Rs. 150 crores of rediscounting under the new bill market scheme between end-October 1973 and end-April 1974 would be adequate to meet the credit requirements in the traditional busy season for purposes other than food procurement.

45. The multiplicity of measures, complementary with one another and controlling between them overall expansion in credit, were expected to indicate clearly to the banks the intention of the monetary authorities to contain growth in credit within these limits. Many of the measures were announced even before the commencement of the busy season ; in particular it had been clarified that the reserve ratio would be maintained at 7 per cent throughout the busy season and that there would be no continuance of the earlier concessionary refinance except for exports. Credit sanctioned under new bill market scheme, the main purpose of which was to promote a market for genuine bills, was also to be treated outside the quantitative ceiling.

46. As the season progressed, however, it became evident that the credit expansion would have to exceed the ceiling. Advance commitments of some of the banks indicated that not sufficient care had been taken in ensuring that their individual credit programmes were consistent with the overall ceiling. This introduced an element of uncertainty among the borrowers regarding future availability of credit from their banks, giving rise to overdrawal on their accounts and withholding of deposits or repayments to banks. Furthermore, some of the assumptions on which original credit projections were based were invalidated by subsequent developments, and adjustments had

Quantitative Ceiling

1973-74 Busy Season

perforce to be made in the implementation of quantitative restrictions.

47. The first of these adjustments, made in January 1974, was to exempt further increases in export credit from the ceiling restriction, and to accord special weight to this factor in the provision of refinance. This was done in view of the urgent need to maximise foreign exchange earnings and provide a means for meeting the greatly enhanced cost of oil and other imports. Higher prices of crude oil also meant that the petroleum companies which were not a traditional borrower from the banking system, had to be provided on an emergency basis with funds firstly to meet their operating losses arising from the time lag in adjusting the domestic prices of petroleum products and also to meet their needs for financing working stocks at greatly enhanced prices. Requirements of public sector undertakings were larger than anticipated especially in the context of the reduced support for them from budgetary sources. An increase of Rs. 73 crores in the dispensation of busy season credit to industrial public sector undertakings was probably needed to enable the reported improvements in their production performance in 1973-74. Finally, there were indications early in the busy season that the cuts in Government's current spending were achieved in part by an addition to the book debts of suppliers, including public sector enterprises. The Food Corporation of India repaid in March 1974 Rs. 80 crores to the Government providing thereby an equivalent support to the Central Budget. In other words, a good part of the increase in bank credit to the commercial sector was a consequence of the policy of shifting a part of the budgetary burdens on to the banking system.

48. The mounting pressure from all these factors led to, as mentioned earlier, a record gross credit expansion (including bills rediscounted) of Rs. 1281 crores (19.7 per cent) in the 1973-74 busy season as against credit expansion of Rs. 916 crores (17.4 per cent) in the previous busy season. The credit deposit ratio was pushed up to 72.6 per cent at the end of 1973-74 busy season as against 70.3 per cent at the end of the preceding busy season though it must be mentioned that both these ratios were smaller

than the ratios at the end of certain earlier busy seasons. Incremental credit deposit ratio at 152.1 per cent during 1973-74 busy season was the highest during the recent busy seasons.

49. These pressures on the demand for credit were combined with a pronounced sluggishness in deposit growth. Between January-March 1974, aggregate deposits increased by a mere Rs. 25 crores, which were only a tenth of the increase in the corresponding period of the previous year. With this tardy rate of increase the deposit accretion during the busy season as a whole was of the order of Rs. 682 crores (7.1 per cent) as against Rs. 811 crores (10.2 per cent) in the 1972-73 busy season. The availability of inter-institutional funds in the money market was also limited. Call money rates touched unprecedented heights and the Indian Banks' Association indicated to its member banks a maximum rate of 15 per cent for call money against the highest call money rate of 7.5 per cent in the preceding busy season. Thus, with the tight own resources position and limited availability of inter-institutional funds any necessary expansion in credit was not possible without recourse to borrowing from Reserve Bank of India.

50. This, in one sense, constituted a specially favourable circumstance for control over the expansion of credit. In actual fact, borrowing from Reserve Bank of India increased from Rs. 141 crores at end-June 1973 to Rs. 407 crores at the end of May 1974. The statutory cash reserve ratio requirements were also not always strictly observed by all the banks at all the times. Thus, the actual expansion of credit was made possible through Reserve Bank of India's assistance and to some extent, shortfalls in stipulated cash ratio requirements.

51. The monetary situation was at this stage a composite one of decline in deposit growth, persistently rising demand for credit and a general threat of dislocation in the production and distribution systems on account of dislocation in Railway and shipping services, power and fuel supply and in some States, even law and order.

**Policy
Alternatives**

These latter were a contributory factor in delaying the return of funds to the banks and thus increasing their dependence on the Reserve Bank of India for meeting their minimal obligations. In this context, the monetary authority had two alternatives. One was to adhere to the originally stipulated quantitative ceiling, disregarding the developments mentioned above and accepting consequential adverse impact on production, export, distribution of essential goods or the functioning of the monetary structure. Although it was not possible to quantify with any degree of precision, the effect that denial of additional credit would have had on production etc., there was reasonable presumption for considering these as a real risk. The second alternative was to implement the policy in a flexible manner and permit selectively extension of credit to sectors expansion in whose activity was in conformity with national objectives. Taking the totality of national and international factors, the Reserve Bank of India took the deliberate decision to follow the second one, viz., allowing the credit ceiling to be surpassed in the interests of maintaining production, increased exports and greater facility for movement of goods. In the process, it had to allow an increase in commercial banks' resort to RBI refinance and bill rediscounting, accepting some dilution of the contractionary effect of the policy of requiring higher reserve ratios.

52. Indubitably, if recycling of credit and its redeployment had taken place in a manner considered possible at the time of formulating the ceiling, the genuine needs of different sectors could perhaps have been met with a lesser volume of overall credit expansion. However, such recycling did not occur on a wide enough scale to reduce the banks' recourse to RBI for providing essential working capital requirements of public enterprises, exports, small-scale industries, etc. This would suggest that for effective implementation of the policy of an overall credit ceiling what was required was banks' own plans of credit expansion, taking into account an assessment of their borrowing constituents' immediate needs to sustain production and the resources available for meeting these demands. The internal operational systems obtaining in banks had not yet been fully

geared to work out a technique of this nature; the task was made infinitely more difficult by the extensive list of 'priorities' which banks, individually or collectively, were required to subserve. All the same, considering banks' unfamiliarity with a constraint of this nature, and despite the time-lag involved in making necessary adjustments in the deployment of bank resources it must be said that on the whole banking system moved in the direction of operating the policy of controlled expansion. As the subsequent discussion on sectoral deployment of credit will show the major portion of commercial bank credit during the busy season arose out of the requirements of the food procurement, exports, public sector undertakings and the priority sectors.

53. An important feature of busy season credit expansion in 1973-74 was a record increase of Rs. 244 crores in bills rediscounted by the banks with the Reserve Bank of India as against Rs. 19 crores in the previous busy season. With continuous pressures on the demand for bank credit, active recourse to the bill market was anticipated; the actual increase, however, was somewhat larger than envisaged. Though bill finance provides resources to the same sectors as the principal users of bank credit, it differs from the latter in important respects. As an instrument of credit, the bill is related to specific transactions and hence limited in period of utilisation and is self-liquidating in character. The principal object of the new bill market scheme is to bring about the popular use of the bill of exchange as an instrument of credit in substitution of existing arrangement of credit extended against inventories and receivables. However, measures were taken to regulate credit expansion through this channel, as recourse to bill rediscounting with Reserve Bank of India gathered strength. Along with an increase of one per cent (to 8 per cent) in the maximum rate of export (packing) credit with effect from November 16, 1973, minimum rate on bills was also raised from 8 per cent to 9 per cent. This rate was further raised to 9.5 per cent with effect from November 30, 1973. Moreover, rediscount of bills with the Reserve Bank was possible only within the limits sanctioned to each bank and increases in the

**Bill
Rediscounting**

limits were not allowed in advance. While the volume of bills rediscounted continued to be quite large throughout the year, the scrutiny of the bills adequately established, by and large, that they were genuine ones and maintained their self-liquidating character.

54. The extent of expansion in bank credit during the busy season of 1973-74 should not

Discretionary Accommodation create an impression that restrictive measures were not pursued with rigour. The Reserve Bank preferred to

keep a portion of the deposits impounded over the long-term while permitting refinancing of the banks for meeting their steadily increasing needs as the busy season advanced. Access to Reserve Bank accommodation, which was made discretionary to a large measure, enabled it to exercise better control over sectoral deployment of incremental credit. Incidentally, the cost of funds to the banks was increased. While permitting further borrowing facility to individual banks, the factors taken into account by the Reserve Bank were, among others, the increase in export credit extended by it and the involvement in commitments such as the financing of oil companies to cover the rise in price of imported crude and in food procurement.

55. Over the year (May 1973 to April 1974) gross bank credit including bills redis-

Credit Expansion: May 1973 to April 1974 counted increased by Rs. 1610

crores or 26.1 per cent. Of this increase, food procurement credit accounted for Rs. 132 crores or 8.2 per cent of the total bank credit expansion. Export credit accounted for an increase of Rs. 283 crores or about 17.6 per cent. The increase in advances to priority sectors and public sector undertakings taken together amounted to Rs. 645 crores or 40.1 per cent of the total increase. The residual sector, which covers the whole of large and medium industries in the private sector and also wholesale trade, accounted for Rs. 550 crores or 34.1 per cent of the total increase. Over the year, the increase in bank credit to the large-scale industries and trade sector was contained at 16.0 per cent which is evidently much lower than the percentage increase in the prices of raw materials (some imported and some subject to Governmental price control) over the

year. A further point of significance is that a substantial part of the credit made available to the large-scale industries and trade sector was in the form of bill finance; bills rediscounted by the Reserve Bank increased by Rs. 259 crores.

56. While the detailed industry-wise breakdown of bank credit during the last busy season is not yet available,

Sectoral Deployment : Comparative Picture sectoral deployment of bank credit during the busy season is presented in Table 19.

57. It will be observed that using the widest concept, gross bank credit during 1973-74 busy season increased by Rs. 1175 crores (18.1 per cent) as against Rs. 916 crores (17.4 per cent) during the preceding busy season. The large increase in absolute terms was, to a considerable extent, on account of an increase of Rs. 190 crores (as against Rs. 6 crores in 1972-73 busy season) in food credit. Exclusive of this, non-food credit showed a smaller rate of growth of 15.7 per cent (Rs. 985 crores) in the busy season of 1973-74 as against 18.3 per cent (Rs. 910 crores) in the preceding season.

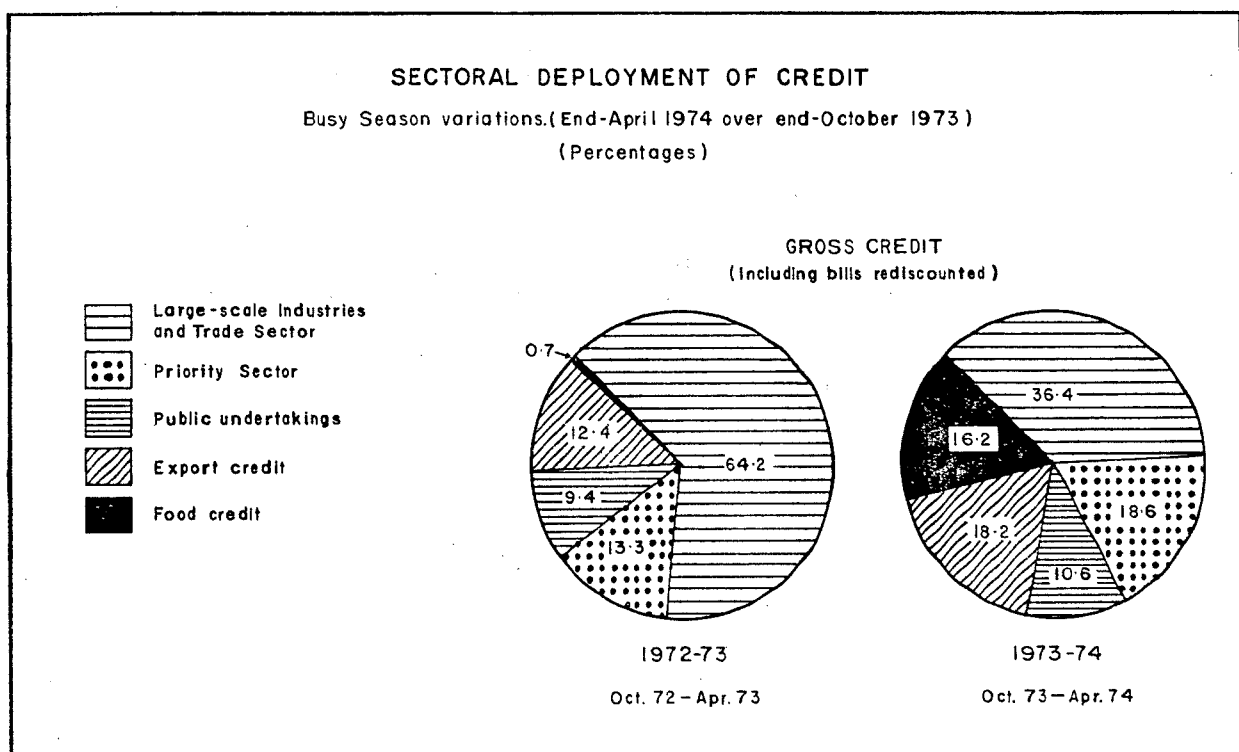
58. Of the non-food credit, export credit, which had showed a rise of 26.3 per cent (Rs. 114 crores) in 1972-73 busy season, went up further by 34.7 per cent (Rs. 214 crores) in the 1973-74 busy season. The outstanding amount of export credit at the end of April 1974 at Rs. 831 crores was nearly double the outstanding amount at the end of October 1972. Consequently, it accounted for over 11.2 per cent of outstanding total bank credit (excluding bills rediscounted) or 10.8 per cent inclusive of bills as at the end of April 1974 as against a little over 8.2 per cent at the end of October 1972. Like-wise, the high rate of growth in bank advances to the public sector undertakings during the last two busy seasons raised their share from 7.7 per cent at the end of October 1972 to a little over ten per cent at the end of April 1974. Advances to priority sector, which had increased by 9.5 per cent during the busy season of 1972-73 increased at a still larger rate of 14.0 per cent during 1973-74 busy season. Bank credit to small-scale industries which account for the major portion of priority sector credit increased at the rate of 21.5 per cent as against 13.3 per cent in the busy season of 1972-73.

TABLE 19 :—SECTORAL DEPLOYMENT OF CREDIT

(Amounts in Rupees Crores)

	Variation During					
	Busy Season 1973-74 (October-April*)			Busy Season 1972-73 (October-April)		
	Amount	Per cent	Percentage share in gross credit expansion	Amount	Per cent	Percentage share in gross credit expansion
	1	2	3	4	5	6
Gross credit (including bills rediscounted)	+1175	+18.1	100.0	+ 916	+17.4	100.0
Of which :						
(a) Food Credit	+ 190	+80.9	16.2	+ 6	+2.1	0.7
(b) Export Credit	+214	+34.7	18.2	+114	+26.3	12.4
(c) Public Sector undertakings	+125	+19.7	10.6	+ 86	+21.3	9.4
(d) Priority Sectors	+219	+14.0	18.6	+122	+ 9.5	13.3
Total of (a) to (d)	+748	+24.5	63.6	+328	+13.6	35.8
(e) Large-scale Industries and Trade sector (including bills rediscounted)	+427	+12.4	36.4	+588	+20.6	64.2

* Relate to 61 banks which account for 98.6 per cent of total credit.



59. Altogether, eliminating the flow of credit to these identifiable sectors, busy season expansion in credit to the large-scale industries and trade sector was lower at Rs. 427 crores (12.4 per cent) than in the previous season (Rs. 588 crores or 20.6 per cent). Thus, despite the fact that the ceiling was exceeded, what emerges clearly is the fact that bank advances to the large and medium borrowers and wholesale trade in the private sector showed a relatively low rate of growth whether compared to the overall credit expansion in 1973-74 busy season, or the expansion of credit to this sector during the previous busy season.

60. This trend in bank credit, though significant in itself, does not answer all the questions regarding the end-use of credit. The increase in credit to this sector for the two busy seasons together might appear inconsistent with virtual stagnation in industrial production during the larger part of 1973. While it is not possible to examine fully this aspect of credit expansion with the information available at present, it would be worthwhile to note the following points.

Although data relating to industry-wise production are available only upto September 1973, they show a considerable degree of disparity in performance as between industries. What becomes important, therefore, are the trends in industrial production in respect of industries which account for the major portion of bank advances to industries. Due to differences in classification, comparison between industries as divided for the purpose of computing the index of industrial production on the one hand and for bank advances on the other would have its own limitations. On the basis of broad groups, however, it would appear that manufacturing industries like edible oils and vanaspati, pharmaceuticals, rubber and rubber products etc., which suffered nearly one-fifth to one-fourth decline in the level of production between January-September 1973 (over the corresponding period last year) accounted individually and collectively for a very small proportion of the outstanding bank advances as on June 1973 (the latest period for which data are available). On the other hand, engi-

neering industries accounted for 9.9 per cent of the outstanding bank advances as on June 1973; basic metals and metal products and chemicals between them accounted for 11.7 per cent of the outstanding advances. Production in respect of most of these industries, despite stagnation in the overall growth, was well maintained during 1973. As was mentioned earlier, the group Capital Goods Industries showed 13.7 per cent rise in index in January-September 1973, that is almost one hundred per cent increase in the rate of growth compared to the corresponding period of the last year. The index of industrial production in respect of heavy chemicals and fertilisers—other important users of bank credit—went up by over 10 per cent during January-September 1973. Among the metal groups, iron and steel industries, which accounted for 57 per cent of bank advances to this group of industries, also showed some increase in production.

61. Neither the data on production nor on the pattern of credit during the subsequent period are known in sufficient detail. However, available information indicates that during the busy season of 1973-74 both through bill refinance and directly there have been noticeable increases in credit flow to the cotton textiles, jute textiles and engineering industries. That there has been an increase in output of cotton and its demand from the mill sector during 1973-74 was already indicated earlier. What is more, there has been quite an encouraging increase in the export of cotton textiles for the larger part of the year and in any event jute mills were required to hold larger stocks of raw jute. The output of jute was also substantially larger this year. In regard to engineering goods, while direct information is not available, there is no indication of any decline in domestic output of basic metals and continuance of imports.

62. Moreover, the rate of growth in physical output is only one of the determinants of the volume of credit requirement. The movement in the level of prices, particularly of industrial raw materials and finished products, is an equally important determinant of credit needs. Between October 1972—i.e., just before the commencement of the busy

**Large-Scale
Industries and
Trade Sector**

**Bank Advances
and Industrial
Production :
Sectoral
Trends**

**Industries :
Some
Observations**

season of 1972-73, and April 1973 the wholesale price index of industrial raw materials and industrial manufactures increased by 22.7 per cent and 6.4 per cent, respectively. Again from the end-April 1973 levels, these indices increased further by 27.0 per cent and 29.3 per cent, respectively, by the end of April 1974. Part of this increase was on account of the revision in a variety of controlled or administered prices (Table 20). Thus, even at the same level of output the working capital needed by the manufacturing sector (including for export) would have increased by a percentage higher than the actual rise viz., 18 per cent. However, the credit policy in fact has been operated in such a way as to discourage the granting of advances merely on the ground that price increases have enhanced the working capital requirements. Though recent data are not available, it may be noted in passing that the ratio of short-term bank advances to inventories in respect of 350 large companies accounting for over 60 per cent of the paid-up capital of the public limited companies in the private corporate sector declined from 50.6 per cent in 1971-72 to 46.2 per cent in 1972-73. While the decline in this ratio by itself does not furnish any evidence regarding the reasonableness of inventory holding it becomes of some significance along with a fall in inventory-sales ratio from 32.1 per cent in 1971-72 to 31.2 per cent in 1972-73.

63. Changes in selective credit control measures were in line with the general credit policy objectives. The minimum cost of credit in respect of advances against the items covered by selective credit controls was raised from 12 per cent to 13 per cent. Minimum margins applicable to sugar factories were raised from 5 per cent to 10 per cent in respect of levy sugar and from 15 per cent to 25 per cent in respect of free sale sugar. Some more items, viz., cotton yarn, and synthetic fibres and fabrics and imported cotton were brought under the purview of margin control for the first time. On the other hand, the margin on advances against castor and linseed was reduced while exports of linseed oil and rice were totally exempt from all margins. On account of tight control over commercial bank credit to sensitive commodities the proportion of

commercial banks' advances against commodities covered by selective credit controls has steadily declined from 11 per cent in 1970 to 6 per cent in 1972. With the enlargement in the list of commodities covered by selective credit controls there might be a slight increase in 1973 in the proportion of commercial banks' advances against commodities covered by selective controls. Even so, the bank finance would constitute a very small proportion of the total finance used in the trading of seasonal commodities.

64. The low rate of growth in deposits was noted earlier. The rates of interest on various types of deposits (except current deposits, which are interest-free) were revised in 1971 and again in April 1973. With effect from April 1, 1974, the rates of interest on deposits with banks were revised upwards by 0.25 per cent to 1.0 per cent for various categories of deposits. The most important revision was the increase by full one per cent in the case of savings deposits, which was intended to promote savings in this form. While the minimum lending rates had already been raised (to 11 per cent with effect from December 1, 1973), the interest payable by the Reserve Bank on additional deposits maintained by commercial banks under Section 42(1) of the Reserve Bank of India Act was raised from 4.75 per cent to 5.25 per cent.

65. In order to enable banks to plan properly their credit portfolios an indication of the general line of policy for the future was given to banks towards the close of the 1973-74 busy season. The need for reducing the rate of increase in bank credit was stressed. While lendable resources impounded for one year, as then stipulated by raising the cash reserve ratio by two percentage points from end-June 1973, were released from end-June 1974 (on the expiry of the year), simultaneously the statutory minimum liquidity ratio was stepped up by 1 percentage point to 33 per cent. The minimum cash reserve ratio now stands at five per cent (as compared with the level of three per cent, for all these years until after June 1973).

TABLE 20:—CHANGES IN ADMINISTERED PRICES OF CERTAIN COMMODITIES

Commodity	Unit	Present price Rs.	PRICE PREVAILING AS ON		
			1st July '74 Rs.	1st July '73 Rs.	1st July '72 Rs.
	1	2	3	4	5
I. PETROLEUM PRODUCTS					
1. Fuel Oil	Kilo Litre	604.12	604.12	248.71	232.78
2. Naphtha for fertilisers	Metric tonne	486.31	486.31	192.25	144.13
3. Naphtha for non-fertilisers	Metric tonne	1,000.00	1,000.00	192.25	144.13
II. COAL*					
1. Coking Coal Gr. A. 13% Ash.	tonne	68.70	68.70	50.95	48.20
2. Non-coking—high Moisture	tonne	54.75	59.00	48.00	42.75
III. NON-FERROUS METALS@					
1. Copper wire bars/ingot bars	Metric tonne	34,080.00	34,080.00	19,095.00	14,250.00
2. High Grade Zinc	-do-	16,660.00	16,660.00	6,340.00	5,360.00
3. Special High Grade Zinc	-do-	16,810.00	16,810.00	6,415.00	5,380.00
4. Tin	-do-	1,12,495.00	1,12,495.00	51,200.00	44,520.00
5. Lead 99.99%	-do-	9,400.00	9,400.00	5,090.00	4,390.00
6. Lead 99.97%	-do-	9,175.00	9,175.00	5,060.00	4,530.00
7. Nickel Cathodes	-do-	48,485.00	48,485.00	43,865.00	34,100.00
IV. CEMENT	f.o.r. tonne	296.03	240.96	212.02	213.28
V. STEEL					
1. Structurals : Crossing Sleeping Bars. Bearing Plate Bars and structural excluding joists	Metric tonne f.o.r. Railhead station	1,251.00	1,195.00	1,120.00	1,025.00
2. Plates	-do-	1,397.00	1,338.00	1,263.00	1,220.00
3. Chequered plates	-do-	1,407.00	1,348.00	1,273.00	1,230.00
4. SHEETS HR Sheets 14G thicker	Metric tonne	1,971.00	1,900.00	1,396.00	1,343.00
GC Sheets 16-22 G	f.o.r. Railhead Station	2,871.00	2,750.00	2,285.00	2,175.00
5. Bars and Rods in straight lengths (upto 25 m.)\$	-do-	1,626.00	1,570.00	1,126.00	996.00
6. Flats of all sizes\$	-do-	1,729.00	1,670.00	1,106.00	976.00
7. Blooms and Slabs	-do-	1,331.00	1,275.00	865.00	820.00
VI. SULPHUR					
1. Fertiliser Units	Ex. Jetty price per tonne	864.00	864.00	386.00	N.A.
2. Non-fertiliser units	-do-	887.00	887.00		

* Not strictly comparable between July 1974 and July 1972, 1973.

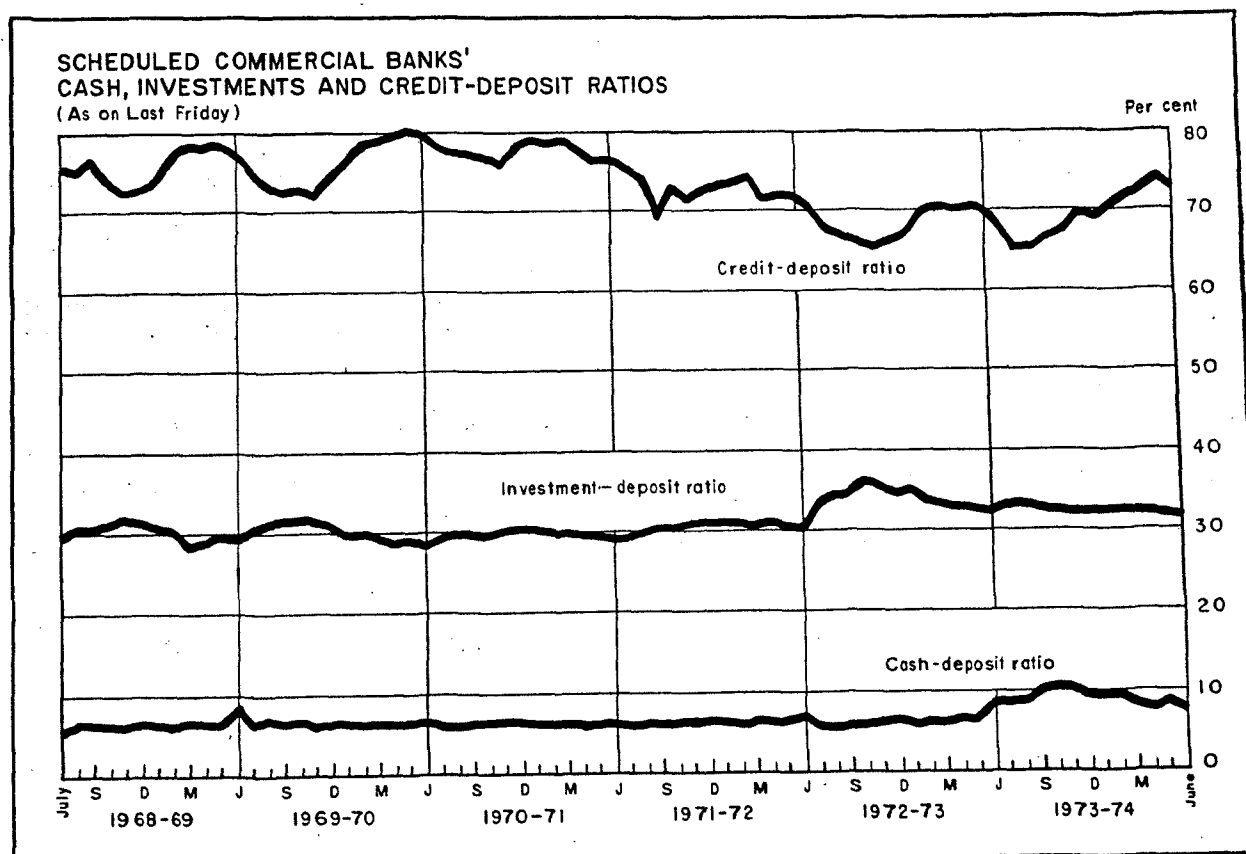
@ MMTC Prices.

\$ Classification of categories changed slightly after 1st July 1973.

66. Borrowings from the Reserve Bank including rediscount of bills are also to be reduced during the slack season. The banks were informed that for the greater part of the slack season period (June 1 to end-October) automatic assistance from the Reserve Bank would be limited to 1 per cent of their demand and time liabilities as on the last Friday of March 1974. Further assistance and its cost could be entirely at the discretion of the Reserve Bank. With these restrictions on accommodation from the Reserve Bank and statutory pre-emption of a significant segment of incremental deposits, banks were given a clear indication of the extent to which they could plan their credit expansion in the ensuing year, May 1974—April 1975, i.e., inclusive of the next busy season.

67. The rising trend in bank advances to commercial sector continued even after the expiry of the traditional busy season at the end of April 1974. Total bank credit (excluding bills rediscounted) in-

creased by Rs. 225 crores during the 1974 slack season upto June 28, 1974 as against a rise of Rs. 255 crores during the corresponding period of the preceding slack season. Credit for public food procurement operations which had increased by Rs. 175 crores during 1973 slack season (upto end-June) had a smaller rise of Rs. 95 crores during the current slack season. However, with the likely financing of food imports, food credit might continue to remain at a high level throughout the slack season. Non-food credit increased by Rs. 130 crores during the current slack season (end-June 1974) as against a rise of Rs. 80 crores during the corresponding period of the slack season of 1973. Indicative of these pressures, credit-deposit ratio stood higher at 72.7 per cent as on June 28, 1974 as compared with 70.0 per cent a year ago (June 29, 1973). Like-wise, exclusive of food credit, credit-deposit ratio was higher at 67.8 per cent as compared with 64.9 per cent a year ago. But because of the smaller accretion of deposits between January and June 1974, (Rs. 572 crores as against



Rs. 784 crores in the first half of 1973) the resources position of commercial banks was considerably more strained in June 1974 than what it was at the same time during the last year. Consequently, banks which were already indebted to the RBI to the extent of Rs. 333 crores at the end of April 1974 (Rs. 24 crores a year ago) increased their borrowings during the current slack season till end-June 1974 by as much as Rs. 88 crores. However, in the subsequent period, the position has changed markedly. Deposit resources of banks increased by Rs. 308 crores between end-June and August 9, 1974, while the increase in bank credit amounted to only Rs. 68 crores. There was a substantial reduction of Rs. 293 crores in banks' borrowings from the RBI, taking refinance and bill rediscounting together. Additionally, banks' deposits with RBI rose by Rs. 68 crores. The average of daily balances maintained by the banks with RBI at Rs. 625.39 crores during the week ended August 9, 1974 thus constituted 5.3 per cent of the total of demand and time liabilities, at Rs. 11895 crores as on August 2, 1974. It is anticipated that these trends will continue and by the onset of the next busy season, the banks' resources position will have improved significantly.

68. Taking the year (July 1973 to June 28, 1974) as a whole, total bank credit registered an expansion of Rs. 1321 crores (20.6 per cent) as against Rs. 932 crores (17.0 per cent) in the corresponding period of last year. In contrast, growth rate in aggregate deposits, which had slid down from 22.4 per cent (Rs. 1393 crores) in 1971-72 to 20.4 per cent (Rs. 1556 crores) in 1972-73 declined further to 16.0 per cent (Rs. 1470 crores) in 1973-74. As was mentioned earlier, the expansion in money supply was slower than last year, mainly on account of lesser increase in net bank credit to the Government sector. Slower rate of growth in currency expansion, along with preference for currency, affected the growth rate of deposit accretion. However, time deposits, the growth rate in which picked up in June 1974, accounted for the major proportion of the incremental deposits and maintained their relative share in the deposit accretion during the year at 61.0 per cent, more or less the same as during 1972-73 (61.4 per cent).

**Banking
Trends :
1973-74**

69. Thus, it emerges from the developments in the sphere of credit policy that with a slackening in the rate of growth in deposits, commercial banks had to resort to accommodation from RBI for the busy season credit expansion. While the desired degree of selectivity in the matter of sectoral allocation of credit, which requires a clear appreciation of the policy objectives and its efficient implementation by the commercial banks, is yet to be achieved, there has resulted, at the individual bank level, more careful scrutiny of the loan applications and greater attention to the sanctioning of fresh limits. There has been a pronounced upward shift in the cost of credit and most of the banks are charging medium and large industries 12 per cent to 13 per cent, i.e., more than the stipulated minimum rate. On balance, it would appear that credit expansion with the help of discretionary assistance might bring about more desirable sectoral deployment of credit than if no such control were exercised. Since maximisation of resource allocation in favour of productive activities is an important objective of development finance, this aspect of credit policy is bound to be of long-term importance. Efforts will have, therefore, to be intensified in the direction of improving the accuracy of credit budgeting, evaluation of sectoral needs and evolving an organisational structure to efficiently implement the credit programme. These organisational changes are all the more important in the short-run when, according to all indications, there is unlikely to be any slackening in the demand pressures on bank credit during 1974-75.

70. In order to restrain this pressure several measures were taken by the Bank during July 1974. The Bank rate was raised from 7 per cent to 9 per cent with effect from July 23, 1974, an unprecedented increase of 2 percentage points at one time. At the same time the minimum lending rate to be charged by banks was raised from 11 per cent to 12.5 per cent except in the case of a few exempted categories (see Table 24 Part II). The minimum discount rates on bill finance for drawers' bills was increased from 9.5 per cent to 11 per cent per annum and the rate on drawees' bills from 11 per cent to 12.5 per cent. In the case of export credit also lending rate went up from 9 per cent to 10.5

per cent except in the case of exports on deferred payment terms, the rate on which remained unchanged at 7 per cent. Food procurement credit was also made costlier from 9 per cent to 11 per cent for the Food Corporation of India and to 12 per cent for State Governments and their Agencies. While no change was made in the minimum net liquidity ratio the maximum rate of interest chargeable was increased from 15 per cent to 18 per cent. Subsequently, Government imposed a tax of 7 per cent on the interest earned by banks on their advances, leaving it to the banks to make consequential adjustments in their lending rates. While all these measures operated through the rise in cost of credit, banks were asked to scrutinise top 50 accounts with a view to reducing the commercial sector's recourse to banks' credit and to ensuring its proper utilisation.

71. Simultaneously, in order to assist deposit mobilisation and encourage savings, interest rates on various categories of commercial bank deposits were increased. The maximum rate payable on deposits of over 5 years was raised from 8 per cent to 10 per cent per annum. While the rate on saving deposits remained unaltered at 5 per cent, upward adjustments in the rates on fixed deposits were made with relatively large increases in respect of longer term deposits.

Prospects

72. From the foregoing assessment of the economy, it will be seen that inflationary pressures persisted throughout the fiscal year 1973-74. However, during the recent months there has been some slowing down in the growth rates of money supply and aggregate monetary resources compared with the growth rates recorded during the corresponding period last year. Money supply increased by 0.8 per cent between April 26 and August 9, 1974 as against 3.1 per cent rise during the corresponding period of 1973. The rate of increase in money supply during the year ended August 9, 1974 was thus 13.8 per cent compared with 17.7 per cent increase during the year ended August 10, 1973.

73. It is too early as yet to measure the full impact of the changes in monetary and

credit policy made by the Reserve Bank since July 22, 1974, and of the measures taken by the Government in the areas of fiscal and administrative control. These policy steps are, however, expected to further restrain the growth in money supply and thereby mitigate the inflationary pressures emanating from the demand side. For these measures to have a major impact, it is clearly important that non-monetary policies are also implemented to ensure a better flow of goods and discourage stock-piling. Since in the Indian context, the primary element in any concerted action against inflation is the control of wage-goods prices, especially prices of food articles, vigorous steps have to be taken by the authorities to secure an efficient functioning of the public distribution system for such commodities. Towards this end, Government has sought to augment domestic availabilities of food-grains through some imports. But given the constraints of foreign exchange, it is evident that there can only be a limited volume of imports; therefore the improvement in food-grains supply has necessarily to be based on sizeable domestic procurement in one form or another.

74. There are indications of a good *kharif* crop this year and this prospect should have some restraining effect through expectational influences on agricultural prices, especially the price of the cereals. The importance, in this context, of devising policies which facilitate better market supplies cannot be overstressed. As past experience has shown, any significant increase in the procurement price could have the effect of generating expectations of a continuing rise in prices and reducing market arrivals. Hence, it is preferable to utilize methods other than the offer of additional price incentives for obtaining the supplies needed by Government for controlled distribution.

75. Available information on the behaviour of wholesale prices shows that there has been a further increase in the level of prices during the financial year 1974-75; however, compared to the corresponding period of last year, the rate of growth in the wholesale price index has been somewhat lower, particularly in the case of industrial raw materials and food articles. For instance, the wholesale price index in respect of industrial raw mate-

rials and food articles which had increased by 33.6 per cent and 19.6 per cent, respectively, between March 31 to July 28, 1973, showed increases of 6.7 per cent and 15.4 per cent, respectively, during March 30 to July 27 of 1974. Consequently, the general index of wholesale prices increased by 11.9 per cent during the current fiscal year so far (July 27, 1974) as against 15.1 per cent rise during the corresponding period last year. If effective measures are taken for further moderating price increase in respect of food articles, the tendency towards slowing down of the rate of increase in the general price level would gather momentum. In the next few months, this tendency could be aided by international factors. There is expectation of some recession in several of the developed countries, and international prices have already been subject to a downtrend. Metals and metal products in particular have receded from the peaks reached around the beginning of the current year; textiles, leather products and oil cakes have, among others, become cheaper in the world markets. These trends imply on the one hand a reduced willingness on the part of Indian exporters to offer higher prices for domestic raw materials such as cotton, hides and skins, and metals; and on the other, the possibility of obtaining somewhat cheaper imports. Although crude oil prices have not registered any significant change either way in recent months, there is an even chance that further increases may not occur. Altogether, it would not be unrealistic to expect international factors to have a slowing down effect on the growth of prices.

76. However, these developments will also mean a more difficult balance of payments situation in 1974-75. Since most countries can be expected to avoid a too precipitous fall in domestic activity or prices and further they are themselves plagued by a continuing general state of inflation, it is unlikely that the fall in prices of even some of our main imports will be so large as to bring them down to their levels of early last year. This would be true of India's export commodities also and it is not clear how these changes will affect our terms of trade. Nevertheless, there is little doubt that without a big improvement in domestic output, an increase in export earnings of the order achieved in 1973-74 will be difficult in the year 1974-75. Against this, there is the

certainty of larger import payments having to be financed, given the prevailing prices of foodgrains, fertilizers, petroleum and petroleum products and machinery. Besides utilization of some of the external credits newly secured, or likely to become available in the remaining part of the year, imports and external debt servicing obligations could therefore result in a drawing down of foreign exchange balances by around Rs. 300 crores equivalent.

77. Since the imbalance between aggregate demand and domestic availabilities cannot be corrected through a massive import surplus, the monetary and fiscal measures that have been taken for curbing demand will necessarily have to continue. These measures will impinge to some extent on investment for enlargement of productive capacity in both the public and private sectors. In this situation, it becomes necessary for Government to pay special attention to securing larger production from the capacities already existing, particularly in agriculture and basic industries, power and transport. It would be desirable to prevent in this context the diversion of scarce inputs like cement, steel, non-ferrous metals and petroleum products for the production of non-priority goods and services. To ensure improved power supply it would be necessary to take steps to promote better working of power undertakings particularly of the State Electricity Boards. Apart from any incentives that may be useful in raising the productivity of labour and other resources, there is need to eliminate the production losses arising from organizational deficiencies, administrative delays and lapses in co-ordination of effort. It is only through a significant increase in output supplementing any monetary measures taken, that one can expect to check the propensity of traders and others to hold stocks in excess of current requirements.

78. Simultaneously with demand curbs and output increases, stern measures are required to deal with unaccounted incomes and illegal transactions. The problems here are essentially those of strict enforcement of tax laws, streamlining of controls and imposition of deterrent penalties on the transgressors. While continuous curbs will have to be maintained on the growth in money supply it would

be a mistake to seek to remedy these problems through such measures as a sudden sweeping cut in money stock, both currency and bank deposits, as has been suggested recently. Such a measure would not affect accumulated stocks of commodities; it would also leave unaltered the monetary value of existing contractual obligations. Apart from shaking the people's confidence in currency and bank deposits, these apparently drastic measures do not necessarily make the holding of illegal or speculative stocks of commodities difficult or unattractive. The presumptions underlying this kind of approach—that the money stock can be reduced very quickly, and that such reduction will immediately cause a drastic fall in both spot and anticipated prices—are, in our conditions at any rate, unwarranted.

79. In so far as the monetary part of anti-inflationary policy is concerned, therefore, the approach has essentially to be in terms of limiting future additions to money supply. As already indicated, the prospects are of a sizeable current account deficit in the balance of payments. Control on demand expansion, which will be reflected in changes in money supply, has to be achieved through restraint in the domestic spending of the public and private sectors. Government have already stated their policy to limit the budgetary deficits to the amounts shown in the budgets for 1974-75. Correspondingly, spending by the commercial and household sectors have to be confined to the availability of non-inflationary sources of finance. In essence, this requires that barring some seasonal expansion, recourse to credit should be restricted to what commercial and co-operative banks can pro-

vide on the basis of deposit accretions, after fulfilling their statutory obligations in respect of cash reserves and liquidity. With the increase in cost of credit, closer scrutiny of loan operations and limitation of access to the refinancing and rediscounting facilities at the Reserve Bank already in operation, it should be possible to ensure that provision of credit to the commercial sector in the year 1974-75 will continue to be on a stringently controlled basis. Given such regulation on the credit side, and assuming that deficit financing by the Government will be held at a low level, the rate of growth of money supply in the coming year should be considerably less than in the past two years.

80. As mentioned earlier, side by side with these measures, determined efforts have to be made to achieve a progressive increase in agricultural and industrial production if the inflationary pressures are to be curbed effectively. In the agricultural sector, especially, it would be necessary to accelerate technological and institutional changes for securing larger outputs. The establishment of a strong uptrend in agricultural production would have a major impact on wage-goods prices, and on raw material costs in several industries. Alongside of this, if the power and transport bottlenecks are mitigated and scarce raw materials allocated in a manner benefiting priority industries, it would be possible to step up the rate of growth of real output in the economy sufficiently to avoid a recurrence of the pressure on prices. Without such developments on the supply side, it would not be realistic to expect a quick transition to conditions of normalcy.

II. PROGRESS IN COMMERCIAL BANKING

81. With the year ended June 1974, the 14 major Indian commercial banks, nationalised on July 19, 1969, completed almost five years of operation in the public sector. This five year period was one of significant change marked by an unparalleled geographic expansion in banking operations, a rapid growth in deposits and a basic change in the distribution of bank credit, with credit flowing to sectors that were hitherto virtually outside commercial banks' lending operations. Important organisational changes in individual banks followed from the need to adjust to the new demands made of the banking system.

82. The distribution of banking business between the private and the public sectors did not alter materially over the period. At the time of nationalisation, the public sector banks (the 14 nationalised banks, the State Bank of India and its 7 subsidiaries) together accounted for 83 per cent of aggregate deposits and 84 per cent of total credit. At the end of June 1974, these proportions were respectively 84 per cent and 85 per cent. The share of the public sector banks in total bank offices also remained unchanged at 82 per cent. These data are illustrative of the fact that the impulses generated through the operation of the State-owned banks were smoothly transmitted to and sustained in the private banks.

83. At the time of the nationalisation of the major banks, there were 8262 commercial bank offices (June 30, 1969) in the country. By June 1974 this figure had more than doubled to 16,936. The significance of this dimensional change is better seen in the location of the new offices; 53.6 per cent of these were opened in centres that had no banking facilities or were inadequately served by banks. Nearly 30 per cent of the new offices were located in the under-banked States of the central, eastern and north-eastern regions.

84. Deposits of scheduled commercial banks rose by Rs. 5989 crores in the period 1969-74, the quantum of aggregate deposits crossing the Rs. 10,000 crore level in early 1974. The massive branch expansion

programme was an important contributory factor in this growth, with the new offices opened during the period accounting for about a third of the increase in deposits.¹ The annual average compound rate of growth in deposits for the period 1969-74 was 17.9 per cent as against a rate of 14.3 per cent for the five year period preceding nationalisation.

85. Total advances and investments made by the scheduled commercial banks also more than doubled over the period 1969-74. Bank credit increased by Rs. 4134 crores to a level of Rs. 7733 crores at the end of June 1974. Total bank investments as on that date stood at Rs. 3395 crores while, five years earlier the figure was Rs. 1359 crores.

86. With the adoption of several organisational and legislative measures to enable increased participation of the commercial banks in financing agriculture, the flow of credit to the priority sector picked up, as was anticipated. The scheme of financing primary agricultural credit societies was extended to a few more States. Multi-purpose service societies were set up on an experimental basis for farmers in a few selected SFDA/MFAL² areas. The Small Loans Guarantee Scheme of the Credit Guarantee Corporation was extended to non-scheduled commercial banks also. Besides, several States enacted legislation to enable commercial banks to undertake agricultural finance activities on a larger scale.

87. The purveyance of credit to agriculture in particular and weaker sections in general may be expected to receive further impetus with completion of survey reports in virtually all the districts under the Lead Bank Scheme. In-depth studies of certain areas within the districts and drawal of comprehensive credit plans for action are other notable developments in this regard.

88. During the year, meetings of the Consultative Committees for the Southern, Northern and Central regions were held. At these meetings, the progress made since the

¹ Estimate.

² Small Farmers Development Agency Marginal Farmers and Agricultural Labourers Agency.

previous meetings was reviewed and the problems faced by banks in promoting regional development were generally discussed. Specific requirements such as the need for banks to develop a co-ordinated approach to meet the different credit requirements of farmers were also indicated.

89. During the year 1973-74 (July-June), commercial banks opened 1593 offices in India as against 1756 and 1612 new offices opened in 1972-73 and in 1971-72, respectively. While it might appear that the tempo of branch expansion built up in the earlier years had not been sustained during 1973-74, it should be recognised that this was achieved despite the diminishing number of identified locations with basic infrastructural facilities as well as

the intensifying man-power constraint. As in the past, the bulk of these new offices (1206 or 76 per cent) were opened by the public sector banks. The State Bank Group and nationalised banks between them shared 297 and 909 offices, respectively (Table 21).

90. Of the new offices opened in 1973-74, 547 (34.3 per cent) were in unbanked areas. The total number of commercial bank offices in the 9 under-banked States of Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Meghalaya, Orissa, Tripura, Uttar Pradesh and West Bengal stood at 4791 at the end of June 1974, as against 2088 offices at the end of June 1969 (Table 22). Thus, the share of these 9 States in the total number of offices in India increased from 25.3 per cent at the end of June 1969 to 28.3 per cent at the end of June 1974.

TABLE 21:—NEW OFFICES OPENED BY COMMERCIAL BANKS DURING 1972-73 AND 1973-74

Bank-Group	New Offices opened by Commercial Banks						Bank Offices as on		
	1972-73			1973-74			June 30, 1969	June 30, 1973	June 30, 1974
	July-December 1972	January-June 1973	July-June 1972-73	July-December 1973	January-June 1974	July-June 1973-74			
	1	2	3	4	5	6	7	8	9
1. State Bank of India ..	130 (58)	112 (39)	292 (97)	135 (42)	73 (23)	208 (65)	1569	2867	3072
2. Subsidiaries of State Bank of India ..	127 (64)	54 (19)	181 (83)	64 (23)	25 (8)	89 (31)	893	1563	1652
3. Fourteen Nationalised Banks ..	618 (272)	308 (100)	926 (372)	697 (263)	212 (55)	909 (317)	4133	8109	9017
4. Other Scheduled Banks	194 (74)	155 (58)	349 (132)	250 (90)	128 (42)	378 (132)	1320	2580	2943
5. Foreign Banks ..	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	130	130	130
6. All Scheduled Commercial Banks ..	1119 (468)	629 (216)	1748 (684)	1146 (418)	438 (128)	1584 (545)	8045	15249	16814
7. Non-scheduled Commercial Banks ..	4 (3)	4 (3)	8 (6)	3 (1)	6 (1)	9 (2)	217	113	122
8. All Commercial Banks	1123 (471)	633 (219)	1756 (690)	1149 (419)	444 (129)	1593 (547)	8262	15362	16936

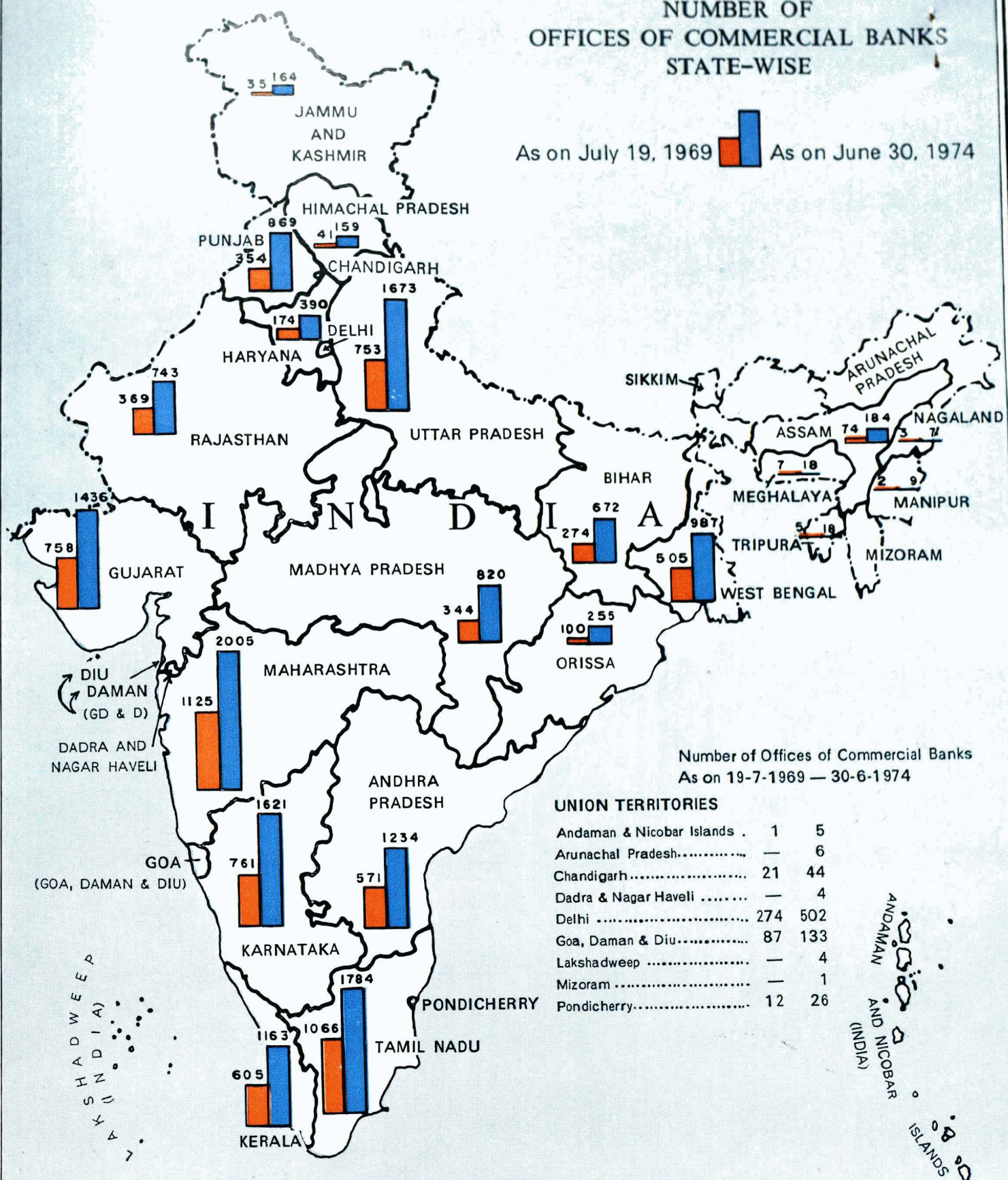
Note: Figures in brackets relate to number of offices opened at the un-banked centres.

TABLE 22:—STATEWISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1972, JUNE 1973 AND JUNE 1974

State/Union Territories	Number of offices as at the end of			Opened during 1972-73 (July-June)	Of which Un-banked Centres	Opened during 1973-74 (July-June)	Of which Un-banked Centres	Population per bank office (in thousands) as at the end of	
	June 1972	June 1973	June 1974					June 1973	June 1974
	1	2	3	4	5	6	7	8	9
1. Andhra Pradesh	959	1103	1234	144	55	131	48	37	35
2. Assam	149	168	184	19	11	16	8	82	79
3. Bihar	541	593	672	52	32	79	36	86	84
4. Gujarat	1234	1320	1436	90	25	116	25	19	19
5. Haryana	299	338	390	39	13	52	17	26	26
6. Himachal Pradesh ..	108	136	159	28	22	26	17	22	22
7. Jammu and Kashmir ..	116	139	164	23	12	26	9	29	28
8. Karnataka	1292	1479	1621	188	76	143	59	19	18
9. Kerala	980	1072	1163	93	32	89	37	19	18
10. Madhya Pradesh ..	669	748	820	80	42	80	28	53	51
11. Maharashtra	1679	1866	2005	187	44	140	19	26	25
12. Manipur	6	9	9	3	2	—	—	119	119
13. Meghalaya	16	17	18	1	—	1	1	56	56
14. Nagaland	5	6	7	1	1	1	—	86	74
15. Orissa	192	225	255	33	20	30	16	89	86
16. Punjab	651	772	869	121	58	97	57	16	16
17. Rajasthan	570	664	743	94	32	79	33	36	35
18. Tamil Nadu	1484	1650	1784	175	65	134	36	24	23
19. Tripura	12	14	18	2	1	4	2	92	86
20. Uttar Pradesh	1324	1497	1673	173	91	177	57	54	53
21. West Bengal	760	882	987	122	19	108	35	46	45
Union Territories									
22. Andaman & Nicobar Islands	4	4	5	—	—	1	1	23	23
23. Arunachal Pradesh ..	5	5	6	—	—	1	1	78	78
24. Chandigarh	33	41	44	8	—	3	1	6	6
25. Dadra & Nagar Haveli ..	4	4	4	—	—	—	—	19	19
26. Delhi	385	455	502	70	—	50	—	8	8
27. Goa, Daman & Diu ..	118	125	133	7	5	8	4	6	6
28. Lakshadweep	2	4	4	2	2	—	—	8	8
29. Mizoram	1	1	1	—	—	—	—	332	332
30. Pondicherry	24	25	26	1	—	1	—	18	18
Total	13,622	15,362	16,936	1,756	690	1,593	547	33	32

NUMBER OF OFFICES OF COMMERCIAL BANKS STATE-WISE

As on July 19, 1969  As on June 30, 1974 



Number of Offices of Commercial Banks
As on 19-7-1969 — 30-6-1974

UNION TERRITORIES

Andaman & Nicobar Islands .	1	5
Arunachal Pradesh.....	—	6
Chandigarh.....	21	44
Dadra & Nagar Haveli	—	4
Delhi	274	502
Goa, Daman & Diu.....	87	133
Lakshadweep	—	4
Mizoram	—	1
Pondicherry.....	12	26

1. Based upon Survey of India map with the permission of the Surveyor General of India.
2. The territorial waters of India extend into the sea to a distance of twelve nautical miles measured from the appropriate base line.
3. The boundary of Meghalaya shown on this map is as interpreted from the North-Eastern Areas (Reorganisation) Act, 1971, but has yet to be verified.

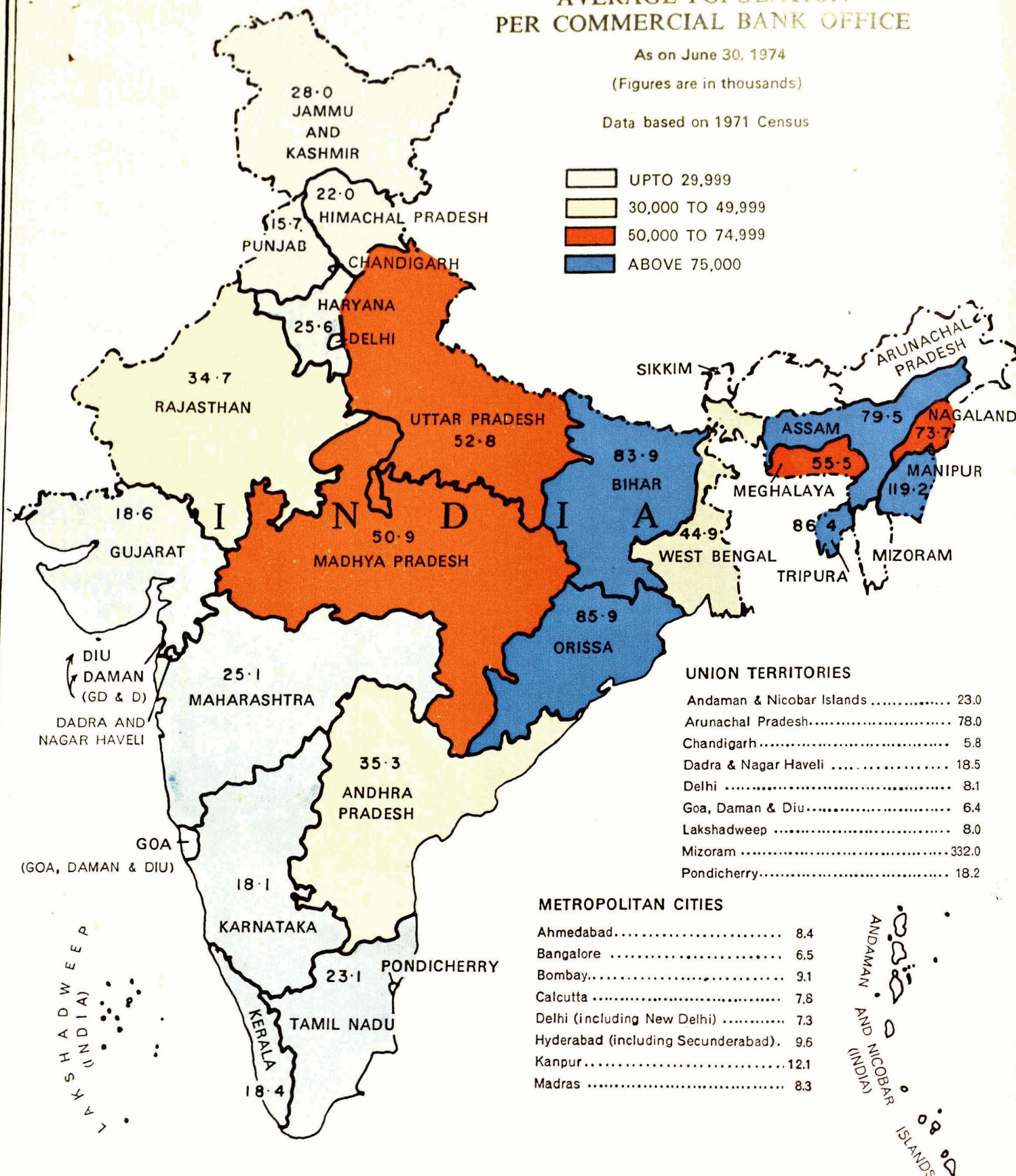
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AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

As on June 30, 1974

(Figures are in thousands)

Data based on 1971 Census



1. Based upon Survey of India map with the permission of the Surveyor General of India.
2. The territorial waters of India extend into the sea to a distance of twelve nautical miles measured from the appropriate base line.
3. The boundary of Meghalaya shown on this map is as interpreted from the North-Eastern Areas (Reorganisation) Act, 1971, but has yet to be verified.

91. The emphasis on expansion in rural and semi-urban areas continued and 985 of the new offices opened during the year were located in such centres. With over one-half of the new offices opened between June

1969 and June 1974 being in rural centres, the number of offices in such centres increased from 22.4 per cent of the total offices in June 1969, to 36.5 per cent of the total in June 1974 (Table 23).

TABLE 23 :—CENTRE-WISE DISTRIBUTION OF COMMERCIAL BANK OFFICES

Centre	Number of Offices as at the end of										Per-centage in-crease between June 1969 and June 1974
	June 1969	% to total	June 1971	% to total	June 1972 ³	% to total	June 1973	% to total	June 1974	% to total	
	1	2	3	4	5	6	7	8	9	10	11
1. Rural	1832	22.4	4279	35.6	4814	35.3	5561	36.2	6175	36.5	50.1
2. Semi-Urban	3322	40.1	4016	33.4	4385	32.2	4723	30.8	5094	30.1	20.4
3. Urban	1447	17.5	1778	14.8	2323	17.1	2573	16.7	2891	17.0	16.6
4. Metropolitan/Port Town	1661	20.0	1940	16.2	2100	15.4	2505	16.3	2700	16.4	12.9
Total	8262	100.0	12013	100.0	13622	100.0	15362	100.0	16936	100.0	100.0

3 Re-classified on the basis of 1971 Census population figures.

Note: Rural Centres : Places with population upto 10,000

Semi-urban Centres : Places with population over 10,000 and upto 1,00,000

Urban Centres :

(a) Metropolitan Towns : Places with population over 10,00,000

(b) Others : Places with population over 1,00,000 and upto 10,00,000.

92. With the progress of branch expansion programme, the national average of population per bank office, which was 65,000 (1961 Census) at the end of June 1969, had declined progressively to 36,000 (1971 Census) at the end of June 1973 and further to 32,000 at the end of June 1974 (see Table 22). The branch expansion during the year improved the population coverage in the under-banked States of Orissa and Tripura where the population per office was brought down to less than 1 lakh at the end of June 1974. However, the population coverage in the State of Manipur and in the Union Territory of Mizoram continued to be over 1 lakh per

office. In nine other States and one Union Territory (Arunachal Pradesh), the population per bank office was over 50,000. Efforts continue to bring about further expansion of branches in these areas.

93. The question of opening new branches abroad by Indian banks has been engaging the attention of the Reserve Bank for some time. During the year, Indian banks opened 5 branches (one each in Mauritius, Maldives Islands, France, Hong Kong and Dubai) outside India ; licences for opening 5 more branches abroad were issued during the year. Permission has been granted to the State

Bank of India for opening an office at Dacca (Bangladesh). Hitherto, expansion had proceeded on the basis of the banks' own assessment of need and potential. In the context of India's growing trade relations, the need has been increasingly felt for co-ordinated action in establishing priorities and determining the potential for Indian banks' foreign expansion. As a first step in this direction, a meeting of the Chairmen of some of the commercial banks was convened by the Reserve Bank in April 1974. The meeting reviewed the working of the existing foreign offices and reached certain tentative decisions in regard to the allotment to different banks of countries/centres for further expansion. The concerned banks have been advised to initiate necessary action in the matter. It was also decided that the difficulties pointed out by banks in regard to the operation of their existing foreign branches should be examined by the Government of India/Reserve Bank at an early date.

94. The lead bank scheme made further progress during the year under review. It might be recalled that banks were required to conduct quick and impressionistic surveys of districts allotted to them under the lead bank scheme with a view to identifying unbanked growth centres for branch opening on the basis of a phased programme. Such surveys have been completed in virtually all of the 338 districts by the concerned lead banks and bank branches are opened in the identified unbanked centres with the needed minimum infrastructural facilities. With this, the first phase of the operation of the scheme may be considered to have been completed.

95. As a further step, some banks have carried out in-depth studies of limited areas within the district (for example, of selected Community Development Blocks). Based on such studies, some development schemes have been drawn up for specific action. A few banks have also undertaken the formulation of comprehensive credit plans for their lead districts on an experimental basis. Such credit plans have been completed for the districts of Rae Bareilly, Ujjain and Seoni, while that for Gorakhpur is nearing completion.

96. The implementation of the schemes evolved through the various surveys requires co-ordinated effort on the part of banks, other financial institutions and Government departments. Under the schemes, District Consultative Committees are expected to provide the forum for organising the necessary co-ordination. So far, District Consultative Committees have been formed in about 285 districts.

97. The participation of commercial banks in financing agriculture is increasing in several ways. The steps for financing the identified participants of the SFDA and MFAL in selected districts included, among others, opening of branches in the scheme areas, simplification of loan application procedures and delegation of adequate discretionary powers to the branch agents. During the year a scheme of financing farmers through Farmers' Service Societies organised by commercial banks came into operation on an experimental basis in a few selected SFDA/MFAL areas. The societies are multi-purpose in character and provide short, medium and long-term advances to their members and also supply inputs, arrange for marketing the produce etc. So far, 16 societies have been organised in 7 States/Union Territories, viz., Karnataka (five), West Bengal (four), Delhi (two), Haryana, Bihar, Uttar Pradesh, Manipur and Tripura (one each). Some more societies are likely to be organised in Uttar Pradesh, Bihar and Orissa during the year.

98. Mention was made in last year's Report about the increasing participation by scheduled commercial banks in financing schemes for which refinance facilities are available from the Agricultural Refinance Corporation (ARC). During the year, the Corporation sanctioned as many as 407 schemes to commercial banks involving total financial assistance of Rs. 99.5 crores; the cumulative sanction increased to 680 schemes upto June 30, 1974, with a financial commitment of Rs. 166.64 crores. The Corporation's disbursements to commercial banks increased from Rs. 4.49 crores in 1972-73 to Rs. 17.36 crores in 1973-74. The schemes sanctioned by the Corporation include a wide range of purposes such as minor irrigation,

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plantation/horticulture, farm mechanisation, dairy development, poultry and sheep breeding, land development, storage/market yards and fisheries development.

99. Scheduled commercial banks are participating in projects sanctioned with assistance from IBRD/IDA⁴ for financing programmes of minor irrigation, land development etc., in certain States. Since 1970, they have financed such projects in Andhra Pradesh, Haryana, Punjab, Karnataka and Maharashtra. During the year under review, the projects sanctioned in three more States, viz., Madhya Pradesh, Uttar Pradesh and Bihar became effective.

100. It was mentioned in the last year's Report that the States of Uttar Pradesh, Haryana, Himachal Pradesh and West Bengal passed Bills to enable commercial banks to undertake financing of agriculture on a larger scale. These Bills became Acts during the year. The Governments of Andhra Pradesh, Bihar, Jammu and Kashmir, Karnataka, Maharashtra, Orissa and Rajasthan also prepared/finalised the draft Bills on the same lines which are expected to be soon introduced in their respective State Legislatures. The need for the speedy implementation of the recommendation of the Talwar Committee was again impressed on the Governments which had not initiated action in that direction.

101. During the year under review, the Reserve Bank took a series of monetary measures with a view to restraining credit expansion; the rates of interest on advances and deposits were raised.

These changes are indicated in the Table 24. As was pointed out in Part I, while implementing this policy care was taken to ensure that credit requirements of public food procurement and production sectors did not suffer. The Reserve Bank made special arrangements for co-ordinating the credit requirements of some of these sectors. In regard to food, for instance, the period under review witnessed the emergence at the State level of a number of Government Corporations entrusted with the task of procuring and distributing foodgrains and other essential commodities. In view of the increase

in the demand for credit arising from this, the Reserve Bank held discussions with various State Governments and their agencies to arrive at a realistic assessment of their credit needs. State Bank of India, the consortium leader for advances for public food procurement operations, was then authorised to sanction suitable credit limits to the State Governments and their agencies under the consortium arrangement. The committee of bankers constituted by the Reserve Bank of India to review the allocation of credit limits among the banks in the consortium met periodically to sort out the operational aspects of the consortium arrangement. To provide some relief to banks in the face of general resources constraint, the Bank agreed to provide full refinance accommodation in respect of banks' aggregate advances for public food procurement and distribution in excess of Rs. 400 crores.

102. The Reserve Bank also made arrangements for co-ordination in the financing of some public sector trading institutions with large credit requirements such as the Jute Corporation of India and the Cotton Corporation of India. In the case of oil companies, following the steep hike in the prices of imported crude and the time-lag in the adjustment of the domestic prices of petroleum products, oil companies engaged in refining and marketing petroleum products were suddenly faced with a substantial increase in their credit requirements. In an effort to meet the enlarged credit requirements, the Reserve Bank held discussions with the individual oil companies to assess their credit needs and authorised credit limits to various banks under consortia arrangements with suitable refinance accommodation. The Bank is keeping a close watch on the credit demands of these oil companies by holding frequent discussions with them and their bankers. The State Bank of India which is the banker to a large number of public sector industrial and trading concerns, could not fully meet the credit requirements of these bodies because of its tighter resources position. Hence, the Reserve Bank has taken steps to arrange for participation of other public sector banks with the State Bank in financing the credit requirements of public sector undertakings.

⁴ International Bank for Reconstruction and Development/International Development Association.

TABLE 24 :—PRINCIPAL MONETARY POLICY MEASURES TAKEN BY THE RESERVE BANK SINCE 1973

Date of Circular	Raised with effect from	Raised/Lowered from (percentage points)
(1)	(2)	(3)
I. Bank Rate		
May 30, 1973	May 31, 1973	6% to 7%
July 22, 1974	July 23, 1974	7% to 9%
II. Statutory Cash Reserve Ratio⁵		
May 30, 1973	June 29, 1973	3% to 5%
August 14, 1973	September 8, 1973	5% to 6%
August 14, 1973	September 22, 1973	6% to 7%
May 14, 1974	June 29, 1974	7% to 5%
III. Statutory Liquidity Ratio⁵		
November 30, 1973	December 8, 1973	30% to 32%
April 18, 1974	June 29, 1974	32% to 33%
IV. (i) Net Liquidity Ratio⁵		
March 17, 1973	March 30, 1973	36% to 37%
May 30, 1973	June 29, 1973	37% to 39%
August 14, 1973	September 8, 1973	39% to 40%
July 22, 1974	July 23, 1974	Remains at 40%
(ii) Maximum Rate Chargeable by the R. B. I.		
November 16, 1973	November 16, 1973	12% to 15%
July 22, 1974	July 23, 1974	15% to 18%
V. Lending Rates of Scheduled Commercial Banks		
(i) Minimum Lending Rate (except for exempted categories)		
May 30, 1973	June 1, 1973	10%
November 30, 1973	December 1, 1973	10% to 11%
July 22, 1974	July 23, 1974	11% to 12.5%
(ii) Maximum Rate of Interest on Export Credit		
November 16, 1973	November 16, 1973	7% to 8% (Preshipment and post-shipment credit). 6% (Export credit on deferred payment terms).
April 19, 1974	April 19, 1974	8% to 9% (Preshipment and post-shipment credit). 7% (Export credit on deferred payment terms)
July 22, 1974	July 23, 1974	9% to 10.5% (Preshipment and postshipment credit).
(iii) Rate of Interest for Food Procurement Credit		
July 22, 1974	July 23, 1974	9% to 11% (Food Corporation of India) 9% to 12% (State Government/Agencies).

(Continued)

(1)	(2)	(3)
(iv) Minimum Rate on Bills		
June 6, 1973 ⁵	June 1, 1973	8%
November 16, 1973	November 16, 1973	8% to 9%
November 30, 1973	December 1, 1973	9% to 9.5%
June 17, 1974	June 18, 1974	9.5% to 11% (Drawee Bills)
July 22, 1974	July 23, 1974	11% to 12.5% (-do-)
		9.5% to 11% (Drawer Bills)

CHANGES IN DEPOSIT RATES

Class of deposit	Rate of interest		
	1-4-1973 ⁶ %	1-4-1974 ⁶ %	23-7-1974 %
1. Current accounts, deposits upto 14 days and deposits subject to withdrawal or repayment by notice for a period of 14 days or less.	No interest except with the Prior approval of the Reserve Bank of India.		
2. Savings accounts	4.0	5.0	5.0
3. Fixed Deposits			
1. 15 days to 45 days	2.75	3.0	3.0
2. 46 days to 90 days	3.25	3.5	3.5
3. 91 days to less than 6 months	4.75	5.0	5.5
4. 6 months to less than 9 months	5.25	5.5	6.0
5. 9 months to less than 1 year	5.25	6.25	7.0
6. 1 year to less than 2 years	6.0	6.75	8.0 (1 year and above but less than 3 years)
7. 2 years and above and upto and inclusive of 3 years	7.0	7.50	
8. Above 3 years up to and inclusive of 5 years	7.0	7.75	9.0 (3 years and above and up to and inclusive of 5 years)
9. Above 5 years	7.25	8.0	10.0

⁵ Of the demand and time liabilities of scheduled commercial banks.

⁶ Scheduled commercial banks with demand and time liabilities upto Rs. 50 crores were allowed to pay an additional interest of between 1/8 and 1/2 per cent per annum, on all classes of deposits bearing interest up to July 22, 1974. This concession has been withdrawn. However, effective July 23, 1974 banks with demand and time liabilities below Rs. 10 crores are allowed to pay an additional interest of 0.5 per cent per annum on saving deposits.

103. At the end of September 1973, total advances to the priority sectors amounted to Rs. 1560 crores, which was more than 3 times the quantum of such advances in June 1969 (Table 25). Public sector banks provided 88 per cent of the total priority sector credit, the nationalised banks accounting for 57 per cent. Small-scale industries continued as the most

prominent component of the priority sectors though their share in the total priority sector advances came down from 57 per cent in June 1969 to 48 per cent in September 1973. Direct finance to agriculture, which was negligible in 1969 accounted for nearly a quarter of the group total in September 1973. Advances to retail trade and small business and to transport operators constituted the balance.

TABLE 25 :—SCHEDULED COMMERCIAL BANKS' ADVANCES TO PRIORITY SECTORS

(Amounts in Rupees Crores)

	June 1969				September 1973*			
	State Bank Group	Fourteen Nationalised Banks	Public Sector Banks	All Scheduled Commercial Banks	State Bank Group	Fourteen Nationalised Banks	Public Sector Banks	All Scheduled Commercial Banks
	1	2	3	4	5	6	7	8
I. Total Bank Credit	1185	1831	3016	3599	1790	3446	5236	6298
II. Advances to Priority Sectors								
(a) Agriculture :								
(i) Direct Finance ..	11	29	40	54	95	237	332	382
(ii) Indirect Finance ..	89	33	122	134	58	111	169	185
(b) Small-scale Industries ..	103	148	251	286	293	372	665	750
(c) Road and Water Transport Operators ..	—	5	5	8	10	60	70	87
(d) Retail Trade and Small Business ..	—	19	19	22	24	79	103	123
(e) Professional and self-employed persons ..	—	—	—	—	2	22	24	29
(f) Education	—	1	1	1	—	4	4	4
Total (a to f) ..	203	235	438	505	482	885	1367	1560
Percentage share of the bank group in all banks	40.2	46.5	86.7	100.0	30.9	56.7	87.6	100.0
Percentage of advances to priority sectors in total bank credit ..	17.1	12.8	14.5	14.0	26.9	25.7	26.1	24.8

* Provisional.

104. A special study of agricultural credit extended by public sector banks in the period June 1969-March 1973 has revealed that lending to the agricultural sector has become more widely dispersed, as indicated by the sharper increase in the number of borrowal accounts than in the amount outstanding. As a result, the average amount per agricultural account came down sharply from Rs. 7056 in June 1969 to Rs. 3376 in March 1973. Farmers with holdings upto 5 acres accounted for about 45 per cent of outstanding short-term loans.

105. In contrast to the rising pace of advances, the recovery position is not wholly satisfactory. While the total demand (i.e., the overdue amount as on the last Friday of previous June *plus* current demand during the year under review) in respect of direct agricultural advances of the public sector banks increased by Rs. 24 crores between June 1972 and June 1973, the amount of recovery increased only by Rs. 6 crores. In the result, the pro-

portion of recovery to total demand stood lower at 46.6 per cent at the end of June 1973 as against 50.7 per cent at the end of June 1972.⁷ While the proportion of recovery showed considerable improvement in 1973 in the southern States save Andhra Pradesh, in most of the States in other regions, the percentage of recovery was less than in 1972. The decline was quite pronounced in some States notably Meghalaya, Tripura, Rajasthan and Bihar. However, with the improvement in the agricultural situation in 1973-74 in some of the worst affected States, especially Maharashtra and West Bengal, the recovery position is likely to improve at the end of June 1974.

106. During the year, banks further developed the area approach which aims at an intensive coverage of selected areas for meeting the total credit needs of borrowers and for ensuring, effective supervision over the

⁷ The deterioration in recovery performance of banks in regard to agricultural loans in 1972-73 may be largely attributed to drought conditions in several States and consequent inability of farmers to repay the loans.

end-use of loans. The total number of villages adopted by the nationalised banks as at the end of June 1973 was 9631. In addition, one bank adopted 67 compact Area Integrated Development Centres. At the end of September 1973, the State Bank group had adopted a total of 9144 villages. The State Bank group had 134 agricultural branches at the end of 1973 as against 90 branches at the end of 1972.

107. Like the public food procurement, export credit was accorded special status in view of the need for intensifying export promotion. Even so, an element of discretion in sanctioning re-finance accommodation to commercial banks against their pre-shipment (packing credit) and post-shipment credit was introduced in the wake of credit control measures initiated by the Bank in November 1973. Refinance up to ten per cent of the weekly average of individual bank's export credit (pre-shipment and post-shipment) was granted at Bank rate up to the end of June 1974; borrowings under this limit, however, impaired the bank's net liquidity ratio which determined the rate of interest for other borrowings from the Reserve Bank. Having regard to the performance of individual banks in extending export credit and also their resource constraints, the Reserve Bank exercised its discretion in providing them additional re-finance exclusively for meeting the credit demands of the export sector after detailed discussions with them. However, such additional refinance was at the NLR⁸ schedule of interest charges. These additional limits were allowed initially upto the end of June 1974 but in deserving cases, extensions were permitted for varying periods, taking into account banks' resource position.

108. Consequent on the increase in the minimum of assets that constitute the liquidity requirement under Section 24 of the Banking Regulation Act from 30 to 32 per cent effective from December 8, 1973, banks found the pre-shipment credit scheme and export bills credit scheme advantageous for obtaining refinance from the Reserve Bank

under Section 17(3A) of the Reserve Bank of India Act, without encumbering their investments in Government and other approved securities.

109. The Reserve Bank convened a meeting of bankers financing diamond exports and of representatives from the Gems and Jewellery Export Promotion Council, MMTC⁹ and ECGC¹⁰ in April 1974 to discuss the problems relating to financing of diamond exports. In order to meet the needs of exporters of silver wares/ornaments, the requirements relating to the production of export order/letter of credit for making packing credit advances for such exports were relaxed in September 1973.

110. The minimum rate on export credit (other than deferred payment terms) was raised twice during the year — from 7 per cent to 8 per cent in November 1973 and further to 9 per cent in April 1974. The period for which export credit is eligible at the concessional rate was also reduced from 180 to 90 days, except in the case of post-shipment credit for exports to the Western Hemisphere. Packing credit advances have also been brought under the purview of the Reserve Bank's Credit Authorisation Scheme.

111. The banks continued to receive under the Export Credit Scheme 1968, subsidy at 1.5 per cent per annum in respect of export credits granted at rate of interest not exceeding the ceiling prescribed. Claims for interest subsidy amounting to Rs. 4.74 crores received from 45 eligible banks were settled during the period under review (pre-shipment credit Rs. 2.73 crores and post-shipment credit Rs. 2.01 crores). The total amount of subsidy disbursed under the scheme since its inception upto June 30, 1974 was of the order of Rs. 23.44 crores.

112. The modifications effected in the scheme in March 1973 with a view to bringing under its purview a larger number of persons from the weaker sections of the society seem to have imparted a wholesome effect. The amount of advances

⁹ The Minerals and Metals Trading Corporation of India Ltd.

¹⁰ The Export Credit Guarantee Corporation.

⁸ Net Liquidity Ratio.

outstanding under the scheme which increased from Rs. 87.26 lakhs spread over 26,202 accounts at the end of December 1972 to Rs. 4.33 crores spread over 1,08,178 accounts at the end of June 1973, rose sharply to Rs. 10.85 crores spread over 2,56,237 accounts at the end of March 1974. The average amount per account has risen from Rs. 333 in December 1972 to Rs. 423 in March 1974.

113. In order to cover loans and advances granted under the scheme, the Credit Guarantee Corporation of India Ltd. has made certain amendments to its Small Loans Guarantee Scheme in April 1974. With these amendments, which came into force with retrospective effect from March 1, 1972, lendings under the scheme are expected to show a further increase.

114. The Bills Rediscounting Scheme gathered remarkable momentum due largely

Bills Rediscounting Scheme

to the stringency in resources experienced by banks during the greater part of the year. The policy of promoting the use of the bill of exchange as an instrument of credit was continued within a restrictionary credit policy. The minimum rate prescribed for bills eligible for rediscount under the scheme was lower than the minimum lending rate. The scheme was also liberalised with the waiver of the requirement of actual lodgement of individual bills up to the value of Rs. 10 lakhs. Previously, only bills of Rs. 2 lakhs and below were exempted from lodgement. Apart from this, the exceptional tightness in credit induced borrowers and banks alike to have increased recourse to bill finance. In the result, bills rediscounted under the scheme recorded a sharp increase during the year 1973-74 as a whole and the busy season in particular. Upto June 28, 1974, total limits of Rs. 364.95 crores were granted to the banks under this scheme. The outstanding amount of bills rediscounted increased by Rs. 243.3 crores to Rs. 278.7 crores during the busy season (end-October to end-April) as against an increase of Rs. 17.6 crores to Rs. 19.8 crores during the 1972-73 busy season. The outstanding amount as of June 28, 1974 at Rs. 274.4 crores showed

an increase of Rs. 259.2 crores over the end-June 1973 level as against an increase of Rs. 4.4 crores during the year 1972-73 (July-June).

115. The rapid increase in the utilisation of rediscounting facility for bills, in the context of a restrictionary credit policy, called for some measures of restraint. Accordingly, enhancement in bill limits sought by banks with the progress of the busy season were permitted only on a selective basis and that also generally only upto end-June 1974. Further, the minimum rate of discount indicated for bills eligible for rediscount under the scheme was raised from 8 per cent to 9.5 per cent in November 1973. With effect from June 17, 1974, the minimum rate in respect of bills discounted at the instance of the drawee was raised to the same level as the minimum lending rate *viz.*, 11 per cent. The minimum rate of discount in respect of bills discounted for drawers was continued at 9.5 per cent. At the commencement of the slack season, banks were told to effect during the season (by end-October 1974) a reduction in the bills rediscounted so as to bring the limits to about 40 per cent of the existing level for the banking system as a whole. Bills rediscounting limits, will in future, be sanctioned on a six-monthly and not on an annual basis.

116. Although bills arising out of sale of commodities covered under selective credit controls are not eligible for rediscount under the Bills Rediscounting Scheme, an exception to this provision was made in respect of bills drawn by textile mills arising out of the sale of cotton textiles (including cotton yarn and fabrics) and yarn and fabrics made out of man-made fibres, with a usance not exceeding 45 days.

117. Further, to facilitate the extension of adequate credit support for purchasing jute required in the manufacture of jute goods by mills for export, banks were permitted to discount bills arising out of purchase of raw jute as part of the packing credit admissible to the mills at the concessional rate applicable to export credit. Such bills are eligible for interest subsidy.

118. It was mentioned in last year's Report that the scope of the Credit Authorisation Scheme (CAS) was widened to bring within its ambit advances to borrowers in the public sector including the State Electricity Boards (SEB) and those against the guarantees of Central and State Governments with a view to subjecting such borrowings to the same standards of credit appraisal and financial discipline as in the case of private sector borrowings. Reference was also made about the Bank's policy in regard to bank credit to the SEBs and the guidelines issued to banks in regard to extension of credit to these Boards for power generation, rural electrification programmes relating to energisation of tube wells/pumpsets and working capital purposes. It has since been suggested to banks that before seeking the Bank's prior authorisation for extending term credit for Rural Electrification Programmes, they should get the project reports relating to these programmes vetted by their own technical cell or by the Rural Electrification Corporation or the Agricultural Finance Corporation, if they do not have necessary expertise for appraising realistically the viability of the projects relating to energisation of wells or pumpsets, etc.

119. Certain points regarding the Credit Authorisation Scheme need to be clarified. The Scheme is intended to consider loan proposals from parties with total credit limits of Rs. 1 crore and over from the point of view of the viability of the project and the need for the limits applied for from banks. The primary credit appraisal of the proposals referred to the Reserve Bank under the Scheme has to be done by the lending banks. In fact, the banks are required to apply to the Reserve Bank for credit authorisation only after the proposals have been sanctioned by the appropriate authorities in the banks. The limits approved under the Scheme indicate the peak requirements of the borrowers over a given period of time. The actual drawals against the limits, or movements in the accounts within this time period are not scrutinised under the Scheme, as drawals have to be related to immediate needs and changes therein on a day to day basis, which is possible only through the internal control system of individual banks. Thus, the Scheme does

not cover the follow-up and supervision procedure in respect of credit deployment. The Reserve Bank has recently set up a Study Group to frame guidelines for follow-up of bank credit utilisation and the Group is expected to communicate its deliberations shortly.

120. After reviewing the prospects of production of sugar during the 1973-74 crushing season, the Bank advised commercial banks in November 1973 that they might sanction, *on merits*, credit limits against sugar stocks to sugar mills for the 1973-74 season to the extent of the maximum outstandings under the regular limits allowed for the last two crushing seasons (*i.e.*, 1971-72 or 1972-73 season) without Bank's prior authorisation under the Scheme. The need for continuance of a regulatory procedure for ensuring prompt payment by sugar mills of the cane dues to the cane growers, by obtaining necessary data, was once again impressed upon banks.

121. Necessary steps were also taken under the Scheme to enable banks to provide adequate finance to the jute industry. Thus, in view of the increased supply position of raw jute and the prospects of expanding jute goods production during the 1973-74 jute season (July-June) banks were advised in October 1973, after consultation with the Jute Commissioner, that they could finance upto end-April 1974 inventories of raw jute with jute mills upto a maximum of 4 months' consumption and finished goods equivalent to 6 weeks' sales, without the Bank's prior authorisation. Later, in April 1974, considering the larger availability of raw jute this year and the consequent large carry-over to the next season, this relaxation was extended initially upto the end of June 1974, and later upto end-October 1974.

122. Banks were also advised that, after obtaining prior authorisation of the Reserve Bank they could provide short-term loans against block assets of jute mills to enable them to clear their overdues in respect of their (past) purchases of raw jute, provided the borrowing mills agreed to undertake financing

of their raw jute purchases by adopting the system of usance bills on letter of credit or acceptance basis as this system would result in the elimination of credit against unpaid stocks. Further, banks have been advised that while financing stocks of raw jute they should ensure that jute mills invariably make prompt payment to the Jute Corporation of India and that no advances are made against stocks of unpaid jute purchased from the Corporation.

123. During the period July 1973-June 1974, 953 applications were received from banks for the Bank's prior authorisation of credit proposals under the Credit Authorisation Scheme as compared to 954 applications received during 1972-73 (July-June). As in the past, the bulk of these proposals was for the purpose of financing working capital requirements. However, from the applications received it was observed that there has been welcome shift towards financing of working capital requirements by sanctioning suitable bill limits for financing purchase of raw materials and the sale of the end-products, as against the traditional cash credit/overdraft system of financing. Out of these applications, fifty-one were rejected by the Bank and thirty-three were withdrawn by the applicant banks themselves following the queries raised by the Bank on the proposals, which indicated that on the basis of the available data, there was no need for any additional bank credit.

124. In view of the Bank's policy of credit restraint, banks were also advised that while according authorisation for credit proposals they should ensure that drawals in the account/s were restricted to amounts needed to meet only the very essential credit requirements of the borrowers. They were also exhorted to exercise utmost caution to monitor proper end-use of funds. Further, while authorising credit proposals suitable covenants continued to be stipulated together with suggestions for improving the financial structure/position in several cases. By and large, these were designed to bring about better financial discipline on the part of the borrowers through the agency of banks. Banks have been taking steps to tune up their credit appraisal machinery.

125. The rapid expansion in industrial and trading activities and the growing requirements of State-owned enterprises have resulted in large demand for credit from individual borrowing units. It is no longer possible for one bank to meet the full credit demand of the large borrowers and a consortium approach has become necessary. With a view to devising a suitable system for this purpose, the Reserve Bank set up a Study Group in December 1973 to formulate guidelines for sharing banking business of large borrowers, both in the public and private sectors, for participation amongst banks for reviving sick units and for better co-ordination and co-operation amongst banks in respect of multiple banking. The Study Group has submitted its report to the Reserve Bank and its recommendations are being pursued.

126. The Participation certificate scheme which was introduced in April 1970 on an experimental basis for the period upto June 30, 1974, has been extended for a further period of one year upto June 30, 1975 under certain terms and conditions. Under the scheme, the Reserve Bank has so far accorded approval to 34 commercial banks to issue Participation Certificates to other commercial banks, Life Insurance Corporation of India, Unit Trust of India, general insurance companies and also to other financial institutions. The aggregate value of such certificates issued and outstanding as at the end of June 30, 1974 amounted to Rs. 60 crores. The maximum rate of interest at which a bank may issue the certificates continued at 10 per cent per annum.¹¹ The maturity of the Certificates should not be less than 30 days or more than 180 days subject to the condition that no certificate should be issued with maturity extending beyond June 30, 1975.

127. The response from the scheduled commercial banks to the new Basic Statistical Returns System introduced in December 1972, has been encouraging. The first return for December 1972 under the new reporting system had a

¹¹ The maximum rate has been raised to 12 per cent with effect from August 1, 1974.

**Study Group
on Consor-
tium Partici-
pation Arran-
gements for
Bank Loans**

**Participation
Certificate
Scheme**

**Basic Statistical
Returns Scheme
(BSR)**

coverage of 99 per cent in terms of deposits and advances of scheduled commercial banks. The first of the series of publications based on the BSR giving the results drawn from the data for December 1972 was brought out in January 1974. Besides giving data on the regional distribution of deposits and advances, break-up of deposits according to type and sectoral flow of credit, data on credit analysed according to size, type of account and organisation are presented in the publication. While data for June 1973 are now in print, advance tabulations have been made available to banks as a part of the feed-back arrangements.

128. A conference of the officers handling BSR work in major scheduled commercial banks was held in Bombay in March 1974 to review the progress achieved by the BSR system and to consider steps for further improvement in reporting and for the maximum utilisation of the information collected.

129. The Credit Information Division of the Reserve Bank of India continued to assist banks and other notified financial institutions by furnishing information on credit facilities allowed to individual borrowers. During the year 1973-74 (July-June), credit information in respect of 1,099 applications was furnished as against 1,186 applications during 1972-73. The system of collection of credit information was also streamlined in October 1973 with a view to facilitating expeditious reporting and improving the quality of data. To the extent possible, the format of the return and the code numbers used have been brought in conformity with Part A of the Basic Statistical Return — I. The Return is now to be submitted on a *half-yearly* basis (as on the last Friday of April and October) instead of on a *quarterly* basis, as was the practice upto the end of June 1973 and would cover secured and unsecured credit limits (either individually or in aggregate) which total Rs. 5 lakhs and over and Rs. 1 lakh and over, respectively.

130. Mention was made in the Report for 1971-72 about the report of the Study Group on 'Greater Exchange of Credit Information amongst Bankers', a copy of which was forwarded to all commercial banks for their comments. The long-term recommendation

of the Group for creation of a Central Agency called "Credit Information Trust" is closely aligned to similar recommendation contained in paragraph 21-27 of the Report of the Banking Commission. The Reserve Bank has taken the view that the promotion of a statutory credit information agency can be deferred to a more opportune time. The short-term recommendations made by the Study Group which mainly relate to the improvement in the procedures followed by banks for collection of credit information are under examination in the light of the views expressed by banks.

131. The Credit Guarantee Corporation's Small Loans Guarantee Scheme, 1971 was amended during the year in order to cover loans and advances granted under the Differential Interest Rates Scheme. The amendment came into force with retrospective effect from March 1, 1972. The Small Loans Guarantee Scheme, which was initially made applicable only to scheduled commercial banks, was extended with effect from April 1, 1974 to non-scheduled commercial banks which may be willing to execute individual agreement with the Corporation.

132. The amount of advances guaranteed under the Corporation's various schemes, viz., (1) Small Loans Guarantee Scheme, (2) Financial Corporations Guarantee Scheme and (3) Service Co-operative Societies Guarantee Scheme amounted to Rs. 432 crores as on the last Friday of December 1973.¹² Almost the whole of this amount (Rs. 428 crores) was accounted for by Small Loans Guarantee Scheme. Of this again, advances guaranteed in respect of farmers and agriculturists, transport operators, traders of goods (other than fertilisers and mineral oils) and professional and self-employed persons amounted to Rs. 276 crores, Rs. 54 crores, Rs. 53 crores and Rs. 27 crores, respectively. The amount of advances guaranteed under the Financial Corporations Guarantee Scheme and Service Co-operative Societies Guarantee Scheme together amounted to Rs. 3.7 crores.

133. Upto June 30, 1974, 422 claim applications for amounts aggregating Rs. 15.5

¹² Relates to 68 out of 71 scheduled commercial banks which joined the Scheme.

lakhs were received. Of this, the agricultural sector alone accounted for 313 applications for an amount of Rs. 11.7 lakhs. The Corporation paid 16 claims for an aggregate amount of Rs. 64,000; 23 claims aggregating Rs. 1,41,000 were rejected. Nine claims for an aggregate amount of Rs. 21,000 were withdrawn, clarifications have been sought in respect of 207 claims, while the remaining claims were under examination at the end of June 1974. After paying the claims, the Corporation has subrogated rights in respect of amounts which may be recovered from the concerned banks; so far no recoveries have been reported out of these amounts.

134. During the year 1973-74 one new commercial bank, viz., Bharat Overseas Bank Ltd., Madras, was registered as an insured bank on its being granted a licence by the Reserve Bank under Section 22 of the Banking Regulation Act, 1949 while two other banks, viz., Hindustan Mercantile Bank Ltd., Calcutta and Krishnam Baldeo Bank Ltd., Gwalior, were deregistered consequent upon the transfer of their liabilities and assets to the United Bank of India and State Bank of India, respectively. The number of insured commercial banks thus was reduced from 81 to 80.

135. The insurance scheme has been extended to the co-operative banks in the State of Jammu and Kashmir and the Union Territory of Delhi. Following this, 423 eligible co-operative banks in the States of Andhra Pradesh, Jammu and Kashmir, Madhya Pradesh, Maharashtra and the Union Territories of Delhi, Goa, Daman and Diu are now covered by the Scheme.

Banking Legislation

136. The Reserve Bank of India (Amendment) Bill, 1973 was introduced in the Parliament (Rajya Sabha) in December 1973. The more important amendments proposed to the Reserve Bank of India Act relate to (i) extension of the scope of refinance facilities from the Reserve Bank to scheduled commercial banks and state co-operative banks

and (ii) modification in the definition of the term "liabilities". In the case of a scheduled commercial bank, only the net liability of a bank to the entire banking system, that is, its total liability to other banks *minus* the balances maintained by it with all the other banks would be deemed to be its liability to these banks. In the case of a scheduled co-operative bank, the amount *owed* by or to all commercial banks will be similarly netted for the purpose of ascertaining the net liability of that bank to the commercial banking sector. Mention should also be made of the provision in the Bill to give statutory protection to banks to exchange freely credit information mutually among themselves.

137. The State Bank Laws (Amendment) Bill, 1973 incorporating various amendments to the State Bank of India Act, 1955 and the State Bank of India (Subsidiary Banks) Act, 1959, passed by the Parliament received the assent of the President in November 1973. Some of the provisions of the amended Act came into force with effect from December 31, 1973. The amendments provide, *inter alia*, for the following: (a) removing the existing restrictions in its Act as to the kinds of business the State Bank of India could transact so as to bring the bank on par with other commercial banks, (b) rationalising the existing arrangements for the conduct of audit and submission of accounts, etc., (c) representation of the employees on the Central Board of the State Bank of India and on the Board of each of its seven subsidiaries as already exists in the case of the 14 nationalised banks.

138. Item 3 in the form of balance sheet set out in the third schedule to the Banking Regulation Act on the capital and liabilities side was amended and brought into force with effect from December 24, 1973 so as to require banks to show separately inter-bank deposits in their balance sheet. This would also help in discouraging commercial banks from accepting inter-bank deposits for the purpose of window-dressing at the year end.

Amendment of
the Reserve
Bank of India
Act, 1934

Amendment to
the form of
Balance Sheet
of Banks

Other Organisational Matters

139. The comparative position in regard to the inspection of banks and bank offices carried out during the last three years (July-June) is indicated below :

	1971-72	1972-73	1973-74
Financial Inspection			
No. of banks inspected/ taken up for inspection ..	37	44	24
No. of offices inspected ..	1,116	1,013	752
Centre-wise Inspection			
No. of centres	76	194	614
No. of branches ..	364	789	2,218
Systems Inspection			
No. of banks inspected ..	2	1	1

During the year, the programme of inspections under Section 35 of the Banking Regulation Act, 1949 covered 23 scheduled banks and one non-scheduled bank. The coverage of financial inspection was less than that in the previous year which followed from a policy decision to reduce the number of banks' branches to be inspected. The disturbed conditions in certain States like Andhra Pradesh and Gujarat also contributed to the fall in the coverage. However, the pace of centre-wise inspections was accelerated during the period; 614 centres served by 2,218 offices of commercial banks were covered under these inspections as against 194 centres served by 789 offices of banks covered in the previous year. The reinspection of a bank in liquidation under Section 45Q of the Banking Regulation Act was also commenced during the year.

140. During the year, inspection was carried out of one branch each of Bank of India and Bank of Baroda in Kenya and 3 branches of Bank of Baroda in Mauritius.

141. The following inspections were also carried out during the period : (i) inspection of 5 non-banking companies, (ii) inspection of the Commercial Bank Ltd., under Section 44B of the Banking Regulation Act, 1949 and

(iii) scrutiny for final valuation of 2 transferor banks which were amalgamated with other banks under Section 45 of the Act.

142. Test checking of the compliance with the provisions of selective credit control directives at selected centres was also commenced during April-May 1974.

143. The programme of study of selected individual banks for examining their systems and procedures and suggesting improvements where necessary was continued, with the study made of one more bank during the year. The systems and procedures of four banks have so far been studied under this programme initiated in 1971. In June 1974, study of the systems and procedures of one more bank has been taken in hand.

144. During the period under review licences for carrying on banking business were granted to Sonali Bank, Bangladesh, and Bharat Overseas Bank Ltd., Madras. The Sonali Bank is expected to commence operations shortly.

The Bharat Overseas Bank Ltd., was formed principally to take over the business of the Bangkok branch of the Indian Overseas Bank since the banking laws in Thailand do not permit the operation of foreign State-owned/controlled banks in that country. The Bharat Overseas Bank Ltd., has been organised in the private sector with 70 per cent of its total share capital owned by 6 Indian scheduled commercial banks in the private sector and the balance 30 per cent by Indian Overseas Bank. The Bank has also been included in the Second Schedule to the Reserve Bank of India Act. With the licensing of these two banks, the number of licensed banks has increased to 47.

145. During the period under review, no licence under Section 22 of the Banking Regulation Act, to carry on banking business in India was refused to any existing bank. The total number of banks to which licences were refused thus remained unchanged at 283 as at the end of April 1974. An application received from a company¹³ for the grant of a licence under Section 22 of the Banking

13 Krishi Export Banking Company Ltd.

Regulation Act for commencement of banking business was, however, rejected.

146. The Bharat Overseas Bank Ltd., took over the Bangkok branch of the Indian Overseas Bank with effect from January 1, 1974. For this purpose, the Government of Thailand issued a licence in favour of the Bharat Overseas Bank Ltd., authorising it to open a branch at Bangkok.

147. Efforts continued to be made to consolidate the banking system in the country through a process of voluntary amalgamations or the transfer of assets and liabilities. During the year, the assets and liabilities of one unlicensed scheduled bank (Hindustan Mercantile Bank Ltd.) were transferred to a nationalised bank (United Bank of India) under Section 293 of the Companies Act, 1956, while the business of a licensed scheduled bank (Krishnaram Baldeo Bank Ltd.) was acquired by the State Bank of India.

148. During the period under review, six non-scheduled commercial banks were dissolved by various High Courts in the Country. Certificates under Section 44(1) of the Banking Regulation Act, 1949 were issued to 2 non-scheduled commercial banks to enable them to go into voluntary liquidation. The inspection of the Associated Banking Corporation of India Ltd., Bombay under Section 45Q of the Banking Regulation Act continued to remain suspended as the relative records were not made available to the Inspecting Officers.

149. New Boards of Directors for the 14 nationalised banks were constituted with effect from December 11, 1972 under the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970. Government have extended the term of such of these directors on nationalised banks as were originally appointed for one year with effect from December 11, 1972 to a three-year term from the date of their original appointment. A few new directors have also been appointed on the boards of some of the nationalised

banks to fill in vacancies as also to strengthen the representation of scheduled castes and tribes on those Boards.

150. On the expiry of the term of the directors nominated on the Managing Committees on December 10, 1973, these Committees ceased to function. Pending their reconstitution by Government, the functions discharged by the Managing Committee are at present being discharged by the Boards of Directors.

151. Fourteen Clearing Houses were established during the period July 1, 1973 to June 30, 1974, bringing the total number of clearing houses in the country to 194; of these, 9 are managed by the Reserve Bank, 153 by the State Bank of India and 32 by the subsidiaries of the State Bank of India.

152. The Banking Commission has recommended that the Reserve Bank should consider the feasibility of establishing additional clearing houses in large cities to serve suburban or other composite areas and to reduce the workload on the existing clearing houses. The Commission has also suggested that additional clearing houses may be managed by the State Bank of India or a nationalised bank operating at such centres. The Reserve Bank accepted the recommendation in principle and decided that two additional clearing houses may be established in Bombay, one at Mandvi and the other at Dadar. The proposal was communicated to the Indian Banks' Association for examination and the Association has expressed the view that the establishment of additional clearing houses in cities would not solve any of the existing problems and it has, therefore, suggested the introduction of a 'Central Night Clearing House.' After an examination of the problem, the Reserve Bank has made a counter proposal which envisages certain procedural adjustments in timings etc., in the existing clearing house operations. The Clearing Reforms Committee of the Indian Banks' Association considered the proposal and arrived at certain decisions which are under the consideration of the Managing Committee of the Indian Banks' Association.

153. It was mentioned in the last year's Report that the Reserve Bank had forwarded its views to the Government on certain recommendations of the Banking Commission which had been specifically referred to it. The Government of India have since taken decisions on a number of recommendations. The recommendations on which decisions have been taken by the Government are as follows :

Recommendations of the Banking Commission—Action Taken

(a) Bank operating methods and procedures :

[The various recommendations on this subject are designed to achieve simplification of credit procedures, application forms, rationalisation of internal control system and organisation and management in order to improve functional and operational efficiency.] Two recommendations which are not being accepted relate to the establishment of a common inspection agency for all banks and a bank *giro* system. As far as the Bank *giro* system is concerned, Government have not accepted the relative recommendation for the time being in order to watch how such a system introduced in the Post and Telegraphs Department works. All other recommendations have generally been accepted.

(b) Specialised financial institutions :

Government have not accepted, for the present, the recommendation of the Commission for the establishment of a separate merchant banking institution; it has been decided that, for the present, the experiment of merchant banking divisions set up by some commercial banks, might be watched. The recommendation of the Commission for the setting up of specialised institutions for consumer credit is also not being accepted. Government have agreed with the finding of the Commission that there does not seem to be an immediate need for establishment of a Specialised Savings Bank or Specialised Discount Houses.

(c) Legislative reforms :

Arising out of those recommendations of the Commission, which are acceptable to the Government and to the Bank, certain statutes governing banks are being amended. For example, Section 19 of the Banking Regulation Act is being amended to allow the banks to form subsidiaries for carrying on any business permitted to be transacted by the banks under the Act. The Commission has made an important recommendation that legal provision should be made for nomination facilities to all individuals who may be maintaining accounts with banks in current, savings or fixed deposits and also for safe custody of articles/lockers. Suitable amendments to the Banking Regulation Act are being framed to give effect to this recommendation.

154. [The Commission referred to the necessity for evolving a uniform scheme for all 'national banks' (i.e., State Bank of India, its subsidiaries and the 14 nationalised banks) to enable a common programme of functions and responsibilities in the development of the banking/credit system of the country.] The relative recommendation involved mainly the question of effecting amendments to the statutes under which these banks have been established. [Some of the amendments recently effected to the State Bank of India Act, were designed with reference to this recommendation of the Banking Commission.]

Working Results of Public Sector Banks

155. An analysis of the working results of the 22 public sector Banks (State Bank of India and its 7 subsidiaries and the 14 nationalised banks) reveals that their profits,¹⁴ at Rs. 12.3 crores, during 1973 recorded a marginal improvement of Rs. 0.4 crore over the previous year, as against a decline of Rs. 0.8 crore in 1972 (Table 26). The total earnings of these banks increased by 24.7 per cent (to Rs. 754.4 crores) during 1973, as compared to a rise of 18.0 per cent during 1972. Earnings in the form of interest and discount increased by 24.6 per cent due to increase in the volume of bank

¹⁴ Profits after provision for taxation and for bonus to staff.

credit and the stepping up of the rates of interest on advances with the prescription of a minimum lending rate of 10 per cent with effect from June 1, 1973 and 11 per cent from December 1, 1973. Total expenses of these banks, at Rs. 742.1 crores, recorded an increase of 25.2 per cent as compared to 18.7 per cent in 1972. This was attributable to the increase in interest payments on deposits and borrowings and to the rise in the expenditure on salaries and allowances.

156. The bank group-wise analysis shows an improvement in the total earnings of State Bank of India from Rs. 168.9 crores in 1972 to Rs. 207.3 crores in 1973. The Bank's expenditure also increased by Rs. 38.1 crores in 1973 as compared to Rs. 26.8 crores in the preceding year. Con-

sequently, the profits of the State Bank of India, at Rs. 4.1 crores, in 1973 recorded an increase of Rs. 27 lakhs as against an increase of only Rs. 7 lakhs in 1972. Out of the profits for 1973, the Bank transferred Rs. 2.3 crores to reserve fund and provided Rs. 1.3 crores for dividend to shareholders.

157. The total income of seven subsidiaries of the State Bank increased from Rs. 47.1 crores in 1972 to Rs. 58.4 crores in 1973—a rise of Rs. 11.34 crores. Since their expenditure also increased by almost the same amount (Rs. 11.32 crores) their profit showed only a small increase of Rs. 2 lakhs in 1973. Out of the profits, these banks transferred Rs. 12 lakhs to reserves and provided Rs. 36 lakhs for payment of dividend to the State Bank.

TABLE 26:—WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

(Amounts in Rupees Crores)

	State Bank Group		Nationalised Banks		Total Public Sector Banks		Other Indian Schedule Commercial Banks ¹⁵		Foreign Banks	
	1972	1973	1972	1973	1972 (1+3)	1973 (2+4)	1972	1973	1972	1973
	1	2	3	4	5	6	7	8	9	10
I. Total Earnings ..	216.00	265.73	388.79	488.66	604.79	754.39	51.38	69.66	66.69	75.76
Of which	(18.6)	(23.0)	(17.6)	(25.7)	(18.0)	(24.7)	(30.6)	(35.6)	(10.4)	(13.6)
(a) Interest & Discount	177.08	216.83	342.01	430.16	519.09	646.99	44.60	60.90	52.31	58.93
	(19.6)	(22.4)	(18.3)	(25.8)	(18.8)	(24.6)	(30.8)	(36.5)	(10.7)	(12.6)
II. Total Expenditure ..	211.63	261.07	381.24	481.01	592.87	742.08	50.10	68.34	62.80	71.56
Of which:	(19.1)	(23.3)	(18.4)	(26.2)	(18.7)	(25.2)	(32.1)	(36.4)	(9.0)	(13.9)
(b) Interest paid on borrowings, deposits etc. ..	93.53	117.29	197.11	257.78	290.64	375.07	26.10	35.86	25.68	30.60
	(19.4)	(25.4)	(20.8)	(30.8)	(20.2)	(29.1)	(35.4)	(37.4)	(7.4)	(19.1)
(c) Salaries, Allowances, Provident Fund and Bonus	93.83	114.28	138.06	169.48	231.89	283.76	17.50	23.75	16.68	18.57
	(16.3)	(21.7)	(15.1)	(22.7)	(15.5)	(22.4)	(27.9)	(35.7)	(6.4)	(11.3)
III. Profits After Provision for Taxation and Bonus to Staff	4.37	4.66	7.55	7.65	11.92	12.31	1.28	1.32	3.89	4.20
	(1.9)	(6.6)	(—10.8)	(1.3)	(—6.5)	(3.3)	(—10.5)	(3.1)	(39.9)	(8.0)

15 Includes the figures of only 24 other Indian scheduled commercial banks with deposits of over Rs. 10 crores each.

Note : Figures in brackets indicate percentage variation over last year.

Source : Profit and Loss Accounts of Banks.

158. The total income of the 14 nationalised banks, at Rs. 488.7 crores, in 1973 recorded an increase of Rs. 99.9 crores (25.7 per cent), as compared to the rise of Rs. 58.3 crores (17.6 per cent) in 1972; this was mainly on account of the rise in earnings from interest and discount. Total expenses of these banks, at Rs. 481.0 crores, in 1973 increased by Rs. 99.8 crores (26.2 per cent), as against the rise of Rs. 59.2 crores (18.4 per cent) in the last year. This was attributable partly to the increase in interest payments on deposits and borrowings and partly to the rise in establishment expenses. The profits of these banks, at Rs. 7.7 crores in 1973 showed an increase of Rs. 10 lakhs in contrast to a decline of Rs. 91 lakhs in 1972. Among the nationalised 14 banks, profits of 6 banks recorded a modest rise, while those of 8 others registered a decline of varying magnitude. Out of their profits, the 14 nationalised banks transferred Rs. 3.8 crores to the statutory reserves and Rs. 3.5 crores to Government of India under Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. The surplus amount transferred to Government of India represents 4.0 per cent of the aggregate compensation paid for the acquisition of these banks.

Working Results of Other Scheduled Commercial Banks

159. The working results of 24 other Indian Scheduled Commercial Banks with deposits of over Rs. 10 crores each reveal a substantial improvement in their total earnings from Rs. 51.4 crores in 1972 to Rs. 69.7 crores in 1973. Total expenditure of these banks also rose from Rs. 50.1 crores in 1972 to Rs. 68.3 crores in 1973. Due to almost an equal rise in income and expenditure the profits of these banks recorded a nominal rise of Rs. 4 lakhs in 1973. Transfers to statutory reserves out of profits declined from Rs. 53 lakhs in 1972 to Rs. 48 lakhs in 1973, while appropriations for other reserves rose from Rs. 21 lakhs to Rs. 27 lakhs. Dividend payments to shareholders were, however, maintained at Rs. 33 lakhs *i.e.*, at the same level as in 1972.

160. Total income of the foreign banks increased from Rs. 66.7 crores to Rs. 75.8 crores or by 13.6 per cent during 1973. Their total expenditure, however, increased by Rs. 8.8 crores to Rs. 71.6 crores—a rise of 13.9 per cent over the previous year. The profits of these banks showed an improvement from Rs. 3.9 crores in 1972 to Rs. 4.2 crores in 1973. Among the foreign banks, First National City Bank earned the largest profits (Rs. 1.25 crores), followed by National & Grindlays Bank (Rs. 1.23 crores). All foreign banks together transferred to their head offices an amount of Rs. 3.21 crores in 1973, as compared to Rs. 3.91 crores in 1972.

Control on Non-Banking Companies

161. During the year, the Reserve Bank issued a new set of directions known as the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1973 which seek to regulate the acceptance of deposits by companies conducting prize chits, lucky draws, savings schemes etc. These directions which came into effect from September 1, 1973 have clarified that the amounts received by such companies by way of contributions or subscriptions or by sale of units, certificates etc., or other instruments or in any other manner or as membership fees or admission fees or service charges to or in respect of any savings, mutual benefit, thrift, or any other scheme or arrangement also constitute deposits. It was further clarified that the usual ceiling limit on deposits (*i.e.*, 25 per cent of the paid-up capital *plus* free reserves *less* accumulated balance of loss) would also apply to such deposits. Any amount in excess of the ceiling existing on September 1, 1973 would have to be adjusted in a phased manner before October 1, 1976. All other requirements applicable to other non-banking companies such as those relating to the issue of advertisements, acceptance of deposits on the basis of application forms, maintenance of registers of deposits and furnishing of receipts to depositors, would also apply to these companies. However, companies coming within the purview of these directions would be required to submit their returns to the Reserve Bank *twice* a year (as on March 31

and September 30) and not *once* a year (as on March 31) as in the case of other non-banking companies.

162. The two principal notifications containing the directions issued in October 1966, respectively to non-banking financial and non-financial companies were further amended during the year by two notifications issued in August 1973. The principal features of the amendments are: (i) Any loan secured by the creation of a mortgage or pledge of the assets of the company or any part thereof would be exempt from the ceiling restrictions relating to deposits *only if* there is a margin of at least 25 per cent of the market value of the assets charged as security for the loan and, in case more than 20 persons are given the same assets as security for the loan, the mortgage or pledge, as the case may be, is created in favour of a trustee, which should be either a scheduled commercial bank or an executor and trustee company which is a subsidiary of such scheduled commercial bank, and the company has to execute a trust deed in favour of the scheduled commercial bank or its subsidiary. If the Reserve Bank is satisfied that the mortgage or pledge created by a company is not in the public interest, it may declare that the deposits sought to be secured by such mortgage or pledge shall not be entitled to the benefit of the aforesaid provision. Companies accepting such secured deposits will, however, have to comply with all other provisions contained in the directions as applicable to ordinary deposits or unsecured loans. (ii) Loans obtained from a registered money-lender will henceforth be treated as deposits for the purposes of the directions.

163. In the Survey of Deposits with Non-banking Companies for the year ended March 31, 1971 a total of 2,240 companies reported as against 2,211 reporting for the previous year's Survey. The number of reporting financial companies during the year increased by 92 to 768, the highest since the survey as on March 31, 1967; 105 financial companies submitted returns after issuance of show cause notices to them. The number of reporting non-financial companies, on the other hand, declined by 63 to 1,472, mainly due to the conversion of deposits into

loans in the exempted categories.¹⁶ The total number of accounts reported as at the end of March 1971 showed a substantial increase from 7.14 lakhs to 8.16 lakhs over the year. The total amount of deposits (including exempted loans not counting as deposits) also showed an overall increase of Rs. 63.4 crores from Rs. 505.2 crores to Rs. 568.6 crores. Of this, deposits and exempted loans with financial companies accounted for Rs. 149.6 crores, the balance (Rs. 419.0 crores) being on account of non-financial companies. Component-wise, the exempted loans increased by Rs. 49.7 crores to Rs. 337.0 crores, while the outstanding deposits increased by Rs. 13.7 crores to Rs. 231.6 crores.

164. The reporting companies were mainly concentrated in the States of Maharashtra, West Bengal and Tamil Nadu. These three States together accounted for 1,396 or 62.3 per cent of the total number of reporting companies with aggregate deposits and exempted loans of Rs. 429.0 crores or 75.5 per cent of the total outstanding as at the end of March 1971.

165. After an examination of the recommendations of the Banking Commission in regard to non-banking financial intermediaries and the Reserve Bank's views thereon, the Government of India has decided, *inter alia*, that statutory powers should be taken to prohibit acceptance of deposits by all unincorporated non-banking institutions and that the existing legal provisions and the directions issued by the Reserve Bank may be tightened to plug the loopholes. The Reserve Bank has recently constituted a Study Group headed by Shri James S. Raj, Chairman of the Unit Trust of India, to examine in depth all aspects of the matter and make suitable recommendations for implementing Government's decisions.

¹⁶ Loans guaranteed by directors were exempt from the restrictions regarding deposits in terms of the directions in force prior to January 1, 1972. Non-Banking non-financial companies which did not have deposits, as defined in the relative directions, were therefore not required to submit any return to the Reserve Bank. However, with a view to checking the tendency to convert deposits into exempted loans the directions issued to non-banking companies were amended with effect from January 1, 1972 so as to subject such loans also to restrictions similar to those applicable to deposits.

III. DEVELOPMENTS IN CO-OPERATIVE BANKING

166. In the sphere of co-operative banking the main emphasis was on aligning policies with the measures adopted for attaining the overall objectives of monetary and credit restraint. The procedures and practices followed by the co-operative banks were geared to subserve this purpose. At the same time efforts were continued in the direction of reduction in the regional imbalances in the distribution of credit and extension of assistance largely in favour of the small and economically weak farmers. Further, steps were taken to rehabilitate weak co-operative banks and provide incentives to the co-operative banks to become viable units.

Co-operative Credit Policy, Procedures and Operations

167. The Bank continued to sanction separate short-term limits for production and marketing of *kharif* and *rabi* crops to co-operative banks during the year 1973-74. However, consistent with the credit control measures introduced by the Bank, curbs were imposed through various directives on state, central and primary (urban) co-operative banks on advances against selected agricultural commodities.

168. An overall view of the progress of co-operative credit movement during the three years ended 1972-73¹ is presented in table 27.

169. In the sphere of short-term finance, several measures were taken by the Bank. The credit limits sanctioned under Section 17(4) (a) of RBI Act to the state co-operative banks for seasonal agricultural operations were normally at 2 per cent below the Bank rate; in respect of other seasonal agricultural operations, while the sanction was given initially at 0.5 per cent below the Bank rate, rebate of 1.5 per cent was conditional upon fulfilment of the stipulation linking borrowings with deposit mobilisation. While sanctioning separate *kharif* and *rabi* limits the Bank stipulated that after

TABLE 27:—PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT²

(Amounts in Rupees Crores)

Type of Institutions	1970-71	1971-72	1972-73 ³
(a) State Co-operative Banks			
(i) Number	25	26	25
(ii) Owned Funds ..	92	102	117
(iii) Deposits	279	330	406
(iv) Borrowings from the Reserve Bank of India ..	242	211	259
(a) Of which, short-term agricultural ..	190	153	155
(v) Working capital ..	685	731	845
(vi) Loans issued ..	749	924	1067
(vii) Loans outstanding ..	534	552	623
(a) Of which, short-term agricultural ..	288	348	282
(viii) Percentage of (iv-a) to (vii-a) ..	66	44	55
(b) Central Co-operative Banks			
(i) Number	341	341	344
(ii) Owned funds ..	199	226	245
(iii) Deposits	439	510	645
(iv) Borrowings from the Reserve Bank/apex bank ..	353	358	364
(v) Working capital ..	1081	1194	1369
(vi) Loans issued ..	894	1056	961
(vii) Loans outstanding ..	813	889	955
(c) Primary Agricultural Credit Societies			
(i) Number (in thousands) ..	161	157	158
(ii) Membership (,,) ..	30963	32009	34423
(iii) Owned Funds ..	265	292	237
(iv) Deposits	69	75	77
(v) Borrowings	675	740	N.A.
(vi) Loans issued ..	578	613	686
(vii) Loans outstanding ..	784	858	911
(d) State Land Development Banks			
(i) Number	19	19	19
(ii) Owned funds ..	58	70	97
(iii) Debentures outstanding ..	725	880	738
(iv) Working capital ..	841	1016	965
(v) Loans issued ..	168	146	146
(vi) Loans outstanding ..	638	729	810

² Figures relate to Co-operative Year i.e., July-June.³ Provisional.¹ Co-operative Year i.e., July-June.

the *rabi* financing season was over, the limits would stand reduced to the *kharif* level and that drawals on these limits should be reflected in a corresponding increase in the loans outstanding against societies during the *rabi* season. Financial accommodation was normally not made available to central co-operative banks if the percentage of their total overdues to demand at the end of the latest co-operative year exceeded 60. Further, with a view to introducing strict seasonality in loaning operations of central co-operative banks, a beginning was made by the Bank to allow drawals on the Reserve Bank's limits, after a specified month in the quarter of March to May, only if the central banks brought down their borrowings from the state co-operative bank to a stipulated level fixed for each bank. The Bank also agreed to treat the water charges payable by farmers for irrigation purposes and expenses incurred in regard to weedicides as expenditures eligible to be covered by advances under the kind component. The Bank had earlier decided that it would not normally consider requests for accommodation from the state co-operative banks for purchase, stocking and distribution of fertilizers. However, it was represented by these banks that in several cases the commercial banks had expressed their inability to extend adequate credit facilities for this purpose. In this context the Bank reviewed its policy in the matter and it was decided to consider for the year 1974 the applications of state co-operative banks for credit limits for the purchase, stocking and distribution of chemical fertilizers, at 3 per cent above Bank rate, if the commercial banks did not sanction any or adequate limits for the purpose.

170. The Bank continued to provide (a) short-term credit limits at the Bank rate under Section 17(4E) of the RBI Act to the Agricultural Refinance Corporation (ARC) ; (b) to state co-operative banks for financing the production and marketing activities of weavers' societies at 1.5 per cent per annum below the Bank rate under Section 17(2) (bb) read with Section 17(4) (c) ; (c) credit limits to the state co-operative banks under Section 17(2) (a) read with Section 17(4) (c) at the Bank rate for financing trading in yarn by apex/regional handloom weavers' societies. Further, it was stipulated that the rate of

interest charged to handloom weavers' societies should not exceed 5.5 per cent or such other rate of interest as might be fixed by the Government of India ; in the case of powerloom weavers' societies, for which the interest subsidy scheme was not available the banks were advised to charge a reasonable rate.

171. The selective credit control measures for regulating the advances by state, central co-operative banks and selected primary co-operative banks in the States of Karnataka, Gujarat and Maharashtra, against cotton and *kapas* were continued during the year. Similarly, directives were issued to 45 selected primary co-operative banks in States of Gujarat, Karnataka and Maharashtra regulating their advances as against groundnut, mustardseed/rapeseed, castorseed and linseed and oils and vanaspati.

172. The Bank has been advising co-operative banks to manage their surplus funds judiciously and gradually reduce their dependence on higher financing agencies, particularly the Reserve Bank. The state co-operative banks are expected to approach the Bank only as a last resort and not merely because there is a reserve drawing power in the limits sanctioned to them on behalf of central/primary co-operative banks. Likewise, the latter banks are expected to approach the apex bank only when funds are needed for further loans and advances or for maintaining the statutory minimum liquidity. The Bank has been insisting that reimbursement by the state/central/primary co-operative banks should not lead to excessive surplus in liquid assets or balances with commercial banks not reckoned as liquid assets. It is, however, observed that towards the close of the co-operative year large amounts are drawn by the banks although these are not intended to serve the purpose for which they are sanctioned. Unwarranted drawals are also made around the due dates of repayment by societies in order to forestall a deficit in the non-overdue cover and at times even drawals made from the Bank are lent as call money. To discourage these unwarranted drawals, it has been decided to impose penal rates of interest on them with effect from July 1, 1974.

173. The scheme of deposit mobilisation by linking the borrowings of central co-operative banks, with business of Rs. 1 crore or above, from the Bank was introduced from July 1, 1973.

Deposit Mobilisation

Some improvements were effected in the scheme to overcome initial procedural problems. In order to ensure that central co-operative banks did not suffer on account of their "Base level" eligible for concessional finance being fixed low, the apex banks were advised to take suitable action. Further, with a view to ensuring that banks with unduly low base levels did not suffer, it was decided to allow rebate on borrowings from the Reserve Bank upto the "Base level."

174. As at the end of February 1974, 9 state co-operative banks, 50 central co-operative banks, 5 licensed primary (urban) co-operative banks and 29 unlicensed primary (urban) co-operative banks, satisfying the norms prescribed by the Government of India, had joined the scheme by executing necessary agreements. The scheme has been extended to industrial societies functioning in a decentralised manner with effect from April 8, 1974.

Credit Guarantee Scheme

175. The Government of Kerala constituted an Action committee for drawing up a phased programme for restructuring the coir societies to make them eligible for financial assistance from the institutional agencies on the lines suggested by the Bank and for supervising the implementation of the said programme. The Committee would draw up a time bound programme on a year to year basis for the completion of the task envisaged in the Coir Development Scheme and indicate the funds/assistance required for each year. A loan of Rs. 95.24 lakhs and a grant of Rs. 4.76 lakhs have been sanctioned by the Government of India during 1973-74 for the scheme of rehabilitation of coir co-operatives in the State.

Coir Co-operatives in Kerala

176. The Government of Karnataka launched in 1973 an ambitious crash programme involving an outlay of Rs. 80 crores spread over a ten year period for the development of sericulture in the State. A detailed study of the scheme was conducted by the Bank with a view to examining the existing institutional arrangements for providing credit facilities to sericulturists, silk-reelers and others in the State; on the basis of the Report, a scheme for financing of the sericulture industry has been drawn up.

Sericulture in Karnataka

177. Surveys to study and classify industrial co-operative societies other than weavers' societies into viable, potentially viable and non-viable units were completed in Gujarat, Maharashtra, Tamil Nadu, Punjab, Andhra Pradesh, Nagaland, Tripura and Rajasthan. However, the work of reorganisation of these societies in these States is in progress. The States of Orissa and Uttar Pradesh initiated the surveys; the remaining States and Union Territories were to take action in the matter. The work of surveys was in progress in Bihar, Kerala, Madhya Pradesh, Karnataka, Meghalaya, Manipur and West Bengal. During the year Government of Orissa and Union Territories of Pondicherry, Goa, Daman and Diu amended Co-operative Societies Act and by laws of primary (urban) co-operative societies to facilitate provision of financial assistance to cottage and small-scale industries owned by individual proprietors.

Reorganisation of Industrial Societies

178. The Bank continued to insist that 40 per cent of the central co-operative banks' medium-term advances should be for identifiable productive purposes specified by the Bank.

Medium-term Finance

The central co-operative banks were earlier discouraged from issuing medium-term loans for minor irrigation purposes in areas covered by Agricultural Refinance Corporation/ International Development Association (ARC/IDA) Schemes without prior clearance from the ARC. This procedure has since been modified and the banks are now required to send the programmes to the Reserve Bank duly approved by the Registrar of Co-operative Societies. The latter has been advised to

keep in view the following criteria while approving the programmes submitted by the banks : (i) the programme should be in conformity with the groundwater discipline stipulated under the relevant ARC/IDA Scheme; (ii) the banks should be satisfied after scrutiny that the incremental income accruing from the proposed investment is adequate to enable the borrowers to repay the loan within 3/5 years; (iii) the terms and conditions governing the medium-term loans particularly relating to rate of interest margin to be provided by the cultivator, etc., are not more favourable than those indicated in the relevant ARC/IDA Schemes; and (iv) the size of the programme of bank should not affect the programme of ARC/IDA Schemes.

179. The Bank agreed that five year medium-term loans for the purchase of power tillers in excess of Rs. 3,500 might also be issued to cultivators without insisting on the security of mortgage of land or charge on land subject to certain conditions. The terms and conditions governing medium-term loans to agriculturists for the purchase of shares in sugar factories, cotton ginning and pressing units, groundnut oil mills, rice mills and co-operative spinning mills remained unchanged. The facilities for conversion of short-term loans into medium-term loans continued to be provided whenever necessary.

180. The Bank pursued a liberal policy of sanctioning loans to State Governments from the National Agricultural Credit (Long-Term Operations) Fund for contributing to the share capital of various types of co-operative credit institutions. The concessions applicable were continued in the case of institutions in operation in SFDA / MFAL tribal areas and in areas where the scheme of financing of primary agricultural credit societies by commercial banks was in operation as also in the case of banks which had been brought under a scheme of rehabilitation. Besides, the Bank agreed to sanction share capital loans on behalf of primary agricultural credit societies having trained full-time paid secretaries provided their overdues did not exceed 50 per cent of the demand. The Bank also decided to sanction loans to State Governments for contributing to the share capital of the farmers' service

societies being organised in various States at a minimum scale of Rs. 50,000 or Rs. 1,00,000 depending upon the size of the societies. Loans aggregating Rs. 8.02 crores were sanctioned during the financial year 1973-74 on behalf of 4 apex banks, 64 central co-operative banks, 3163 primary agricultural credit societies, 3 central land development banks, 111 primary land development banks and 29 primary (urban) co-operative banks.

181. The Bank also sanctioned to the ARC long-term accommodation of Rs. 30 crores from the National Agricultural Credit (Long-Term Operations) Fund during 1972-73 and Rs. 23 crores during 1973-74 (Table 28).

182. For the financial year 1973-74, an aggregate ordinary lending programme of Rs. 166 crores was fixed for the land development banks, to be financed to the extent of Rs. 19.13 crores from the banks' internal resources, Rs. 5.87 crores through issue of rural debentures and acceptance of fixed deposits and Rs. 131 crores by way of floatation of ordinary debentures. Banks actually floated debentures for Rs. 71.72 crores and collected subscription amounting to Rs. 74.96 crores (including Rs. 44.11 crores contributed by the Life Insurance Corporation, the State Bank of India, other commercial banks, the Reserve Bank of India and the Central and State Governments). The shortfall in the fulfilment of the debenture floatation programme during the year was mainly on account of the mounting overdues and the introduction of IDA scheme in various States which led to shrinkage in the scope for lending under normal programme.

183. For 1974-75, an ordinary lending programme of Rs. 125.23 crores was fixed and the ordinary debenture programme was approved for Rs. 102.39 crores including Rs. 10 crores held in reserve. The banks are expected to raise Rs. 9.93 crores from their internal resources. Support from institutional investors and the Governments was fixed at Rs. 52.92 crores while Rs. 39.54 crores would be forthcoming from investment by land development banks in debentures of sister land development banks.

TABLE 28 :—RESERVE BANK CREDIT TO CO-OPERATIVES—1972-73 AND 1973-74

(Amounts in Rupees Crores)

Purpose of finance	1972-73 (July-June)				1973-74 (July-June)			
	Limits sanctioned	Drawals	Repay-ments	Out-stand-ings	Limits sanctioned	Drawals	Repay-ments	Out-stand-ings
	1	2	3	4	5	6	7	8
I. Short-term								
(i) Seasonal agricultural operations (at 1/2% below Bank rate) ⁶	415.53	596.67	603.84	144.91	430.83	618.69	612.84	150.76
(ii) Marketing of crops other than cotton and kapas	52.83	9.33	9.41	0.58	40.58	12.09	10.73	1.94
(iii) Marketing of cotton and kapas ⁵		113.61	111.88	2.92		6.55	8.62	0.85
(iv) Purchase and distribution of fertilizers (at 2% above Bank rate) ¹	14.75	7.50	13.51	2.75	—	—	2.75	—
(v) Production and marketing of handloom products (at 1½% below Bank rate) ³	13.99	9.13	10.91	7.73	14.49	13.38	16.08	5.03
(vi) Financing other cottage and small scale industries ³	0.56	0.30	0.22	0.11	0.79	0.33	0.27	0.17
(vii) Purchase and sale of yarn (at Bank rate) ³	0.92	0.09	0.06	0.03	0.40	0.30	0.33	—
(viii) Loans to ARC (at Bank rate)	15.00	4.89	1.19	3.70	15.00	12.86	4.96	11.60
II. Medium-term								
(i) Agricultural purposes (at 1½% below Bank rate) ⁷	8.72	—	7.42	16.88	11.77	6.03	10.43	19.91
(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas (at 1½% below Bank rate) ⁶	73.30 ²	68.09 ²	24.12 ²	68.66 ²	22.47 ²	41.26 ²	20.82 ²	51.19 ²
(iii) Purchase of shares in co-operative sugar factories/processing societies (at Bank rate) ⁷ ..	1.85	0.80	0.33	1.09	0.18	0.97 ⁴	0.40	1.19
III. Long-term								
(i) Loans to State Governments for contribution to share capital of co-operative credit institutions ³	16.29	18.69	4.48	65.55	8.02	8.02	5.57	68.00
(ii) Loans to ARC (at 4½%/4½% per annum)	30.00	30.00	0.50	34.50	23.00	23.00	3.50	54.00

1 Prior to 1972, purchase and distribution of fertilizers was financed at 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. Again it was further raised to 3% above Bank rate for 1974: Data relate to calendar year 1972 and 1973.

2 Including rephasing.

3 Data relate to financial years.

4 Drawn out of last year's limit extended upto June 30, 1974.

5 Including monopoly procurement of cotton.

6 At ½ per cent below Bank rate from 1973-74 subject to rebate of 1½ per cent as per Rebate Scheme excepting under Section 17(4) (a) which continued to be at 2 per cent below Bank rate.

7 Data relate to calendar year.

184. The quota of rural debentures/fixed deposits for state land development banks for the year 1973-74 was fixed at Rs. 5.87 crores. Five banks were permitted to float rural debentures to the extent of Rs. 1.73 crores. The land development banks were able to collect fixed deposits to the extent of Rs. 1.71 crores during 1972-73.

185. The Bank continued to insist on land development banks issuing at least 90 per cent of their total loans for productive purposes of which 70 per cent should be for easily identifiable purposes. With the introduction of IDA aided schemes in many States, the scope for providing loans for traditional purposes like minor irrigation was dwindling. The Bank had, therefore, circulated a note containing some suggestions for diversification of the loans portfolio of land development banks.

186. The important policy changes effected during the year were as follows : (i) Owing to scarcity conditions prevailing in many parts of the country the recovery performance of the land development banks and consequently the capacity of primaries/branches to borrow from the central land development banks were adversely affected. With a view to providing some relief to these banks, it was decided that either the banks could re-schedule the loan instalments due during the year from the areas affected by famine or exclude the overdue instalments from these areas from the total demand and balance for the year to arrive at the percentage of overdues to demand, so that their eligibility to draw funds is not impaired. (ii) In order to provide some incentive to the primary land development banks to collect fixed deposits, the central land development banks were permitted to pay commission not exceeding 0.5 per cent of the fixed deposits collected by them to the primary land development banks as their agents. Such commission was, however, not payable to other agents, brokers or employees of the central and primary land development banks. (iii) The land development banks were permitted to refund the fixed deposits before maturity in deserving cases. However, such deposits would be excluded from the total deposits to be reckoned towards the quota of rural debentures.

187. As mentioned in the previous Report, the Governor appointed a "Committee on Co-operative Land Development Banks" for making an objective study of the working of the land development banks and suggesting suitable reforms in respect of their policies and procedures. The Committee had set up Study Groups/Study Teams to examine specific subjects connected with the main study. All the reports of the said Study Groups/Study Teams have been received. The work of the Committee is in progress.

188. The performance of central co-operative banks in the matter of ensuring at least 20 per cent of their outstanding borrowings from the apex bank as covered by outstanding loans to societies against small and economically weak farmers was disappointing. This was due to lack of eligible borrowers having land holdings of 3 acres or less. A district by district study was, therefore, undertaken by the Bank in consultation with the State authorities to fix revised and suitable parameters on the size of land holdings in areas other than those covered by SFDA/MFAL schemes. The Bank continued the policy of stipulating that drawals on the credit limits to the extent of 20 per cent after utilisation of 70 per cent of the limits could be made only after being matched by advances against small/marginal/economically weak farmers, the balance of 10 per cent being permitted to be drawn thereafter. While sanctioning supplementary short-term limits for *rabi* the state co-operative banks have been required to ensure that the normal limit (*kharif* limit) was first availed of in full and the condition relating to coverage of small farmers was also fulfilled. Further, efforts in organizing the "farmers" service societies to be financed by either commercial banks or co-operative banks were continued; till date, 47 such societies have been organized in the different States. Following the recommendation of the National Commission on Agriculture to organize farmers' service societies for the purpose of providing an integrated agricultural credit service at one contact point, particularly to the economically weaker sections of the farmers, steps have been taken to organize such societies in the various States. At a meeting of the Agricultural Production Commissioners of the States-

convened by the Government of India on July 8, 1973, it was decided to organize 56 farmers' service societies on an experimental basis in 19 States. Till June 13, 1974, 53 societies are reported to have been organized in 10 States, of which as many as 34 societies were in Karnataka only as against a target of 4, fixed in the July 1973 meeting. Out of the 53 societies, 19 are financed/proposed to be financed by commercial banks and the others by co-operative banks. An Implementation Committee has been set up in the Ministry of Agriculture to co-ordinate, review and guide the implementation of the pilot scheme. It was observed that there were deviations in certain respects in the case of the farmers' service societies organized in certain States and the Implementation Committee has decided that only such of those societies which conform to the pattern recommended by the Government of India will be treated as farmers' service societies.

189. Although certain State Governments had applied to the Reserve Bank for loans from the National Agricultural Credit (Long-Term Operations) Fund for contributing to the share capital of the farmers' service societies, no loans could be sanctioned during 1973-74 because none of the societies had satisfied the minimum requirements laid down by the Bank, which included (a) appointment of Managing Director and technical staff, (b) firm decisions being taken about the future of the primary agricultural credit societies which were already existing in the areas of the new farmers' service societies and (c) adoption of the model by-laws as recommended by the Government of India without material changes.

190. Forty-six SFDA and forty-one MFAL projects were functioning in the country. Till May 31, 1974, SFDA/MFAL Schemes 18.65 lakh small farmers, 18.19 lakh marginal farmers and 3.06 lakh agricultural labourers were identified as eligible for the benefits under the project. Of these 20 lakh were enrolled as members of co-operatives. During the year short-term loans to the tune of Rs. 22.90 crores were distributed to the beneficiaries through the co-operatives and Rs. 2.30 crores by the commercial banks. Similarly from the inception of the scheme till

May 31, 1974 the co-operatives disbursed medium-term loans amounting to Rs. 18.39 crores and long-term loans amounting to Rs. 38.01 crores. The commercial banks had advanced term-loans to the tune of Rs. 11.29 crores during the same period. The Government of India have decided to continue the projects during the Fifth Five Year Plan also. It has been proposed to cover 160 districts in the Fifth Plan, including existing projects. Each project will be confined to one revenue district and will attempt to cover 50 thousand beneficiaries within a five year period. The distinction between SFDA and MFAL projects will be abolished and there will be a combined agency which will be known as 'Small Farmers Development Agency'.

191. The Scheme of financing primary agricultural credit societies by commercial banks in areas of weak central co-operative banks (referred to in Part II of the Banks' Finance for Credit Societies Report) was extended to Jammu and Kashmir and West Bengal from 1973. It was also decided to extend the scheme to Bihar, Maharashtra and Rajasthan. In all 21 commercial banks participated in the scheme in 8 States where 350 branches of the banks were financing 1,760 societies out of 2,630 societies allotted to them. The short-term agricultural credit disbursed during 1973-74 by commercial banks through societies amounted to Rs. 12.20 crores upto March 31, 1974, as against Rs. 10.13 crores disbursed in the preceding year. The emphasis under the scheme has now been shifted from the original arrangement to cover the areas in the jurisdiction of weak central co-operative banks to effective coverage of rural population. So the commercial banks will have to extend the scheme even to the areas of not so weak central co-operative banks. Since the introduction of the scheme, as many as 1.14 lakh new members were admitted in the societies taken over by the commercial banks raising total membership to 4.43 lakh, at the end of March 1974. However, owing to the large number of defaulters, only 2.08 lakh were borrowing members. The average proportion of recoveries to demand during 1972-73 declined slightly to 56 per cent

from 57 per cent in 1971-72—a performance no better than that of the co-operative banks.

192. The adoption of the multi-agency approach, has necessitated optimum harmonisation of the policies and procedures followed by commercial and co-operative banks. Although State and district level co-ordination committees exist in most States, the constitution of a national level committee was considered necessary to lay down broad policies in this area. Accordingly, the Governor of the Reserve Bank of India constituted a high level committee consisting of the representatives of the Bank, the Government of India, the commercial banks and co-operative movement.

193. The rehabilitation of weak central co-operative banks made good progress during the year. As on June 30, 1973, 132 central co-operative banks in 16 States were identified as weak requiring rehabilitation. In addition, 5 central co-operative banks in Maharashtra, Andhra Pradesh and Rajasthan were also brought under the programme of rehabilitation on an *ad hoc* basis. Under the Central Sector Plan Scheme, the Government of India approved till March 31, 1974 assistance aggregating Rs. 237.89 lakhs to 71 central co-operative banks in 7 States for writing off their irrecoverable bad debts, accumulated losses and other overdues over 3 years and have released the initial grant-in-aid instalment of Rs. 118.01 lakhs.

194. With a view to reducing the regional imbalances and achieving a higher rate of growth in the co-operatively weak States, specific programmes have been accorded high priority in the Fifth Five Year Plan. Pursuant to the recommendations of the working group on co-operation for the Fifth Five Year Plan, a Central Sector Scheme was drawn up by the Government of India covering the central co-operative banks in certain co-operatively weak States (category 'C' States); the Scheme is designed to meet the inadequacy of non-overdue cover for their borrowings from the Reserve Bank, resulting from the relatively poor deposit potential and mounting overdues. It covered the States of Assam, Bihar, Manipur, Megha-

laya, Nagaland, Orissa, Tripura, West Bengal and Rajasthan and provided for long-term assistance to the banks, to be shared equally by the Central and State Governments. The State Governments' assistance will be partly, in the form of long-term loans and partly share capital participation. Central co-operative banks with overdues between 30 and 60 per cent of the demand will be eligible for this assistance. High level committees consisting of representatives of the Government of India, the Reserve Bank of India and the concerned State Governments have been formed for the purpose of reviewing and giving advice for the accelerated development of the credit structure in the category 'C' States.

195. Under the programme of rehabilitation of weak co-operative credit units at the primary level, 26 primary co-operative banks and 59 primary land development banks were identified as weak and covered under the rehabilitation programme.

196. As mentioned in the previous Report, the Bank had prepared 'Master Plans' for accelerated development of agricultural production with the help of co-operative credit for the States of Assam, Meghalaya, Bihar, Jammu and Kashmir and Uttar Pradesh. An Expert Team of the Government of India is examining all aspects of the question of rehabilitation of the co-operative credit structure in Assam. Meanwhile, the State Government on its part, initiated the work of reorganisation of primary societies in the State. The Study Team appointed by the Governor to examine the suggestion for a change-over from the three-tier to the two-tier system in Kerala submitted its report on August 17, 1973. It concluded that there was no strong justification for the change-over on the ground of economising the cost of operation and lowering the rate of interest to the ultimate borrower. The performance of the central banks, in the matter of resource mobilisation, responsiveness to local needs and recovery of dues, was found much below the desired levels. The Team, therefore, recommended that the position of each bank should be reviewed after a period of five years. The 'Study Team on Co-operative Agricultural

**Special Measures
to Identify
Credit Gaps**

Credit Institutions in Maharashtra' made a review of the implementation of its recommendations of its Interim Report. It has observed that the latest overall position of recovery was only 20 per cent of the demand and suggested steps such as recovery through coercive measures and appointment of Special Recovery Officers wherever necessary. Further the study team is considering the remaining terms of reference for submitting the final report. In pursuance of the recommendations of the Study Team on Agricultural Credit Institutions in West Bengal, three central co-operative credit societies in West Bengal were amalgamated with state co-operative bank and another with a central co-operative bank in July 1973.

197. The Governor appointed a "Study Team on Agricultural Credit Institutions in Bihar" and another "Study Team on Agricultural Credit in Rajasthan" to examine aspects such as (1) justification or otherwise for continuance of intermediate level institutions of the three-tier structure; (2) position of overdues at the various levels of co-operative credit structure; (3) lending policies of the state and central co-operative banks and (4) reorganisation of societies and formation of farmers' service societies. The Bihar Study Team will also examine the aspect of routing of loans to sugarcane growers through the primary agricultural credit societies or cane unions to cultivators and look into the problem of tribal areas and credit institutions functioning there. The Study Team for Rajasthan will attempt to identify areas which are continuously affected by natural calamities and suggest special arrangements, if necessary, for financing agriculturists in such areas.

198. The problem of mounting overdues has assumed disturbing proportions in recent years. The "Study Team on Overdues of Co-operative Credit Institutions" appointed earlier submitted its report in February 1974. The Team viewed with concern the high levels and increasing trends of the overdues of the primary agricultural credit societies in the country which amounted to Rs. 377 crores as on June 30, 1972, forming as much as 44 per cent of the outstanding loans. The overdues of the

primary societies exceeded their owned funds and deposits put together and those of central co-operative banks were as high as 80 per cent of their owned funds.

199. An analysis of the data collected showed that the small, medium or big farmers behaved more or less alike in the matter of repayment of their dues. Overdues were traced to the defective lending policies pursued by co-operatives, the apathy of managements in taking quick action against recalcitrant members and, above all, to some extent the absence of a favourable climate due to the attitude of the State Governments resulting in wilful defaults on a large scale. The amount involved in non-wilful default for the country as a whole has been estimated at Rs. 100 crores or about one-fourth of the total overdues of Rs. 377 crores.

200. The Team recommended relief from stabilization funds in different situations to the borrowers affected by successive or frequent natural calamities, and a programme of rehabilitation by way of relief in respect of short and medium-term agricultural loans from non-wilful defaulters. For these purposes, suitable action by the Reserve Bank of India including amendments to RBI Act wherever necessary has been suggested. Important recommendations are:

(1) Section 46B of the Reserve Bank of India Act, 1934 may be amended (a) providing for utilisation of the Stabilization Fund for granting relief when crops are damaged, as in the case of drought, famine or on account of war or military operations with another country, (b) permitting the Bank to grant medium-term loans to state co-operative banks by way of reimbursement of medium-term conversion loans granted by the latter and (c) extending the period of medium-term loans to 7 years.

(2) Assessment of damage to crops in times of natural calamities should be done by the Statistical and not by Revenue Department and the Government of India might appoint a Working Group to go into the appropriate methods to be adopted in making the assessments.

(3) Assistance from the Reserve Bank of India's National Agricultural Credit (Stabilization) Fund may be made available to co-operative banks for granting conversion to the affected cultivators and borrowers in areas with declared 'annawari' between 6 and 8 annas.

(4) The Reserve Bank of India may contribute to the National Agricultural Credit (Stabilisation) Fund Rs. 9 crores annually up to the end of Fifth Plan so as to take the Fund to Rs. 136 crores and the Central assistance recommended by the Working Group on Co-operation for the Fifth Plan may be increased from Rs. 15 crores to Rs. 18 crores to enable the state co-operative banks to reach a level of Rs. 68 crores for their stabilization funds.

(5) The levels of the State Agricultural Credit Relief Funds should be related to the levels of the stabilization funds recommended for being maintained together by the state co-operative banks and the Reserve Bank of India. Each State Government should appropriate budgetary allocations so as to take the Relief Fund up to a level of 2.5 per cent of the Stabilization Fund by the end of 1978-79. For tackling the problem of overdues the Team suggested a number of measures such as automatic disqualification of managing committee/board of directors, denial of fresh credit and voting rights to defaulters as well as sureties, amendment to co-operative societies Acts of various States, empowering the Registrar to issue orders on his own motion for recovery of loans issued as arrears of land revenue etc. As a solution to the problem of the lack of bidders in some areas for the lands of defaulters put up for auction, particularly of the owners and influential cultivators in the village, the Team recommended the setting up of a State Farming Corporation in each State fully owned by the State Government.

201. During the year, licences were granted to 4 central co-operative banks and 12 primary co-operative banks under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) authorising them to carry on banking business in India thereby raising

the total number of licensed co-operative banks to 60. The number of offices of co-operative banks which stood at 5974 as on June 30, 1973 increased to 6102 (234 offices of state co-operative banks, 4673 of central co-operative banks and 1195 of primary (urban) co-operative banks) as on September 30, 1973. During the year, licences were granted to the state and primary co-operative banks for opening 76 new offices as against 73 licences granted during the previous year.

202. As on June 30, 1974, there were 1432 co-operative banks (28 state, 367 central and 1037 primary) coming under the purview of the Banking Regulation Act, 1949 as against 1383 co-operative banks at the beginning of the year. The increase in the number of banks during the year was mainly due to inclusion of certain non-agricultural credit societies in the list of primary co-operative banks.

203. A close watch is being kept over the financial position and working of central and primary co-operative banks not complying with Section 11(1) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

204. During the year, 697 reports relating to the inspection of 23 state co-operative banks, 202 central co-operative banks, 8 state/central land development banks, 459 primary co-operative banks and 5 apex weavers'/marketing societies were issued. Of the 516 primary co-operative banks inspected during the period, 91 were inspected by the officers of the state co-operative banks on behalf of the Reserve Bank under Section 35(1) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

205. Besides the regular financial inspections, it has been decided to take up on an exploratory basis developmental inspections of co-operative banks with a view to ascertaining the developmental potential in the area served by the bank and making concrete suggestions in regard to the steps to be taken in order to enable the bank to play its role in the development of the area.

206. The scheme of Deposit Insurance has been extended to the co-operative banks in Jammu & Kashmir State with effect from October 1, 1973. As at the end of June 1974, 423 co-operative banks were registered by the Deposit Insurance Corporation in the States of Andhra Pradesh, Madhya Pradesh, Maharashtra, Jammu & Kashmir and the Union Territory of Goa, Daman & Diu, as against 404 registered at the beginning of the year. The States of West Bengal, Karnataka, Kerala and the Union Territory of Pondicherry have passed the necessary amendments to their respective Co-operative Societies Act vesting in the Reserve Bank the power regarding supersession, winding up, amalgamation, reconstruction, etc. It is expected that the scheme will be introduced in these States/Union Territories shortly. The scheme has, since April 1, 1974, been extended to co-operative banks in the Union Territory of Delhi. The matter was being pursued with the remaining State Governments to amend their Co-operative Societies Act for the purpose of extension of the scheme to co-operative banks in their jurisdiction.

207. The Deputy Governor/Executive Director in-charge of Agricultural Credit Department continued the practice of holding annual discussions with the representatives of the State Governments regarding the different problems facing the co-operative movement in the respective States and suggesting suitable solutions/lines of action. The common topics for such discussions were the level of overdues, re-organisation of primary credit structure, deposit mobilisation by central co-operative banks, operation deficiencies of the credit institutions, implementation of the production oriented system of lending etc. The discussions were regularly followed up by the Department to ensure that the institutions and State Governments took appropriate measures to remedy the defects and strengthen the movement.

Agricultural Refinance Corporation

208. During the year under review, the Corporation disbursed an aggregate sum of Rs. 97.84 crores inclusive of Rs. 5.6 crores transferred from the loans given under its normal programme by the Tamil Nadu Land Development Bank to the IDA agricultural credits project as against Rs. 94.1 crores during the previous year inclusive of Rs. 29.4 crores transferred from 'normal' programmes of some land development banks to IDA projects. The disbursements under the IDA projects amounted to Rs. 56.3 crores as compared to Rs. 63.6 crores during 1972-73.

209. During the year the Corporation sanctioned 550 schemes involving an aggregate financial assistance of Rs. 251.3 crores, of which the Corporation's commitment was Rs. 220.5 crores, as against 230 schemes with financial assistance of Rs. 196.6 crores and ARC's commitment of Rs. 172.3 crores, sanctioned during the previous year. Refinance for minor irrigation purposes has continued to absorb the bulk of the disbursements (Table 29). This underlines the emphasis laid on minor irrigation investments in the Five Year Plans and to the fact that a major part of the lendings under the various IDA projects now under implementation was also for this purpose. This trend is likely to continue for some years to come and has been taken into account in the Corporation's projected lending programme for the five years ending 1977-78.

210. The Corporation is anxious to bring about diversification purpose-wise, area-wise and agency-wise, in its lending operations as well as those of the eligible institutions and is continuing the efforts initiated during the last year. The Corporation had till the end of June 1974 sanctioned 597 schemes for farm mechanisation, land development, plantations, horticulture and storage and market yards, fisheries and dairy development and agricultural aviation. The aggregate financial assistance involved in sanctions for schemes for purposes other than minor irrigation rose from Rs. 65.18 crores as at the end of June 30, 1969 to Rs. 205.61 crores as on June 30, 1974.

TABLE 29:—DISBURSEMENT OF REFINANCE BY PURPOSE

(Amounts in Rupees Crores)

Purpose	1963 to 68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	Total
1. Minor irrigation	1.29 10.20	11.54 64.69	22.33 78.08	23.06 75.31	26.74 76.44	84.18 89.42	85.23 87.12	254.37 80.33
2. Land development and soil conservation	10.12 (80.00)	3.76 (21.08)	3.32 (11.61)	4.37 (14.27)	2.37 (6.77)	2.30 (2.44)	1.78 (1.82)	28.02 (8.85)
3. Farm mechanization	0.03 (0.24)	0.11 (0.62)	0.16 (0.56)	0.11 (0.36)	0.36 (1.03)	2.18 (2.32)	3.82 (3.91)	6.77 (2.14)
4. Plantation and horticulture ..	1.01 (7.98)	1.06 (5.94)	1.50 (5.24)	1.99 (6.50)	2.05 (5.86)	1.49 (1.58)	2.19 (2.24)	11.29 (3.57)
5. Poultry	— (—)	0.01 (0.06)	0.06 (0.21)	— (—)	— (—)	0.15 (0.16)	0.09 (0.09)	0.31 (0.09)
6. Fishery	0.20 (1.58)	0.36 (2.02)	0.36 (1.26)	0.37 (1.21)	0.59 (1.69)	0.12 (0.13)	0.86 (0.87)	2.86 (0.91)
7. Dairy	— (—)	— (—)	— (—)	— (—)	0.39 (1.11)	0.26 (0.28)	0.82 (0.83)	1.47 (0.46)
8. Storage facilities and market yards	— (—)	1.00 (5.60)	0.87 (3.04)	0.72 (2.35)	2.48 (7.09)	3.46 (3.68)	2.93 (3.00)	11.46 (3.62)
9. Agricultural aviation	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	0.12 (0.12)	0.12 (0.03)
Total	12.65 (100.00)	17.84 (100.00)	28.60 (100.00)	30.62 (100.00)	34.98 (100.00)	94.14 (100.00)	97.84 (100.00)	316.67 (100.00)

Note : Figures within brackets are percentages of the total.

211. Area-wise, the States falling in the Southern (33 per cent), Western (24 per cent) and Northern (23 per cent) regions continue to avail of refinance facilities on a large scale. Apart from adequate infrastructural facilities in these States, large utilisation is attributable to the fact that IDA had sanctioned its initial agricultural credit projects in these States (Table 30). As indicated in the last Report, the tempo of lending in the States of Uttar Pradesh and Madhya Pradesh which were able to strengthen their institutional structure recently, is expected to accelerate in the coming years when the two Agricultural Credit Projects sanctioned by the IDA in these States, which became effective during this year, are implemented actively.

212. In order to remove regional imbalances, the Corporation has been constantly endeavouring to serve the Eastern and North-Eastern region States better. A weak co-operative banking structure in these areas and the absence of infrastructural facilities had retarded the progress of agricultural development. To achieve a breakthrough the Corporation has programmed for a substantial amount for the States of Bihar, Orissa, West Bengal and Assam. Recently, the Corporation took a number of measures to step up the flow of development finance to these regions. Mention may be made in this connection of the establishment of two technical consultancy units one each

Removal of Regional Imbalances

at Lucknow and Calcutta (the latter set up in December 1973) to help the State Governments and the financial institutions concerned to identify and assess the potential for various items of investments, strengthening of the Corporation's regional offices serving these areas to attend exclusively to promotional work and constant dialogue with the commercial banks operating in the

States to fill the credit gaps. During the year, the Corporation decided to provide refinance facilities to the banks up to 90 per cent of the financial assistance in respect of schemes sanctioned in these States irrespective of the purpose, as against the usual practice of providing refinance upto 75/80 per cent of the financial assistance for purposes other than minor irrigation.

TABLE 30:—DISBURSEMENT OF REFINANCE—REGION-WISE

(Amounts in Rupees Crores)

Region	1963 to 68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	Total
1	2	3	4	5	6	7	8	9
I. Northern Region	1.46 (11.54)	8.48 (47.54)	10.20 (35.68)	10.06 (32.85)	8.02 (22.92)	17.63 (18.74)	15.86 (16.21)	71.71 (22.65)
II. North-Eastern Region ..	0.26 (2.06)	0.44 (2.47)	0.04 (0.14)	— (—)	0.32 (0.91)	— (—)	0.33 (0.33)	1.38 (0.43)
III. Eastern Region	— (—)	0.24 (1.34)	0.80 (2.79)	1.29 (4.22)	0.80 (2.29)	1.69 (1.78)	6.15 (6.28)	10.97 (3.47)
IV. Central Region	— (—)	1.53 (8.58)	3.05 (10.66)	3.84 (12.54)	7.91 (22.62)	14.62 (15.53)	21.43 (21.92)	52.39 (16.54)
V. Western Region	1.22 (9.65)	2.74 (15.36)	4.80 (16.79)	4.23 (13.82)	7.18 (20.53)	35.26 (37.46)	20.62 (21.08)	76.07 (24.02)
VI. Southern Region	9.71 (76.76)	4.41 (24.71)	9.70 (33.93)	11.20 (36.58)	10.75 (30.73)	24.93 (26.49)	33.45 (34.18)	104.15 (32.89)
Total ..	12.65 (100.00)	17.84 (100.00)	28.59 (100.00)	30.62 (100.00)	34.98 (100.00)	94.13 (100.00)	97.84 (100.00)	316.67 (100.00)

Figures within brackets are percentages of the total.

Note :—Northern region comprises Delhi, Jammu & Kashmir, Haryana, Himachal Pradesh, Punjab and Rajasthan ;

North-Eastern Region—Assam, Meghalaya and Nagaland ;

Eastern Region—Bihar, Orissa and West Bengal ;

Central Region—Madhya Pradesh and Uttar Pradesh ;

Western Region—Goa, Gujarat and Maharashtra and

Southern Region—Andhra Pradesh, Karnataka, Kerala, Pondicherry and Tamil Nadu.

213. As in the preceding years the land development banks continued to be the principal agencies through which the Corporation's assistance is being disbursed (Table 31). During the year, out of total disbursements of Rs. 97.8 crores the share of the land development banks was of the order of Rs. 77.8 crores or nearly 80 per cent of the total. While the availment of refinance by the state co-operative banks was very poor during the year, the disbursements to the commercial banks showed a rising trend. Their availment of refinance of Rs. 17.0 crores constituted nearly 18 per cent of total disbursements during the year and was nearly four times the amount of Rs. 4.5 crores availed during the previous year. Tight money conditions and paucity of funds with the commercial banks for lending were instrumental in making the banks avail themselves of re-

finance facilities from the Corporation to a larger extent. These developments had also led to the submission of more schemes for refinance by commercial banks. During the year 1973-74, the Corporation sanctioned as many as 407 schemes to commercial banks involving a total financial assistance of Rs. 99.5 crores; the cumulative sanction increased to 680 schemes upto June 30, 1974 with financial commitment of Rs. 166.6 crores.

214. At the time of the mid-term appraisal of the Fourth Five Year Plan, the lending programme of ARC was enhanced from Rs. 200 crores to Rs. 300 crores taking into account the substantial lending programme contemplated in the seven agricultural credit projects sanctioned by IDA during 1971-72. As against this target, the Corporation was

TABLE 31:—DISBURSEMENTS OF REFINANCE BY AGENCY

(Amounts in Rupees Crores)

Agency	1963 to 68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74 ⁴	Total
I. Land Development Banks ..	11.90 (94.07)	15.95 (89.41)	26.75 (93.53)	26.65 (87.00)	28.39 (81.16)	86.14 (91.50)	77.76 (79.48)	273.54 (86.37)
(Of which IDA assistance) ..	—	—	—	—	(5.37)	(63.58)	(52.92)	(121.87)
II. State Co-operative Banks ..	0.20 (1.58)	1.36 (7.62)	1.29 (4.51)	1.19 (3.92)	3.33 (9.52)	3.51 (3.73)	2.72 (2.78)	13.60 (4.29)
III. Commercial Banks ..	0.55 (4.35)	0.53 (2.97)	0.56 (1.96)	2.78 (9.08)	3.26 (9.32)	4.49 (4.77)	17.36 (17.74)	29.53 (9.34)
Of which:								
IBRD assistance ..	—	—	—	(1.11)	(0.08)	(0.04)	(0.01)	(1.24)
IDA assistance ..	—	—	—	—	—	—	(3.42)	(3.42)
Total ..	12.65 (100.00)	17.84 (100.00)	28.60 (100.00)	30.62 (100.00)	34.98 (100.00)	94.14 (100.00)	97.84 (100.00)	316.67 (100.00)

4 Provisional.

Note : Figures within brackets are percentages of the total.

able to disburse a sum of Rs. 248.95 crores during the Fourth Plan.

215. During the year under review, IDA/IBRD sanctioned 5 more projects for agricultural development viz., Bihar agricultural credit project, Himachal Pradesh apple processing and marketing project, Karnataka dairy development project and Rajasthan and Chambal command area development projects. At the end of June 1974 the projects being implemented with IDA/IBRD assistance totalled 18 mainly comprising 10 agricultural credit projects, 2 command area development projects, 2 market yards projects, an apple processing and marketing project, a dairy development project and a seeds project. The sanction of these projects indicates the World Bank's interest in diversification of agricultural investments.

216. A significant development during the year was the amendment to Section 22(4) of the ARC Act which deals with the security to be obtained by the Corporation for refinance provided to financing institutions. The amended Section which became effective in September 1973, vests powers with the Board of Directors of the Corporation to waive both Government Guarantee and 'other security,' in respect of refinance provided to the eligible institutions on merits of each case. The amendment also provides for creation of a legal trust in favour of the Corporation of all securities held or which may be held by an eligible institution in respect of a particular transaction for which refinance has been provided. The banks will, however, have to obtain such security, as they consider appropriate from the ultimate borrower, keeping in view the guidelines prescribed by the Reserve Bank of India from time to time.

217. The Corporation reviewed its refinance rates as well as the lending rates to be charged by the eligible institutions to the ultimate beneficiaries under sanctioned schemes in the light of the general increase in interest rates structure in the country. It was decided that in respect of all schemes sanctioned on or after August 13, 1974 the refinance rate of the Corporation to the eligible institutions would be 7.5 per cent per annum for minor irrigation and land development schemes and 8.0 per cent per annum for other schemes, as against the uniform rate of 7.0 per cent per annum applicable since June 25, 1973. Consequently, the lending rates to be charged to the ultimate beneficiaries under the ARC schemes were stipulated at 10.5 per cent per annum for minor irrigation and land development schemes and 11.0 per cent per annum for other schemes. In the case of small farmers, especially in regard to schemes for poultry, dairy and animal husbandry the banks were given the option to charge a lower rate of 10.5 per cent only if they so preferred.

218. The Corporation set up recently a Project Monitoring and Evaluation Cell for continuous study of the projects refinanced by the Corporation. To start with, the specific objectives of evaluation studies would be to assess the benefits from the schemes at the farmers' level, the difficulties faced by the farmers in obtaining the full benefits, identifying the types of farmers who are the main beneficiaries of ARC refinanced schemes and finding out possible defects in project formulation, appraisal and execution so as to assist the Corporation in modifying suitably its appraisal procedures including emphasis on specific aspects to be looked into at the time of appraisal studies. A Committee of Direction has been set up to advise the Cell from time to time.

IV. DEVELOPMENTS IN INDUSTRIAL FINANCE

219. The financial assistance provided by the term-lending institutions during 1973-74 (April-March) registered a significant step-up — an increase of Rs. 133 crores in sanctions and Rs. 75 crores in disbursements as against a fall of Rs. 9 crores in sanctions and a small rise of Rs. 15 crores, in disbursements during 1972-73 (Table 32).

TABLE 32:—FINANCIAL ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING INSTITUTIONS¹

Year (April—March)	(Amounts in Rupees Crores)	
	Total Assistance ²	
	Sanctions	Disbursements
1965-66	169.3	105.8
1966-67	122.0 (—27.9)	125.6 (+18.7)
1967-68	87.1 (—28.6)	105.0 (+16.4)
1968-69	132.3 (+51.9)	85.8 (—18.3)
1969-70	153.8 (+16.3)	116.3 (+35.5)
1970-71	225.7 (+46.7)	146.7 (+26.1)
1971-72	304.6 (+34.9)	184.5 (+25.8)
1972-73	295.9 (— 2.9)	199.2 (+ 8.0)
1973-74 ³	429.0 (+45.0)	274.0 (+37.6)

Note: Figures in brackets represent percentage variations over the previous year.

¹ Institutions covered are IDBI, IFCI, ICICI, IRCI, SFCs and SIDCs.

² Total assistance comprises (i) in respect of IDBI, all types of assistance including Special Credit to Bangladesh, refinance of industrial loans and export credit and rediscounting of bills, with the exception of guarantees and subscription to shares and bonds of financial institutions (refinance to SFCs' industrial loans are excluded to avoid double counting) and (ii) for other institutions all types of assistance except guarantees.

³ Provisional.

220. The increase in sanctions of the term-lending institutions during the year (April-March) was mainly on account of substantial rise of Rs. 126.4 crores (to Rs. 366.1 crores) in the rupee loans sanctioned (Table 34). Foreign currency loans sanctioned by ICICI marked a substantial rise, while IFCI maintained such loans at the previous year's level. Though the total assistance sanctioned by all term-lending institutions by way of underwriting of and direct subscriptions to shares registered a rise, subscriptions to

debentures were lower than those during the previous year. The rise in sanctions during the year was mainly due to a remarkable rise in the total sanctions of the Industrial Development Bank of India (IDBI).

Industrial Development Bank of India

221. The IDBI continued to concentrate during 1973-74 on several measures initiated since 1970 relating to the promotional and developmental activities for meeting the twin objectives of balanced regional development and acceleration in the industrial growth.

IDBI's Promotional Functions and Policies

222. During the year under review, the industrial potential surveys which were started a few years back were completed in all States/Union Territories demarcated as backward areas. These surveys were carried out jointly with other term-lending institutions. Of the 18 Industrial Potential Surveys carried out by the Joint Institutional Study Teams, 15 reports relating to the Arunachal Pradesh, Assam, Bihar, Goa, Daman and Diu, Himachal Pradesh, Jammu and Kashmir, Lakshadweep, Madhya Pradesh, Manipur, Nagaland, Orissa, Pondicherry, Rajasthan, Tripura and Uttar Pradesh have been printed and published. The report on Andhra Pradesh is being printed and the report on Dadra and Nagar Haveli, which was originally intended to be incorporated in the report on Goa, Daman and Diu is now brought out separately and is under print. The report on Andaman and Nicobar Islands is under preparation.

223. Joint Institutional Study Teams in their reports have recommended several industrial projects/possibilities for implementation. Of these 48 projects involving capital cost of Rs. 171.5 crores are either implemented or under implementation and 15 projects with cost of Rs. 284.9 crores are under consideration for grant of financial assistance by the financial institutions. Efforts are being made both by the all-India and State-level development institutions to convert the remaining industrial possibilities into concrete projects.

TABLE 33 :—ASSISTANCE SANCTIONED AND DISBURSED BY TERM-FINANCING INSTITUTIONS DURING 1972-73 AND 1973-74 (APRIL-MARCH)

(Amounts in Rupees Crores)																					
Sanctioned										Disbursed											
		Rupee Loans				Foreign Cur- rency Loans				Underwriting and Direct Sub- scriptions		Total									
		Ordinary & Preference Shares		Debentures		Ordinary & Preference Shares		Debentures													
		1972- 73	1973- 74	1972- 73	1973- 74	1972- 73	1973- 74	1972- 73	1973- 74	1972- 73	1973- 74	1972- 73	1973- 74	1972- 73	1973- 74						
I.D.B.I.	..	87.0	176.1	—	—	3.4	8.3	2.1	—	92.5	184.4	62.4	113.4	—	—	66.7	118.3				
		(25.2)	(34.5)							(25.2)	(34.5)	(19.1)	(22.8)			(19.1)	(22.8)				
I.F.C.I.	...	37.3	36.2	4.3	4.3	3.1	3.4	1.0	—	45.7	43.9	21.5	27.4	4.1	3.0	1.6	1.5	0.8	—	28.0	31.9
I.C.I.C.I.	..	13.4	19.8	29.0	34.7	3.7	5.1	3.3	1.6	49.4	61.1	7.9	13.8	28.0	26.3	2.5	1.9	1.3	1.5	39.7	43.5
I.R.C.I.	..	6.1	7.2	—	—	—	—	—	—	6.1	7.2	3.5	5.2	—	—	—	—	—	—	3.5	5.2
S.S.F.Cs.	..	77.8	104.9	—	—	0.9	0.8	—	—	78.7	105.7	44.1	56.1	—	—	0.6	0.5	—	—	44.7	56.6
S.I.D.Cs	..	18.1	21.9	—	—	5.4	4.8	—	—	23.5	26.7	12.7	15.3	—	—	3.9	3.2	—	—	16.6	18.5
Total	...	239.7	366.1	33.3	39.0	16.5	22.4	6.4	1.6	295.9	429.0	152.1	231.2	32.1	29.3	12.1	12.0	2.9	1.5	199.2	274.0
U.T.I.	...	—	—	—	—	3.2	3.8	6.7	4.1	9.9	7.9	—	—	—	—	1.7	2.3	4.0	5.5	5.6	7.8
I.C.	..	11.6	17.1	—	—	4.8	4.9	3.7	3.9	20.1	25.9	4.2	10.7	—	—	4.0	3.8	5.8	5.6	14.0	20.1

224. The IDBI in collaboration with other term-lending institutions, commissioned preliminary feasibility studies of 17 different projects identified by the Study Teams or otherwise for Assam, Arunachal Pradesh, Bihar, Tripura, Orissa and Meghalaya. These feasibility studies are prepared with a view to eliciting entrepreneurial interest in the projects identified in the survey reports of Joint Institutional Study Teams or otherwise. Summaries of the feasibility studies are circulated amongst the State Governments, financial institutions, Chambers of Commerce etc. The reports are made available to interested entrepreneurs. Some of the State Industrial Development Corporations (SIDCs) as well as a few individual entrepreneurs have shown interest in implementing these projects. The IDBI also grants on request different types of assistance ranging from suggestion of names of management executives, names of foreign collaborators and other information to prospective entrepreneurs from time to time.

225. In order to facilitate the work relating to the various facets of the projects cycle as also to undertake the task of identifying project ideas on a continuing basis, inter-institutional groups were constituted in 12 States upto the end of June 1973. Four more such groups were set up during 1973-74, one each for Haryana, Punjab, Tamil Nadu and Gujarat; it is proposed to set up a group for Maharashtra in the near future. These groups in various States meet periodically and discuss issues relating to follow-up of project ideas identified by the Joint Study Teams and other related matters such as training programmes for prospective entrepreneurs, availability of technical consultancy services, identification of new projects and their follow-up. Inter-institutional groups (IIGs) are also expected to arrange for surveys of demarcated backward districts in their States.

226. The study of the managerial/entrepreneurial problems of small units which was commissioned by the IDBI through the Indian Institute of Management, Ahmedabad, has been completed and the findings of the report are being examined. Besides, a comprehensive handbook, giving basic information required by prospective entrepreneurs *viz.*, exhaustive list of project ideas, new processes

and projects developed by various research laboratories, list of project profiles available with various institutions, facilities for entrepreneurial training, schemes of incentives and concessions provided by various agencies and information on the availability of indigenous machinery and chemical/engineering stores, has already been published.

227. Mention was made in the last Report regarding the setting up of Technical Consultancy Service Centres at Cochin and Gauhati. During the year, a new Technical Consultancy Organisation *viz.*, Bihar Industrial and Technical Consultancy Organisation (BITCO) was set up at Patna.

228. A working group appointed by the IDBI also completed a detailed study of the State-level promotional institutions *viz.*, SIDCs/SIICs with a view to integrating them with the IDBI's network of activities. The working group has submitted its report and the recommendations of the Group are under consideration of the IDBI.

229. The IDBI has been operating a scheme, since December 1968, for financing supplier's credits for exports of engineering goods and services on deferred payment terms. In December 1973, the IDBI introduced a Buyer's Credit Scheme, in terms of which the IDBI would in participation with eligible commercial banks in India, grant credits directly to foreign importers in connection with exports of capital goods from India. The scheme would be made available in select cases depending primarily on the value of the capital goods and the status of exporters and importers.

230. Another aspect that has widened the scope of IDBI's export finance schemes was the grant of special bank credit of Rs. 25.0 crores to three financial institutions in Bangladesh to enable that country to import from India capital goods falling within certain specified categories. The credit is being extended on special terms including a deferred

**Technical
Consultancy
Services**

**Buyer's Credit
Scheme for
Exports of
Capital Goods**

**Special Bank
Credit to
Bangladesh**

credit period of 15 years and interest at 5 per cent per annum. The credit will be shared in India by IDBI with the United Commercial Bank and the United Bank of India, the latter two banks together sharing 50 per cent of the credit.

231. Consequent on the Reserve Bank of India raising the ceiling on interest rates chargeable by scheduled commercial banks on their post-shipment credit for exports on deferred payment terms, the IDBI raised its rate of interest on refinance assistance from 4.5 per cent to 5.5 per cent per annum, with effect from April 30, 1974 and the borrowing banks can now charge a maximum rate of 7 per cent per annum on their credit to the exporters. Similarly, the average rate payable by the exporter/importer under participation export finance scheme and buyer's credit scheme has been put up by 1 per cent to 6.5 per cent.

232. In quantitative terms, the main highlight of IDBI's operations during 1973-74 was that both sanctions and disbursements touched record levels. Total assistance (excluding guarantees) sanctioned during the year amounted to Rs. 232.6 crores and was higher by 71.0 per cent compared to Rs. 136.3 crores sanctioned in 1972-73. The number of sanctions also increased from 2998 in 1972-73 to 3817 in 1973-74. All the main schemes of assistance *i.e.*, direct assistance, refinance of industrial loans, rediscounting of bills and export finance accounted for the marked step up in the level of sanctions during the year.

233. IDBI's total disbursements of Rs. 162.2 crores during 1973-74 were 52 per cent higher than Rs. 106.6 crores during 1972-73. These were financed mainly by (i) repayments by borrowers and sale of investments (Rs. 76.5 crores), (ii) borrowings from RBI's Long-Term Operations Fund (Rs. 70.0 crores), (iii) borrowings from the market (Rs. 15.2 crores) and (iv) increase in share capital (Rs. 10.0 crores). The project loan assistance actually utilised at Rs. 46.8 crores showed substantial increase compared to Rs. 25.2 crores in 1972-73. Total effective sanctions since the inception of IDBI upto the

end of June 1974 amounted to Rs. 983.6 crores (excluding guarantees for Rs. 28.5 crores). The utilisation of assistance aggregated Rs. 726.9 crores.

234. As regards the form of assistance, the IDBI sanctioned direct assistance aggregating Rs. 65.4 crores in respect of 52 projects during the year compared to Rs. 50.5 crores during 1972-73. Of the 52 units assisted through direct assistance, 37 units (including 4 in the co-operative sector and 2 in the public sector) envisaged setting up of new capacity and/or expansion/diversification of existing units in various items of manufacture such as tyres and tubes, basic chemicals, steel billets and/or ingots, paper, textiles, machinery etc.

235. The amount of bills rediscounted by the IDBI at Rs. 76.3 crores during 1973-74 was higher by 53 per cent covering 804 purchaser-users, against Rs. 49.8 crores covering 693 purchaser-users. The public utilities such as State Electricity Boards and State Road Transport Corporations availed themselves of the facilities to a larger extent than in 1972-73 (Rs. 20.7 crores compared to Rs. 11.2 crores in 1972-73).

236. Sanctions under refinance of industrial loans at Rs. 45.1 crores were 47 per cent higher compared to Rs. 30.7 crores in 1972-73, the number of applications rising from 2204 to 2926. About two-thirds of the refinance assistance was in respect of small-scale industries and small road transport operators.

237. Mention was made in the last Report regarding sanction by IDA of a credit of \$ 25 million to IDBI for refinancing the loans of State Financial Corporations (SFCs) to small and medium sized industrial units for financing the import of equipment and/or technical know-how from abroad. The Capital Goods Ad-hoc Committee (CGAC) which has been entrusted with the work of clearing import licence applications under IDA credit has cleared upto June 30, 1974, 413 applications involving foreign exchange component of Rs. 10.3 crores. By June 30, 1974, the SFCs had received 376 applications involving a total assistance of Rs. 26.2 crores (inclusive of foreign exchange component) under the IDA credit. They had sanctioned 178 applications for Rs. 11.3 crores and rejected 29 applications

for Rs. 2.9 crores as not being eligible for assistance under the credit. The remaining 169 applications involving assistance of Rs. 12.0 crores were pending consideration for sanction. It is expected that the entire IDA credit of \$25 million would be committed well within the prescribed time, that is before June 30, 1975.

238. The sanctions under export finance (participation scheme and refinance of export credit) which lagged behind in the previous year picked up during the year and increased from Rs. 2.8 crores to Rs. 35.6 crores including special bank credit of Rs. 25.0 crores to Bangladesh financial institutions. The other major sanction under export schemes was a post-shipment loan of Rs. 5.9 crores in respect of export of 867 railway wagons to Yugoslavia.

239. IDBI continued to provide assistance — both direct and refinance of industrial loans—on concessional terms to units in backward areas. Total assistance sanctioned on concessional terms during the year amounted to Rs. 44.8 crores raising the total assistance sanctioned on concessional terms to Rs. 77.5 crores upto the end of June 1974.

Industrial Reconstruction Corporation of India Ltd., (IRCI)

240. During the year IRCI received 62 requests for reconstruction assistance from the sick/closed units, taking the total number of applications received so far since the inception, to 480. Of these 480 applications, the IRCI had completed study of 411 applications and sanctioned reconstruction assistance in 79 cases for a sum of Rs. 22.3 crores ; over two-thirds of this assistance sanctioned was in respect of units in the engineering industry. Utilization of assistance upto the end of June 1974, aggregated Rs. 11.9 crores. The IRCI also arranged for working capital requirements of the assisted units from bankers, for an aggregate amount of Rs. 17.5 crores. The assistance from the IRCI has actually resulted in restoring employment to about 64,825 workers. The Textile Processing Corporation of India Ltd., promoted by IRCI to function as a central processing

house, has reached an advanced stage of implementation.

241. The Inter-Unit Services introduced by the IRCI has proved mutually beneficial to the assisted units in the matter of augmenting their sales and ensuring timely and appropriate supply of some raw materials and components at reasonable prices.

242. During 1973-74, KITCO received 281 project enquiries covering a wide range of medium and small scale industries. About 92 per cent of the enquiries (258) emanated from entrepreneurs and the remaining from financial institutions (the State Financial Corporations and the banks). Out of the 258 enquiries received from the entrepreneurs, only 31 enquiries involving an investment of Rs. 17.7 crores materialised into project ideas. This includes one project idea which was developed into a product profile involving an investment of Rs. 2.50 crores and furnished to the party. It was mentioned in the last Report that KITCO had on hand 66 schemes and 9 appraisal cases involving a total investment of Rs. 31.2 crores, bringing the total to 97 schemes and 32 appraisal cases for consideration during the year.

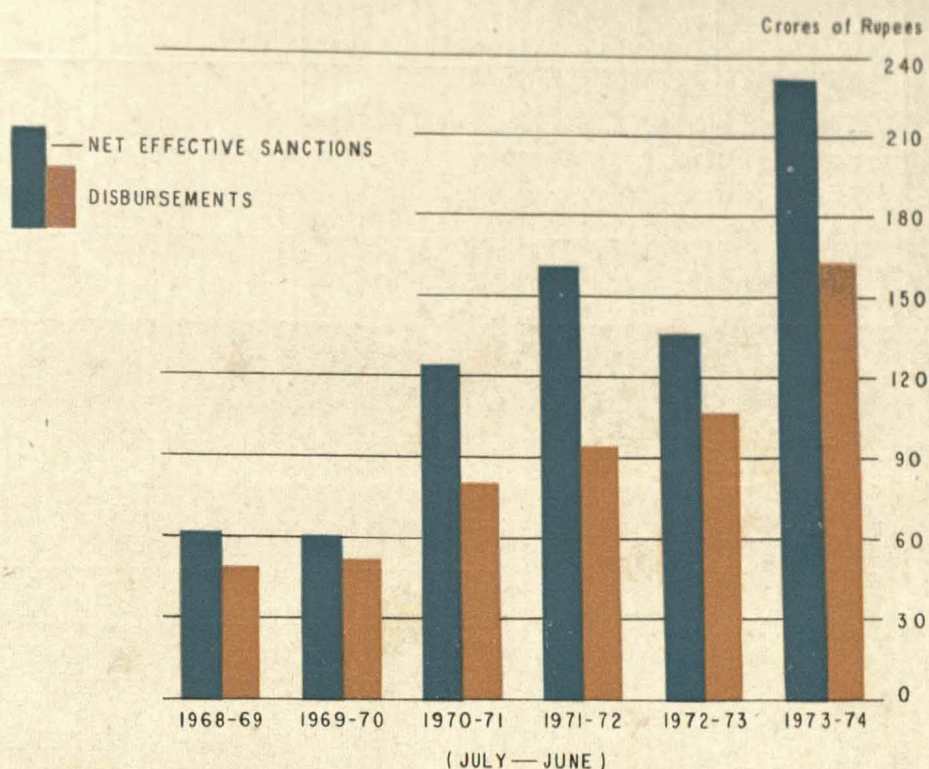
Kerala Industrial and Technical Consultancy Organisation Ltd., (KITCO)

243. Mention was made in the previous Report regarding setting up of NEITCO in May 1973 to facilitate the work with regard to project formulation, appraisal and supervision. During the first 13 months ended June 1974, NEITCO received 102 enquiries, of which 64 cases were from private entrepreneurs and the remaining from Government/public sector bodies. So far, 35 cases involving investments of Rs. 72.8 crores have materialised into definite jobs and assignments under different categories ; of these 24 assignments have been completed. These completed assignments involve a total capital outlay of Rs. 55.4 crores with an employment potential of nearly 7000 persons. In addition, work in respect of 11 schemes is in progress and further, 23 significant enquiries are being actively processed, apart from 44 preliminary

North-Eastern Industrial and Technical Consultancy Organisation Ltd., (NEITCO)

14

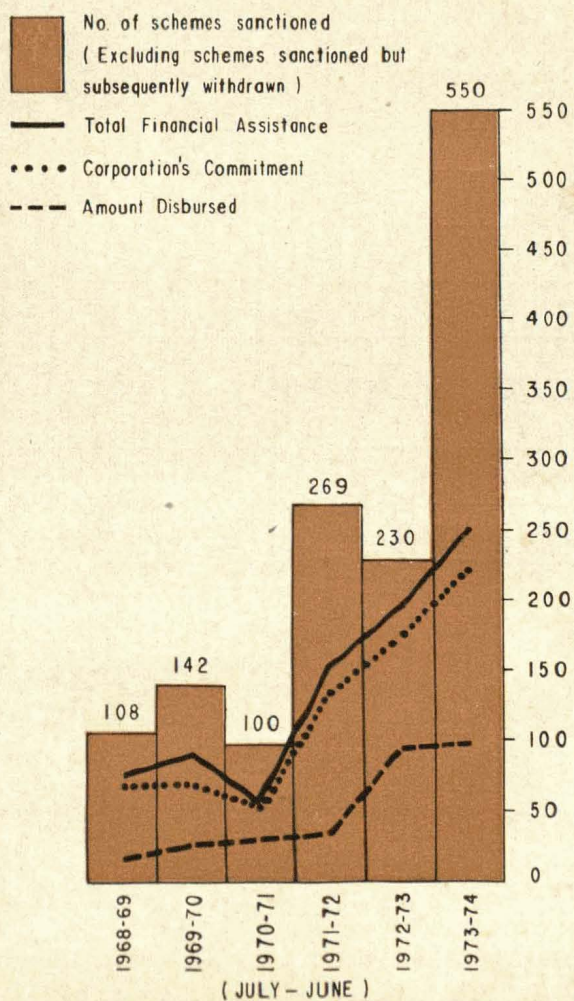
ASSISTANCE SANCTIONED AND DISBURSED BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA



15

OPERATIONS OF AGRICULTURAL REFINANCE CORPORATION

(Crores of Rupees)

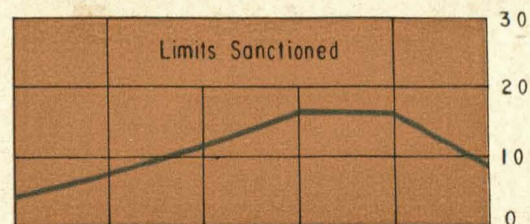


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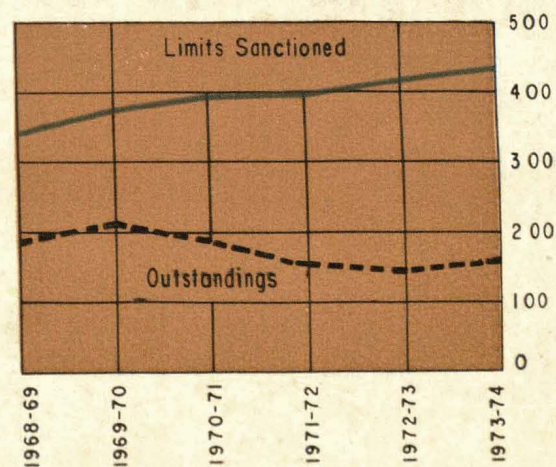
R. B. I. CREDIT FOR AGRICULTURAL PURPOSES

(Crores of Rupees)

Loans to State Governments
for contribution to share capital of
co-operative credit institutions (April-March)



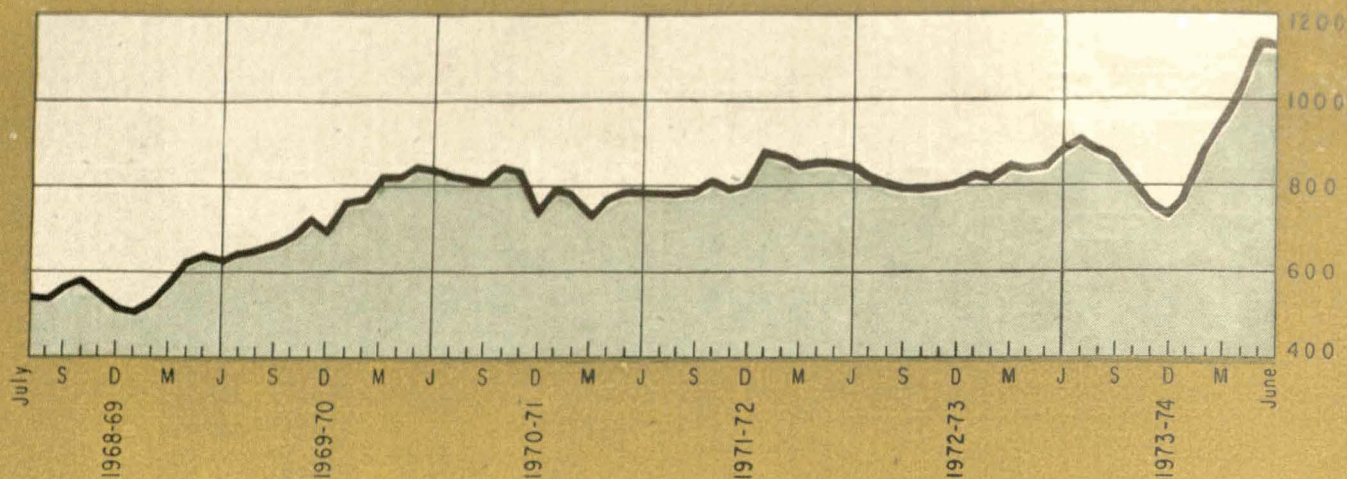
Short-term loans provided to state co-operative banks
for seasonal agricultural operations and
marketing of crops (July — June)



17

INDIA'S FOREIGN EXCHANGE RESERVES (GROSS)

CRORES OF RUPEES

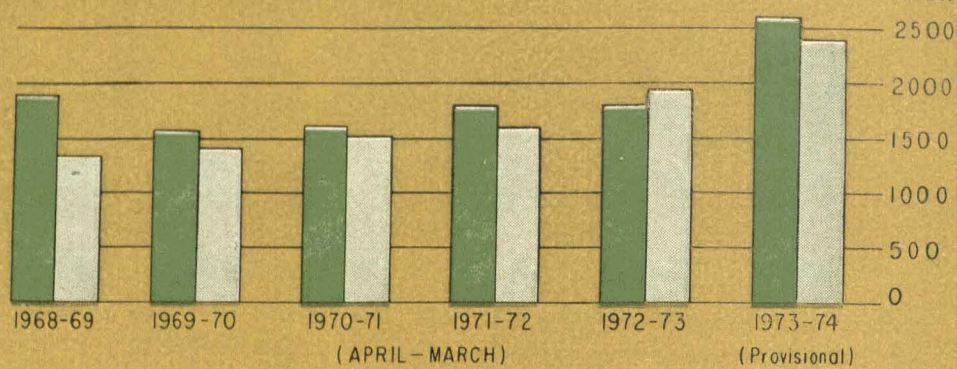


18

INDIA'S FOREIGN TRADE

IMPORTS
EXPORTS

CRORES OF RUPEES

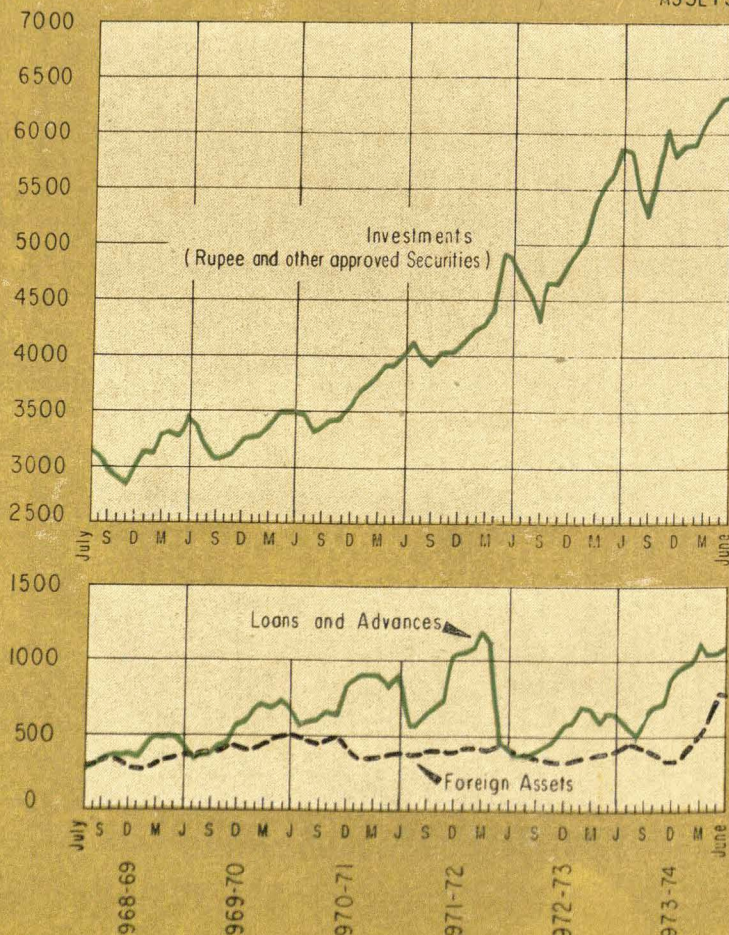
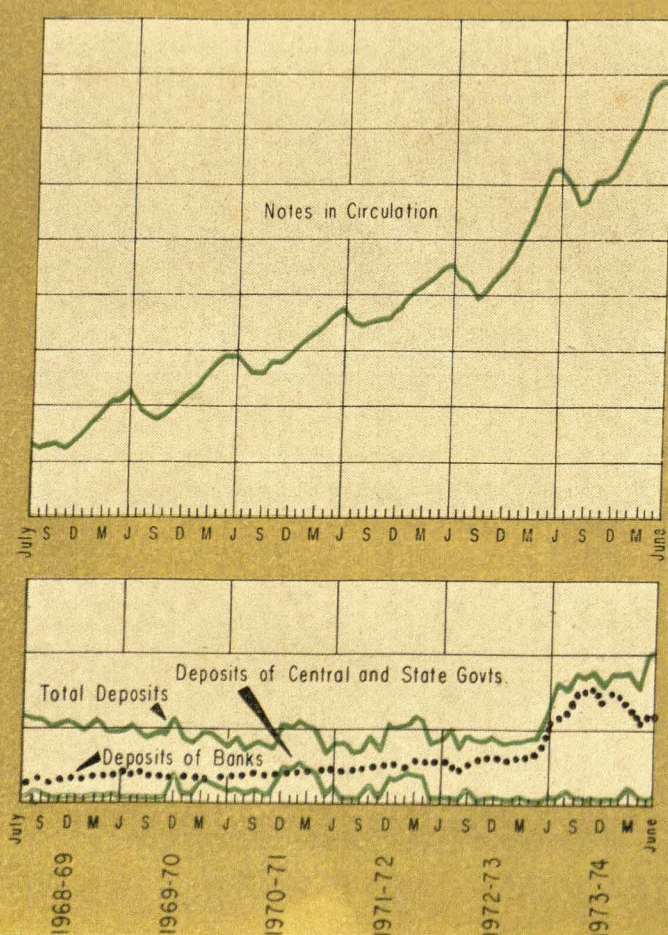


19

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

LIABILITIES

ASSETS



enquiries on hand. Of the total number of projects/schemes with NEITCO for providing consultancy assistance, one scheme has gone into production, 12 are under active implementation and in respect of 26 proposals firm investment decisions have been taken. At the instance of Bihar Government, NEITCO is undertaking a feasibility study on a scheme to provide inland river transport services near Darbhanga with a view to establishing better communication between North and South Bihar.

244. As mentioned earlier, BITCO, sponsored by the IDBI, ICICI, IFCI, five nationalised 'lead' banks in the State (viz., State Bank of India, Central Bank of India, Bank of India, Punjab National Bank and United Commercial Bank), Bihar State Financial Corporation and Bihar Small Industries Development Corporation was inaugurated in June 1974. As in the case of the other two consultancy organisations, BITCO will be board-managed with the Vice-Chairman of the IDBI as the Chairman of the Board of Directors. The other directors will comprise representatives each of SIDC, SFC, ICICI, IFCI, IDBI and the 'lead' banks.

245. During the year, the IDBI contributed Rs. 2.1 crores to the public issue of debentures and Rs. 2.9 crores to the special issue of debentures of the ICICI. With this, the total assistance of the IDBI to that institution since inception amounted to Rs. 24.7 crores upto the end of June 1974. With repayment of Rs. 2.7 crores being the instalment of loans taken by ICICI in 1966-67, 1967-68 and 1968-69, IDBI's holdings of ICICI debentures amounted to Rs. 22.0 crores at the end of June 1974. IDBI gave a special loan of Rs. 5.0 crores to IFCI in order to relieve strain on its resources. IDBI also holds 50 per cent (Rs. 5.0 crores) of the share capital of the IFCI. Besides, the IDBI subscribed Rs. 0.25 crore to the private issue of share capital by Haryana Financial Corporation bringing IDBI's total subscription to share and bonds issues of all SFCs to Rs. 9.2 crores.

Other Term-lending Institutions

246. The appreciable rise in the total sanctions of ICICI, comprising of direct loans, underwriting of and direct ICICI and IFCI subscription to shares and debentures and guarantees, during the year (April-March) was mainly on account of the rise in direct loans (rupee as well as foreign currency loans) sanctioned. The total sanctions rose by Rs. 11.7 crores to Rs. 61.1 crores while rupee loans sanctioned rose by Rs. 6.4 crores to Rs. 19.8 crores and foreign currency loans rose by Rs. 5.7 crores to Rs. 34.7 crores. Disbursements also were higher at Rs. 43.5 crores as compared with Rs. 39.7 crores during 1972-73. On the other hand, there was a marginal fall of Rs. 1.8 crores to Rs. 43.9 crores in the total sanctions of IFCI. However, IFCI's disbursements increased from Rs. 28.0 crores during the preceding year to Rs. 31.9 crores during the year.

247. The operations of 18 SFCs, including the Tamil Nadu Industrial Investment Corporation Limited (TIIC), showed further improvement during 1973-74 (April-March). The total loans sanctioned by them during 1973-74 amounted to Rs. 99.7 crores compared to Rs. 77.8 crores during the preceding year, whereas disbursements increased to Rs. 54.1 crores as against Rs. 44.1 crores in the previous year. Loans outstanding as at the end of March 1974 amounted to Rs. 215.2 crores or 17.0 per cent higher than a year ago. The bulk of the financial assistance continued to be granted to units in the small scale sector and such assistance formed nearly two-thirds of the total sanctions and disbursements.

Financing of Small-scale Industries

248. The number of credit institutions eligible for facilities under the Credit Guarantee Scheme increased from 569 at the end of June 1973 to 584 at the end of April 1974 by the inclusion of one scheduled commercial bank and 14 unlicensed primary urban co-operative banks in the approved list. Three of the 14 unlicensed primary urban co-operative banks referred

to above have since joined the Scheme by executing the necessary agreement. The total number of institutions participating in the Scheme increased from 183 to 201 during the period July 1973—April 1974. With the approval of Government of India, the Scheme was extended with effect from April 8, 1974, to industrial co-operative societies functioning in a decentralised manner but as production-cum-sale units. This liberalisation is expected to increase the flow of institutional finance to a large number of handloom and powerloom weavers' societies which would now qualify for the assistance.

249. The amount of outstanding guarantees under this scheme which stood at Rs. 879 crores at the end of April 1972 increased to Rs. 1063 crores at the end of April 1973, and further to Rs. 1429 crores at the end of April 1974, reflecting a considerable increase in the flow of credit to the small-scale industrial sector during 1973-74.

250. Since the inception of the Scheme till the end of April 1974, claims aggregating Rs. 93.10 lakhs have been paid in respect of 832 accounts; of these, the payments made during May 1973—April 1974 amounted to Rs. 31.95 lakhs in respect of 425 accounts (corresponding figures for the year 1972-73 were Rs. 24.62 lakhs and 144 accounts). The bulk of these claims was paid in Bombay and Delhi regions. Out of the aggregate amount of Rs. 93.10 lakhs paid as claims, a sum of Rs. 17.57 lakhs has been recovered, placing the net amount of claims paid at Rs. 75.53 lakhs as at the end of April 1974.

251. The number of advances in default as at the end of April 1974 stood at 9,756 involving Rs. 29.08 crores forming 2.04 per cent of the aggregate amount of outstanding guarantees as against 6,854 advances involving Rs. 20.06 crores forming 1.9 per cent of the aggregate amount of outstanding guarantees as at the end of April 1973. Out of the 9,756 advances in default as at the end of April 1974, Bombay and Madras Regions together accounted for 6,807 of the accounts (70 per cent of the accounts) involving Rs. 18.85 crores (65 per cent of the amount).

Accounts in Default

252. During 1973, a sum of Rs. 1.03 crores was received as guarantee fees and transferred to the Central Government.

253. A reference was made in the last Report to certain proposals for extending guarantee facilities on a more liberalised basis in respect of advances granted under the technician entrepreneurs schemes introduced by the banks as well as SFCs for assisting such entrepreneurs in setting up small-scale industries. The Government of India have since approved the proposals and with effect from April 1, 1974, a higher guarantee cover of 90 per cent in respect of advances to technician entrepreneurs is available for 5 years from the date of the first disbursement of an advance to the concerned unit subject to certain terms and conditions.

254. During the first three quarters of 1973-74 (April-March), the credit extended by scheduled commercial banks to small-scale industries (including term loans and advances granted to craftsmen and other qualified entrepreneurs) rose by Rs. 172 crores raising the outstanding to Rs. 859 crores. The increase in credit to this sector during the period under review was more than double the increase (Rs. 71 crores) during the corresponding period of the previous year. The number of units assisted also rose substantially by 45,141 as against 19,659 in the comparable period of 1972-73.

255. The trend observed earlier of a steady decline in the average amount of credit limits sanctioned per small scale unit, implying larger coverage of smaller units in the small scale sector, and the growing involvement of banks in financing small-scale industries in industrially backward States continued during the period under review. The average amount of credit limits sanctioned per unit declined further from Rs. 74,400 at the end of December 1972 to Rs. 67,000 at the end of December 1973 and the quantum of credit extended in the industrially backward States generally continued to show a rise, the per-

centage share of some of these States like Orissa and Bihar recorded an increase.

256. The State Bank of India group and the 14 nationalised banks together accounted for 89 per cent (Rs. 767 crores) of the total outstanding bank credit (Rs. 859 crores) to the sector as at the end of December 1973. The State Bank Group extended credit to this sector for the aggregate amount of Rs. 317 crores showing a rise of Rs. 44 crores over March 1973 level as compared to an increase of Rs. 28 crores in the corresponding period of 1972. The credit extended by the 14 nationalised banks to small-scale industries showed an increase of Rs. 116 crores during March-December 1973 as against Rs. 33 crores in March-December 1972.

257. During the nine months period ended December 1973, the term loans (including instalment credits) sanctioned by banks to small scale industries rose by Rs. 20 crores to Rs. 177 crores. The outstandings increased from Rs. 113 crores covering 33,614 units at the end of March 1973 to Rs. 138 crores spread over 41,882 units as at the end of December 1973. The proportion of term-loans (outstanding) to total bank credit extended to small industry was 16.0 per cent in December 1973 as compared to 16.4 per cent in March 1973 and 14.8 per cent in December 1972.

258. The credit limits sanctioned to craftsmen and other qualified entrepreneurs as at the end of December 1973 totalled Rs. 38 crores covering 19,916 units. Outstanding credit stood at Rs. 25 crores, 44 per cent of which was accounted for by the SBI group.

259. As at the end of December 1973, the credit limits sanctioned to small road and water transport operators amounted to Rs. 134 crores spread over 64,348 units. The amount outstanding at Rs. 98 crores recorded an increase of Rs. 23 crores over March 1973 level as compared to Rs. 9 crores during the corresponding period of 1972. Credit limits sanctioned by fifteen scheduled commercial banks for setting up of industrial estates amounted to Rs. 15 crores as at the end of December 1973 covering 54 accounts (34 units); the balance outstanding being Rs. 6 crores.

Unit Trust of India

260. There was a marked increase in the sale of units during 1973-74 (July-June) reflecting the growing popularity of units as a medium of investment. During the first six months of 1973-74 itself, the sale of units at Rs. 24.12 crores exceeded the record sales of Rs. 23.04 crores reached during the whole of the previous year. Sales during the whole of 1973-74 amounted to Rs. 30.31 crores under about 1,00,250 applications as compared with Rs. 23.04 crores under 82,170 applications during the previous year (*i.e.*, 32 per cent rise in sales). With the improvement in income, the Unit Trust of India (UTI) declared a dividend of 8.50 per cent for the second year in succession.

261. Units of the face value of Rs. 3.70 crores were repurchased during the year as against Rs. 2.97 crores during the previous year.

262. The total amount of units sold and outstanding with the Trust as at the end of June 30, 1974 amounted to Rs. 151.40 crores in respect of about 6 lakh applications.

263. During 1973-74, 2,764 new applicants joined the Unit-linked Insurance Plan for a target amount (*i.e.*, contributions to be made over a 10-year period) of Rs. 2.21 crores; the corresponding figures for the last year were 1,312 applications for a target contribution of Rs. 1.07 crores. The Plan is thus gradually becoming popular with the investing public. Sales of units under the Plan during the year amounted to Rs. 33.03 lakhs as against Rs. 12.96 lakhs during the previous year.

264. The investible funds of the Trust at the end of June 1974 amounted to Rs. 172.18 crores. Of these, ordinary shares accounted for Rs. 77.66 crores (45.1 per cent), preference shares for Rs. 16.17 crores (9.4 per cent) and debentures for Rs. 53.22 crores (30.9 per cent); compared to the last year, there was some shift in the investment portfolio in favour of equi-

Unit Scheme
1964

Unit Scheme-
1971 (Unit-
linked Insur-
ance Plan)

Investments

ties. The balance of Rs. 25.14 crores (14.6 per cent) represented investment in Government securities and bonds of Financial Corporations, advance deposits for debentures and preference shares, advance call deposits for ordinary shares, bridging finance, other deposits, application money for ordinary and preference shares and call and short notice deposits with banks.

265. There was a further expansion in the network of agents and brokers who canvass sale of units among the investing public. As at the end of June 1974, the number of approved agents and brokers increased to 4,502 and 381, respectively, from 3,641 and 362 as at the end of June 1973.

**Selling
Organisation**

V. DEVELOPMENTS IN EXCHANGE CONTROL

266. An important development in the sphere of exchange control during the year was the coming into effect, on January 1, 1974, of the Foreign Exchange Regulation Act, 1973, which replaced the earlier Act (Foreign Exchange Regulation Act, 1947). Another development was the scheme instituted by the Bank for providing protection against the adverse effect of fluctuations in exchange rates on the export earnings of exporters of goods on deferred payment terms.

267. The basic structure of the new Act is the same as that of the earlier Act. The new Act, however, includes certain new provisions; some of the provisions of the earlier Act have also been revised and made more comprehensive in the new Act. The more important of the provisions of the new Act are Sections 28, 29 and 31 which seek to regulate the activities in India, of persons resident outside India (including Indian citizens), foreign citizens resident in India and companies (other than banking companies) which are incorporated abroad as well as branches of such companies or companies in which the non-resident interest is more than forty per cent. The Reserve Bank has been entrusted with the responsibility of administering these and other provisions, some of which have laid down time limits for submission of applications and/or their disposal. The Government of India have announced 'Guidelines' for dealing with applications under Section 29 of the Act of Indian companies having more than forty per cent non-resident interest and of branches of foreign companies operating in India for carrying on any activity of a trading, commercial or industrial nature or for starting fresh activities.

268. Besides these, various provisions have been introduced for strengthening the enforcement machinery, preventing evasion of the regulations and enhancement of penalties for contravention of the regulations. The Bank has issued a number of notifications under the Act for continuing exemptions which were previously in existence, cancelling permissions previously granted which were in consistent with the provisions of the new Act,

or for granting fresh general permissions or exemptions.

269. It was mentioned in the last Report that with effect from March 8, 1973, the Bank resumed forward purchases of pound sterling from authorised dealers for delivery up to six months, after these had been suspended on February 13, 1973. With effect from August 20, 1973, the Bank commenced purchase of forward sterling for delivery up to 9 months, instead of up to six months, the rates for forward cover being determined by adding the margins as indicated below to the Bank's spot buying rate for sterling as fixed from time to time :

Period of delivery	Margin (per Rs. 100)
Upto 3 months	£ 0.0125
Upto 6 months	£ 0.0250
Upto 9 months	£ 0.0375

The Bank also allowed, on request, one or more extensions of its forward purchase contracts on payment of a charge of £ 0.0125 per Rs. 100 for each quarter or part thereof provided that the total period of delivery did not exceed twelve months from the date of the original contract. Thus, the facility, as it existed from August 22, 1972 till it was withdrawn on February 13, 1973 was fully restored.

270. Purchases of U. S. dollars, both spot and forward for three months' and six months' delivery, had been suspended by the Reserve Bank on February 12, 1973, following the second devaluation of the U. S. dollar. The Bank resumed the spot purchases and forward purchases for delivery on completion of three months with effect from September 3, 1973. Effective September 26, 1973, the Bank has begun to purchase forward U. S. dollars for delivery on completion of one month, two months and six months also.

271. With effect from March 4, 1974, the Bank commenced the purchase of Deutsche marks, both spot and forward, the latter for

delivery on the completion of one month, two months or three months at the seller's option. The purchase of spot and forward Japanese yen for delivery on the completion of one, two and three months was begun with effect from May 29, 1974.

272. The purchases of U.S. dollars, Deutsche marks and yen will, for the present, be made only in the Bank's Bombay office. Further, deliveries against forward contracts in these three currencies for one, two or three months, may be made by authorised dealers only on the dates of maturity or within a period of three days before the maturity dates, while in the case of forward contracts for six months in U.S. dollars, deliveries will be accepted by the Reserve Bank within a period of seven days only before the due dates, without any adjustment in the contract rates.

273. The stipulation that dealings in sterling and U. S. dollar currency notes between authorised dealers and authorised money-changers should be at the rates laid down by the Reserve Bank for purchase and sale of these currency notes from and to the public, subject to a maximum rebate of 10 paise per unit of foreign currency, was withdrawn on September 24, 1973; thenceforth dealings in pound sterling and U.S. dollar currency notes between authorised dealers and authorised money-changers could be conducted at rates determined by market conditions as in the case of other foreign currency notes.

274. In order to enable exporters who accept export orders from overseas buyers on deferred payment terms, to cover the risk of adverse fluctuations in the exchange rates during the period of deferment, the Bank has introduced a scheme, effective June 1, 1974, under which it will enter into forward purchase contracts with authorised dealers in cover of similar forward contracts entered into by them with such exporters for the purchase of the proceeds of their exports involving deferred payment terms. The facility will be available to exporters in respect of export if specified categories of capital goods and producer goods where the offer of credit terms for realisation of proceeds is permissible under the exchange control regulations in force at the time of export. The Reserve Bank will provide cover for exports invoiced in any of

the four currencies, viz., pound sterling, U.S. dollars, Deutsche marks or Japanese yen. The cover will be provided for the whole of the expected export proceeds, if the proceeds are payable in instalments or otherwise over a period of 18 months and above but not exceeding 10 years from the date of conclusion of the export contract. The rates for forward cover in pound sterling to the authorised dealer for different periods of deferment have been fixed on a mildly graduated scale as follows :—

Period of forward contract	Percentage margin over Reserve Bank's spot buying rate
1. For 18 calendar months and above but not exceeding 5 years	1.25
2. Above 5 years but not exceeding 7 years	1.75
3. Above 7 years but not exceeding 10 years	2.50

The margin of 1.25 per cent stated in item 1 will also apply to deliveries of the first and/or subsequent instalments falling due *within* 18 months from the date of the forward exchange contract but where the total deferment period extends to 18 months and above. The rates for the forward purchase of U. S. dollars, Deutsche marks and Japanese yen by the Reserve Bank will be the cross rate between the London market's spot buying rate for the currency concerned at the close of business on the previous working day and the Reserve Bank's forward buying rate for sterling for the appropriate period of forward contract as indicated above. The rate to be quoted by an authorised dealer to an exporter will be obtained by loading the Reserve Bank's rate for the applicable period by a margin not exceeding the equivalent of £0.0100 for exchange equivalent to Rs. 100. Exporters have the option of obtaining cover under this scheme within a period of three months from the date of the export contract. For the present, purchases under this scheme will be made only at the Bank's Bombay Office.

TABLE 34:—STATISTICAL DATA FOR THE PERIOD JULY 1973 TO JUNE 1974

1. Foreign Exchange Permits Issued for Study/Training Abroad

Country	Technical Courses		Non-Technical Courses	
	Number of Permits Issued	Amount of Exchange Released (Rs. 000's)	Number of Permits Issued	Amount of Exchange Released (Rs. 000's)
U.K. & Europe	502	4,797	443	2,917
U.S.A. & Canada	1,064	26,736	707	15,413
Other Countries	111	675	105	373
Total	1,677	32,208	1,255	18,703

II. Foreign Exchange Permits issued for Travel Abroad for purposes other than Study/Training

	Number of Permits issued	Amount of exchange released (Rs. 000's)
1. Business	13,632	77,745
2. Medical treatment	465	5,776
3. Study tours	869	5,606
4. Attendance at conferences	1,467	3,702
5. Miscellaneous	6,115	7,906
Total	22,548	1,00,735

III. Number of 'P' Form Applications Approved/Rejected

Purpose	No. of 'P' Forms	
	Approved	Rejected
1. Joining head of family	11,374	3
2. Visits to relatives	19,969	10
3. Export promotion	283	—
4. Employment abroad	8,765	—
5. Emigration for permanent settlement	7,537	3
6. Students/Trainees	3,187	—
7. Miscellaneous	19,871	135
Total	70,986	151

Travellers' Jewellery 275. Under the Exchange Control regulations, residents of India going abroad have been granted general permission to take with them, except to Pakistan, personal jewellery, made mainly or wholly of gold, which forms part of their personal baggage or is worn on their person, up to a specified value limit; gold jewellery above this value limit may be taken out only with the prior approval of the Reserve Bank. This limit which was Rs. 2,000/- until June 3, 1973 has been raised to Rs. 5,000/- with effect from June 4, 1973,

E.C.D. at Bangalore 276. The Exchange Control Cell at Bangalore which was handling only foreign travel applications was converted into a full-fledged office for dealing with all kinds of exchange control matters with effect from September 17, 1973, with operational jurisdiction over the State of Karnataka.

Withdrawal of Protection to Pre-zero Foreign Currency Accounts 277. Persons resident in India who had pound sterling accounts prior to July 8, 1947 had been given general permission to continue to hold these so called "pre-zero" accounts to the extent of the balance therein as on that date. They also had general permission to make payments out of the balances held as on July 8, 1947 in such accounts and to take or send out of India cheques or drafts drawn on such accounts without obtaining special permission from the Reserve Bank. This protection in respect of "pre-zero" foreign currency accounts was withdrawn from October 1, 1973 and persons maintaining such accounts were required to repatriate the balance held therein within one month from October 1, 1973 unless special permission of the Reserve Bank was obtained to maintain and operate on such accounts.

Licensing of Authorised Dealers 278. During the year four banks, viz., Corporation Bank Ltd., Bharat Overseas Bank Ltd., Bank of Madura Ltd., and United Western Bank Ltd., were licensed to deal in foreign exchange.

Indo-Bangladesh Trade 279. The Indo-Bangladesh Trade Agreement, which was in force for a period of one year from March 28, 1972 to March 27, 1973, was extended twice for periods of three months each, and was replaced by a new Trade Agreement including a Balanced Trade and Payments Arrangement, which came into effect on September 28, 1973. While the earlier trade and payments agreement had provided for "three-tier" arrangements, the new agreement was a "two-tier" one. Under the Balanced Trade and Payments Arrangement, trade between the two countries in listed commodities up to earmarked values was placed on a balanced basis for a period of three years; such trade was to be settled through special accounts maintained at designated banks in India and Bangladesh. Other trade was to be settled in free foreign exchange, as under the earlier agreement. The provision for border trade in small quantities of specified commodities, which existed in the earlier Trade Agreement (and which comprised the third tier), was dropped. The special arrangements for financing of travel between the two countries in non-convertible rupees continued during the year 1973-74. So also did the arrangements for repatriation, in non-convertible rupees, of the surplus earnings of Indian and Bangladesh carriers operating in the other country, to the extent of freight collections on goods carried between the two countries and passage fare collections from Indian and Bangladesh nationals travelling between the two countries; the balance of surplus earnings of the carriers was repatriable both ways in free foreign exchange.

VI. SURVEYS AND SEMINARS ORGANISED BY THE RESERVE BANK

280. During the year under review, processing of the schedules pertaining to the All-India Debt and Investment Survey—1971-72 conducted by the Bank in its Statistics Department in collaboration with the National Sample Survey Organisation of the Government of India and Statistical Bureaux of the State Governments was under progress. Priority tables based on summary block of the schedule of inventory of assets and liabilities of rural households were generated for all the States. The Steering Committee appointed by the Bank to oversee the conduct of the Survey met thrice during the year.

281. The Division of Trade in the Economic Department completed processing of the data relating to the second survey of Foreign Collaboration in Indian Industry and the Report of the Survey was under preparation.¹ The Division also initiated the third survey of Foreign Collaboration in Indian Industry in March 1974. The results of the Survey of Indian Joint Ventures Abroad were being finalised at the close of the year.

282. A seminar on Agricultural Banking jointly sponsored by the Food and Agricultural Organisation, the Government of India, the State Bank of India and the Reserve Bank of India was held at Hyderabad from September 10, 1973 to October 13, 1973. The main object of the seminar was to expose African and West Asian officials to the experience in building up of credit and financial institutions in India. The seminar was attended by 11 delegates from African countries besides 7 Indian participants, including some senior officials from the Agricultural Credit Department of the Bank.

283. Another seminar of the chief executive officers of selected primary co-operative banks was held by the Central Agricultural

Credit Department at Poona between March 21-23, 1974. The topics that came up for discussion at the above seminar covered (i) Developmental Role of Urban Co-operative Banks, (ii) Management Aspects of Urban Co-operative Banks, (iii) Inspection of Urban Co-operative Banks, (iv) Registration of New Urban Co-operative Banks and Opening of Branches by existing Urban Banks and (v) Credit Control Measures through Urban Co-operative Banks.

284. The Division of Rural Surveys, Economic Department, finalised during the year the general review report on Study of Small Farmers (1967-69). At the instance of the Government of India, the Division undertook two quick field studies on the operations of the working of SFDA and MFAL in 13 selected districts under each of the two development schemes. The monthly Survey of Co-operative Banks Advances continued to be conducted in the Division till December 1973; beginning with 1974, it has been made into a quarterly survey.

285. The Division of International Finance, Economic Department, continued to conduct Survey of Unclassified Receipts, that is, receipts in amounts below Rs. 10,000 or equivalent for which no purpose-wise details are required to be reported under the exchange control regulations. The results of the Survey for 1972 which covered the three-month period February, March and April are being finalised. The Survey for 1973 was carried out for the three-month period October, November and December and the data are being processed. The Division 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 1970-71 and 1971-72 based primarily on these reports is under preparation.

¹ A summary of the Report has since been published in the June 1974 issue of the RBI Bulletin.

VII. EDUCATION AND TRAINING

286. The Reserve Bank through its various training institutions continued to impart general as well as intensive training to a number of personnel at various levels—junior, supervisory and senior executives—for its own staff as well as the staff of commercial banks, co-operative institutions and even Government Departments. The progress made by the various institutions during the year in this regard is reviewed in the following paragraphs.

287. During the year under review the National Institute of Bank Management (NIBM) extended its activities further and achieved progress in assisting the banks in experimenting with many of the concepts and systems pertaining to their operations that were evolved in the earlier years. Having devoted attention in the preceding years to the urgent and immediate problems faced by the banking industry in the area of manpower planning and development, the NIBM was able to focus its efforts in 1973-74 on some of the other basic issues and problems.

288. In the year 1973-74, NIBM conducted 22 programmes and workshops in which 635 officers participated. The highlights of these programmes were specialised courses such as organisation and management of farmers' service societies, financing of market yards, role of General Manager, programme for trainers: managing people in organisations, new agricultural technology and communication strategy, seminar on organisational planning, programme for trainers in environmental analysis and performance budgeting, zonal workshops for faculty of training colleges and centres and tourism and management of change in banks. It continued to offer courses in credit management, personnel management and manpower planning and development, etc.

289. In the area of research, various studies in the field of banking and development plans, structure of the banking industry, organisation of the individual banks, management of lending and finance, manpower planning

and development of human resources, were completed and some more were initiated. The projects which are currently being carried out are multilevel planning process, national banking plan, banking plan for a state, organisational planning of individual banks, studies of small banks, etc. The projects which were completed in this period include career path for personnel in banking industry, branch organisation, branch location in rural areas, commercial bank financing of planning of dry farming, pricing safe deposit locker service. Nineteen research fellows are currently working on doctoral dissertations at the NIBM.

290. The NIBM has strengthened its ties with some developing countries in South-East Asia and Africa. Several top level executives of the banking industries in Bangladesh, Tanzania, Nepal, Malaysia and Iran participated in the courses. At the instance of the Central Banks of South East Asia (SEACEN), its second banking course on "Financing Small Sectors" was held at the Bank Negara, Malaysia in November 1973. The participants in this programme were officers at the middle management level of Central Banks of Nepal, Ceylon, Malaysia, Indonesia, Philippines, Thailand, Laos, Cambodia and Singapore.

291. The Selection Testing Services offered by the NIBM to help banks recruit persons at clerical and officer levels are being increasingly utilised by the banks. At present nine nationalised and four private banks are utilising the Institute's Selection Testing Services. An important feature of the current year was the Selection Testing conducted for the specialised categories of officers such as Law Officers, Chartered Accountants, Agriculture Finance Officers, Economic Advisers, etc.

292. During the year under review, the Bankers Training College conducted ten courses in credit analysis covering 307 participants—the largest number in any single discipline in a year. One course in Industrial Relations was conducted at Madras. To meet

Bankers Training College,
Bombay

the increasing demand for participation in the Industrial Relations courses, two such courses are scheduled for Calcutta and Delhi later in 1974. It also conducted intensive courses in general banking at the request of one small bank tailored to suit its needs and an integrated course for bank executives at unit level integrating concepts with practice. Apart from seminars on small scale lending and export finance, the College conducted a unique seminar for Legal Officers dealing with legal matters pertaining to term finance. The seminar provided an opportunity to the participants drawn from various financing institutions to discuss in depth the legal problems of term-lending propositions and share their experiences. At the invitation of Asian Development Bank (ADB), the College will be organising a Regional Course on Development Banking for the Development Banks of Asia during the last quarter of 1974. The College continued to conduct the courses for Bank's own staff in the field of Foreign Exchange, Central Banking and Advanced Central Banking. As in the last year, some senior officers of commercial banks were admitted to Central Banking Advanced Course.

293. As part of developmental activities, the College is organising project work in its various courses on matters of practical interest to the financial institutions. It has conducted studies of the organisation and working of a few State Financial Corporations. The College has programmed to bring out a revised and enlarged edition of its publication "Guidelines on Internal Inspection". Publications in some other important areas like credit, foreign exchange and personnel management in banks are also being taken up. With the diversification of its activities, particularly in some new special courses, the Core faculty specialised in particular disciplines is being added and the competence of the existing faculty at the College is being strengthened.

294. In all 1244 officers from the Bank, commercial banks and other financial institutions received training during the year. This raised the total number of officials trained to 7232 since its inception in 1954.

295. The Co-operative Bankers Training College, established in 1969, has been introducing over the years a number of training courses for the personnel of State/College of Agricultural Banking, Poona Central/Urban co-operative banks and land development banks. In recent years, the College is imparting training to personnel from commercial banks and the Reserve Bank. The emphasis has shifted from co-operation to broader sphere of agricultural banking and finance. To bring out the widening of the area of the activities of the College, it was renamed in February 1974 as "College of Agricultural Banking" (CAB).

296. During the year, the College conducted four courses in agricultural financing—one for senior level personnel, two for middle level personnel of commercial banks and one exclusively for Bank's own officials. Five courses in Project Planning and Appraisal were organised including one general course and three special courses for officials of the States of Maharashtra, U.P. and M.P., keeping in view the provisions and stipulations of the IDA Aid Agreements. For exchange of views and experiences, participation from commercial banks was invited in some courses. Courses were also organised in credit management for Project Officers/Assistant Project Officers of SFDA/MFAL and special short outstation courses on Crop Loan System for personnel of commercial banks. The College also conducted courses for the managerial staff of state/central and primary co-operative banks. The College designed a special pilot course for the faculty of agricultural colleges in the country with a view to assisting them in imparting necessary knowledge about the agricultural banking to the Agricultural Graduates. Again, the College is designing a course in the techno-economics of the schemes of dairy, poultry, piggery, fisheries etc., for personnel from commercial and co-operative banks.

297. A study of training requirements of co-operative/commercial banks personnel indicated that the activities of the College would have to be considerably accelerated and expanded to meet training requirements of these agencies. The Bank has, therefore, appointed a Committee to examine expansion

of infrastructure facilities at the CAB and strengthening the faculty. The Committee will also review the contents of various courses conducted by the College.

298. During the year, the College imparted training to as many as 628 officers from co-operative, land development and commercial banks as also the Reserve Bank itself, raising the total number of officers so far trained by it to 2858.

299. The Staff Training College continued to conduct the General Course on Central Banking for Staff Officers Grade II and Assistants, and Inspection Oriented Course for the Officers of Department of Banking Operations and Development, Industrial Finance Department and Agricultural Credit Department. With the introduction of combined seniority at various levels (in the Bank), the question of instituting a suitable training scheme at the College to facilitate mobility has been engaging the attention of the Bank. Towards this end, the College recently conducted a pilot course for the benefit of concerned staff officers. The total number of employees who have so far received training in the College is 4138.

300. The Zonal Training Centres at Bombay, Madras and New Delhi as also of Calcutta which was reopened, continued to conduct courses for Clerks Grade I and Grade II of the Bank. The courses were also attended, among others, by Stenographers. Like last year, the special two-week discussion-oriented course for the eligible candidates who appeared for the departmental examination for promotion to the posts of Staff Officers Grade II was also conducted at all the centres.

301. During the period under review, a five-week personalised tutorial course for the benefit of five officers of Da-Afghanistan Bank, Kabul on training with the Bank, was conducted at the Zonal Training Centre, Bombay. The course was repeated for another batch for five officers of the same bank who joined this Bank for training later. The total number of clerical staff who have so far

received training in the Zonal Training Centres stood at 9487.

302. The Bank continued to depute its officers to short-term courses on management development etc., organised by the All India/State level Associations, Management Institutes and a few other similar institutes. During the year, the Bank deputed its officers to participate in the courses conducted by the International Bank for Reconstruction & Development, the International Monetary Fund and the Asian Institute of Economic Development and Planning, Bangkok. Besides, officers were also deputed for study visits/training to banking and financial institutions in the U.K., West Germany, Canada and Iran. The Bank continued to extend training study facilities to the officials/senior executives of foreign banking/central banking institutions. This year, a special training programme consisting of institutional and practical training for a total period ranging from 11 to 40 weeks was arranged for ten officers of Da-Afghanistan Bank, Kabul.

303. The operations of the state co-operative banks and central land development banks expanded considerably in the past decade on account of developmental financing of agriculture and activities allied to agriculture. While some progress was discernible in regard to operational working and efficiency of these banks, the banks experienced paucity of senior level personnel. Against this background, the Bank proposed a scheme of Management Trainees for state co-operative banks and central land development banks and forwarded the same to these banks in March 1973 requesting them to initiate action in their institutions.

304. The objective of the scheme is to have in each apex co-operative bank and central land development bank a team of officers, who should be able to assist the Managing Director or the Chief Executive Officer and eventually take up senior level executive positions in the bank including that of the Managing Director or the Chief Executive Officer. Towards this end, certain sug-

gestions were made regarding the recruitment of the personnel. The issue of appointment of the right type of personnel is being pursued and the Bank might consider imposing some sort of sanctions against the institutions which do not appoint suitable personnel.

305. An informal committee set up by the Agricultural Refinance Corporation (ARC) consisting of officers of the Corporation, Reserve Bank, NIBM, commercial banks and State Land Development Banks has identified the training needs of officers in the Corporation and financing banks and formulated the broad framework of a training programme in the context of the business projections of the Corporation for the next 5 years. The report has been forwarded to the Reserve Bank which has already appointed a Committee to look into the reorganisation of the existing training arrangements and additional facilities that will be required. The Corporation also conducted a workshop during the year to acquaint the staff of LDBs and commercial banks participating in the Madhya Pradesh and Uttar Pradesh Agricultural Credit Projects in appraisal techniques and follow-up action. A similar workshop for markets project was organised in Bangalore by the Corporation jointly with NIBM and Agricultural Finance Corporation.

306. With a view to equipping the staff of State Financial Corporations in credit appraisal, follow-up and documentation, the Bank has continued to conduct a series of training courses for the officers of State Financial Corporations.

307. During the year under Report, the Bank took several measures for the progressive use of Hindi in its offices, departments and/or associate institutions. These included:

Promotion of Hindi in RBI

- (i) Acceptance of cheques drawn (fully) in Hindi for payment without observance of any additional formality,
- (ii) Display of sign-boards in the Banking Halls with the legend, "RBI accepts cheques signed in Hindi" particularly in such of the offices of the Bank as are located in Hindi speaking areas, Maharashtra and Gujarat,
- (iii) Use of Hindi for writing addresses on all letters, etc., sent by the offices located in Hindi speaking areas to the addresses in such areas,

- (iv) Bi-lingual issue of circular letters intended for all State Governments, both the versions being treated as authentic texts and signed by the issuing officer,
- (v) Bi-lingual printing of Bank's letter-heads, etc., with the Devanagari transliteration of the Bank's name with the Hindi version preceding the English version,
- (vi) Bi-lingual issue by the Central Office of the Bank of all circulars, letters etc., pertaining to the use of Hindi,
- (vii) Allowing optional use of Hindi for answering questions on arithmetic, general knowledge and commercial geography in the recruitment examinations for the posts of Clerks Grade II/Coin-Note Examiners Grade II in the offices located in Hindi speaking areas on a trial basis and
- (viii) Purchase of Hindi publications brought out by the Kendriya Sachivalaya Hindi Parishad to promote the use of Hindi for official purposes.

308. In compliance with the provisions of the Official Languages Act, 1963, press communiques/notes/summaries, notices, advertisements and notifications continued to be issued by the Bank and its associate institutions simultaneously in Hindi and English. 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.

309. The thirteen member Official Language Implementation (OLI) Committee of the Bank met on September 13, 1973 and discussed/suggested various measures for the progressive use of Hindi in the Bank and its associate institutions. At the instance of the committee, offices etc., were requested to offer their views regarding the feasibility of originating correspondence in Hindi with the State Governments which have adopted Hindi as their official language or the language for the purposes of communication with the Central Government. The views received were being examined for necessary action. The Under Secretary (Hindi) in the Department of Banking, Ministry of Finance will be invited to attend the meetings of the Bank's OLI Committee.

310. During the year, the Bank brought out the Hindi versions 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, 1973 and the abridged version of the Report on Currency and Finance, 1972-73. It continued offering assistance to its associate institutions, viz., the Industrial Development Bank of India, the Agricultural Refinance Corporation, the Unit Trust of India, the Deposit Insurance Corporation and the Credit Guarantee Corporation of India Ltd., for Hindi translation of their annual reports and other publications as well as their press communiques, advertisements, notifications, notices, etc. The Bank also brought out a Hindi booklet entitled "Special Credit Schemes of banks — Guidelines". The monthly RBI Bulletin continued to include the Hindi section. The preparation of a Hindi glossary of designational terms used in the Bank and the public sector banks which had been undertaken by the Bank, was completed and the draft glossary sent to the Government for comments. The glossary received back from the Government together with their comments was under process of finalisation. The work of collection and collation of a general glossary of banking etc., terms was also being taken up.

311. The Hindi Adyayan Mandal (Hindi classes) continued to be conducted by the Bank under its voluntary Hindi Teaching Scheme at various centres for the benefit of its employees. Some of the employees also took up the correspondence courses in Hindi conducted by the Central Hindi Directorate, Ministry of Education. The cash incentive provided to employees for passing the recognised Hindi examinations was raised from Rs. 100 to Rs. 250 with effect from August 22, 1973. The incentive provided to the Bank's typists

for passing Hindi typewriting examination was continued during the year. The functions for the distribution of certificates to the employees who passed the Hindi Prabodh, Praveen and Pragya examinations were held at Bangalore, Bombay, Calcutta and Madras during the year, under review. A compulsory Hindi Teaching Scheme for officers of the Bank in grades A, B and C who were 45 years of age or less as on January 1, 1974 was approved by the Committee of the Central Board. The Hindi classes under the scheme will be conducted during office hours. The necessary preliminaries for putting the scheme in operation were completed during the year and the Bank's offices were advised to implement the scheme early.

312. During the year under review, the Bank continued to channel to public sector banks, the instruction of the Government of India in regard to the progressive use of Hindi in their respective organisation. The instructions mainly related to the establishment of Hindi Cells, constitution of Official Languages' Implementation Committee in the banks, the use of Hindi in issuing advertisements, printing of letter-heads, preparation of rubber stamps and printing of various forms and documents used by the public in their day-to-day dealings with banks, preparation of a phased programme for the year 1974-75 for the progressive use of Hindi, etc. The progress made by banks in the use of Hindi was watched through the quarterly progress reports submitted by them and Government was appraised of the position.

VIII. ACCOUNTS AND OTHER MATTERS

313. During the accounting year ended 30th June 1974, the Bank's income after making adjustment for various provisions, amounted to Rs. 310.48 crores as compared with the last year's income of Rs. 271.29 crores. The details of the income from various sources are as follows :

(Amounts in Rupees Crores)		Year	
		1973-74	1972-73
(i) Interest on Ways and Means Advances to the State Governments	5.85	3.15	
(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	34.88	21.11	
(iii) Interest on Rupee Securities and Discount on Rupee Treasury Bills	229.70	213.39	
(iv) Interest and Discount on Foreign Securities, Investments and Treasury Bills	42.11	20.07	
(v) Commission and Profit or gain by exchange	6.65	13.43	
(vi) Other income	8.83	0.14	
Total	328.02	271.29	
Less: Interest paid to the scheduled banks on the additional average daily balances maintained by them with the Reserve Bank	17.54	—	
	310.48	271.29	
Less: Transfers to Funds as stated in paragraph 314.	115.00	100.00	
	195.48	171.29	

314. 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. 45 crores, Rs. 10 crores and Rs. 60 crores during the year 1973-74 as against Rs. 30 crores, Rs. 40 crores and Rs. 30 crores, respectively, during the year 1972-73.

315. Out of the balance of income amounting to Rs. 195.48 crores after allowing for total expenditure amounting to Rs. 50.48 crores during the year (as against the balance of income amounting to Rs. 171.29 crores and expenditure of Rs. 41.29 crores in the previous year) the surplus of profit set aside for payment to Central Government was Rs. 145 crores in comparison with Rs. 130 crores paid last year.

316. The rise of Rs. 39.19 crores in the total income from the level of Rs. 271.29 crores last year to Rs. 310.48 crores was largely due to (i) the interest earned on foreign balances and securities because of the higher rates of interest in the U.S.A. and Europe and an increase in foreign exchange reserves during the year ; (ii) higher discounts earned on Treasury bills and an increase in commercial bills discounted for the scheduled banks under the Bill Market Scheme. The rise of Rs. 9.19 crores in the expenditure was mainly due to an increase in dearness allowances payable to class III and class IV staff.

317. The accounts of the Bank have been audited by M/s. Dalal & Shah, Bombay M/s. P. K. Mitra & Co., Calcutta, M/s. Raghu Nath Rai & Co., New Delhi and M/s. M. K. Dandekar & Co., Madras, who were appointed by the Government of India as auditors of the Reserve Bank of India by notifications No. 10/12/73—B.O.I (i) and (ii) dated 20th December 1973 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act, 1934 (2 of 1934). While the appointment of M/s. Raghu Nath Rai & Co. and M/s. M. K. Dandekar & Co. was in place of M/s. Thakur Vaidyanath Aiyar and Co. and M/s. Suri & Co., respectively, M/s. Dalal & Shah and M/s. P. K. Mitra & Co. were reappointed by the Government. In addition to the Bombay, Calcutta, Madras and New Delhi offices, books of account at Ahmedabad and Gauhati have been audited by the Bank's Statutory

auditors this year. The remuneration of the auditors has been fixed at Rs. 15,000/- each for Bombay, Calcutta, Madras and New Delhi offices and Rs. 10,000/- each for Ahmedabad and Gauhati offices.

318. Shri R. K. Seshadri, Executive Director, was appointed by the Government of India as a Deputy Governor **Central Board** of the Bank for a period of three years with effect from the forenoon of the 26th July 1973.

319. Shri C. P. Srivastava resigned his Directorship of the Central Board with effect from the 31st December 1973, on taking up the post of Secretary-General of the Inter-Governmental Maritime Consultative Organisation in London. The Board wishes to place on record its appreciation of the valuable services rendered by Shri Srivastava during his tenure.

320. Dr. P. B. Gajendragadkar and Dr. A. M. Khusro whose terms of appointment expired on the 27th February 1974, were re-nominated by the Government of India as Directors of the Central Board of the Bank under clause (c) of sub-section (1) read with sub-section (7) of Section 8 of the Reserve Bank of India Act, 1934, with effect from the 27th March 1974.

321. Of the seven meetings of the Central Board during the year, two were held at Bombay and one each at Madras, Bhopal, Calcutta, Hyderabad and New Delhi. The Committee of the Central Board held 52 meetings of which three were held in New Delhi and the rest in Bombay.

322. Shri Hiten Bhaya, Chairman, Hindustan Steel Ltd., was appointed under Section 9(1) of the Reserve Bank of India Act, 1934 as a member **Local Boards** of the Eastern Area Local Board of the Bank with effect from 1st January 1974.

Opening of New Offices

323. During the year, sub-offices of the Issue Department were set up at Bhubaneswar and Jaipur from 3rd July 1973 and 20th

April 1974, respectively. A Deposit Accounts Department was opened at Bhubaneswar on 15th February 1974.

Bank's Premises

324. Following the decision taken by the Government of India to defer the construction of non-functional buildings, the Bank's building programme was reviewed and the construction of some of the projects, which was to be taken up during the year, has been deferred for the time being. The progress of work of most of the projects in the construction stage was also affected by acute shortage of cement and steel. The present position in the case of the new projects under construction is explained in the following paragraphs.

325. During the year under review, the foundation work of the Bank's proposed multi-storeyed office building **New Office Premises** in the compound of the Mint at Bombay and the construction of the main office building at Hyderabad and the proposed new vault and renovation of Dak Bungalow structure for the sub-office of Issue Department at Gauhati have been taken up. The additional floor in the Annexe at Madras and renovation of old office building at Kanpur have been completed.

326. The Bank is continuing its efforts to provide residential quarters at various centres. During the year, **Residential Quarters** the construction of 654 quarters (40 for clerical staff and 64 for subordinate staff at Nagpur; 154 for clerical staff and 64 for subordinate staff at Kanpur and 164 for clerical staff and 168 for subordinate staff at Dum Dum, Calcutta) was completed bringing the total number of quarters provided by the Bank to 3,890. Construction of 609 quarters for clerical and subordinate staff—112 at Calcutta, 311 at Urur-Adyar and Kodambakom-Pudur, Madras and 186 at Bangalore is in progress, while construction of 152 quarters for officers at Bombay is nearing completion. When these quarters are completed, the total number of quarters provided by the Bank will go up to 4,651 (740 for officers, 2,718 for clerical staff and 1,193 for subordinate staff).

327. Plots of land for office buildings have been taken possession of at Nagpur and Chandigarh and possession of plots at Bhopal and Ghandhinagar (Gujarat) is expected to be taken shortly. Possession of plots of land for residential quarters at Gauhati, has been taken and possession of plots at Bhopal and Gandhingar is expected to be taken shortly. Efforts are being continued to secure land for construction of quarters at centres where no quarters have so far been provided or where the number of quarters provided is inadequate.

Employer-Employee Relations

328. At the Central Office, discussions were held with the representatives of the All-India Workers' Federation and the All-India Employees' Association representing employees in Classes IV and III and II during the months of October 1973, December 1973 and June 1974. The various issues discussed were :

- (1) Concessions to be given to Class IV staff for appointment to Class III posts in the Bank.
- (2) Lifting of the embargo on the grant of housing loans.
- (3) Some aspects in regard to the working of the Combined Seniority Scheme in the case of Class III staff and the scheme of promotion to Staff Officer Gr. II cadre were discussed in detail.
- (4) Some of the major issues relating to promotions, recruitment, house rent for staff quarters, pension scheme etc., figured in the said discussions.
- (5) Upward revision of the rates of halting allowance for the workmen staff which has since been enhanced and given effect to with effect from January 1, 1972.

329. In December 1973, the first meeting of the standing consultative machinery—set up as an informal arrangement—with the R.B.I. Officers' Association was held. Some

of the major items discussed at the said meeting were :

- (a) Housing loan facilities, in particular substitution of equitable mortgage for english mortgage etc.
- (b) City Compensatory Allowance—Local Allowance.
- (c) Confirmation of officers
- (d) Rent of leased flats
- (e) Advance out of Provident Fund etc.

330. At the branch level, the Managers/Officers-in-Charge held periodical conciliation conferences/discussions with the representatives of the Units of the local Employees' Association/Workers' Unions at different centres. The employer-employee relations were generally cordial during the year, under review.

Employees' Housing Loan Scheme

331. During the year under report, housing loans were sanctioned as under :

	No. of Societies	Amount	
		Rs.	P.
<i>A. New Co-operative Housing Societies</i>	9	43,37,534.	00
Additional loans to Co-operative Housing Societies already formed ..	9	7,86,416.	00
		51,23,950.	00
<i>B. Individual members of staff</i>			
New loans ..	242	43,11,880.	00
Additional loans/Construction loans to employees who had already availed of loans earlier ..	162	20,30,573.	00
		63,42,453.	00

332. The total amount of 'society' and 'individual' loans sanctioned since the introduction of the scheme in 1961 amounts to Rs. 4,24,03,927.00 and Rs. 2,24,21,341.00, respectively. In all, 2852 employees have availed themselves of this facility.

333. The Bank has been granting various relaxations and concessions in favour of candidates belonging to the Scheduled Castes/Tribes at the time of recruitment since 1953. From 1966, in deference to the wishes of the Government of India, the Bank adopted the policy of reservation of seats for candidates from Scheduled Castes/Tribes in direct recruitment to all classes of its service. As a result of these measures, there has been a progressive improvement in the representation of Scheduled Castes and Scheduled Tribes in the Bank's service. From 355 employees in Class IV, 413 in Class III and 13 in Class II and I as on December 31, 1966, their re-

**Representation
of Scheduled
Castes and
Scheduled
Tribes in the
Bank's Services**

presentation has increased to 896, 1242 and 36, respectively, as on January 1, 1974. Although there has been progressive improvement in the position, the representation of these categories is short of the quota of reservation fixed for them. The Bank has recently initiated further measures to improve representation of the Scheduled Castes/Tribes in the service of the Bank. These measures, among others, include further relaxation in the basic eligibility standards and qualifying norms, wider publicity of recruitments to the Bank's service and where necessary special recruitment confined to Scheduled Castes/Tribes to make good the quota. With a view to ensuring that the various directions regarding reservations for and concessions to the Scheduled Castes/Tribes in the service of the Bank are duly complied, the Bank has also set up a special Cell in the Department of Administration and Personnel. The special 'Cell' will look after the recruitment of Scheduled Castes and Scheduled Tribes candidates and the formulation of programmes and procedures for the training of employees belonging to these categories.

BALANCE SHEET AS AT 30TH JUNE 1974
ISSUE DEPARTMENT

Total Liabilities	...	...	Total Assets	...
BANKING DEPARTMENT				

BANKING DEPARTMENT

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. 5,39,54,792.90 (equivalent of £50,000, U.S. \$ 6,247,475 and D. M. 1,110,375 held abroad).
- @ Excluding Loans and Advances from the National Agricultural Credit (Long-Term Operations) Fund, but including temporary overdrafts to State Government.
- † Includes Rs. 156,63,73,000 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 Industrial Credit (Stabilisation) Fund.
- ‡ Includes an amount of Rs. 50,00,00,000 advanced to certain scheduled commercial banks under special arrangements in respect of their investments abroad.

Dated the 26th July 1974.

S. JAGANNATHAN	<i>Governor.</i>
R. K. HAZARI	<i>Deputy Governor.</i>
V. V. CHARI	<i>Deputy Governor.</i>
S. S. SHIRALKAR	<i>Deputy Governor.</i>
R. K. SESHADRI	<i>Deputy Governor.</i>

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1974

	Rs.	P.
INCOME		
Interest, Discount, Exchange, Commission, etc. †	195,47,95,113.00	
	<u>195,47,95,113.00</u>	
EXPENDITURE		
Establishment	28,53,25,934.78	
Directors' and Local Board Members' Fees and Expenses	66,346.31	
Auditors' Fees	80,000.00	
Rent, Taxes, Insurance, Lighting, etc.	1,16,05,263.44	
Law Charges	1,68,540.71	
Postage and Telegraph Charges	14,04,042.18	
Remittance of Treasure	81,33,581.59	
Stationery, etc.	40,22,877.04	
Security Printing (Cheque, Note Forms, etc.)	5,19,42,441.13	
Depreciation and Repairs to Bank Property	1,10,81,345.49	
Agency Charges	11,19,19,385.81	
Contributions to Staff and Superannuation Funds	50,00,000.00	
Miscellaneous Expenses	1,40,45,191.20	
Net available balance	145,00,00,163.32	
Total	<u>195,47,95,113.00</u>	
Surplus Payable to the Central Government	145,00,00,163.32	

RESERVE FUND ACCOUNT

	Rs.	P.
By Balance on 30th June 1974	150,00,00,000.00	
By transfer from Profit and Loss Account	Nil.	
Total	<u>150,00,00,000.00</u>	

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

J. X. LOBO,
Chief Accountant.

S. JAGANNATHAN Governor.
R. K. HAZARI Deputy Governor.
V. V. CHARI Deputy Governor.
S. S. SHIRALKAR Deputy Governor.
R. K. SESHADRI 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 1974.

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 (Fort), Madras, New Delhi, Ahmedabad and Gauhati 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.

Messrs. DALAL & SHAH,
Messrs. P. K. MITRA & CO.,
Messrs. M. K. DANDEKAR & CO.,
Messrs. RAGHUNATH RAI & CO. } Auditors.

Dated the 26th July 1974.