

**RBI ANNUAL REPORT & TREND &  
PROGRESS OF BANKING IN INDIA  
1976-77**

LECTION

RBI  
MUMBAI

Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended June 30, 1977. Submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, 1934.



# **RESERVE BANK OF INDIA-ANNUAL REPORT 1976-77**



## CENTRAL BOARD OF DIRECTORS

### Governor

M. Narasimham

### Deputy Governors

R. K. Hazari  
K. S. Krishnaswamy  
P. R. Nangia

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

A. N. Haksar  
Bharat Ram  
C. Ramakrishna

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

A. M. Khusro  
M. P. Chitale  
K. Kanungo  
V. Kurien  
Akbar Hydari  
D. P. Singh

### Directors nominated under Section 8 (1) (d) of RBI Act

Manmohan Singh

## MEMBERS OF LOCAL BOARDS

### Western Area

K. C. Maitra  
Charles M. Correa  
M. S. Padmanabhan  
P. T. Borale

### Eastern Area

A. N. Haksar  
Sadasiv Misra  
G. Saha  
G. C. Phukan  
Hiten Bhaya

### Northern Area

Bharat Ram  
K. N. Sapru  
Prem Pandhi  
Rama Mohan Lall

### Southern Area

C. Ramakrishna  
M. V. Arunachalam  
C. R. Ramaswamy  
M. K. Ramachandra  
C. Parvathamma

AS ON 30. 6. 1977

## PRINCIPAL OFFICERS

### Executive Directors

A. K. Banerji  
K. Madhava Das

Chief Manager, Department of Administration and Personnel .....  
Chief Accountant, Department of Accounts and Expenditure .....  
Chief Officer, Agricultural Credit Department .....  
Chief Officer, Department of Banking Operations and Development .....  
Adviser, Credit Planning and Banking Development Cell .....  
Adviser, Economic Department .....  
Controller, Exchange Control Department .....  
Chief Officer, Industrial Finance Department .....  
Legal Adviser, Legal Department .....  
Director, Management Services Division .....  
Chief Officer, Department of Non-Banking Companies .....  
Chief Officer, Premises Department .....  
Secretary, Secretary's Department .....  
Statistical Adviser, Department of Statistics .....

W. J. F. Vaz  
K. C. Banerjee  
M. V. Hate  
P. N. Khanna  
Shri A. Raman  
H. B. Shivamaggi  
R. Mitra  
H. L. Anand  
N. V. Sundaram  
S. I. Murzello  
V. Subramanian  
R. Guha  
B. N. Srivastava  
V. V. Divatia

## MANAGERS

Ahmedabad .....	Office .....
Bangalore .....	Branch .....
Bhubaneswar .....	Office .....
Bombay .....	Office .....
Byculla, Bombay .....	Branch .....
Calcutta .....	Office .....
Gauhati .....	Office .....
Hyderabad .....	Branch .....
Jaipur .....	Office .....
Kanpur .....	Branch .....
Madras .....	Office .....
Nagpur .....	Branch .....
New Delhi .....	Office .....
Patna .....	Branch .....

M. A. Pai  
S. S. Williams  
B. Ray  
M. B. Ninan  
O. T. M. Nambiar  
D. P. Mukherjee  
C. P. B. Menon  
A. R. R. Varma  
J. Mittra  
C. B. Gandhi  
D. N. Renjen  
S. Ananthanarayanan  
I. D. Chhabra  
M. L. Sachdeva

AS ON 30-6-1977



GOVERNOR



Reserve Bank of India,  
Central Office,  
Bombay.

August 17, 1977  
Sravana 26, 1899 (Saka)

The Secretary to the Government of India,  
Department of Economic Affairs,  
(Banking wing)  
Ministry of Finance,  
New Delhi.

Dear Sir,  
I transmit herewith

- i) A copy of the Annual Accounts of the Bank for the year ended the 30 th June 1977 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's Auditors; and
- ii) Annual Report of the Central Board on the working of the Bank for the year, together with the Annual Report of the Central Board on the Trend and Progress of Banking in India during the year ended the 30 th June 1977, 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.

Yours faithfully,

*M. Narasimham*

(M. Narasimham)

## CONTENTS

### ANNUAL REPORT : 1976-77

CHAPTER I	THE ECONOMIC SITUATION : 1976-77 .. .. .	1 — 38
	Introduction	
	National Income, Saving and Investment and Production	
	Money and Credit	
	Government Finances	
	Price Situation	
	External Payments Position	
	Assessment and Prospects	
CHAPTER II	CO-OPERATIVE BANKING .. .. .	39 — 55
	Co-operative Credit : Major Developments	
	Short-term Finance : Seasonal Agricultural Operations	
	Selective Credit Controls	
	Credit Authorisation Scheme	
	Medium-term Credit	
	Study Teams	
	Regulations Regarding Primary (Urban) Co-operative Banks	
	Agricultural Refinance and Development Corporation (ARDC)	
CHAPTER III	INDUSTRIAL FINANCE .. .. .	56 — 64
	Term Lending	
	Financing of Small Scale Industries	
	Non-Banking Companies	
CHAPTER IV	EXCHANGE CONTROL .. .. .	65 — 71
	Developments in Exchange Control	
	Trade and Credit Arrangements	
	New Offices	
	Other Developments	



CHAPTER V OTHER MATTERS .. .. . 72 — 84

Reserve Bank of India Act, 1934—Amendment  
 Surveys  
 Central/Local Boards  
 Premises  
 Training  
 National Institute of Bank Management  
 Deputation of Staff  
 Housing Loan Scheme  
 Employer-Employee Relations  
 Press Relations  
 Promotion of Hindi  
 Representation of Scheduled Castes and Scheduled Tribes  
 in the Bank's Service

CHAPTER VI ACCOUNTS .. .. . 85 — 91

Accounts  
 Auditors  
 Balance Sheet and Profit and Loss Account

**REPORT ON TREND AND PROGRESS  
 OF BANKING IN INDIA : 1976-77**

TREND AND PROGRESS OF COMMERCIAL BANKING .. 1 — 34

Branch Expansion Programme  
 Lending to Priority Sectors and Weaker Sections of the  
 Society  
 Consortium/Participation Arrangements  
 Credit Planning and Credit Authorisation Schemes  
 Regulating Flow of Credit to Industries  
 Selective Credit Controls  
 Lead Bank Scheme  
 Regional Rural Banks  
 Banking Legislation  
 Inspections, Mergers and Related Organisational Matters  
 Credit Information and Statistics  
 Working Results of Scheduled Commercial Banks  
 Committees and Working Groups  
 Credit Guarantee Corporation of India  
 Deposit Insurance Corporation

# ANNUAL REPORT ON THE WORKING OF THE RESERVE BANK OF INDIA

For the year July 1, 1976—June 30, 1977

## CHAPTER I. THE ECONOMIC SITUATION : 1976-77

### Introduction

The significant features of the economic situation in 1976-77 were the sharp set-back to the rate of growth in output, a higher level of monetary expansion and the resurgence of price inflation with however, a marked improvement in the external payments position. Though, initially, the rise in prices resulted from shortfalls in supplies of certain items of mass consumption, the steady expansion in aggregate monetary demand relative to the growth of output accentuated the pressure on prices. At the same time, the economy acquired a measure of strength in the form of substantial stocks of foodgrains and a comfortable foreign exchange reserves position.

2. National income is estimated to have increased by about 2 per cent in 1976-77 as against the increase of 8.5 per cent in 1975-76. The lower rate of increase in national income in 1976-77 was primarily the result of the drop in agricultural production due, in the main, to unfavourable weather conditions, from the high level attained in 1975-76. Industrial production, on the other hand, recorded an impressive rise of 10.6 per cent in 1976 — a rate of growth not equalled in the last decade or so. This was brought about by a number of favourable factors, such as improved supplies of inputs and better utilisation of capacity. There were, however, several sectors of industry which suffered demand recession leading to sickness of many units.

3. While the large buffer stock of foodgrains and the high level of external reserves helped to create a base for economic revival, these very factors contributed significantly to the monetary expansion in 1976-77. So did bank credit to Government and to the commercial sector other than that for food. The high rate of monetary expansion relative to the growth of output and consequent pressure on prices demanded greater monetary and credit discipline. However, with the expansion of money supply emanating from the operation of forces of an autonomous character such as the accretion to foreign exchange reserves, the provision of bank credit to Government and the increase in food credit, the area of effective credit regulation tends to be limited. Within these constraints, credit policy was directed towards restricting the availability of credit for non-essential uses while imparting the maximum possible support to production and exports. The continuing change in the structure of banks' credit portfolio *viz.*, the purveying of larger credit to priority sectors is another factor to be reckoned with in the area of effective credit regulation.

4. The most striking development in regard to the external sector was the marked increase in the country's foreign exchange reserves. This was largely brought about by higher invisible receipts, particularly inward



remittances. After three years of deficit, there was a modest trade surplus of Rs. 68 crores, as a result of the high rate of growth in exports (25.9 per cent) and the decline (4.6 per cent) in imports. These improvements in the merchandise and invisible accounts coupled with net aid inflows led to an increase in the country's foreign exchange reserves (excluding SDRs and gold) by Rs. 1831 crores to Rs. 3582 crores during the year, notwithstanding net repurchases of Rs. 238 crores from the International Monetary Fund. The surge in foreign exchange reserves in 1976-77 provides a source of strength to the economy for its growth. In the context of the imperative need for stability of domestic prices and higher investment, the modalities of pressing the reserves into service towards these ends have been engaging the attention of the authorities.

5. The following sections present a more detailed discussion of the trends in output, prices, Government finances, monetary and credit policies and in the external payments position.

**National Income, Saving and Investment and Production**

6. In 1976-77 national income is provisionally estimated to have risen by about 2 per cent as against 8.5 per cent in 1975-76 and 0.3 per cent in 1974-75. The revised Fifth Plan document envisaged an annual compound rate of growth of 5.2 per cent for 1976-79. For the last three years, the GNP has however recorded an annual average rate of growth of 3.5 per cent. The low rate of growth in 1976-77 is to be attributed to the decline in the output of the agricultural sector, which continues to be the single largest component of domestic product; industrial production in fact, recorded a substantial rise in 1976-77 (Table 1.1).

TABLE 1.1 :— PERCENTAGE CONTRIBUTION OF DIFFERENT SECTORS TO NATIONAL INCOME  
(At 1960-61 Prices)

Industry Group	1972-73	1973-74	(Provisional)	
			1974-75	1975-76
1	2	3	4	5
1. Agriculture, Forestry and Logging, Fishing, Mining and Quarrying ..	41.9	43.0	41.4	42.9
2. Manufacturing, Construction, Electricity, Gas and Water supply .. ..	23.8	23.1	23.5	22.9
3. Transport, Communications and Trade .. .. .	16.8	16.3	16.6	16.4
4. Banking and Insurance, Real Estate and Ownership of Dwellings and Business Services .. .. .	4.5	4.3	4.3	4.1
5. Public Administration and Defence and Other Services .. .. .	14.0	14.0	14.7	14.1
6. Net Factor Income from Abroad .. .. .	(—)1.0	(—)0.7	(—)0.5	(—)0.4
Net National Product at Factor Cost .. .. .	100.0	100.0	100.0	100.0

*Trends in Saving and Investment*

7. Complete data in regard to saving and investment in 1976-77 are not yet available. However, certain broad trends in saving and investment can be obtained from such preliminary data as are available. The estimates presented here will undergo revisions when detailed information on the constituent items become available.

8. According to preliminary estimates set out in Table 1.2 the ratio of domestic saving to national income improved marginally from 15.5 per cent in 1975-76 (revised) to 15.7 per cent in 1976-77. The increase in saving was accounted for by the household sector, with the saving of domestic private corporate sector as well as that of public sector showing a decline. The increase in the household sector's saving was mainly in respect of currency and deposits, the share of which in the net financial assets rose sizeably from 64.9 per cent in 1975-76 to 81.2 per cent in 1976-77.

TABLE 1. 2 :— ESTIMATES OF DOMESTIC SAVING AND INVESTMENT : PER CENT OF NET NATIONAL PRODUCT AT CURRENT PRICES

Items	(Provisional)		Financial Year (April—March)	
	1973-74	1974-75	1975-76	1976-77
1	2	3	4	5
1. Domestic Saving .. .. .	13.2	13.8	15.5	15.7
2. Inflow of Foreign Resources .. .. .	0.7	1.0	0.6	(—)1.4
3. Aggregate Investment (Net) (1+2) .. .. .	13.9	14.8	16.1	14.3

*Note :* The ratios for 1973-74 to 1975-76 have been revised partly on account of the revision of CSO's estimates of National Income and partly owing to the availability of data relating to various components of Saving and Investment.

9. The rise in domestic saving, however, did not get reflected in aggregate investment in the economy which, as a proportion of net national product, declined from 16.1 per cent in 1975-76 (revised) to 14.3 per cent in 1976-77. This was because the improvement in domestic saving was offset by net outflow of resources. The size of such outflow is presently estimated at 1.4 per cent of net national product, as against a net inflow of 0.6 per cent (of NNP) in 1975-76.

10. The overall index of agricultural production (Base : triennium ending 1961-62 = 100) during 1976-77 is presently estimated to be 5 to 6 per cent lower over the year as against the rise of 15.6 per cent in the preceding record year (1975-76). This was the net result of a substantial decline in production of foodgrains, oilseeds and cotton, offset to some extent by increase in the output of sugarcane, raw jute including mesta, tea and coffee. Total foodgrains production (*kharif* and *rabi* combined) during 1976-77 is estimated at 111.0 million tonnes, compared with 120.8 million tonnes in 1975-76. The decline was recorded by both *kharif* and *rabi* crops; *kharif* production is estimated at 67 million tonnes as compared to 74.2 million tonnes in 1975-76, the rice output dropping from 49.5 million tonnes to 45 million tonnes. The output of *rabi* foodgrains is estimated lower at 44 million tonnes as compared with 46.6 million tonnes in 1975-76 (Tables 1.3\* and 1.4\*).

11. In respect of commercial crops, trade estimates indicate that production of the five major oilseeds would be lower at 8.6 million tonnes as compared with 10.2 million tonnes in 1975-76 ; cotton is expected to



decline for the second year in succession. On the other hand, raw jute and mesta, tea, coffee and sugarcane are expected to show higher output than in the previous year.

12. Industrial production recorded an increase of 10.6 per cent in 1976, as against the target of annual rate of growth of about 7 per cent envisaged in the revised Fifth Plan document, and far exceeded the increase in 1975 and 1974 (4.7 per cent and 2.1 per cent, respectively). The monthly average index of industrial production (Base : 1970 = 100) was 132.4 for 1976 as against 119.7 for 1975. Improved supplies of inputs and the availability of supporting facilities like power and transport contributed to this increase. Public sector industries such as power generation, coal, steel and fertilisers recorded impressive gains. In the absence of any significant addition to capacity, it was mainly the better utilisation of existing capacity that contributed to higher production. The available data for the first four months of 1977 indicate that the rate of growth of industrial output (8.0 per cent) is lower than that (10.1 per cent) in the corresponding months of 1976.

13. A noteworthy feature of the growth in industrial output in 1976 was that it was spread over a larger number of industries than in 1975. In the total index, the weight of industries which recorded higher output rose from 57.4 in 1975 to 79.1 in 1976. Unlike in 1975, both intermediate and consumer goods industries recorded substantial progress in 1976. In the total weight of industries contributing to the increase in output in 1976, the weight of consumer goods industries rose from 10.6, in 1975 to 20.9 in 1976, and of intermediate goods from 6.3 to 16.8 the weight of basic industries showed a small increase, while that of capital goods declined slightly (Table 1.5\*).

#### Money and Credit

##### *Monetary Expansion*

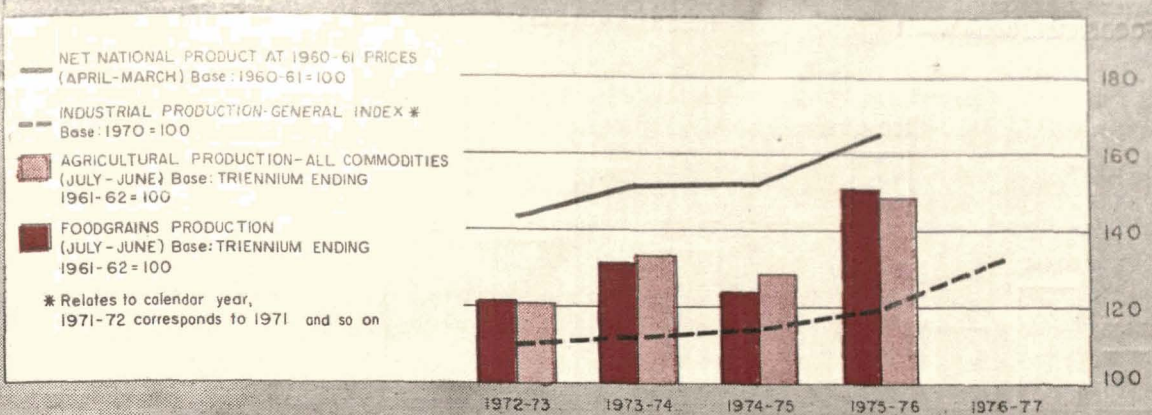
14. There was a record increase in money supply during 1976-77 (July-June)<sup>@</sup>. The main factors responsible were continuing large accretions to the foreign exchange assets of the banking sector, and a further rise in bank credit to Government and the commercial sector. The growth in advances for food procurement was somewhat smaller than in the previous year. Bank credit for non-food purposes, however, expanded decidedly more, due to the varied demands made on banks not only by the priority sectors, but also by the industrial sector both for increasing production and to finance larger inventories following the continued demand recession and sickness of some industrial units. As mentioned earlier, the monetary and credit policy throughout the year was directed towards restraining the inflationary potential of monetary expansion, but, at the same time, endeavouring to help promote investment and increase production. Towards the end of the year a certain measure of flexibility was introduced in order to meet the needs of expanding economic activity.

\* Page 34.

<sup>@</sup> Based on the old series of money supply statistics. A comparative table showing data under old and new series (based on the recommendations of the Second Working Group on Money Supply) is appended (Table 1.7—page 35).

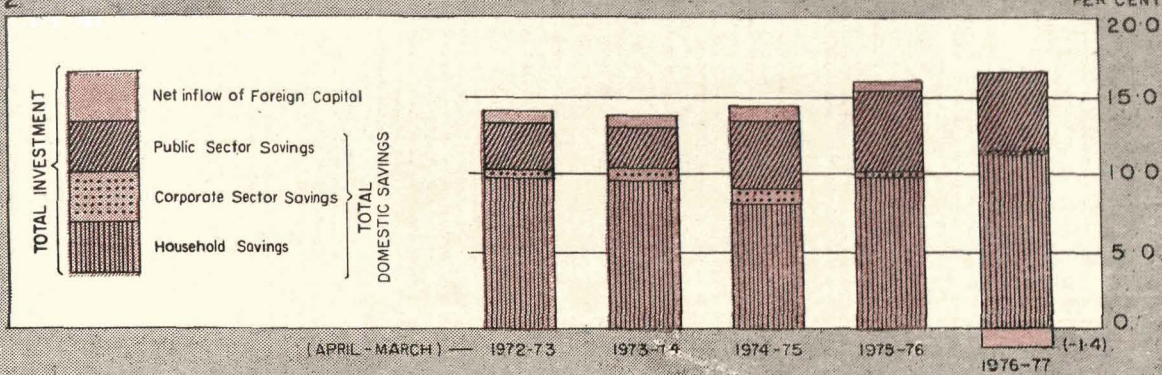


# NET NATIONAL PRODUCT, AGRICULTURAL OUTPUT AND INDUSTRIAL PRODUCTION



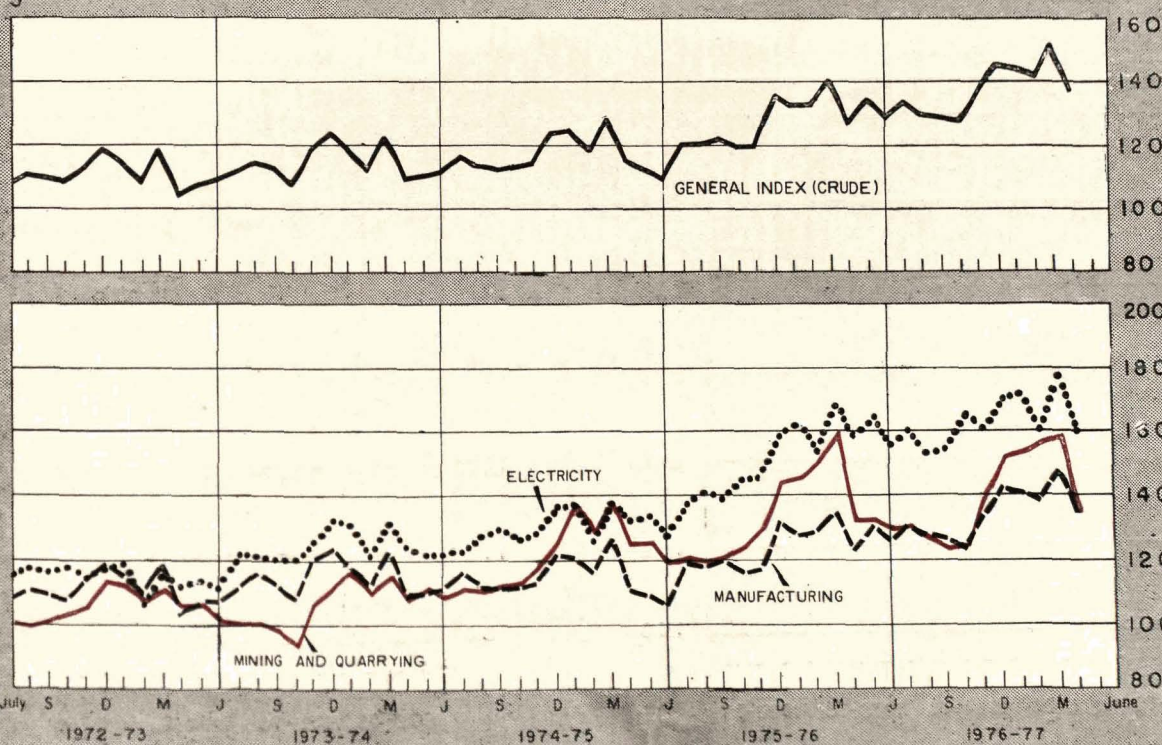
## ESTIMATES OF NET DOMESTIC SAVING AND INVESTMENT

AS PER CENT OF NATIONAL INCOME AT CURRENT PRICES



## INDEX NUMBERS OF INDUSTRIAL PRODUCTION

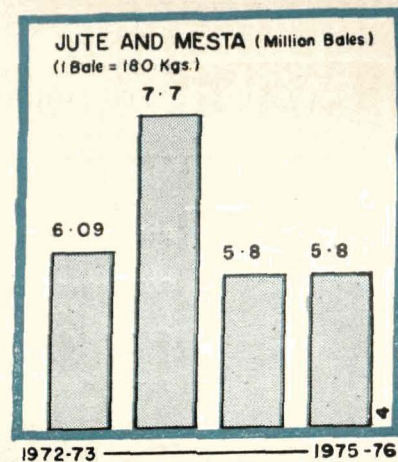
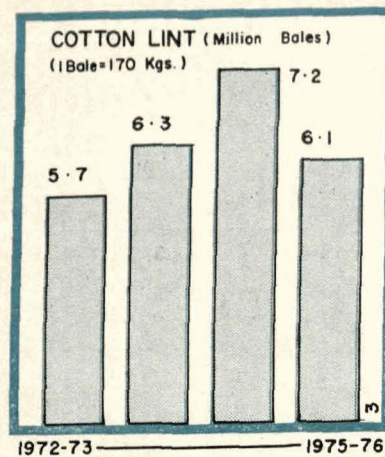
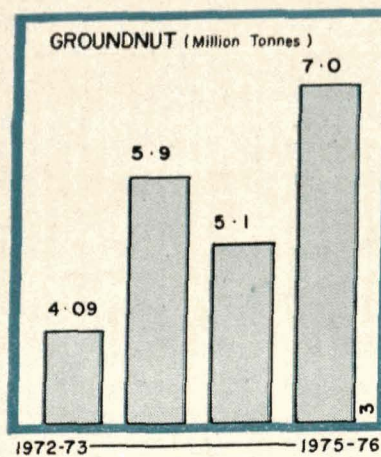
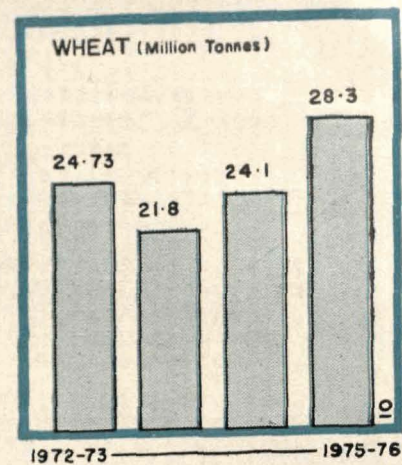
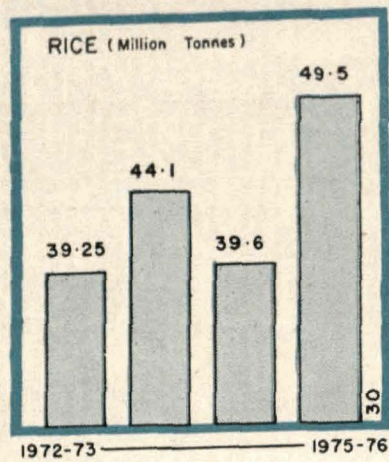
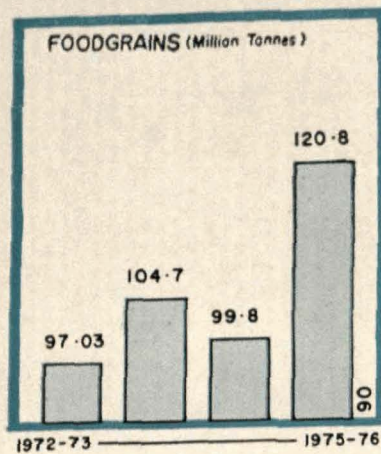
Base: 1970 = 100





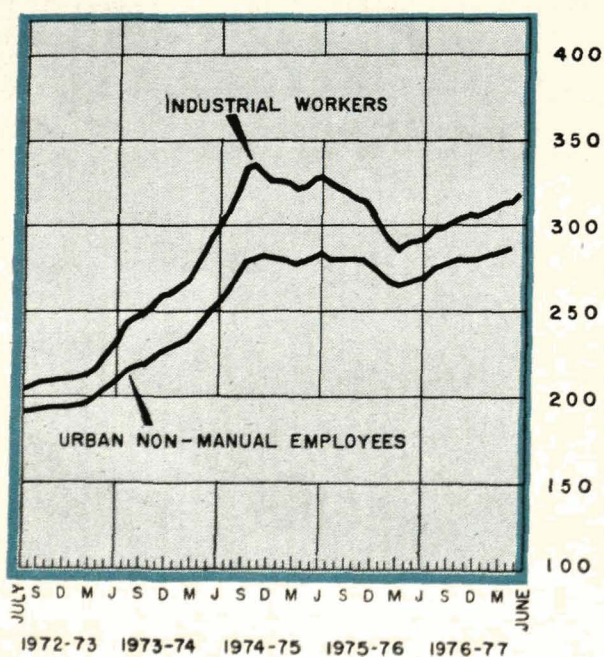
4

## AGRICULTURAL PRODUCTION



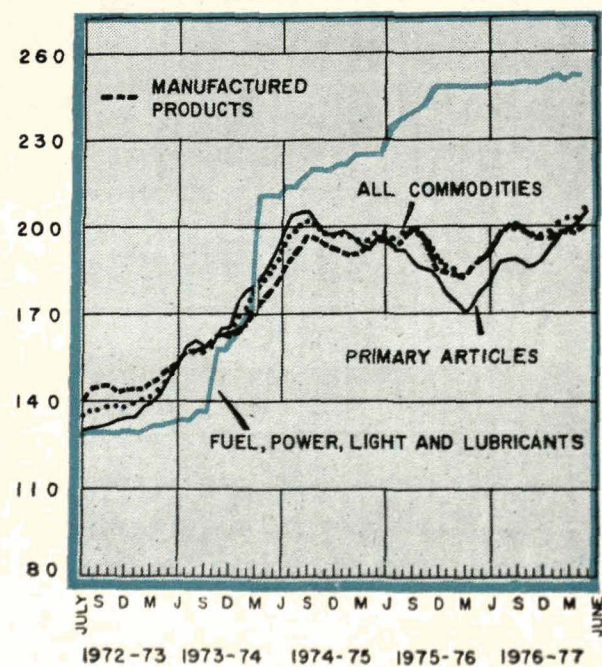
5

**CONSUMER PRICE INDEX NUMBERS  
ALL-INDIA**  
(BASE: 1960 = 100)



6

**INDEX NUMBERS OF WHOLESALE PRICES  
BY GROUPS**  
(BASE: 1970-71 = 100)



15. Money supply with the public expanded sharply by 16.1 per cent in 1976-77 which was considerably more than in 1975-76 (11.9 per cent) (Tables 1.6\* to 1.9\*). The expansion during the year was larger than the average rate of 12.8 per cent during the five years, 1971-72 to 1975-76, and was also larger than the increase of 14.9 per cent in 1973-74 when prices had recorded a sharp rise. The rise in money supply in 1976-77 was almost equally shared by currency with the public and deposit money. Aggregate monetary resources also increased substantially, by Rs. 4805 crores or 20.7 per cent, during the year as compared to an increase of Rs. 3344 crores or 16.8 per cent in 1975-76, following a faster rate of growth of time deposits. In 1975-76 the greater monetary expansion was accompanied by a sizeable growth in real national income. In 1976-77, however, the smaller monetary expansion took place in the context of a much smaller rate of income growth.

16. Among the major sources of monetary expansion the net foreign exchange assets of the banking sector (*i.e.* foreign exchange reserves minus gold and SDRs) recorded a sizeable increase of Rs. 2040 crores as compared with an increase of Rs. 978 crores in the preceding year. Commercial bank credit to the commercial sector, on the other hand, showed a smaller expansion in absolute as well as in percentage terms, by Rs. 2502 crores (19 per cent), being Rs. 279 crores less than the expansion of Rs. 2781 crores (26 per cent) in 1975-76. As mentioned earlier, the rate of increase in credit for purposes other than food procurement was much faster than in the preceding year, reflecting mainly the needs of growing output and of industries subject to consumer resistance. But the increase in net bank credit to Government by Rs. 1557 crores or 14.4 per cent was considerably larger than the increase of Rs. 305 crores or 2.9 per cent in 1975-76. This was mainly accounted for by other banks' credit to Government which increased by Rs. 884 crores in the current year as compared with an increase of Rs. 564 crores in 1975-76. The expansionary impact of these factors on money supply was, however, moderated by an increase in the non-monetary liabilities, the important among which was the rise in time deposits, which rose by Rs. 2602 crores as against Rs. 1889 crores. The other components of non-monetary liabilities *i.e.* those of RBI (comprising capital, reserves etc.) and residual items (*i.e.* transit items) together increased by Rs. 1405 crores in 1976-77 as against an increase of Rs. 837 crores in 1975-76.

#### *Credit Policy and Trends*

17. The credit policy of the Reserve Bank during the year maintained the emphasis on restraint. The major instrument of control continued to be the regulation of bank lending by operating on their cash reserves on the one hand and their access to the Reserve Bank on the other. At the same time, the policy aimed at a measure of directional control of credit. The policy of restraint was so operated that the credit needs for financing legitimate productive and investment activities were not denied.

---

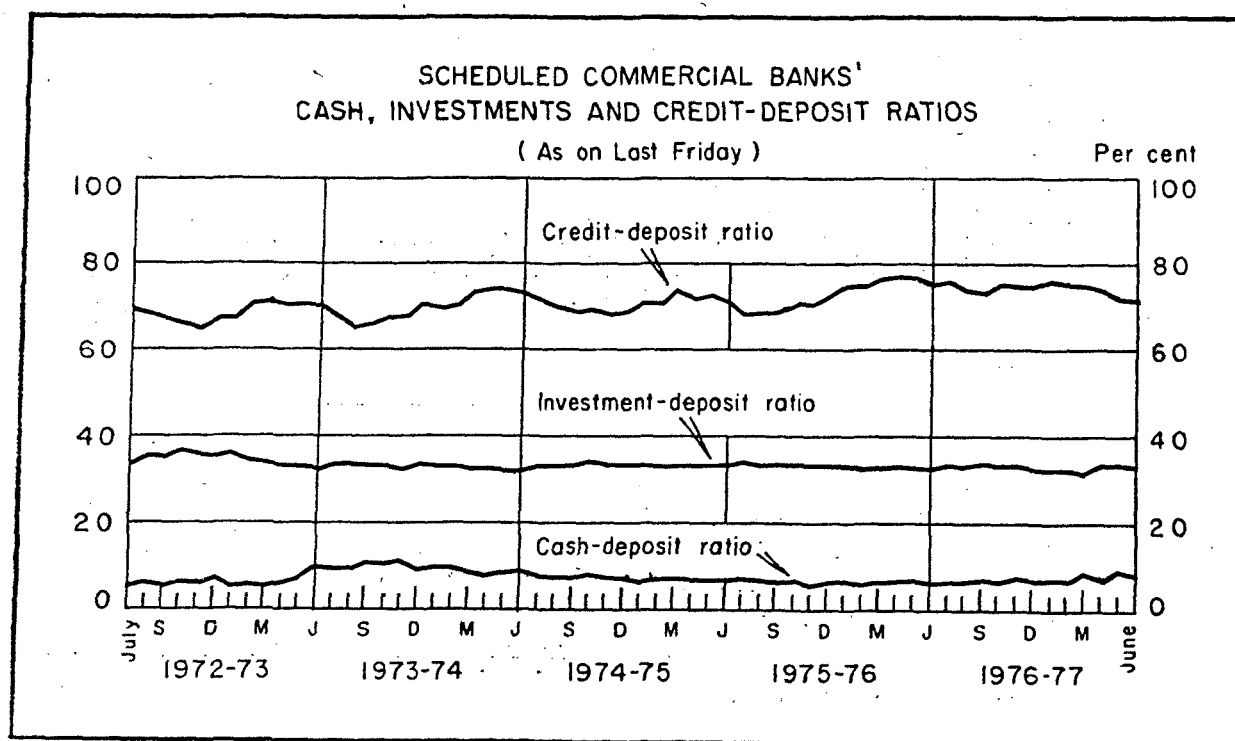
\* Pages 34 to 36.

18. Over the financial year 1976-77 (April-March), gross credit (loans and advances together with bills purchased and discounted) rose by Rs. 2276 crores as compared with Rs. 2108 crores in 1975-76. Of this, the increase in food procurement credit was at Rs. 669 crores, well below the large expansion of Rs. 908 crores in 1975-76. The expansion in non-food credit at Rs. 1607 crores on the other hand, was larger than the increase of Rs. 1200 crores in 1975-76. This was partly explained by the larger advances made to the Food Corporation of India for imported fertilisers and credit given to the Cotton Corporation of India. Even excluding these, the increase in non-food gross credit of Rs. 1464 crores in 1976-77 was much larger comparable to the increase of Rs. 1191 crores in 1975-76 (Table 1.10).

TABLE 1.10 :—ANNUAL VARIATIONS IN SCHEDULED COMMERCIAL BANKS' DATA

(Amounts in rupees crores)

	1975-76	1976-77
Gross Credit Expansion .. .. .	+2108	+2276
Of which :		
Food procurement .. .. .	+ 908	+ 669
Non-food .. .. .	+1200	+1607
(Excluding credit for fertilisers, etc.) .. .. .	+1191	+1464
Aggregate deposit growth .. .. .	+2328 (+19.7 %)	+3402 (+24.0 %)
Credit-Deposit ratio at year-end .. .. .	76.8	74.9

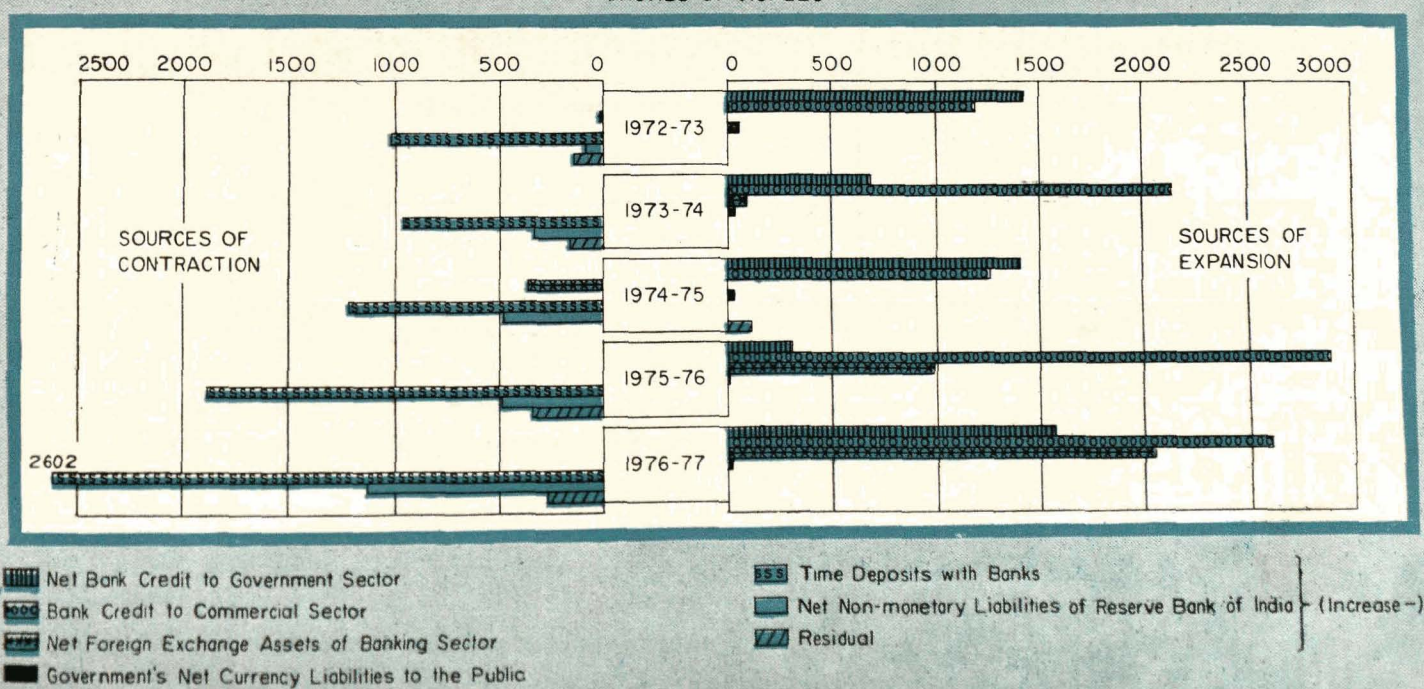




( AS ON LAST FRIDAY )  
( CRORES OF RUPEES )



CRORES OF RUPEES

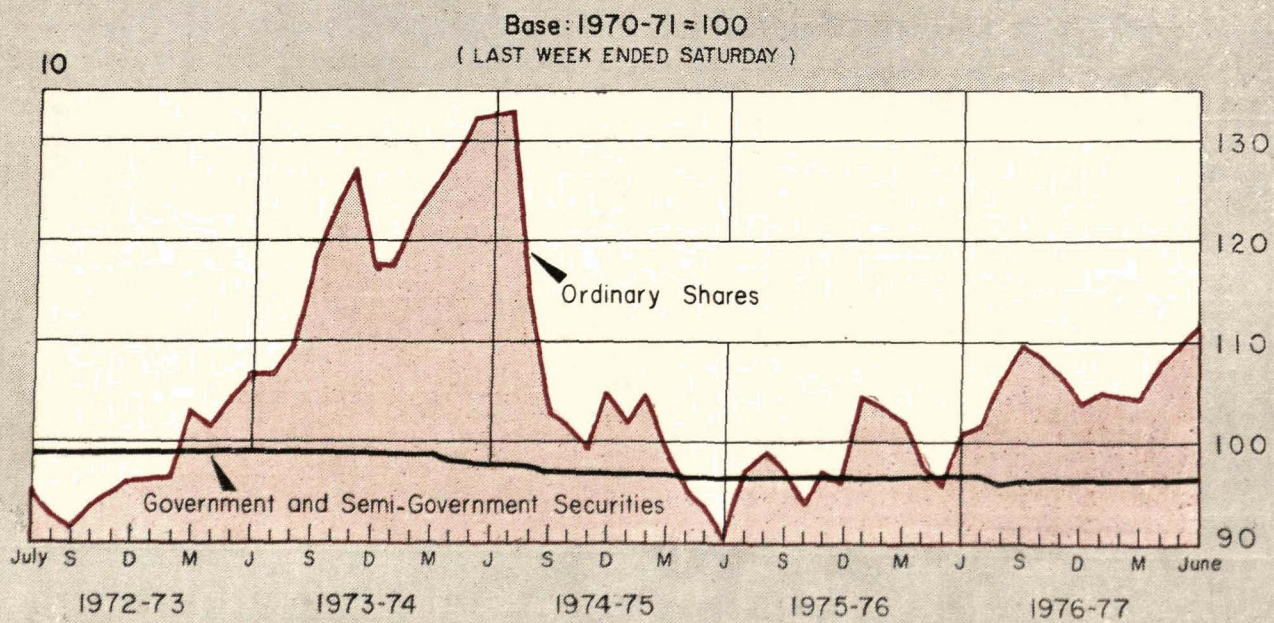




## SCHEDULED COMMERCIAL BANKS-SELECTED ITEMS



## INDEX NUMBERS OF SECURITY PRICES ALL-INDIA





19. Though aggregate credit expansion was higher than in the previous year, scheduled commercial banks ended the year with a lower credit-deposit ratio of 74.9 per cent as against 76.8 per cent a year earlier owing to faster expansion in deposits. Aggregate deposits rose by as much as 24.0 per cent (Rs. 3402 crores) in 1976-77 as compared with 19.7 per cent (Rs. 2328 crores) in 1975-76. Time deposits again accounted for the larger part of this expansion.

20. Credit policy measures announced in May 1976 continued the earlier policy of restraint, but with a tightening of the refinance formula for food credit. The formula was revised to enable banks to meet from out of their own resources, the requirements for credit for food procurement upto a level of Rs. 800 crores ; two-thirds of any excess over this level was made eligible for refinance from the Reserve Bank. The terms of general accommodation available to banks from the Bank as well as those in respect of special accommodation for exports remained unchanged.

21. The tempo of credit expansion, particularly of non-food credit, slackened in the quarter April-June 1976— there was a fall of Rs. 65 crores as against a nominal rise of Rs. 11 crores in the same period of the previous year—although food credit at Rs. 664 crores was higher by Rs. 482 crores. This trend was reversed in July-September, and non-food credit expanded by Rs. 323 crores as compared with the rise of Rs. 243 crores in July-September 1975.

22. The resources of the banking system also rose sharply during July-September 1976, with aggregate deposits increasing by Rs. 764 crores as against a rise of Rs. 526 crores in the same period in 1975. But since banks had to fulfil their investment obligations in government and other securities — these rose by Rs. 459 crores as against a rise of Rs. 288 crores in the previous year — they had to resort to larger recourse to the Reserve Bank. Borrowings from the Bank went up contra-seasonally by Rs. 110 crores as against repayments of Rs. 85 crores that took place in the corresponding period of 1975. Reflecting the sharp expansion in credit and its impact on the banks' liquidity position, the credit-deposit ratio (including food credit but excluding bills) moved up to 73.5 per cent at the end of September 1976 from 69.3 per cent a year ago.

23. The marked rise in credit expansion to the commercial sector was a major factor in the overall monetary expansion and called for a measure of quantitative regulation. Accordingly, the Reserve Bank stepped up the cash reserves required to be maintained by banks with the Reserve Bank under Section 42(1) of the R.B.I. Act, first from 4 per cent to 5 per cent from the week beginning September 4, 1976 and further to 6 per cent, to be effective from the week beginning November 13, 1976. The food refinance formula was further tightened to raise the limit from Rs. 800 crores to Rs. 1000 crores beyond which refinance would be available and the extent of refinance was reduced from two-thirds to 50 per cent. Banks were also asked on September 15, 1976 to limit their credit expansion during the financial year 1976-77 (April-March) (other than for food procurement and imports of fertilisers by the Food Corporation of India) to approximately the same order of increase as in the preceding

year. They were also advised to exercise greater credit discipline, ensure credit drawals only for productive purposes, and operate on the basis of limited recourse to the Reserve Bank by way of refinance/rediscout. Apart from the existing basic limit of refinance accommodation equivalent to 1 per cent of demand and time liabilities, all Reserve Bank refinance accommodation to banks was made strictly discretionary in regard to quantum, duration and the rate of interest.

24. The increase in credit, however, continued unabated during October-December 1976, being as large as Rs. 1129 crores for non-food credit, which was more than double that in the corresponding period in 1975 (Rs. 535 crores). Although banks' recourse to the Reserve Bank was of a smaller order than before, they were able to provide more credit in view of the augmentation of their liquid resources, particularly deposits. The credit-deposit ratio also rose from 73.5 per cent at the end of September, 1976 to 75.4 per cent at the end of December 1976, as against 72.5 per cent a year ago.

25. The higher credit levels despite the steps taken in November called for further measures of credit regulation. Accordingly, on January 13, 1977, the Reserve Bank adopted a number of restrictive measures aimed at both restricting the supply of credit and dampening the demand for it. First, banks were required to deposit with the Reserve Bank 10 per cent of their incremental demand and time liabilities between January 14, 1977 and April 1, 1977, over and above their cash reserves requirements of 6 per cent. Secondly, they were advised to step up the margins on all types of advances against inventories and book debts by 10 percentage points; the total margin was, however, not to exceed 60 per cent.\* For some seasonal industries like sugar, banks were subsequently advised to defer, on merits the application of the enhanced margin in case of deserving units. Thirdly, banks were asked to undertake immediately a scrutiny of all big borrowal accounts — accounts with limits exceeding Rs. 50 lakhs and where actual drawals at the time had already reached 60 per cent or more — in order to assess the existing and future needs of the borrowers in the light of their production programmes. At the same time, banks were advised to meet the demand for seasonal credit by such industries as sugar, oils and oilseeds and tea, preferably from their own resources by recycling the existing credit without recourse to the Reserve Bank. They were also urged to split the cash credit accommodation into a loan component and a demand cash credit component for better credit discipline.

26. Following these restrictions, there was a marked slowing down of credit expansion during January-March 1977. Gross bank credit increased by only Rs. 264 crores in this period as against Rs. 1021 crores in the corresponding quarter of 1976. Non-food credit recorded an increase of Rs. 240 crores as compared with Rs. 436 crores in the corresponding period last year.

---

\* Certain categories of advances were however, exempted from the higher margin requirements viz., advances covered under selective credit controls, advances exempted from the prescribed minimum lending rate of 12.5 per cent, export credit, advances to small scale industrial units and covered by the Credit Guarantee Scheme and advances to sick units.

27. Despite the slowing down of the rate of expansion of bank credit, the expansion in total money supply continued during the quarter January-March 1977, following accretions to foreign exchange assets and larger net bank credit to Government. The rise in aggregate monetary resources was also larger (Rs. 962 crores) during this period as compared with that in the corresponding period of 1976 (Rs. 809 crores) bringing with it the pressure on demand.

28. The continuing imbalance between aggregate demand and aggregate supply and the consequential pressure on prices accompanied by comfortable liquidity conditions in the money market, emphasised the need for further regulating the lendable resources of banks. At the same time, the continued sluggishness in investment and fears of slackening of the rate of industrial growth in the wake of signs of demand recession in some sectors called for certain flexibility in the restrictive framework. The objective of the credit policy announced on May 27, 1977, therefore, continued to be to restrain monetary expansion to the maximum possible extent while at the same time, combined with promoting investment, aiding production and exports, and augmenting supplies of essential consumer goods and industrial raw materials through imports. The average cash ratio of 6 per cent as well as the incremental cash ratio of 10 per cent were continued and banks were advised that while planning their overall credit expansion for 1977-78, they should consider their total resources position after providing for cash reserves and other necessary liquidity requirements. Recourse to the Bank was further restricted and selective credit controls on vegetable oils were tightened further while exempting such advances against imported supplies of vegetable oil and cotton. Also the cost structure of banks was sought to be rationalised by changing the interest rates on certain types of deposits and advances.

29. While banks were permitted to use a basic refinance limit of one per cent of a bank's demand and time liabilities as on the last Friday of March 1977 available at an interest rate of 10 per cent, the formula for refinance for food procurement credit was tightened. The base level not eligible for refinance, was raised from Rs. 1000 crores to Rs. 1500 crores, with effect from June 1, 1977, and refinance was to be available at 50 per cent of the excess above this level. Further, concessional refinance (at 10½ per cent) was made available upto 50 per cent of the increment in export credit of a bank over its annual average performance in 1976. The basic rediscount quota of 10 per cent of inland bills purchased and discounted, previously available on an automatic basis, was withdrawn. The quantum and terms and conditions of all other refinance/rediscount facilities were placed entirely at the discretion of the Reserve Bank. The Bank would take into account an individual bank's credit-deposit ratio, its sectoral deployment of credit, its assistance for capital investment through term loans, its credit to sick units, and its overall resources planning.

30. The Reserve Bank also took steps to rationalise the banks' interest rates structure. First, deposit rates were revised to encourage mobilisa-



tion of savings of a term character. The spread between the short-term and long-term deposit rates was widened, and change was effected in the types of savings accounts. With effect from June 1, 1977, the rates for fixed deposits in the range of 91 days to five years were lowered (details in Report on Trend and Progress of Banking in India\*) while the rate on fixed deposits of over five years was kept unchanged. A significant change was the two-way classification of savings deposits to distinguish between transaction money kept as savings deposits and deposits which partake of genuine savings ; with effect from July 1, 1977, the rate on savings deposits with cheque facilities was lowered to three per cent while that on savings deposits without cheque facilities continued at five per cent. Simultaneously, the rate of interest paid to banks by the Reserve Bank on deposits impounded through the enhancement in the statutory cash ratios (average as well as incremental) was raised from  $5\frac{1}{2}$  per cent to 6 per cent with effect from June 1, 1977. Banks were asked to pass on the benefit of any interest saving on deposits and the higher earnings on additional impounded deposits to their borrowers, particularly those in the priority sectors. To stimulate medium-term capital investment, rates on term-loans by banks were lowered. On term loans of over three years for capital investment by industry, agriculture and other priority sectors, banks were advised to charge 12.5 per cent (inclusive of interest tax where applicable) as against the existing rate of 15 per cent (inclusive of interest tax) for periods over three years upto seven years and 14 per cent for periods of over seven years (which are exempt from interest tax).

31. Credit expansion continued to slow down during April-June 1977 (upto June 24, 1977). Gross bank credit has risen by Rs. 272 crores as against the rise of Rs. 567 crores in the corresponding quarter of 1976. Bank credit excluding food procurement, however, recorded a decline of Rs. 75 crores as compared with a fall of Rs. 97 crores a year ago. At the same time, the growth in aggregate deposits was larger, Rs. 1256 crores as against Rs. 1023 crores, which enabled the banks to meet the shortfall in the cash and liquidity requirements as also repay a part of their borrowings from the Reserve Bank. The latter recorded a fall by Rs. 404 crores to a level of Rs. 563 crores as on June 24, 1977, as compared with a fall of only Rs. 38 crores in the corresponding period in 1976. Of this, the decline in refinance for food credit amounted to Rs. 215 crores. The credit-deposit ratio stood lower at 71.7 per cent on June 24, 1977 as against 75.6 per cent a year ago.

32. The following paragraphs relate to the developments in regard to adherence by banks to cash reserve requirements, use of refinance accommodation by banks from the Bank and the sectoral deployment of credit.

33. The raising of the cash reserve ratio to six per cent in November 1976 called in for quick adjustments by banks. Initially, it was difficult for many banks to maintain the stipulated ratio and the actual ratio touched the low level of 5.01 per cent during the week ended January 14, 1977. However, no refinance was granted to banks to enable them to make good the cash deficiency. The position improved from the begin-

---

\* See Table 7 (Page 34) of the Report on Trend and Progress of Banking in India.

ning of April 1977 when the ratio touched six per cent and by the closing week of April 1977 all the banks were complying with the stipulated cash ratios, normal as well as incremental.

34. Refinance/rediscount accommodation from the Reserve Bank continued to be highly discretionary and selective during 1976-77. Sanctions of such limits during 1976-77 at Rs. 278 crores were much lower than those in the preceding year (Rs. 344 crores). Significantly, the net increase in borrowing against these limits was lower at Rs. 177 crores in 1976-77 as compared with Rs. 318 crores in 1975-76. Banks continued to enjoy the basic refinance limits equal to one per cent of demand and time liabilities *i.e.* Rs. 170 crores during 1976-77 as against Rs. 139 crores in 1975-76. Discretionary limits sanctioned during 1976-77 amounted to Rs. 182 crores as against Rs. 207 crores in the preceding year. The acute stringency in the money market in 1976-77 was reflected in the fact that banks availed of Rs. 325 crores\* of refinance against demand and time liabilities and discretionary limits at the end of March 1977, as against Rs. 104 crores on the corresponding date of 1976.

35. In respect of public food procurement, refinance limits sanctioned upto June 1977 under the new formula introduced in November 1976 amounted to Rs. 650 crores for a food credit level of Rs. 2300 crores. With the continued stringency in the money market, banks made almost full use of their food refinance limits, the peak of Rs. 976 crores being reached in July 1976. Banks were, however advised to phase their borrowings in such a manner that by the beginning of November 1976 they would be observing the new formula. Thus, by June 24, 1977, food refinance stood at Rs. 427 crores as against Rs. 669 crores a year ago.

36. Refinance limits sanctioned under the Duty Drawback Credit Scheme introduced in February 1976 totalled to Rs. 38.8 crores against which the outstanding of refinance stood at Rs. 5.7 crores at the end of March 1977.

37. As in the previous year, banks were also allowed basic bill rediscount limits equal to 10 per cent of their inland bills purchased and discounted as at the end of September 1976. According to the policy measures announced in May 1977, limits totalling Rs. 133 crores were not to be valid beyond the end of June 1977. Additional bill rediscount accommodation was sanctioned at the discretion of the Reserve Bank after detailed discussions with the banks concerned. Rates of rediscount in respect of such limits ranged between 10 and 12 per cent depending mainly on the size of the limits. The additional limits sanctioned during the year ended March 1977 were lower at Rs. 96 crores than in the preceding year (Rs. 137 crores). The availment of bill limits at the peak in 1976-77 was about the same as in 1975-76 (Rs. 190 crores).

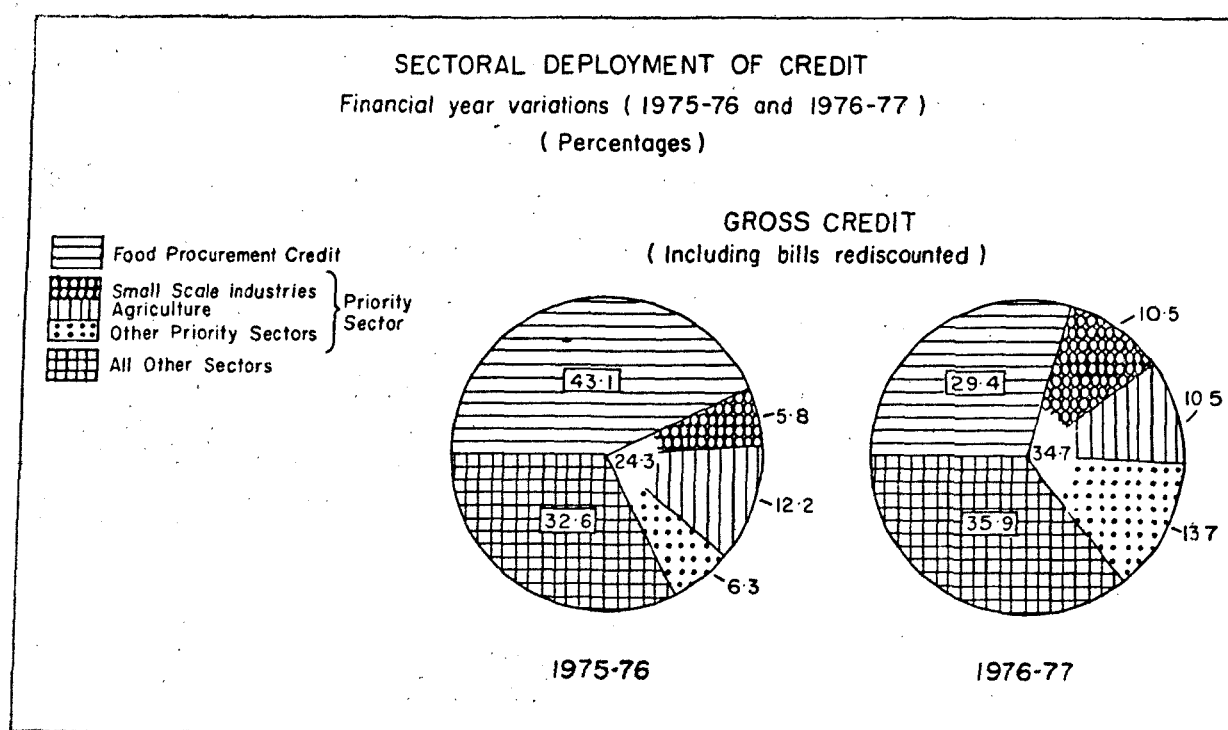
38. An analysis of the sectoral deployment of credit reveals that public food procurement credit accounted for a much smaller share of the increase in gross bank credit in 1976-77 than in the preceding year; food credit

---

\* Includes refinance provided under the Duty Drawback Scheme.

accounted for 29.4 per cent of the increase in gross credit as against over 43 per cent in the previous year (Table 1.11\*). The share of priority sectors showed a noticeable improvement, reflecting mainly policy advice to the public sector banks to step up their advances in this direction substantially. The share of export credit in the total credit expansion was somewhat smaller, though the total outstanding export credit was higher in March 1977 than in March 1976. Of the total increase of Rs. 1607 crores in gross non-food credit, industry (including small-scale sector) accounted for Rs. 760 crores (47.3 per cent); this compared with a rise of Rs. 1150 crores in the previous year. The expansion in credit to industry was mainly in respect of engineering (Rs. 212 crores), cotton textiles (Rs. 174 crores) and chemicals (Rs. 123 crores). Wholesale trade (other than public food procurement) recorded a rise of Rs. 282 crores or 17.5 per cent, of which credit to the Cotton Corporation of India accounted for Rs. 120 crores. The general tenor of credit expansion during the year and its sectoral deployment indicate that apart from the rise in credit that was used for purposes such as food procurement and priority sectors, a sizeable part of the rise in credit was thus deployed for financing rising industrial production, meeting the needs of revival of sick industrial units, facilitating temporary build-up of inventories arising from demand recession and for aiding general investment activity.

\* Page 36.



39. The foregoing paragraphs indicate the complexity of the task which the monetary authorities had to perform. A check on the overall flow of bank credit in view of the growing imbalance between monetary expansion and availability of goods and services had to be combined with ensuring that genuine production and investment activity did not suffer and was indeed encouraged. The ability of credit policy which operates primarily on only one element of monetary expansion *viz.*, credit to the commercial sector, to moderate overall monetary expansion when other elements are forcing it upwards, is thus somewhat limited. It calls for complementary action by Government also to control its recourse to the banking system and measures designed to moderate the domestic monetary impact of an accretion to foreign exchange reserves.

**Government  
Finances**

40. As reflected in the budget of the Central Government for the year, the fiscal policy deployed in 1976-77 two main instruments in an attempt to stimulate savings and investment so as to accelerate growth : a substantial increase in the Annual Plan outlay and rationalisation of the direct tax structure. The Annual Plan outlay for the year was set at Rs. 7852 crores, an increase of Rs. 1519 crores over the outlay for 1975-76. With a view to promoting investment and savings a number of concessions were granted and changes effected in personal income and wealth taxation as also in corporate taxation ; some excise and customs duties were also amended.

*Budgetary Deficit : Centre and States*

41. The data at present available on Central and State Governments' financial out-turn in 1976-77 are the revised estimates for the year presented in the budgets for 1977-78, (interim budgets presented in March 1977 in the case of State Governments). In the nature of things, these revised estimates represent approximation of the likely actuals. But, for 1976-77 the divergence of the revised estimates from the likely actuals may, it appears from the Reserve Bank's books, be greater than usual. According to the revised estimates for 1976-77, developmental disbursements of the Central and State Governments taken together (but excluding Union Territories) increased by 16.5 per cent over the year. The growth in non-developmental outlays was restricted to 9.9 per cent. The total disbursements thus recorded a rise of 13.3 per cent over the preceding year. The combined total receipts, however, increased at a slightly lower rate of 12.4 per cent, reflecting in part the impact on the national income of the fall of agricultural output from the preceding year's high level. In the result, according to the revised estimates, the combined budgetary deficit<sup>@</sup> of

<sup>@</sup> Budgetary deficit or surplus is measured (a) in the case of the Central Government by (i) net increase/decrease in outstanding treasury bills and (ii) withdrawal from/addition to cash balances and (b) in the case of the States by the State budget figures of (i) net increase/decrease in RBI credit in the form of ways and means advances and overdrafts (repayable within 7 working days with effect from May 1, 1972), (ii) decline in/addition to cash balances, (iii) net sales/purchases of securities held by States in their cash balance investment account and (iv) encashment of/investment in securities held in revenue reserve funds.



the Centre and States amounted to Rs. 506 crores in 1976-77<sup>£</sup> compared to that of Rs. 291 crores in 1975-76 (Table 1.12\*).

*Central Government's Expenditure : 1976-77*

42. In respect of the Central Government, the revised estimates for 1976-77 place the overall budgetary deficit at Rs. 425 crores<sup>†</sup> as compared with that of Rs. 366 crores in 1975-76. Total disbursements of the Central Government amounted to Rs. 14832 crores in 1976-77. They were Rs. 1705 crores or 13 per cent higher than in 1975-76. The growth over the year in the Plan expenditure was larger than in the non-Plan expenditure. The budgetary expenditure on the Annual Plan in 1976-77 was at Rs. 4984 crores, 22.2 per cent higher than in 1975-76 and consisted of both higher expenditure on the Central Plan and larger Central assistance to the Plans of the States and Union Territories.

43. According to the budgetary classification, developmental expenditure of Rs. 8263 crores in 1976-77 rose over the year by 19.3 per cent, while the non-developmental expenditure increased by 5.9 per cent. Developmental expenditure constituted 55.7 per cent of total disbursements in 1976-77 as against 52.8 per cent in the preceding year.

44. The Central Government's capital expenditure of Rs. 6279 crores in 1976-77 was Rs. 329 crores or 5.5 per cent higher than in the preceding year. Revenue expenditure on the other hand rose over the year by as much as 19.2 per cent to Rs. 8553 crores to account for 57.7 per cent of total disbursements as against 54.7 per cent in the preceding year. As a proportion of revenue expenditure, while social and community services maintained the position at 7.3 per cent over the year, economic services improved from 13.9 per cent to 17.8 per cent largely at the expense of defence expenditure which moved down from 31.4 per cent to 27.8 per cent. The share of interest payments also came down by a point to 16.3 per cent.

45. During 1976-77, aggregate receipts rose by almost the same proportion as total disbursements. At Rs. 14407 crores they recorded a rise of Rs. 1646 crores or 12.9 per cent over 1975-76. Revenue receipts amounted to Rs. 8507 crores, 5.3 per cent higher over the year. Tax receipts of Rs. 6392 crores did only slightly better than revenue receipts, having improved by 6.4 per cent over 1975-76 during which year they had risen by 17.9 per cent. Under capital receipts, gross domestic market borrowings at Rs. 1124 crores were larger than the preceding year by 17.0 per-

<sup>£</sup> According to the subsequent information available in the Reserve Bank of India records, the combined deficit for 1976-77 amounts to Rs. 137.5 crores, Rs. 134.5 crores on the Centre's account (*i.e.*, net increase in outstanding treasury bills and reduction in cash balances) and Rs. 3 crores on account of the States (*i.e.*, variations in cash balances, holdings of treasury bills and ways and means advances from the Reserve Bank).

\* Page 37.

<sup>†</sup> As indicated in the preceding footnote, the overall budgetary deficit of the Central Government in 1976-77, according to the Reserve Bank's books, amounts to Rs. 134.5 crores, Rs. 290.5 crores lower than in the revised estimates. Details of receipts and expenditure corresponding to this figure are, however, not yet available. Accordingly all amounts cited in the following paragraphs are revised estimates.

cent, and receipts from repayment of loans and advances at Rs. 1590 crores rose by 7.1 per cent, while external loan receipts declined by 21.7 per cent to Rs. 1108 crores.

*Central Budget : 1977-78*

46. The background to the formulation of the budget for the current year was formed by the lower rate of growth in national income in 1976-77, the need to step up investment while containing inflationary pressures, and giving a new orientation to the Plan priorities in favour of rural development and employment in accordance with the policy objective of the new Government. However, as it was not possible to consult the State Governments about the reformulation of Plan programmes and priorities, and in view of the commitments made to State Governments in respect of on-going schemes/projects there was only limited scope left for rephrasing the Annual Plan for 1977-78. Nevertheless, the reformulated Plan places greater emphasis on rural development and the primacy of agriculture. These have a crucial role in the removal of poverty through improvement in both agricultural productivity and employment opportunities and in promoting stability of prices of essential goods.

*Annual Plan: 1977-78*

47. The total public sector Annual Plan outlay for 1977-78 (comprising the Annual Plans of the Centre, States and Union Territories) was set at Rs. 9960 crores when the Central Budget for the year was presented to Parliament in June 1977. At this level, the outlay represented an increase of 27 per cent over the 1976-77 outlay of Rs. 7852 crores (budget estimates). Inclusive of the internal and other resources of public sector undertakings, the Central Plan itself would be of the order of Rs. 4939 crores in 1977-78 as against that of Rs. 4090 crores in 1976-77, with allocation from the Central Budget for the Central Plan and for Plan assistance to States and Union Territories at Rs. 5790 crores, that is, Rs. 806 crores or 16.2 per cent higher than the expenditure of Rs. 4984 crores (revised estimates) in 1976-77. The Plan outlay on agriculture and allied services, major, medium and minor irrigation projects, and fertilisers along with provisions for co-operatives and power sectors attributable to rural areas has been notably stepped up to Rs. 3024 crores. This allocation constitutes 30.4 per cent of the aggregate Plan outlay of the Centre, States and Union Territories, and represents a rise of 31 per cent over the corresponding allocation of Rs. 2312 crores in 1976-77.

48. In addition to the augmented Plan provision, two taxation measures have been adopted to encourage rural development and promote rural employment. For ten years following the commencement of their manufacturing activity, small scale industrial units set up in rural areas and beginning manufacturing activity after June 30, 1977 will be entitled to a deduction of 20 per cent of the profits in computing their taxable profits. Secondly, expenditure incurred by companies on approved rural development programmes is made deductible in computing their taxable profits.

*Central Taxation; 1977-78*

49. The strategy of promoting more employment and equality with reasonable price stability also informs the non-Plan expenditures and other tax and revenue measures adopted in the Central budget for 1977-78, in the awareness that the entire apparatus of utilising resources is needed to be revamped to improve their effectiveness. Thus, in the field of direct taxation, major changes effected are directed towards increasing corporate savings, channelling more funds into productive investments and accelerating the pace of industrial growth; even as the redistributive role of direct taxes is strengthened and adequate resources are raised. The level of personal income at which income-tax becomes payable was raised from Rs. 8,000 to Rs. 10,000, but without any changes in the rates of income-tax. At the same time the wealth tax rates were increased by a half percentage point in the case of net wealth of between Rs. 250,000 and Rs. 1,500,000 and by one percentage point to 3.5 per cent in the case of net wealth exceeding Rs. 1,500,000. The rate of surcharge on income-tax was raised from 10 per cent to 15 per cent of income tax for all tax payers, except companies. In the context of the existing inflationary pressures, the Compulsory Deposit Scheme for Income-Tax Payers was continued for another two years. But the Additional Emoluments (Compulsory Deposit) Dearness Allowance Scheme was allowed to lapse in 1977 and the amounts deposited are being repaid as provided in the Scheme.

50. Besides the concessions referred to earlier, emphasizing rural development and the encouragement to set up small-scale industry in rural areas, the main changes in corporate taxation and in capital gains taxation seek broadly to stimulate industrial growth. In order to encourage generation of internal resources for financing investment, investment allowances introduced in 1976-77 were extended to all industries except those manufacturing low priority items like cigarettes, cosmetics and alcoholic beverages. An innovation in corporate taxation was effected by allowing accumulated losses and unabsorbed depreciation of a faltering manufacturing company amalgamating with a healthier company to be carried forward and set off in the hands of the amalgamated company wherever the voluntary amalgamation is accepted by the Central Government to be in public interest. This innovation in the tax structure owes to the desire to reduce losses of production and employment that are imposed on the society by closure of sizeable manufacturing units as the experience of the Government taking over sick industrial units has not been found to be a uniformly satisfactory or economical solution. Further, mobility of investible resources which could assist industrial growth is sought to be promoted by liberalising the provisions for tax exemption of capital gains and for concessionary tax treatment of the gains, while removal of the requirement to distribute dividends in the case of closely held industrial companies may assist investment.

51. An amendment in the case of investment allowance which has long-term import relates to the grant of a higher rate of 35 per cent on machinery



and plant installed for manufacture using know-how developed in Government laboratories, public sector companies, universities and recognised research institutions. This should serve to stimulate the much needed scientific and technological self-reliance in the industrial field.

52. Clarity of the tax laws and efficient administration reduce litigation and improve the fairness of tax incidence as between the tax payers. With a view to achieving these objectives, the Government decided to appoint a Committee to make recommendations for the simplification and rationalisation of direct tax statutes. A similar examination in the field of indirect taxation is expected to be covered by the Committee on Indirect Taxes (Jha Committee) set up last year, which has presented its interim recommendations to the Central Government.

53. Indirect taxes are a well-established source of raising additional government revenues. In addition, the changes in indirect taxes in 1977-78 rationalize and simplify the duty structure, particularly in respect of textiles. They also assist small-scale units and new industries, in particular the electronics industry. A step in the area of reducing the cascading effect of excise duties has been taken while doubling to 2 per cent the general excise duty by giving a set off for goods which go into the manufacture of other goods that are themselves excisable.

54. The tax changes together would provide a net additional yield of Rs. 117 crores\* to the Central Government in 1977-78.

#### *Centre's Disbursements 1977-78 : Budget*

55. Aggregate disbursements in 1977-78 are placed at Rs. 16098 crores, an increase of Rs. 1266 crores or 8.5 per cent over the revised estimates of Rs. 14832 crores in 1976-77. Capital expenditures budgeted at Rs. 6611 crores would rise by 5.3 per cent as against the rise of 5.5 per cent in 1976-77, and revenue expenditures of Rs. 9487 crores by 10.9 per cent as against 19.2 per cent. Total disbursements of a developmental nature are budgeted to rise by 7.2 per cent as against 19.3 per cent in 1976-77; but it is the lower rate of growth—down to 14.5 per cent from 48.9 per cent—in revenue expenditures of a developmental nature that would account for the smaller increase than in 1976-77. Growth in defence expenditure, which came down from 17.0 per cent in 1975-76 to 5.8 per cent in 1976-77 (revised estimates), is budgeted to drop further to 5.2 per cent in 1977-78. The total non-Plan expenditure of the Central Government in 1977-78 is scheduled to rise over the year by 4.7 per cent, which growth is less than one-third of the rate of increase of 16.2 per cent in the Centre's budgetary allocation for plan expenditure during the year.

---

\* Adjusted for tax concessions announced on July 15, 1977 involving revenue loss of Rs. 21.6 crores in a full year and Rs. 16.0 crores in 1977-78; of the latter, the Centre's share is estimated at Rs. 13.0 crores.

*Centre's Receipts 1977-78 : Budget*

56. The rise in aggregate receipts over 1976-77 is budgeted to be larger than that in total disbursements. Aggregate receipts of Rs. 16013 crores would be Rs. 1606 crores or 11.1 per cent more than the revised estimates of Rs. 14407 crores in 1976-77. Tax receipts are budgeted to grow at twice the growth rate in 1976-77 and total revenue receipts would also do better. Capital receipts, however, would grow at a substantially lower rate than in 1976-77 largely on account of 'other receipts' which are the net effect of transactions occurring under a wide range of funds and accounts, such as Railways, and Posts and Telegraphs Reserve Funds; Rupee securities issued to international financial institutions such as the IMF, the IBRD, the IDA and the ADB; deposits of U.S. Rupee balances; and oil and other special credits, in addition to borrowings from the Reserve Bank against foreign exchange reserves and against Compulsory Deposit Schemes. Borrowings from the Reserve Bank are budgeted at Rs. 930 crores, Rs. 800 crores against foreign exchange reserves and Rs. 130 crores against the Compulsory Deposit Schemes; in 1976-77, Rs. 480 crores were borrowed against the Compulsory Deposit Schemes. Capital receipts under all other heads are budgeted higher over the year, including receipts from external loans and market loans.

*Central Budgetary Deficit: 1977-78*

57. In the result, the total deficit of the Central Government is placed at Rs. 85 crores as against Rs. 425 crores according to the revised estimates for 1976-77 (or Rs. 134.5 crores according to the Reserve Bank's books) and Rs. 366 crores in 1975-76 (accounts). Budgetary deficit as a component of changes in the money supply has important implications for the price level. It is in this context that the significance lies in the Government's intention to borrow Rs. 800 crores from the Reserve Bank against foreign exchange reserves, which implies that the budgetary arrangements for 1977-78 predicated upon a sizeable balance of payments deficit, particularly a substantial adverse balance of trade.

*Budgetary Operations : State Governments—1976-77*

58. Revised estimates provided in the interim budgets presented by State Governments in March 1977 indicate a marked deterioration in the combined budgetary position of State Governments from the surplus of Rs. 75 crores in 1975-76 (accounts) to a deficit of Rs. 81 crores in 1976-77.\* This has resulted from a relatively faster increase in aggregate disbursements of 14.8 per cent over the year to Rs. 12007 crores than in their aggregate receipts which increased only by 13.2 per cent to Rs. 11926 crores.

---

\* The Reserve Bank's books, however, show a nominal budgetary deficit of Rs. 3 crores for the year 1976-77 for the State Governments. Data on receipts and disbursements conforming to this figure of the budgetary deficit are not available. The finances of State Governments in 1976-77 are, therefore, reviewed in this Report on the basis of revised estimates given in the State Governments' interim budgets which put the combined budgetary deficit at Rs. 81 crores.

59. Almost all major categories of receipts contributed to the rise of Rs. 1392 crores in the States' aggregate receipts in 1976-77 (over 1975-76 Accounts). The aggregate tax receipts of State Governments — consisting of taxes levied and collected by them and of taxes shared by them with the Centre—went up by 9.6 per cent from Rs. 5145 crores in 1975-76 to Rs. 5639 crores in 1976-77. More than 90 per cent of this increase of Rs. 494 crores in tax receipts was accounted for by larger receipts from taxes levied and collected by the States. These rose over the year by Rs. 447 crores or 12.6 per cent to Rs. 3993 crores in 1976-77, about a quarter of the improvement issuing from the additional taxation measures undertaken in the year mainly, the increases in the rates of sales taxes, stamps and registration fees, and motor vehicle taxes. States' receipts from Central taxes, however, increased more modestly, by Rs. 47 crores or 2.9 per cent to Rs. 1646 crores in 1976-77 from Rs. 1599 crores in 1975-76, when they had risen by 30.2 per cent. More impressive than the growth in tax revenues was the growth in the non-tax receipts comprising grants from the Centre and States' other non-tax receipts; they increased over the year by 18.9 per cent, or at twice the rate of growth in tax receipts. A sizeable increase of 23.5 per cent over the year to Rs. 1506 crores in the grants-in-aid received from the Centre accounted for slightly more than half of the improvement in the non-tax receipts of the State Governments. Advance assistance for Plan schemes, incentive bonus for procurement and supply of foodgrains, and allocations for family planning programmes contributed, in that order, to the large growth in the receipt of grants.

60. Loans from the Centre aggregating Rs. 1487 crores represented half of the States' capital receipts and recorded a rise of Rs. 192 crores or 14.8 per cent over the preceding year. States' other capital receipts of Rs. 1478 crores were also higher over the year by Rs. 177 crores or 13.6 per cent. States' market gross borrowings amounted to Rs. 284 crores or Rs. 8 crores more than in 1975-76. Thanks to the substantial rise in the Centre's grants-in-aid, the net transfer of resources from the Centre to the States was Rs. 509 crores larger in 1976-77 than in the preceding year, though at Rs. 1120 crores the loan repayments and interest payments by the States to the Centre also were Rs. 30 crores lower. As a proportion of their receipts (including net loans from the Centre) the net transfer of resources from the Centre to the States improved from 14.0 per cent in 1975-76 to 16.7 per cent in 1976-77.

61. Revised estimates put States' aggregate disbursements at Rs. 12007 crores in 1976-77, Rs. 1548 crores or 14.8 per cent higher than in 1975-76 when the rise over the year amounted to Rs. 1825 crores. Development expenditure recorded a higher rate of growth of 16.9 per cent than that of 14.8 per cent in aggregate disbursements. It constituted 75.2 per cent of the States' aggregate disbursements excluding debt repayments, as compared to 75.3 per cent in the preceding year, though it rose over the year by a smaller margin than the growth of 19.0 per cent in 1975-76. It was financed to the extent of 75.2 per cent in 1976-77 by the States'

own resources (*i.e.*, receipts excluding Central grants and loans) after meeting the non-developmental expenditure, as compared to 80.6 per cent in 1975-76, the quantum of Central assistance having, as referred to earlier, risen over the year significantly.

*Budgetary Operations of State Governments : 1977-78 Interim Budgets*

62. Estimates for 1977-78 presented by the State Governments in March 1977 disclose a further deterioration in their financial position. The combined States' budgetary deficit would amount to Rs. 126 crores on the basis of these estimates. Reflecting perhaps partly the imminent setting up of the Seventh Finance Commission and partly the overall political climate in the country, only five States proposed additional resources mobilisation at the time of presenting the budgets in March 1977 : these measures would raise revenues by a net amount of Rs. 39 crores as compared to the proposals for Rs. 107 crores presented last year.

63. Aggregate receipts of the States are budgeted to increase by Rs. 706 crores or by 5.9 per cent to Rs. 12632 crores as compared to a rise of Rs. 1392 crores or 13.2 per cent in the previous year, in the context of the sharply lower rate of increase budgeted for receipts from Central grants as well as smaller growth in other non-tax receipts. Tax receipts also are anticipated to rise at a fractionally lower rate of 9.3 per cent than that of 9.6 per cent in the preceding year. At the same time, States' capital receipts are budgeted to fall over the year by 3.7 per cent compared to the rise of 14.2 per cent in 1976-77. Gross receipts from Central loans are budgeted to increase by 2.4 per cent. But other capital receipts are expected to decline by Rs. 144 crores or 9.7 per cent despite a 5.6 per cent rise in gross market borrowings because of a further deterioration on account of recoveries of loans and advances extended by the State Governments; in 1976-77 States' other capital receipts were Rs. 177 crores or 13.6 per cent higher over the year. Net transfer of resources from the Centre to the States would rise by Rs. 211 crores to Rs. 2084 crores in 1977-78 as compared to the rise of Rs. 509 crores in the preceding year, and would amount to 17.4 per cent of the States' receipts (including net loans from the Centre) as compared to 16.7 per cent in 1976-77.

64. At Rs. 12758 crores, aggregate disbursements of State Governments are budgeted to increase over the year by Rs. 751 crores or 6.3 per cent or by about half the rate of increase of 14.8 per cent in 1976-77. Both developmental and non-developmental outlays which increased by about 17 per cent in 1976-77, are estimated to go up by about 8 per cent. States' total developmental expenditure including loans to third parties for developmental purposes would increase by Rs. 665 crores to Rs. 8933 crores forming about 75.3 per cent of the States' total expenditure in 1977-78. Non-developmental expenditure would rise by Rs. 219 crores to Rs. 2938 crores.

65. The estimates for States' finances in 1977-78 discussed here are drawn, as indicated earlier, from the budgets presented in March 1977 when as

many as 16 out of the 22 States sought a vote on account. All the ten States in which the Governments changed following the recent State elections are to present final budgets for the year, and some others are also presenting modified estimates. The consolidated budgetary position of the States would thus differ from that reckoned from the estimates discussed here. It, however, appears in the context of the concessions made by many States prior to the recent elections, and the fact that nearly a third of the current financial year has already elapsed, that the budgetary position could be weaker than what the above estimates would imply.

*States' Ways and Means Advances and Overdrafts*

66. The Reserve Bank grants temporary accommodation to the State Governments by way of normal (unsecured) and special (secured) ways and means advances to enable them to tide over imbalances in their ways and means position arising out of uneven flow of receipts in relation to disbursements. The present limits for normal ways and means advances are ten times the minimum balance maintained by each State Government with the Bank. An equivalent limit is available to each State Government for the special ways and means advances which can be availed of against Government of India securities. These limits were last revised in May 1976 and aggregate Rs. 130 crores each for normal and special ways and means advances to 20 State Governments. Overdrafts emerge in the State Government accounts with the Bank where payments exceed receipts and the limits for normal and special ways and means advances are exhausted. Overdrafts aggregated Rs. 319 crores as at the end of June 1977 and were cleared by the Government of India by making advance releases of Central assistance for States' Plans, States' share of Central taxes and by granting ways and means advances, wherever necessary. Such unauthorised overdrafts have been a matter of serious concern to the Reserve Bank and the Bank has repeatedly urged the States to so plan their finances as to avoid such recourse.

*Market Borrowings*

67. Government market borrowings were substantially higher in 1976-77 as compared with the previous year. The combined net receipts of the Central and State Governments from market loans which amounted to Rs. 728 crores in 1975-76 went up by 41.3 per cent to Rs. 1029 crores in 1976-77. The Centre accounted for the large increase over the year, having raised Rs. 849 crores or as much as Rs. 396 crores more than in the previous year. If the amount of Rs. 100 crores raised in 1975-76 to repay their share of the 1963-64 centralised market borrowings is excluded, the net amount raised by State Governments rose over the year by a modest Rs. 6 crores to Rs. 180 crores.

68. During the year under review, the Centre entered the market on as many as five occasions. Normally the Centre goes to the market twice a year, though in 1972-73 it made four approaches and in 1974-75 three approaches. The gross amount raised during the year was also a record, Rs. 1124 crores. In July 1976 the Centre floated three loans — 5½ per



cent loan 1984, 6 per cent loan 1994 and 6½ per cent loan 2000 — on a cash-cum-conversion basis, raising an aggregate Rs. 525 crores of which Rs. 278 crores were in cash. The second floatation — 6 per cent loan 1993 (second issue), and 6½ per cent loan 2002 came in October, and the third that of 6 per cent loan 1993 (third issue) and 6½ per cent loan 2003 (second issue) came in December 1976, both floatations on a cash basis. Further tranches of two loans *viz.*, 6½ per cent loan 1997 and 6½ per cent loan 2002, were issued in February 1977. Another block of two outstanding loans — 6½ per cent loan 1997 and 6½ per cent loan 2003 — was issued in March 1977. The tranches issued in February and March were initially taken up by the Reserve Bank which placed them on sale to investors subsequently. After taking into account the repayments of Rs. 275 crores relating to 4½ per cent loan 1976 and 2½ per cent loan 1976 which matured during the year, the net receipts of the Centre from market borrowings amounted to Rs. 849 crores in 1976-77.

69. Of the total gross receipts of Rs. 283 crores of the State Governments in 1976-77, Rs. 71 crores were on a conversion basis and Rs. 212 crores were on a cash basis. Repayments of matured loans amounted to Rs. 103 crores. The States' net market borrowings were Rs. 180 crores in 1976-77.

70. In 1977-78, the Centre expects to raise a net amount of Rs. 999.8 crores. On May 25, 1977, the Government of India issued further tranches of two outstanding loans, *viz.*, 6½ per cent 1997 for Rs. 75 crores and 6½ per cent 2003 for Rs. 25 crores which were subscribed by the Reserve Bank of India. The first approach to the market during the current financial year 1977-78 was made on June 20, 1977 when the Centre floated three loans — 5½ per cent loan 1985 (second issue), 6 per cent loan 1994 (second issue) and 6½ per cent loan 2004 — for a total amount of Rs. 400 crores on cash basis; a total amount of Rs. 441.1 crores was raised through this floatation. Twenty State Governments have entered the market on August 23, 1977, with 6 per cent loans, 1987, for an aggregate amount of Rs. 257 crores. The Centre also issued on August 1, 1977, further tranches of two outstanding loans *viz.*, 6 per cent loan 1994 for Rs. 25 crores and 6½ per cent loan 2004, for Rs. 75 crores, which were initially taken up by the Reserve Bank of India, in entirety.

71. With the rapid growth in bank deposits and the active open market operations policy pursued by the Reserve Bank, the gilt-edged market witnessed considerable activity throughout the year 1976-77 and the Bank emerged as a net seller of Government of India securities to the extent of Rs. 531.1 crores. State Government securities and bonds issued with Government guarantees also were in keen demand. With a view to giving a fillip to the market and enabling the banks/provident funds to improve the return on their holdings of Government of India securities, the Bank extended the facility of switch operations to enable the banks and the provident funds to improve their earnings by turning over their investments from short dated to medium and long dated securities.

**Price Situation** 72. The behaviour of prices during 1976-77 was a cause for concern. The downtrend in prices in 1975-76 was reversed in 1976-77. The increase in aggregate monetary demand as evidenced by the large expansion in money supply and the shortfall in production of some sensitive agricultural commodities were the major factors in the re-emergence of inflationary tendencies. On a point-to-point basis, the Wholesale Price Index (Base : 1970-71 = 100) recorded an increase of 8.3 per cent during 1976-77 (end-June 1977 over end-June 1976) in sharp contrast to the decline of 1.8 per cent in 1975-76 (Table 1.13\*). Taking the annual average (based on monthly average indices), the index at 180.8 for 1976-77 (July-June) showed a rise of 5.7 per cent over the index of 171.0 for 1975-76; during 1975-76, the index had declined by 3.7 per cent.

73. The agricultural sector once again demonstrated its dominant influence in setting the pattern of price behaviour. The shortfall in output of major commercial crops generated significant increases in their prices during 1976-77, leading in turn to the rise in prices of related manufactured products. Reports of unfavourable weather conditions contributed to the psychology of scarcity, and tended to push prices further.

74. During the year, all the three main commodity groups—'primary articles', 'fuel, power, light and lubricants' and 'manufactured products'—recorded price increases. The largest increase was under 'primary articles' (14.8 per cent). During 1975-76, it had been only the group 'fuel, power, light and lubricants' that had recorded an increase (11.3 per cent).

75. The main group 'primary articles'—with three groups, 'food articles', 'non-food articles' and 'minerals'—rose by 14.8 per cent in 1976-77 as against the decline of 6.6 per cent in 1975-76. The rise under 'food articles' was 14.0 per cent in the place of a fall of 11.8 per cent in the preceding year. 'Pulses' increased by as much as 45.7 per cent as against a fall of 32.7 per cent during 1975-76 owing to near-stagnant output in the face of increasing home demand and exports. Among 'other food articles', the prices of tea and coffee rose in response to the rise in international markets. The prices of 'fruits and vegetables' went up by 16.1 per cent—primarily due to the exports of commodities like onions and potatoes. 'Cereals' rose by 7.5 per cent in contrast to the decline of 21.8 per cent in 1975-76, reflecting primarily the increase in the price of rice by 9.8 per cent; because of better availability, the price of wheat rose by only 2.7 per cent.

76. 'Non-food articles' registered a rise of 19.8 per cent owing largely to the unprecedented rise of 50.8 per cent in the prices of 'oilseeds' and, to some extent, to an increase of 8.4 per cent for 'fibres'. Among 'oilseeds', groundnut prices rose by 57.9 per cent, against the decline of 20.2 per cent during 1975-76, due mainly to lower production, restrictions on inter-State movements and speculative activity in the face of limited supplies. The two major fibres, cotton and jute, rose by 8.2 per cent and

20.2 per cent, respectively. While reduced output brought about an increase in cotton prices, jute prices rose following higher demand from mills in the wake of improved offtake of jute goods in the domestic market. The group 'minerals' also recorded an increase of 5.9 per cent during the year as compared with an increase of 3.4 per cent in the previous year.

77. Among 'manufactured products', the group 'textiles' recorded the largest increase (15.1 per cent) in contrast to a decline of 1.8 per cent recorded during 1975-76. The rise in textile prices in 1976-77 in part reflected the higher prices of cotton yarn, in turn determined by the prices of raw cotton. Both cotton cloth (of mills' sector) and jute manufactures recorded increases of 11.0 per cent and 8.6 per cent, respectively. The group 'food products' recorded an increase of 4.6 per cent, mainly due to the increase of 49.2 per cent recorded by the sub-group 'miscellaneous food products'. 'Edible oils' recorded an increase of 58.3 per cent; groundnut oil alone rose by 78.0 per cent. During 1975-76, groundnut oil had declined by 32.6 per cent. The price indices of sugar and gur on the other hand declined by 6.7 per cent and 13.4 per cent, respectively, in the context of larger production of sugar and larger releases by the Government for internal consumption.

78. Rising international prices also contributed to the increase in the price level in 1976-77. Large changes in the prices ruling in foreign markets for individual commodities entering into the exports or imports of the country affect domestic prices. It is not always possible to insulate the domestic economy fully from these external influences.

79. Trends in consumer prices during the year followed those in wholesale prices. The Consumer Price Index for Industrial Workers which had declined by 11.3 per cent in 1975-76 increased by 10.0 per cent during the year. The index for Urban Non-manual Employees also rose by 7.3 per cent as against a decline of 4.6 per cent during 1975-76.

80. In addition to fiscal and monetary measures, the Government took several steps to promote price stability. These included the stepping up of public distribution of foodgrains. The procurement policy continued to serve basically the twin purposes of price support to farmers and building up of buffer stocks. No major changes were made in the policy for the 1976-77 *kharif* crops. The procurement price for paddy and coarse grains was maintained at Rs. 74 per quintal as suggested by the Agricultural Prices Commission (APC), only the premium on par-boiled rice being raised from Rs. 3 to Rs. 5 per quintal. Zonal arrangements and restrictions on the movement of rice and paddy were modified, forming a new larger Southern zone for rice which includes Andhra Pradesh, Tamil Nadu, Karnataka and the Union Territory of Pondicherry. The North-western rice zone, comprising the Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and the Union Territory of Delhi, was expanded to include Rajasthan.

81. Taking into account these adjustments, the procurement target for rice for the 1976-77 season was fixed at 4.4 million tonnes, a million tonnes lower than what was recommended by the APC. By end-June 1977, 4.3 million tonnes were procured as compared with 6.0 million tonnes procured during the same period last season. In addition, 0.22 million tonnes of *kharif* coarse grains were procured by end-June 1977 as against 0.30 million tonnes in the corresponding period last year.

82. With comfortable stocks, the procurement policy for wheat was modified. Restrictions on movement were removed, and the entire country was treated as one zone. Restrictions on purchases by roller flour mills from the open market were, however, retained. The procurement price for wheat of fair average quality was raised by Rs. 5 to Rs. 110 per quintal. The issue price has, however, been maintained at Rs. 125 per quintal. Though the APC had suggested a procurement target of 5.5 million tonnes for the 1977-78 season, the Government has decided to purchase from producers all the quantity offered. The State Governments have been directed to discontinue procurement of wheat by levy on producers or traders. Total procurement of wheat during the 1977-78 season till end-June 1977 aggregated 4.9 million tonnes compared with 6.3 million tonnes procured in the corresponding period last season ; total procurement of wheat during the 1976-77 season was 6.6 million tonnes, as against the target of 5.2 million tonnes. In the absence of a procurement target for 1977-78, there would be no payment of bonus which the State Governments received in recent years in respect of the quantity procured in excess of the target.

83. The trends in market arrivals of rice and wheat showed that as a result of the continuation of the price pattern fixed for procurement there was an improvement in arrivals in the market of wheat while rice arrivals recorded only marginal decline notwithstanding the decline in output of these crops. Upto mid-June 1977, market arrivals of rice in selected 257 markets were slightly lower at 22.3 lakh tonnes as compared with 23.0 lakh tonnes in the previous season. In the case of wheat, total market arrivals during the 1977-78 season (April-March) till mid-June in 317 selected markets were 16.0 lakh tonnes as against 14.7 lakh tonnes during the corresponding period of the preceding season. During the 1976-77 season, total market arrivals of wheat aggregated 27.7 lakh tonnes.

84. The comfortable position in regard to foodgrains is reflected in the curtailment of imports of foodgrains in 1976-77 (July-June). During 1976-77 (July-June), imports aggregated 3.7 million tonnes compared with 7.4 million tonnes imported during 1975-76. No fresh contracts were entered into for the import of foodgrains.

85. As regards the offtake of foodgrains from the public distribution system, there was a rise in the monthly average to 9.1 lakh tonnes during 1976-77 (July-June) from 7.7 lakh tonnes in 1975-76. Despite this, stocks of foodgrains with the Government rose to 20.7 million tonnes at the end of June 1977, from 17.6 million tonnes on the corresponding date in 1976.

86. The increase in buffer stocks of foodgrains followed the high level of production in 1975-76. But it also reflected in part the inadequacy of purchasing power in the hands of significant sections of the population, both rural and urban, rather than a genuine surplus over requirements. A measure of support for farm prices is recognised to be necessary; and, given the dependence of agriculture on weather, building of adequate stocks of foodgrains is essential. Acquisition and holding of stocks from domestic procurement nevertheless involve additions to money supply and consequent pressure on prices, besides the risks of physical deterioration. For a country which is short of investible resources and in which the levels of consumption even of foodgrains are low for appreciable segments of the population, these factors need to be carefully weighed against the advantages of holding the stocks beyond a point. A more widespread and effective programme of public distribution of foodgrains thus becomes an important policy desideratum for the country.

**External  
Payments  
Position**

87. There was a further improvement in the country's external payments position in 1976-77 (July-June) reflected in a substantial increase of Rs. 1831 crores in the foreign exchange reserves (excluding SDRs and gold holdings) to a record level of Rs. 3582 crores at the end-June 1977. The increase took place after meeting to the extent of Rs. 238 crores—a part\* of the obligations outstanding to the International Monetary Fund. During the last year, the rise in foreign exchange reserves (excluding gold and SDRs) amounted to Rs. 1213 crores. If these repurchase transactions as well as drawals of Rs. 207 crores in August 1975 from the IMF are isolated, the increase in reserves works out to Rs. 2069 crores in 1976-77 as compared with a relatively smaller rise of Rs. 1071 crores in 1975-76. The improvement in the external payments was brought about by the adoption of a number of measures directed towards curtailing dependence on imports on the one hand and by boosting exports and encouraging the inflow of remittances through authorised channels, on the other. Merchandise transactions showed a modest surplus, after sizeable deficits since 1972-73 when the payments position had started deteriorating under the impact of larger imports of foodgrains, petroleum oil and fertilisers and of the sharp rise in petroleum prices.

88. Of the three components of foreign exchange reserves, namely, gold, SDR holdings and foreign currency holdings, the first two recorded small variations and almost the entire change in the reserves in 1976-77 was reflected in the foreign currency holdings. Gold moved up marginally from Rs. 182.5 crores in 1975-76 to Rs. 187.8 crores in 1976-77 as a result of the restitution of gold to India by the IMF in January 1977. SDR holdings, on the other hand, declined marginally by SDR five million to SDR 184.6 million mainly because of net payments of various charges to the IMF. Foreign currency holdings increased, as mentioned before, by Rs. 1831 crores in 1976-77 (June-end 1976 to June-end 1977), after the increase of Rs. 1213 crores in 1975-76.

---

\* This comprised a repurchase of Rs. 65 crores in April 1976 relating to the drawing made in February 1974 under the Compensatory Financing Scheme, and a repurchase of Rs. 238 crores in September 1976 towards drawing made under the 1974 Oil Facility and a part of the First Credit tranche.



89. As aid receipts are estimated to be lower than in 1975-76 while the trade surplus was only modest, invisible receipts clearly played a major role in the spurt in reserves in 1976-77. In the absence of detailed balance of payments data, precise identification of the service transactions which brought about the growth in invisible receipts is not possible. However, it would be reasonable to hold that inward remittances such as for family maintenance and savings of non-residents accounted for a sizeable part of the growth. The considerable increase in inward remittances was facilitated by several circumstances such as an increase in the number of persons working abroad, the narrowing of the gap between the external and internal value of gold, the efficacy with which smuggling and the leakage of foreign exchange have been checked through various measures, all of which have encouraged the inflow of remittances through authorised banking channels.

90. While continuing to be basically export-oriented, the trade policy for 1976-77 liberalised imports significantly. Import liberalisation aims at strengthening the production base so as to promote a faster growth of the economy. The policy on imports also streamlined and simplified import procedures so as to facilitate production and export efforts. The system of automatic licences for imported raw materials and components was enlarged to include the totality of users' utilization during a previous year and a 20 per cent increase in automatic licence entitlement of small-scale industries. Further measures to boost exports included : interest free bank loans to exporters against duty drawback entitlements, extension of the scheme of cash compensatory support upto March 1979, increase in the quantum of foreign exchange released for businessmen going abroad for export promotion activities and abolition of export duties on certain jute manufactures, coir yarn, and cattlefeeds such as oilcakes.

91. India's visible trade balance, it may be recalled, remained unfavourable during the three years 1973-74 to 1975-76, as the growth of imports outpaced that of exports. The position was reversed in 1976-77 with the emergence of a modest trade surplus of Rs. 68 crores following a substantial increase in exports and a decline in imports ; this was in sharp contrast to the deficit of Rs. 1222 crores in the preceding year. Assisted by the recovery in world trade, India's aggregate exports (including re-exports) touched a new peak of Rs. 5089 crores (DGCI & S data), that is, Rs. 1047 crores or 25.9 per cent more than the preceding year's level of Rs. 4043 crores. This rate of growth compared favourably with the 21.4 per cent rise in 1975-76 over 1974-75. Aggregate imports at Rs. 5022 crores in 1976-77, on the other hand, recorded a decline of Rs. 243 crores or 4.6 per cent as against an increase of 16.5 per cent in 1975-76 (Table 1.14).

92. Exports during April-December 1976 aggregated Rs. 3546 crores and were higher by Rs. 838 crores or by 31 per cent than in the corresponding period of 1975. The major part of the rise in exports during April-December 1976\* was accounted for by iron and steel (Rs. 211 crores),

---

\* Commodity-wise details of exports are available only upto December 1976.

cotton textiles (Rs. 116 crores) and clothing (Rs. 98 crores). Other items which showed substantial increases were pearls, precious and semi-precious stones, oilcakes, leather and leather manufactures, fish and fish preparations, coffee and tea. Exports of a few important items like sugar, jute manufactures and silver, however, declined during the period. The fall was most pronounced for sugar (by Rs. 194 crores to Rs. 103 crores). Direction-wise, the largest increase in exports was that to ECM countries (Rs. 371 crores); India's exports to the eight oil producing countries rose by Rs. 152 crores but exports to Iran dropped from Rs. 197 crores to Rs. 82 crores. Despite the increase in the value of India's exports there has been a sharp decline in the share of India's exports in world exports from 1.2 per cent in 1960 to 0.7 per cent in 1970. In recent years, the share has averaged around 0.5 per cent; from 0.56 per cent in 1973, it declined to 0.51 per cent in 1974 before rising again to 0.54 per cent in 1975 and further to 0.55 per cent in 1976\*.

TABLE 1.14 :—INDIA'S FOREIGN TRADE

(Amounts in rupees lakhs)

Year	Imports	Exports	Balance of Trade
1970-71	1634,20	1535,16	— 99,04
1971-72	1824,54	1608,22	— 216,32
1972-73	1867,44	1970,83	+ 103,39
1973-74	2955,37	2523,40	— 431,97
1974-75	4518,78	3328,83	—1189,95
1975-76	5265,22	4042,81	—1222,41
1976-77*	5021,78	5089,38	+ 67,60

\* Provisional

Source : D. G. C. I &amp; S.

93. Imports during April-December 1976 aggregated Rs. 3592 crores and were lower by Rs. 324 crores or by eight per cent than in the corresponding period of 1975. This was in sharp contrast to the rise of Rs. 826 crores or of 27 per cent during April-December 1975. Imports of food-grains—mainly wheat—and fertilisers together declined by Rs. 440 crores, and those of iron and steel by Rs. 68 crores. As a part offset, there were larger imports of other commodities, notably raw cotton, animal and vegetable oils and fats, mineral oils and manufactured goods. Imports from North America, ECM and EFTA countries, and East European countries recorded sharp declines, while those from ESCAP and African countries increased. There were declines in imports of wheat from North America and Australia, fertilizers from the U.S.S.R. and Poland, and petroleum from Iran.

£ Abu Dhabi, Bahrein, Dubai, Iraq, Kuwait, Oman, Qatar and Saudi Arabia.

\* The ratios are based on the data available in the 'International Financial Statistics' which exclude data for the East European Countries but include data for Rumania and Yugoslavia.

94. The favourable external payments position and the rising volume of foreign exchange reserves during 1976-77 are a matter of satisfaction but they also reflect in part inadequate levels of investment and consumption. It is, therefore, imperative that the foreign exchanged resources available to the country should be exchanged for physical assets to be used in promoting a higher rate of development of the economy and stability in prices. For this purpose, consideration needs to be given for a planned deficit on merchandise account by providing greater scope for imports of different types of goods—including manufactured goods—essential to long-term development activity as well as for immediate consumption with a view to imparting some stability to prices at home. Every effort should of course be made to increase exports. However it is only through the mechanism of an import surplus or through a planned trade deficit that the country would be able to convert external resources into domestic investible resources. So long as the gap between available resources and domestic savings continues, the need for supplementing domestic resources with foreign resources, and consequently for external assistance will remain.

**Assessment and  
Prospects**

95. In two major areas the Indian economy made significant gains in 1976-77. First, in the area of external trade, exports have once again recorded a noteworthy growth, and with imports being moderated, there emerged a small trade surplus over the financial year. The inflow of invisibles continues on an encouraging scale, and barring unforeseen developments and no slackening in vigilance, this inflow should continue. As a result, foreign exchange reserves of the country today stand at their highest level. Since natural factors still exercise a dominant influence on the course of the economy, there is a degree of vulnerability in the external payments situation. India therefore needs a somewhat larger cushion of reserves than is generally considered adequate in order to maintain a reasonable measure of stability. Beyond this cushion, the accretion of reserves represents a resource which should be available for the economy's use. There is, secondly, a large official stock of foodgrains which is still being added to. At least for the immediate future, therefore, there seems to be a respite from the constraints which the inadequacy of foreign exchange and pressures on the availability of foodgrains have historically exercised on our growth. The developments in external payments and in the foodgrains situation reflect, however, in a real sense the inadequacy of the levels of domestic investment and incomes. The task now is to press these resources into service to achieve higher levels of investment in an environment of relative price stability.

96. The year just ended has again emphasized the continuing vulnerability of our agricultural production to the vagaries of the weather. The price situation has given cause for renewed concern. In contrast to the decline in 1975-76, prices rose during almost the whole of 1976-77. The rise no doubt was initially triggered by certain sectoral shortages. But it quickly developed into generalized inflation because of the expansion in money supply brought about by the large increase in the net bank credit to Government on the top of external surplus and additional bank



credit to commercial sector. The situation thus clearly calls for stricter fiscal discipline and overall monetary restraint.

97. Over the longer term, the growth prospects of the economy turn largely on our ability to raise the level of investment and obtain adequate returns from the investments made. In this context, the resources of food-grains and foreign exchange provide a welcome degree of manoeuvrability. In addition to facilitating higher investment, exchange resources, supplemented with foreign aid, can be used to maintain the availabilities of mass consumption goods and also of other critical commodities in short supply. Import policies can be administered with greater flexibility to check possible price increases in respect of sensitive commodities. The measure of price stability that it can secure can in itself be a favourable factor in the efforts to step up domestic savings and investment.

98. The Government has set the objective of removing destitution and unemployment within the next decade. Economic growth should be such that its benefits percolate to the smallest producer, farmer and landless labourer. Appropriately, therefore, agriculture and rural development have been accorded primacy in investment priorities, though this does not imply indifference towards, or neglect of, modern industry.

99. The creation of additional assets to accelerate development in rural areas, particularly agriculture, can and should be undertaken on economic grounds. The present food stocks are available as a 'wages fund' to be used with advantage along with the large unutilised reservoir of labour in the countryside, in building up productive assets in the rural economy. The economy has already invested heavily in stocks of foodgrains. Imaginative planning and organisational effort should be deployed to convert this inventory investment into productive assets in the agricultural sector. Particular attention would need to be paid to the area of investment in agriculture to increase output of articles of mass consumption such as cotton, vegetable oils, pulses and coarse grains. Realistic price support policies and concerted efforts towards raising the production of these commodities in the newly opened-up command areas of irrigation projects should provide more stable and enduring means to meet our growing demands. This would, among other things, contribute to the progressive reduction in the degree of vulnerability of agriculture to climatic conditions, and provide employment to the presently unemployed or under-employed human resources in rural areas.

100. As mentioned earlier, there need be no basic conflict between investment in industry and in the rural sector. A prosperous agriculture will provide the demand for the products of industry as also some of its basic inputs, and a healthy industry will in turn provide the inputs needed for the growth of productivity in agriculture as well as a market for the output of the rural sector.

101. Generation of employment on a larger scale and consequent alleviation of poverty in rural areas call for the ready availability of essen-

tial articles of consumption, as and where incomes arise. Otherwise, part of these incremental incomes will be neutralized by higher prices. To this end, a large and effective public distribution system is required. Whether the existing network of fair price shops for foodgrains can be further extended and made to take over the distribution of the other articles of consumption, or else some alternative forms of organization more suited to the needs of the different areas has to be tried out, is a matter which needs detailed consideration.

102. The development contemplated in rural areas involves the creation of a supporting infrastructure to be put in place to meet the financial and commercial requirements of farmers, rural artisans and those engaged in small industries. This presents another organisational challenge. In the field of credit, as a result of a variety of efforts the co-operative structure is in a somewhat better shape than a few years ago, though significant sectoral and regional gaps persist. The agencies for the distribution of inputs are also able to handle substantially larger transactions. Commercial banks are contributing increasingly to the financing of agriculture and allied activities. With help from the Agricultural Refinance and Development Corporation, commercial and land development banks have channelled considerable investment credit into agriculture, especially minor irrigation schemes. As part of an effort to design and improve the organisational and technical support for rural areas, and the provision of infrastructural support for the area approach to development, the concept of the lead bank, its objectives and strategies, need to be reviewed so as to be in consonance with the new priorities.

103. In this context, the Reserve Bank has recently taken a significant step by initiating a programme for the intensive development of co-operative credit institutions in 41 selected districts in the first phase. This programme aims at the all-round development of these institutions so that they are equipped for the tasks that will devolve on them during the Sixth Plan period. A series of district credit plans is to be drawn up covering various rural activities. The Bank has agreed to provide concessional refinance for a number of identified cottage industries financed through the primary agricultural societies at the village level. The programme is conceived to work in concert with the lead banks in the selected districts.

104. Any perceptible improvement in the living standards of the people requires a substantially higher rate of investment which is larger than has been the case so far. While every effort is necessary for maximising the mobilisation of domestic savings, given the low levels of income of the country such domestic resources would certainly require continued supplementing with foreign assistance. Recent pledges made at the India Consortium meeting to commit a larger volume of external assistance will be of help in this context. The instrument for making the draft on foreign savings is clearly a planned trade deficit. It is only through the goods and services utilised directly or indirectly for investment that foreign savings can be used to raise the rate of investment and promote the growth of output. This also is a major task of organisation. The step-up of investment will,

of itself, generate demand for greater consumption as also of additional investment, and thus the economy will be able to absorb additional resources available to it from the external sector. In order that investment does not sag, nor portions of it diverted to areas where benefits may be inadequate or unduly delayed, there should be at all times an adequate number of projects on the shelf, periodically updated to take account of any changes in the basic data.

105. A much closer integration between physical and financial planning than hitherto is another aspect of the planning processes which needs urgent consideration. In some sectors of the economy, units equipped at considerable cost to produce strategic items of equipment such as that for power generation are to-day operating considerably below capacity. Despite the economy's unsatisfied need for power, the demand for power equipment remains short of the capacity for producing it, because those who could use the equipment do not command the financial resources to pay for it. This points to the inadequacy of the nexus between physical and financial planning. Growth in investment and output would involve additional domestic credit creation either through the budget or the banking system. An external deficit which is part of the development strategy that is envisaged, would provide some offset to such domestic credit creation. What is important from the point of view of containing inflation is the regulation of overall monetary expansion and not just of domestic credit creation.

106. In sum, what is called for is an assimilation in the development strategy of arrangements for using the resources of food and foreign exchange, and thereby generating a continuing process of growth. These resources of the community have remained unutilised due to structural and institutional rigidities, even while the economy continues to suffer from the low levels of productive investment, and the rural areas in particular are marked by large unemployment and destitution. The level of investment in the economy, especially in rural areas, could thus be sustained and the flow of consumption goods to the lower income groups facilitated. All this involves a massive effort to design and improve the organisational infrastructure supplying the needed missing links in the chain for utilising fully all available productive resources so as to step-up the rate of growth, broaden the base of development and provide a better life for the large masses of the people.



TABLE 1.3. :— PROGRESS OF AGRICULTURAL PROGRAMMES

Programme	Unit	1973-74	1974-75	1975-76	1976-77 Target	Likely Achievements	1977-78 Target
1	2	3	4	5	6	7	8
<b>Gross Area Covered</b>							
High Yielding Varieties .. .. .	Million hectares	25.9	26.5	32.5	33.0	—	—
Plant Protection .. .. .	-do-	63.0	64.0	—	76.0	—	—
Soil Conservation@ .. .. .	-do-	1.6	1.6	1.0	0.7	—	—
<b>Consumption of Fertilisers and Pesticides</b>							
Nitrogenous (N) .. .. .	Million tonnes	1.8	1.8	2.0	2.5	2.4	3.0
Phosphatic (P <sub>2</sub> O <sub>5</sub> ) .. .. .	-do-	0.7	0.5	0.4	0.7	0.6	0.8
Potassic (K <sub>2</sub> O) .. .. .	-do-	0.4	0.3	0.3	0.3	0.3	0.4
Pesticides .. .. .	Thousand tonnes	n.a.	0.5	—	—	0.6	—
<b>Gross Area Irrigated</b>							
	Million hectares	42.2	43.7	45.4	47.4	—	—
Gross irrigated area as per cent to cropped area		n.a.	25.9	—	—	—	—
<b>Institutional Finance for Agricultural Development (medium/long-term loans)</b>							
<b>(Direct* &amp; Indirect£)</b>							
(a) Loans issued (end-June) .. .. .	Rs. crores	393.87	504.90	591.40 \$	702.50	—	—
(b) Loans outstanding (end-June) .. .. .	-do-	1737.93	1995.64	2331.82 \$	2620.00	—	—

@ Additional during the year.

n. a. - not available.

\* Of primary agricultural credit societies, land development banks and scheduled commercial banks.

£ Of scheduled commercial banks and Rural Electrification Corporation Ltd.

\$ Provisional and estimates

TABLE 1.4 :— AGRICULTURAL PRODUCTION—SELECTED COMMODITIES

	Unit	1973-74	1974-75	1975-76	1976-77
1	2	3	4	5	6
<b>Foodgrains</b>					
.. .. .	Million Tonnes	104.7	99.8	120.8	111.0*
Kharif Foodgrains .. .. .	"	67.8	59.1	74.2	67.0*
Rabi Foodgrains .. .. .	"	36.8	40.7	46.6	44.0*
Cereals .. .. .	"	94.7	89.8	107.7	n.a.
<i>of which :</i>					
Rice .. .. .	"	44.1	39.6	49.5	45.0*
Wheat .. .. .	"	21.8	24.1	28.3	26.0*
Pulses .. .. .	"	10.0	10.0	13.1	n.a.
<b>Non-Foodgrains</b>					
Cotton .. .. .	Million bales of 170 Kgs. each	6.3	7.2	6.1	5.9—6.0@
Jute and Mesta .. .. .	Million bales of 180 Kgs. each	7.7	5.8	5.8	6.7†
Oilseeds .. .. .	Million Tonnes	8.9	8.5	10.2	8.6£
Groundnut (in shell) .. .. .	"	5.9	5.1	7.0	5.7£
Sugarcane (in terms of gur) .. .. .	"	14.4	14.7	14.7	n.a.

\* Preliminary estimates.

@ The Cotton Advisory Board estimate.

† As given by the Directorate of Jute Development.

£ Trade estimate.

n.a.—not available.

TABLE 1.5 :—CLASSIFICATION OF SELECTED INDUSTRIES BY THEIR GROWTH RATES (BASE : 1970=100)

(In terms of weights in the production index)

Range of Growth Rates +	All Groups		Basic Industries		Capital Goods Industries		Intermediate Goods Industries		Consumer Goods Industries	
	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976
1	2	3	4	5	6	7	8	9	10	11
<b>A. Increase</b>										
1. Less than 5% ..	11.85	22.49	1.27	—	7.20	3.53	2.44	9.07	0.94	9.89
2. 5% to less than 10% ..	20.13	17.27	9.23	11.08	0.54	0.61	1.77	3.01	8.59	2.57
3. 10% to less than 15% ..	13.34	6.58	10.86	2.23	1.69	1.08	0.66	0.74	0.13	2.53
4. 15% and above ..	12.10	32.75	8.97	18.61	0.77	4.30	1.38	3.95	0.98	5.89
5. Weight (1+2+3+4) ..	57.42	79.09	30.33	31.92	10.20	9.52	6.25	16.77	10.64	20.88
<b>B. Decline</b>										
6. Less than 5% ..	23.45	13.09	1.80	—	4.05	3.57	8.25	2.22	9.35	7.30
7. 5% to less than 10% ..	9.86	1.85	—	—	—	0.35	4.50	1.38	5.36	0.12
8. 10% to less than 15% ..	1.97	2.08	—	—	0.30	1.48	1.08	0.10	0.59	0.50
9. 15% and above ..	4.67	1.26	—	0.21	1.19	0.82	0.62	0.23	2.86	—
10. Weight (6+7+8+9) ..	39.95	18.28	1.80	0.21	5.54	6.22	14.45	3.93	18.16	7.92
Total Weight (A+B) ..	97.37	97.37	32.13	32.13	15.74	15.74	20.70	20.70	28.80	28.80

+ Growth rates represent percentage increases in output over the respective preceding year.  
 Note : Growth rates for 1976 are based on provisional data.

TABLE 1.6 :—MONEY SUPPLY AND MONETARY RESOURCES  
(Provisional)

(Amounts in rupees crores)

1	2	3	4	Variations	
				1975-76	1976-77
1	2	3	4	5	6
<b>A. Money Supply with the Public (1+2)</b> .. ..	12187	13642	15844	+1455	+2202
1. Currency with the Public .. ..	6707	7283	8359	(+11.9)	(+16.1)
2. Deposit Money .. ..	5480	6359	7486	+ 576	+1076
				(+8.6)	(+14.8)
				+ 879	+1127
				(+16.0)	(+17.7)
<b>B. Factors Affecting Money Supply Variations (1+2+3+4-5)</b>					
1. Net Bank Credit to Government (a+b) ..	10506	10811	12368	+ 305	+1557
(a) Reserve Bank's Net Credit to Government	7515	7256	7929	(+ 2.9)	(+14.4)
(b) Other Banks' Credit to Government ..	2991	3555	4439	+ 564	+ 884
2. Bank Credit to Commercial Sector (a+b)† ..	11277	14173	16775	+2896	+2602
(a) Reserve Bank's Credit to Commercial Sector	625	740	840	(+25.7)	(+18.4)
(b) Other Banks' Credit to Commercial Sector	10652	13433	15935	+ 115	+ 100
3. Net Foreign Exchange Assets of the Banking Sector .. ..	354	1333	3373	+2781	+2502
				+ 978	+2040
				(+276.6)	(+153.0)
4. Government's Net Currency Liabilities to the Public .. ..	554	555	565	+ 1	+ 10
				(+ 0.2)	(+ 1.8)
5. Non-monetary Liabilities of Banking Sector (a+b+c) .. ..	10504	13230	17236	+2726	+4006
(a) Time Deposits with Banks .. ..	7682	9571	12173	(+25.9)	(+30.3)
(b) Net Non-monetary Liabilities of RBI ..	1957	2451	3586	+1889	+2602
(c) Residual .. ..	865	1208	1478	(+24.6)	(+27.2)
<b>C. Aggregate Monetary Resources (A+B5(a))</b> ..	19869	23213	28018	+ 494	+1135
				+ 343	+ 270
				+3344	+4805
				(+16.8)	(+20.7)

† Includes advances made to public sector enterprises and State Governments for Commercial purposes.

Note : Figures within brackets relate to percentage variations.

TABLE 1.7 :—MONEY SUPPLY VARIATIONS (PROVISIONAL)

(Amounts in rupees crores)

1	End June 1975 — End June 1976		End June 1976 — End June 1977	
	Old series		Revised series*	
	2	3	4	5
<b>A. Money Supply with the Public (1+2)</b>	<b>+1455</b>	<b>+1478</b>	<b>+2202</b>	<b>+2285</b>
1. Currency with the public	(+11.9)	(+11.8)	(+16.1)	(+16.3)
2. Deposit Money	+576	+592	+1076	+1068
	(+8.6)	(+8.9)	(+14.8)	(+14.7)
	+879	+886	+1127	+1217
	(+16.0)	(+15.1)	(+17.7)	(+18.0)
<b>B. Factors affecting Money Supply Variations (1+2+3+4-5)</b>				
1. Net Bank Credit to Government	+305	+289	+1557	+1578
(a) Reserve Bank's Net Credit to Government	(+2.9)	(+2.7)	(+14.4)	(+14.6)
(b) Other Banks' Credit to Government	-259	-262	+673	+680
2. Bank Credit to Commercial Sector (a+b)	+564	+551	+884	+898
	+2896	+2800	+2602	+3195
(a) Reserve Bank's Credit to Commercial Sector	(+25.7)	(+21.6)	(+18.4)	(+20.2)
(b) Other Banks' Credit to Commercial Sector	+115	+115	+100	+100
3. Net Foreign Exchange Assets of the Banking Sector	+2781	+2685	+2502	+3096
	+978	+972	+2040	+2098
	(+276.6)	(+313.5)	(+153.0)	(+163.7)
4. Government's Net Currency Liabilities to the Public	+1	+1	+10	+10
	(+0.2)	(+0.2)	(+1.8)	(+1.8)
5. Non-monetary liabilities of Banking Sector	+2726	+2584	+4006	+4597
(a) Time Deposits with Banks	(+25.9)	(+21.8)	(+30.3)	(+31.9)
(b) Net Non-monetary liabilities of RBI	+1889	+1878	+2602	+2749
(c) Residual	(+24.6)	(+23.4)	(+27.2)	(+27.7)
	+494	+494	+1135	+1133
	+343	+212	+270	+715
<b>C. Aggregate Monetary Resources (A+B5(a))</b>	<b>+3344</b>	<b>+3356</b>	<b>+4805</b>	<b>+5034</b>
	(+16.8)	(+16.3)	(+20.7)	(+21.0)

\* Based on the Report of the Second Working Group on Money Supply (published in January 1977 issue of the Reserve Bank Bulletin). The differences between the old and the new series are the result of larger coverage by the new series (i.e. inclusion of Co-operative Sector in respect of all the components).  
 Note: Figures within brackets relate to percentage variations.

TABLE 1.8 :—MONEY SUPPLY AND MONETARY RESOURCES  
(Seasonal Trends)

(Amounts in rupees crores)

Items	Variations During			
	Slack Season		Busy Season	
	1975	1976	1975-76	1976-77
1	2	3	4	5
<b>A. Money Supply with the Public (1+2)</b>	<b>+264</b>	<b>+892</b>	<b>+1011</b>	<b>+1551</b>
1. Currency with the Public	-110	+266	+520	+935
2. Deposit Money	+374	+625	+491	+616
<b>B. Factors Affecting Money Supply Variations (1+2+3+4-5)</b>				
1. Net Bank Credit to Government (a+b)	+365	-149	+195	+1429
(a) Reserve Bank's Net Credit to Government	+129	-562	-141	+848
(b) Other Banks' Credit to Government	+236	+414	+336	+580
2. Bank Credit to Commercial Sector (a+b) †	+1021	+1336	+1714	+1367
(a) Reserve Bank's Credit to Commercial Sector	-20	+99	+85	+72
(b) Other Banks' Credit to Commercial Sector	+1041	+1236	+1629	+1296
3. Net Foreign Exchange Assets of the Banking Sector	+53	+925	+427	+1191
4. Government's Net Currency Liabilities to Public	+12	+3	+7	+6
5. Non-Monetary Liabilities of Banking Sector (a+b+c)	+1187	+1224	+1332	+2441
(a) Time Deposits	+808	+1340	+901	+1153
(b) Net Non-monetary Liabilities of R.B.I.	+299	+137	+106	+701
(c) Residual	+80	-252	+325	+586
<b>C. Aggregate Monetary Resources (A+B5(a))</b>	<b>+1072</b>	<b>+2232</b>	<b>+1912</b>	<b>+2704</b>

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

TABLE 1.9 :—MONETARY AGGREGATES AND RATIOS

Year (July—June)	Bank@ Reserves	Currency	Other Deposits with R.B.I.	Bank Money	Reserve Money (2+3+4)	Money Supply (3+4+5)	Time Deposits	Aggre- gate Mone- tary Resources (7+8)	Currency to Money Supply	Currency to Mone- tary Resources
1	2	3	4	5	6	7	8	9	10	11
Outstanding as on last Friday (Rs. Crores)									Average Ratios (Per cent)	
1972-73 .. .. .	873	5829	41	4092	6743	9962	5491	15454	58.5	37.7
1973-74 .. .. .	933	6603	47	4800	7584	11450	6459	17909	57.7	36.9
1974-75 .. .. .	894	6707	65	5415	7666	12187	7682	19869	55.0	33.8
1975-76 .. .. .	1004	7283	46	6313	8333	13642	9571	23213	53.4	31.4
1976-77† .. .. .	1570	8359	52	7433	9982	15844	12173	28018	52.7	29.8
Increase over previous year (Rs. crores)									Marginal Ratios (Per cent)	
1972-73 .. .. .	313	850	—25	614	1139	1439	1015	2455	59.1	34.6
1973-74 .. .. .	60	774	7	708	841	1488	968	2455	52.0	31.5
1974-75 .. .. .	—39	104	18	615	82	737	1223	1960	14.1	5.3
1975-76 .. .. .	110	576	—19	897	667	1454	1889	3344	39.6	17.2
1976-77† .. .. .	566	1076	6	1120	1649	2202	2602	4805	48.9	22.4
Percentage variations over the year										
1972-73 .. .. .	55.9	17.1	—39.4	17.7	20.3	16.9	22.7	18.9		
1973-74 .. .. .	6.9	13.3	17.5	17.3	12.5	14.9	17.6	15.9		
1974-75 .. .. .	—4.2	1.6	38.3	12.8	1.1	6.4	18.9	10.9		
1975-76 .. .. .	12.3	8.6	—29.2	16.6	8.7	11.9	24.6	16.8		
1976-77† .. .. .	56.4	14.8	13.0	17.7	19.8	16.1	27.2	20.7		

@ Consists of cash with banks and their deposits with RBI.

† Provisional.

TABLE 1.11 :—SECTORAL DEPLOYMENT OF GROSS BANK CREDIT  
(Including Bills Rediscounted with Reserve Bank of India)

Items	(Amounts in rupees crores)	
	Variations During	
	April 1975- & March 1976	April 1976 & March 1977
1	2	3
1. Public Food Procurement Credit .. .. .	+ 1047 (42.9)	+ 669 (29.4)
2. Priority Sectors (Including export credit granted to these sectors) .. .. .	+ 688 (28.2)	+ 774 (34.0)
(a) Small-Scale Industries .. .. .	+ 172 ( 7.1)	+ 215 ( 9.4)
(b) Agriculture .. .. .	+ 282 (11.6)	+ 277 (12.2)
(c) Other Priority Sectors .. .. .	+ 234 ( 9.6)	+ 282 (12.4)
3. All other Sectors* (Including export credit granted to these sectors) .. .. .	+ 703 (28.8)	+ 833 (36.6)
4. Non-Food Credit (2+3) .. .. .	+ 1391 (57.1)	+ 1607 (70.6)
5. Of item 4—Export Credit .. .. .	+ 275 (11.3)	+ 219 ( 9.6)
6. Gross Bank Credit (1+4) .. .. .	+ 2438 (100.0)	+ 2276 (100.0)

\* Includes large and medium industries and wholesale trade.

Note : Figures in brackets are proportions to gross bank credit.



TABLE 1.12 :—COMBINED RECEIPTS AND DISBURSEMENTS OF CENTRAL AND STATE GOVERNMENTS

(Amounts in rupees crores)

Items	1975-76 (Accounts)	1976-77 (Budget Estimates)*		1976-77 (Revised Estimates)		1977-78 (Budget Estimates)*	
	Amount	Amount	Per cent increase (+)/de- crease (—) over the previous year	Amount	Per cent increase (+)/de- crease (—) over the previous year	Amount	Per cent increase (+)/de- crease (—) over the previous year
I	2	3	4	5	6	7	8
I. Total Receipts (A+B)	19610	20294	+ 3.5	22035	+ 12.4	23669	+ 7.4
A. Revenue Receipts ..	14344	14847	+ 3.5	15423	+ 7.5	17044	+ 10.5
Of which : Tax Receipts ..	11155	11724	+ 5.1	12031	+ 7.9	13367	+ 11.1
B. Capital Receipts ..	5266**	5447	+ 3.4	6612	+ 25.6	6625	+ 0.2
II. Total Disbursements ..	19901	20667	+ 3.8	22541	+ 13.3	23880	+ 5.9
Of which :							
A. Developmental Outlay (a + b) ..	9413	9882	+ 5.0	10970	+ 16.5	12018	+ 9.6
(a) Revenue ..	6243	6903	+ 10.6	7658	+ 22.7	8467	+ 10.6
(b) Capital ..	3170 (2857)@	2979	— 6.0 (+4.3)	3312	+ 4.5 (+15.9)	3551	+ 7.2
B. Non-Developmental Outlay (a + b) ..	6644	7016	+ 5.6	7303	+ 9.9	8060	+ 10.4
(a) Revenue ..	6158	6715†	+ 9.0	6944	+ 12.8	7515	+ 8.2
(b) Capital ..	486§	301	— 38.1	359	— 26.1	545@@	+ 51.8
III. Overall Surplus (+)/Defi- cit (—) (I—II) ..	— 291	— 373		— 506		— 211 £	

\* Includes effects of budget proposals.

\*\* Includes Rs. 40 crores of bonds issued under Voluntary Disclosure Scheme of Income and Wealth in 1975.

† Includes in respect of Rajasthan, Haryana and Madhya Pradesh, the entire liability on account of additional dearness allowance granted to State employees which could not be allocated between developmental and non-developmental expenditure because of non-availability of required details.

@ Excludes increase in value of inventories of fertilisers and foodgrains (received as gift from abroad) from the Central Government Account. From March 1976, transactions in respect of fertilisers have been transferred to the Food Corporation of India.

§ Includes payment of Rs. 226.6 crores to International Monetary Fund under its 'maintenance of value' provision.

@@ Includes a provision for net payment of Rs. 208 crores to I.M.F. on account of increase in India's quota in I.M.F.

£ This deficit would go up by Rs. 41 crores if unbudgeted outlay in the case of Bihar, Kerala, Maharashtra, Rajasthan and Uttar Pradesh is taken into account.

Notes: 1. Data do not cover Union Territories with legislatures.

2. Figures are adjusted for inter-governmental transfers on the basis of data available in the Central Government Budget. These adjustments do not affect the combined overall position.

3. Figures are provisional.

4. In the case of Tripura for 1975-76 (Accounts), 1976-77 (B.E. &amp; R.E.) and 1977-78 (B.E.) it has been assumed that there is the same amount of receipts on account of ways and means advances and overdrafts from RBI as much as repayment and has been adjusted on receipts side accordingly.

5. In the case of Nagaland loans from RBI have been treated as ways and means advances and overdrafts from RBI.

Source: Budgets of the Central and State Governments.

TABLE 1.13 :—TRENDS IN INDEX NUMBERS OF WHOLESALE PRICES (BASE: 1970-71=100)

Main Groups/Groups/Sub-groups/Commodities	Weights	Index as at			Per cent Variation	
		End-June 1975	End-June 1976	End-June 1977@	Col. 4 over Col. 3	Col. 5 over Col. 4
1	2	3	4	5	6	7
All Commodities .. .. .	1000	177.0	173.9	188.3	— 1.8	+ 8.3
I. Primary Articles .. .. .	417	174.7	163.2	187.3	— 6.6	+14.8
1. Food Articles .. .. .	298	174.7	154.0	175.5	—11.8	+14.0
Foodgrains (a + b) .. .. .	129	194.1	148.2	167.7	—23.6	+13.2
(a) Cereals .. .. .	107	194.1	151.8	163.2	—21.8	+ 7.5
(i) Rice .. .. .	51	201.4	154.4	169.6	—23.3	+ 9.8
(ii) Wheat .. .. .	34	163.9	147.1	151.1	—10.3	+ 2.7
(iii) Jowar .. .. .	8	205.0	179.8	161.2	—12.3	—10.3
(iv) Bajra .. .. .	6	272.6	148.2	167.6	—45.6	+13.1
(b) Pulses .. .. .	22	194.0	130.5	190.1	—32.7	+45.7
(c) Fruits and Vegetables .. .. .	61	141.9	159.9	185.7	+12.7	+16.1
(d) Other Food Articles .. .. .	16	146.7	175.1	253.7	+19.4	+44.9
2. Non-Food Articles .. .. .	106	144.6	156.3	187.3	+ 8.1	+19.8
(a) Fibres .. .. .	32	137.4	181.5	196.7	+32.1	+ 8.4
(i) Raw Cotton .. .. .	22	133.9	193.6	209.4	+44.6	+ 8.2
(ii) Raw Jute .. .. .	4	114.3	123.0	147.8	+ 7.6	+20.2
(b) Oil Seeds .. .. .	42	142.1	130.3	196.5	— 8.3	+50.8
Groundnuts .. .. .	18	157.8	126.0	198.9	—20.2	+57.9
(c) Other Non-Food Articles .. .. .	32	155.0	165.2	166.2	+ 6.6	+ 0.6
3. Minerals .. .. .	13	428.2	442.9	469.0	+ 3.4	+ 5.9
II. Fuel, Power, Light & Lubricants .. .. .	84	206.3	229.7	232.4	+11.3	+ 1.2
III. Manufactured Products .. .. .	499	173.9	173.3	181.6	— 0.3	+ 4.8
1. Food Products .. .. .	133	191.5	188.7	197.4	— 1.5	+ 4.6
(i) Sugar .. .. .	22	169.2	173.6	162.0	+ 2.6	— 6.7
(ii) Gur .. .. .	46	242.1	258.4	223.7	+ 6.7	—13.4
Miscellaneous Food Products .. .. .	49	153.3	130.2	194.3	—15.1	+49.2
Edible Oils .. .. .	37	154.5	116.9	185.0	—24.3	+58.3
Groundnut Oil .. .. .	14	161.6	108.9	193.8	—32.6	+78.0
2. Beverages, Tobacco & Tobacco Products .. .. .	27	162.5	170.0	170.2	+ 4.6	+ 0.1
3. Textiles .. .. .	110	150.2	147.5	169.8	— 1.8	+15.1
(i) Cotton Cloth (Mills) .. .. .	38	164.9	158.6	176.1	— 3.8	+11.0
(ii) Jute Manufactures .. .. .	12	132.7	112.9	122.6	—14.9	+ 8.6
4. Chemicals and Chemical Products .. .. .	56	178.4	170.5	172.8	— 4.4	+ 1.3
Fertilizers .. .. .	13	225.7	189.8	178.5	—15.9	— 6.0
5. Basic Metals, Alloys & Metal Products .. .. .	60	178.1	188.8	193.9	+ 6.0	+ 2.7
6. Machinery and Transport Equipment .. .. .	67	173.2	170.8	171.3	— 1.4	+ 0.3
7. Miscellaneous Products .. .. .	7	170.4	165.3	175.4	— 3.0	+ 6.1

@ Provisional.

Source : Office of the Economic Adviser, Ministry of Industry, Government of India.

## CHAPTER II. CO-OPERATIVE BANKING

107. The main thrust of co-operative banking during the year was on gearing the co-operative credit institutions to meet the needs of the weaker sections of the community, strengthening the credit structure and improving its performance by concentrating the available resources and efforts in selected areas. The former objective was sought to be achieved by organising Farmers' Service Societies (FSS) and Large Sized Multi-Purpose Societies (LAMPS), and by issuing consumption loans to weaker sections of the rural population and financing their housing schemes. To enable the primary credit societies and banks to meet the credit requirements of weaker sections, their capital base was strengthened by providing loans from the Bank's National Agricultural Credit (Long-term Operations) Fund on a more liberal scale to State Governments which would participate in share capital of these institutions. In pursuance of the second objective, a programme for intensive development of the co-operative structure was formulated and launched in selected districts during the year under review.

**Co-operative  
Credit : Major  
Developments**

108. An overall view of progress of co-operative credit movement during the three years ended 1975-76 and of the Bank's credit to co-operatives in 1975-76 and 1976-77 are presented in (Tables 2.1\* and 2.2\*). In order to bring about qualitative improvement in the working of the co-operatives, simultaneously with quantitative increase in co-operative credit, the Bank took a number of measures in tune with monetary discipline so as to realise major national objectives. These developments are outlined in the following paragraphs.

**Short-term  
Finance :  
Seasonal  
Agricultural  
Operations**

*Concessional Finance*

109. The Bank continued the policy of sanctioning short-term credit limits (under Section 17(2)(b) read with Section 17(4)(c)/Section 17(4)(c) of the Reserve Bank of India Act) for financing seasonal agricultural operations, to state co-operative banks at 2 per cent below the Bank Rate. As hitherto, the concessional rate was available to banks only to the extent of their borrowings within an aggregate level fixed separately for each bank in this regard, under the scheme of linking borrowings from the Bank with efforts at deposit mobilisation. The short-term credit limits sanctioned by the Bank during 1976-77 for financing seasonal agricultural operations to state co-operative banks increased to Rs. 696 crores from Rs. 612 crores in 1975-76.

110. To enable co-operative banks to meet the increasing working capital requirements for production of crops, the Bank enhanced eligibility limits for sanction of credit for banks in audit class 'A' from 4 times their owned funds upto 6 times their owned funds. For 'B' and 'C' class banks the eligibility limits were raised from 3 times and 2 times to 4 times and 3 times respectively. In case 'B' and 'C' class banks borrow against government guarantee, the eligibility limit was raised from 4 times to 5 times their owned funds.

---

\* Pages 54 and 55.

*Seasonality*

111. With a view to ensuring that the central co-operative banks align their lending operations with the harvesting-cum-marketing cycle of crop production, these banks were advised to recover a specified part of their *kharif* advances by March 31, 1977 and bulk of the *rabi* advances and the overdues of the preceding year by June 30, 1977. The state co-operative banks have been advised not to permit drawals by the central co-operative banks from April 1, 1977, unless the concerned banks had recovered from societies and remitted to the apex bank at least 40 per cent of the advances of the preceding *kharif* season including the overdues as at the close of the previous co-operative year *viz.*, as on June 30, 1976. In the case of banks which failed to comply with the above discipline, drawals from state co-operative banks have been permitted to the extent of recoveries made and remitted to the apex banks.

112. The drawals on the credit limits for 1977-78 are to be permitted by the state co-operative banks from July 1, 1977, only after the central co-operative banks have recovered and remitted to the apex bank 55 per cent of the total demand for short-term agricultural advances for the preceding year. In deserving cases where the crop condition is not satisfactory on account of delayed arrival of crops in the market, provisions have been made to grant relaxation upto 5 per cent in the minimum recoveries performance of 55 per cent mentioned above.

*Marketing of Crops*

113. The Bank continued to provide short-term credit limits for marketing of crops during 1976-77 at 3 per cent above the Bank Rate. The sanction of these limits was subject to the various selective credit control measures taken by the Bank from time to time. The limits so sanctioned during 1976-77 aggregated Rs. 31.5 crores, as against Rs. 37.4 crores during 1975-76. The marketing limits during the year comprised Rs. 2.3 crores as special limits for cotton and *kapas* covered by the Bank's directives, Rs. 9.2 crores for non-directive cotton and other crops and Rs. 20.0 crores to Maharashtra State Co-operative Bank for financing the marketing of cotton and *kapas* under the scheme of the Maharashtra Government for monopoly procurement.

**Selective  
Credit Controls**

114. In December 1976, a directive was issued to all the state and central co-operative banks regarding the increase in the minimum margin for advances against *gur*, *khandsari*, oilseeds and vegetable oils, in the context of the increase in the prices of these commodities. As regards advances to co-operative manufacturers against the security of *gur* and *khandsari*, the minimum margin of 60 per cent was prescribed while for other parties it was 75 per cent irrespective of whether the security was by way of pledge or hypothecation of stocks. The minimum margin in respect of advances against the security of various types of oilseeds and oils thereof and *vanaspati* had been uniformly increased to 50 per cent irrespective of the fact whether the security was by way of pledge or hypothecation of stocks of the above commodities.



115. In February 1977, the banks were directed to maintain a uniform minimum margin of 15 per cent and charge interest at not less than 14 per cent per annum for advances to co-operative sugar factories against security of stocks of levy as well as free sale sugar not released for sale and had not left the factory premises. In respect of advances to co-operative sugar factories against the security of sugar which have left the factory or mill premises and on which excise duty has been paid as also to co-operative marketing societies etc., the banks should maintain a minimum margin of 65 per cent, irrespective of whether the security is by way of pledge or hypothecation of such stocks. As regards advances to Wholesale Consumers' Co-operative Societies and State and National Federation of Consumers' Co-operatives under the Government of India Guarantee Scheme, the margins would continue to be at 10 per cent. Complete exemption has, however, been granted from the provisions of margin and rate of interest to the banks in respect of their advances to retail/wholesale consumers' stores and other co-operative marketing societies, etc., for purposes of handling levy sugar.

116. The restrictions on advances by primary (urban) co-operative banks in Gujarat, Maharashtra and Karnataka were continued during this year also. However, the minimum margin on advances against groundnut, rapeseed, mustard seed, castor seed, cotton seed and linseed and oils thereof and *vanaspati* has been increased from 40 per cent to 50 per cent in the months of July and November 1976 and further to 60 per cent in May 1977. The exemption granted to scheduled commercial banks from the stipulations in the directives regulating their advances against selected commodities to manufacturing units, industrial users, authorised dealers under statutory rationing, or fair price shops etc., was also extended to primary (urban) co-operative banks.

#### *Refinance for Advances to Co-operative Sugar Factories*

117. The Bank also sanctioned credit limits for working capital requirements of sugar factories in some States like Karnataka and Union Territory of Goa. The sanction of such limits during 1976-77 aggregated Rs. 7.8 crores, as against Rs. 14.5 crores during 1975-76.

#### *Distribution of Fertilisers*

118. The Bank continued the policy of sanctioning short-term credit limits at 3 per cent above the Bank Rate for meeting the gap, wherever the commercial banks were not able to find resources, for financing the distribution of fertilisers. The sanction of such limits by the Bank during the calendar year 1976 aggregated Rs. 33.2 crores as against Rs. 47.1 crores sanctioned during the calendar year 1975.

#### *Accommodation to Industrial Societies and Units*

119. The Bank continued to provide financial accommodation to state co-operative banks at Bank Rate under Section 17(2)(bb) read with Section 17(4)(c) of the Reserve Bank of India Act, 1934, for financing

industrial societies and units outside the co-operative sector and industrial co-operative societies (other than weavers'). During 1976-77, credit limits of the order of Rs. 6.7 crores were sanctioned to 6 state co-operative banks on behalf of 29 district central and 10 primary (urban) co-operative banks.

**Credit Authorisation Scheme** *Block Capital*

120. Under the Bank's prior authorisation scheme for block capital requirements of manufacturing/processing units, 13 state and 15 central co-operative banks had approached the Bank for prior authorisation during the year, as against 11 state and 5 central co-operative banks in the preceding year, for an amount of Rs. 35 crores on behalf of 35 manufacturing/processing units. Authorisation was granted to 13 state and 5 central co-operative banks involving an amount of Rs. 26 crores on behalf of 26 manufacturing/processing units during the year as compared to 10 state and 7 central co-operative banks in the previous year.

*Working Capital*

121. Under the Credit Authorisation Scheme for working capital requirements of co-operative marketing, processing societies and consumers' stores/societies, 17 state and 37 central co-operative banks had asked for prior authorisation for an amount of Rs. 165 crores on behalf of 102 co-operative marketing, processing societies and consumer stores/societies during 1976-77. Authorisations were granted to 17 state and 36 central co-operative banks involving an amount of Rs. 136 crores on behalf of 95 co-operative marketing, processing societies and consumer stores/societies. Specific norms in relation to the minimum margins and rates of interest were also prescribed for such loans.

*Credit Guarantee Scheme*

122. By June 1977, 9 state co-operative banks, 83 central co-operative banks and 68 primary (urban) co-operative banks (58 unlicensed and 10 licensed) satisfying certain norms laid down by the Government of India, had joined the Credit Guarantee Scheme for small-scale industries by executing the necessary agreement.

*Coir Co-operatives*

123. During 1976-77, the credit limits amounting to Rs. 220.6 lakhs comprising Rs. 79.0 lakhs to central coir societies, Rs. 116.6 lakhs for primary coir societies and Rs. 25.0 lakhs for primary mat and matting societies were sanctioned by the Bank.

*Financing of Weaker Sections*

124. The Bank continued its efforts at reorienting the lending policies and procedures of central co-operative banks in favour of small farmers. As mentioned in the last year's Report, from 1975-76 co-operative banks were advised to ensure that not less than 20 per cent of their short-term

agricultural loans to primary credit societies were issued for financing small/economically weak farmers. A state co-operative bank is, therefore, not allowed to draw in excess of 70 per cent of the limit sanctioned to a district central co-operative bank (DCCB) unless the requisite proportion of advances to small farmers in the total was maintained. During 1975-76, percentage of advances issued against societies for small farmers to total advances exceeded 20 in respect of 227 DCCBs : 33 banks complied with the condition after obtaining the relaxation reducing the percentage ; 4 banks were exempted from the condition ; the remaining 70 banks did not comply with the condition.

#### *Consumption Loans to Weaker Sections*

125. As the measures taken for the liquidation of rural indebtedness were likely to affect the flow of credit from the non-institutional sources such as moneylenders, primary credit societies were permitted to issue consumption loans to members belonging to the weaker sections. To enable the co-operatives to implement the recommendations of the Expert Committee on Consumption Credit (Sivaraman Committee), the Bank issued guidelines regarding the issue of consumption credit by co-operative societies. The overall limit prescribed by the Bank in this regard was Rs. 500 per borrower. The Bank agreed to treat such advances as a legitimate charge on its resources, and to sanction correspondingly a higher credit limit for short-term agricultural purposes subject to its eligibility, the standards in respect of which have been liberalised, *inter alia*, to enable the banks to divert their own resources for issuing consumption loans and obtain higher refinance facilities from the Bank for short-term agricultural purposes. The eligibility conditions for primary credit societies for share capital contribution from out of the Bank's Long-term Operations Fund have been suitably relaxed to enable the societies to augment their owned funds and issue consumption loans.

#### *Financing Housing Schemes*

126. In view of the importance assigned to housing for weaker sections of the community, the Bank has issued instructions permitting the central co-operative banks and the urban co-operative banks to provide finance, subject to certain specified ceilings, to individuals/co-operatives housing societies of scheduled castes/tribes, rural housing co-operatives or institutions like housing boards in respect of housing schemes for low income groups, housing as well as hostels for scheduled castes and scheduled tribes, rural housing schemes, slum clearance schemes and family planning clinics and rural health centres under public health programme.

#### **Medium-term Credit**

127. With the amendments to the Reserve Bank of India Act, 1934, which enabled the Bank to provide short-term and medium-term loans through state co-operative banks for pisciculture *i.e.* development of inland and marine fisheries, catching of fish and incidental activities, in November 1976, the Bank formulated its policy for financial accommodation both for short-term marketing and medium-term pisciculture. The accommodation available now is in addition to what is being provided

for financing the processing and canning of fish and extraction of fish oil.

128. Medium-term credit limits of Rs. 14.9 crores were sanctioned during the year 1976. Drawals by the state co-operative banks were Rs. 9.3 crores. As on June 30, 1977, the medium-term credit limits sanctioned to various state co-operative banks for the year 1977 aggregated Rs. 14.7 crores.

*Medium-term Loans for Purchase of Shares in Co-operative Sugar Factories*

129. During 1976, medium-term loans for purchase of shares in co-operative sugar factories aggregating Rs. 1.7 crores were sanctioned to 4 state co-operative banks. The actual drawals were Rs. 0.5 crore.

*Medium-term Conversion Loans*

130. During the year 1976-77, medium-term conversion limits aggregating Rs. 130.4 crores were sanctioned to 12 state co-operative banks.

*Handloom Finance*

131. The norms for financing the handloom weavers' societies were liberalised and the societies were made eligible for working capital at 33 1/3 per cent (as against 25 per cent hitherto) of the anticipated production during the current year. Criteria for renewal/enhancement of cash credit limits to weavers' societies for financing production and marketing of handloom cloth were also revised. The per loom rate of finance in respect of cotton handloom was raised from Rs. 1,000 to Rs. 1,500 with effect from May 1977. During 1976-77 the sanction of limits for financing weavers' societies aggregated Rs. 26.4 crores.

*Loans from National Agricultural Credit (Long-term Operations) Fund*

132. The norms governing the sanction of loans to State Governments for contributing to the share capital of primary agricultural credit societies have been further modified so as to enable co-operatives to undertake disbursement of consumption loans and also the financing of the weaker sections and the supply of consumers' articles on a much larger scale. As a result, there was a substantial increase in the loans sanctioned to State Governments for share capital contribution during the year (Rs. 31.3 crores) as against Rs. 13.5 crores sanctioned during 1975-76. Loans aggregating Rs. 30.5 crores were drawn by the State Governments against the sanction for contribution to the share capital of 7 state co-operative banks, 185 central co-operative banks, 5 central land development banks, 126 primary land development banks, 26 urban co-operative banks, 8,913 primary agricultural credit societies, 173 FSS and 748 LAMPS and the amount outstanding on this account as on March 31, 1977, was Rs. 98.7 crores.

133. The Bank also sanctioned to the Agricultural Refinance and Development Corporation a long-term loan of Rs. 50 crores from the Fund



during 1976-77. Repayments and drawals during the year were Rs. 15.8 crores and Rs. 50.0 crores respectively. The outstandings as on June 30, 1977, stood at Rs. 172.6 crores.

#### *Land Development Banks*

134. The lending programme of the central land development banks for the financial year 1976-77 was fixed at Rs. 284.4 crores of which Rs. 121.2 crores was under ordinary lending and the balance of Rs. 163.2 crores under Agricultural Refinance and Development Corporation's refinance schemes. The ordinary programme was to be financed to the extent of Rs. 33.2 crores from internal resources of the banks and Rs. 88.0 crores by issuing debentures. As against this, the central land development banks actually floated debentures to the extent of Rs. 80.3 crores. The shortfall in debenture floatation was mainly due to implementation of Agricultural Refinance and Development Corporation's schemes which had resulted in the shrinkage of the scope for lending under the normal programme.

135. For the year 1977-78, the lending programme of the central land development banks is placed at Rs. 328.1 crores. The ordinary lending programme of Rs. 138.1 crores is envisaged to be financed upto Rs. 18.0 crores by the banks out of their own internal resources and the balance by floatation of ordinary debentures. The central land development banks are expected to raise resources to the extent of Rs. 10.0 crores by way of self-help and the balance of Rs. 110.0 crores would be subscribed by the other agencies (mutual support—sister land development banks Rs. 60.5 crores, Life Insurance Corporation of India Rs. 22.5 crores, Central and State Governments Rs. 12.0 crores and commercial banks Rs. 15.0 crores). As against the total approved ordinary debenture programme of Rs. 120 crores for the year 1977-78, three proposals for floatation of ordinary debentures aggregating Rs. 4.9 crores were approved till the end of June 1977. The lending programme of a primary bank/branch of the state land development bank for 1976-77 continued to be determined with reference to its recovery performance, with relaxations provided in case of crop failure due to natural calamities.

#### *Re-organisation of Primary Agricultural Credit Societies*

136. During the year under review, the State Governments were advised of the norms to be followed for re-organisation of societies and for amalgamation and liquidation of non-viable societies, in the context of the Sivaraman Committee's recommendation that only re-organised viable societies having full-time paid secretaries should disburse consumption credit. The progress in this regard was slow in all the States barring Haryana where the re-organisation has been completed and Rajasthan and Karnataka where re-organisation is nearing completion.

#### *Integration of Co-operative Credit Institutions*

137. In pursuance of the agreements relating to the general line of credit sanctioned by IDA, the Bank had constituted in September 1975, a com-

mittee on Integration of Short-term and Long-term Co-operative Credit Structure. The Committee submitted its report in August 1976 and has recommended that integration of the two wings of the co-operative credit structures should be brought about at all levels, but in a phased manner, starting with the primary level in the area of jurisdiction of identified primary land development banks where the primary agricultural credit societies have been reorganised. It has also recommended organisation at the intermediate and apex levels of new institutions called 'District Co-operative Development Bank' and 'State Co-operative Development Bank' to take over the existing institutions in the two wings. Recommendations have also been made by the Committee for certain administrative and procedural reforms to facilitate operations of the integrated units. The views of the State Governments, Government of India, state co-operative banks and state land development banks, etc., on the recommendations of the Committee are awaited.

#### *SFDA Schemes*

138. Till the end of March 1977 as many as 122 lakhs of small and marginal farmers and landless labourers were identified as eligible for benefit under the Scheme. Of these, 51 lakhs were enrolled as members of co-operatives. During the period April 1976 to March 1977 short-term loans to the extent of Rs. 63 crores were disbursed to these members through co-operatives while Rs. 8 crores were disbursed to commercial banks. In addition to this, medium-term and long-term loans to the tune of Rs. 134 crores have been issued to them by co-operative banks since inception of the project. The term loans sanctioned by commercial banks during the same period amounted to Rs. 50 crores.

#### *Financing of Societies by Commercial Banks*

139. The scheme of financing 3,453 primary agricultural credit societies by 24 commercial banks through 528 branches, was in operation in 11 States viz., Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Haryana, Karnataka, Orissa, Jammu & Kashmir, West Bengal, Bihar, Maharashtra and Assam at the end of December 1976. The average number of societies per branch in all the States taken together worked out to 7 as against the norm of 10 societies per branch for operational viability of the Scheme and optimum utilisation of the field staff. The commercial banks had provided total short-term agricultural loans of Rs. 17.2 crores to 1,654 societies till December 1976. The average short-term loans disbursed per society increased from Rs. 0.3 lakh in 1970-71 to Rs. 1.0 lakh in 1976-77 which was still far below the norm of Rs. 2.0 lakhs of loan business envisaged for a society to attain the viable status. The overdues at the societies' level formed 48 per cent of demand as on June 30, 1976.

#### *Agricultural Credit-Intensive Development Scheme*

140. The Agricultural Credit-Intensive Development Scheme was conceived with a view to concentrating efforts on a selective basis to strengthen the co-operative structure and link the credit programmes with production

programmes. The Scheme was approved by the Bank's Agricultural Credit Board in December 1976, and received the support of the State Governments, All-India Federation of State Co-operative Banks, the Planning Commission and the Union Ministry of Agriculture, and other concerned agencies. Under the first phase of the Scheme, 41 districts (including SFDA and DPAP districts) in 16 States have been selected for intensive credit development in various sectors of the rural economy. Some of the important criteria followed in selecting the 41 districts were : (a) the districts which have scope for development and a reasonably strong co-operative structure ; (b) the central co-operative bank of the district should not have heavy overdues (*i.e.* ordinarily these should be less than 40 per cent) ; (c) existence of SFDA and DPAP Schemes ; and (d) the districts where regional rural banks were not functioning (though in a few districts, some parts of the districts were covered by regional rural banks). In particular, the central co-operative banks in these districts will have the following main objectives *viz.*, (1) to improve their organisational and operational effectiveness; (2) to create an awareness for growth and need for diversification; (3) to build-up own resources and manpower so as to ensure gradual independence from outside help; (4) to progressively professionalise their managements and (5) to bring about orientation of policies towards benefiting the common interests of the rural population, especially the weaker ones.

141. The selection of the districts for this Scheme was done in consultation with the State Governments at a 2-day meeting in Bombay in January 1977. Subsequently, four zonal meetings of senior officers of the State Governments, the Chairmen and the Chief Executive Officers of the state co-operative banks and the state co-operative land development banks were held at Bombay, Madras, Calcutta and New Delhi during February and March 1977 for explaining the objectives of the Scheme. As envisaged under the Scheme, quick surveys of the selected districts in 16 States were conducted to collect basic data for preparation of district credit plans for the districts. Action programmes to be implemented during *kharif* 1977 were also prepared for the selected districts. Preliminary guidelines were prepared for the formulation of district credit plans and arrangements made to prepare such plans in one district of each of the four zones in the country in the first instance. Steps were also initiated to ensure full co-ordination with commercial banks so that at the district level, where these banks work as lead banks, duplication of efforts may be avoided.

**Study Teams** 142. The study teams on Co-operative Agricultural Credit Institutions in Maharashtra, Rajasthan, Madhya Pradesh and Bihar have, after estimating the credit gaps block by block in the respective States, recommended that commercial banks might be entrusted with the task of financing primary credit societies in 96 blocks in 15 districts of Maharashtra, 91 blocks in 22 districts of Rajasthan, 135 blocks in 34 districts of Madhya Pradesh and 109 blocks in 20 districts of Bihar.

*On Overdues of Co-operatives*

143. As mentioned in the last year's Report, the recommendations of the Study Team on overdues were communicated in 1974 to the State Governments and state co-operative banks for necessary action. However, with a few exceptions the response of the State Governments has been far from satisfactory. In the meantime, the overdues at the primary level continued to increase progressively from Rs. 368.2 crores on June 30, 1973, forming 37 per cent of outstandings to Rs. 443.2 crores on June 30, 1974 forming 42 per cent of outstandings and further to Rs. 503.4 crores on June 30, 1975, forming 43 per cent of outstandings. In Haryana, West Bengal and Rajasthan the percentage of recoveries to demand improved considerably in 1975-76.

*On Bihar*

144. The Study Team on agricultural credit institutions in Bihar submitted its report in September 1976. As against the estimated credit potential in Bihar at Rs. 195 crores by 1980-81 the Study Team estimated that co-operatives may meet the short-term agricultural credit needs to the extent of Rs. 110 crores, and the commercial banks/the regional rural banks can lend about Rs. 30 crores through the primary agricultural credit societies and Rs. 10 crores directly to agriculturists. The gap of Rs. 45 crores would have to be covered in the Sixth Five-Year Plan. As 4 central co-operative banks did not have potential for viability, the Team recommended integration of short-term/medium-term and long-term wings of the agricultural credit structure in these four banks and also in four other banks which predominantly serve the tribal districts.

*On Uttar Pradesh*

145. The Study Team on agricultural credit institutions in Uttar Pradesh submitted its report in March 1977. The Team has estimated the short-term agricultural credit potential in Uttar Pradesh at Rs. 415 crores by 1981-82 of which the primary credit societies with support from the co-operative banks, commercial banks and regional rural banks would be able to meet to the extent of Rs. 342 crores and commercial banks and regional rural banks may provide Rs. 45 crores directly to agriculturists leaving a gap of Rs. 28 crores which could be fully bridged by 1983-84. The Study Team has identified 20 out of 55 central co-operative banks in the State as non-viable. Out of these 20 banks, it has been suggested that 17 banks should be brought under the close supervision and guidance of the apex bank for accelerating their progress towards viability. In the case of three non-viable units along with three other banks serving hilly districts the Team has recommended integration of the short-term and medium-term credit with long-term credit for improving their prospects of viability. The Study Team has identified 147 blocks from 38 out of 47 districts from the plain tract of the State in which 173 branches of commercial banks would take up financing of primary credit societies. For tackling the problem of overdues, the Team has recommended a programme of rehabilitation of non-wilful



defaulters and strict measures for recovery from wilful defaulters. The Reserve Bank has generally accepted the recommendations and has forwarded the report to the Government of Uttar Pradesh for implementation of the recommendations.

*On Sikkim*

146. The recommendation of the Study Team on institutional arrangements for agricultural credit in Sikkim for the setting up of a state co-operative bank in Sikkim and transferring to it the assets and liabilities of the existing State Bank of Sikkim was accepted by the Government of India and a Working Group to prepare suitable drafts of legislation that may have to be passed by the Government of India and the Government of Sikkim, was formed with the Chief Officer of the Bank's Agricultural Credit Department as the Convenor. The Working Group has prepared for adoption the Sikkim Co-operative Societies Bill, the Sikkim Co-operative Societies Rules, the bye-laws of the Sikkim State Co-operative Bank Limited and the State Bank of Sikkim Transfer of Undertaking Bill.

**Regulations  
Regarding  
Primary  
(Urban)  
Co-operative  
Banks**

147. The minimum rates of interest on term deposits payable by co-operative banks have been revised with effect from June 1, 1977. The state co-operative banks, central co-operative banks as also state co-operative banks in Union Territories and in Manipur, Tripura, Nagaland and Meghalaya and primary (urban) co-operative banks have been permitted to pay interest on deposits upto but not exceeding  $\frac{1}{4}$  per cent,  $\frac{1}{2}$  per cent and 1 per cent respectively over and above the minimum rates prescribed by the Bank. Interest on term deposits which have not matured for payment on June 1, 1977, shall be paid at the contracted rates for the remaining period. The minimum rate of interest payable on savings bank accounts has been fixed at 3 per cent in respect of accounts enjoying cheque facility and 5 per cent in respect of accounts without cheque facility.

148. The directives issued in 1974-75 to primary (urban) co-operative banks for regulating their secured and unsecured advances have been modified in May 1977 so as to raise (a) the limit of unsecured advances for specified purposes from Rs. 5,000 to Rs. 10,000 to a single party and (b) the maximum limit in respect of unsecured advances to all the directors put together to 10 per cent of the demand and time liabilities in the case of banks having demand and time liabilities less than Rs. 1 lakh, to Rs. 50,000 or 10 per cent of the demand and time liabilities, whichever is less in the case of banks having demand and time liabilities of Rs. 1 lakh to Rs. 100 lakhs and Rs. 1 lakh in the case of banks with demand and time liabilities exceeding Rs. 100 lakhs.

149. With the issue of licences to one central co-operative bank and 17 primary (urban) co-operative banks during the year, under Section 22 of the Banking Regulation Act, 1949, authorising them to carry on banking business in India, the total number of licensed co-operative banks stood at 116 comprising six state co-operative banks, 14 central co-operative

banks and 96 primary co-operative banks as on June 30, 1977. During the year 1976-77 licences were refused to five primary (urban) co-operative banks.

150. During the period July 1, 1976 to June 30, 1977, 107 licences were issued to state co-operative banks and primary (urban) co-operative banks for opening new offices, as against 73 licences granted during the year 1975-76. The number of offices of co-operative banks in the country which stood at 7,288 as on December 31, 1975, increased to 7,771 (314 offices of state co-operative banks, 5,764 of central co-operative banks, 1,487 of primary (urban) co-operative banks and 206 of primary co-operative banks of salary earners' type) as on December 31, 1976.

151. As on June 30, 1977, there were 1,544 co-operative banks (28 state, 354 central and 1,162 primary (urban) co-operative banks) coming under the purview of Banking Regulation Act, 1949 (as applicable to Co-operative Societies) as against 1,531 co-operative banks as at the beginning of the year.

152. There were 30 co-operative banks comprising one state, eight central and 21 primary (urban) co-operative banks not complying with the provision of the Section 11(1) of the Banking Regulation Act, 1949. Of these, seven central co-operative banks in Assam were under a scheme of amalgamation with the Assam Apex State Co-operative Bank Limited, one central co-operative bank, nine primary banks and one state co-operative bank were under the scheme of rehabilitation. Of the 21 primary (urban) co-operative banks which failed to comply with Section 11(1) of the Banking Regulation Act, 1949, five banks are in liquidation and one bank is going out of purview of the Banking Regulation Act, 1949.

153. During the period July 1, 1976 to June 30, 1977, 751 co-operative banks were inspected and 814 inspection reports were issued (including 122 banks inspected last year). The Department had issued guidelines to state and central co-operative banks indicating the norms for preparing qualitative compliance reports on the defects pointed out/suggestions made in the inspection reports.

#### *Maintenance of Minimum Average Daily Balance*

154. Although the Bank has raised, from time to time, the level of statutory cash reserves which scheduled commercial banks are required to maintain as a percentage of their time and demand liabilities, it has exempted the co-operative banks from the provisions of Section 42(1) of Reserve Bank of India Act, as it was considered that such increase would not have any impact on the monetary restrictions introduced by the Bank. The exemption has been extended for a further period of two years with effect from June 24, 1976.

#### *Balance in Current Account with Nationalised Banks*

155. Pending amendments to the Banking Regulation Act, the Government of India has issued on September 4, 1976, a notification permitting

the non-scheduled state co-operative banks, central co-operative banks and primary co-operative banks to reckon, from September 4, 1976, the balance maintained by them in current account with 14 nationalised banks as cash reserves for the purpose of Section 18 and liquid assets for the purpose of Section 24 of Banking Regulation Act, 1949. The scheduled state co-operative banks have also been permitted to reckon, from September 4, 1976, the balances maintained by them in current account with 14 nationalised banks, as part of liquid assets.

#### *Deposit Insurance*

156. With the extension of the Deposit Insurance Scheme to co-operative banks in West Bengal, Rajasthan and Karnataka in 1976-77, co-operative banks in nine states and three union territories viz., Andhra Pradesh, Jammu and Kashmir, Kerala, Madhya Pradesh, Maharashtra, Tripura, West Bengal, Rajasthan, Karnataka, Delhi, Goa and Pondicherry had come under the purview of the Scheme. The Governments of Uttar Pradesh, Orissa and Bihar have also amended their Co-operative Societies Acts for facilitating extension of Deposit Insurance Scheme in their States. The remaining State governments have yet to take action for extending insurance cover to co-operative banks in their areas.

157. As on June 30, 1977, there were 842 registered insured co-operative banks comprising 13 state co-operative banks, 177 central co-operative banks, 580 urban banks and 72 salary earners' societies.

#### *Co-operative Movement in Individual States*

158. The Agricultural Credit Department of the Bank held annual discussions with the representatives of the State Governments of Andhra Pradesh, Gujarat, Karnataka, Kerala and Tamil Nadu during the year 1976-77 regarding the various problems facing the co-operative movement in these States.

#### **Agricultural Refinance and Development Corporation (ARDC)**

159. Complementary to the role of co-operative credit institutions in the provision of agricultural finance is the part played by the Agricultural Refinance and Development Corporation (ARDC) particularly in regard to provision of medium and long-term credit. The Corporation's disbursement of refinance assistance during the year touched Rs. 221 crores, raising the gross disbursement of refinance of the ARDC since inception and upto the end of June 1977 to Rs. 815 crores. The disbursement under the IDA-aided Projects at Rs. 477 crores formed nearly 58 per cent of the aggregate disbursement of the ARDC. This has contributed to the accrual of foreign exchange to the country of the order of \$ 350 million.

160. During 1976-77, the ARDC has sanctioned 1,653 schemes with its commitment of Rs. 307 crores as against 909 schemes with its commitment of Rs. 297 crores sanctioned during the previous year; a substantial number of schemes entailing smaller outlays was sanctioned to benefit the small borrowers. There was an increased diversification of business

from minor irrigation to other forms of agricultural investments, such as land development, dairy development, fisheries development, poultry development, etc. This is reflected in the fact that 1,010 schemes or nearly 61 per cent of the total number of schemes sanctioned were for purposes other than minor irrigation with commitment of Rs. 131 crores (*i.e.*, nearly 43 per cent of the aggregate ARDC commitment). The total number of schemes and the commitment for diversified purposes during the previous year were 499 and Rs. 130 crores respectively. Thus, there was a considerable spurt in the number of schemes sanctioned for diversified purposes during the year.

161. Of the total refinance disbursement of Rs. 221 crores, the land development banks had availed themselves of Rs. 127 crores (57.4 per cent) followed by commercial banks Rs. 93 crores (42.1 per cent) and the state co-operative banks Rs. 1 crore (0.5 per cent).

162. State-wise, during the year under review, Uttar Pradesh availed of the largest share of refinance (Rs. 37 crores) followed by Madhya Pradesh (Rs. 26 crores), Karnataka (Rs. 22 crores), Andhra Pradesh (Rs. 21 crores), Maharashtra (Rs. 19 crores), Haryana (Rs. 17.7 crores), Bihar and Punjab (Rs. 17 crores each) and Tamil Nadu (Rs. 16 crores). The other States availed themselves of refinance ranging between Rs. 2 lakhs to Rs. 10 crores each totalling Rs. 28 crores. Region-wise, the Central Region absorbed 28.6 per cent of the ARDC refinance, followed by the Southern Region (28 per cent), Northern Region (19.5 per cent) Eastern and North-Eastern Regions (13.3 per cent) and Western Region (10.6 per cent).

163. The efforts of the Corporation have been largely successful in the Central region comprising Madhya Pradesh and Uttar Pradesh as reflected in the availment of 28.6 per cent of the total ARDC refinance disbursed during 1976-77. In Madhya Pradesh, the West German authorities have also been considering a line of credit through Kreditanstalt Fur Wiederaufbau (KFW) in the first phase relating to the Integrated Area Development of the Tawa Irrigation Command Area in Hoshangabad district. Disbursement of refinance assistance for West Bengal has increased from Rs. 1.6 crores in 1975-76 to Rs. 5.9 crores during 1976-77. The IDA-aided project in West Bengal is being implemented vigorously. The World Bank aided Eastern Region Foodgrains Project, which covers the States of Assam, Bihar, West Bengal, part of Uttar Pradesh and Orissa, is in progress and the credit for on-farm development under these projects will be picked up under the second tranche of credit to ARDC from IDA. The Corporation also set up a reconnaissance study team to prepare viable projects in dairy and fishery development in Jammu and Kashmir which would qualify for ARDC refinance, while the project for development of forests through the Meghalaya Forest Development Corporation involving financial assistance of Rs. 49 lakhs has also been sanctioned by ARDC. In Mizoram, ARDC has agreed to provide necessary assistance for the identification of investment potential and project formulation. At the end of June 1977, the

Corporation has sanctioned 1,783 schemes in the less developed/under-banked areas involving its commitment of Rs. 628 crores ; of these, the financing institutions have so far drawn Rs. 286 crores.

164. The Corporation has also been striving to promote the interests of small farmers and other weaker sections of the society. Under the first ARDC credit project, being implemented with assistance from IDA, the Corporation is committed to providing at least 50 per cent of the credit for meeting the investment requirements of small farmers. The available data indicate that this requirement has been complied with. Upto the end of June 1977, 253 schemes have been sanctioned under the aegis of SFD/MFAL agencies involving a commitment of Rs. 62 crores. The financing institutions have so far drawn Rs. 28 crores under these schemes. The Corporation has decided to extend 90 per cent concessional refinance facilities, which are presently available to SFDA/MFAL schemes, to special schemes sponsored under the aegis of DPAP, Girijan Corporations and special schemes intended for the scheduled castes and scheduled tribes.

165. The Corporation has appointed an Informal Advisory Committee on institutional credit for small planters in the Southern region. The study group constituted by this committee has assessed the requirements of small coffee planters in the Saklaspur area in Karnataka State and accordingly has prepared a banking plan. Accordingly, guidelines for the formulation of bankable schemes have been issued to the financing institutions.

166. During 1976-77, the IDA sanctioned three projects, viz., Kerala Agricultural Development Project, Gujarat Fisheries Project and the Second ARDC Credit Project. ARDC also negotiated during the year the Jayakawadi-Purna Command Area Development Project in Maharashtra. The agreement relating to all the three projects have since been executed. The Kerala Agricultural Development Project, involves a credit of \$ 30 million and the project mainly comprises new planting of high yielding coconuts, rehabilitation of coconut plantations, etc. The Gujarat Fisheries Project envisages improving fishing harbour in Veraval and Mangrol, improvement of shore facilities, credit for fish processing, etc.

167. Of the 29 projects being implemented through the Corporation with assistance from the World Bank Group, 12 are agricultural credit projects, five command area development projects, three dairy development projects, two market yard projects, two seed projects, an apple processing and marketing project, a fisheries project, an integrated cotton development project and two general lines of credit to ARDC. The projects under the IDA general line of credit was completed six months ahead of the schedule. The disbursements under the project aggregated nearly Rs. 123 crores. The Corporation also submitted to IDA in July 1976 proposals for a second tranche of credit to the ARDC. The project involving IDA assistance of \$ 200 million was sanctioned in June 1977.



TABLE 2.1 :—PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT IN INDIA

(Amounts in rupees crores)

Type of institutions	Co-operative years		
	1973-74	1974-75	1975-76
<b>(a) State Co-operative Banks</b>			
(i) Number (actuals) .. .. .	26	26	26
(ii) Owned funds .. .. .	128.6	142.5	158.7
(iii) Deposits .. .. .	488.7	546.4	723.7
(iv) Borrowings from the RBI .. .. .	236.5@	376.9@	246.9@
(a) Of which, short-term agricultural .. .. .	151.2	212.2	146.6
(v) Working capital .. .. .	942.0	1186.5	1287.3
(vi) Loans issued .. .. .	1203.7	1382.1	1514.8
(vii) Loans outstanding .. .. .	706.2	919.9	893.6
(a) Of which, short-term agricultural .. .. .	297.5	327.8	654.0
(viii) Percentage of (iv a) to (vii a) .. .. .	50.8	64.7	22.4
<b>(b) Central Co-operative Banks</b>			
(i) Number (actuals) .. .. .	341	341	344
(ii) Owned funds .. .. .	280.6	314.9	360.5
(iii) Deposits .. .. .	718.6	805.3	984.9
(iv) Borrowings from the RBI/Apex Bank .. .. .	447.6@	538.0@	513.4@
(v) Working capital .. .. .	1594.8	1842.8	2047.6
(vi) Loans issued .. .. .	1249.0	1524.5	1721.5
(vii) Loans outstanding .. .. .	1162.8	1347.2	1428.2
<b>(c) State/Central Land Development Banks</b>			
(i) Number (actuals) .. .. .	19	19	19
(ii) Owned funds .. .. .	117.8	134.4	154.3
(iii) Debentures outstanding .. .. .	1143.3	1254.0	1383.8
(iv) Working capital .. .. .	1368.1	1502.2	1667.3
(v) Loans issued .. .. .	146.7	183.8	204.9
(vi) Loans outstanding .. .. .	914.0	992.5	1068.7
<b>(d) Primary Agricultural Credit Societies</b>			
(i) Number (in thousands) .. .. .	154	153	135
(ii) Membership (in thousands) .. .. .	34956	36442	39521
(iii) Owned funds .. .. .	353.1	393.3	436.9
(iv) Deposits .. .. .	89.3	101.0	113.3
(v) Borrowings .. .. .	918.2	1040.7	1154.4
(vi) Loans issued .. .. .	760.5	900.8	1023.4
(vii) Loans outstanding .. .. .	1055.0	1176.6	1299.2

@ Outstanding at the end of the year.

TABLE 2.2:—RESERVE BANK CREDIT TO CO-OPERATIVES 1975-76 AND 1976-77

(Amounts in rupees crores)

Purpose of finance	1975-76 (July-June)				1976-77 (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
<b>I. Short-term</b>								
(i) Seasonal agricultural operations (at 2% below Bank Rate) <sup>1</sup> .. .. .	611.9	899.7	965.3	146.6	696.3	818.8	735.3	230.1
(ii) Marketing of crops other than cotton and kapas (at 3% above Bank Rate) .. .. .	37.4	—	0.5	Nil	31.5	4.6	4.4	0.2
(iii) Marketing of cotton and kapas <sup>2</sup> (at 3% above Bank Rate) .. .. .								
(iv) Purchase and distribution of fertilizers (at 3% above Bank Rate) <sup>3</sup> .. .. .	47.1	62.9	61.8	19.9	33.2	21.2	31.2	9.9
(v) Production and marketing of handloom products (at 1½% below Bank Rate) <sup>4</sup> .. .. .	20.1	34.3	33.9	11.4	26.4	35.8	32.2	15.0
(vi) Financing other cottage and small scale industries <sup>4</sup> .. .. .	4.7	2.5	1.6	2.3	6.7	3.9	2.4	3.9
(vii) Purchase and sale of yarn (at Bank Rate) <sup>4</sup> .. .. .	0.7	0.1	0.1	0.1	0.6	0.3	0.1	0.2
(viii) Loans to ARDC (at Bank Rate) .. .. .	15.0	1.7	—	1.7	10.0	Nil	1.7	Nil
(ix) Against pledge of sugar (at 3% above Bank Rate) .. .. .	14.5	10.5	32.5	Nil	7.8	20.2	18.8	1.4
<b>II. Medium-term</b>								
(i) Agricultural purposes (at 1½% below Bank Rate) <sup>5</sup> .. .. .	11.6	7.2	7.5	15.4	14.9	9.3	7.7	17.0
(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas (at 1½% below Bank Rate) .. .. .	50.5 <sup>6</sup>	41.8 <sup>6</sup>	45.6 <sup>6</sup>	78.8 <sup>6</sup>	130.4 <sup>6</sup>	77.8 <sup>6</sup>	39.6 <sup>6</sup>	117.0 <sup>6</sup>
(iii) Purchase of shares in co-operative sugar factories/processing societies (at Bank Rate) <sup>5</sup> .. .. .	3.0	—	0.4	0.6	1.7	0.5	0.3	0.8
<b>III. Long-term</b>								
(i) Loans to State Governments for contributions to share capital of co-operative credit institutions <sup>4</sup> .. .. .	13.5	13.5	7.4	76.1	31.3	30.5	7.9	98.7
(ii) Loans to ARDC (at 6% per annum) .. .. .	60.0	60.0	9.8	138.4	50.0	50.0	15.8	172.6

1. At 2% below Bank Rate from 1975-76 subject to recovery of an additional interest of 1½% as per linking scheme.

2. Including monopoly procurement of cotton.

3. At 3% above Bank Rate from the calendar year 1974. Data relate to calendar year 1975 and 1976.

4. Data relate to financial years.

5. Data relate to calendar year 1975 and 1976.

6. Including rephasing and rescheduling.

168. The Reserve Bank of India continued to play an important role in promoting development of industries by providing credit and rediscounting facilities to the term-lending institutions, and by extending the credit guarantee scheme. The Bank also undertook a number of measures concerning non-banking companies with a view to promoting their financial viability and protecting the interests of the depositors in these companies. The major developments in industrial finance are reviewed in the following paragraphs.

#### *Loans to IDBI*

169. The Bank sanctioned a loan of Rs. 150 crores to the Industrial Development Bank of India (IDBI) out of the National Industrial Credit (Long-Term Operations) Fund during 1976-77, as against a sum of Rs. 125 crores sanctioned in the previous year. The outstanding amount of IDBI's borrowings from the Bank stood at Rs. 526.2 crores as on June 24, 1977. The IDBI was also sanctioned a short term borrowing limit of Rs. 30 crores during the year against the security of eligible bills rediscounted by it.

#### **Term Lending**

#### *IDBI's Operations*

170. The IDBI's operations expanded considerably in terms of both sanctions and disbursements, during the year 1976-77. The assistance sanctioned (excluding guarantees) amounted to Rs. 728.0 crores—an increase of 60 per cent over the previous year's figure of Rs. 458.3 crores (Table 3.1\*). The number of sanctions went up impressively from 9,286 to 15,528. The assistance utilised was also higher at Rs. 392.6 crores—as against Rs. 291.6 crores in 1975-76—an increase of 35 per cent. The substantial rise in the IDBI's operations was attributable to some of the new schemes introduced during the year, decentralisation of operations, streamlining of procedures and acceptance of time-bound programme for direct assistance.

171. Sanctions under direct assistance to industrial concerns increased from Rs. 115.6 crores in respect of 107 projects in 1975-76 to Rs. 273.4 crores covering 208 projects in 1976-77. Of the 208 projects, 48 were assisted under the Soft Loan Scheme, and 21 under the Technical Development Fund Scheme. Industry-wise, 63 per cent of the direct assistance was in respect of five priority industries *viz.*, fertilisers, cement, paper, sugar and textiles. Direct project assistance of Rs. 105.6 crores was sanctioned on concessional terms to 69 units in specified backward districts.

172. Sanctions under refinance of industrial loans had risen by 54 per cent from Rs. 163.2 crores in respect of 8,132 applications to Rs. 251.7 crores on 14,214 applications. About 67 per cent of refinance sanctions in terms of amount, and 93 per cent in terms of number of applications, was in respect of small-scale industries and small road transport operators.

---

\* Page 64.

173. Under the machinery bills rediscounting scheme, sanctions during the year at Rs. 151.3 crores, covering 995 purchaser-users, showed an increase of 25 per cent as compared to Rs. 120.8 crores in respect of 951 purchaser-users in the previous year. A large part of the increase was attributable to assistance to State Electricity Boards and State Road Transport Corporations which has gone up from 19 per cent in 1975-76 to 32 per cent during 1976-77.

174. Sanctions under export finance schemes declined marginally from Rs. 42.8 crores to Rs. 41.0 crores during 1976-77. These include three lines of credit for an aggregate amount of Rs. 12.4 crores sanctioned to Tanzania, Mauritius and South Korea. Besides, 12 export credit guarantees for an amount of Rs. 41.9 crores were sanctioned. Of the twelve guarantees extended in 1976-77, four related to bid bonds involving a guarantee amount of Rs. 1.1 crores as IDBI's share ; three of these bids were, however, not allotted to Indian parties. The other eight guarantees covered such purposes as advance payment, performance guarantee, retention money and for raising overdrafts and related to six projects secured by Indian parties. Two projects were for construction of transmission line towers in Libya and Iran involving a total project cost of Rs. 49.9 crores. One contract was for supply of 400 buses and spares by Tata Exports Ltd. to Indonesia involving a project cost of Rs. 8.0 crores. Three contracts related to housing construction projects in Libya, Kuwait, and Iraq involving a total project cost of Rs. 89.3 crores, Rs. 213.3 crores and Rs. 4.6 crores respectively. Of the 12 guarantees sanctioned, guarantees for Rs. 29.8 crores were executed as at the end of June 1977 and formalities in respect of others are expected to be completed shortly.

175. The total assistance (both direct and re-finance) to projects in specified backward districts/areas sanctioned on normal and concessional terms during the year, amounted to Rs. 301.5 crores (62 per cent of such assistance) against Rs. 146.7 crores (53 per cent) in the previous year. Since the introduction of the concessional schemes in 1970-71 such assistance aggregated Rs. 456.2 crores till the end of June 1977.

176. During the year, the IDBI contributed Rs. 6.0 crores to the special issue of debentures of the ICICI, besides subscribing Rs. 6.7 crores to the share capital of 13 State Financial Corporations (SFCs).

#### *Foreign Lines of Credit*

177. As reported in the last year's Report, the IDA Credit was committed fully by March 1976 and the IDBI sanctioned under the credit, Rs. 29.6 crores and disbursed Rs. 19.6 crores till the end of June 1977. The last date for withdrawal for the credit was June 1977 which is now extended upto September 1978. The second line of credit which is from the World Bank for U.S. \$40 million for on-lending to SFCs, became effective from August 1976. For its full utilisation, the IDBI is required to sanction refinance of about Rs. 56 crores before December 31, 1978 against which IDBI's sanctions so far aggregated Rs. 13.0 crores. The IDBI has also

sanctioned two loans for Rs. 4.7 crores under the IDA Line of Credit of U.S. \$28 million for existing specific private sector fertiliser projects.

#### *Interest Rates*

178. IDBI's interest rates under Bills Rediscounting Scheme were reduced during the year under review. Interest rates on direct loans to industrial concerns (other than for exports) continued unchanged.

#### *Seed Capital Assistance Schemes*

179. With a view to assisting entrepreneurs who have skills but lack finance to put in the requisite promoter's contribution, two new schemes were initiated : (i) provision of seed capital by SFCs from their special class of share capital to the maximum extent of 20 per cent of the project cost or Rs. 2 lakhs whichever is lower, and (ii) provision of such capital through SIDCs in respect of large projects costing upto Rs. 1 crore, the maximum assistance available would be 10 per cent of the project cost or Rs. 10 lakhs whichever is lower, the minimum being Rs. 1 lakh. Such loans will be subject to an annual service charge of 1 per cent and moratorium in regard to interest and repayment of the principal upto 5 years.

#### *Soft Loan Assistance*

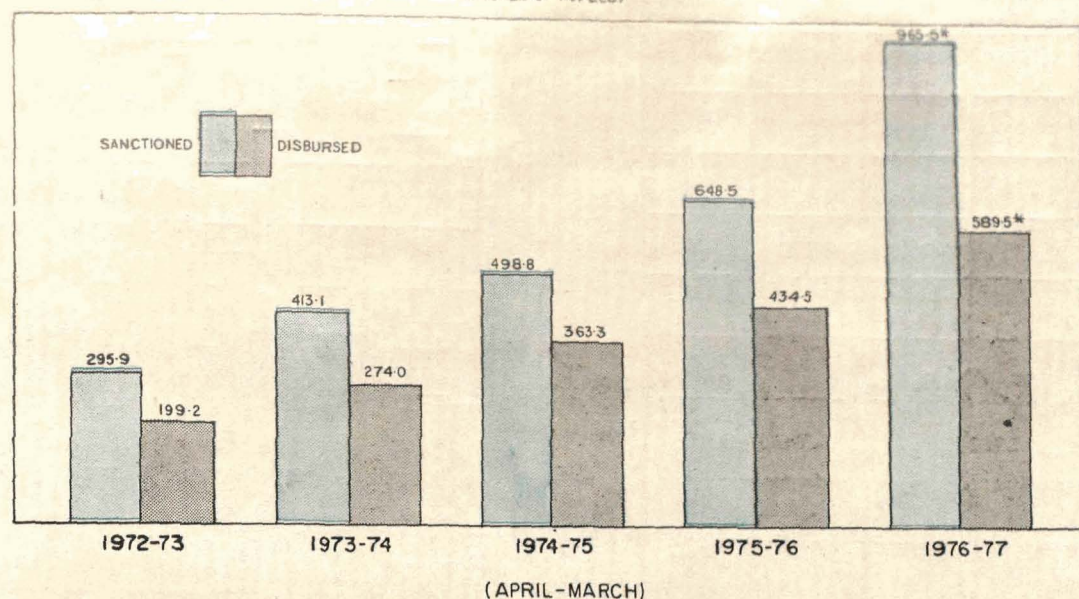
180. In consultation with the Government of India, the IDBI had initiated a scheme for soft loan assistance for modernisation and rehabilitation of selected industries *viz.*, cotton and jute textiles, cement, sugar and certain engineering industries. The loans carry an interest rate of 7.5 per cent and are payable over 12 to 15 years with initial moratorium of 3 to 5 years. The Scheme is being operated by IDBI in participation with IFCI/ICICI, IDBI being the lead institution for textiles and cement, IFCI for sugar and jute and ICICI for engineering industries. Of the 366 applications received under the Scheme for assistance totalling Rs. 710.3 crores till June 30, 1977, 122 applications for Rs. 238.3 crores were found ineligible and 53 were sanctioned assistance of Rs. 65.9 crores.

181. During the financial year 1976-77 (April-March), the Reserve Bank renewed the borrowing limit of Rs. 3 crores sanctioned to the IFCI for a further period of one year during the calendar year 1977. Further, the Bank sanctioned to 10 SFCs including Tamil Nadu Industrial Investment Corporation Ltd., (TIIC), fresh borrowing limits aggregating Rs. 14.9 crores, against their *ad-hoc* bonds during the year 1976-77 (July-June). The total borrowing limits in force as at the end of June 1977 in respect of 14 SFCs (including TIIC) amounted to Rs. 26.9 crores. Besides, 16 SFCs (*i.e.* all excepting Rajasthan State Financial Corporation and Tamil Nadu Industrial Investment Corporation) were allowed to float market bonds for a larger aggregate amount of Rs. 38.3 crores (notified) as against Rs. 22.0 crores allowed in the previous year.



11

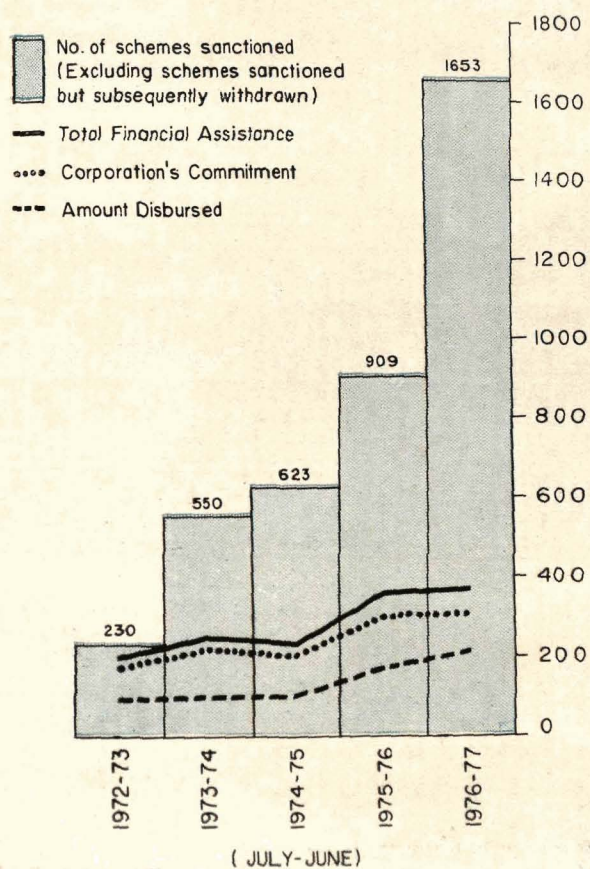
# ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING FINANCIAL INSTITUTIONS (I.D.B.I., I.F.C.I., I.C.I.C.I., I.R.C.I., S.F.C.s and S.I.D.C.s) (CRORES OF RUPEES)



\* PROVISIONAL DATA RELATING TO SIDC FOR THE YEAR 1976-77 RELATE TO ONLY 14 SIDCs

12

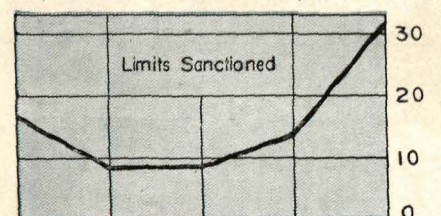
## OPERATIONS OF AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (CRORES OF RUPEES)



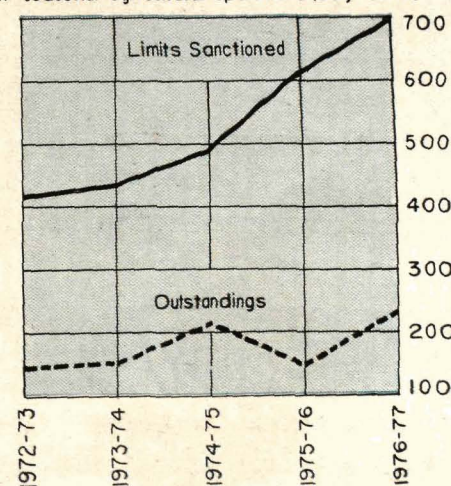
13

## 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)



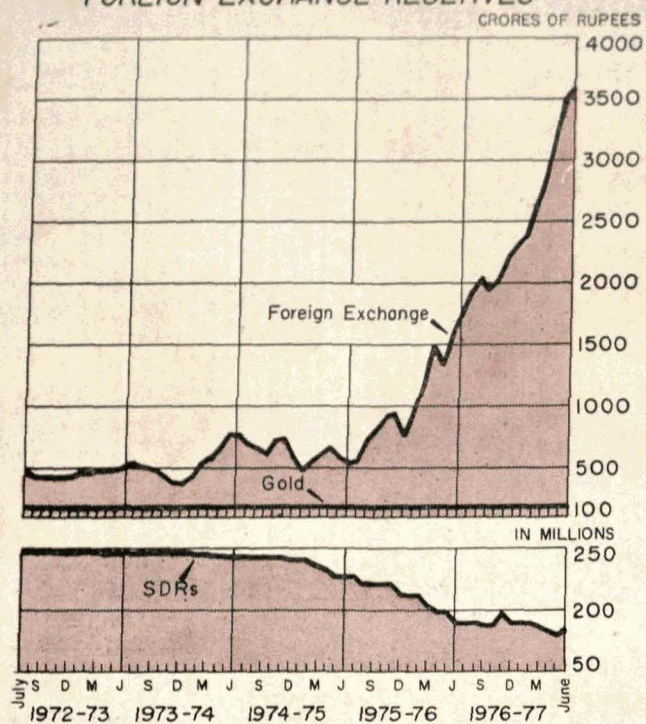
Short-term loans provided to state co-operative banks  
for seasonal agricultural operations (July-June)





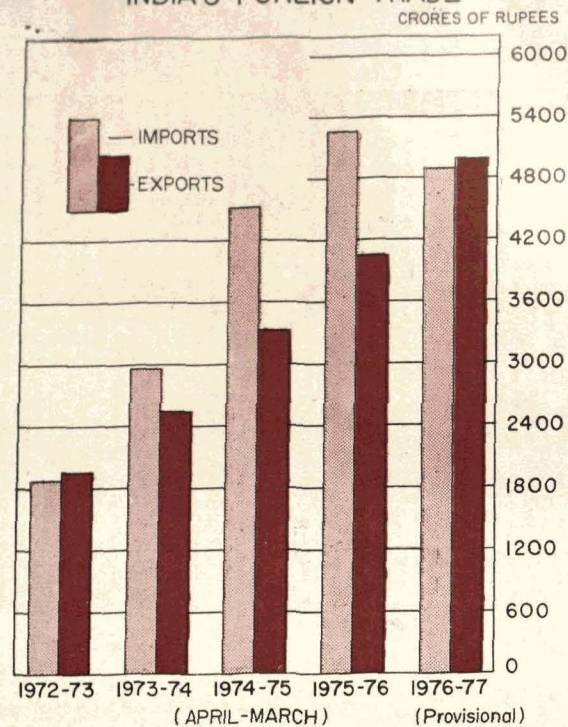
14

## FOREIGN EXCHANGE RESERVES



15

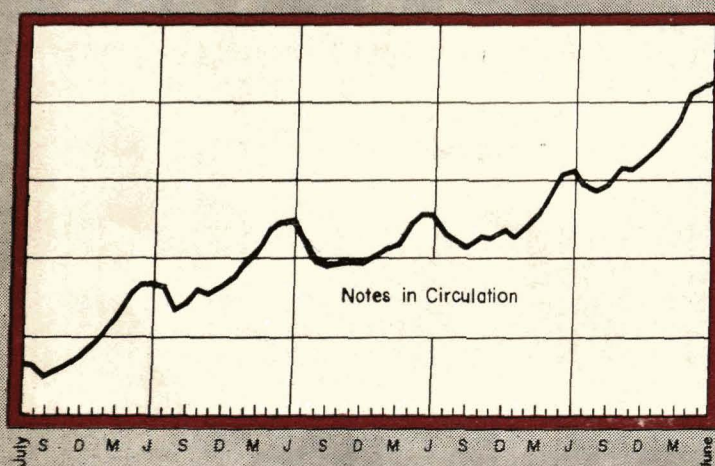
## INDIA'S FOREIGN TRADE



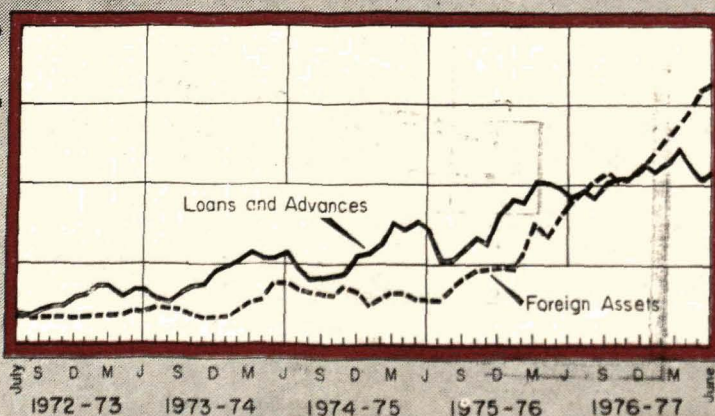
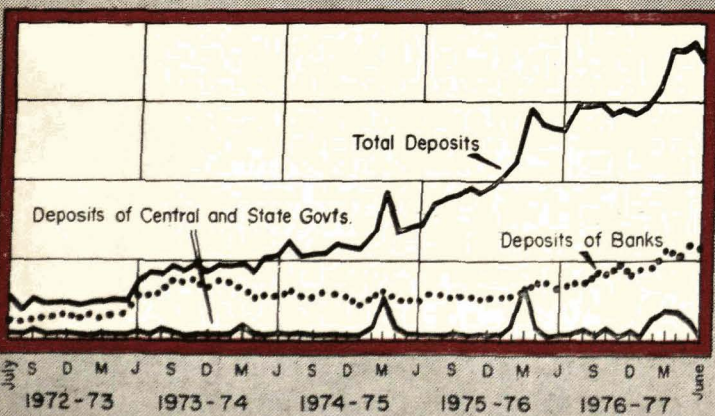
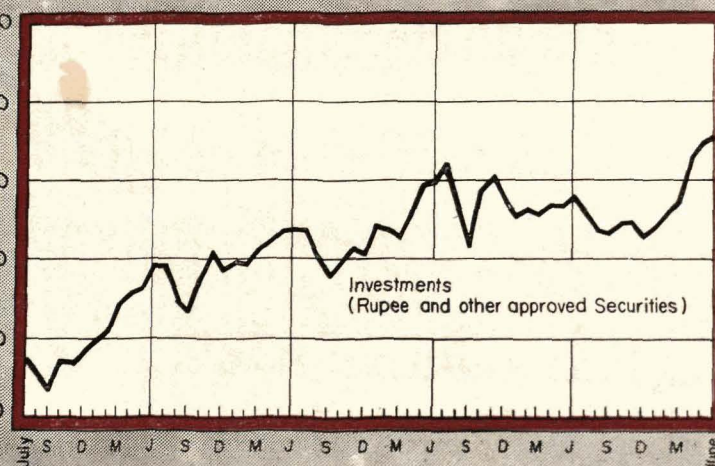
RESERVE BANK OF INDIA  
ISSUE AND BANKING DEPARTMENTS COMBINED  
(AS ON LAST FRIDAY)  
(CRORES OF RUPEES)

16

## LIABILITIES



## ASSETS





*Operations of SFCs*

182. The operations of 18 SFCs, including the TIIC showed improvement during 1976-77 (April-March) over the previous year. The total loans sanctioned at Rs. 168.3 crores and disbursements at Rs. 105.3 crores by these Corporations during 1976-77, were marginally higher than the previous year's figures at Rs. 162.9 crores and Rs. 100.1 crores respectively. The loans outstanding as at the end of March 1977, were Rs. 445.5 crores, showing a rise of Rs. 82.2 crores over the level a year ago. (Table 3.2). A major proportion of the financial assistance was granted to small-scale sector and such assistance sanctioned at Rs. 515.2 crores accounted for 56 per cent of the total amount of loans sanctioned — Rs. 927.7 crores.

TABLE 3.2 :—OPERATIONS OF STATE FINANCIAL CORPORATIONS

(Amounts in rupees crores)		
	1975-76	1976-77
1	2	3
Loans Sanctioned (effective)	162.9	168.3
Loans Disbursed	100.1	105.3
Loans Outstanding (as at the end of March)	363.3	445.5

**Financing of Small-Scale Industries***Progress of Credit Guarantee Scheme*

183. The number of credit institutions eligible for facilities under the Credit Guarantee Scheme increased from 628 at the end of June 1976 to 692 at the end of June 1977, mainly due to the inclusion of 48 Regional Rural Banks in the approved list. The number of institutions participating in the Scheme rose from 233 to 265 during the year. The amount of outstanding guarantees increased from Rs. 1726 crores at the end of June 1975 to Rs. 1950 crores at the end of June 1976, and further to Rs. 2195 crores at the end of June 1977, reflecting a steady increase in the flow of institutional credit to the small-scale industrial sector (Table 3.3). Since the inception of the scheme till the end of June 1977, claims aggregating Rs. 246.0 lakhs have been paid in respect of 2,239 units ; of these, payments made during the year amounted to Rs. 75.8 lakhs in respect of 1,038 units. Out of the aggregate amount of Rs. 246.0 lakhs paid as claims, a sum of Rs. 44.8 lakhs has since been recovered.

TABLE 3.3 :—PROGRESS OF THE CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES FROM JUNE 1975 TO JUNE 1977

JUNE 1975 TO JUNE 1977

(Amounts in rupees crores)						
As at the end of	Guarantees Outstanding	Advances under default*		Claims paid on account of invocation of guarantee		Guarantee Organisation's share of recoveries in respect of claims
		No. of units	Amount	No. of units	Amount	
1	2	3	4	5	6	7
June 1975 .. .. .	1726.0	8878	41.0	921	1.3	0.3
June 1976 .. .. .	1949.8	12439	60.0	1201	1.7	0.3
June 1977 .. .. .	2195.1	16275	91.4	2239	2.5	0.5

\* Default means the failure of the borrower in discharging his obligation to repay the dues to the credit institution on being called upon to do so. Although the credit institutions have the right to invoke the guarantees in these cases, it would not necessarily mean that all advances under default would be bad or irrecoverable.

184. As at the end of June 1977, 16,275 units were in default, involving Rs. 91.4 crores. This formed 4.2 per cent of the aggregate outstanding guarantees, as against 12,439 units involving Rs. 60.0 crores which formed 3.0 per cent of the aggregate amount of outstanding guarantees as at the end of June 1976.

185. During the year 1976-77 (July-June), a sum of Rs. 2.23 crores was received as guarantee fees and transferred to the Central Government.

*Scheduled Commercial Banks' Advances to (a) Small-Scale Industries@, (b) Small Road and Water Transport Operators@ and (c) for Setting up of Industrial Estates*

186. During the first three quarters of 1976-77 (April-March), the total credit extended by the scheduled commercial banks to small-scale industries increased by Rs. 258.1 crores to Rs. 1421.1 crores as at the quarter ended December 1976. The net increase in the outstanding credit to small-scale industries during the period under review was nearly two and a half times larger than the increase (Rs. 107.1 crores) during the corresponding period of the previous year, thus reflecting a reversal of the decelerating trend in the net increase of bank credit noticed in the preceding year. The number of units assisted (1,19,895) during the period under review was also many more than that in the corresponding period of the preceding year (36,222). The share of small-scale industries in total bank credit (excluding food procurement advances) stood fractionally higher at 13.2 per cent as at the end of December 1976 as compared to 12.8 per cent as at the end of December 1975 and 13.1 per cent as at the end of December 1974. As at the end of December 1976, credit limit sanctioned per unit was Rs. 0.50 lakh, as against Rs. 0.64 lakh in December 1975 and Rs. 0.67 lakh in December 1974.

187. The State Bank of India Group and the nationalised banks together accounted for 89.6 per cent (Rs. 1274.2 crores) of the total outstanding credit as at the end of December 1976. Of this total, the State Bank Group provided Rs. 476.6 crores, showing an increase of Rs. 74.9 crores over March 1976 level, as compared to a rise of Rs. 38.6 crores in the corresponding period of 1975. The credit extended by the nationalised banks to small-scale industries during March-December 1976 showed an increase of more than two and a quarter times (Rs. 149.1 crores) of that during March-December 1975 (Rs. 63.6 crores). State-wise, Maharashtra accounted for more than one-fifth (Rs. 291.4 crores or 20.5 per cent) of the total outstanding credit as at the end of December 1976, while the largest number of units financed were in Tamil Nadu (61,937).

188. During the nine month period ended December 1976, term loans (including instalment credits) sanctioned by scheduled commercial banks

@ Data on scheduled commercial bank credit from September 1975 onwards cover advances granted to small-scale industrial units and small road and water transport operators having their respective ceiling investments upto Rs. 10 lakhs as against upto Rs. 7.5 lakhs for earlier periods.

to small-scale industries rose by Rs. 25.5 crores to Rs. 293.1 crores. The outstandings increased from Rs. 222.2 crores covering 60,089 units at the end of March 1976 to Rs. 247.5 crores spread over 80,152 units as at end-December 1976. The proportion of term loans (outstandings) to total bank credit to small-scale industries has gone up from 16.8 per cent in December 1975 to 17.4 per cent in December 1976.

189. The loans and advances sanctioned to craftsmen and other qualified entrepreneurs, as at the end of December 1976 amounted to Rs. 82.2 crores covering 63,077 units, showing a net increase of Rs. 19.4 crores over March 1976, as compared to a rise of Rs. 11.5 crores in the corresponding period of the previous year. The outstanding credit stood at Rs. 59.9 crores as at the end of December 1976, 41.8 per cent of this was accounted for by the State Bank Group. The average amount of limit sanctioned per entrepreneur has come down from Rs. 24,315 in December 1975 to Rs. 13,032 in December 1976, indicating a wider disbursal of credit to smaller entrepreneurs.

190. As at the end of December 1976, scheduled commercial banks sanctioned total credit to small road and water-transport operators to the extent of Rs. 336.1 crores spread over 1,55,897 units. The amount outstanding at Rs. 278.4 crores recorded a substantial increase of Rs. 65.2 crores over the March 1976 level, as against the increase of Rs. 57.7 crores during the corresponding period of 1975.

191. As at the end of December 1976, 21 scheduled commercial banks, including 14 public sector banks, had sanctioned credit limits aggregating Rs. 24.3 crores covering 143 units for setting up of industrial estates and the amount outstanding was Rs. 19.6 crores as against Rs. 13.5 crores as at the end of March 1976.

#### Non-Banking Companies

##### *Report of the Study Group on Non-Banking Companies*

192. Before enacting a separate comprehensive legislation in the place of Chapter IIIB of the Reserve Bank of India Act, 1934, it was proposed to implement such of the recommendations of the Study Group on Non-Banking Companies as could be done immediately, by invoking the powers vested in the Reserve Bank under the existing provisions of Chapter IIIB of the said Act by suitable amendments to the directions now in force. However, as this involved major amendments to the existing directions, it was subsequently decided to issue fresh sets of directions in supersession of the existing directions, simultaneously with amendments to the Companies (Acceptance of Deposits) Rules, 1975. The issue of these directions had to be deferred in view of the Government's decision to defer the amendments to the Rules pending certain amendments to the Companies Act. As the recommendations of the Group relating to financial and miscellaneous non-banking companies are not linked with those relating to non-financial companies and could be independently implemented, the matter was referred to the Government who have since agreed that the fresh sets of directions might be issued by the Reserve Bank, without

waiting for the amendment to the Rules. Accordingly, directions have been issued with effect from July 1, 1977. In terms of these directions, the maximum amount, which may be accepted by hire-purchase finance companies by way of deposits, is required not to exceed ten times their net owned funds. The existing ceiling restrictions in the case of loan companies are being retained while in regard to investment companies, the ceiling will be progressively reduced in two stages, the reductions to take effect in April 1978 and April 1979. Besides, the maximum period for which deposits may be accepted by hire-purchase finance, loan and investment companies, as also miscellaneous non-banking companies, is being restricted to 36 months and in the case of housing finance companies to 60 months. The directions, *inter alia*, amplify the definition of free reserves and rationalise and simplify the forms of returns to be submitted by financial companies and miscellaneous non-banking companies. Opportunity has also been availed of to streamline the provisions of the directions in certain other respects.

193. In so far as the recommendations of the Study Group relating to regulation of advertisements issued by financial and miscellaneous non-banking companies are concerned, in view of the provisions of sub-section 2(b) of Section 58A of the Companies Act, read with sub-section 7(b) which made the provisions therein relating to the issue of advertisement also applicable to such companies, it was decided to implement the recommendations by making separate rules under the Companies Act. Accordingly, the provisions relating to advertisement do not find a place in the new directions. These rules also have been finalised by the Government of India in consultation with the Reserve Bank of India and have come into force simultaneously with the fresh sets of directions, *i.e.*, with effect from July 1, 1977. The rules will be administered by the Reserve Bank. In terms of these rules, financial as also miscellaneous non-banking companies inviting deposits will have to furnish certain particulars and declarations, on the lines suggested by the Study Group, in the advertisements issued by them, and they will be required to deliver copies of the advertisement to the Bank's Department of Non-Banking Companies.

194. A reference was made in the last year's Report to the drafts of the Bill for regulating conventional chits to be enacted as a central legislation and the Bill for the banning of prize chits and benefit/savings schemes which were under consideration of the Government of India. The Bills as drafted by the Reserve Bank were circulated by the Union Government to the State Governments for their comments and the views of the Reserve Bank on the replies/suggestions received from many of the State Governments were communicated to the Central Government during the year.

#### *Acceptance of Deposits by Unincorporated Bodies*

195. The proposal for amendment to the Reserve Bank of India Act, 1934, referred to in the last year's Report, for prohibiting the acceptance of deposits by unincorporated bodies, was dropped in view of certain legal impediments regarding the constitutionality of the proposed amendment.



*Amendments to the Companies (Acceptance of Deposits) Rules, 1975*

196. The amendments to the Companies (Acceptance of Deposits) Rules, 1975, for giving effect to the recommendations of the Study Group pertaining to non-banking non-financial companies were finalised by the Department of Company Affairs in consultation with the Reserve Bank. It has been decided by the Government, however, to defer giving effect to the amendments, pending certain amendments to Section 58A of Companies Act, 1956. In the meantime non-financial companies which were granted time upto the end of June 1976 for reducing the aggregate amount of deposits in the form of unsecured debentures, loans guaranteed by directors and in the case of public companies deposits received from shareholders to 15 per cent of net owned funds, were allowed further extension of time upto December 31, 1977 by suitably amending the rules. No such extension of time was, however, granted to non-banking financial companies covered by the Non-Banking Financial Companies (Reserve Bank) Directions, 1966. As regards companies conducting prize chits, lucky-draws, savings schemes, etc., the extension for time allowed to them under the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1973 to bring down the guaranteed deposits, etc., within the reduced ceiling of 15 per cent was allowed to expire in December 1976.

*Deposits with Non-Banking Companies, 1973-74*

197. The Survey of Deposits with Non-banking Companies for the year ended March 31, 1974, shows that the total number of reporting companies increased during the year by 1,395 to 4,236. The aggregate amount of deposits including deposits/loans under categories exempted from the ceiling restrictions recorded a rise of Rs. 280.8 crores from Rs. 747.8 crores at the end of March 1973 to Rs. 1028.6 crores at the end of March 1974. Of this sum, deposits falling within the purview of ceiling restrictions amounted to Rs. 483.7 crores, the balance being exempted deposits/loans.

198. The aggregate deposits, including exempted deposits/loans, of the 3,048 reporting non-financial companies stood at Rs. 724.6 crores as on March 31, 1974, as against Rs. 517.4 crores in respect of 1,962 reporting companies as at the end of the previous year. The deposits falling within the purview of the ceiling restrictions under the directions amounted to Rs. 403.7 crores.

199. As regards financial companies, the aggregate deposits including exempted loans of the 1,188 reporting companies amounted to Rs. 304.0 crores as on March 31, 1974, as against Rs. 230.4 crores in respect of 879 companies as at the end of the previous year. The deposits other than those under exempted categories accounted for a sum of Rs. 80 crores.

TABLE 3.1—ASSISTANCE SANCTIONED BY THE IDBI AND UTILISED BY THE ASSISTED CONCERNS DURING 1975-76 AND 1976-77 AND SINCE INCEPTION

(Amounts in rupees crores)

Type of Assistance	Assistance Sanctioned (effective)						Assistance Utilised		
	1975-76		1976-77		July 1964 to June 1977		1975-76	1976-77	July 1964 to June 1977
	No.	Amt.	No.	Amt.	No.	Amt.	Amt.	Amt.	Amt.
1	2	3	4	5	6	7	8	9	10
1. Direct loans to industrial concerns (Other than for exports) .. .. .									
(a) Normal .. .. .	96	103.5	124	203.3	499	638.3	48.7	87.4	347.7
(b) Soft Loan .. .. .	—	—	48	38.3	48	38.3	—	0.9	0.9
(c) Technical Development Fund .. .. .	—	—	21	3.3	21	3.3	—	—	—
2. Underwriting of and direct subscription to shares and debentures of industrial concerns .. .. .	52	12.1	77	28.5	340	105.3	6.8	8.1	48.3
3. Refinance of industrial loans .. .. .	8132	163.2	14214	251.7	36878	717.8	102.5	141.4	491.1
4. Rediscounting of bills .. .. .	951	120.8	995	151.3	3144	647.8	91.7	113.3	518.1
5. Subscription to shares and bonds of financial institutions .. .. .	21	16.8	23	10.6	30	82.6	14.2	12.8	81.6
Total Project Assistance (1 to 5) .. .. .	9252	416.3	15502	687.0	40960	2233.4	263.8	363.8	1487.8
6. Direct loans for exports .. .. .	16	29.8	9	11.7	82	105.5	13.7	17.9	71.9
7. Refinance of export credits .. .. .	15	5.3	12	5.9	108	53.7	8.6	3.0	46.1
8. Overseas buyers' credit .. .. .	3	6.9	2	11.0	7	22.4	0.3	5.1	5.4
9. Foreign lines of credit .. .. .	—	—	3	12.4	9	32.9	5.2	2.8	11.0
Total (1 to 9) .. .. .	9286	458.3	15528	728.0	41166	2448.0	291.6	392.6	1622.3
10. Guarantee for loans and deferred payments .. .. .	—	—	—	—	15	26.7	—	—	19.5@
11. Export guarantees .. .. .	4	2.4	12	41.9	20	46.6	2.9@	25.1@	29.8@

Note : The number of applications in respect of item 4 relates to the number of purchaser-users and in respect of item 5 to the number of financial institutions.

@Guarantees executed.

## CHAPTER IV. EXCHANGE CONTROL

200. In the sphere of Exchange Control, the main developments during the year were : the introduction of a more liberal facility to non-resident Indians and persons of Indian origin resident abroad, for facilitating their investment in industry in India with repatriation benefits, facilitating private traders' participation in trade with Pakistan and the conclusion of a credit agreement with Sri Lanka.

Developments  
in Exchange  
Control

*Exchange Rate of the Rupee*

201. From September 25, 1975, when the rupee was delinked from the pound sterling, the exchange value of the rupee in terms of the pound sterling was changed nine times ; the latest rate was fixed on December 24, 1976, yielding a middle rate of Rs. 15.20 per pound sterling. The exchange value of the rupee in terms of pound sterling for spot delivery as revised from time to time is given in Appendix.

202. As hitherto, the Reserve Bank continued to buy forward sterling for delivery upto nine months by adding a margin of £ 0.0125 per Rs. 100 per quarter or part thereof to its spot buying rate. Accordingly, from December 24, 1976, the forward rates for delivery upto three months, six months and nine months continued to be fixed at £ 6.6132, £ 6.6257 and £ 6.6382, respectively. The Bank continued to permit one or more extensions of its forward purchase contracts so as to extend delivery upto a maximum of 12 months in all from the date of original contract on payment of a charge of £ 0.0125 per Rs. 100 for each quarter or part thereof. Likewise, the margin to be added to the spot buying rate for sterling for calculating the Bank's rates for forward purchases of sterling for periods of 18 months and over but not exceeding 10 years under the scheme of providing long-term forward exchange cover to the exporters in respect of exports under deferred payments terms, remained unchanged as indicated below :

Period of forward contract	Percentage margin over the Bank's spot buying rate
1. 18 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

*Resumption of Forward Purchases by RBI*

203. The Bank which had suspended temporarily with effect from October 26, 1976, forward purchases (including those under the Scheme for providing long-term exchange cover to exporters against exports under

deferred payment terms) of the pound sterling, following its decline in the international exchange markets along with those of the U.S. dollar, the Deutsche mark and the Japanese yen, resumed forward buying of these currencies from November 8, 1976. The forward purchase in sterling was resumed at the rates prevailing at the time of their suspension on October 26, 1976, and that of the other three currencies in accordance with the usual procedure.

*Foreign Currency (Non-residents) Accounts Scheme*

204. The Scheme of Foreign Currency (Non-resident) Accounts continued to operate on the same lines as mentioned in the previous Report. With regard to the facility of automatic re-investment of interest as and when it accrues on deposits made under the Scheme, the Bank decided that authorised dealers may accept deposits under such re-investment plans provided the plans involve compounding of interest accrued on deposits at *half yearly rests* (and not at shorter intervals), the period of deposits is 12 months or more and the plans are otherwise in conformity with the DBOD's Directive No. Dir/BC-95/C. 347-75 of October 27, 1975. The Bank also decided that recurring deposit accounts should not be permitted under the Scheme.

*Asian Clearing Union*

205. The Asian Clearing Union which was established on December 9, 1974 and had commenced clearing operations from November 1, 1975, was joined by the Union of Burma Bank, Rangoon (Burma), as its member with effect from April 1, 1977. Myanma Foreign Trade Bank, Rangoon was designated by the Union of Burma Bank to handle the transactions cleared through the Clearing Union. Two more banks *viz.*, Bank of Tokyo Ltd., Calcutta and Sonali Bank, Calcutta were included in the list of designated banks to handle Asian Clearing Union transactions. The other member Central Banks who had already joined the Clearing Union were those from six countries *viz.*, Bangladesh, India, Iran, Nepal, Pakistan and Sri Lanka.

*Financing of Exports—Rediscounting of Foreign Currency Usance Bills in Foreign Countries*

206. In view of the marked improvement in the country's foreign exchange reserves, the Bank directed the authorised dealers to discontinue the rediscounting of foreign currency usance bills in foreign countries with effect from May 24, 1977. Previously, such rediscounting was permitted by the Bank to enable the authorised dealers to raise ready funds for financing further operations there by simultaneously providing them exchange risk cover against bill purchase transactions with their customers. However, such an arrangement resulted in foreign exchange loss to the country in the form of discount charges payable to overseas banks or branches which could be avoided if the Indian banks could hold such bills till the maturity period.

*Investment in Equity Capital*

207. Non-resident Indians and persons of Indian origin resident abroad have been permitted to participate in equity investment upto 74 per cent (without any minimum limit) for starting industries listed in Appendix I to the Ministry of Industry's press note of February 2, 1973. Investment in other industries has also been allowed, provided the investor undertakes to export 60 per cent (75 per cent in the case of industries reserved for the small-scale sector) of output. The Scheme applies only to new investments, including expansion and diversification of existing industrial undertakings, but not to the purchase of shares of existing companies in respect of their current activities (*i.e.*, portfolio investment). Investors would be eligible for remittance of profits/dividends from the investment subject to usual regulations. Repatriation of capital has been allowed after the unit has gone into commercial production and subject to adherence to export obligations wherever stipulated. The earlier scheme permitting investment on repatriation basis by the non-resident Indians and persons of Indian origin upto 20 per cent of the new equity capital in new industries continues to be operative.

*Issue and Transfer of Shares and Securities to Persons Resident in Nepal*

208. Issue and transfer of securities and shares expressed to be payable in Indian rupees to persons resident in Nepal now require the prior approval of the Reserve Bank following the withdrawal of the general permission granted by the Bank earlier in respect of such transactions. Transfer of Indian rupee securities and shares standing in the names of persons resident in Nepal to other residents of Nepal also requires the prior permission of the Bank. However, the payment of interest on and repayment of the Government of India securities already issued or standing in the name of persons/firms resident in Nepal are allowed to be remitted in rupees as hitherto.

*Priority Allotment of Scooters/Agricultural Tractors/Cement Against Foreign Exchange Receipts*

209. The Scheme hitherto covered, *inter alia*, Indian nationals who had returned from abroad. Now the benefits of the Scheme have also been extended to Indian nationals residing abroad. With effect from January 1, 1977, the applications for allotment of various types of cars/scooters other than Bajaj Chetak Scooters were not required to be sent to the Government. However, applications for allotment of other items, *viz.*, agricultural tractors and cement continued to be entertained by the Government as hitherto.

*Blanket Exchange Permits*

210. The facility of blanket exchange permits has been extended to construction companies/firms who earn foreign exchange out of construction jobs undertaken abroad. The facility would be available to those companies who have, *inter alia*, repatriated from abroad annual minimum net amount of foreign exchange equivalent to Rs. 15 lakhs as earnings out



of contracts executed abroad. Other conditions for issue of blanket exchange permits applicable to other eligible categories of exporters remained unchanged.

**Trade and  
Credit Arrange-  
ments**

*Trade Arrangements with Pakistan*

211. Since December 7, 1974, trade with Pakistan was being conducted on a Government-to-Government basis or through Government controlled trade corporations on the basis of freely convertible currencies. However, according to the new arrangements entered between the two countries effective from July 15, 1976, all other importers and exporters have also been allowed to participate in trade with Pakistan. Such trade transactions would be carried out through irrevocable documentary letters of credit opened by specified banks in each country. For this purpose, the National Bank of Pakistan in Pakistan and the State Bank of India in India have been specified. All exports from India to Pakistan will be realised in convertible currencies. Eligible transactions could be cleared through Asian Clearing Union by the designated banks in India. Exports from India to Pakistan will be subject to their declaration on EP forms and proceeds of such exports will have to be realised within a period of three months from the date of exports.

*Indo-Sri Lanka Credit Agreement*

212. The Government of India entered into a credit agreement with the Government of Sri Lanka on January 19, 1977, whereby a line of credit upto an amount of Indian Rs. 7 crores has been made available to the Government of Sri Lanka for purchase of Indian goods. The goods to be imported from India have been classified into two parts, viz., Part A and Part B. For goods under category 'B', the credit will cover the entire *f.o.b.* value of goods whereas in the case of category 'A' goods, credits will cover only 90 per cent of the *f.o.b.* value, the initial 10 per cent of the *f.o.b.* value will be remitted by the importers in Sri Lanka in freely convertible foreign currency as down payment.

**New Offices**     *Opening of New Offices of Exchange Control Department*

213. Exchange Control Cells were opened at Bhubaneswar and Gauhati from December 1, 1976. These newly opened Cells would handle business relating to (i) 'P' forms and Foreign Travel Scheme (FTS) applications, (ii) release of exchange for (a) higher studies and training, (b) business travels and medical treatment, (c) participation in conferences and study tours, (d) travel abroad against Government sanction, (e) employment abroad, (f) visits made by foreign born wives of Indian nationals to their countries of birth and (g) 'J' form applications for taking out personal jewellery abroad. Bhubaneswar Cell would have jurisdiction over Orissa, and Gauhati cell over the States of Assam, Meghalaya, Arunachal Pradesh, Nagaland, Mizoram and Union Territories of Manipur and Tripura.

**Other  
Developments**

214. With effect from July 12, 1976, persons eligible to travel to Mauritius can also visit Seychelles on either way or visit only Seychelles Islands. A visit to Seychelles under the Mauritius Travel Scheme will be treated on par with visit to Mauritius but will not debar the traveller from availing of the Foreign Travel Scheme, 1970 for a visit to any other country abroad including Seychelles Islands, (ii) permission has been granted to authorised dealers to sell exchange upto U.S. \$ 100 or its equivalent to persons availing of FTS 1970 for travel to Maldives Islands, Bangladesh or Sri Lanka, and (iii) fresh licences to deal in foreign exchange business were granted to the United Industrial Bank Ltd., Calcutta, the Lakshmi Vilas Bank Ltd., Madras, the Nedungadi Bank Ltd., Calicut, the Sangli Bank Ltd., Sangli and Karnataka Bank Ltd., Mangalore.

## APPENDIX

## RBI'S SPOT RATES FOR PURCHASE AND SALE OF POUND STERLING

Date	Buying Rate	Selling Rate	Middle Rate
25-09-1975	£ 5.4769 per Rs. 100 (corresponding to Rs. 18.26 per £ 1)	£ 5.4471 per Rs. 100 (corresponding to Rs. 18.36 per £ 1)	Rs. 18.31 per £ 1
05-12-1975	£ 5.5315 per Rs. 100 (corresponding to Rs. 18.08 per £ 1)	£ 5.5010 per Rs. 100 (corresponding to Rs. 18.18 per £ 1)	Rs. 18.13 per £ 1
08-03-1976	£ 5.6497 per Rs. 100 (corresponding to Rs. 17.70 per £ 1)	£ 5.6180 per Rs. 100 (corresponding to Rs. 17.80 per £ 1)	Rs. 17.75 per £ 1
11-03-1976	£ 5.8140 per Rs. 100 (corresponding to Rs. 17.20 per £ 1)	£ 5.7803 per Rs. 100 (corresponding to Rs. 17.30 per £ 1)	Rs. 17.25 per £ 1
03-04-1976	£ 5.9347 per Rs. 100 (corresponding to Rs. 16.85 per £ 1)	£ 5.8997 per Rs. 100 (corresponding to Rs. 16.95 per £ 1)	Rs. 16.90 per £ 1
23-04-1976	£ 6.0790 per Rs. 100 (corresponding to Rs. 16.45 per £ 1)	£ 6.0423 per Rs. 100 (corresponding to Rs. 16.55 per £ 1)	Rs. 16.50 per £ 1
29-05-1976	£ 6.2696 per Rs. 100 (corresponding to Rs. 15.95 per £ 1)	£ 6.2305 per Rs. 100 (corresponding to Rs. 16.05 per £ 1)	Rs. 16.00 per £ 1
21-09-1976	£ 6.5147 per Rs. 100 (corresponding to Rs. 15.35 per £ 1)	£ 6.4725 per Rs. 100 (corresponding to Rs. 15.45 per £ 1)	Rs. 15.40 per £ 1
29-09-1976	£ 6.8259 per Rs. 100 (corresponding to Rs. 14.65 per £ 1)	£ 6.7797 per Rs. 100 (corresponding to Rs. 14.75 per £ 1)	Rs. 14.70 per £ 1
24-12-1976	£ 6.6007 per Rs. 100 (corresponding to Rs. 15.15 per £ 1)	£ 6.5574 per Rs. 100 (corresponding to Rs. 15.25 per £ 1)	Rs. 15.20 per £ 1

TABLE 4.1 :—STATISTICAL DATA FOR THE PERIOD JULY 1976 TO JUNE 1977

## I. Fresh Exchange Permits Issued for Study/Training Abroad

Country	Technical Courses		Non-Technical Courses	
	Number of students/trainees	Amount of exchange released (Rs. 000's)	Number of Students/trainees	Amount of exchange released (Rs. 000's)
1	2	3	4	5
U.K. and Europe .. .. .	452	9574	567	6175
U.S.A. and Canada .. .. .	586	14266	721	15152
Other Countries .. .. .	110	1032	97	492
<b>Total .. .. .</b>	<b>1148</b>	<b>24872</b>	<b>1385</b>	<b>21819</b>

## II. Travel Permits Issued for Travel Abroad for Purposes other than Study/Training

Purpose	Number of persons covered by permits issued	Amount of exchange released (Rs. 000's)
1	2	3
1. Business .. .. .	17564	248394
2. Medical Treatment .. .. .	279	7011
3. Study Tours .. .. .	949	10127
4. Attendance at Conferences .. .. .	1774	8195
5. Miscellaneous .. .. .	10388	30656
<b>Total .. .. .</b>	<b>30954</b>	<b>304383</b>

## III. 'P' Form Applications \*

Purpose	No. of persons	
	covered by approvals granted	
1. Joining head of family .. .. .	20,234	
2. Visits to relatives .. .. .	21,826	
3. Export promotion .. .. .	1,234	
4. Employment abroad .. .. .	85,534	
5. Emigration for permanent settlement .. .. .	13,136	
6. Students/Trainees .. .. .	2,473	
7. Miscellaneous .. .. .	22,695	
<b>Total .. .. .</b>	<b>1,67,132</b>	

## IV. Foreign Travel Scheme (FTS), 1970 \*

<b>Number of persons covered by approvals granted</b>	<b>94,707</b>
---	---------------

\* No foreign exchange is released in such cases.

**Reserve Bank of India Act, 1934: Amendment** 215. In terms of the Dadra and Nagar Haveli (Laws) Regulation, 1963—No. 6 of 1963, as published in the Gazette of India, Extraordinary, Part II, Section 1, dated July 18, 1963 the Reserve Bank of India Act, 1934 has been extended to the Union Territory of Dadra and Nagar Haveli. The following modification to the First Schedule to the Reserve Bank of India Act, 1934 has been approved by the Government :

In the First Schedule, in paragraph 1(4) 'Maharashtra & Goa, Daman and Diu,' substitute 'and Maharashtra and the Union Territories of Dadra and Nagar Haveli and Goa, Daman & Diu'.

**Surveys** 216. During the year under review, the Steering Committee appointed by the Bank to oversee the conduct of the All-India Debt and Investment Survey met three times and reviewed the progress of the Survey. The first Monograph: 'Assets of Rural Households as on June 30, 1971' was published in December 1976. The second Monograph : 'Indebtedness of Rural Households and Availability of Institutional Finance as on June 30, 1971' will be published shortly. Two review reports, viz., 'Agricultural Development and Co-operative Credit in Maharashtra—1961-1975' and 'Financing of Primary Agricultural Credit Societies by Commercial Banks' have been published. Similar review reports on Agricultural Development and Co-operative Credit in Madhya Pradesh and Gujarat will be published shortly.

217. In December 1976, the Division of Field Surveys, Economic Department, released a report on the 'Operations of the Marginal Farmers and Agricultural Labourers Development Agencies (MFALDA) 1973'. A review of the 'State and Central Co-operative Banks' Advances' during the year 1975 based on the quarterly surveys was published in the October 1976 issue of the Reserve Bank of India Bulletin. At the instance of the Economic and Social Commission for Asia and the Pacific, case studies of a few agricultural families belonging to weaker sections in four selected districts were conducted. The report on the findings was presented at the Expert Group Meeting on Rural Institutions Serving Small Farmers held at Bangkok in December 1976. The data on the 'Field Study of Savings Potential of Farmers (1969-70)' are being processed.

218. The Division of International Relations conducted the Third Survey of Foreign Collaboration in Indian Industry for the period 1970-71 to 1972-73. The data are being processed.

219. The Division of Balance of Payments continued to call for quarterly reports from branches of foreign companies and Indian joint stock companies, for the Foreign Investment Survey and the results of this Survey covering the year 1973-74 are being finalised. The Survey of Unclassified Receipts, covering inward remittances of foreign exchange in amounts below Rs. 10,000 or equivalent for which no purpose-wise details are available, was initiated for the quarter January-March 1977, and the returns are being processed. The report on a similar survey for the quarter January-March 1976 was finalised.



Central/Local  
Boards

*Central Board*

220. Shri K. R. Puri, whose term of appointment as Governor of the Bank expired on August 19, 1976 was granted an extension by the Central Government for a further period of two years commencing from August 20, 1976. Shri Puri, however, relinquished charge of his office as Governor of the Bank with effect from May 2, 1977 and Shri M. Narasimham was appointed as Governor of the Bank with effect from the same date until further orders. The Board wishes to place on record its appreciation of the services rendered by Shri Puri during his tenure as Governor of the Bank.

221. Shri R. K. Seshadri relinquished charge of office as Deputy Governor of the Bank on expiry of his term on July 25, 1976. The Board wishes to place on record its appreciation of the services rendered by Shri Seshadri during his association with the Bank.

222. Shri J. C. Luther, an Executive Director of the Bank, was appointed by the Government of India as Deputy Governor of the Bank for a period of one year from the date of his assuming charge and Shri Luther assumed charge on January 4, 1977. He, however, relinquished charge of his office as Deputy Governor of the Bank as at the close of business on June 1, 1977.

223. Shri M. Narasimham was nominated as a Director of the Central Board of the Bank under Section 8(i) (d) of the Reserve Bank of India Act, 1934, with effect from November 11, 1976 *vice* Shri N. C. Sen Gupta. Consequent on his appointment as Governor of the Bank with effect from May 2, 1977, he ceased to be a Director of the Central Board under the said Section.

224. Dr. Manmohan Singh was nominated as a Director on the Central Board of the Bank under Section 3(i) (d) of the Reserve Bank of India Act, 1934 with effect from May 21, 1977 *vice* Shri M. Narasimham.

225. Seven meetings of the Central Board were held during the year, out of which three were held in Bombay and one each at Madras, Kanpur, Calcutta and New Delhi. The Committee of the Central Board held 51 meetings of which two were held in New Delhi and the rest in Bombay.

226. Dr. A. K. Banerji and Shri S. D. Deshmukh were appointed as Executive Directors of the Bank with effect from September 6, 1976 and January 3, 1977, respectively. Dr. C. D. Datey, Executive Director, retired from the Bank's service on March 31, 1977.

227. Shri K. Madhava Das was appointed as Executive Director of the Bank with effect from June 28, 1977 in place of Shri S. D. Deshmukh who relinquished charge, consequent upon his appointment as Executive Director for India, Bangladesh and Sri Lanka on the Executive Board of the International Monetary Fund.

*Local Boards*

228. There was no change in the composition or in the membership of the Local Boards during the year under review.

**Premises***New Office Premises*

229. By the end of the year under review, construction work of the Bank's multi-storeyed office building in the compound of the India Government Mint at Bombay reached 17th floor level. Contracts for supply and installation of lifts and airconditioning systems have been awarded. Tenders invited for the supply and installation of electrical equipments, aluminium windows and fire safety doors and windows for the above building are under scrutiny. Main office building at Hyderabad is expected to be ready for occupation by September 1977. The work for construction of the office buildings at Gauhati, Bhubaneswar and Trivandrum is also in progress at different stages. Recently, the construction of office building at Ahmedabad was also commenced.

230. With a view to meeting the increased requirements of office space, additional accommodation has been taken on lease at Bombay, Bhubaneswar and Cochin. At Jammu and Gauhati new accommodation has been taken on lease *in lieu* of the space surrendered by Department of Banking Operations and Development and Issue Department, respectively.

*Residential Quarters*

231. During the period under review, the construction of 332 quarters for clerical and subordinate staff (*viz.*, 140 at Kodambakkam Pudur, Madras, 186 at Osborne Road, Bangalore and 6 at the College of Agricultural Banking, Pune) have been completed. Further, 28 ready built flats have been purchased at Bhopal from M.P. Housing Board for clerical and subordinate staff. With this, the total number of quarters provided by the Bank for its staff at various centres rose from 4,325 to 4,685. In addition, construction of quarters for the staff is in progress at Hyderabad, Bhubaneswar and Chandigarh.

*Purchase of Land for Office Buildings/Staff Quarters*

232. The Bank has been allotted plots of land for the proposed office building and staff quarters at Jammu and officers' quarters at Bhubaneswar. Additional 0.8377 hectare (2.07 acres) of land has also been allotted at Bhopal for office building.

**Training***Bankers Training College, Bombay*

233. The Bankers Training College continued its programmes for commercial banks and financial institutions on Credit Appraisal, Development Banking, Statistics for Bankers, Project Appraisal, Personnel Management, Industrial Relations, Organisation and Methods and Foreign Exchange, etc. The College conducted two programmes specially designed for the probationers of the Indian Economic Service.

234. Of the 66 programmes conducted during the year, 26 were on an in-company basis tailored to the specific requirements of the sponsoring institutions. For the Reserve Bank's officers, the College conducted two programmes each on Central Banking and Credit Appraisal and one programme on Foreign Exchange (Inspection-oriented) for middle level officers and one Central Banking Advanced Programme for senior officers. During this year, the College conducted for the first time two six-week programmes in Economic Theory and Quantitative Methods in Economic Analysis—one for officers in Grade 'A' and the other for officers in Grades 'B' and 'C' in the Economic Department and Department of Statistics. A two-week Workshop of trainers of commercial banks' training college was arranged by the College in collaboration with the National Institute of Bank Management, to develop cases for the use of the banking system as a whole and to impart skills in case-writing and handling cases. The College also introduced a new programme on 'Performance Budgeting' for commercial banks.

235. At the request of the Bank Negara, Malaysia, the College deputed two members of the Faculty to deliver a series of lectures on 'Finance of International Trade' and 'Analysis of Financial Statements' in the Fourth SEACEN Course on inspection and supervision of financial institutions, organised for the staff of South East Asian Central Banks and Monetary authorities at Kuala Lumpur in July 1976.

236. The College collaborated with the National Institute of Bank Management in their workshop on Foreign Exchange held at Panaji in November 1976, and also gave faculty assistance to a number of other training institutions.

237. In all 1,902 officers from the Reserve Bank, commercial and development banks and the Government received training during the year, raising the total number of personnel trained to 12,266 since the inception of the College in 1954.

#### *College of Agricultural Banking, Pune*

238. The number of programmes conducted at the College of Agricultural Banking showed a substantial rise to 42 programmes from 29 programmes last year. This year a large number of officers of commercial banks and Government Departments participated in these programmes.

239. With a view to training officers of land development banks in the context of the sanctioning of a general line of credit to the Agricultural Refinance and Development Corporation by the IDA/World Bank, two channels of instruction were exclusively reserved at the College for the Agricultural Projects Courses. Seventeen such courses were completed during the year. The College has also been training the newly appointed branch managers of the Regional Rural Banks (RRBs) and is also to conduct the training of the Chairmen of these banks. While the training for these two categories of officers is the direct responsibility

of the College, it is also required to guide the sponsoring commercial banks in organising training courses for other categories of the RRB staff, viz., Field Officers/Assistants and clerical staff, on the basis of the syllabi developed by the College. The first training programme for branch managers of RRBs was inaugurated on November 15, 1976. It was of a long duration—24 weeks in four phases of six weeks each. The first phase is at the College to give the trainees the basic background. This is followed by a six week on-the-job training in co-operative/commercial banks, SFDA areas, etc. In the third phase, the participants visit their own area of operation and prepare a suitable credit plan based on the actual field conditions. During the fourth phase, once again at the College, the participants discuss the credit plan and other topics of interest and seek clarifications on the doubts/points arising out of the field visit. During the year, three such courses were completed. The duration of this programme is now to be 12 weeks. With a view to helping the sponsoring banks to organise training courses for the field and clerical staff of the RRBs, the College has introduced a system of admitting a few suitable officers as 'Observers' in the RRB branch managers' courses. To cope with the heavy schedule of programmes, both for RRBs and co-operative banks, the venue for training co-operative banks' officers has been temporarily shifted to the Staff College, Madras.

240. Two special programmes — one for the Managing Directors/Managers of newly set-up primary societies in Sikkim and the other for their Inspectors — were organised by the College, to serve the specific requirements of the State. In response to requests for outstation programmes the College conducted fourteen such programmes during the year under review. Special mention may be made of (1) the sessions conducted by the College Faculty at the Lal Bahadur Shastri Academy of Administration, Mussoorie, to brief the IAS probationers on the institutional set-up available for financing agriculture, procedures for lending etc., and (2) the re-orientation programme for the district collectors of Kerala, arranged at Trivandrum; the programme covered identification, formulation, appraisal, implementation and follow-up of agricultural projects.

241. The College continued to conduct its other usual programmes including the Agricultural Finance Programme and the Courses for the managerial staff of the primary/central/state co-operative banks. Since its inception in 1969 the College has imparted training to 6,956 banking and other personnel.

#### *Staff College, Madras*

242. The Staff College at Madras continued to conduct its series of programmes like the Staff Officers' Development Programme and Inspecting Officers' Programme besides running courses in the areas covering the inter-mobility of officers, credit management and foreign exchange, etc. A number of special seminars on the Report of the Study Group on Follow-up of Bank Credit were also scheduled during this year for the officers in Grades 'A' and 'B'. For the first time, a special programme for the Assistant Treasurers of the Cash Department was conducted, which aimed at

the improvement of the functional and supervisory skills of the participants. The College also conducted a series of crash programmes for the officers of public sector banks, which have been recently entrusted with the task of transacting Government business.

243. Many overseas central banks mainly from African countries evinced a keen interest in the training programmes conducted by the College particularly the programmes for inspecting officers. During the year, an officer from the Bank of Sierra Leone also participated in this programme.

244. The name of the College has been changed from 'Reserve Bank Staff Training College' to 'Reserve Bank Staff College' with effect from October 18, 1976, keeping in view the fact that the range and coverage of courses conducted at the College emphasise not merely technical but improvement of conceptual and relational skills as well.

245. The total number of employees who have received training at the College since its inception in 1963 stands at 5,984.

#### *Zonal Training Centres*

246. The experimental courses, aimed at making the training imparted at the Zonal Training Centres more functional, which were introduced initially at the Byculla (Bombay) centre, have now been put on a regular basis at the Centres at Calcutta, Madras and New Delhi. The Induction Course intended for Clerks Grade II was redesigned to substantially cover the work of Cash Department also. This series of courses will now cover the combined cadre of Clerks Grade II and Coin/Note Examiners Grade II. Such Integrated Induction Courses aim to introduce the trainees to the environment in which the institution works, the outline of the working of various departments and the service conditions in the Bank.

247. The total number of clerical staff who have so far received training at all the Zonal Training Centres stood at 13,105.

#### **National Institute of Bank Management**

248. During 1976-77, the National Institute of Bank Management initiated several projects in the direction of rural development. The Institute's role in this field was (a) to help identify and select a core of young and willing men and women through a rigorous selection procedure and (b) to intensively train those selected groups of men and women by acclimatising them to rural economy through field work.

249. The Institute organised Seminars, Workshops, Conferences and Courses, relating to various topics such as Information System in Banks, Management of Sticky Accounts etc. Courses were also offered for trainers in the area of Credit Management, Foreign Exchange, Teaching Methodology etc. A programme in District Planning was held for the officers of a Bank in charge of Lead Districts. On behalf of the Department of Rural Development, Ministry of Agriculture, Government of



India, jointly with the Agricultural Finance Corporation, two All-India Training Programmes for Project Economists (DPAP) were held.

250. Personnel selection services rendered to banks increased considerably during the year. In addition, to the services for the direct recruiting, the tools/techniques developed for internal promotion received wider acceptance in the banking industry during the year.

**Deputation of Staff**

251. The Bank continued to depute its officers for short-term training programmes and seminars, etc. organised by the All India/State level Associations, Management and other institutes. Besides, the Bank's officers were sent for training abroad to participate in the programmes conducted by the Economic Development Institute, Washington, Bank of England and SEANZA. The Bank also availed itself of the study facilities offered by the banking and other financial institutions in the U.K., West Germany, etc. Observation/training facilities continued to be extended to officials/senior executives of foreign banking/central banking institutions. Particular mention may be made of a batch of 11 Senior Officers from Kenya, Tanzania and Ethiopia, whose visit was sponsored by the Food and Agriculture Organisation (FAO), Rome, and the visit of a few officers from the Bank of Sierra Leone, Nepal Rastra Bank, Bank of Ghana, Bank of Uganda, National Bank of Commerce (Tanzania), etc.

**Housing Loan Scheme**

252. The total amount of 'society' and 'individual' loans sanctioned since the introduction of the Scheme in 1961 amounts to Rs. 6,80,52,161.00 and Rs. 4,70,52,557.00 respectively. In all 4,183 employees have availed of this facility.

253. During the period July 1, 1976 to June 30, 1977, housing loans were sanctioned as under :

Co-operative Housing Societies					No. of Societies	Amount Rs.
(A)	New Co-operative Housing Societies	..	..	..	4	24,08,475.00
	Additional loans to Co-operative Housing Societies already formed	..	..	..	4	34,50,693.00
						58,59,168.00
(B)	Individual members of staff				No. of employees	Amount Rs.
	New Loans	..	..	..	207	64,66,720.00
	Additional loans to employees who had already availed of loans earlier				37	11,57,769.00
						76,24,489.00

**Employer-  
Employee  
Relations**

254. With the lifting of the Emergency after the General Elections in March 1977, the Associations and the Unions in the Reserve Bank of India at different centres have become more active and have sought a review of the various decisions taken by the Bank, during the Emergency, affecting the employees. The Workers' Unions have also demanded that negotiations on their respective Charter of Demands submitted in 1975 which were held in abeyance during the Emergency should be reopened. At Kanpur, the Class IV employees on a call given by their Union were on a prolonged strike from June 4 to June 24, 1977, in support of their demand for supply of superior cloth for summer liveries for 1977. The Government have referred the dispute to adjudication.

255. On his assuming office, the Governor took the initiative to meet the representatives of the Associations of different categories of staff viz., Officers, Staff Officers, clerical staff and subordinate staff and listened to their grievances and demands. Notwithstanding the fact that the Government of India's declaration of employment in the Reserve Bank of India as an 'essential service' continued to be in force upto the end of June 1977, the Bank, as a gesture of goodwill, has on its own withdrawn its order dated March 23, 1976 regulating the activities of the staff and simultaneously sought the co-operation of the representative bodies in solving problems by mutual discussions in a constitutional manner.

256. Conciliation Conferences continued to be held as before with the representatives of the Associations of Officers, Staff Officers and workmen staff. A meeting was held with the Staff Officers' Association on October 8, 1976, when matters relating to confirmation, dearness allowance, housing loan rules, house rent allowance, etc., were discussed. Meetings were held with the Workers' Federation on January 13, 1977, and the Employees' Association on February 11 and 12, 1977 when matters relating to combined seniority, leave fare concession, promotion policy, reservation of posts for scheduled castes and scheduled tribes, policy of promotion of Class IV staff to Class III, etc., were discussed. At the branch level also, such discussions on local issues were held.

257. The Managers from various centres and the Heads of Departments in Bombay met in a Conference in Bombay in April 1977. Matters discussed at the Conference related to efficiency and discipline in the Bank, re-organisation of the administrative set-up, worker participation in management, etc. As in the previous years, the Staff Suggestion Scheme continued to evoke interest among the staff.

**Press  
Relations**

258. The Press Relations Section continued to disseminate information to the public about the working of the Bank and its affiliates, and to issue the fortnightly R.B.I. Newsletter to keep the staff informed about matters concerning current developments in the economic, financial and banking sectors, besides providing the staff with up-to-date information on important functional as well as internal matters concerning the Bank's Departments/Offices and associate institutions. Commencing from November 1976, the Newsletter is also being published in Hindi. During the year,

the Section brought out a folder leaflet explaining the exchange control formalities to be observed by foreign visitors to India. Revised editions of the informative brochures on 'Facilities for Non-residents of Indian Nationality or Origin for Remittance of Funds to India' and 'Exchange Control Regulations as Applicable to Indians Abroad' were published during the year. The Bank's House Magazine 'Without Reserve' published quarterly, continues to be very popular among the staff.

#### Promotion of Hindi

##### *In RBI*

259. During the year, a major development in the sphere of the use of Hindi for official business was the notification issued by the Government of India of the Official Languages (use for official purposes of the Union) Rules, 1976 under Section 8 of the Official Languages Act 1963. These Rules apply *inter alia* to the Bank, and came into effect from July 17, 1976. The Bank has approved the various measures to be taken for implementing the provisions of the Rules in the Bank in a phased manner, starting from the offices in Hindi speaking areas (Region 'A'\*) and the Central Office departments. Significant decisions taken so far in this respect are as follows : (i) Hindi Cells with Hindi Officers and other supporting staff would be set up in all our offices and departments in Region 'A' and Region 'B' (Maharashtra, Gujarat and Punjab) and the strength of the Hindi Division, Central Office would also be augmented. (ii) Our Offices in Region 'A' and the Central Office department should increasingly use Hindi only for initiating their correspondence with Regions 'A' and 'B' and should make every endeavour to see that at least 25 per cent of such correspondence emanates in Hindi. (iii) The Banks' Staff in our Offices in Region 'A' may use Hindi for notings on cases which go upto the level of Staff officers in Grades 'A' and 'B' provided the concerned officers have no objection to it. Several other steps were taken for the progressive use of Hindi in the Bank. They include :—

(1) Bilingualisation of (i) inscriptions on file covers and headings of all registers and (ii) flags viz. 'Urgent', 'Immediate', 'Confidential' and 'Secret'; (2) Printing of small flags used for references in the files etc. in Hindi also bearing alphabets ऋ to ॠ; (3) Bilingual printing of the Bank's Calendars commencing from the year 1977; (4) Bilingual issue of (i) all circulars and office orders etc. intended for Class III staff in our offices in Region 'A' where circulars etc. meant for Class IV staff are already being issued in both Hindi and English; the offices in Region 'A' have also been requested to consider issuing office orders and circulars intended for *all categories of staff* bilingually to the extent possible. (ii) Circulars, office orders etc. intended for Class III and IV staff and that of administration circulars by the Department of Administration and Personnel, the Department of Accounts and Expenditure and the Premises Department and (iii) Circulars to all banks by the Department of Banking Operations and Development. The circulars to the State Governments, Registrars for Co-operative Societies etc. are already being issued bilin-

\* For purposes of the Official Language Rules, the country has been divided into three regions, viz., Region 'A', Region 'B', and Region 'C'. Region 'C' covers non-Hindi speaking areas.

gually by the Agricultural Credit Department; (5) Bilingual printing of application forms for the post of Clerks Grade II/Coin-Note Examiners Grade II in Regions 'A' and 'B'; (6) Use of 'Namaste'/'Namaskar' while greeting the callers by our telephone operators in our offices in Regions 'A' and 'B'; (7) Allowing the employees in our offices in Region 'B' to use Hindi for their communications with the Bank (this has so far been in practice in our offices in Region 'A') and (8) Extending the optional medium of Hindi for answering questions in Part II of the written test as well as at the interviews for recruitment to the post of Clerks grade II/Coin-Note Examiners Grade II in Region 'B'—this facility was hitherto available to the candidates only in Region 'A'.

260. In compliance with the provisions of Section 3 of the Official Languages Act, 1963, the Agricultural Credit Department started issuing licences in bilingual form in Regions 'A' and 'B'. The Exchange Control Department has also been requested to print and issue their licences bilingually in the above Regions. As hitherto, press communiques/notes/summaries, notifications, notices, general orders, etc., enumerated in Section 3 of the above Act were being issued bilingually.

261. The Official Languages Implementation (OLI) Committee of the Bank held three meetings during the year and reviewed the progress made in the use of Hindi in the Bank and its associate institutions. During the year, after the constitution of an OLI Committee in the DBOD on which all public sector banks are represented, the Reserve Bank's own OLI Committee now consists of Senior Executives/Departmental Heads at Bombay. Besides, it was also decided to invite, by rotation, the Managers of our Kanpur, New Delhi, Jaipur and Patna offices for the meetings of the Committee. During the year, in addition to the local OLI Committees functioning already in our New Delhi and Kanpur offices, two more such Committees were set up in our Jaipur and Patna offices to oversee the implementation of various instructions issued by the Bank regarding progressive use of Hindi.

262. The Bank continued to bring out the Hindi versions of its Annual Report and those of the associate institutions. The 'RBI Monthly Bulletin' and its quarterly house journal 'Without Reserve' continued to be published with Hindi Sections. Fortnightly 'RBI News Letter' is now being brought out in Hindi also commencing from November 1976. The preparation of the English-Hindi glossary of Banking Terms is in progress. In addition, an English-Hindi glossary of Phrases and Expressions commonly used in office notings and correspondence etc., was completed and it is expected to be printed shortly.

263. The recurring annual grants sanctioned earlier to our offices etc. for the libraries with Hindi books of general interest were revised during the year and fixed at Rs. 1000 in respect of big offices in Hindi speaking areas, Rs. 500 in respect of big offices in Maharashtra, Gujarat and Punjab States and Rs. 200 in respect of all other offices.

264. Hindi classes continued to be conducted under both Voluntary and Compulsory Hindi Teaching Schemes for the Bank's staff with a view to

preparing them for Prabodh, Praveen and Pragya examinations conducted by the Government of India. In addition to the attendance in the classes, the appearance for the respective examinations has also been made compulsory for the officers in Grades A, B and C under the Compulsory Hindi Teaching Scheme. The Scheme of payment of honorarium to our staff for passing the recognised Hindi examinations was continued. Some employees availed of the facilities of the Hindi Correspondence Courses conducted by the Ministry of Education. The tuition, etc., fees payable for these correspondence courses were hitherto being reimbursed to only Class III staff. This facility has now been extended to the staff in classes I and II also. The Compulsory Hindi Teaching Scheme at present applicable to only officer staff is proposed to be extended to the staff in Classes II and III also shortly. A Scheme of compulsory in-service training in Hindi typewriting/stenography for making our typists, stenographers and personal assistants proficient therein is also expected to be put into operation shortly. The incentive scheme which offers an honorarium of Rs. 250 to our typists, stenographers and personal assistants for passing Hindi typewriting examinations of the Government of India or any State Government was also continued. This honorarium would be paid to the typists etc., who pass such examinations without insisting on any particular speed limit. A scheme of incentive by way of payment of honorarium of Rs. 250 to our stenographers for passing shorthand examination in Hindi was introduced during the year.

265. During the year, the members of the sub-committee of the Parliamentary Committee on Official Languages visited Jaipur and Trivandrum and met the officials of the Bank and other banks. They expressed their satisfaction on the progress made in the use of Hindi in the Bank and other public sector banks.

#### *In Public Sector Banks*

266. A reference was made in the previous Report to the constitution of an Official Languages Implementation Committee in the Department of Banking Operations and Development (DBOD) mainly to provide an opportunity to the representatives of the public sector banks to discuss the instructions issued by the Government for implementing the Official Language Programme from time to time. In the two meetings, held during the year, emphasis was laid on (i) providing infra-structural facilities such as setting up of Hindi Cells with adequate staff at the Head Offices and selected Regional Offices, purchase of improved Hindi (Devanagari Script) typewriters, appointment of typists and stenographers knowing Hindi typewriting and Hindi stenography, (ii) training of staff both under the banks' own training schemes as also through the correspondence courses of the Government of India, availability of text-books for the Hindi examinations conducted by Government of India, (iii) implementation of the instructions of Government of India which are issued through Reserve Bank, and (iv) introducing necessary check-points at various levels by each bank to ensure compliance of the requirements regarding

the use of Hindi. The Government of India notified detailed rules under Section 8 of the Official Languages Act, 1963 which came into force with effect from July 17, 1976. The implementation of these rules as applicable to the working of banks was also discussed. The Reserve Bank desired that banks should try to increase their correspondence in Hindi especially in their offices located in Regions 'A' and 'B'.

267. A sub-committee of the Committee of Parliament on Official Languages visited Rajasthan and Kerala States, during December 1976 and January 1977 respectively, to review the progress made in the use of Hindi for Official purposes of the Union under Section 4 of the Official Languages Act, 1963. It interviewed, among others, the representatives of eight public sector banks, in groups. A senior officer of the Bank in-charge of the Hindi Cell of the Department of Banking Operations and Development attended on the sub-committee.

*In Co-operative Sector*

268. In pursuance of the policy, letters, circulars, orders and licences to co-operative banks are being issued by the Bank in Hindi as well as in English. Correspondence with Hindi speaking areas is being done in Hindi only.

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

269. Special measures, such as relaxations in the basic eligibility standards and qualifying norms, wider publicity of reserved posts in the Bank's service, special recruitment confined to Scheduled Castes and/or Scheduled Tribes etc., detailed in the earlier Reports, were continued during this year also and as a result, the representation of Scheduled Castes and Scheduled Tribes in the services of the Bank registered a further increase. Compared to the position as on January 1, 1976, the representation of Scheduled Caste and Scheduled Tribe employees has increased from 1,217 in Class IV, 1,750 in Class III and 53 in Classes II and I to 1,292, 1,995 and 85 respectively as on January 1, 1977. While earnest efforts are being made by the Bank's offices at various centres to clear the backlog in the recruitment of Scheduled Castes and Scheduled Tribes in Classes III and IV cadres, it has been our experience that an adequate number of Scheduled Castes and Scheduled Tribes candidates is not forthcoming, especially in the case of technical posts.

270. The policy of recruiting additional candidates belonging to Scheduled Castes and Scheduled Tribes as Staff Officers Gr. 'A' over and above the prescribed quota, referred to in the previous year's Report, has been continued during the year under review also. During the year under report, the Bank introduced reservations in favour of Scheduled Castes and Scheduled Tribes in vacancies filled by promotions in all cadres upto the grade of Senior Staff Officer Gr. 'D'. The scheme of reservation in promotion which has been given effect to from July 1, 1976 is broadly on the lines of the scheme in operation in Government.



271. The Bank has a scheme for 10 per cent reservation in favour of Scheduled Caste/Scheduled Tribe employees in the allotment of Bank's Class III and Class IV quarters. As against this, actual allotment of the Class III and Class IV quarters to Scheduled Caste/Scheduled Tribe employees during the year under review were higher at 13 per cent and 24 per cent respectively.

## CHAPTER VI. ACCOUNTS

**Accounts** 272. During the accounting year ended June 30, 1977 the Bank's income, after making adjustment for various provisions, amounted to Rs. 587.26 crores as compared with last year's income of Rs. 516.00 crores. The details of the income from various sources are as follows :

		(Amounts in rupees crores)	
		Year	
		1976-77	1975-76
(i)	Interest on Ways and Means Advances to State Governments ..	15.51	11.80
(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 ..	126.75	98.81
(iii)	Interest on Rupee Securities and Discount on Rupee Treasury Bills ..	263.46	306.61
(iv)	Interest and Discount on Foreign Securities, Investments and Treasury Bills ..	190.94	80.26
(v)	Commission and Profit and Gain by Exchange ..	6.51	12.76
(vi)	Other Income ..	10.01	13.30
		613.18	523.54
<b>Less:</b>	Interest paid to the Scheduled banks on the additional average daily balances maintained by them with the Reserve Bank ..	25.92	7.54
		587.26	516.00
<b>Less:</b>	Transfers to Funds as stated in paragraph 273 below ..	290.00	221.00
		297.26	295.00

273. 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. 95 crores, Rs. 20 crores and Rs. 175 crores during the year 1976-77 as against Rs. 66 crores, Rs. 5 crores and Rs. 150 crores respectively during the year 1975-76.

274. Out of the balance of income amounting to Rs. 297.26 crores after allowing for total expenditure of Rs. 97.26 crores during the year (as against the balance of income amounting to Rs. 295.00 crores and expenditure of Rs. 105.00 crores in the previous year), the surplus of profit set aside for payment to Central Government was Rs. 200 crores in comparison with Rs. 190 crores paid last year.

275. The rise of Rs. 71.26 crores in the total income from the level of Rs. 516.00 crores last year to Rs. 587.26 crores was largely due to (i) higher interest earned due to increase in foreign exchange reserves during the year and (ii) higher interest earned on loans and advances to State Governments and commercial and co-operative banks. The fall of Rs. 7.74 crores in the expenditure was mainly due to decrease on account of (i) arrears of commission paid last year to the State Bank of India and its subsidiaries on Government turnover transactions during

the period 1970-75 as against no such payment during the year ; and (ii) contribution last year to the staff gratuity and superannuation fund on account of accrued gratuity liability as against no such contribution for accrued liability during the year, partly offset by increase in the manufacturing cost of note forms.

**Auditors**

276. The accounts of the Bank have been audited by Messrs. K. S. Aiyar & Co., Bombay, Messrs. K. N. Gutgutia & Co., Calcutta, Messrs. Raghu Nath Rai & Co., New Delhi and Messrs. Sundaram & Srinivasan, Madras who were appointed/reappointed by the Government of India by letter No. 1(16) 76/ Accts dated April 22, 1977, issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act, 1934 (2 of 1934). Messrs. K. S. Aiyar & Co., Messrs. K. N. Gutgutia & Co., and Messrs. Sundaram and Srinivasan were appointed in place of Messrs. C. C. Chokshi & Co., Messrs. Lovelock and Lewes and Messrs. M. K. Dandekar & Co., respectively, while Messrs. Raghu Nath Rai & Co., have been reappointed by the Government. In addition to the Bombay, Calcutta, Madras and New Delhi offices the accounts of the Chandigarh and Cochin offices of the Bank were also audited by the Bank's statutory auditors this year.

# RESERVE BANK OF INDIA

BALANCE SHEET AS AT 30TH JUNE 1977

## ISSUE DEPARTMENT

LIABILITIES				ASSETS			
	Rs.	P.	Rs.	P.	Rs.	P.	Rs.
Notes held in the Banking Department .. ..	14,67,40,673.00				Gold Coin and Bullion :-		
Notes in circulation .. ..	8200,46,11,647.50				(a) Held in India .. ..	187,80,46,227.22	
Total Notes issued .. ..			8215,13,52,320.50		(b) Held outside India .. ..		
					Foreign Securities .. ..	1071,73,97,234.21	
					Total .. ..		1259,54,43,461.43
					Rupee Coin .. ..		15,42,90,909.60
					Government of India Rupee Securities .. ..		6940,16,17,949.47
					Internal Bills of Exchange and other Commercial Paper .. ..		.....
Total Liabilities .. ..			8215,13,52,320.50		Total Assets .. ..		8215,13,52,320.50

## BANKING DEPARTMENT

LIABILITIES				ASSETS			
	Rs.	P.	Rs.	P.	Rs.	P.	Rs.
Capital Paid-up .. ..	5,00,00,000.00				Notes .. ..	14,67,40,673.00	
Reserve Fund .. ..	150,00,00,000.00				Rupee Coin .. ..	3,17,577.00	
National Agricultural Credit (Long Term Operations) Fund .. ..	495,00,00,000.00				Small Coin .. ..	3,72,688.83	
National Agricultural Credit (Stabilisation) Fund .. ..	165,00,00,000.00				Bills Purchased and Discounted :-		
National Industrial Credit (Long Term Operations) Fund .. ..	715,00,00,000.00				(a) Internal .. ..	111,99,55,457.60	
Deposits :-					(b) External .. ..		
(a) Government .. ..					(c) Government Treasury Bills .. ..	265,31,98,249.23	
(i) Central Government .. ..	74,43,96,368.04				Balances Held Abroad* .. ..	2180,87,88,502.19	
(ii) State Governments .. ..	87,45,19,350.11				Investments** .. ..	651,09,92,431.93	
(b) Banks .. ..					Loans and Advances to :-		
(i) Scheduled Commercial Banks .. ..	1588,86,21,279.82				(i) Central Government .. ..		
(ii) Scheduled State Co-operative Banks .. ..	41,16,10,904.10				(ii) State Governments@ .. ..	72,23,00,000.00	
(iii) Non-Scheduled State Co-operative Banks .. ..	1,91,28,419.89				Loans and Advances to :-		
(iv) Other Banks .. ..	2,78,08,547.38				(i) Scheduled Commercial Banks† .. ..	962,18,07,161.46	
(c) Others .. ..	2461,43,38,829.71				(ii) State Co-operative Banks†† .. ..	247,74,27,833.00	
Bills Payable .. ..	157,67,77,542.38				(iii) Others .. ..	1,82,00,000.00	
Other Liabilities‡‡ .. ..	587,41,16,192.89				Loans, Advances and Investments from National Agricultural Credit (Long term Operations) Fund		
Total Liabilities .. ..			6533,13,17,434.32		(a) Loans and Advances to :-		
					(i) State Governments .. ..	98,33,76,218.75	
					(ii) State Co-operative Banks .. ..	15,80,45,212.33	
					(iii) Central Land Mortgage Banks .. ..	.....	
					(iv) Agricultural Refinance and Development Corporation .. ..	172,60,00,000.00	
					(b) Investment in Central Land Mortgage Bank Debentures .. ..	8,45,82,445.00	
					Loans and advances from National Agricultural Credit (Stabilisation) Fund		
					Loans and Advances to State Co-operative Banks .. ..	116,98,76,394.00	
					Loans, advances and Investments from National Industrial Credit (Long Term Operations) Fund		
					(a) Loans and Advances to the Development Bank .. ..	526,20,50,534.00	
					(b) Investment in bonds/debentures issued by the Development Bank .. ..	1086,72,86,056.00	
					Other Assets£ .. ..		
Total Assets .. ..							6533,13,17,434.32

- Contingent liability :
- (i) On partly paid shares Rs. 7,60,005.47 equivalent of £ 50,000
- (ii) On partly paid stock Rs. 4,33,20,311.91 equivalent of £ 2,850,000
- ‡‡ Includes Contingency Accounts
- \* 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. 329,33,68,067.03 held abroad in foreign currencies.
- @ Excluding Loans and Advances from the National Agricultural Credit (Long Term Operations) Fund.
- † Includes Rs. 8,76,00,000.00 advanced to scheduled commercial banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.
- †† Excluding Loans and Advances from the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund.
- £ Includes Rs. 832,32,79,500.00 advanced or deposited with scheduled commercial banks under special arrangements.

K. C. BANERJEE  
Chief Accountant

Dated the 29th July, 1977

M. NARASIMHAM  
R. K. HAZARI  
K. S. KRISHNASWAMY  
P. R. NANGIA

Governor  
Deputy Governor  
Deputy Governor  
Deputy Governor

---

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1977**


---

INCOME										Rs.	P.
Interest, Discount, Exchange, Commission, etc. †	..	..	..	..	..	..	..	..	..	297,26,15,033.13	
										<u>297,26,15,033.13</u>	
EXPENDITURE											
Establishment	..	..	..	..	..	..	..	..	..	35,51,16,731.43	
Directors' and Local Board Members' Fees and Expenses	..	..	..	..	..	..	..	..	..	78,764.35	
Auditors' Fees	..	..	..	..	..	..	..	..	..	80,000.00	
Rent, Taxes, Insurance, Lighting, etc.	..	..	..	..	..	..	..	..	..	1,77,77,553.30	
Law Charges	..	..	..	..	..	..	..	..	..	1,67,701.32	
Postage and Telegraph Charges	..	..	..	..	..	..	..	..	..	24,25,466.26	
Remittance of Treasure	..	..	..	..	..	..	..	..	..	75,63,473.14	
Stationery, etc.	..	..	..	..	..	..	..	..	..	46,79,950.56	
Security Printing (Cheque, Note Forms, etc.)	..	..	..	..	..	..	..	..	..	19,37,48,200.38	
Depreciation and Repairs to Bank Property	..	..	..	..	..	..	..	..	..	1,32,85,511.02	
Agency Charges	..	..	..	..	..	..	..	..	..	35,50,33,446.77	
Contributions to Staff Gratuity and Superannuation Funds	..	..	..	..	..	..	..	..	..	50,00,000.00	
Miscellaneous Expenses	..	..	..	..	..	..	..	..	..	1,76,57,337.40	
Net available balance										200,00,00,897.20	
Total										297,26,15,033.13	
Surplus Payable to the Central Government	..	..	..	..	..	..	..	..	..	200,00,00,897.20	

---

**RESERVE FUND ACCOUNT**


---

										Rs.	P.
By Balance on 30th June 1977	..	..	..	..	..	..	..	..	..	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.

K. C. BANERJEE  
Chief Accountant  
Dated the 29th July, 1977

M. NARASIMHAM      Governor  
R. K. HAZARI      Deputy Governor  
K. S. KRISHNASWAMY      Deputy Governor  
P. R. NANGIA      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 1977.

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, Chandigarh and Cochin 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.

Dated the 18th August, 1977.

Messrs K. S. AIYAR & CO.  
Messrs K. N. GUTGUTIA & CO.  
Messrs RAGHU NATH RAI & CO.  
Messrs SUNDARAM & SRINIVASAN } Auditors

## STATEMENT ON RESERVE BANK OF INDIA BALANCE SHEET

Particulars	For the year ended							
	June 30, 1975				June 30, 1976			
	Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.
<b>ISSUE DEPARTMENT</b>								
<b>LIABILITIES</b>								
Notes held in the Banking Department ..	15,49,78,757.00				24,67,21,372.00			
Notes in circulation .. .. .	6584,76,76,595.50				7150,33,90,123.50			
Total Notes issued .. .. .			6600,26,55,352.50				7175,01,11,495.50	
<b>Total Liabilities</b>			<b>6600,26,55,352.50</b>				<b>7175,01,11,495.50</b>	
<b>ASSETS</b>								
Gold Coin and Bullion (a) Held in India ..	182,52,58,101.88				182,52,50,617.44			
(b) Held outside India ..								
Foreign Securities .. .. .	121,73,97,234.21				546,73,97,234.21			
Rupee Coin .. .. .	5,59,96,917.65				15,30,04,388.73			
Government of India Rupee Securities ..	6290,40,03,098.76				6430,44,59,255.12			
Internal Bills of Exchange and Other Commercial Paper .. .. .								
<b>Total Assets</b>			<b>6600,26,55,352.50</b>				<b>7175,01,11,495.50</b>	
<b>BANKING DEPARTMENT</b>								
<b>LIABILITIES</b>								
Capital Paid-up .. .. .	5,00,00,000.00				5,00,00,000.00			
Reserve Fund .. .. .	150,00,00,000.00				150,00,00,000.00			
National Agricultural Credit (Long Term Operations) Fund .. .. .	334,00,00,000.00				400,00,00,000.00			
National Agricultural Credit (Stabilisation) Fund .. .. .	140,00,00,000.00				145,00,00,000.00			
National Industrial Credit (Long Term Operations) Fund .. .. .	390,00,00,000.00				540,00,00,000.00			
Deposits								
(a) Government .. .. .								
(i) Central .. .. .	77,69,36,995.84				63,12,38,550.20			
(ii) State .. .. .	8,44,73,019.23				138,78,48,015.79			
(b) Banks								
(i) Scheduled Commercial Banks ..	603,50,24,866.97				758,54,09,484.28			
(ii) Scheduled State Co-op. Banks ..	42,99,13,458.16				60,98,94,643.18			
(iii) Non-Scheduled State Co-op. Banks	1,45,98,463.70				1,69,82,005.95			
(iv) Other Banks .. .. .	1,74,10,401.96				4,18,42,239.38			
(c) Others .. .. .	982,43,69,501.90				2130,62,82,282.95			
Bills Payable .. .. .	97,97,68,768.31				79,91,90,407.09			
Other Liabilities .. .. .	750,66,31,290.04				549,59,08,322.22(a)			
<b>Total Liabilities</b>			<b>3585,91,26,766.11</b>				<b>5027,45,95,951.04</b>	



## STATEMENT ON RESERVE BANK OF INDIA BALANCE SHEET (Contd.)

Particulars	For the year ended							
	June 30, 1975				June 30, 1976			
	Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.
<b>ASSETS</b>								
Notes .. .. .	15,49,78,757.00				24,67,21,372.00			
Rupee Coin .. .. .	5,01,112.00				4,01,936.00			
Small Coin .. .. .	2,79,617.24				2,41,964.15			
Bills Purchased and Discounted								
(a) Internal .. .. .	126,12,80,388.35				138,07,60,341.67			
(b) External .. .. .								
Government Treasury Bills .. .. .	332,15,67,737.92				275,57,89,222.34			
Balances held abroad <sup>(b)</sup> .. .. .	410,95,25,397.68				1196,05,88,818.82			
Investments .. .. .	677,45,14,553.66 <sup>(cd)</sup>				565,41,66,698.86 <sup>(ce)</sup>			
Loans and Advances to								
(i) Central Government .. .. .					130,06,06,000.00			
(ii) State Governments <sup>(f)</sup> .. .. .	359,90,72,000.00				941,98,48,796.30 <sup>(h)</sup>			
(iii) Scheduled Commercial Banks .. .. .	385,26,87,000.00 <sup>(g)</sup>				156,18,63,494.00			
(iv) State Co-operative Banks <sup>(i)</sup> .. .. .	286,74,36,215.00				68,61,55,000.00			
(v) Others .. .. .	59,88,45,001.00							
Loans, Advances and Investments from National Agricultural Credit (Long Term Operations) Fund :								
(a) Loans and Advances to								
(i) State Governments .. .. .	69,70,59,860.92				75,70,25,217.55			
(ii) State Co-operative Banks .. .. .	13,33,72,365.66				12,59,04,003.33			
(iii) Central Land Mortgage Banks .. .. .								
(iv) Agricultural Refinance and Development Corporation .. .. .	88,20,00,000.00				138,40,00,000.00			
(b) Investment in Central Land Mortgage Bank Debentures .. .. .	10,65,45,520.00				9,82,07,720.00			
Loans and Advances from National Agricultural Credit (Stabilisation) Fund to State Co-operative Banks .. .. .	82,54,99,826.00				78,74,60,968.00			
Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund :								
(a) Loans and Advances to the Development Banks .. .. .	264,64,55,619.00				388,17,55,619.00			
(b) Investment in Bonds/Debentures issued by the Development Banks .. .. .								
Other Assets .. .. .	402,75,05,794.68 <sup>(j)</sup>				827,30,98,779.02 <sup>(k)</sup>			
<b>Total Assets</b> .. .. .			<b>3585,91,26,766.11</b>				<b>5027,45,95,951.04</b>	

Note : June 30, 1975—Contingent liability on partly paid shares Rs. 9,39,999.81 (Sterling Investments of £ 50,000 converted @ Rs. 100=£ 5.31915)

June 30, 1976—Contingent liability on partly paid shares Rs. 8,00,000.00 (Sterling Investments of £ 50,000 converted @ Rs. 100=£ 6.2500)

(a) Includes contingency Accounts.

(b) Includes Cash, Fixed Deposits and Short-term Securities.

(c) Excluding Investments from the National Agricultural Credit (Long Term Operations) Fund & National Industrial Credit (Long Term Operations) Fund.

(d) Includes Rs. 5,57,42,281.96 (equivalent of £ 50,000, U.S. \$ 6,005,000.00 and D.M. 9,22,650.00) held abroad.

(e) Includes Rs. 8,37,91,214.71 (equivalent of £ 50,000, U.S. \$ 9,002,500.00 and D.M. 6,60,000.00) held abroad.

(f) Excluding Loans and Advances from the National Agricultural Credit (Long Term Operations) Fund, but including temporary overdrafts to State Governments.

(g) Includes Rs. 208,37,00,000 advance to scheduled commercial banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.

(h) Includes Rs. 10,30,00,000 advanced to scheduled Commercial banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.

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

(j) Includes an amount of Rs. 188,20,00,000 advance to certain scheduled commercial banks under special arrangements in respect of their investments abroad.

(k) Includes an amount of Rs. 478,12,00,000 advanced to certain scheduled commercial banks under special arrangements.

## PROFIT AND LOSS ACCOUNT FOR THE YEARS ENDED 30TH JUNE 1975 AND 1976

								1975		1976	
								Rs.	P.	Rs.	P.
<b>INCOME</b>											
Interest, Discount, Exchange, Commission, etc.	..	..	..	..	..	..	..	228,00,56,335.37\$		294,99,72,239.32£	
								<u>228,00,56,335.37</u>		<u>294,99,72,239.32</u>	
<b>EXPENDITURE</b>											
Establishment	..	..	..	..	..	..	..	34,65,01,633.44		35,49,37,921.61	
Directors' and Local Board Members' Fees & Expenses	..	..	..	..	..	..	..	1,05,246.11		81,484.98	
Auditors' Fees	..	..	..	..	..	..	..	80,000.00		80,000.00	
Rent, Taxes, Insurance, Lighting, etc.	..	..	..	..	..	..	..	1,24,49,577.27		1,58,81,750.46	
Law charges	..	..	..	..	..	..	..	87,719.80		1,03,769.71	
Postage and Telegraph Charges	..	..	..	..	..	..	..	16,32,353.18		19,48,335.00	
Remittance of Treasure	..	..	..	..	..	..	..	94,38,912.02		46,78,237.46@	
Stationery, etc.	..	..	..	..	..	..	..	57,20,982.75		54,31,080.33	
Security Printing (Cheque, Note Forms, etc.)	..	..	..	..	..	..	..	5,82,42,274.86		14,38,45,495.76	
Depreciation and Repairs to Bank Property	..	..	..	..	..	..	..	1,30,46,628.84		1,31,96,766.72	
Agency Charges	..	..	..	..	..	..	..	31,24,70,222.44		43,01,12,622.71*	
Contribution to Staff Gratuity and Superannuation Funds	..	..	..	..	..	..	..	40,00,000.00		7,08,15,842.51**	
Miscellaneous Expenses	..	..	..	..	..	..	..	1,62,79,950.34		1,82,15,270.04	
Net Available Balance	..	..	..	..	..	..	..	<u>150,00,00,834.32</u>		<u>190,00,00,136.95</u>	
<b>TOTAL</b>	..	..	..	..	..	..	..	<u>228,00,56,335.37</u>		<u>294,99,72,239.32</u>	
										29228714.24	
Surplus Payable to the Central Government	..	..	..	..	..	..	..	150,00,00,834.32		190,00,00,136.95	
<b>RESERVE FUND ACCOUNT</b>											
By Balance on 30th June	..	..	..	..	..	..	..	150,00,00,000.00		150,00,00,000.00	
By Transfer from Profit and Loss Account	..	..	..	..	..	..	..	Nil		Nil	
<b>TOTAL</b>	..	..	..	..	..	..	..	<u>150,00,00,000.00</u>		<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.

£ After making usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act and transfer of Rs. 221 crores to funds under Sections 46 A, 46 B and 46 C.

@ After adjusting recovery of Rs. 1,07,58,076.26 against payments made in previous years.

\* Includes Rs. 11,59,68,700.00 relating to earlier years.

\*\* Includes Rs. 6,42,15,842.51 appropriated on account of accrued gratuity liability for past years.

Report on Trend and Progress of Banking in India for the year ended June 30, 1977.  
Submitted to the Central Government in terms of Section 36(2) of the Banking Regulation  
Act, 1949.

**REPORT ON TREND AND PROGRESS OF  
BANKING IN INDIA  
1976-77**



## TREND AND PROGRESS OF COMMERCIAL BANKING

The banking trends during 1976-77 (July-June) were characterised by a sharp acceleration in deposit growth, deceleration in credit expansion and reduced reliance on Reserve Bank finance. The rate of deposit accretion rose to 23.9 per cent from 21.0 per cent in the previous year. The rise was particularly marked in the case of time deposits, which increased by 27.7 per cent over the year. Time deposits accounted for over two-thirds of the total incremental deposits. While the pace of deposit accretion was faster, the rate of credit growth (gross) showed a substantial decline from 27.9 per cent in 1975-76 to 17.1 per cent in 1976-77, owing mainly to slower pace of expansion in food advances. This in turn could be attributed to a decline in public food procurement which had reached a record level in the previous year. Excluding food advances, gross bank credit expanded at a higher rate of 17.3 per cent compared to 13.8 per cent in the previous year. Among the reasons for larger expansion in non-food credit were the acceleration in the rate of growth of industrial production, sharp rise in prices of industrial raw materials and increase in inventories in some industries due to slackness of demand. Advances to priority sectors too increased, in keeping with the Government's indication of channelling more bank funds to these sectors. A major portion of the total incremental credit (excluding food) in 1976-77, had flowed to the priority sectors, including exports.

2. Another significant feature of banking development during the year was the increasing tempo of branch expansion with more offices opened in unbanked areas, thus further reducing the regional disparities in the provision of banking facilities. The entitlement formula for opening new offices by banks was modified during the year in favour of opening a larger number of offices in unbanked rural centres. In June 1977, the Reserve Bank set up a Committee, to enquire, among other things, into the present pattern of branch expansion of public sector banks and suggest future course of action keeping in view the need for rural development. During the year, 29 Regional Rural Banks were established bringing their total number to 48. The pace of overseas branch expansion was accelerated, with the entry of the banks into new territories. Two more nationalised banks participated in branch expansion abroad by opening their first branch outside India. Despite the vigorous branch expansion programme taken up by banks, particularly in unbanked rural centres and their greater involvement in backward area development and neglected sectors, the financial working of banks improved further during 1976.

### Branch Expansion Programme

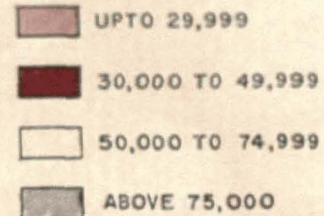
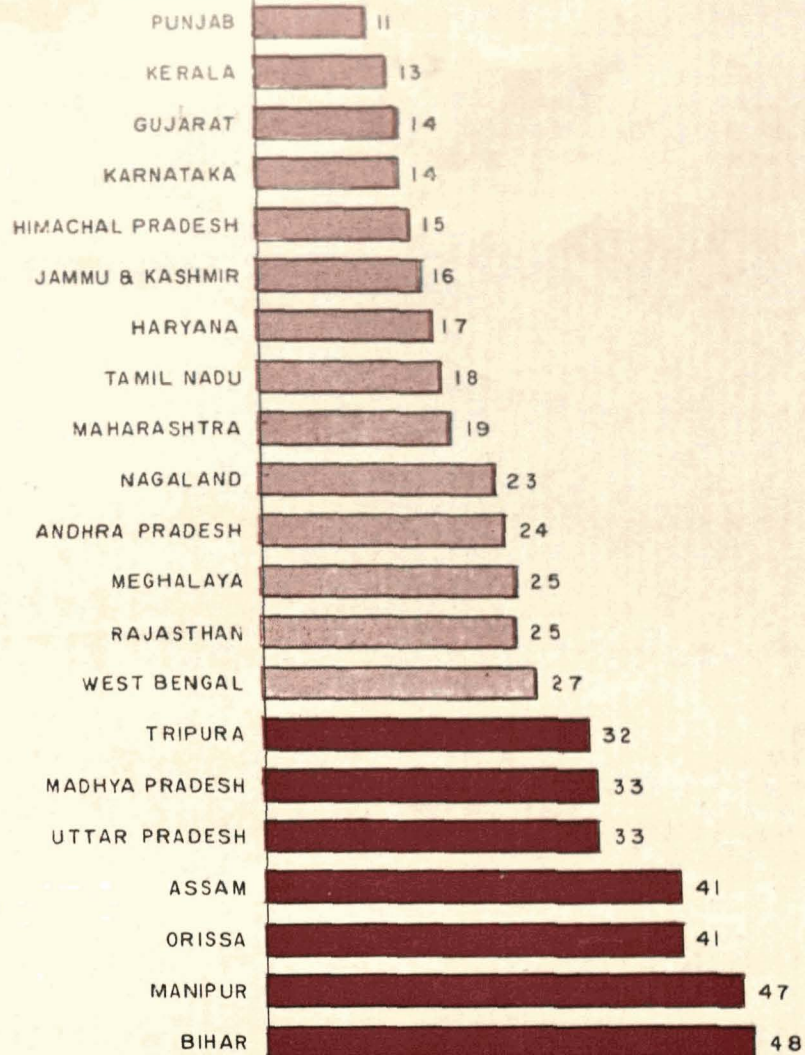
3. The main emphasis of the branch licensing policy of the Bank continued to be on systematic branch expansion and progressive reduction in regional disparities. Though commercial banks had made commendable progress in bringing about rapid extension of banking facilities to rural and semi-urban centres, it was felt that much still remained to be done, especially in view of the measures relating to the liquidation of rural indebtedness, which created a void in the rural credit structure especially

# AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

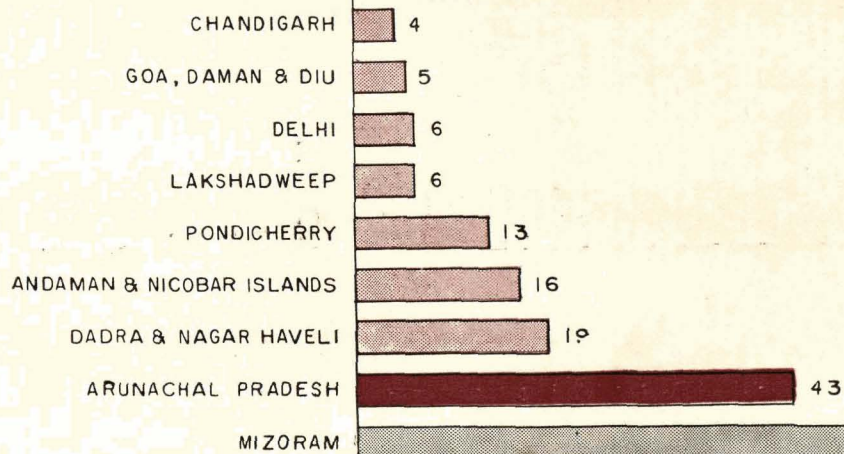
AS ON JUNE 30, 1977

( FIGURES ARE IN THOUSANDS )  
DATA BASED ON 1971 CENSUS

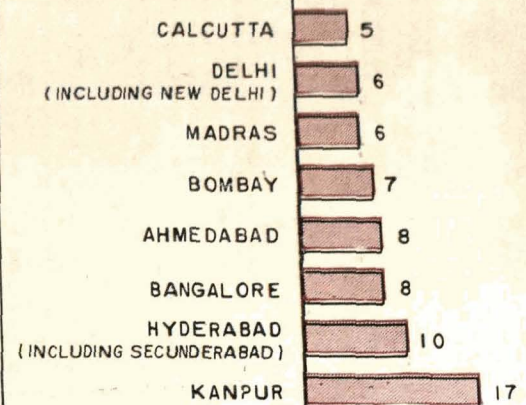
## STATES



## UNION TERRITORIES



## METROPOLITAN CITIES



as far as advances from moneylenders, etc. to the weaker section for consumption credit was concerned. The Reserve Bank therefore, felt it necessary to modify the entitlement formula for the opening of the new bank offices so as to give more weightage for performance in opening offices in unbanked rural centres. According to the revised formula which came into effect from January 1, 1977, a bank can open one office each in a metropolitan port-town and a banked centre, for every four offices opened in unbanked rural centres; earlier the ratio was 1 : 2 in the case of banks having more than 60 per cent of their offices in rural/semi-urban areas, and 1 : 3 in all other cases. While submitting their perspective plans for branch expansion for 1977-79, banks were requested to include as many rural unbanked centres as possible.

4. During the calendar year 1976, commercial banks opened 3,225 offices compared to 2,329 offices in the previous year. As a result, the national average population per bank office declined from 27,000 at the end of December 1975 to 23,000 at the end of December 1976 and further to 22,000 at the end of June 1977. Statewise, notable improvement was in evidence in underdeveloped States of Assam, Orissa and Tripura in which population per bank office which exceeded 50,000 in the previous year was brought down considerably. In the case of Mizoram, in spite of the progressive improvement, the population per bank office still remained the largest (83,000) owing to the large hilly terrain and widely scattered population (Table 1\*).

5. Taking into account the overall objective of providing banking facilities in the hitherto unbanked centres, it has been decided that each unbanked community development block in the country should be provided with a bank office latest by the end of June 1978. Banks have been advised to draw up a time-bound programme for achieving this objective and top priority is given by the Reserve Bank in the matter of opening branches in unbanked blocks, particularly in unbanked block headquarters.

6. Considering the year 1976-77 (July-June), commercial banks opened 3,596 offices (2,554 in the previous year). This was the highest in any single year since bank nationalisation. Of the new offices opened, 591 were by the State Bank of India and its subsidiaries, 1,540 by the 14 nationalised banks, 797 by private sector banks and 668 by Regional Rural Banks (Table 2).

#### *Unbanked/Rural Centres*

7. Out of 3,596 offices opened during 1976-77, as many as 1,690 or almost one-half were in unbanked centres, as compared to 859 or one-third in the previous year. As a large number of unbanked centres was in rural areas, the proportion of bank offices in rural centres to total number of bank offices as at the end of June 1977 increased to 38.4 per cent from 36.2 per cent at the end of June 1976 (Table 3).

---

\* Page 31.  
 £ Page 32.



# NUMBER OF OFFICES OF COMMERCIAL BANKS STATE-WISE

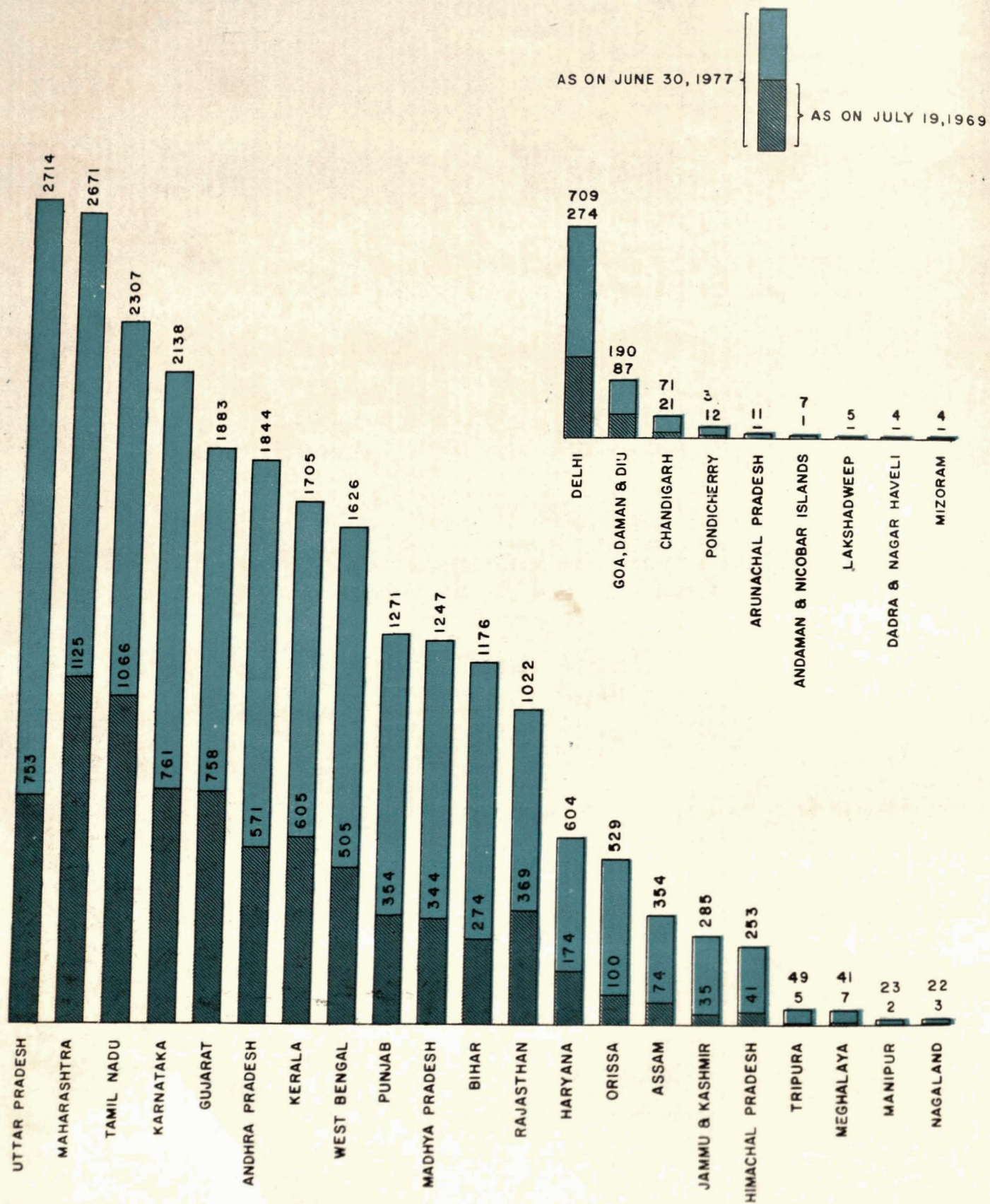


TABLE 3 :—CENTRE-WISE DISTRIBUTION OF COMMERCIAL BANK OFFICES

Centres	Number of Offices as at the end of											
	June 1969	% to total	June 1973	% to total	June 1974	% to total	June 1975	% to total	June 1976	% to total	June 1977	% to total
1. Rural .. .. .	1832	22.4	5561	36.2	6165	36.4	6806	36.3	7687	36.2	9536	38.4
2. Semi-Urban .. .	3322	40.1	4723	30.8	5089	30.0	5569	29.7	6387	30.1	7210	29.1
3. Urban .. .	1447	17.5	2573	16.7	2899	17.1	3267	17.5	3739	17.6	4261	17.2
4. Metropolitan/Port Towns .. .	1661	20.0	2505	16.3	2783	16.5	3088	16.5	3407	16.1	3795	15.3
Total .. .	8262	100.0	15362	100.0	16936	100.0	18730	100.0	21220	100.0	24802	100.0

Note : Rural Centres : Places with population up to 10,000.  
Semi-Urban Centres : Places with population over 10,000 and up to 100,000.  
Urban Centres : Places with population over 1,00,000 and up to 10,00,000.  
Metropolitan Centres : Places with population over 10,00,000.

### *Growth in Offices Abroad*

8. The planned and co-ordinated expansion of Indian banks offices abroad has continued. The number of offices abroad of Indian banks increased from 62 at the end of 1974, to 76 at the end of 1975, and further to 90\* at the end of 1976. Out of 14 offices opened during the calendar year 1976, 7 were in the U.K. and one each in the U.S.A., Hong Kong, Mauritius, Abu Dhabi, Oman, Sharjah (U.A.E.) and Belgium. The last three are entirely new territories for Indian banks. Among the banks with offices abroad, Bank of Baroda alone accounted for 41 offices, followed by Bank of India (16 offices). With two more nationalised banks, namely, the Punjab National Bank and the Syndicate Bank which opened their offices in London during the year, the number of Indian banks having offices abroad increased to 10 at the end of 1976. Country-wise, the largest concentration of offices continued to be in the U.K. (27) followed by Fiji Islands and Hong Kong (10 each). During January-June 1977, the State Bank of India opened its off-shore branch at Bahrein, the Punjab and Sind Bank Ltd., became the first private sector bank to open its branch in London and the Indian Overseas Bank as also the Bank of India opened a branch each at Tsim Sha Tsui (Kowloon) in Hong Kong. Besides, the foreign subsidiary of Bank of Baroda has a total of three offices in Uganda.

9. In accordance with the regulations in Nigeria which stipulate local incorporation for all foreign banks, the Nigerian Government acquired a majority of the shares of the Bank of India (Nigeria) Ltd., (the erstwhile foreign subsidiary of Bank of India) with effect from September 30, 1976.

10. The aggregate deposits of Indian banks' offices abroad increased from Rs. 609.5 crores at the end of December 1975 to Rs. 864.7 crores at the end of December 1976, a rise of 41.9 per cent. The entire deposit accretion was in time deposits which rose by Rs. 255.5 crores to Rs. 625.9 crores while demand deposits showed a marginal decline of Rs. 29 lakhs.

\* Excludes representative offices.

Credit extended by these bank offices increased from Rs 368.8 crores at the end of December 1975 to Rs 494.0 crores at the end of December 1976 or by 33.9 per cent. The credit-deposit ratio declined from 60.5 per cent at the end of December 1975 to 57.1 per cent at the end of December 1976.

*Foreign Currency (Non-resident) Accounts*

11. The Report for the last year mentioned about the Foreign Currency (Non-resident) Account Scheme introduced on November 1, 1975 under which non-resident Indians and persons of Indian origin resident abroad are permitted to open and maintain in India foreign currency (non-resident) accounts in designated foreign currencies, with the initial remittances received from abroad or by conversion of existing non-resident (external) accounts maintained in rupees with banks. The Scheme has made considerable progress since then, the total deposits made in these accounts being £ 2.4 million and U.S. \$ 53.8 million respectively, since its inception to February-end 1977. The corresponding deposits at the end of February 1976 were £ 0.5 million and U.S. \$ 6.0 million.

**Lending to  
Priority  
Sectors and  
Weaker  
Sections of  
the Society**

12. Apart from financing public food procurement and exports, commercial banks continued to extend liberal credit facilities to the priority and neglected sectors of the economy which include agriculture, small-scale industries and other priority sectors comprising small borrowers such as road and water transport operators, self-employed persons, etc. Their lendings under the Scheme of Differential Interest Rates to the weaker section of borrowers also went up considerably.

13. Scheduled commercial banks' advances to the priority sectors rose from Rs 2597 crores at the end of December 1975 to Rs. 3375 crores at the end of December 1976 (30.0 per cent) (Table 4\*). The share of public sector banks in the total priority sector bank advances was 90 per cent at the end of December 1976. Of this, the share of 14 nationalised banks was 60 per cent.

14. Though bank advances to priority sectors recorded a substantial rise of Rs. 778 crores during the year 1976-77 the proportion of priority sector advances to total bank credit declined marginally from 26.3 per cent at the end of December 1975, to 26.1 per cent at the end of December 1976. This was due to the larger proportion of food credit in total bank credit outstanding at the end of December 1976 (16.8 per cent) than at the end of December 1975 (9.5 per cent). The proportion of priority sector advances to total bank credit excluding food credit increased to 31.4 per cent at the end of December 1976 from 29.1 per cent at the end of December 1975. In the case of public sector banks, the share of priority sector advances to their total advances (excluding food) was 33.5 per cent at the end of December 1976.



15. Of the total priority sector advances, agriculture and small-scale industry together accounted for more than 80 per cent. However, whereas the share of small-scale industry in the total advances to priority sectors declined further from 44.2 per cent to 42.1 per cent at the end of December 1976, that of agriculture increased marginally from 39.4 per cent to 39.6 per cent. Within the credit given to agriculture, the proportion of direct finance to total priority sector advances continued to rise from 27.9 per cent to 29.7 per cent; the share of indirect finance fell from 11.5 per cent to 9.8 per cent. The share of small borrowers, e.g., the road and water transport operators, retail traders, etc., improved.

16. With a view to enlarging the flow of bank credit to neglected sectors, Government have advised public sector banks to make efforts to increase the proportion of neglected sectors' advances (excluding export credit) in their credit portfolio (inclusive of food credit) to the level of 33.3 per cent by the end of March 1979.

#### *Assistance to the Agricultural Sector*

17. Commercial banks' advances to agriculture increased by Rs. 311 crores to Rs. 1335 crores at the end of December 1976. The bulk of the increase—Rs. 278 crores—was in the form of direct finance. Of the total direct finance of Rs. 1003 crores as at the end of December 1976, Rs. 519 crores was for medium/long-term and Rs. 484 crores short-term loans. Commercial banks continued to provide both short-term and medium/long-term finance under the Scheme of Financing Primary Agricultural Societies by Commercial Banks as also to the identified participants in the SFDA/MFAL areas. (Please see for details paragraphs 138 and 139—Chapter II, 'Co-operative Banking').

18. Commercial banks also considerably increased their participation in the normal ARDC schemes and projects assisted by IDA/IBRD through the ARDC. As at the end of May 31, 1977, the Agricultural Refinance and Development Corporation had sanctioned 2,719 schemes to commercial banks involving total financial assistance to the extent of Rs. 580.5 crores, in which the Corporation's commitments were Rs. 473.8 crores. Total disbursement made by the Corporation to commercial banks amounted to Rs. 199.0 crores as against Rs. 106.4 crores upto May 1976. Minor irrigation and farm mechanisation schemes continue to be the main activities financed by commercial banks. Disbursements through the ARDC of IDA/IBRD assisted projects financed by scheduled commercial banks amounted to Rs. 90.9 crores as at the end of March 1977, as against Rs. 56.1 crores at the end of June 1976.

19. Farmers' Service Societies continued to be organised and financed by commercial banks, central co-operative banks and regional rural banks for disbursing agricultural credit in rural areas, as recommended by the National Commission on Agriculture. These multipurpose societies are expected to function as the single contact point for providing credit, other services and guidance to farmers. Their number increased from 101 set up

by 17 commercial banks at the end of June 1976 in 12 States to 164 set up by 20 commercial banks in 13 States at the end of June 1977.

#### *Village Adoption Scheme*

20. The banks continued to follow the area approach and adopt villages under the 'Village Adoption Scheme' for extending financial assistance for an over-all improvement of the rural economy. As at the end of December 1976, banks had adopted 45,382 villages and financed 11,73,310 farmers to the extent of Rs. 234.1 crores.

#### *Recovery of Agricultural Advances*

21. The overall recovery performance of public sector banks in respect of their direct advances for agriculture showed marginal improvement and stood at 50.9 per cent at the end of June 1976. This improvement, was shared by all the regions except the south where it declined from 60.1 per cent to 58.6 per cent, which nevertheless was still higher than the overall recovery percentage. The improvement was particularly noticeable in the States of Punjab, Rajasthan, Assam, Bihar and Uttar Pradesh and the Union Territories of Delhi, Andaman & Nicobar Islands and Pondicherry. The recovery performance in Haryana, Punjab, Nagaland, Tripura, Uttar Pradesh, Andhra Pradesh, Karnataka, Kerala, Andaman & Nicobar Islands, Goa (including Daman and Diu), Pondicherry and Lakshadweep was also above the national average.

#### *Scheme of Differential Rates of Interest*

22. Public sector banks made substantial progress under this Scheme during 1976. There was a larger increase of 5.4 lakhs in the number of borrowal accounts which stood at 10.1 lakhs at the end of December 1976, while the amount of loans outstanding increased by Rs. 26.2 crores to Rs. 47.2 crores. During the previous year, the increase in the borrowal accounts was 1.5 lakhs and the amount of loans outstanding rose by Rs. 7.5 crores to Rs. 21.0 crores. The phenomenal rise in lending under the Scheme was attributable to the vigorous steps taken by public sector banks to step up their lendings at concessional rates to the weaker sections. The Scheme which was being implemented hitherto by public sector banks and three non-nationalised banks having lead responsibilities in certain selected districts/areas has now been revised and other non-nationalised banks can now implement it on a voluntary basis. The Scheme has also been extended to the entire country. A further refinement in the Scheme is that State sponsored corporations established for the welfare of scheduled castes and scheduled tribes could also take advantage of the Scheme subject to certain conditions.

#### *Export Sector*

23. The export sector has all along been accorded priority status. The banking system continued to extend substantial support to this sector during the year. As a result, the export credit outstanding rose from Rs. 977 crores at the end of June 1976, to Rs. 1184 crores at the end of April 1977.

showing an increase of 21.2 per cent. The proportion of export credit in total gross bank credit during the period, however, showed a marginal increase from 8.4 per cent to 8.8 per cent.

*Standing Committee on Export Finance*

24. The Standing Committee on Export Finance set up by the Reserve Bank to deal with various issues which may arise from time to time in the matter of export financing by banks, took certain measures during the year to encourage exports. To bring about uniformity in the availability of concessional rate of interest on post-shipment credit (other than that given on deferred payment terms for more than one year), in November 1976 banks were advised to charge the concessional rate of interest of 11.5 per cent upto a maximum period of 128 days (instead of 120 days in case of exports to Western Hemisphere and 90 days for others earlier) consisting of usance period of 90 days, normal transit period stipulated by the Foreign Exchange Dealers Association of India, and grace period of 3 days, wherever permissible, irrespective of the country to which the exports have been made.

25. The commission charged by banks on bid bonds and export guarantees issued by banks has also been reduced to  $1/24^{\text{th}}$  of 1 per cent per month for amounts upto Rs. 1 crore and  $1/48^{\text{th}}$  of 1 per cent per month on amounts in excess of Rs. 1 crore in the cases where the bank guarantees are backed by counter guarantees of ECGC covering risk to the extent of 90 per cent of the guarantee value. If ECGC cover is less than 90 per cent, the commission has been fixed at 0.05 per cent per month upto Rs. 1 crore and at 0.025 per cent per month for amounts exceeding Rs. 1 crore.

26. In respect of issue of bid bonds, banks were advised to be flexible irrespective of whether separate limits are sanctioned for the purpose or not, keeping in view the operational convenience of each bank. Banks were also advised not to ask for any cash margin in respect of bid bonds, and guarantees counter-guaranteed by Export Credit Guarantee Corporation Ltd. (ECGC). In other cases, they may stipulate a reasonable cash margin where necessary. They are now, required to refund 75 per cent of the commission charged in respect of unsuccessful bid bonds. It may be pointed out that banks have to consider the issuing of bid bonds keeping in mind that they have to be provided other guarantees and credit facilities once the bid fructifies. A sub-group was also constituted to go into the special features of overseas construction contracts. The guidelines prepared by the sub-group on overseas construction contracts have been approved by the Standing Committee and have been issued to banks, etc.

27. The need for setting up a suitable credit information system relating to exports was felt for quite sometime. The Standing Committee considered the issue and opined that such a centralised Data Bank may be appropriately set up in ECGC. Accordingly, a sub-group consisting of representatives of RBI, SBI, IDBI, ECGC and FEDAI was set up during the year to consider in detail the scope and functions of such a Data Bank and modalities for setting it up.



28. In pursuance of the decision of the Standing Committee, ECGC set up regional committees to serve as general forum for exchange of views among the financial institutions and to promote liaison with the various exporting interest in the area. On the basis of communication from the Ministry of Commerce, Government of India, in the light of discussions at the meeting of the Standing Committee, the various Export Promotion Councils advised their members during the year to represent to the Export Credit Cell of the RBI, their problems relating to export credit. The Cell has since received a number of representations from exporters relating to the availability of credit, eligibility for concessional rates etc., and this has been followed up by the Cell with concerned banks for remedial action.

*Duty Drawback Credit Scheme*

29. The Scheme was introduced by the Reserve Bank in February 1976 for the grant of interest free advance upto 90 days by banks to exporters against their duty drawback entitlements, as provisionally certified by customs authorities. The Scheme has worked well during the year. There has been a continuous dialogue among the customs authorities, RBI and banks. Liberal refinance limits were sanctioned to banks. To avoid hardship to banks in availing of refinance from the Reserve Bank, the minimum amount to be borrowed was reduced from Rs. 1 lakh to Rs. 20,000 in June 1976. During the period, commencing from November 1, 1976, refinance limits aggregating Rs 39.1 crores have been sanctioned to 43 banks upto June 30, 1977; 26 banks availed of refinance to the extent of Rs. 27.6 crores, as against Rs. 1.6 crores availed of by 14 banks during seven-month period ended October 1976. An amount of Rs. 4.4 crores of refinance was outstanding as on the last Friday of June 1977.

*Export Credit (Interest Subsidy) Scheme, 1968*

30. The last year's Report mentioned the agreement in principle by the Government about certain amendments to the Export Credit (Interest Subsidy) Scheme. The Government's formal clearance to the amended Scheme is still awaited. During 1976-77 (July to June), claims for interest subsidy amounting to Rs. 9.2 crores received from 54 eligible banks were settled in respect of export credits granted by them at the stipulated rate of interest. Of this, payments on account of pre-shipment export credit accounted for Rs. 5.2 crores. A total amount of Rs. 49.1 crores of subsidy was disbursed since the inception of the Scheme to June 30, 1977.

31. In addition to the normal subsidy payable under the Scheme, Government also sanctioned special subsidy for certain credits. Thus, interest subsidy of 3 per cent in addition to the usual 1.5 per cent was also payable on a special bank credit of Rs. 25 crores extended by the Industrial Development Bank of India, United Commercial Bank and United Bank of India to certain financial institutions in Bangladesh for the import of specified capital goods into that country. The total interest subsidy disbursed to the three banks during the period under review amounted to Rs. 39.1 lakhs of which Rs. 10.5 lakhs was at 1.5 per cent and Rs. 28.6 lakhs at 3 per cent.

**Consortium/  
Participation  
Arrangements***Consortium Banking*

32. The consortium for financing public food procurement credit was reconstituted with effect from June 1, 1977 to include 29 Indian and 6 foreign banks which had average deposits of over Rs. 50 crores during 1976-77. Further, a consortium of 45 banks was formed for financing the Food Corporation of India's operations relating to imported fertilisers. The latter consortium has been divided into five sub-consortia with independent leaders with whom the Food Corporation of India would have direct dealings. After taking into account these developments in consortia arrangements, the Working Group on model consortium documents (referred to in the last year's Report) finalised the various procedural issues involved and will soon submit its report.

*Participation Certificate Scheme*

33. The Participation Certificate Scheme, which was allowed to continue up to the end of June 1977 was placed on a permanent footing since July 1, 1977, and been made applicable to all scheduled commercial banks. There was no change in the number of eligible institutions whom the banks are permitted to issue participation certificates. The total amount of certificates issued by 43 banks and outstanding as at the end of March 1977 at Rs. 153.5 crores compare favourably with outstandings at Rs. 119.8 crores at the end of March 1976.

*Term-lending by Commercial Banks*

34. It was mentioned in last year's Report that to stimulate long-term capital investment in industry, banks were urged to grant larger term-credit at the rate of interest not exceeding 14 per cent for term-loans granted to industry for a period of not less than seven years and 15 per cent (including interest tax on advances) for a period of three to seven years. Announcing the credit policy for 1977-78, the Reserve Bank advised the banks to reduce the rate of interest further to 12.5 per cent (inclusive of interest tax on advances where applicable) on term-loans extended by them for capital investment to industry granted for periods not less than three years.

35. According to the available data on term-credit\* reported in the Basic Statistical Returns, scheduled commercial banks' term-loan assistance to industry has been steadily rising in recent years. Term-loans granted by scheduled commercial banks to industry stood at Rs. 831 crores in December 1975 and formed about 10.2 per cent of total bank credit (excluding food advances). A year earlier, such loans amounted to Rs. 650 crores and constituted 9.1 per cent of total bank credit (excluding food advances). Total term-loans to all sectors including agriculture and trade aggregated Rs. 1307 crores or 16.0 per cent of the total credit (excluding food advances) in December 1975 as against Rs. 1220 crores or 17.1 per cent of the total credit (excluding food advances) a year earlier.

---

\* Includes all loans originally sanctioned for a period exceeding one year and outstanding partly or wholly on the date of reporting, interim cash credits pending the sanction of formal term-loans and instalment credit where repayment is spread over more than a year.

**Credit Planning and Credit Authorisation Scheme** *Credit Planning*

36. The Reserve Bank of India held periodic discussions during the year with individual banks on their quarterly credit budgets, as well as with major users of credit such as cotton-textiles, sugar, jute, tea, coffee, leather, engineering industries, etc., to assess their requirements, and every effort was made to provide for their legitimate requirements within the lendable resources of banks. In order to build up a quick monitoring system on the flow of credit so as to enable banks to initiate and implement appropriate and timely remedial measures a weekly reporting system for sectoral deployment of bank credit was introduced from January 1977. This return is to be submitted in two parts with a time-lag of two weeks.

*Report of the Study Group on Follow-up of Bank Credit*

37. Last year's Report mentioned the submission of the report of the Study Group set up to frame guidelines for the follow-up of bank credit as also of the steps taken to implement the main recommendations of the Group. To ensure that the switch-over to the new system of lending is smooth, speedy and effective, commercial banks were advised to inform the Bank of the action plans drawn up by them. They were also advised to submit quarterly progress reports to the Bank. In order that the quarterly information system recommended by the Study Group is effectively used by banks to monitor credit extended by them, comprehensive guidelines were issued to them for scrutiny and interpretation of the data obtained through the information system.

38. The Committee of Direction constituted by the Reserve Bank in 1975 for an on-going review of the norms recommended by the Study Group and generally to advise Reserve Bank in regard to matters arising in connection with the implementation of the new lending system has held several meetings to examine and give its views on a number of issues raised by banks, industries and their representative associations as also Chambers of Commerce. On the recommendations of the Committee, norms in respect of inventory and receivables of five industries, viz., paper, jute, fertilisers, automobile ancillaries and cotton spinning mills, were modified, some for a temporary period, in the light of the circumstances prevailing in the relevant industries. The Bank accepted the views of the Committee on the various issues referred to it and advised banks suitably to enable them to further improve the operational flexibility and develop better understanding of the new lending system. One of the decisions in this regard related to delegation of powers to banks to permit deviations from inventory and receivable norms, on merits, in the case of borrowers with credit limits not exceeding Rs. 50 lakhs from the banking system. Guidelines were issued to banks for the purpose. Corresponding to the Committee of Direction set up by the Reserve Bank, banks with deposits of Rs. 50 crores and above have also been advised to set up Committees for working the new system.

39. The last Report indicated that the forms required under the Credit Authorisation Scheme were redesigned to suit the requirements of credit

appraisal under the new approach to lending as recommended by the Study Group. As the appraisal of working capital needs of sugar units requires a different approach in view of the special features of the industry, separate credit appraisal/follow-up forms for the industry have been devised and furnished to the banks for their use. In pursuance of the recommendations of the Study Group in regard to industry studies to be undertaken by selected banks, the Committee after deliberations selected the industries to be taken-up for the study and also decided the essential aspects to be covered by such study for the guidance of banks. Select banks have been advised to conduct the relative industry studies depending on the extent of their involvement in financing the specific industries and the operational expertise they have built up.

40. In December 1976, banks were asked to furnish data regarding utilisation of limits as also operational data, at monthly and quarterly intervals in respect of borrowers having aggregate credit limits of Rs. 1 crore and above with a view to studying the trends in credit extended to the larger borrowers as also to facilitate policy formulation.

41. The problem of delayed payment of bills for supplies effected to Government and public sector undertakings has been receiving the attention of the Bank for some time past. The issue was brought into focus by the Study Group in the context of the new lending norms suggested by it. With a view to examining the issue further and assessing the effects of such delays on the liquidity position of the supplier units and consequent demand for larger credit from banks, information in this regard was called for from all scheduled commercial banks during the year and the matter has been since referred to Government for suitable action.

*Advances Against the Security of Fixed Deposits Under Non-resident (External) Accounts Schemes*

42. In terms of the instructions issued by the Exchange Control Department of the Bank to authorised dealers in foreign exchange, banks are required to obtain prior approval of the Exchange Control Department and the Department of Banking Operations and Development of the Bank for granting advances to resident individuals/firms/companies against the security of fixed deposits of non-residents held under the Non-resident (External) Accounts Schemes in rupees or designated foreign currencies. Accordingly, banks were asked to submit their applications in this regard to the concerned regional offices of Department of Banking Operations and Development if the amount of the advance does not exceed Rs. 10 lakhs, and to the Central DBOD, if the advance exceeds the said amount.

*Working of Credit Authorisation Scheme*

43. During the year under review, the total number of parties covered under the Credit Authorisation Scheme (CAS) increased from 851 at the end of June 1976 to 890 at the end of June 1977, inclusive of public sector undertakings numbering 159 as against 154 at the end of June 1976. The total limits in force relating to the parties covered under the

CAS at Rs. 9589 crores at the end of June 1977 showed an increase of about 13 per cent over the limits in force at the end of June 1976, which amounted to Rs. 8476 crores. Of this, the public sector undertakings accounted for Rs. 5259 crores, or about 55 per cent. This showed an increase of about 18 per cent over the limits enjoyed by public sector undertakings at the end of June 1976. The pattern of purpose-wise distribution of the total limits in force as at the end of June 1977 remained more or less unchanged, that is, about 89.3 per cent were for working capital purposes, 7.3 per cent for term finance and 3.4 per cent for sale of machinery on deferred payment basis. Of the total limits in force as at the end of June 1977, trading accounted for about 37.5 per cent (of which food procurement operations alone claimed 28.8 per cent), engineering industry accounted for 16.3 per cent, cotton textile about 7.0 per cent, chemicals and chemical products 6.3 per cent, sugar 3.2 per cent and basic metal products (iron and steel) accounted for about 3.4 per cent. Of credit limits in force relating to public sector *viz.*, Rs. 5,259 crores, trading accounted for about 62.6 per cent (the food share being at 52.5 per cent) engineering 9.1 per cent, electricity undertakings 5.0 per cent and basic metal and metal products (iron and steel) 4.0 per cent.

**Regulating  
Flow of Credit to Industries**

*Sugar Industry*

44. For financing sugar mills during the 1976-77 crushing season, banks were advised by the Bank in November 1976 that they might sanction credit limits on merits to individual sugar mills to the extent of the maximum outstandings under the regular limits, (exclusive of the drawings, if any, over and above the regular limits, as also the limits granted on a temporary basis) sanctioned to them for the last crushing season (*i.e.*, the 1975-76 season), without obtaining prior authorisation of the Bank under the Credit Authorisation Scheme. In case a bank considers it necessary to sanction credit limits to any sugar mill in excess of those indicated above, and the total of the existing and the proposed limits of the borrower comes within the purview of credit authorisation, it should release such limits only after obtaining prior authorisation of the Bank.

45. It was again impressed upon banks that they need to watch the position regarding payment of cane dues to sugar cane-growers, from the control data on the lines suggested by the Bank in 1971. In the case of those sugar mills which have proved to be habitual defaulters in making payments to the cane-growers, banks have been advised to obtain such monitoring data preferably once a week. It has been indicated to banks that the dues of the sugar mills to the cane-growers will have a first charge on the drawing power against the stocks of sugar and that funds from the cane price payable account should not be allowed to be utilised by the mills for their other requirements.

*Textile Industry*

46. It will be recalled that in view of the importance of providing adequate credit to the nationalised sick textile mills taken over by the National Textile Corporation (NTC), banks were permitted to grant

reasonable *ad hoc* limits to these mills, in relation to their production plans upto the end of September 1976 without Bank's prior authorisation. On representations made by the NTC regarding the difficulties in the finalisation of the accounts of individual mills taken over by it, the above concession has been extended in stages upto end-June 1977 in order to ensure that production of cloth is not hampered.

47. The various issues relating to the credit requirements of the NTC mills were discussed at the meeting of the representatives of NTC and the financing banks, convened by the Reserve Bank in June 1977 and the banks have been advised to consider requests for credit facilities from the NTC mills in the light of the decisions taken in the meeting. It was, *inter alia*, decided that working capital requirements of the NTC mills will be determined unit-wise, in the same way as in the case of any other textile mill; secondly, NTC should endeavour to have the accounts of the NTC mills audited as speedily as possible and thirdly, the NTC mills should accept the covenants proposed by their bankers with a view to ensuring proper financial discipline. Lastly, it was also decided that the NTC mills will give data on the lines recommended by the Reserve Bank of India Study Group on Follow-up of Bank Credit, including the quarterly information system. Certain relaxations extended upto end-July 1976, in the operation of norms for inventory and receivables for cotton spinning mills, were allowed to continue upto end-June 1977.

#### *Fertiliser Industry*

48. The relaxations permitted in the operation of norms for inventory and receivables for the fertiliser industry were reviewed again in October 1976, and the combined norm for finished goods and receivables was further relaxed to three months' and four months' cost of sales/sales in respect of plants manufacturing nitrogenous and phosphatic (as also complex) fertilisers respectively. Besides, the norms for the level of holdings of inventory of raw materials were fixed at three months' consumption in respect of all phosphatic plants, whether situated in port areas or away from port areas. Further, packing materials to the extent of three months' consumption were also allowed to be held by all units. These changes remained operative till end-March 1977. In view of better offtake of fertilisers the above combined norms were subsequently lowered to 2½ months' and three months' cost of sales/sales in respect of plants manufacturing nitrogenous and phosphatic (as also complex) fertilisers respectively. The modified norms as also the norms for other items of inventory referred to above would remain valid till end-December 1977.

#### *Sick Industrial Undertakings*

49. In pursuance of the Reserve Bank instructions, banks have set up Cells within their organisation to tackle the various problems associated with sick industrial undertakings so that increased attention might be focussed on the problems of such units and corrective action taken where necessary. To tackle the problems expeditiously, banks have been advised recently to set up similar Cells at important regional centres



also and provide expert staff including technical personnel to look into technical aspects. Simultaneously, the need for coming to an early decision about the desirability of rehabilitating the sick units was also emphasised. They were further advised to come up with the necessary nursing programme, once the viability was established and to ensure co-ordination with the term-lending institutions wherever appropriate, by exchanging information for determining the viability, drawing up nursing programmes and monitoring the performance.

50. A 'Cell' created in the Reserve Bank of India, Department of Banking Operations and Development, has been monitoring the banks' performance in identifying sick units and in taking corrective measures. In July 1976, guidelines were issued to banks to enable them to analyse and interpret the data contained in the annual/quarterly statements received under the new information system which is to serve as an early warning system to throw up signals of incipient sickness. To have a broad idea of the extent of sickness in different industries, the reasons for sickness, present position and the tasks involved in rehabilitation as also to monitor banks' performance in identifying the sick units and in taking corrective measures, banks were advised in November 1976 to submit to the Bank quarterly statements giving brief particulars of all sick units enjoying credit facilities aggregating Rs. 1 crore and above.

51. The officials of the Bank were also associated with several committees/bodies constituted by the Government of India and other authorities to deal with the various problems concerning rehabilitation of sick/closed units, such as a Special Committee appointed by Government of India (Ministry of Commerce), under the Chairmanship of the Additional Textile Commissioner to identify sick spinning mills, initiate discussions with their bankers and recommend measures considered necessary; the Committee appointed by the Government of India, Ministry of Commerce to go into the question of the re-opening of certain closed jute mills; Inter-Ministerial Group constituted by the Government of India, Ministry of Industry, to suggest amendments in the provisions of the Industrial (Development and Regulation) Act, 1951, regarding taking over/changing the management of sick industrial units; and the State Level Co-ordination Committees formed for helping integrated assistance to sick small-scale industrial units.

Selective  
Credit  
Controls

52. The uptrend in cotton prices necessitated the tightening up of selective credit controls on advances against cotton and *kapas*, effective July 8, 1976, keeping in view the action taken by the Textile Commissioner regarding the maximum stocks that could be held by mills. The inventory levels in respect of which lower margins were applicable to mills, were substantially reduced while minimum margins were raised for parties other than mills by 10 to 20 percentage points. In order to facilitate the off-take by mills of cotton imported by the Cotton Corporation of India, advances to mills against the security of imported cotton were exempted from the minimum margin requirement through a directive issued on May 31, 1977. Banks were advised that the quantum of imported cotton

held by mills might not be taken into account in estimating the stock levels indicated in the credit control directive and that particular care should be exercised to ensure that, in the case of cotton sold by the Cotton Corporation of India, there was no double financing in respect of the same stocks.

53. The continuous pressure on prices of oilseeds and vegetable oils called for a hike in minimum margins more than once during the year. Thus, the Bank stepped up minimum margins with effect from July 14, 1976 by 10 per cent to 15 per cent in respect of advances against groundnut, castor seed, linseed, rapeseed/mustard seed, castor oil and linseed oil. Advances against cottonseed and cottonseed oil were also brought within the purview of selective credit controls. Again, on a review of the supply and price situation relating to edible oilseeds and vegetable oils it was decided to step up minimum margins by 10 percentage points with effect from May 31, 1977 as indicated below :

CHANGES IN MINIMUM MARGINS ON SCHEDULED COMMERCIAL BANKS' ADVANCES AGAINST OILS, OILSEEDS AND VANASPATI

OILSEEDS		
	Before May 31, 1977	From May 31, 1977
<b>General</b>		
Groundnut, cottonseed, rapeseed and mustard seed, castor seed and linseed	60 % against stocks 50 % against warehouse receipts	70 % 60 %
<b>Registered Oil Mills</b>		
Mills in Rajasthan, Uttar Pradesh, Madhya Pradesh, Bihar and West Bengal	35 % on stocks equivalent to 2 months' consumption—on groundnut, rapeseed/mustard seed 60 % on other oilseeds	45 % 70 %
Mills in other areas	50 % on stocks equivalent to 2 months' consumption—on rapeseed/mustard seed 60 % on other oilseeds	60 % 70 %

VEGETABLE OILS—GROUNDNUT OIL, COTTONSEED OIL, RAPESEED/MUSTARD OIL, CASTOR OIL, LINSEED OIL AND VANASPATI

	Before May 31, 1977	From May 31, 1977
<b>A. Registered Oil Mills</b>	75 % against stocks 65 % against warehouse receipts	No change
<b>B. Vanaspati Manufacturers</b>		
(a) Against Vanaspati		
In States other than Gujarat and Maharashtra	60 % against stocks 50 % against warehouse receipts	70 % against stocks 60 % against warehouse receipts
In Gujarat and Maharashtra	75 % against stocks 65 % against warehouse receipts	85 % against stocks 75 % against warehouse receipts
(b) Against controlled oils (other than cottonseed oil)		
Eastern Zone	40 % on stocks equivalent to 6 weeks' consumption	50 %
Northern Zone	50 % on stocks equivalent to 6 weeks' consumption	60 %
Southern and Western Zones	50 % on stocks equivalent to 4 weeks' consumption	60 %
<b>C. Others</b>	75 % against stocks 65 % against warehouse receipts	85 % 75 %

54. The ceiling for the maximum level of credit for advances against oilseeds/oils was fixed at 100 per cent of the peak level of advances outstanding per party during any of the three preceding years (November-October), viz., 1975-76, 1974-75 and 1973-74.

55. In support of the Government programme for import of edible oils and oilseeds and to ensure that the imported stocks were released for consumption without delay, exemption was provided from the minimum margin requirement for advances against imported oils and oilseeds, subject to selective credit control, for all parties for a period of only four weeks from the date of arrival at the port in the case of edible oils and eight weeks in the case of oilseeds. Beyond this period, the respective minimum margins stipulated in the directive would apply on the credit outstanding. Exemption was also provided for advances against imported oilseeds/oils from the level of credit stipulation. On such imported oils and oilseeds as were not normally covered by credit control (e.g., sunflower oil/sunflower seeds, soyabean oil/soyabean seeds, etc.) a minimum margin of 60 per cent was prescribed on the outstanding credit beyond the period prescribed in the directive. In view of the critical supply and price situation in respect of edible oils, banks were advised to stipulate appropriate procedures, terms and conditions for the credit limits sanctioned to ensure that there was no speculative hoarding of goods with bank credit.

56. As a consequence of the sustained increases in the prices of *gur* and *khandsari* it was decided to put up the minimum margin for advances against *gur* and *khandsari* from 50 per cent to 60 per cent for manufacturers of the commodities and from 65 per cent to 75 per cent for others, with effect from October 14, 1976. Banks were further advised not to enhance credit limits allowed to parties dealing in the commodities and to effect reduction in limits wherever warranted. They were also requested to undertake a case by case review of the credit limits against *gur* and *khandsari* and forward, within a month, reports on the action taken by them in this regard.

#### Lead Bank Scheme

##### *High Power Committee*

57. As mentioned in the last Annual Report, the Reserve Bank of India constituted a High Power Committee to keep the overall progress of the Lead Bank Scheme under critical review and to issue policy guidelines for the effective functioning of the scheme. The Committee decided that separate cells at State and District levels may be created to maintain effective liaison between the lead banks and various departments of State Governments concerned. So far, 13 State Governments have set up/agreed to set up such cells.

##### *Formulation of District Credit Plans*

58. In pursuance of the recommendations of the Estimates Committee of the Lok Sabha made in their 62nd report, the lead banks were instructed by the Bank on August 7, 1976, to assume a more positive leadership

in formulating district credit plans by launching as early as possible bankable schemes in accordance with the guidelines appended to the Study Group's report on the working of the lead bank scheme in the States of Gujarat and Maharashtra. It was emphasised, however, that though banks should display greater initiative in formulation of schemes, the loans required would be shared by different financial institutions on the basis of their resources and capacity and non-lead banks have as much responsibility as the lead banks in promoting development efforts in the district concerned. Banks have so far prepared district credit plans in respect of 163 districts, while the remaining 212 district plans are under preparation. This work is expected to be completed by March 1978.

59. It was also decided that where the lead responsibility in a district was jointly placed with two banks, it should be entrusted to one bank only. Accordingly, the district of Aurangabad (Maharashtra) was entrusted to the Bank of Maharashtra, Trivandrum (Kerala) with Indian Overseas Bank and Quilon (Kerala) with the Indian Bank.

#### *Three/Tier Training Programme*

60. In order to have a better appreciation and understanding of the objectives and implementation of the Lead Bank Scheme, it was agreed to institute a three-tier programme, one for development planners at the national level to discuss at one day conference the various policy issues involved; the second, a two or three day workshop for the Government and bank officials at the state level to concentrate on specific problems of the State, and the third, a three day workshop for government officials and branch managers/lead bank officials at district levels. It is proposed to arrange these training programmes initially in Uttar Pradesh and West Bengal.

#### *State Level Bankers' Committees*

61. With a view to securing co-ordination between different financial institutions engaged in implementing socio-economic programmes, Government of India designated in October 1971, certain public sector banks as convenor banks to organise State Level Bankers' Committees for the States allotted to them. The Committees would consist of all public sector banks and regional rural banks operating in the State. Government officials, representatives of the Reserve Bank, other commercial banks, the State Co-operative Bank and the State Land Development Bank would attend the meetings by special invitation. The Committees would consider problems requiring inter-bank co-ordination such as area demarcation for implementation of various schemes, uniformity in terms and conditions of credit under specific schemes and specific areas, and removal of imbalances in availability of credit. Such Committees have been already set up in all the States except Sikkim.

### Regional Rural Banks *Progress of Regional Rural Banks*

62. Mention was made in the previous Report of the setting up of regional rural banks (RRBs). The number of RRBs rose from 19 at the end of June 1976 to 48 at the end of June 1977. State-wise, the largest number of 169 offices in a single State was opened by ten banks in Uttar Pradesh (Table 5\*).

63. All but one of the RRBs set up so far have been sponsored by the public sector banks. The aggregate deposits of RRBs amounted to Rs. 10.2 crores and their advances to Rs. 12.6 crores as on last Friday of March 1977; more than half the amount of advances granted were in respect of small/marginal farmers and landless labourers.

### *Refinance Scheme for RRBs*

64. Under the Refinance Scheme for regional rural banks which came into force with effect from October 1976, the RRBs can obtain refinance from the Reserve Bank under Section 17(3B) of the Reserve Bank of India Act, 1934 at 2 per cent below the Bank Rate. The overall refinance limit for each RRB is fixed for a period of one year (July-June) on the basis of a prescribed formula at 15 : 50 : 35 indicating the proportion of RRB deposits, RBI refinance and the sponsor bank's advances respectively in the aggregate lending programme of each RRB. The actual extent of refinance, within the overall limit would depend upon the quantum of actual advances of the RRB to the eligible categories of borrowers. Pending the scrutiny of applications for regular limits, each RRB has been allowed to apply for an *ad hoc* refinance limit of Rs. 10 lakhs, which would cease once regular limit is fixed. So far eleven RRBs were sanctioned regular refinance limits aggregating Rs. 9.5 crores and six RRBs *ad hoc* refinance limits of Rs. 40.0 lakhs. The outstanding balances of refinance availed of by the RRBs amounted to Rs. 4.1 crores as at the end of June 1977.

### *Reserve Bank's Assistance and Concessions*

65. In order to enable the RRB in the initial stages to comply with the cash reserve requirements under the Reserve Bank of India Act, 1934, they have been exempted from the provisions of the *proviso* to sub-section (1) of Section 42 of the Reserve Bank of India Act, 1934 (relating to the increase in the rate of cash reserve requirements by the Bank) for a period of two years with effect from October 2, 1975. The cash reserve to be maintained by the RRBs is therefore at the rate of 3 per cent only of their total demand and time liabilities, as against the increased rate of 6 per cent at present applicable to other scheduled commercial banks. Besides, they are also exempted from the purview of the Reserve Bank directive requiring banks to maintain with the RBI ten per cent of their incremental demand and time liabilities, commencing from January 15, 1977. A further concession was granted to RRBs in so far as the balances maintained in current account by the regional rural

bank not only with the State Bank of India but also with any of the nationalised banks shall be deemed to be cash in India for the purpose of compliance with the liquidity requirements under Section 24 of the Banking Regulation Act, 1949. Further, in order to enable the RRBs to earn interest on their current account balances with the sponsor banks, the latter were indicated to pay interest at the rate not exceeding 9 per cent per annum on such balances. Effective from January 1, 1977, the Reserve Bank has also allowed the facility of free transfer of funds in multiples of Rs. 5,000 between the Head Office of RRB and its different branches through the offices of public sector banks operating in the area covered by RRBs.

*Simplification of Loan Procedures, etc.*

66. Mention was made in the last year's Report of the Committee constituted by the Reserve Bank of India to suggest simplified accounting and operational procedures to be followed by the RRBs. The copies of the report have since been forwarded to the RRBs to implement the procedures, etc. outlined therein. The Reserve Bank has also started providing training facilities to the branch managers of the RRBs from November 1976 at the College of Agricultural Banking, Pune.

67. A Committee was set up in June 1977 by the Reserve Bank to review the working of RRBs. The main terms of reference are to evaluate their performance in the light of the objectives for which they were set up, indicate their precise role in the rural credit structure and make recommendations with regard to the scope, methods and procedures of their functioning.

**Banking  
Legislation**

*Recommendations of the Banking Commission*

68. It may be recalled that the Reserve Bank had requested commercial banks to take steps to implement such recommendations of the Banking Commission as were accepted by the Government. Progress reports received from banks reveal that earnest steps were taken by them during the year to implement these recommendations. The recommendations relating to the regulation of Multani business which have also been accepted by the Government are at present being examined by the Bank.

*State Legislation*

69. With a view to facilitating the smooth flow of agricultural credit from commercial banks, the Expert Group on State Enactments having a bearing on commercial banks' lending to agriculture had recommended in 1970, enactment of legislation by all States on the lines of the model bill prepared by them, together with the initiation of certain administrative measures. Twelve States viz., Bihar, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Orissa, Rajasthan, Tripura, Uttar Pradesh and West Bengal have so far enacted the necessary legislation and the Bank is persuading other States to follow suit.



*Indo-Pakistan Banking Agreement, 1949—Settlement of Bank Accounts of non-Muslim Evacuees from Pakistan*

70. During the period under review, a scheme for settlement of bank accounts of non-Muslim evacuees from Pakistan was finalised in consultation with Government for the payment in India of deposits which have been lying with the banks' branches in Pakistan before the partition of the country. The transfer of bank accounts belonging to the evacuees of India and Pakistan at the time of partition is governed by Indo-Pakistan Banking Agreement concluded in April 1949 and certain agreed decisions regarding the implementation of the agreement reached in 1956. However, as the matter was outstanding for a long time, it was decided to settle the payment to the evacuee account holders in India out of the deposits of Muslim evacuees lying with the Custodian of Enemy Property in India. The Government of India issued an order dated June 24, 1976 directing the Custodian of Enemy Property to release the amount. The amount aggregating Rs. 16.3 lakhs belonging to non-Muslim evacuees in India had been lying with the Pakistan branches of 16 banks operating in India. The aforesaid amount to be paid in India has been determined on the basis of the verification of the claims of the depositors concerned by the State Bank of Pakistan. Detailed lists of depositors based on verification have been furnished to the banks concerned. Payments will be made by banks mentioned above on a simple letter by the payee, undertaking to refund any wrong or excess payment, if it is subsequently found to have been made. The Government of India in the Department of Revenue and Banking has also furnished a general bond of indemnity, indemnifying banks from the consequences of making payments to non-Muslim evacuees in India.

**Inspections,  
Mergers and  
Related  
Organisational  
Matters**

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

	1974-75	1975-76	1976-77
<b>Financial Inspections</b>			
Number of banks inspected/taken up for inspection ..	28	31	26
Number of offices inspected .. .. .	506	787	823
<b>Centre-wise Inspection</b>			
Number of centres .. .. .	1271	1492	1476
Number of offices .. .. .	2362	2328	2362
<b>Systems Inspection</b>			
Number of banks inspected .. .. .	2	2	1

72. In pursuance of the Reserve Bank's programme of periodical inspection of functioning commercial banks with a view to assessing their financial position as well as methods of operations, 22 scheduled banks and 4 non-scheduled banks were inspected or taken up for inspection under Section 35 of the Banking Regulation Act, 1949 during the year under

review. The inspection of a bank in liquidation under Section 45(Q) of the Banking Regulation Act, 1949 was conducted during the year. Besides, the inspection of the branches of Indian banks in Hong Kong, Mauritius and Kenya was completed during the period. Centre-wise inspections were conducted at 1,476 centres covered by 2,362 offices of commercial banks.

73. The programme of study of the systems and procedures in banks progressed further with the completion of the study of one more bank in the private sector. Meanwhile, the study reports on two banks (including the one carried out earlier) were finalised and forwarded to them. The study reports are being vigorously followed up with the concerned banks to ensure early implementation of the suggestions made therein. Since the introduction of the programme in 1971, studies of six banks in the public sector and three in the private sector have been completed.

74. The other activities of the Systems and Procedures Division in the Bank related to three conferences of public sector banks and those in the private sector having more than 50 branches, to discuss the problems posed by mounting backlog of transactions pending reconciliation and follow-up in the inter-branch accounts and to consider specific measures for bringing about improvement in the light of experience of these banks. The banks were also advised on the steps to be taken by them for strengthening their internal audit/inspection machinery.

#### *Bank Mergers and Liquidations*

75. The efforts made to consolidate the banking system in the country through the process of the transfer of liabilities and assets and participation arrangements were continued. It may be recalled that the Government of India had sanctioned schemes of amalgamations under Section 45 of the Banking Regulation Act, 1949 in respect of 49 banks. In terms of the provisions of the relative schemes, the transferee banks were required to make a final valuation of the assets of the transferor banks, after a period of 6/12 years or such earlier period as might be sanctioned by the Government of India in consultation with the Reserve Bank. The final valuation of the assets of 26 banks as provided in the relative schemes was completed, while in the case of 9 banks the reports are under Bank's consideration. Of the remaining 14 banks, final valuation is due in respect of 10 banks and the matter is being pursued with them.

76. The liabilities and assets of the Narang Bank of India Ltd., an unlicensed scheduled bank, were transferred to the United Bank of India with effect from August 1, 1976, under Section 293 of the Companies Act, 1956.

77. During the year, three non-scheduled banks were dissolved; court advices in respect of 3 non-scheduled banks which were dissolved in 1973, 1975 and 1976 were also received. A certificate under Section 44(1) of the Banking Regulation Act, 1949, was issued to one bank to enable it to go into voluntary liquidation.

78. After obtaining the necessary directive from the Government of India, an inspection of the books and accounts of the Laxmi Bank Ltd. (in liquidation) under Section 45(Q) of the Banking Regulation Act, 1949 was taken up and completed. The report is under Bank's consideration. The inspection reports in respect of two banks in liquidation (the Nath Bank Ltd. and the Bengal Bank Ltd.) were examined and forwarded to the Government of India.

#### *Licensing of Banks*

79. During the period July 1976 to June 1977, no licence to commence banking business in India was granted to any bank. The business of the Narang Bank of India Ltd., an unlicensed bank, has been taken over by the United Bank of India with effect from August 1, 1976. The name of the Narang Bank of India Ltd., has also been excluded from the Second Schedule to the Reserve Bank of India Act, 1934, with effect from September 11, 1976. The Bank of Cochin Ltd., Cochin, was issued a licence on October 27, 1976 to carry on banking business in India. The bank was also included in the Second Schedule to the Reserve Bank of India Act, 1934, with effect from December 18, 1976. The number of licensed commercial banks thus increased to 46 (including National Bank of Pakistan which is under the Custodian of Enemy Property); however, the number of banks in respect of which licences have been cancelled remained at 55 as at the end of June 1977. It may be mentioned that 22 public sector banks do not require licences.

80. During the period under review, no licence under Section 22 of the Banking Regulation Act, 1949, to carry on banking business in India was refused to any existing bank. The total number of banks to which licences have been refused therefore, remained unchanged, at 283 as at the end of June 1977.

#### *Clearing House Facilities*

81. During 1976-77 (July-June), 84 clearing houses were established bringing the total number of clearing houses in the country to 340; of these 10 are managed by the RBI, 286 by the SBI and 44 by the associate banks of the State Bank of India.

82. As a follow-up measure to the recommendation of the Working Group on Customer Service, Managers at Bangalore, Madras and New Delhi offices of the Reserve Bank were advised to initiate steps, in their capacity as Presidents of the clearing houses, for introduction of the system of multiple membership of clearing house, in consultation with member banks. Measures were also being taken to introduce the system at Bombay and Calcutta.

#### **Credit Information and Statistics**

83. Under the Lead Bank Scheme, the lead banks were collecting from all banks banking data relating to their lead districts for purposes of review and discussions at the District Consultative Committee meetings. As this arrangement was found to be unsatisfactory, and also has created

certain problems, the regional offices of the Reserve Bank started collecting data for the purpose and made available such data to State Governments and the lead banks. Recently, in response to demands from several State Governments for comprehensive data, the Government of India constituted a Study Group to examine the needs of DCCs and state level committees and to devise a format. After considering various suggestions received by it, the Study Group has devised a format, in which banks will start furnishing data to the lead banks and Reserve Bank from the quarter ended June 1977. The Reserve Bank will continue to collect data for state level purposes.

84. The Department of Banking Operations and Development continued to assist banks and other notified financial institutions by furnishing information on credit facilities allowed to individual borrowers. During 1976-77 (July-June) credit information in respect of 1,358 applications was furnished to the applicant banks/notified financial institutions as against 1,184 applications during 1975-76.

#### *Basic Statistical Returns (BSR) Scheme*

85. The reporting under the Basic Statistical Returns (BSR) Scheme introduced in December 1972, has stabilised. Time series data are being built up on a comparable basis to cover all major aspects of credit and deposits. The fifth volume of Banking Statistics under the series 'Basic Statistical Returns' giving comprehensive information on deposits and advances as of December 1974 and 1975 is under print. In the meantime, a brochure presenting regional distribution of deposits and advances and classification of credit according to different categories as of December 1975 as well as district-wise deposits and advances for June 1976 was brought out in March 1977 in order to meet the demand for such data from banks, Central/State Governments and others.

86. In order to have more frequent and up-to-date data on the sectoral flow of credit, a weekly return calling for sector-wise data on advances and a monthly return calling for advances in respect of selected large accounts was introduced during the year.

#### **Working Results of Scheduled Commercial Banks**

87. The profits<sup>£</sup> earned during the calendar year 1976 by the 61 scheduled commercial banks comprising 22 public sector banks (the State Bank Group and the 14 nationalised banks), 27 other Indian scheduled commercial banks (each with deposits of Rs. 10 crores and above) and 12 foreign banks at Rs. 39.8 crores, were higher by Rs. 8.6 crores (27.4 per cent) compared with a rise of Rs. 6.5 crores (26.1 per cent) in the previous year (Table 6\*).

#### *Public Sector Banks*

88. During the calendar year 1976, the profits earned by 22 public sector banks (SBI and its subsidiaries and the 14 nationalised banks)

---

<sup>£</sup>After providing for taxation and bonus/ex-gratia payment to staff. Data are based on published working results of banks.

\*Page 33.

were higher by Rs. 28.4 crores compared to Rs. 22.9 crores in the previous year due mainly to an increase in the volume of business in regard to both deposits and credit coupled with a modest decline in the establishment expenses notwithstanding the increased tempo of branch expansion. The total income earned by the public sector banks at Rs. 1612.5 crores showed an increase of Rs. 307.1 crores (23.5 per cent) compared to an increase of Rs. 264.3 crores (25.4 per cent) in the previous year. The bulk of the rise in the earnings was under 'interest and discount' which increased by Rs. 269.0 crores compared to Rs. 233.4 crores in 1975. The growth of income under 'interest and discount' at 23.8 per cent during the year was lower compared to the growth of 26.0 per cent in the preceding year, due perhaps partly to the imposition in March 1976 of maximum lending rates to be charged by banks. Another avenue of earnings by banks which is growing in importance in the banks' operations is the 'commission, exchange and brokerage' which showed a rise of Rs. 38.0 crores to Rs. 200.6 crores in 1976 compared to an increase of only Rs. 31.7 crores in the previous year. The total expenditure of these banks rose by Rs. 301.5 crores to Rs. 1584.1 crores compared to an increase of Rs. 257.0 crores in the previous year. But the rise in expenditure at 23.5 per cent was at a much lower rate than in the preceding year (25.1 per cent). The interest paid on deposits and borrowings, etc. rose sharply by Rs. 277.5 crores (38.2 per cent) compared to an increase of Rs. 164.6 crores (29.3 per cent). The higher outgo on this account could be attributed to the sharp increase in deposit accretion during the year. Even so, the establishment expenses (comprising salaries, allowances, provident fund and bonus/ex-gratia payment) recorded a marginal decline of Rs. 4.7 crores in contrast to an increase of Rs. 69.5 crores (19.1 per cent) in 1975. This could be partly attributed to the lower magnitude of dearness allowances paid to the staff which is linked to the Cost of Living Index.

#### *State Bank of India*

89. The earnings of the State Bank of India recorded an increase of Rs. 78.8 crores compared to a rise of Rs. 75.3 crores in 1975. The total expenditure was also higher by Rs. 77.6 crores in 1976, compared to an increase of Rs. 73.4 crores in the previous year. During 1976, the bank earned a profit of Rs. 7.8 crores compared to Rs. 6.5 crores earned in the previous year. Out of this profit, the bank transferred an amount of Rs. 6.0 crores to its reserves and provided Rs. 1.7 crores for payment of dividend to shareholders.

#### *Subsidiaries of State Bank of India*

90. The total earnings of the seven subsidiaries of the State Bank of India were lower by Rs. 13.0 crores during 1976 compared to a rise of Rs. 17.7 crores in 1975. Simultaneously, the total expenditure of these banks recorded a lower increase of Rs. 12.9 crores in 1976 compared to Rs. 17.4 crores in the previous year. As a result, the profit earned by these banks during 1976 rose from Rs. 92 lakhs in 1975 to Rs. 104 lakhs in 1976. Out of the profits for 1976, these banks transferred Rs. 76 lakhs to their

reserves and provided Rs. 28 lakhs for payment of dividend to the State Bank of India.

#### *Nationalised Banks*

91. The total earnings of the 14 nationalised banks rose sharply by Rs. 215.3 crores (25.2 per cent) during 1976 compared to an increase of Rs. 171.3 crores (25.1 per cent) in 1975. The rise was mainly attributable to the earnings from 'interest and discounts' which showed an increase of Rs. 190.0 crores (24.9 per cent) compared to an increase of Rs. 160.8 crores (26.7 per cent) in 1975. The total expenditure of these banks also rose by Rs. 211.1 crores (25.2 per cent) compared to Rs. 166.2 crores (24.7 per cent) in the previous year. One of the important components of expenditure viz., 'interest paid on deposits and borrowings' increased during the year by Rs. 190.9 crores compared to the rise of Rs. 107.2 crores in 1975. The establishment expenses, however, recorded a nominal decline of Rs. 0.1 crore during 1976 as against an increase of Rs. 44.7 crores in the previous year. The profits earned during 1976 by these banks at Rs. 19.6 crores were higher by Rs. 4.2 crores than in the preceding year.

92. Out of their profits, the 14 nationalised banks transferred Rs. 13.1 crores to the statutory reserves and Rs. 4.5 crores to the Government under Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. The surplus amount transferred to the Government of India during 1976 represents 5.2 per cent of the aggregate compensation paid for the acquisition of these banks as compared to 5.0 per cent in 1975.

#### *Other Indian Scheduled Commercial Banks*

93. The total income earned by the 27 other Indian scheduled commercial banks in the private sector each with deposits of Rs. 10 crores and above at Rs. 184.5 crores was higher by Rs. 43.6 crores (31.0 per cent) compared to Rs. 39.4 crores (38.9 per cent) earned in the previous year. The total expenditure of these banks rose by Rs. 42.7 crores compared to the lower increase of Rs. 39.2 crores in the previous year, with the result, the profit earned by these banks at Rs. 4.0 crores (28.2 per cent) was higher than Rs. 3.2 crores (9.0 per cent) in the preceding year. Out of the profits earned during 1976, these banks transferred as much as Rs. 2.0 crores to statutory reserves and Rs. 1.3 crores to other reserves.

#### *Foreign Banks*

94. The total income earned by 12 foreign banks functioning in India at Rs. 125.8 crores was higher by Rs. 6.3 crores compared to the much larger increase of Rs. 14.5 crores in the previous year. The total expenditure of these banks at Rs. 118.4 crores rose over the year by Rs. 4.1 crores compared to the sharp rise of Rs. 15.5 crores in the previous year. The profit earned by these banks at Rs. 7.4 crores was higher by Rs. 2.1 crores as against a deceleration in profit by Rs. 1.0 crore to Rs. 5.3 crores in 1975.



**Committees  
and Working  
Groups***Committee on Transfer of Loan Accounts*

95. It may be recalled that the Reserve Bank of India had constituted in March 1976, a Committee on Transfer of Loan Accounts, to examine and suggest norms for regulating the transfer of borrowal accounts among banks, for the purpose of developing a mutually acceptable system to the customer's desire for freedom to choose his bank with the requirement of financial discipline of borrowers and healthy growth of banking business. The recommendations of the Committee have been accepted by the Reserve Bank. Necessary guidelines and the procedure to be followed for transfer of borrowal accounts having credit limits of Rs. 25 lakhs and above, have been issued by the Department of Banking Operations and Development to all banks in June 1977.

*Committee on Penal Rates and Service Charges by Banks*

96. The recommendations of the Committee on Penal Rates and Service Charges have been accepted by the Reserve Bank and appropriate guidelines were issued to all the banks on June 26, 1976. It was indicated in the guidelines that the system of penal rates has to be accepted as a justifiable part of the interest rate policy of banks as long as they are applied with selectivity and discrimination. Secondly, penal rates should be regarded not as a revenue raising measure but as a measure to enforce discipline on borrowers. A bank may be justified in charging penal rates in the case of default in repayment of loans, or irregularities in cash credit accounts, or non-submission of stock statements and other financial data, or default in borrowing covenants or non-payment/non-acceptance of demand/usance bills of exchange on due dates. The penal rates may vary from one per cent to 2.5 per cent over and above the normal rates applicable to advances; in no circumstances, however, the penal rate should exceed 2 per cent over the ceiling rates on advances prescribed by the Reserve Bank.

97. As regards the levy of service charges on borrowal accounts (termed as 'processing fees' in the Report), a circular containing the guidelines on the subject was issued to all scheduled commercial banks on November 15, 1976 advising them to reduce their service charges progressively to 1 per cent per annum on the outstanding debit balance by January 1, 1977, and to half of one per cent by July 1, 1977. Banks are required to do away with the present system of levy of service charges by January 1, 1978. Instead, they may charge 1/20th of one per cent per annum on credit limits subject to a maximum of Rs. 2,500. This new system may be adopted by other banks also which were not hitherto levying such charges. As regards cases where customers, having applied for credit facilities, do not avail of limit/s sanctioned, broadly or substantially on the lines applied for, the banks were advised to charge, at their discretion, processing fees at 1/10th of one per cent of the limit with a minimum of Rs. 100 and a maximum of Rs. 5,000. The Reserve Bank has, however, not considered it necessary to re-introduce the system of levy of commitment charge in respect of the unutilised portion of credit limits sanctioned, as recommended by the majority of the Committee members.

*Working Group on Customer Service in Banks*

98. Mention was made in the last year's Report of the submission of interim report on critical service areas of banks. The Working Group has since then submitted its final report to the Government. A large number of recommendations were already implemented by banks while some require legislative action. The Government have appointed a small group consisting of the representatives of the Department of Revenue and Banking, the Reserve Bank of India and the public sector banks to examine the recommendations and to oversee the implementation of those which are accepted by Government.

*Working Group on Multi-agency Approach in Agricultural Financing*

99. Although multi-agency approach has been adopted as a national policy to promote agricultural development through different institutional agencies, several practical problems have arisen from time to time in the actual implementation of the approach. The position has been further accentuated by the appearance recently of regional rural banks on the scene. With a view, therefore, to studying in depth the problems created by the multi-agency approach and to suggest solutions, the Bank has constituted a Working Group in October 1976, the report of which is awaited.

*Working Group on Housing Finance*

100. The Reserve Bank appointed in January 1977 a Working Group to examine the role of banking system in providing finance for housing construction and other building activities. The Group would examine mainly the sources of finance presently available for financing building construction, to assess the requirement of finance in the next five years, to identify the gaps in the context of facilities presently available, find out types of building activities which may be considered eligible for bank finance and make recommendations about the quantum and form of assistance (direct or indirect) which banks may give. The Working Group is expected to submit its report by the end of September 1977.

*Committee to Study Functioning of Public Sector Banks*

101. The Reserve Bank set up a Committee in June 1977 to study all aspects of the functioning of public sector banks and in the light of such findings, make recommendations on the same. The terms of reference of the Committee are to :

- (i) assess the impact of branch expansion that has taken place since 1969 and to examine whether any change in the tempo and direction of such expansion is called for ;
- (ii) enquire into the present pattern of branch expansion of public sector banks and to suggest the future course of action keeping in view the need for rural development and removal of regional imbalances ;

- (iii) evaluate the performance of public sector banks in the matter of lending to the priority sectors and weaker sections of the society and to suggest ways for the orderly and balanced growth of such advances ;
- (iv) advise on improving the efficiency of banks with a view to rendering better and speedy service to the public ; and
- (v) examine the operation of vigilance work in the banks and to make recommendations to bring about improvements.

*Working Group on Operational Efficiency and Profitability of Banks*

102. As already mentioned in the last Report, the Reserve Bank appointed in April 1976 a Working Group to suggest practical and realistic criteria for the evaluation of the performance of individual banks, to determine the basis for assessment of costs of various banking services, to provide guidelines on the pricing policy of banks in relation to the services rendered to the constituents and to suggest internal systems and procedures to control banking costs, improve operational efficiency, productivity and profitability of banks. The Group has completed its deliberations and its report is expected to be submitted shortly.

**Credit  
Guarantee  
Corporation  
of India**

103. With a view to enlarging the scope and benefits of its guarantee cover, the Credit Guarantee Corporation of India liberalised further, during the year, certain provisions of its Small Loans Guarantee Scheme. Thus, with effect from October 1, 1976, advances for consumption needs, or for purchase or construction of houses or tenements, wholly or mainly for dwelling purposes, granted directly to the various categories of borrowers already covered by the Small Loans Guarantee Scheme were brought within the purview of the Scheme, provided such facilities formed a part of the credit extended to these borrowers for their main business or activities. In order to ensure these, the guarantee goes to the small borrowers, certain maximum limits were stipulated for the amount of credit to be extended for the above purposes. Similarly, in order to extend the benefit of guarantee cover to the landless agricultural labourers, these were specifically included in the category of farmers and agriculturists.

104. Also, in view of the wider range and volume of essential commodities which the approved fair price shops, consumer co-operative stores and super bazars are expected to handle, the Small Loans Guarantee Scheme was amended with effect from January 1, 1977 so as to raise the erstwhile limit of annual sales turnover of Rs. 2 lakhs to Rs. 4 lakhs and the ceiling for the Corporation's liability enhanced from Rs. 25,000 to Rs. 50,000.

105. It was mentioned in the last Report that the regional rural banks were also made eligible to join the Corporation's credit guarantee schemes. As a result, the number of banks participating in the Small Loans Guarantee Scheme rose to 96 at the end of December 1976 including nineteen

regional rural banks. Eleven regional rural banks joined the Service Co-operative Societies' Guarantee Scheme, the number of participating institutions in the Scheme raising to 102.

106. The total advances covered under the three Schemes of the Corporation trebled to Rs. 1100.3 crores during the last four years, the increase in 1976 alone being Rs. 300 crores or over 50 per cent. Most of the advances covered were, however, under the Small Loans Guarantee Scheme (Rs. 1094.3 crores), the amount under the remaining two Schemes, namely, the Financial Corporations' Guarantee Scheme and Service Co-operative Societies Guarantee Scheme together accounting for hardly one percent. Out of the total advance covered under the Small Loans Guarantee Scheme, a major part (Rs. 708.0 crores or 65 per cent) was in respect of farmers and agriculturists, followed by transport operators (Rs. 168.9 crores or 15 per cent), the traders (Rs. 111.5 crores or 10 per cent) and the remaining categories such as the self-employed, business enterprises, etc.

107. The claims preferred on the Corporation have been steadily increasing, the trend becoming more pronounced during 1976-77. The number of claims increased rapidly from 1,738 in 1975 to 4,031 in 1976 and 3,204 during January to May 1977, the amounts involved being Rs. 60 lakhs, Rs. 135 lakhs and Rs. 91 lakhs, respectively. In the cases where the Corporation has made payments in respect of claim, it becomes subrogated to the rights of the credit institution to the extent of such payments. Accordingly, amounts aggregating Rs. 1.6 lakhs towards repayments on account of claims paid were received by the Corporation during 1976 and Rs. 2.8 lakhs during the period January-May 1977.

108. The Corporation received 10,010 claims for an amount of Rs. 3.1 crores up to the end of May 1977. Out of these, the largest number of claims namely, 6,476 involving an amount of Rs. 1.9 crores was in respect of farmers and agriculturists. Of the total claims received upto May 1977, 5,329 claims for an amount of Rs. 1.6 crores were disposed of. Out of these 4,822 claims for an amount of Rs. 1.4 crores were paid. Several measures both administrative and procedural were taken by the Corporation during the year to facilitate expeditious disposal of claims. It was also decided that claims are paid immediately on settlement, subject to the condition that in the event of counter claim, the credit institution shall refund such amount as may be determined by the Corporation in due course, for *pro-rata* distribution, wherever necessary.

**Deposit  
Insurance  
Corporation**

109. As mentioned in the last year's Report, effective from July 1, 1976, the amount of insurance cover was raised from Rs. 10,000 to Rs. 20,000 per depositor in respect of all deposits held by him in an insured bank in the same right and capacity. Another important development during the year was the extension of the Deposit Insurance Scheme to cover larger number of co-operative banks and the regional rural banks.

110. The Deposit Insurance Scheme was extended to 293 co-operative banks in three more States *viz.*, West Bengal (54), Rajasthan (39) and Karnataka (200) with effect from September 1, 1976, November 1, 1976 and January 1, 1977, respectively. The total number of insured co-operative banks went up from 536 as at the end of June 1976 to 848 at the end of June 1977. The Scheme now covers co-operative banks in the States of Andhra Pradesh, Madhya Pradesh, Maharashtra, Jammu and Kashmir, Kerala, Tripura, West Bengal, Rajasthan and Karnataka and the Union Territories of Delhi, Goa, Daman and Diu and Pondicherry. The question of extending the scheme to the remaining States/Union Territories is under active consideration. The number of insured commercial banks came down from 79 to 78 consequent upon de-registration of the Narang Bank of India Ltd., the same being taken over by the Union Bank of India with effect from August 1, 1976. Further, 29 regional rural banks were registered as insured banks increasing their number to 48.

111. The total claims paid or provided for by the Corporation since its inception upto March 1977 amounted to Rs. 113.0 lakhs in respect of 14 insured commercial banks and the total repayments received so far in respect of the subrogated claims relating to these banks amounted to Rs. 70.5 lakhs including Rs. 2.6 lakhs received during 1976-77 (upto March). In addition, claims amounting to Rs. 9.9 lakhs received from three co-operative banks in Maharashtra which were taken into liquidation, were also paid during the year.

TABLE 1 :—STATE-WISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1975, JUNE 1976, DECEMBER 1976 AND JUNE 1977

State/Union Territory	No. of offices as at the end of				Opened during 1975-76 (July 1975 to June 1976)	Of which un-banked centres	Opened during 1976-77 (July-1976 to June 1977)	Of which un-banked centres	Population*per bank office (in thousands) as at the end of		
	June 1975	June 1976	December 1976	June 1977					June 1976	December 1976	June 1977
1	2	3	4	5	6	7	8	9	10	11	12
Andhra Pradesh ..	1373	1550	1728	1844	177	60	294	149	28	25	24
Assam .. ..	214	263	339	354	57	17	91	52	56	43	41
Bihar .. ..	796	953	1092	1176	157	72	223	113	59	52	48
Gujarat .. ..	1552	1711	1848	1883	161	45	173	53	16	14	14
Haryana .. ..	438	530	585	604	92	42	74	38	19	17	17
Himachal Pradesh ..	181	209	235	253	28	17	44	25	16	15	15
Jammu & Kashmir ..	189	232	274	285	43	20	53	41	20	17	16
Karnataka .. ..	1750	1905	2051	2138	183	59	233	109	15	14	14
Kerala .. ..	1296	1473	1617	1705	177	71	232	153	14	13	13
Madhya Pradesh ..	914	1050	1176	1247	137	37	197	85	40	35	33
Maharashtra .. ..	2188	2381	2562	2671	210	52	292	116	21	20	19
Manipur .. ..	10	13	21	23	3	1	10	6	83	51	47
Meghalaya .. ..	21	30	37	41	9	4	11	6	34	27	25
Nagaland .. ..	8	14	22	22	6	2	8	4	37	23	23
Orissa .. ..	301	382	477	529	81	47	147	94	57	46	41
Punjab .. ..	961	1107	1231	1271	146	51	165	44	12	11	11
Rajasthan .. ..	792	877	984	1022	87	23	145	78	29	26	25
Tamilnadu .. ..	1935	2093	2240	2307	161	33	216	87	20	18	18
Tripura .. ..	20	24	42	49	4	2	25	19	65	37	32
Uttar Pradesh ..	1896	2218	2563	2714	322	124	501	216	40	34	33
West Bengal .. ..	1090	1317	1546	1626	227	66	310	141	34	29	27
Andaman & Nicobar Islands .. ..	5	6	7	7	1	1	1	1	19	16	16
Arunachal Pradesh ..	7	10	11	11	3	3	1	1	47	43	43
Chandigarh .. ..	53	57	66	71	4	1	14	3	5	4	4
Dadra & Nagar Haveli	4	4	4	4	—	—	—	—	19	19	19
Delhi .. ..	563	619	680	709	58	2	92	28	6	6	6
Goa, Daman & Diu ..	140	153	171	190	14	5	37	25	6	5	5
Lakshadweep .. ..	4	4	5	5	—	—	1	1	8	6	6
Mizoram .. ..	1	2	4	4	1	1	2	1	166	83	83
Pondicherry .. ..	28	33	37	37	5	1	4	1	14	13	13
Total .. ..	18,730	21,220	23,655	24,802	2,554	859	3,596	1,690	26	23	22

\* As per 1971 census.



TABLE 2:—NEW BANK OFFICES OPENED BY COMMERCIAL BANKS DURING 1975-76 AND 1976-77

Bank Group	New Offices opened by Commercial Banks						Bank Offices as on		
	1975-76			1976-77			30th June 1976	31st Dec. 1976	30th June 1977
	July-Dec. 1975	Jan.-June 1976	July-June 1975-76	July-Dec. 1976	Jan.-June 1977	July-June 1976-77			
1	2	3	4	5	6	7	8	9	10
1. State Bank of India .. .. .	326 (169)	121 (56)	447 (225)	323 (191)	116 (39)	439 (230)	3922	4243	4359
2. Subsidiaries of State Bank of India ..	63 (15)	46 (11)	109 (26)	89 (29)	63 (18)	152 (47)	1848	1937	2000
3. 14 Nationalised Banks .. .. .	859 (257)	297 (92)	1156 (349)	1119 (357)	419 (231)	1540 (588)	11010	12124	12543
4. Regional Rural Banks .. .. .	17* (9)	95* (70)	112 (79)	391 (298)	277 (219)	668 (517)	112	503	780
5. Other Scheduled Commercial Banks	504 (127)	206 (45)	710 (172)	499 (172)	252 (112)	756 (284)	4047	4602	4854
6. Foreign Banks .. .. .	—	—	—	—	—	—	130	130	130
7. All Scheduled Commercial Banks ..	1761 (576)	773 (275)	2534 (851)	2421 (1047)	1127 (619)	3555 (1666)	21069	23539	24666
8. Non-Scheduled Commercial Banks ..	14 (6)	6 (2)	20 (8)	25 (13)	20 (11)	41 (24)	151	116	136
9. All Commercial Banks .. .. .	1775 (582)	779 (277)	2554 (859)	2446 (1060)	1147 (630)	3596 (1690)	21220	23655	24802

\* Revised

Note : Figures in brackets relate to unbanked centres.

TABLE 4 :—SCHEDULED COMMERCIAL BANKS' ADVANCES TO PRIORITY SECTORS

(Amounts in rupees crores)

Items	December 1975 (Provisional)				December 1976 (Provisional)			
	State Bank Group	Fourteen Nationalised Banks	Public Sector Banks (2+3)	All Scheduled Commercial Banks	State Bank Group	Fourteen Nationalised Banks	Public Sector Banks (6+7)	All Scheduled Commercial Banks
	2	3	4	5	6	7	8	9
I. Total Bank Credit .. .. .	2895	5544	8439	9874	3788	7334	11122	12909
II. Advances to Priority Sectors								
(a) Agriculture .. .. .	314	623	937	1024	433	797	1230	1335
Of which :								
(i) Direct Finance .. .. .	228	430	658	725	326	590	916	1003
(ii) Indirect Finance .. .. .	86	193	279	299	107	207	314	332
(b) Small-Scale Industries .. .. .	410	624	1034	1147	477	798	1275	1421
(c) Road and Water Transport Operators	23	130	153	191	44	193	237	278
(d) Retail Trade and Small Business ..	37	118	155	179	52	170	222	257
(e) Professional and Self-Employed Persons	5	38	43	51	9	60	69	78
(f) Education .. .. .	—	5	5	5	—	6	6	6
Total of (a) to (f) .. .. .	789	1538	2327	2597	1015	2024	3039	3375
Percentage share of the bank group in all banks' advances to Priority Sectors .. .. .	30.4	59.2	89.6	100.0	30.1	60.0	90.0	100.0
Percentage of advances to Priority Sectors in total bank credit .. .. .	27.3	27.8	27.6	26.3	26.8	27.6	27.3	26.1
Percentage share of advances to Priority Sectors in total bank credit excluding food credit .. .. .	30.7	30.9	30.8	29.1	33.4	33.5	33.5	31.4

TABLE 5 :—OFFICES OF REGIONAL RURAL BANKS

States	Number of RRBs						Number of offices	
1	2						3	
1. Andhra Pradesh	..	..	..	..	..	..	3	88
2. Assam	..	..	..	..	..	..	1	11
3. Bihar	..	..	..	..	..	..	7	63
4. Haryana	..	..	..	..	..	..	2	41
5. Himachal Pradesh	..	..	..	..	..	..	1	8
6. Jammu and Kashmir	..	..	..	..	..	..	1	28
7. Karnataka	..	..	..	..	..	..	3	48
8. Kerala	..	..	..	..	..	..	2	36
9. Madhya Pradesh	..	..	..	..	..	..	4	62
10. Maharashtra	..	..	..	..	..	..	1	16
11. Orissa	..	..	..	..	..	..	4	67
12. Rajasthan	..	..	..	..	..	..	3	67
13. Tamil Nadu	..	..	..	..	..	..	1	8
14. Tripura	..	..	..	..	..	..	1	8
15. Uttar Pradesh	..	..	..	..	..	..	10	169
16. West Bengal	..	..	..	..	..	..	4	60
Total	48						780	

TABLE 6 :—WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

(Amounts in rupees crores)

	State Bank Group		Nationalised Banks		Total Public Sector Banks		Other Indian Scheduled Commercial Banks @		Foreign Banks	
	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976
	1	2	3	4	5	6	7	8	9	10
I. Total Earnings	451.61 (25.9)	543.38 (20.3)	853.80 (25.1)	1069.08 (25.2)	1305.41 (25.4)	1612.46 (23.5)	140.87 (38.9)	184.49 (31.0)	119.49 (13.7)	125.75 (5.2)
Of which :										
Interest and Discount	370.26 (24.4)	449.24 (21.3)	762.41 (26.7)	952.45 (24.9)	1132.67 (26.0)	1401.69 (23.8)	121.13 (39.3)	158.26 (30.7)	96.71 (17.7)	98.61 (1.9)
II. Total Expenditure	444.16 (25.7)	534.59 (20.4)	838.40 (24.7)	1049.48 (25.2)	1282.56 (25.1)	1584.07 (23.5)	137.72 (39.7)	180.45 (31.0)	114.23 (15.6)	118.36 (3.6)
Of which :										
(a) Interest paid on deposits, borrowings etc.	231.08 (33.1)	317.77 (37.5)	495.87 (27.6)	686.72 (38.5)	726.95 (29.3)	1004.49 (38.2)	74.60 (45.3)	103.49 (38.7)	49.51 (9.4)	53.43 (7.9)
(b) Salaries, Allowances, provident fund and bonus/ex-gratia payment to staff	169.97 (17.1)	165.41 (-2.7)	262.84 (20.5)	262.71 (-0.1)	432.81 (19.1)	428.12 (-1.1)	43.73 (28.8)	49.20 (12.5)	23.64 (3.6)	23.24 (-1.7)
III. Profits after provision for taxation and bonus/ex-gratia payment to staff	7.45 (42.7)	8.79 (18.0)	15.40 (48.4)	19.60 (27.3)	22.85 (46.5)	28.39 (24.2)	3.15 (9.0)	4.04 (28.2)	5.26 (-16.5)	7.39 (40.5)

@ Figures relate to 27 Indian scheduled commercial banks in the private sector with deposits of Rs. 10 crores and over.

Note : Figures in brackets indicate percentage variation over the previous year ; figures for 1975 are revised.

Source : Profit and loss accounts of banks.

TABLE 7 :—RATES OF INTEREST ON DEPOSITS PAYABLE BY SCHEDULED COMMERCIAL BANKS

		Before June 1, 1977	Effective June 1, 1977
		(Per cent)	(Per cent)
<b>I. Savings Deposits*</b>			
Scheduled Commercial Banks			
1. With demand and time liabilities upto Rs. 10 crores	.. ..	5.5	{ 3 % on Savings Deposits with cheque facilities and 5 % on Savings Deposits Accounts without cheque facilities
2. With demand and time liabilities between Rs. 10 crores and Rs. 25 crores	.. ..	5.25	
3. With demand and time liabilities above Rs. 25 crores	.. ..	5.0	
<b>II. Fixed Deposits</b>			
1. 15 days to 45 days	.. ..	3.0	3.0
2. 46 days to 90 days	.. ..	3.5	3.5
3. 91 days to less than 6 months	.. ..	5.5	4.0
4. 6 months to less than 9 months	.. ..	6.0	4.5
5. 9 months to less than 1 year	.. ..	7.0	5.0
6. 1 year to 3 years	.. ..	8.0	6.0
7. Over 3 years upto 5 years	.. ..	9.0	8.0
8. Above 5 years	.. ..	10.0	10.0

Notes : 1. Scheduled commercial banks with demand and time liabilities less than Rs. 25 crores are allowed to pay at their discretion additional interest of  $\frac{1}{4}$  per cent per annum on all savings deposits and on term deposits upto and inclusive of 5 years. The rate of interest for deposits above 5 years will be only 10 per cent.

2. No co-operative bank is allowed to pay interest on deposits in excess of the rates specified below, over and above the rates prescribed above.

	Over and above the rates payable by scheduled commercial banks (per cent per annum)
(i) State co-operative banks in the Union Territories and in Manipur, Tripura, Nagaland and Meghalaya States	$\frac{1}{2}$
(ii) State co-operative banks in all other States	$\frac{1}{4}$
(iii) Central co-operative banks	$\frac{1}{2}$
(iv) Primary co-operative banks	1

3. Regional rural banks can pay 0.5 per cent more on savings and fixed deposits, except in the case of deposits above 5 years where they are individually advised.

\* Revised interest rates on savings deposits effective from July 1, 1977.