

FOREWORD

The Reserve Bank of India regularly brings out the Report on Currency and Finance, which was traditionally considered as a comprehensive source and record of economic developments. The structure of this Report has been re-oriented since 1998-99 from just documenting the economic developments to a 'theme-based report'. The theme-based Report offers the professional economists working in the Bank, an opportunity to work on relevant topic every year and make incisive analysis of the theme both in the global and the Indian context and come out with an analytical Report offering possible policy solutions to the issues examined. The dissemination of these Reports to a wider section of the user-community is an important exercise. The Report pertaining to the period between 1935-36 and 1998-99 are available only in printed form. The Reports from 1999-2000 have been placed on the Reserve Bank's website. In these days of widespread use of information technology, it is felt useful to bring out the Reports in a single DVD. I hope this will be an invaluable collector's item among the policy makers and academia.

The digitization process of the Reports was undertaken by Shri Ashok Kapoor, Chief Archivist, Reserve Bank of India Archives and supported by the services of Smt. Sandhya Dhavale, Assistant Librarian, under the guidance of Shri K.U.B. Rao, Adviser, Department of Economic Analysis and Policy and Shri Sandip Ghose, Principal and Chief General Manager, College of Agricultural Banking, Pune. I place on record my deep appreciation of their efforts.

Mumbai
April 1, 2009

(Rakesh Mohan)
Deputy Governor
Reserve Bank of India



1976-77

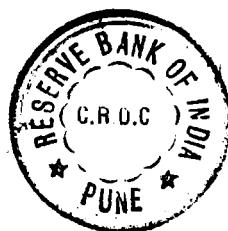
REPORT ON CURRENCY AND FINANCE

VOLUME I
ECONOMIC REVIEW

The Report on Currency and Finance covers developments in the different sectors of the Indian economy for the accounting year of the Reserve Bank, namely July-June. In recent years this Report has been published within 5 to 6 months of the end of the year to which it relates. Due to reasons very largely beyond our control and unforeseeable, the publication of the present Report has been considerably delayed. Since a large body of readers consults this Report for the authoritative record of developments in diverse fields of the Indian economy which it contains, we are publishing this number despite the palpable delay.

We are considering various means of bringing this Report out soon after the end of each reporting period, including also a proposal that it may cover the financial year of the Government, namely April-March, instead of that of the Reserve Bank.

Director of Publications



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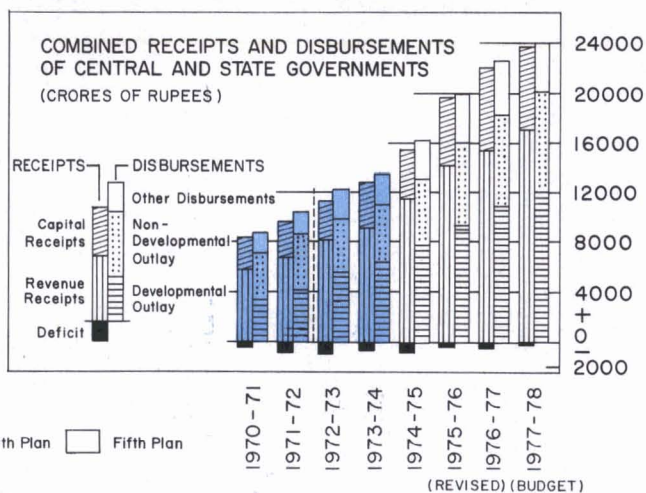
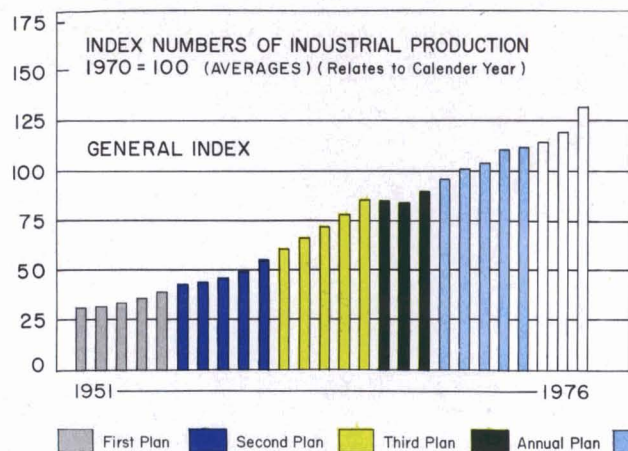
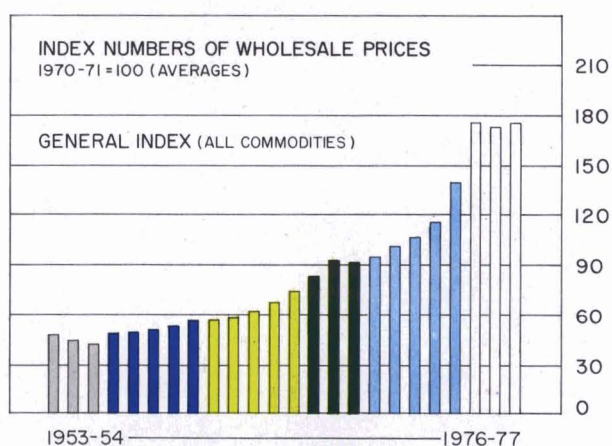
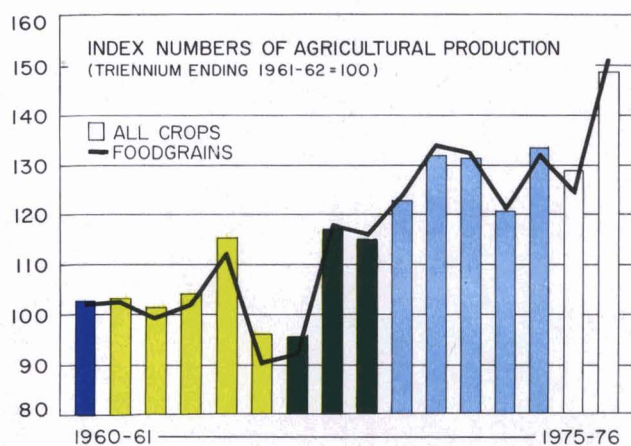
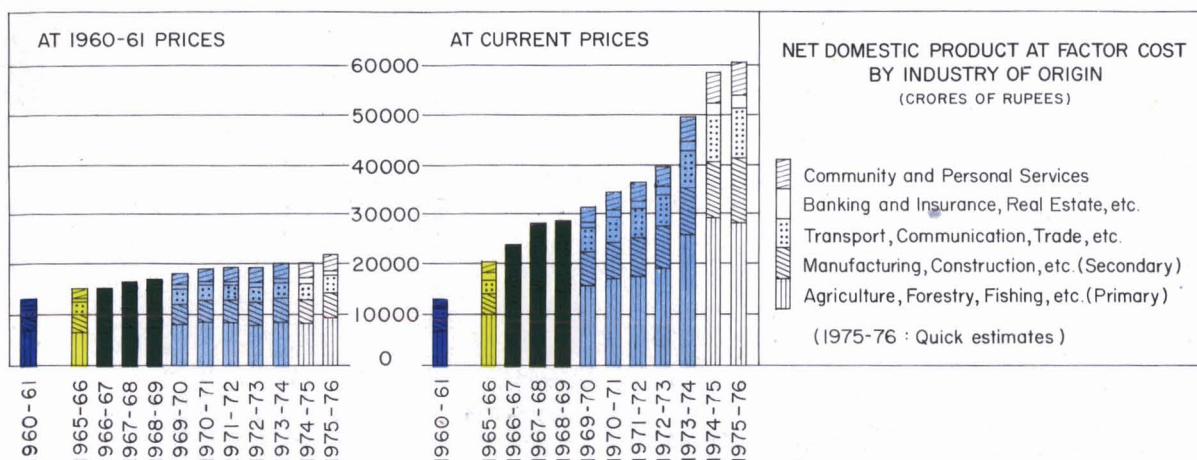
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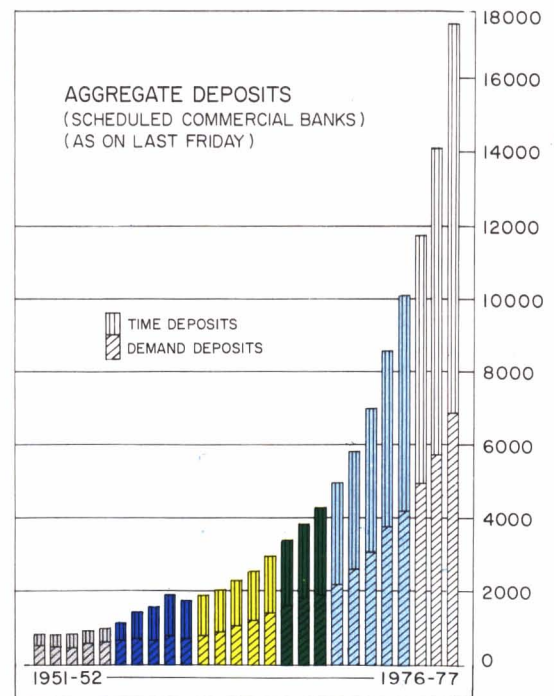
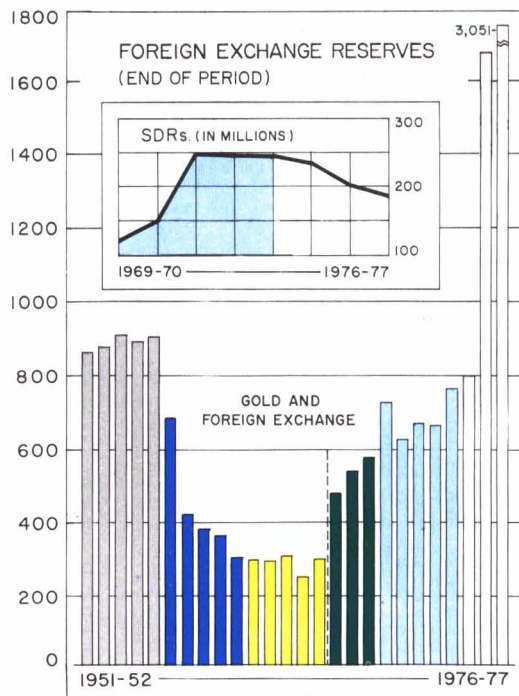
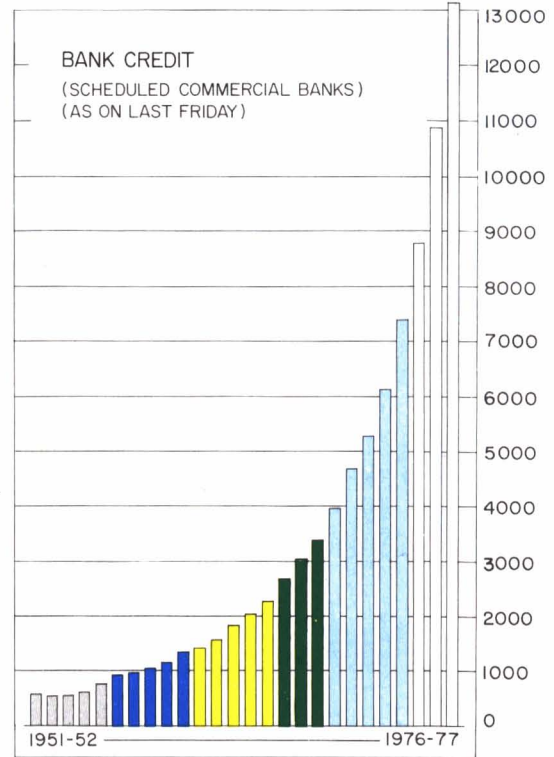
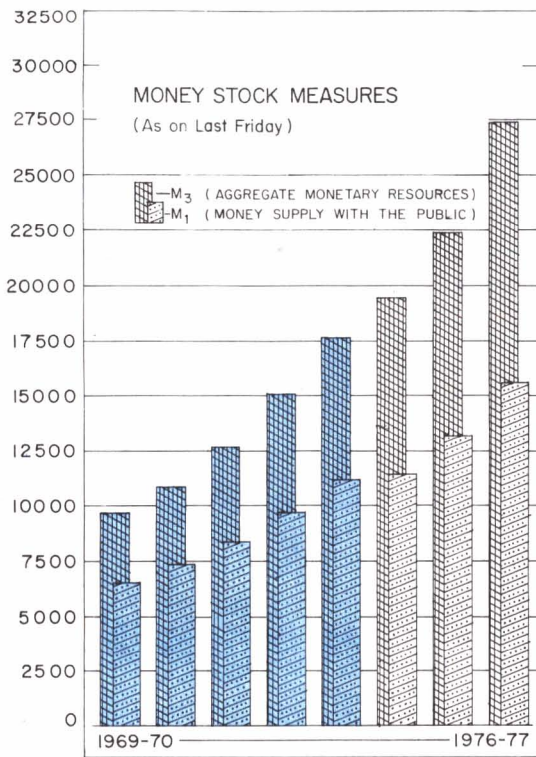
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SELECTED ECONOMIC INDICATORS



SELECTED ECONOMIC INDICATORS

(CRORES OF RUPEES)



First Plan Second Plan Third Plan Annual Plan Fourth Plan Fifth Plan

Chapter I

Review and Outlook

The economic developments during 1976-77 were variegated in nature. The relatively low growth rate in real national income together with the expansion in money supply had contributed to a noticeable increase in prices during the year. However, the large accumulation of stocks of foodgrains and of foreign exchange reserves (excluding gold and SDRs) during the year enlarged the ability of the economy to attain a higher and more balanced economic growth in the succeeding years.

The modest rise in national income at 1970-71 prices, estimated recently at only 1.4 per cent during 1976-77, was the result of divergent rates of growth in the two major sectors of the economy. While output in the industrial sector sharply increased by 10.6 per cent, agricultural production declined by 5 to 6 per cent on account of less favourable weather conditions and lower application of inputs than in the previous year. In agriculture, noticeable declines were recorded in the production of foodgrains, in respect of both *kharif* and *rabi* crops, oilseeds and raw cotton. The output of raw jute (including mesta), sugar, tea and coffee showed varying increases—ranging from 5.1 per cent (in the case of tea) to 22.6 per cent (in the case of coffee). Despite the shortfall in the output of foodgrains, the total stock of foodgrains stood higher at about 21 million tonnes at end-June 1977, as against 17.6 million tonnes at end-June 1976. Though internal procurement of rice and wheat was lower at 10.2 million tonnes at end-June 1977 as against 11.1 million tonnes at end-June 1976, the lower offtake of foodgrains through public distribution agencies during 1976-77 was mainly responsible for the overall increase in food stocks.

The substantial growth in the industrial output was mainly an outcome of relatively large utilisation of production capacities, made pos-

sible by the improved availabilities of raw materials such as iron and steel and cement, railway wagons for transporting goods, and power, as also by relative quiet in industrial relations. All the four categories of industries—producing basic, capital, intermediate and consumer goods—recorded gains in output. However, new investments in both the farm and industrial sectors were conspicuously low, and the capital markets remained generally passive.

Superimposed on the modest increase in national output was a substantial expansion in liquidity, as measured by money supply with the public. Between end-June 1976 and end-June 1977, money supply went up by 16.4 per cent as against an increase of 11.9 per cent in the corresponding period of the preceding year. Aggregate monetary resources (money supply with the public plus time deposits) also increased sharply by 20.9 per cent in 1976-77 compared with 16.7 per cent in 1975-76. This acceleration in the growth of money supply during the year was reflected in an 18.4 per cent rise in bank credit to commercial sector, a 14.4 per cent rise in net bank credit to government sector and a 150.7 per cent increase in net foreign exchange assets of the banking sector. Scheduled bank credit (gross) for purposes other than food procurement rose by Rs. 1631 crores in response to the expansion in industrial output and to meet the demands of priority sectors and sick units: in 1975-76, the rise in non-food credit was only Rs. 1144 crores. Increase in the food procurement credit was considerably lower at Rs. 352 crores compared with the increase of Rs. 1390 crores in 1975-76. The substantial accretion to net foreign exchange assets arose from a turnaround in the visible account from a deficit of Rs. 1222 crores (provisional) to a surplus of Rs. 69 crores, and the growing net surplus in current invisible transactions. Net bank credit to

government sector expanded on account of a larger combined fiscal deficit of the Centre and State Governments.

The cumulative impact of the sluggish growth rate in output and significant expansion in money supply was felt on prices. The 'all commodities' index of wholesale prices in India (base: 1970-71=100) went up by 8.6 per cent between end-June 1976 and end-June 1977 in contrast to the decline of 1.8 per cent in the comparable period of 1975-76. The weighted contribution of the major commodity group 'primary articles', to the rise in the general price level was as large as 68 per cent. 'Manufactured products' accounted for 30 per cent of the rise in the 'all commodities' price index. Among the 'primary articles', the sub-group 'food articles' rose, in terms of weighted contribution, more sharply than the sub-group 'non-food articles'. While this may be explained in terms of an overall decline in the production of most of the food articles in the wake of increased liquidity, the fact that a considerable stock of foodgrains was accumulated during the year points to the inability of the institutional arrangements for foodgrains distribution to take care of any gaps that might have arisen between demand and supply.

Of 'non-food articles', the pressure was mainly felt on three important sensitive commodities, namely raw cotton, raw jute and oilseeds, whose domestic availabilities were lower than the demand for them. Among 'manufactured products', the important sub-groups which showed appreciable price gains were those which were related to sensitive commodities *viz.*, textiles and food products. Even among the food products, the prices of edible oils registered significant increase, in particular of groundnut oil. The impact of 'textiles' and 'food products', on the index of the 'manufactured products' group as a whole, was substantial, because of their relatively large weights. All items of sub-groups in the 'manufactured products'—'chemicals and chemical products', 'basic metals, alloys and metal products' and 'machinery and transport equipment', to name a few—

also recorded increases. Thus the price index of 'manufactured products' as a whole had gone up despite the high industrial output recorded during the year.

In view of the high rate of expansion in money supply and price rises, the monetary authorities sought to absorb the excess liquidity with the banks and applied a wide range of credit controls. The cash reserve requirements of the banks were raised twice during the year. The additional requirement of reserves on incremental deposits was enforced from January 1977 and continued thereafter. The Reserve Bank accommodation to commercial banks was restricted and selective and the refinance facility in respect of food procurement credit was reduced. Margins on all types of advances against inventory and book debts were also raised.

The re-emergence of inflationary tendencies during the year under review is essentially a reflection of many a paradox underlying the economy. The pressure of demand in certain areas, emanating from low availabilities of sensitive commodities and aggravated by expansion in money supply, existed side by side with evidence of slackness in demand, as reflected in the substantial build-up of foodstocks and slow-down in domestic investment. The overall rise in money supply had apparently contributed little to the improvement in the purchasing power of low income earners and weaker sections of the population, as evident from the relatively low offtake of foodgrains through public distribution agencies. In principle, the large accumulated foreign exchange reserves could be utilized for importing essential/sensitive commodities in short supply. But it has not always been possible to anticipate the critical imbalances likely to emerge in demand and supply of these commodities. As a result, adjustments in exports policies get delayed, as demonstrated by exports of HPS groundnuts in 1976-77, while imports of such sensitive commodities are inadequate and not timely.

The steadily rising foreign exchange reserves should be viewed not only as a potential valve to assist planned industrialization, but also as a stimulant to monetary expansion. The latter can be turned beneficial if reserves can be utilized to bring about a quick improvement in capacity utilization, wherever necessary, and an enlargement of new and additional capacities for production. That would depend not so much upon liberalization of imports—which has been continuously resorted to in recent months—as upon the response of public and private investment to absorb new capital goods. In 1976-77 as well as in the last few months of 1977-78, domestic corporate investment was dormant and new issues activity was low. The rise in public sector investment outlays was also not large enough to compensate the slackness in private investment.

It appears that the monetary stimulus arising from accumulating foreign exchange reserves would be an important factor to contend with in the near future—at any rate till new import policies are devised to ensure adequate supplies of essential commodities as also to undertake investments in growth-inducing activities. The major factors that helped to boost up reserves in 1975-76 and 1976-77 viz., administrative measures to check smuggling and illegal transactions, increase in travel receipts and earnings from technical, consultancy and contract services, and rise in remittances by Indian nationals being increasingly employed abroad in recent years, are very much in evidence in 1977-78 as well. Continued operation of these factors in future years, if not accompanied by fully planned import policies, would imply a continuous growth in foreign exchange reserves, with inherent inflationary consequences.

The response of the new Government at the Centre since the beginning of the financial year 1977-78 to the concurrent existence of inflation and slackness in demand and investment was many-sided. It banned exports of essential commodities like onions and vegetables and HPS groundnuts, and imposed duties on ex-

ports of consumer goods like tea, with a view to improving the domestic availabilities of items of common consumption in the market. It also imported sensitive commodities such as edible oils and polyester fibre and continued the obligation on the part of the cotton mills to make use of man-made fibres upto a certain minimum proportion in the manufacture of blended cloth. It had also slashed down the prices of fertilisers (urea) by Rs. 100/- per tonne in October 1977 in order to raise their application for improvement in farm output. Prices of non-ferrous metals were reduced in July 1977 to improve their domestic sales. The government has evolved an industrial policy in which emphasis has been placed on the rapid development of small scale and tiny industrial units. Simultaneously it is working on medium term plans aimed at achieving balanced and stable economic growth, with special emphasis on providing employment and minimum needs to the weaker sections of the population.

These measures, coinciding with the favourable weather conditions in 1977-78 so far (till December 1977) had a salutary effect on prices. The wholesale price index for 'all commodities' declined by 2.6 per cent between end-June 1977 and end-December 1977. The decline in the general price level was shared by the two main commodity groups, 'primary articles' and 'manufactured products'. What is more significant is that the prices of both 'food articles' and 'non-food articles'—the two major sub-groups under 'primary articles'—declined, and in particular of 'fibres' and 'oilseeds' which form part of 'non-food articles'.

Output-wise, the outlook for 1977-78 appears to be good. Latest reports about crop prospects indicate that foodgrains output in 1977-78 would exceed the target of 118 million tonnes (*kharif*: 72 million tonnes and *rabi*: 46 million tonnes) and that production of raw cotton, oilseeds and sugarcane would be higher. On the whole, the agricultural sector is anticipated to grow at a rate of about 7 per cent during 1977-78. Industrial output, however, has

suffered a setback primarily on account of inadequate availability of power supply and a deterioration in industrial relations. The growth in industrial output was only 6.3 per cent in the first ten months of 1977 compared with 10.8 per cent in the corresponding period of

1976. Judging from the trends in capacity utilization in most of the vital areas of the industrial sector, the leeway for further growth appears to be limited, calling for additional investments for expansion of production capacities.

Chapter II

National Income, Saving and Investment

1. Trends in National Income

Net National Product at constant prices (i.e. 1960-61 prices) during 1975-76, the latest year for which the figures compiled by the Central Statistical Organisation (CSO) are available, is estimated to have recorded an impressive rise of 8.8 per cent as compared with the almost negligible increase of 0.2 per cent in 1974-75. Per capita real income in 1975-76 recorded a rise of 6.6 per cent over 1974-75; the previous highest rate of growth was 5.9 per cent in 1967-68 (Table II.1).

The marked improvement in national income was the result of a substantial increase of 21 per cent in foodgrains production (from 100 million tonnes to 121 million tonnes); consequently net national product originating from agricultural sector increased by Rs. 1013 crores or 13.2 per cent in 1975-76 against a decline of 4.3 per cent in 1974-75. The other sectors which made substantial contributions to

national income growth were: (i) Manufacturing (Rs. 157 crores or 4.6 per cent); (ii) Trade, hotels and restaurants (Rs. 139 crores or 6.2 per cent); (iii) Transport, storage and communication (Rs. 112 crores or 10.1 per cent) and (iv) Banking and insurance (Rs. 46 crores or 13.2 per cent).

Official estimates of national income for 1976-77 are not yet available; however, according to the Economic Survey, published by the Ministry of Finance, Government of India, the growth in GNP at constant prices is expected to be about 2 per cent[†], with negligible rise of 0.1 per cent in per capita income.

2. Aggregate Domestic Saving

While the rate of growth in national income in real terms in 1976-77 is estimated to have

[†]The latest available estimates indicate that the real national income growth would be lower at about 1.4 per cent.

Table II.1: Trends in Estimates of National Income and Per Capita Income

					(Rupees Crores)			
					1973-74	1974-75	1975-76	1976-77@
National Income								
At 1960-61 prices	..	..	..	..	20143	20183 (+0.2)	21952 (+8.8)	22391 (+2.0)
At current prices	..	..	..	..	49936	58137 (+17.7)	60293 (+3.7)	63600 (+5.5)
Per Capita Income								
At 1960-61 prices	..	..	..	..	350.7	344.3 (-1.8)	367.0 (+6.6)	367.4 (+0.1)
At current prices	..	..	..	..	859.9	991.6 (+15.3)	1008.1 (+1.7)	1043.5 (+3.5)

Source: C. S. O., Government of India.

@ — Estimated.

N.B. Figures in brackets are percentage increases over the previous year.

declined significantly, aggregate domestic saving as a proportion of net national product showed, according to provisional estimates, a fractional increase from 15.5 per cent to 15.7 per cent (Table II. 2).

The trend in domestic saving in relation to net national income has to be analysed with reference to the major sectors accounting for domestic saving viz., (a) household sector¹, (b) public sector (including public sector undertakings) and (c) private corporate sector (including co-operative institutions).

3. Household Sectors Saving

As in the past, much the largest proportion of domestic saving originated in the household sector, viz., 71.3 per cent in 1976-77 as compared with 63.8 per cent in 1975-76. Although there has been a decline in the rate of growth of saving of household sector over the year, the average saving-income ratio rose to 11.2 per cent in 1976-77 from 9.9 per cent in 1975-76 (Table II. 3).

1. Comprising individuals, non-government non-corporate enterprises in agriculture, trade and industry, non-profit making organisations like trusts, charitable and religious institutions, etc.

Table II.2: Estimates of Net Domestic Saving
(Provisional)

(Rupees Crores at Current Prices)				
Sector	Financial Year (April-March)			
	1973-74	1974-75	1975-76	1976-77
1. Public Sector	1336	2492	3195	2795
Per cent of Net National Product at Current Prices ..	2.7	4.3	5.3	4.4
2. Domestic Private Corporate Sector (including Co-operatives)	383	584	178	62
Per cent of Net National Product at Current Prices ..	0.8	1.0	0.3	0.1
3. Household Sector	4805	4937	5957	7115
Per cent of Net National Product at Current Prices ..	9.7	8.5	9.9	11.2
4. Total Domestic Saving (1+2+3)	6524	8013	9330	9972
Per cent of Net National Product at Current Prices ..	13.2	13.8	15.5	15.7

Table II.3: Saving of the Household Sector
(Provisional)

(Rupees Crores at Current Prices)				
Item	Financial Year (April-March)			
	1973-74	1974-75	1975-76	1976-77
1. Financial Assets (Gross)	3731	3406	5153	6552
Per cent of Net National Product at Current Prices ..	7.5	5.9	8.5	10.3
2. Physical Assets	1630	1919	1990	2099
Per cent of Net National Product at Current Prices ..	3.3	3.3	3.3	3.3
3. Financial Liabilities	556	388	1186	1536
Per cent of Net National Product at Current Prices ..	1.1	0.7	2.0	2.4
4. Total Saving (excluding Financial liabilities i.e. 1+2-3) ..	4805	4937	5957	7115
Per cent of Net National Product at Current Prices ..	9.7	8.5	9.9	11.2

Financial Assets

The proportion of financial assets held by the household sector to the total domestic saving improved significantly from 55 per cent in 1975-76 to 66 per cent in 1976-77. In relation to net national product also, the proportion was higher at 10.3 per cent as compared with 8.5 per cent in 1975-76. The larger increase in financial assets was primarily accounted for by currency and deposits, the share of which in the net financial assets of household sector was as high as 81 per cent as compared with 65 per cent in 1975-76 (Table II.4).

CURRENCY

Of the different assets constituting the household sector's financial saving, currency and bank deposits continued to be predominant. Saving in the form of currency was sizeable

at Rs. 1112 crores as against Rs. 337 crores in the preceding year; its share in the total financial assets rose from 6.5 per cent to 17.0 per cent in 1976-77. Substantial increase in agricultural output in 1975-76 and the resultant improvement in money income of the farm sector in particular, and also the sizeable inflow of foreign resources, particularly inward family remittances explain the large increase in currency holdings of the household sector.

DEPOSITS

Faster rate of growth in total deposits with banks (24 per cent during 1976-77 as compared with 22 per cent in the preceding year) reflected itself in the household sector's share in these deposits. Saving in this form recorded a rise of 32 per cent during the year as compared with 22 per cent in the last year and consequently the proportion of it to gross financial

Table II.4: Composition of Saving of the Household Sector in the form of Financial Assets
(Provisional)

Item	(Rupees Crores at Current Prices)			
	Financial Year (April-March)			
	1973-74	1974-75	1975-76	1976-77
Total Financial Assets (1 to 6)	3731	3406	5153	6552
Per cent of Net National Product at Current Prices	7.5	5.9	8.5	10.3
1. Currency	838	31	337	1112
(a) Per cent of Total Financial Assets	22.5	0.9	6.5	17.0
(b) Per cent of Net National Product at Current Prices	1.7	Ngl.	0.6	1.7
2. Deposits	1540	1830	2239	2963
(a) Per cent of Total Financial Assets	41.3	53.7	43.5	45.5
(b) Per cent of Net National Product at Current Prices	3.1	3.1	3.7	4.6
3. Insurance	350	346	421	456
(a) Per cent of Total Financial Assets	9.4	10.2	8.2	7.0
(b) Per cent of Net National Product at Current Prices	0.6	0.5	0.6	0.6
4. Provident Funds	605	787	1006	1124
(a) Per cent of Total Financial Assets	16.2	23.1	19.5	17.2
(b) Per cent of Net National Product at Current Prices	1.2	1.4	1.7	1.8
5. Claims on Government	308	244	1039	775
(a) Per cent of Total Financial Assets	8.3	7.2	20.2	11.8
(b) Per cent of Net National Product at Current Prices	0.6	0.4	1.7	1.2
6. Corporate and Co-operative shares and debentures including units of Unit Trust of India	90	168	112	122
(a) Per cent of Total Financial Assets	2.4	4.9	2.2	1.9
(b) Per cent of Net National Product at Current Prices	0.2	0.3	0.2	0.2

saving increased from 43 per cent to 45 per cent.

INSURANCE AND PROVIDENT FUND

Contractual saving in the form of insurance and provident fund of the household sector recorded a much smaller increase during the year, and this reflected among others, stagnation in per capita real income and the impact of Compulsory Deposit Schemes in force during the year. In relation to national income, there was no perceptible change in these two media of saving.

Life insurance has the predominant share in the totality of insurance saving, comprising besides Life insurance, State insurance and Postal insurance. Life Fund of the Life Insurance Corporation of India which is an index of the growth in saving through life insurance, is estimated to have increased at a smaller rate than in the previous year. The share of saving by way of insurance, in the total financial assets showed a decline from 8.2 per cent in 1975-76 to 7.0 in 1976-77.

The estimated rate of increase in provident funds comprising Employees Provident Fund, State Provident Fund and other Provident Funds during 1976-77 at 12 per cent was less than half of the increase in 1975-76. The proportion of saving of household sector in this form to total financial saving is estimated to have declined from 19.5 per cent in 1975-76 to 17.2 in 1976-77.

CLAIMS ON GOVERNMENT

Similarly, claims on Government representing small savings collections, direct investment in Government securities, deposits accrued under the Compulsory Deposit Scheme for employees and income-tax payers, prize bonds and refund of annuity deposits declined during the year; this is ascribable to lower accruals under Compulsory Deposits and Small Savings. The share of claims on Government in total financial assets fell steeply from 20.2 per cent in 1975-76 to 11.8 per cent in 1976-77.

OTHER FINANCIAL ASSETS

These include shares and securities of co-operative and corporate sectors and units of the Unit Trust of India (UTI). Saving in the form of these assets is estimated to have improved from Rs. 112 crores to Rs. 122 crores, which was mostly on account of increased sale of units (by Rs. 9 crores to Rs. 24 crores) by the UTI in 1976-77.

4. Saving of the Domestic Private Corporate Sector

Net saving of domestic non-Government corporate sector (including co-operative institutions) forms a relatively small portion of total saving in the economy. The estimate of corporate sector's saving during 1975-76 and 1976-77 made on the basis of partial data available, indicates that the surge in the saving of domestic corporate sector witnessed during 1973-74 and 1974-75 in the wake of imposition of restrictions on declaration and payment of dividend, was not sustained in the succeeding two years; saving of the Corporate Sector as a proportion of net national product improved from 0.8 per cent in 1973-74 to 1.0 per cent in 1974-75 but declined to 0.3 per cent in 1975-76 and further to 0.1 per cent in 1976-77 (Table II.2).

5. Saving of the Public Sector

Public Sector's saving is estimated to have declined by about 13 per cent as against increases of 86 per cent and 28 per cent in 1974-75 and 1975-76 respectively. Bulk of the reduction was accounted for by the Central Government whose contribution to the total net saving of the public sector declined from Rs. 831 crores to Rs. 355 crores in 1976-77 or by 57.3 per cent. Saving as a proportion of total revenue was as low as 4.6 per cent compared with 11.3 per cent in 1975-76. The fall in the saving of the Government administration (from Rs. 849 crores to Rs. 135 crores) was made good by the marked improvement (from a dis-saving of (—) Rs. 18 crores to saving of (+) Rs. 220 crores) in saving

of departmental undertakings in the form of retained earnings and depreciation provision. State Governments' saving is also estimated to have declined over the year.

Among the segments of public sector which have improved their share during the year are public sector banking corporations, local authorities and non-departmental financial and non-financial undertakings. Of the non-departmental undertakings the retained profits of the Reserve Bank representing net transfer to various National Funds rose from Rs. 221 crores to Rs. 290 crores. The saving of non-departmental industrial and commercial undertakings which declined from an unprecedented level of Rs. 164 crores in 1974-75 to Rs. 108 crores in 1975-76 is, however, estimated to have increased by 30 per cent during the year.

On balance, the growth in saving of the public sector in relation to NNP declined to 4.4 per cent in 1976-77 from 5.3 per cent in 1975-76 (Table II.5).

6. Aggregate Investment in the Economy

Estimates of aggregate investment in the economy are arrived at by adding or deducting the net inflow or outflow of foreign resources@

to or from the total domestic saving. Current account deficit or surplus on balance of payments (excluding net official transfer payments) provides a broad indication of the net inflow or outflow of external resources. On the basis of available information in regard to current account position, it is estimated that there was a net outflow of resources to the extent of Rs. 883 crores as against an inflow of foreign resources amounting to Rs. 344 crores. Net outflow in 1976-77 as a proportion of net national product at 1.4 per cent was much higher than the estimated net inflow ratio of 0.6 per cent in 1975-76.

On this basis, as the data presented in Table II.6 indicate, though domestic saving in 1976-77 (as per cent of National Income) increased fractionally from 15.5 per cent to 15.7 per cent, investment in 1976-77 would have been much lower (14.3 per cent) than that in 1975-76 (16.1 per cent).

@ Net inflow of foreign resources indicates total net draft on foreign saving which comprises net current account deficit on balance of payments excluding net official transfer payments, retained earnings of foreign controlled rupee companies, non-cash inflow and net transactions on account of branches of companies other than oil companies. This is different from net aid which represents the amount of foreign aid adjusted for debt servicing charges including both interest and amortisation charges.

Table II.5: Saving of the Public Sector (Groupwise)
(Provisional)

(Rupees Crores at Current Prices)

Item	Financial Year (April-March)			
	1973-74	1974-75	1975-76	1976-77
1. Central Government (including Departmental undertakings)	431	773	831	355
2. State Government and Local Authorities	716	1310	1998	1964
3. Non-Departmental Financial and Non-Financial Undertakings	189	409	358	463
4. Total (1+2+3)	1336	2492	3187	2782
Per cent of Net National Product at Current Prices ..	2.7	4.3	5.3	4.4

Table II.6: Estimates of Domestic Saving and Investment: Per cent of Net National Product at Current Prices

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

Sectoral Investment—Public Sector

Of the estimated aggregate investment of 14.3 per cent of the NNP in the Indian economy, capital formation through budgetary allocation of Central Government accounted for as much as 8 per cent which was a shade higher than the proportion of 7.3 per cent in 1975-76 (Table II.7).

Gross capital formation through the budget of Central Government consists—direct invest-

ment as well as financial assistance for investment. Gross direct fixed capital formation rose by Rs. 177 crores in 1976-77, which was Rs. 49 crores higher than that in 1975-76. The Central Government in addition to spending on direct capital formation also provides financial assistance for capital formation to States, Union Territories and non-departmental commercial undertakings and others. Such financial assistance increased by Rs. 504 crores as compared with a larger increase of Rs. 1009 crores in

Table II.7: Capital Formation through Central Government Budget at Current Prices

	(Rupees Crores)			
	1973-74	1974-75	1975-76	1976-77 (R.E.)
1. Gross direct fixed capital formation	711	822	950	1127
2. Variation in Inventories	71	405	255	70
(a) Works stores	9	33	18	6
(b) Stocks of foodgrains and fertilisers	62	372	237	64
3. Net Capital formation (i.e. gross direct fixed capital formation minus expenditure on renewals and replacements plus increase in inventories)	629	1084	1123	1117
4. Financial Assistance for Capital formation	1883	2449	3458	3962
(a) To States, Union Territories	1191	1188	1433	1594
(b) To non-departmental commercial undertakings	583	1108	1838	2162
(i) Financial concerns	102	135	249	264
(ii) Others	481	973	1589	1898
(c) Other parties	109	153	187	206
5. Investments in Central Government's non-departmental industrial and commercial undertakings	1549	1839	3371	N.A.
(i) Gross Fixed Assets	889	988	1563	N.A.
(ii) Variation in Inventories	660	851	1808	N.A.

R.E. = Revised Estimates.

N.A. = Not Available.

Source: (1) An Economic and Functional Classification of the Central Government Budget, Ministry of Finance, Government of India.

(2) Annual Reports on the Working of Industrial and Commercial undertakings of the Central Government, 1975-76, Ministry of Finance, Government of India.

1975-76. Financial assistance to States, financial concerns and others showed increases in absolute terms during the year, though their relative shares showed declines.

Gross capital formation in non-departmental industrial and commercial undertakings which was continuously on the increase since 1972-73 rose markedly during 1975-76 (by Rs. 1532 crores or 83 per cent as compared with Rs. 290 crores or 18 per cent in 1974-75). The inventory accumulation (Rs. 957 crores) was larger than the increase in gross fixed assets formation (Rs. 575 crores). No firm data are available to assess the position in regard to capital formation of these undertakings in 1976-77. But considering the fact that there has been an increase in the saving of these undertakings in the form of retained earnings as also large financial assistance disbursed by the Central Government for investment purposes, it is likely that the rate of capital formation would turn out to be the same as in 1975-76 (Table II.7).

Private Corporate Sector

As regards private corporate sector, precise data on investment are not available. However, on the basis of identifiable sources of funds flowing to this sector through financial intermediaries and resources generated internally by this sector, broad trends in investment in this sector may be indicated. The relevant data on sources and uses of funds are presented in Table II.8. Except for retained earnings, the finance available through capital market, borrowings from term-lending institutions, etc. has shown increases over the year. While retained profits are estimated to have declined steeply from Rs. 175 crores to Rs. 20 crores in 1976-77, borrowings from term-lending institutions, commercial banks, Central and State governments and household sector, showed a sizeable increase of Rs. 360 crores. (This was, however, smaller by Rs. 262 crores compared with 1975-76). On this basis, gross capital formation appears to have increased from Rs. 1963 crores to Rs. 2238 crores or by 14 per cent in 1976-77.

Table II.8: Investment—Private Non-Financial Corporate Sector
(Provisional)

(Rupees Crores at Current Prices)									
Financial Year (April-March)									
Sources					Uses				
	1973-74	1974-75	1975-76	1976-77		1973-74	1974-75	1975-76	1976-77
1. Capital Raised (Including Debentures)	114	131	98	101	1. Cash and Bank balances and Investments	193	52	58	51
Less—Intra- Sectoral Flows (Estimated) ..	23	26	20	20	2. Gross Fixed Assets and Inventories ..	1543	1758	1963	2238
	91	105	78	81					
2. Retained Profits@ ..	367	591	175	20					
3. Borrowings ..	752	522	1144	1504					
4. Depreciation Provision ..	526	592	624	645					
Total ..	1736	1810	2021	2250	Total ..	1736	1810	2021	2250

N.B. Borrowings under item 3 include borrowings from Commercial Banks, Government (both Central and State), Households and Term Financing Institutions.

@ Inclusive of change in Tax Provision.

Chapter III

Agricultural and Industrial Output

I. Agricultural Output

Agricultural production during 1976-77 is estimated to be lower by about 5-6 per cent as compared with the record production during 1975-76. Both the *kharif* and *rabi* crops suffered a setback mainly due to unfavourable weather.

1. Foodgrains

PRODUCTION AND DISTRIBUTION

Production of foodgrains, which had touched the record level of 120.8 million tonnes in 1975-76 is estimated lower at 111 million tonnes in 1976-77. Owing to unfavourable weather conditions, foodgrains output in the *kharif* and *rabi* seasons of 1976-77 is estimated at about

67 million tonnes and 44 million tonnes, respectively, as against 74.2 million tonnes and 46.6 million tonnes in the previous year. As a result, the net overall availability of foodgrains in 1977 is likely to decline from the all-time record level of 101.6 million tonnes reached in 1976 (Table III.1). The daily per capita availability of foodgrains which was at 455.8 grams in 1976 is also likely to decline in 1977.

With the increased availability of foodgrains in the open market, the offtake from the public distribution system was lower at 9.2 million tonnes in 1976 as compared to 11.3 million tonnes in 1975. During January-September 1977, the quantum of public distribution was higher at 8.5 million tonnes as compared with 6.7 million tonnes in the corresponding period of 1976.

Table III.1: Availability of Foodgrains (January-December basis)

(Million tonnes)										
Year	Gross Output(a)	Net out-put	Imports	Change in Government Stocks	Net Availability	Per capita net availability per day (in grams)			Procurement	Public Distribution
						All Food-grains	Cereals	Pulses		
1	2	3	4	5	6	7	8	9	10	11
1971	.. 108.4	94.9	2.1	+2.6	94.4	469.1	417.8	51.3	8.9	7.8
1972	.. 105.2	92.0	0.5	—4.7	97.2	467.3	420.2	47.1	7.7	10.5@
1973	.. 97.0	84.9	3.6	—0.3	88.8	423.7	382.3	41.4	8.4	11.4
1974	.. 104.7	91.6	4.9	—0.4	96.9	452.5	411.6	40.9	5.7	10.8
1975	.. 99.8	87.3	7.4	+5.3	89.4	409.6	369.5	40.1	9.6	11.3
1976	.. 120.8	105.7	6.5	+10.6	101.6	455.8	404.3	51.5	12.7	9.2

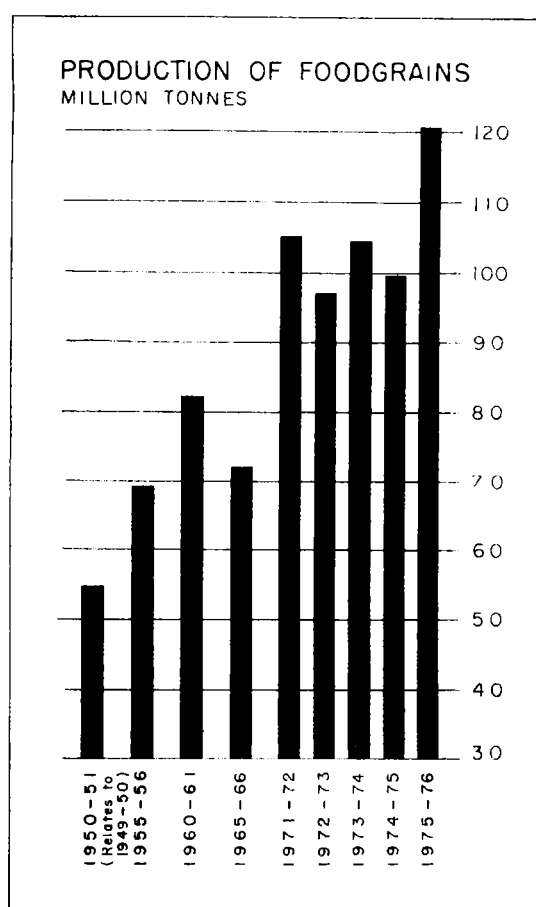
(a) For the agricultural year July-June.

@ Excludes exports to Bangladesh.

Notes: (1) Net availability = Net production + Imports ± change in Government Stocks.

(2) Net output is defined as 87.5 per cent of gross production, the balance being provided for feed, seed and wastage.

Source: Economic Survey, 1976-77, Government of India.



RATIONING—STATUTORY AND INFORMAL

Statutory rationing of foodgrains continued to be in force in Calcutta and Asansol-Durgapur Group of Industrial towns in West Bengal for rice and wheat, and in the city of Bombay in Maharashtra for rice only. The population covered by statutory rationing was about 17.1 million at the end of 1976. Informal rationing of foodgrains continued in other areas. Total number of fair price/ration shops functioning in the country as on August 17, 1977 was about 2.45 lakhs.

PROCUREMENT AND BUFFER STOCKS

Procurement of rice during the 1976-77 *khari* marketing season (November-October) aggregated 4.4 million tonnes (Table III.2). During the 1977-78 season, purchases of wheat by the Government till end-October 1977 aggregated 5.2 million tonnes. Coarse grains were procured to the extent of 0.3 million tonnes as part of the price support operation. The procurement policies did not undergo any significant changes during the year under review mainly because of the comfortable supply position of foodgrains.

Due to record procurement of wheat and *khari* cereals during the 1975-76 marketing

Table III.2: Basic Data Relating to Major Foodgrains

Year	(Million tonnes)													
	Production			Procurement			Imports			Public Distribution		Year-end Stocks		
	Rice	Wheat	Coarse Grains	Rice	Wheat	Coarse Grains	Rice	Wheat	Coarse Grains	Rice	Wheat	Rice	Wheat	Coarse Grains
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1972-73 ..	39.2	24.7	23.1	2.7	5.0	0.3	0.1	0.3	—	3.6	6.6	1.4	1.9	0.2
1973-74 ..	44.1	21.8	28.8	3.9	4.5	0.4	—	2.4	1.2	3.2	7.1	1.4	1.0	0.5
1974-75 ..	39.6	24.1	26.1	3.8	2.0	0.3	—	4.2	0.7	3.8	5.7	1.1	1.2	0.2
1975-76 ..	49.5	28.3	29.9	6.3	6.6	0.3	0.1	7.1	0.3	3.2	7.5	2.6	4.8	0.4
1976-77 ..	45.0*	26.0*	—	4.4**	5.2**	0.3**	0.1	5.8	0.5	3.6	5.0	5.7	12.3	0.7
1977-78 ..	—	—	—	—	—	—	—	0.5@	—	3.5@	4.4@	4.4@	13.6@	0.2@

* Provisional.

** As at the end of October 1977.

@ As at the end of September 1977.

Note: Procurement figures relate to the marketing year.

Imports, public distribution and year-end stocks relate to the calendar year (January-December).

Sources: (1) Estimates of Area and Production of Principal Crops in India.

(2) Bulletin on Food Statistics, Government of India.

season and decline in offtake from the public distribution system, the total physical stocks with the Central and State Governments are estimated to have gone up to 20.7 million tonnes by the end of June 1977, as against 17.6 million tonnes a year ago. At the end of September 1977, the stocks were 18.2 million tonnes as against 17.0 million tonnes a year ago.

2. Commodity-wise Review

RICE

Rice production during 1976-77 is estimated at 45.0 million tonnes; at this level it would fall short of the record level of 49.5 million tonnes reached in 1975-76 (Table III.2).

The procurement target for rice during the 1976-77 marketing season (November-October) set at 4.4 million tonnes was a shade lower than 4.6 million tonnes fixed for the preceding season. Actual procurement during the season aggregated 4.4 million tonnes as against 6.3 million tonnes during the last season. Haryana, Punjab and Uttar Pradesh have exceeded their targets fixed for the 1976-77 season (Table III.4).

No major changes were made in the procurement policy in respect of *khari* foodgrains during the 1976-77 (November-October) marketing season. While procurement price for paddy and coarse grains has been maintained at Rs. 74 per quintal as suggested by the Agricultural Prices Commission (APC), the premium on par-boiled rice has been raised from Rs. 3 to Rs. 5 per quintal (Table III.3). For the 1976-77 *khari* season, zonal arrangements and movement restrictions on rice and paddy existing in 1975-76 were continued in a modified form. A new enlarged Southern zone was formed for rice, covering Andhra Pradesh, Tamil Nadu, Karnataka and the Union Territory of Pondicherry. The North-western rice-zone, comprising Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir and Delhi was expanded to include Rajasthan.

In 1976, 3.6 million tonnes of rice were distributed through the public distribution system as against 3.2 million tonnes distributed in 1975.

During January-September 1977, it aggregated 3.5 million tonnes as against 2.6 million tonnes during the same period of 1976.

WHEAT

Wheat production in 1976-77 is estimated at around 26 million tonnes as compared with 28.3 million tonnes during 1975-76 (Table III.2).

The procurement policy for wheat for the 1977-78 marketing season (April-March) has been modified in view of the comfortable stock position. Restrictions on the movement of wheat have been removed and the entire country has been treated as one zone. However, the restrictions on purchases by roller flour mills from the open market have been retained. These mills will have to purchase their requirements from Government stocks only. Procurement price for the fair average quality of wheat has been fixed at Rs. 110 per quintal as against Rs. 105 per quintal for any quality suggested by the APC. No procurement target has been fixed for this season. The Government will, however, purchase from the producers whatever quantity is offered at the procurement price. The issue price has been kept unchanged at Rs. 125 per quintal (Table III.3). Since no procurement target has been fixed, no bonus will be paid to the State Governments this year. Last year, bonus was paid to those State Governments which procured in excess of the targets fixed for them. The States have been asked to discontinue procurement of wheat by levy on producers or traders. The actual purchases of wheat during the 1977-78 season till end-October 1977 aggregated 5.2 million tonnes as against 6.6 million tonnes procured during the corresponding period last season (Table III.4).

In 1976, 5.0 million tonnes of wheat were distributed through the public distribution system as against 7.5 million tonnes distributed in 1975. During January-September 1977, public distribution of wheat aggregated 4.4 million tonnes as against 3.7 million tonnes during the corresponding months of 1976.

In view of the comfortable food position, imports of wheat were reduced from 7.1 million tonnes in 1975 to 5.8 million tonnes in 1976.

Table III.3: Minimum Support, Procurement and Issue Prices

(Rupees per quintal)

Commodity	1973-74			1974-75			1975-76			1976-77		
	Minimum Support Price	Procurement Price	Issue Price	Minimum Support Price@	Procurement Price	Issue Price	Minimum Support Price@	Procurement Price	Issue Price	Minimum Support Price@	Procurement Price	Issue Price
1	2	3	4	5	6	7	8	9	10	11	12	13
Paddy												
Rice ..		70.00			74.00			74.00			74.00	
(Standard Variety) ..	63.00	98.00-119.00	125.00-160.00		104.00-125.00	135.00-172.00		135.00-172.00			135.00-172.00	
(Coarse Variety) ..					115.78-125.00							
Wheat*	85.00£	105.00	125.00		105.00	125.00		105.00	125.00		110.00	125.00
Jowar	63.00	70.00	80.00		74.00	86.00		74.00	86.00		74.00	86.00
Bajra	65.00	72.00			74.00			74.00			74.00	
Maize	63.00	70.00			74.00			74.00			74.00	
Ragi	62.00	70.00			74.00			74.00			74.00	
Small Millets (Kodon & Kutki)	55.00£	60.00	60.00		—			—			—	
Barley							65.00			65.00		
Gram							90.00			95.00		

£ Support price was fixed for the first time for the 1973-74 season since 1968-69.

@ Not announced for *kharif* cereals and wheat.* *Rabi* marketing season (April-March) 1974-75 onwards.

Source: Department of Food, Ministry of Agriculture & Irrigation, Government of India.

AGRICULTURAL AND INDUSTRIAL OUTPUT

The bulk of the imports came from the U.S.A., Canada, Australia and the EEC. During January-September 1977, imports of wheat were nominal at 0.5 million tonnes as against 4.1 million tonnes during the corresponding period last year.

COARSE GRAINS

Official estimates of the output of coarse cereals for the year 1976-77 are not yet available. The production of coarse cereals during 1975-76 was higher at 29.9 million tonnes as against 26.1 million tonnes in 1974-75. However, production of jowar declined by 8.5 per cent. As a price support measure, the Government has procured 0.3 million tonnes of coarse grains by the end of September 1977 (Table III.2).

Imports of coarse grains during 1976 were higher at 5.3 lakh tonnes as compared to 2.6 lakh tonnes in the preceding year. No coarse cereals were imported during January-September 1977.

Distribution of coarse grains through the public distribution system aggregated 5.16 lakh

tonnes in 1976 as against 4.97 lakh tonnes in 1975. During January-September 1977, public distribution of coarse grains amounted to 6.3 lakh tonnes as compared to 3.7 lakh tonnes during the corresponding period of last year.

PULSES

According to the all-India first estimate for 1976-77, the area under pulses at 20.7 million hectares showed a decline of 540 thousand hectares from the last year's corresponding estimate. No official estimates of production during 1976-77 are available but according to unofficial estimates, production would be 11 million tonnes as compared with a record level of 13.13 million tonnes reached in 1975-76.

COTTON

The all-India final estimate of cotton crop for 1976-77 places the area under cotton at 6.90 million hectares as against 7.46 million hectares according to the corresponding estimates during 1975-76, representing a fall of about 0.56 million hectares (7.5 per cent). Official final estimate for cotton production for 1976-77 is placed at 57.81 lakh bales. The

Table III.4: Procurement of Rice and Wheat *

				(Thousand tonnes)											
State				1972-73		1973-74		1974-75		1975-76		1976-77		1977-78†	
1				2		3		4		5		6		7	
				Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat
Andhra Pradesh	..	..	..	326	—	697	—	888	—	1380	—	465	—	—	—
Assam	..	..	..	89	—	112	—	129	—	257	—	152	—	—	—
Bihar	..	..	..	56	2	57	50	61	2	60	51	42	101	11	11
Gujarat	..	..	..	6	—	18	—	12	—	27	—	32	—	—	—
Haryana	..	..	..	277	818	417	586	278	249	480	433	632	907	908	908
Jammu & Kashmir	..	..	..	25	—	39	—	25	—	41	—	33	—	—	—
Karnataka	..	..	..	51	—	98	—	123	—	265	—	65	—	—	—
Kerala	..	..	..	57	—	44	—	42	—	32	—	20	—	—	—

Table III.4: Procurement of Rice and Wheat *

(Thousand tonnes)														
State				1972-73		1973-74		1974-75		1975-76		1976-77		1977-78†
1				2		3		4		5		6		7
				Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Wheat
Madhya Pradesh	..	..	..	243	65	208	192	151	124	292	137	175	274	11
Maharashtra	..	..	..	66	—	161	—	87	—	52	—	37	—	—
Orissa	..	..	..	209	—	214	—	55	—	234	—	118	—	—
Punjab	..	..	..	754	3179	943	2707	970	1083	1201	2361	1504	2942	3232
Rajasthan	..	..	..	—	46	—	146	—	127	—	185	—	474	123
Tamil Nadu	..	..	..	131	—	272	—	439	—	888	—	173	—	—
Uttar Pradesh	..	..	..	227	843	429	816	282	319	762	791	691	1711	853
West Bengal	..	..	..	176	—	159	—	225	—	301	—	169	—	—
Others	..	..	..	12	53	19	34	27	51	50	91	75	193	24
TOTAL	..	..	..	2706	5006	3887	4531	3795	1955	6322	4049	4383	6602	5162

* Except in the case of Punjab, Haryana and Tamil Nadu where it is October-September, rice procurement operations take place between November and October. Procurement of wheat is done between April and March.

† As at the end of October 1977.

Source: Bulletin on Food Statistics, Government of India.

Cotton Advisory Board estimates the production at 59.50 lakh bales in 1976-77 as compared with 61.01 lakh bales, official final estimate, in the previous year. For the year 1976-77, the production target was fixed at 75 lakh bales (Table III.5).

According to the Cotton Advisory Board, the 1976-77 season started with a much smaller opening stock of 14.26 lakh bales due to a sharp fall in cotton production and small imports (1.67 lakh bales) of cotton during 1975-76. This necessitated large imports of foreign cotton in 1976-77. On the demand side, consumption, including extra-factory consumption, was estimated at 70.22 lakh bales. Exports on a

significant scale were not possible in view of the low crop outturn. Total offtake, thus, was placed at a lower level than that in the preceding year (81.11 lakh bales), leaving a carry-over stock of 11.72 lakh bales for the 1977-78 season.

The Agricultural Prices Commission (APC) recommended higher support prices for different varieties of cotton for the 1976-77 season. The APC recommended that the minimum support price for the Punjab American 320F variety of *kapas* be increased from Rs. 210 to Rs. 220 per quintal, and the minimum support prices for other varieties be raised by 5 per cent. However, the Government considered that there was no need for fixing any minimum support price for

the 1976-77 cotton season in view of the then prevailing prices of cotton.

In the context of the anticipated shortfall in cotton production and with a view to stabilizing prices, Government directed the Cotton Corporation of India (CCI) to arrange for the import of foreign cotton. The CCI, on the advice of its Import Advisory Committee, contracted to import during 1976-77 (July-June) 11.61 lakh bales (of 170 kgs. each) valued at about Rs. 318 crores. The CCI released 11.27 lakh bales from the imported cotton; of this, 10.11 lakh bales were sold during the period under review at prices fixed in accordance with the guidelines issued by the Government, subject to the stipulation that the overall loss on the sale of imported cotton should not exceed 20 per cent of the landed cost. The CCI allotted to the National Textile Corporation (NTC) 70,000 bales of imported cotton of which 32,172 bales were lifted by end-June 1977.

RAW JUTE AND MESTA

According to the all-India final estimates, production of raw jute during 1976-77 is estimated at 53.47 lakh bales as against 44.40 lakh

bales during the preceding year. Production of mesta in 1976-77 is estimated at 17.38 lakh bales as against 14.74 lakh bales during 1975-76. Thus, the aggregate production of raw jute and mesta at 70.85 lakh bales in 1976-77 indicates a substantial increase of 19.8 per cent over the preceding year. The relative increase in the crop out-turn is attributed mainly to improvement in yield per hectare during the season. The annual plan for 1977-78 has fixed the target of production of raw jute and mesta at 78.56 lakh bales during the year (Table III.6).

The estimated opening stock of raw jute and mesta in the 1976-77 season was considerably lower at 7.7 lakh bales as compared with 17.9 lakh bales in the 1975-76 season. Imports during 1976-77 at 0.37 lakh bales were negligible as compared with 3.3 lakh bales during the previous season. Thus, the total availability of raw jute and mesta during 1976-77 would be lower at about 78.9 lakh bales as against 80.4 lakh bales in the preceding year. With consumption of raw jute by mills during the 1976-77 season estimated at around 68.2 lakh bales as compared with 74.8 lakh bales in 1975-76, and with village consumption and

Table III.5: Trends in Availability of Cotton

('000 bales of 170 kgs. each)

Year (September- August)	Production	Yield per hectare (kgs.)	Imports	Exports	Consumption (including extra-factory and other consumption)	Stocks with Mills and Trade (as at the end of the season)	Availability
1	2	3	4	5	6	7	8
1971-72	6950	152	789	245	7156	2901	9554
1972-73	5735	127	468	180	7291	3113	9104
1973-74	6309	142	190	367	7702	1795@@	9612
1974-75	7156	161	89	96	7140	1208@@	9040£
1975-76*	6101	139	167	424	7969	1318@@	7476£
1976-77*	5950 (7500@)	N.A.	818	—	7022	1172	8194

£ Excluding stocks with the trade.

* Figures are provisional.

@ Target fixed by the Government.

@@ Relates to stocks with mills only.

N.A.: Not available.

Sources: Directorate of Cotton Development for the years 1971-72 to 1975-76 and Cotton Advisory Board for the year 1976-77.

Table III. 6: Raw Jute and Mesta (July-June)

('000 bales of 180 kgs. each)

Year	Production	Imports	Exports	Consumption (a)	Closing Stocks (b)	Availability
1	2	3	4	5	6	7
1970-71	6193	—	48	6450	1062	7165
1971-72	6834	—	362	7581	1285	7896
1972-73	6090	255	74	7320	767	7630
1973-74	7676	82	197	6442	3300	8525
1974-75	5854	119	899	6520	1789	9273
1975-76	5914	335	121	7675	767	8038
1976-77	7085	37	17	7070*	634	7889

(a) Includes village consumption of 2.00 lakh bales upto 1975-76. (b) Estimated stocks with mills and other stockists at the end of the season.

* Includes village consumption plus others of 2.5 lakh bales.

Source: Directorate of Jute Development, Ministry of Agriculture, Government of India.

exports estimated at hardly 3.0 lakh bales, the estimated closing stock of raw jute and mesta at the end of the 1976-77 season would be about 6.3 lakh bales.

For the 1976-77 season, the minimum support price for raw jute of Assam Bottoms variety was retained at Rs. 135 per quintal notwithstanding the recommendation of Rs. 140 per quintal by the Agricultural Prices Commission. Under the revised grading of raw jute, formulated by the Indian Standards Institute which became effective from July 1, 1976, the W-5 variety was considered the nearest equivalent to 'Assam Bottoms'. The Price Equation Committee fixed a premium of Re. 1 per quintal for the W-5 variety over Assam Bottoms. The minimum statutory price for W-5 variety at the Assam agencies was thus fixed at Rs. 136 per quintal. For 1977-78, the minimum support price for raw jute (W-5 variety) has been fixed at Rs. 141 per quintal as against the recommendation by the Agricultural Prices Commission for the retention of the existing price of Rs. 136 per quintal.

The Jute Corporation of India (JCI) purchased in all 8.11 lakh bales during the 1976-77 season as compared with 5.81 lakh bales in

1975-76. The year saw a good measure of official action in the form of directives from the Jute Commissioner relating to purchase quotas and inventory restrictions on mills issued with reference to the fibre availability and price trends of raw jute. At the end of the 1976-77 season, the Jute Commissioner fixed the statutory maximum price for raw jute (W-5 variety) at Rs. 225 per quintal, Calcutta delivery, for jute grown in States other than West Bengal and at Rs. 219 per quintal for West Bengal jute and also directed the mills to reduce their inventories of raw jute to 4 weeks' consumption.

OILSEEDS

According to the all-India final estimates, the production of the five major oilseeds—groundnut, rapeseed/mustard, sesamum seed, linseed and castorseed—in 1975-76 at 9.9 million tonnes was higher by 16.2 per cent over the 1974-75 level, in spite of a marginal decline of 2.7 per cent in acreage. Groundnut and linseed reported increases of 32.2 per cent and 6.0 per cent in their production mainly owing to better yield accompanied by increases of 2.1 per cent and 2.3 per cent respectively, in their acreage. Production of sesamum increased by 22.1 per cent despite a small reduction of 2.9 per cent in

its acreage. Production of mustard/rapeseed and castorseed declined by 14.0 per cent and 31.9 per cent, their acreage having declined by 9.3 per cent and 36.4 per cent, respectively (Table III.7).

According to all-India final estimates, the production of five major oilseeds during 1976-77 is placed lower at 7.8 million tonnes against the target of 10.5 million tonnes. The production of groundnut (with shell) at 5.3 million tonnes registered a decline of 22.1 per cent. The production of rapeseed/mustard, sesamum and linseed too was lower at 1.6, 0.4 and 0.4 million tonnes, respectively. The output of castorseed alone at 0.2 million tonnes, recorded a marginal rise over the previous year.

The centrally sponsored intensive oilseeds development programme, initiated in 1974-75, was continued during 1976-77 in 29 districts in 10 States at an estimated cost of Rs. 98.79 lakhs. The actual area covered under the programme in 1976-77 was higher (16.5 lakh hectares) than the target (15.2 lakh hectares). The scheme for extension of oilseeds to new irrigated areas was sanctioned Rs. 46.95 lakhs during 1976-77 to cover a target of 3.14 lakh hectares in Andhra Pradesh, Karnataka, Orissa and Rajasthan. Under the centrally sponsored scheme for the development of production of non-traditional oilseeds, 2.6 lakh hectares were brought under sunflower, and 1.2 lakh hectares under soyabean during 1976-77 as against the targets of 4.8 lakh hectares and 1.7 lakh hectares, respectively.

With effect from February 19, 1977, the minimum usage of cottonseed oil in the manufacture of vanaspati has been lowered to 15 per cent from 30 per cent provided for earlier. The minimum usage of imported oils in the manufacture of vanaspati was raised from 50 per cent to 75 per cent on July 15, 1976 and further to 90 per cent from July 2, 1977. With effect from May 7, 1977, vanaspati units have been permitted to use oils like indigenous soyabean oil, nigerseed oil, rice bran oil and watermelon-seed oil alongwith cottonseed oil to the extent of 15 per cent.

SUGARCANE

According to the all-India final estimate for 1976-77, the area under sugarcane is placed at 28.7 lakh hectares, recording an increase of 4.0 per cent over the revised estimate of 27.6 lakh hectares in the preceding year. According to the final estimate, the output of sugarcane (in terms of gur) at 15.8 million tonnes will be 9.7 per cent higher than 14.4 million tonnes produced last year (Table III.7).

For 1976-77, the basic minimum price payable by sugar factories to sugarcane growers has been kept unchanged for the third successive year at Rs. 8.50 per quintal for the basic recovery of 8.5 per cent or below, subject to a premium of 10 paise for every 0.1 per cent increase over the basic level, as against the APC's recommended price of Rs. 9.50 per quintal. In addition, sugar factories have to pay to the cane grower 50 per cent of higher realisation from the sale of levy free sugar.

The Centrally sponsored scheme for the development of sugarcane continued to be in operation in different States and Union Territories. Efforts were also undertaken to encourage the cultivation of sugarbeet; in 1976-77, an area of 1206 hectares was brought under the cultivation of this crop as against the target of 1500 hectares. However, production of sugarbeet was higher at 33 thousand tonnes as compared to the target of 30 thousand tonnes fixed for 1976-77.

TEA

Production of tea which had shown a marginal decline of 2.3 million kgs. in 1975, registered a sharp increase of 24.7 million kgs. to touch a record level of 511.8 million kgs. in 1976 (Table III.7). Production in North India increased by 20.0 million kgs. to 400.6 million kgs. and that in South India by 4.6 million kgs. to 111.2 million kgs. Production during the first nine months of 1977 is provisionally estimated at 424.6 million kgs. as compared with 374.8 million kgs. in the corresponding period of 1976.

Tea exports fared better during the year 1976, with both quantity and unit value recording

Table III.7: Trends in Non-foodgrain Commodities

Commodity year as indicated	Oilseeds (November-October) [@]		Tea (January-December)		Coffee (October-September)			Sugarcane Production ^{**} (million tonnes)	Tobacco Production (million Kgs.)
	Production (million tonnes)	Yield per hectare (Kgs.)	Production (million Kgs.)	Exports (million Kgs.)	Production ('000 tonnes)	Exports [†] ('000 tonnes)	Consumption ^{@@} ('000 tonnes)		
1	2	3	4	5	6	7	8	9	10
1971-72 ..	8.8	549	435.0	207.3	68.9	35.7	37.9	11.6	418.9
1972-73 ..	6.9	465	456.0	198.2	91.1	50.9	37.5	12.8	372.2
1973-74 ..	8.9	574	472.0	188.2	86.4	52.7	39.7	14.4	462.1
1974-75 ..	8.5	545	489.4	210.6	92.5	49.5	37.6	14.7	363.1
1975-76 ..	9.9	651	487.1	218.1	84.0	59.4	36.9	14.4	347.1
1976-77 ..	7.8	534	511.8	233.6	102.5*	47.5	37.7	15.8	..

[@] Five major oilseeds, viz. groundnut (nuts-in-shell), sesamumseed, castorseed, rapeseed/mustard and linseed.

^{@@} Figures relate to the calendar year.

^{**} Production in terms of gur.

* Estimated.

.. Not available.

[†] Figures relate to the fiscal year.

Source: Ministry of Agriculture and Irrigation, Tea Board, 'Indian Coffee' October 1977, Coffee Board and Directorate of Tobacco Development, Government of India.

increases. The volume of tea exports increased by 15.5 million kgs. to 233.6 million kgs. in 1976, while the unit value was marginally higher at Rs. 11.69 per kg. in 1976 as compared with Rs. 11.22 per kg. in 1975. Consequently, the value of tea exported increased by 11.6 per cent to Rs. 273.1 crores in 1976.

COFFEE

Production of coffee during 1975-76 at 84.0 thousand tonnes was considerably lower than 92.5 thousand tonnes produced during 1974-75. For 1976-77, coffee production has been estimated significantly higher at 102.5 thousand tonnes (Table III.7).

The quantity of coffee released for internal consumption in the calendar year 1976 at 37,702 tonnes was higher than 36,880 tonnes released during 1975. During the fiscal year 1976-77, 47.5 thousand tonnes were exported as against 59.4 thousand tonnes in the preceding year. However, in view of the sharp increase in

world price, export earnings from coffee during 1976-77 were substantially higher at Rs. 114.0 crores as against Rs. 66.7 crores in 1975-76.

TOBACCO

The production of tobacco during 1975-76 is estimated at 347.1 million kgs. showing a decline of 16.0 million kgs. (4.5 per cent) over the production of 363.1 million kgs. in 1974-75 (Table III.7). The decline during 1975-76 was mainly the result of lower production in Andhra Pradesh and Gujarat on account of reduced acreage. The all-India final estimates of area and production of tobacco for 1976-77 are not yet available.*

Domestic consumption of raw tobacco increased from 300.7 million kgs. in 1974-75 to 305.2 million kgs. in 1975-76. The quantity

* According to all-India first estimates for 1976-77 now available, area under tobacco is placed at 362.6 thousand hectares as against 341.9 thousand hectares in 1975-76.

of exports of unmanufactured tobacco at 74.3 million kgs. during 1975-76 was only marginally lower than that exported in 1974-75 (75.0 million kgs.). The value of exports, however, increased by Rs. 12.7 crores to a record level of Rs. 93.1 crores in 1975-76.

According to the available official statistics, exports of unmanufactured tobacco for April to October 1976 were 64.5 million kgs., valued at Rs. 78.0 crores as against 59.2 million kgs. valued at Rs. 79.6 crores during the corresponding period of the previous year.

Under the centrally sponsored scheme for increasing production of exportable varieties of tobacco, an additional area of 11.8 thousand hectares was covered by the financial assistance of Rs. 55.8 lakhs during 1976-77. Under the tobacco development schemes administered by various research institutes and financed by the Government of India, about 24,403.9 kgs. seeds and 188.2 lakh seedlings of different varieties were distributed to tobacco growers during 1976-77. Apart from technical guidance under the Tobacco Extension Service Schemes in some States, necessary inputs like seeds, fertilisers and pesticides were made available and arrangements made for crop loans through institutional agencies.

3. Production Strategy and Measures

HIGH-YIELDING VARIETIES PROGRAMME

Increased and better cultivation of high-yielding varieties of rice, wheat, maize, jowar

and bajra continued to be the major instrument of increasing foodgrains production during 1976-77. The target for coverage under high-yielding varieties for different crops in 1976-77 was fixed higher at 33.0 million hectares as against the anticipated level of 32.5 million hectares in 1975-76 (Table III.8). The Central sector programme of community nurseries for raising productivity of rice was intensified and extended to 10 States during the year. Besides, demonstrations with improved implements were initiated in the rain-fed areas to introduce the right type of implements for proper land preparation and line sowing (instead of broadcasting) of rice. In respect of wheat, the scope of the mini-kit programme was extended. For achieving a breakthrough in jowar production, a scheme of 'Pilot Projects in Jowar' was taken up in the States of Maharashtra and Madhya Pradesh and block demonstrations were organised in Karnataka. Fourteen intensive maize production districts were selected for stepping up the production of maize. The Central sector mini-kit programme of millets has been continued, short duration varieties of urad, moong and cowpea have been identified and it was planned to bring an additional area of 8 lakh hectares under short duration varieties and multiple cropping programme and 45 lakh hectares under improved package of practices.

QUALITY SEEDS

During 1976-77, the National Seeds Corporation built a reserve stock of 408 tonnes of foundation seeds and 5,343 tonnes of certified

Table III.8: Crop-wise Coverage under High-Yielding Varieties Programme

					(Million hectares)				
Commodity					1972-73	1973-74	1974-75	1975-76 (Estimated)	1976-77 (Target)
					(Actuals)				
1					2	3	4	5	6
Wheat	..	..	..	..	10.0	10.9	11.2	13.7	14.0
Rice	..	..	..	..	8.1	9.7	10.8	13.0	13.5
Maize	..	..	..	..	0.6	0.8	0.7	0.9	1.1
Jowar	..	..	..	..	0.9	1.2	1.3	2.2	2.3
Bajra	..	..	..	..	2.5	3.3	2.5	2.7	2.1
Total	..	..	..	..	22.1	25.9	26.5	32.5	33.0

Source: Economic Survey, 1976-77, Government of India.

Table III.9: Consumption of Fertilisers

(Thousand tonnes)

Year (April-March)	Nitrogenous (N)	Phosphatic (P ₂ O ₅)	Potassic (K ₂ O)	Total
1	2	3	4	5
1972-73	1779	587	333	2699
1973-74	1829	650	360	2839
1974-75	1776	472	336	2574
1975-76	2149	467	278	2894
1976-77	2414	648	340	3402

Source: Annual Review, Fertiliser Association of India, New Delhi.

seeds as against 204 tonnes and 2,570 tonnes, respectively, in 1975-76. The overall availability of quality seeds for both *kharif* and *rabi* seasons was good during the year. The National Seeds Corporation is paying special attention to the production of certified seeds of vegetables. The programme for setting up 20,000 sale points in the co-operative and private sectors by the end of 1977-78 was launched.

MINOR IRRIGATION

The additional area benefited during 1976-77 through minor irrigation programmes is placed at 1.5 million hectares as against 1.2 million hectares covered during 1975-76. Special attention was paid to the investigation and development of minor irrigation including ground water potential in the eastern States. A Centrally sponsored scheme has been introduced under which 50 per cent matching grant is made available for strengthening State ground-water organisations. During the year, upto February 1977, the Central Ground Water Board managed to drill 91 exploratory wells, 40 observation wells and 2 slim holes as against the target for 1976-77 to drill 144 exploratory wells, 122 observation wells and 5 slim holes.

COMMAND AREA DEVELOPMENT PROGRAMME

Under an integrated command area development programme, the progress achieved upto December 1976 includes planning and designing in 9.28 lakh hectares, construction of field channels in over 73,000 Kms., and land levelling and grading in about 6 lakh hectares. Upto

March 1977, the Central assistance to State Governments for the implementation of this programme amounted to Rs. 44.36 crores.

FERTILISERS AND MANURES

The supply of chemical fertilisers continued to be comfortable during 1976-77. Consumption increased from 28.94 lakh tonnes in 1975-76 to 34.02 lakh tonnes in 1976-77, the highest level achieved so far (Table III. 9). This was the net result of a series of measures taken by the Government which included the reduction in the prices of fertilisers, launching of an intensive fertiliser campaign, opening of new retail points and adequate credit support.

The policy of encouragement to the use of organic manures was continued. During 1976-77, about 10 million tonnes of additional rural compost and 0.4 million tonnes of additional urban compost were expected to be made available. A mechanical compost plant at Ahmedabad has already been commissioned and 18 more plants at other cities have been approved. During the year, 18 more sewage/sullage utilisation schemes were sanctioned in the States of Bihar, Madhya Pradesh, Maharashtra, Punjab and Tamil Nadu. About 25,000 gobar gas plants were expected to be set up during 1976-77, for which a subsidy at the rate of 20 per cent of the capital cost of the plants is being provided.

A new scheme for compost-making by landless labourers will be taken up on a pilot basis in one

block in the vicinity of forest areas in sugarcane/ rice growing regions in each State. Each project will cover 10 villages in the selected blocks and 10 landless labourers in each selected village.

PLANT PROTECTION MEASURES

During 1976-77, a total area of 76 million hectares was likely to benefit from plant protection measures. The estimated consumption of pesticides in terms of technical grade material during the year is estimated at 65 thousand tonnes. Under the Centrally Sponsored Endemic Areas Scheme, an area of 5.25 lakh hectares was covered by aerial and ground-spraying during 1976-77; besides, an area of 44,000 hectares was covered by ground spraying under its sub-scheme for control of special pests. Under the pest and disease surveillance scheme, 12 Central Surveillance Stations conducted surveys in selected areas for pests and diseases.

AGRO-INDUSTRIES CORPORATIONS

The Agro-Industries Corporations continued to distribute tractors, power tillers, pumpsets and other items of agricultural machinery to the farmers in their respective States. During the year, they made available 1,409 tractors, 367 crawler tractors, 79 power-tillers, 88 combine harvesters, 120 tubewell drilling rigs and 118 well-revitalising units on hire basis through 279 machinery hiring centres, besides undertaking repairs of tractors and sale of spare parts. As many as 2,849 agro-service centres

were established in the country by the end of February 1977.

MACHINERY AND IMPLEMENTS

The production of tractors in the country increased from 31,088 in 1974-75 to 33,252 in 1975-76. During 1976-77 (upto February 1977), 30,478 tractors were produced, as against the total licensed capacity of 1.39 lakh units. Tractors are also being imported under the agreement signed with the International Development Association. Power tillers produced between April and December 1976 numbered 1,265. Demand for tractor-operated implements and power is on the increase. Special attention is being paid to the improvement in their quality and the number of Indian Standards on Agriculture machinery has risen to 118. The manufacture and import of harvester combines are under consideration.

4. Schemes for Small Farmers

The number of projects under the SFDA was raised from 8 to 169 at the end of June 1977 and number of participants (identified) increased from 90.7 lakhs at the end of June 1976 to 127.2 lakhs at the end of 1977. Of the total participants, 52.4 lakhs were enrolled as members of co-operatives at the end of June 1977 as compared with 38.6 lakhs at the end of June 1976. By the end 1977, the finance released aggregated Rs. 123.3 crores while the amount utilised was

Table III.10: Cumulative progress under SFDA programmes since inception

Items	Progress upto		
	June 1975	June 1976	June 1977
1. No. of Project Areas	133	161	169
2. No. of participants identified (in lakhs)	47.56	90.72	127.15
3. No. enrolled as members of Co-ops. (in lakhs)	24.05	38.56	52.41
4. Finance released (since inception) to the Agencies (Rs. in crores) ..	65.23	82.78	123.32
5. Funds utilised (Rs. in lakhs)	61.85	75.70	116.40
6. Physical results@			
(i) No. of beneficiaries under Minor Irrigation*	2,41,294	3,94,002	4,98,540
(ii) Milch Cattle	1,20,865	1,82,615	2,75,624
(iii) Poultry	9,653	11,875	15,061
(iv) Other animal Husbandry**	57,592	1,00,830	1,46,700

@ Relate to Cooperative year 1974-75.

* Includes sprinklers, rahats, irrigation channel, bamboo, boring and renovation of old wells.

** Includes piggery, fisheries, goat and sheep rearing, bee keeping, sericulture and duck rearing.

Rs. 116.4 lakhs. The number of beneficiaries under the minor irrigation programme increased during the year by 1.0 lakh to 5 lakhs at the end of June 1977. The programmes relating to animal husbandry have been geared to benefit the small and marginal farmers and agricultural labourers. Under the calf rearing programme subsidy is provided at the rate of 50 per cent of the feeding cost for small/marginal farmers and 66⅔ per cent for agricultural labourers. Programmes for poultry, piggery and sheep rearing envisage subsidy at the rate of 25 per cent for small farmers and 32½ per cent for marginal farmers and agricultural labourers. The progress made under SFDA programmes is shown in Table III.10.

II. Industrial Sector

The year 1976 saw the industrial sector performing very satisfactorily due to fewer supply constraints. The relatively easy availability of strategic industrial raw materials such as steel, the continuous supply of power in most States and the comparative industrial peace had contributed to the rise in output in most of the

industrial activities. Certain industries, however, continued to suffer from demand recession and a number of units were closed due to various factors like mismanagement and diversion of financial resources. The overall picture of industrial output, however, was much better at the end of 1976.

Trends in Industrial Production: 1976

The monthly average level of the general index of industrial production stood at 132.4 in 1976 (Base: 1970=100) as against 119.7 in 1975, thereby recording a rise of 10.6 per cent. The overall industrial growth rate during January-December 1976 was 10.6 per cent, as against the growth rates of 4.7 per cent and 2.1 per cent respectively, in the previous two years (Table III.11). The industries in the core sector such as iron and steel, cement and electricity recorded impressive increases of over 10 per cent in production.

Industries accounting for a weight of 79.1 per cent in the index of industrial production recorded increases in output during the year as

Table III. 11: Trends in Industrial Production—Group-wise (Base: 1970 = 100)
(Based on C.S.O.'s Index of Industrial Production)

Groups							(Variations during the year: per cent)			
							Weights	1974	1975	1976*
1							2	3	4	5
General Index (Crude)							100.0	+ 2.1	+ 4.7	+10.6
Use-Based classification										
1.	Basic Industries	..	..	..	..	..	32.28	+ 3.9	+13.4	+14.2
2.	Capital Goods Industries	..	..	..	..	..	15.74	+ 4.3	— 0.5	+ 9.5
3.	Intermediate Goods Industries	..	..	..	..	..	20.95	— 2.1	+ 1.6	+ 6.4
4.	Consumer Goods Industries	..	..	..	..	..	31.03	+ 2.2	— 1.6	+ 9.7
Input-Based classification										
1.	Agro-based Industries	..	..	..	..	..	33.68	— 1.0	+ 1.6	+ 4.5
2.	Metal-based Industries	..	..	..	..	..	21.93	+ 5.2	— 2.4	+ 8.8
3.	Chemical-based Industries	..	..	..	..	..	12.86	— 1.6	+ 5.0	+16.7
Sectoral Indicators										
1.	Transport Equipment and Allied Industries	..	..	..	..	..	10.79	+ 6.1	— 1.9	+13.0
2.	Electricity and Allied Industries	..	..	..	..	..	14.53	+ 6.4	+ 3.2	+12.4

* Provisional.

Notes:(i) Figures under cols. 3-5 indicate percentage variations over the preceding year.

(ii) The overall growth rates indicated herein may differ from those given in the table captioned 'Index Number of Industrial Production' as the latter have taken into account the latest revisions in the data for which the detailed break-ups are not yet available.

Table III.12: Classification of Industries by their Growth Rates

Range of growth rates@						In terms of weights in the General Index (Base 1970 = 100)	
						1975	1976*
A. Increase							
1.	Moderate : Less than 5%	..	..	..	..	11.85	22.49
2.	Marked : 5% and above	..	..	..	..	45.57	56.60
	Of which : 10% and above	..	..	..	..	25.44	39.33
3.	Total weight (1+2)	..	..	..	..	57.42	79.09
B. Decline							
4.	Moderate: Less than 5% ..	..	..	..	..	23.45	13.09
5.	Marked : 5% and above	..	..	..	..	16.50	5.19
	Of which : 10% and above	..	..	..	..	6.64	3.34
6.	Total weight (4+5)	..	..	..	..	39.95	18.28
C. Constant							
	Total weight (A+B+C)	..	..	..	..	97.37	97.37

@ Growth rate represents percentage increase in output over the respective preceding year.

* Provisional.

against 57.4 per cent during 1975. Of this, industries having aggregate weight of 39.3 per cent in the index showed increases exceeding 10 per cent (Table III.12).

Growth: Category-wise Analysis:

The 'Basic Industries Sector' recorded a growth of 14.2 per cent which was marginally higher than in the previous year (13.4 per cent), largely due to improved performance of Heavy Organic and Inorganic Chemicals, Cement and Electricity.

The 'Capital Goods Industries Sector' recovered during the year and recorded an increase of 9.5 per cent as against a decline of 0.5 per cent in 1975. Industries producing specialised equipments, air conditioners and refrigerators, electrical cables and wires, ship building and repairing equipments showed impressive rise. But the manufacture of internal combustion engines and electrical equipments declined steeply.

The 'Intermediate Goods Industries Sector' increased its production by 6.4 per cent as against a rise of only 1.6 per cent in 1975. This was mainly due to improved performance of Cotton Spinning, Jute Textiles, Rubber Products (other than tyres and tubes), Synthetic Resins and Plastics, Dyestuffs, Paints, Varnishes and

Lacquers, Miscellaneous Chemical Products, Structural Clay Products, Metal Manufactures (except machinery and transport equipment), Storage Batteries and Dry Cells industries. The output of cycle tyres and cycle tubes, on the other hand, recorded small declines.

The 'Consumer Goods Industries Sector' recorded a sizeable increase of 9.7 per cent as against a decline of 1.6 per cent in 1975. Consumer Durables, which had recorded a decline of 12.6 per cent in 1975 showed an increase of 11.1 per cent. Almost all the major components of this sub-sector showed increases during 1976 as against declines in the previous year. Consumer Non-durables registered an increase of 9.6 per cent as against a decline of 0.2 per cent in the previous year. Improved performance by industries manufacturing beverages, tobacco, textiles (other than cotton weaving mills and decentralised sectors), paper and paper products, drugs and pharmaceuticals, perfumes and cosmetics, matches and electrical lamps contributed to this increase.

Capacity Utilisation:

A large part of the increase in industrial production during 1976 can be ascribed to better utilisation of installed capacity. The

Table III.13: Production, Installed Capacity and Capacity-Utilisation Ratios of Selected Industries

Group/Industry	Accounting unit	1974			1975			1976*			Difference between 8 and 5	Difference between 11 and 8
		Production (Average)	Capacity (End-Dec.)	Ratio	Production (Average)	Capacity (End-Dec.)	Ratio	Production (Average)	Capacity (End-Dec.)	Ratio		
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Basic Industries												
1. Cement	'000 Tonnes	1188.7	1655.4	71.8	1352.9	1760.0	76.9	1557.0	1789.0	87.0	+ 5.1	+10.1
2. Sulphuric Acid	„	107.1	176.0	60.9	111.4	211.4	52.7	140.0	232.0	60.3	- 8.2	+ 7.6
3. Caustic Soda	„	35.7	42.4	84.2	36.9	47.4	77.8	41.9	57.5	72.9	- 6.4	- 4.9
4. Steel Castings	„	5.0	12.8	39.1	4.8	12.8	37.5	5.3	16.5	32.1	- 1.6	- 5.4
5. Aluminium Sheets and Circles	„	3.8	6.0	63.3	3.2	6.3	50.8	3.2	5.6	57.1	-12.5	+ 6.3
6. Soda Ash	„	42.5	42.3	100.5	45.1	52.8	85.4	47.1	52.8	89.2	-15.1	+ 3.8
II. Capital Goods Industries												
1. Motor Vehicles (Automobiles)	'000 Nos.	7.0	10.2	68.6	5.8	9.9	58.6	6.8	10.2	66.7	-10.0	+ 8.1
2. Power Transformers	'000 KVA	750.2	1239.8	60.5	930.1	1846.8	50.4	1178.7	1680.2	70.2	-10.1	+19.8
3. Electric Motors	'000 HP	259.4	417.7	62.1	258.7	451.5	57.3	289.1	554.4	52.1	- 4.8	- 5.2
4. Machine Tools @	Lakh Rs.	740.2	1060.0	69.8	1010.4	1060.0	95.3	1063.8	1010.0	105.3	+25.5	+10.0

AGRICULTURAL AND INDUSTRIAL OUTPUT

(Continued on Page 28)

Table. III 13: Production, Installed Capacity and Capacity-Utilisation Ratios of Selected Industries—(Concl'd.)

Group/Industry	Accounting unit	1974			1975			1976*			Difference between 8 and 5	Difference between 11 and 8
		Production (Average)	Capacity (End-Dec.)	Ratio	Production (Average)	Capacity (End-Dec.)	Ratio	Production (Average)	Capacity (End-Dec.)	Ratio		
1	2	3	4	5	6	7	8	9	10	11	12	13
III. Intermediate Goods Industries												
1. Storage Batteries	'000 Nos.	109.8	144.0	76.3	110.0	144.0	76.4	116.7	144.0	81.0	+ 0.1	+ 4.6
2. Dry Cells	Lakh Nos.	529.4	1026.0	51.6	452.8	1076.0	42.1	499.5	1076.0	46.4	- 9.5	+ 4.3
3. Tyres—Automobiles	'000 Nos.	394.6	340.8	115.7	407.2	396.4	102.7	426.9	411.5	103.7	-13.0	+ 1.0
4. Tyres—Cycles	"	2030.7	2827.0	71.8	1996.1	2849.0	70.1	1947.5	2849.0	68.4	- 1.7	- 1.7
5. Tubes—Automobiles	"	349.8	304.2	115.0	375.2	388.5	96.6	383.5	388.5	98.7	-18.4	+ 2.1
6. Tubes—Cycles	"	1528.5	2413.0	63.3	1383.0	2480.0	55.8	1366.6	2480.0	55.1	- 7.5	- 0.7
7. Paints and Varnishes	'000 Tonnes	5.2	11.3	46.0	5.3	10.4	51.0	6.0	10.2	58.8	+ 5.0	+ 7.8
8. Ceramics (Refractories)	"	61.2	95.0	64.4	58.5	94.8	61.7	63.8	89.9	70.1	- 2.7	+ 8.4
IV. Consumer Goods Industries												
1. Radio Receivers	'000 Nos.	174.6	234.0	74.6	128.4	243.9	52.6	139.7	238.8	58.5	-22.0	+ 5.9
2. Bicycles	'000 Nos.	209.3	324.5	64.5	184.1	335.0	55.0	220.4	335.0	65.8	- 9.5	+10.8
3. Cigarettes	Lakh Nos.	50451.0	56000.0	90.1	50053.3	62920.0	79.6	55911.7	62920.0	88.9	-10.5	+ 9.3
4. Vanaspati	'000 Quintals	295.1	929.8	31.7	381.9	1068.0	35.8	443.4	1075.0	41.2	+ 4.1	+ 5.4
5. Soaps	'000 Tonnes	17.7	18.9	93.7	22.4	18.9	118.5	22.3	18.9	118.0	+24.8	- 0.5
6. Matches	Million Sticks	17963.0	17863.0	100.6	15526.4	16459.0	94.3	16421.7	16459.0	99.8	- 6.3	+ 5.5
7. Footwear (western type) (Leather)	'000 Pairs	577.1	1150.0	50.2	746.3	1154.0	64.7	679.7	1154.0	58.9	+14.5	- 5.8
8. Footwear (Rubber)	Lakh Pairs	31.2	43.3	72.1	33.0	46.5	71.0	35.1	46.5	75.5	- 1.1	+ 4.5
9. Hurricane Lanterns	'000 Nos.	512.4	390.0	131.4	139.8	390.0	35.8	186.4	320.0	58.3	-95.6	+22.5
10. Electric Lamps (Incandescent Filament)	'000 Nos.	10762.0	12800.0	84.1	10756.7	14200.0	75.8	13957.6	13700.0	101.9	- 8.3	+26.1
11. Electric Fans	'000 Nos.	194.7	257.6	75.6	174.2	251.1	69.4	198.0	242.9	81.5	- 6.2	+12.1
12. Glass and Glassware (Sheet Glass)	Lakh sq. mts.	7.8	18.0	43.3	13.0	18.0	72.2	16.5	22.1	74.7	+28.9	+ 2.5

@ Includes 10 items.

* Provisional.

average ratio of production to installed capacity in selected industries was 73.3 per cent as compared to 67.5 per cent in 1975. Group-wise distribution of industries from all the four sectors showed improvement in utilisation of capacity as follows: In the 'Basic Industries Sector', the utilisation ratio was 66.4 per cent as compared to 63.5 per cent in 1975. In the

Table III.14: Trends in Capacity Utilisation of Selected Industries

Range of Capacity Utilisation Ratio in 1976	Industry	Capacity Utilisation during (Ratios)			Percentage change	
		1976	1975	1974	1976 over 1975	1975 over 1974
1	2	3	4	5	6	7
A. Basic Industries						
Above 80	1. Soda Ash	89.2	85.4	100.5	+4.4	-15.0
	2. Cement	87.0	76.9	71.8	+13.1	+7.1
Between 70 to 80	3. Caustic Soda	72.9	77.8	84.2	-6.3	-7.6
Between 60 to 70	4. Sulphuric Acid	60.3	52.7	60.9	+14.4	-13.5
Between 50 to 60	5. Aluminium Sheets & Circles	57.1	50.8	63.3	+12.4	-19.7
Below 50	6. Steel Castings	32.1	37.5	39.1	-14.4	-4.1
B. Capital Goods Industries						
Above 80	1. Machine Tools	105.3	95.3	69.8	+10.5	+36.5
Between 70 to 80	2. Power Transformers	70.2	50.4	60.5	+39.3	-16.7
Between 60 to 70	3. Motor Vehicles (Automobiles)	66.7	58.6	68.6	+13.8	-14.6
Between 50 to 60	4. Electric Motors	52.1	57.3	62.1	-9.1	-7.7
C. Intermediate Goods Industries						
Above 80	1. Tyres (Automobiles)	103.7	102.7	115.7	+1.0	-11.2
	2. Tubes (Automobiles)	98.7	96.6	115.0	+2.2	-16.0
	3. Storage Batteries	81.0	76.4	76.3	+6.0	+0.1
Between 70 to 80	4. Ceramics Refractories	70.1	61.7	64.4	+13.6	-4.2
Between 60 to 70	5. Tyres—Cycles	68.4	70.1	71.8	-2.4	-2.4
Between 50 to 60	6. Paints & Varnishes	58.8	51.0	46.0	+15.3	+10.9
	7. Tubes—Cycles	55.1	55.8	63.3	-1.3	-11.8
Below 50	8. Dry cells	46.4	42.1	51.6	+10.2	-18.4
D. Consumer Goods Industries						
Above 80	1. Soaps	118.0	118.5	93.7	-0.4	+26.5
	2. Electric Lamps (Incandescent Filament)	101.9	75.8	84.1	+34.4	-9.9
	3. Matches	99.8	94.3	100.6	+5.8	-6.3
	4. Cigarettes	88.9	79.6	90.1	+11.7	-11.7
	5. Electric Fans	81.5	69.4	75.6	+17.4	-8.2
Between 70 to 80	6. Footwear (Rubber)	75.5	71.0	72.1	+6.3	-1.5
	7. Glass & Glassware (sheet glass)	74.7	72.2	43.3	+3.5	+66.7
Between 60 to 70	8. Bicycles	65.8	55.0	64.5	+19.6	-14.7
Between 50 to 60	9. Footwear (Western type) (L)	58.9	64.7	50.2	-9.0	+28.9
	10. Radio Receivers	58.5	52.6	74.6	+11.2	-29.5
	11. Hurricane Lanterns	58.3	35.8	131.4	+62.8	-72.8
Below 50	12. Vanaspati	41.2	35.8	31.7	+15.1	+14.7

'Capital Goods Industries Sector', it was 73.6 per cent as against 65.4 per cent in the previous year. In the 'Intermediate Goods' and the 'Consumer Goods' Sectors the ratios were 72.8 per cent and 76.9 per cent respectively as against 69.6 per cent and 68.7 per cent in 1975 (Table III.13).

The frequency distribution of industries according to the range of capacity utilisation ratios indicates that the number of industries with over 80 per cent utilisation of capacity increased from 6 in 1975 to 11 in 1976, the additional ones being electric lamps (incandescent

filament), cigarettes, electric fans, storage batteries and cement (Table III.14).

Industrial Sickness

In spite of an impressive industrial performance, certain industrial units continued to be sick. They were predominant in the States of West Bengal and Maharashtra, followed by Gujarat, U.P. and Tamil Nadu. The total number of large sick units has increased from 241 in December 1976 to 254 by end-March 1977. Industry-wise, sickness was most prevalent in engineering, electricals and iron and steel (84 units), cotton textiles (66 units), jute textiles

Table III.15: Performance of Coal (including lignite), Iron Ore and Cement Industries

Commodity						1974	1975	1976@	1977@
1						2	3	4	5
						(Million tonnes)			
Coal									
Production	..	..	..	..	..	87.1	98.7	104.7	
						(+7.3)	(+13.3)	(+6.1)	
<i>Of which:</i>									
Coking Coal	..	..	..	..	..	17.7	25.1	29.6	
						(+12.0)	(+41.8)	(+17.9)	
Despatches†	..	..	..	..	..	76.8	86.5	91.6	
						(+7.3)	(+12.6)	(+5.9)	
Exports£	..	..	..	..	..	0.5	0.5	0.5	
Year-end stocks (at pit heads)	..	..	..	..	..	5.8	8.5	12.3	
Iron Ore									
Production									
(a) All India	..	..	..	..	..	35.5	41.8	43.4	
						(-0.3)	(+17.7)	(+3.8)	
(b) Excluding Goa	..	..	..	..	..	22.9	28.1	30.2	
						(-2.6)	(+22.7)	(+7.5)	
Exports									
Quantity	..	..	..	..	..	21.9	22.8	23.4	
Value (Rs. in crores)	..	..	..	..	..	137	206	232	
Year-end stocks	..	..	..	..	..	3.2	3.4	4.0	
Cement									
Production (Thousand tonnes)	..	..	..	..	..	14265	16235	18684	9544 (Jan.-June 1976)
						(-4.9)	(+13.8)	(+15.1)	9661 (Jan.-June 1977)
									(+1.2)
Installed Capacity	..	..	..	..	..	19860	21120	21468	10302 (Jan.-June 1976)
						(+0.5)	(+6.3)	(+1.6)	10599 (Jan.-June 1977)
									(+2.9)
Capacity Utilisation (in per cent)	..	..	..	..	..	72	77	87	93 (Jan.-June 1976)
									91 (Jan.-June 1977)
Year-end stocks	..	..	..	..	..	217	225	228	215 (Jan.-June 1976)
									208 (Jan.-June 1977)

(Figures in brackets indicate percentage variation over the preceding year).

† Excluding coal consumed by the collieries and used for coal making etc.

£ Includes coal and coke. @ Provisional.

Source:

Coal: Office of the Coal Controller, Calcutta.

Iron Ore: Indian Bureau of Mines, Bulletin of Mineral Statistics.

Cement: C.S.O.

(29 units), and sugar (22 units), followed by chemicals (14 units) and cement (3 units). The sickness was due to a variety of reasons such as the obsolescence of machinery, high inventory build up due to slackness in demand or/and high prices, absence of good management and labour unrest.

A. Basic Industries

(A) COAL

The production of coal (including lignite) was 104.7 million tonnes during 1976, registering an increase of 6.0 million tonnes or 6.1 per cent over the previous year (Table III: 15). The production of coking coal increased from 25.1 million tonnes in 1975 to 29.6 million tonnes or by 17.9 per cent in 1976.

Total despatches increased only by 5.9 per cent to 91.6 million tonnes as compared to 12.6 per cent in 1975 and 7.3 per cent in 1974. Except the power sector, consumption by the major consumers was almost stagnant. The railways continued to carry coal in larger quantities, as reflected in the record average daily loading of 9758 wagons of coal during the second quarter of 1977. This had helped to keep the pithead stocks of coal at 12.65 million tonnes at the end of June 1977 which may be deemed reasonable, viewed in the context of increased production and sluggish growth in domestic demand.

Owing to larger availability, the price of coal has reportedly come down in the beginning of 1977, throughout the country. In Karnataka, the price of hard coke has come down by Rs. 47 per tonne and in Maharashtra by Rs. 40 per tonne. Prices of soft coke in the hill districts of U. P. have also come down by Rs. 12 to Rs. 40 per tonne. In Delhi, soft coke is selling cheaper by Rs. 12.50 per tonne as steps were taken to streamline distribution.

In its final report submitted to the Centre, the Chakravarti Committee has recommended an average increase of about Rs. 7 per tonne in coal prices. Coal exports increased marginally from about 5 lakh tonnes in 1975 to 5.4 lakh tonnes in 1976. The Coal India Ltd., exported 6 lakh tonnes of coal in the financial year 1976-77.

The Government of India has planned to build a coal buffer stock of over 25 million tonnes, amounting to Rs. 160 crores. The Department of coal is likely to introduce a three tier coal buffer strategy for long-term benefits. Coal reserves at present are estimated at about 82,770 million tonnes, of which about 19,400 million tonnes are of the coking variety and the remaining is of the non-coking variety.

(B) IRON ORE

The index number of iron ore production (1970=100) stood at 137 in 1976 as against 133 in the preceding year and 113 in 1974. Output increased from 41.8 million tonnes in 1975 to 43.4 million tonnes in 1976 i.e. by 3.8 per cent. During January-June 1977 the output has been estimated at 23.9 million tonnes as compared to 22.9 million tonnes in the corresponding period of 1976. The rate of increase in 1976 was very low when compared with that observed in 1975 (Table III: 15). The total output excluding that of Goa also moved up from 28.1 million tonnes to about 30 million tonnes. All the iron ore producing states, except Bihar, Madhya Pradesh and Orissa recorded declines in iron ore production. Production in Bihar increased by 10.8 per cent, in Madhya Pradesh by 12.9 per cent and in Orissa by 9.0 per cent in 1976 as compared to higher growth rates of 21.6 per cent, 16.1 per cent and 31.5 per cent in these States respectively in 1975.

The share of the public sector in the total output of iron ore increased from 42 per cent in 1975 to 47 per cent in 1976. Production from captive mines of steel plants constituted 36 per cent of the total output in 1976. The despatches of iron ore to the steel plants in India increased by 15 per cent to 17.3 million tonnes in 1976.

Total iron ore production by National Mineral Development Corporation (NMDC) in 1976 was 8.2 million tonnes compared to 6.6 million tonnes in 1975 registering an increase of 24.3 per cent. Production by NMDC accounted for 19 per cent of total iron ore production in 1976 as compared to 16 per cent in 1975. The production from Bailadila Deposit No. 14 and Kiriburu mines was 5.6 million tonnes and 2.3 million tonnes respectively in 1976.

Foreign exchange earnings from exports of iron ore during the year recorded an increase of 13 per cent over those for 1975. Iron ore continued to be the leading mineral accounting for Rs. 232.5 crores or 42 per cent of the total mineral exports in 1976.

(C) CEMENT

The index number of cement production at 133.9 recorded an increase of 14.9 per cent in 1976 as against 13.5 per cent in 1975. In 1976 output was higher at 18.7 million tonnes compared with 16.2 million tonnes in 1975 (Table III:15). This record performance was mainly due to considerable increase in supplies of power and coal and adequate availability of wagons. As a result, capacity utilisation increased from 77 per cent in 1975 to 87 per cent in 1976. During January-June 1977 the production of cement aggregated 9.7 million tonnes showing an increase of 1.4 per cent over the comparable period of 1976, and the capacity utilisation was higher at 91 per cent. At the end of March 1977, the installed capacity of the industry was 21.7 million tonnes—just 1.8 million tonnes short of the raised Fifth Five Year Plan's target.

The despatches of cement (excluding exports) rose from 14.9 million tonnes in 1975 to 17.8 million tonnes in 1976, following new construction activities largely as a result of relaxation of measures taken earlier by the Government to cut down construction activities of the government departments and public sector undertakings. Despatches for January-August 1977 have been estimated at 12 million tonnes.

In view of the increase in production, stocks at the end of 1976 were marginally higher at 228 thousand tonnes as against 225 thousand tonnes at the end of 1975. Stocks at the end of June 1977 at 208 thousand tonnes were lower than the level of 215 thousand tonnes at the end of June 1976.

During the year under review, exports of cement showed a significant increase from 3.7 lakh tonnes in 1975 to 7.7 lakh tonnes in 1976. The foreign exchange earned by this industry amounted to Rs. 30 crores during the year.

The retention price payable to the cement manufacturers is fixed annually by the Government of India, based on the formula recommended by the Tariff Commission in its Report for 1974, taking into account, among other things, increase in wages and dearness allowance, price of coal, power tariffs and freight on coal. On July 1, 1976, the Government granted an increase of Rs. 3.65 per tonne in the retention price raising the price to Rs. 161.40 per tonne. However, with effect from November 1, 1976, the retention price was reduced by Rs. 1.85 to Rs. 159.55 per tonne consequent on withdrawal of the element included in the earlier price to cover the lumpsum payment made to the workers as per the Bipartite Agreement of 1975. The f.o.r. destination price of packed cement was maintained at Rs. 337.59 per tonne, inclusive of excise duty at the specific rate of Rs. 82.00 per tonne. In February 1977, the f.o.r. destination price of cement was raised by Rs. 17/- per tonne to augment the Cement Regulation Account and enable the Cement Controller to meet the existing freight on cement distribution. In order to neutralise the effect of this increase in destination price, the excise duty on cement was reduced by the same amount of Rs. 17/- per tonne from Rs. 82/- to Rs. 65/-.

Under the Soft Loan Scheme of the Industrial Development Bank of India, thirteen loan applications from cement industry for an aggregate amount of Rs. 82.85 crores were received by the end of April 1977. Of these, four applications were rejected and three applications for loans of Rs. 16.57 crores were sanctioned. Six applications for an aggregate amount of Rs. 45.07 crores were pending at the end of June 1977. A Development Council for the cement industry was constituted on October 2, 1976 with a view to formulating, *inter alia*, guidelines relating to (a) targets for production, co-ordination of production programmes and review of performance including fuller utilisation of installed capacity from time to time; (b) long range perspective plans including technology; (c) optimum utilisation of materials and components to ensure material conservation; (d) promoting standardisation of products, components and materials; (e) promotion of exports; and (f) production of

ordinary and special cement utilising industrial wastes.

(D) IRON AND STEEL

The production of crude steel in India aggregated 10 million tonnes in 1976-77 and the production of steel ingots rose from 7.5 million tonnes in 1975-76 to 8.7 million tonnes in 1976-77, showing a rise of 16.0 per cent. Finished

steel production was at 5.5 million tonnes as against 4.6 million tonnes in 1975-76. The production of saleable steel at 7.0 million tonnes recorded a rise of 20.3 per cent in 1976-77 over the previous year. The production of saleable steel by integrated steel plants stood at 6.9 million tonnes representing 98.6 per cent of the total production in 1976-77 and recorded a growth rate of 19.0 per cent over 1975-76. The production of saleable steel exceeded the target

Table III. 16: Production of Iron and Steel

(Thousand tonnes)											
Year	Bhilai	Durgapur	Rourkela	Bokaro	TISCO	IISCO	Total (2 to 7)	VISL†	ASP	Others	Grand Total
1	2	3	4	5	6	7	8	9	10	11	12
Production of Steel Ingots											
1973-74 ..	1894	776	1081	18	1484	439	5692	156	—	766	6614
1974-75 ..	2001	819	1066	109	1722	532	6249	141	—	749	7139
1975-76 ..	2209	1001	1282	342	1787	630	7250	138	90	n.a.	7478
1976-77* ..	2302	1091	1503	956	1908	667	8428	137	95	n.a.	8660
Production of Saleable Steel											
1973-74 ..	1682	374	741	—	1200	360	4357	111	—	—	4468
1974-75 ..	1707	514	694	1	1463	407	4786	92	—	662	5540
1975-76 ..	1850	751	1041	150	1486	500	5778	85	47	n.a.	5910
1976-77* ..	2019	901	1174	736	1550	542	6922	81	52	n.a.	7055
Production of Finished Steel											
1973-74 ..	1372	271	741	—	852	328	3564	48	—	1277	4889
1974-75 ..	1350	409	689	—	1041	345	3834	78	—	1251	5163
1975-76 ..	1468	474	1036	62	1033	362	4435	85	47	n.a.	4567
1976-77* ..	1673	502	1146	660	1001	363	5345	81	52	n.a.	5478

* Provisional.

Source: Steel Authority of India Ltd., New Delhi; †VISL (Visveswaraiya Iron and Steel Ltd.) is the former Mysore Iron and Steel Company Ltd.

by 6.6 per cent. In the first half of 1977-78 (April-September) production of steel ingot was 4.3 million tonnes as against 4.1 million tonnes during the corresponding period of 1976-77. The output of saleable steel at 3.4 million tonnes did not show any significant change. The factors contributing to the record performance of the industry during the year were the availability of coal, transport and power, improvement in industrial relations and better utilisation of installed capacity (Table III. 16).

In spite of keen competition in the international market due to an overall surplus of production in all the major steel producing countries, exports of iron and steel increased from 810 thousand tonnes in 1975-76 to 2486 thousand tonnes in 1976-77, i.e. by 206.9 per cent. The exports of ferrous scrap stood at 184 thousand tonnes in 1976-77 as against 154 thousand tonnes in 1975-76. Item-wise, Pig Iron, Steel, Billets, and Bars and Rods made a major contribution to the total exports. Destina-

tion-wise, West Asian countries accounted for a large share of the increase in exports.

Plantwise details of steel production are given in Table III.16. The table shows that all steel mills in the public sector recorded substantial increases in their respective levels of production of ingot as well as saleable steel. In the private sector, the Tata Iron & Steel Company (TISCO) also recorded a noticeable increase in its production of ingot and saleable steel.

Reflecting the rise in production, capacity utilisation in steel plants increased considerably. The overall capacity utilisation in public sector plants other than IISCO improved from 82.2 per cent in 1975-76 to 92.4 per cent in 1976-77. As regards IISCO capacity utilisation ratio for saleable steel increased from 62.5 per cent in 1975-76 to 67.8 per cent in 1976-77.

In the private sector the capacity utilisation ratio at TISCO increased from 99.1 per cent to 103.3 per cent in case of saleable steel.

There was a noticeable decline in stocks of ingots and saleable steel mainly owing to a pick-up in domestic demand following the rise in construction activity and a substantial rise in exports to West Asian countries. Stocks of steel ingots at Bhilai, Durgapur, Rourkela and Bokaro plants declined by 31.9 per cent compared with the position a year earlier. Stocks of saleable steel in integrated plants (Bhilai, Durgapur, Bokaro, IISCO and TISCO) declined from 366.3 thousand tonnes on April 1, 1976 to 329.7 thousand tonnes on April 1, 1977 recording a decrease at the rate of 10 per cent.

In view of the easy availability of steel, very few price and distribution measures were taken during the year. The Joint Plant Committee (JPC) raised the price of pig iron (all grades) by Rs. 10 per tonne and prices of steel items (except wheels, axles and sleepers) by Rs. 13 per tonne with effect from April 1, 1976, to neutralise the effect of increase in railway freight. The Steel Priority Committee's (SPC) allocation was dispensed with and restrictions on end-use of pig iron and steel were removed from December 1975. However, the SPC reviews the position from time to time. Whenever any special category

of steel not produced in the country is required imports have been allowed freely. The standardisation of 'extras' was also under continuous review of the Joint Plant Committee (JPC). A new development in the industry was the appointment of 85 Customer Contact Officers by the main producers at most of the important steel consuming centres. The producers have also opened 42 stockyards and 94 consignment agencies all over the country.

Mini-steel plants continued to show poor performance. Out of the 136 operative electric furnace units, only 89 units with a capacity of 21.8 lakh tonnes were operating and 23 units with a capacity of 5.5 lakh tonnes were closed. Nine units (capacity 2 lakh tonnes) were ready for production and 15 units (3.3 lakh tonnes), were reported to be under erection. Total production at mini-steel plants in 1976-77 stood at 12.0 lakh tonnes; as a result the capacity utilisation was only 55.0 per cent. Some of the factors which affected the performance of mini-steel plants were (1) the inadequate demand for products in view of the easy availability of steel items in the market owing to increase in production by the major steel plants, (2) the higher cost of production than that of integrated steel plants and (3) the severe power cuts together with hikes in power rates in certain States.

An important development of the year was the commissioning of Spirally Welded Pipe Plant at Rourkela Steel Plant in June 1976. With the commissioning of the hot strip mill in the Bokaro plant in May 1976, and with the inauguration of trial runs of the Tandem Mill in the Cold Rolling Mill Complex in December 1976, the first stage of Bokaro Steel Plant was almost completed. The Steel Authority of India Ltd. (SAIL) had initiated detailed reports of projects to be set up in Visakhapatnam and Vijayanagar in April 1975. They were expected to be submitted during 1977. The Hindustan Steel Ltd. was restructured into three new companies viz., Bhilai Ispat Ltd., Rourkela Ispat Ltd., and Durgapur Mishra Ispat Ltd., and these have been registered as subsidiaries of Steel Authority of India Ltd.

The IISCO was entirely taken over by the Government through an ordinance promulgated by the President on July 17, 1976, enabling the Government to acquire all the shares of the company. The Plant Rehabilitation Scheme initially involving Rs. 43 crores which was to be completed by the end of 1975-76 is now expected to cost Rs. 61 crores and will be completed in December 1977. On completion of this Scheme the company will be put back to its rated capacity of 1 million tonnes per annum.

(E) ELECTRICITY

The output of electricity increased by 12.2 per cent in 1976-77 as compared to 14.4 per cent in 1975-76. In 1974-75, electricity generation in the country increased by 7.4 per cent. On calendar year basis, the rate of growth in 1976 was at 16.4 per cent as against 10.8 per cent in 1975. The improvement during the last two years (1975-76 and 1976-77) was due to the creation of an additional capacity of 3524 MW added during 1974-75 and 1975-76 and stabilisation of new units which started contributing to the power supply. An additional capacity of 2387 MW was expected to be added in 1976-77. During the period January-June 1977, output of electricity at 44968 million Kwh increased by 2.4 per cent over the corresponding period of the previous year.

Sector-wise, electricity generation in utilities at 89185 million Kwh recorded an increase of 11.6 per cent in 1976-77 over the previous year. The installed capacity in the utilities at the end of 1975-76 was 20127 MW. During 1976-77 an additional generating capacity of 1700 MW was commissioned by March end.

Despite improved availability, adverse monsoon conditions affected power supply in the States of Karnataka and Tamil Nadu. As a result, these States had to resort to power cuts ranging from 15 per cent to 30 per cent and 25 to 40 per cent respectively. During 1976-77, Maharashtra also imposed a cut ranging between 15 per cent and 30 per cent due to phenomenal increase in demand for power. Madhya Pradesh faced a cut of 5 to 10 per cent.

The emphasis on the power sector was reflected in larger allocation of funds in 1976-77; at Rs. 1453 crores it was 32 per cent higher than the provision made for 1975-76. 11 new thermal and 18 new hydro schemes were sanctioned for megawatt capacity of 3185 MW and 1550 MW respectively spread over 11 States.

During 1976-77, launching of work on the first super thermal power station to be located at Singrauli in Uttar Pradesh was a landmark in the history of development of energy generation projects. In the first phase, this station will have an installed capacity of 3×200 MW with an associated transmission system and will ultimately have a capacity of 2000 MW.

B. Capital Goods Industries

(A) ENGINEERING INDUSTRIES

In 1976, the engineering industry maintained the impetus received in the previous year, with all round improvement except for the poor performance of some industries in heavy and light mechanical engineering sectors. Notwithstanding the power shortage in Karnataka, Maharashtra, Madhya Pradesh and Tamilnadu, the improvement in production during the year under review was made possible by the easier availability of inputs, liberal trade policies, better industrial relations and product diversification.

Engineering industry was nevertheless faced with problems of demand recession due to delay in implementation and postponement of plan projects, under-utilisation of capacity, and sickness in certain units.

On the export front, the industry achieved a breakthrough in the face of stiff competition in overseas markets. During April 1976-March 1977 exports were valued at Rs. 552 crores as against Rs. 408 crores in 1975-76. Exports thus marginally exceeded the revised target of Rs. 550 crores for 1976-77.

(i) *Heavy Mechanical Engineering Industries:* In the heavy mechanical engineering sector, the output of passenger cars, commercial vehicles and machine tools increased, while the production of jeeps, railway wagons, and road rollers declined (Table III. 17).

Table III.17: Output of Heavy Mechanical Engineering Industries

Item	Unit	1974	1975	1976*
1	2	3	4	5
Automobiles (Total i+ii+iii)	'000 Nos.	76.0 (-14.1)	69.7 (- 8.3)	81.0 (+16.2)
(i) Passenger cars	"	37.0 (-12.3)	23.5 (-36.5)	31.7 (+34.9)
(ii) Commercial Vehicles	"	29.0 (-12.7)	38.0 (+31.0)	42.4 (+11.6)
iii) Jeeps	"	10.0 (-23.7)	8.2 (-18.0)	6.9 (-15.9)
Scooters	"	85.7 (+ 9.8)	101.6 (+18.6)	151.3 (+48.9)
Light, Medium and Heavy Structural	'000 Tonnes	104.4 (-12.6)	122.4 (+17.2)	122.4 (-)
Steel Castings (including Alloy Steel Castings)	"	256 (+ 8.9)	258 (+ 0.8)	324 (+25.6)
Diesel Engines (Stationery)	'000 Nos.	110.6	140.3 (+26.9)	106.6 (-24.0)
Railway Wagons+	"	11.1 (- 7.5)	12.2 (+ 9.9)	11.3 (- 7.4)
Road Rollers	Nos.	1422 (- 4.1)	744 (-47.7)	228 (-69.4)
Machine Tools	Rs. Crores	88.8 (+34.7)	121.2 (+36.5)	128.0 (+ 5.6)

* Provisional

+ In terms of 4 wheelers and relate to both private and public sectors.

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

Source: C.S.O. and All India Automobile and Ancillary Industries Association.

The automobile industry recovered during 1976, with an overall growth of 16.2 per cent as against a fall of 8.3 per cent in 1975. Production of passenger cars increased by 34.9 per cent from 23.5 thousand in 1975 to 31.7 thousand in 1976, mainly due to relaxation of Government restrictions on individual consumers buying more than one car each in any calendar year and on resale of cars within two years from the date of their purchase. Excise duty relief, grant of diversification facilities by the Government, and reduction in prices announced by the manufacturers and removal of the price, distribution and sale controls on all the three makes of passenger cars were also responsible for the pick up in demand and production of the industry. During January-June 1977, output of passenger cars was 19.8 thousand as against 12.9 thousand in the corresponding period of

1976. There was an increase of 11.6 per cent in the output of commercial vehicles to 42.4 thousand in 1976 owing to favourable demand prospect. During January-June 1977, the output of buses and trucks at 19.4 thousand was 7.2 per cent less than the corresponding period of 1976. Scooter production increased from 101.6 thousand in 1975 to 151.3 thousand in 1976 registering an increase of 48.9 per cent. During January-June 1977, production of scooters was 76.5 thousand as compared to 69.1 thousand in the corresponding period of 1976. The total production of jeeps went down by 15.9 per cent to 6.9 thousand in 1976. The demand for dieselised jeeps has begun to grow. Output of jeeps was higher at 5.1 thousand in the first six months of 1977 as compared with 3.1 thousand during the corresponding period of 1976.

The output of railway wagons fell by 7.4 per cent to 11.3 thousand in 1976 due to fall in orders from domestic as well as foreign buyers. In the first six months of 1977, 6.5 thousand wagons were produced as against 5.9 thousand in the corresponding period of 1976. Production of diesel engines (stationery) declined from 140.3 thousand in 1975 to 106.6 thousand in 1976. It picked up during January-June 1977, rising to 66.9 thousand as compared to 53.8 thousand in the corresponding period of 1976.

The output of road rollers fell steeply by 69.4 per cent in 1976 mainly owing to slackness in demand. Out of the 16 licensed units only 7 units were in active production during the year under review.

Machine tools industry produced goods of the value of Rs. 128.0 crores, registering an increase of 5.6 per cent as against a rise of 36.5 per cent in 1975 mainly due to demand constraint. During January-June 1977, output declined to Rs. 61.8 crores from Rs. 66.1 crores in the corresponding period of 1976.

(ii) *Light Mechanical Engineering Industries:* Industries producing stoves (pressure

type), ball and roller bearings, sewing machines, and hurricane lanterns recorded increases in output by 137.5 per cent, 52.6 per cent, 39.2 per cent and 33.4 per cent respectively (Table III. 18). After three years of successive decline, output of pressure stoves rose impressively from 1.6 thousand in 1975 to 3.8 thousand in 1976. While there was a decline in the production of bicycles during the year 1975, output rose by 19.7 per cent to 2644 thousand in 1976 owing to favourable demand position during the year under review. Production of bicycles during the period January-June 1977 has been estimated at 1542.1 thousand as compared to 1309.1 thousand in the corresponding period of 1976. Production of typewriters went up by 11.1 per cent to 60 thousand in 1976. The industry continued to fare well in 1977 and the output stood at 32.9 thousand during January-June as compared to 28.1 thousand in the corresponding period of 1976. Industries which experienced declines in their production were razor blades and bolts, nuts, rivets and dogpikes mainly on account of inadequate demand. The informal price control in respect of razor blades which was in operation since 1973 was removed in May 1976.

Table III.18: Output of Light Mechanical Engineering Industries

Item	Unit	1974	1975	1976†
1	2	3	4	5
Ball and Roller Bearings	Million Nos.	23.7 (+ 1.3)	22.8 (- 3.8)	34.8 (+52.6)
Typewriters	'000 Nos.	41.6 (+31.6)	54.0 (+29.8)	60.0 (+11.1)
Rubber Ply Transmission and Conveyor Beltings ..	Tonnes	6827 (+ 3.9)	7097 (+ 4.0)	7113 (+ 0.2)
Bicycles	'000 Nos.	2511 (- 1.2)	2209 (-12.0)	2644 (+19.7)
Sewing Machines		333 (+ 8.5)	260.4 (-21.8)	362.4 (+39.2)
Hurricane Lanterns	"	6148 (+157.2)	1677 (-72.7)	2237 (+33.4)
Razor Blades	Million Nos.	684 (-30.4)	1029 (+50.4)	915 (-11.1)
Stoves (Pressure type)	'000 Nos.	1.9 (-80.0)	1.6 (-15.8)	3.8 (+137.5)
Crown Corks	Million Nos.	928 (-15.6)	559 (-39.8)	603 (+ 7.9)
Bolts, Nuts, Rivets & Dogpikes	Tonnes	42508 (+26.1)	28143 (-33.8)	26827 (- 4.7)

† Provisional

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

Source: C.S.O.

Table III.19: Output of Electrical Engineering Industries

Item	Unit	1974	1975	1976†
1	2	3	4	5
Light Electrical Engineering				
Electrical Lamps				
(i) G.L.S. and Others	Million Nos.	144.8 (+ 5.1)	129.0 (-10.9)	167.5 (+29.8)
(ii) Fluorescent	"	15.7 (+37.7)	16.9 (+ 7.6)	16.9 (—)
Electric Fans	'000 Nos.	2336 (+ 3.3)	2091 (-10.5)	2376 (+13.6)
Radio Receivers	"	2095 (+26.5)	1541 (-26.4)	1676 (+ 8.8)
Storage Batteries	"	1318 (+ 5.4)	1332 (+ 1.1)	1400 (+ 5.1)
Dry Cells	Million Nos.	635.5 (+ 5.4)	543.4 (-14.5)	599.4 (+10.3)
Domestic Refrigerators	'000 Nos.	102.4 (-15.8)	106.3 (+ 3.8)	108.8 (+ 2.4)
Heavy Electrical Engineering				
Power Transformers	'000 KVA	9002 (-23.8)	11161 (+24.0)	14144 (+26.7)
Electric Motors	Thousand H.P.	3113 (+ 4.4)	3104 (- 0.3)	3469 (+11.8)

† Provisional

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

Source: C.S.O.

(iii) *Electrical Engineering Industries:* Almost all industries in this group recorded increases in their output in 1976 except fluorescent electric lamps (Table III.19). On the heavy electrical side, the output of power transformers registered impressive growth of 26.7 per cent from 11,161 thousand KVA in 1975 to 14,144 thousand KVA, against an installed capacity of 20,162 thousand KVA in 1976. During the period January-June 1977, output was 9,627 thousand KVA as compared to 7,781 thousand KVA during January-June 1976. Output of electric motors went up by 11.8 per cent in 1976 to 3,469 thousand H. P. as against an installed capacity of 6,653 thousand H. P. showing the capacity utilisation ratio at 52.1 per cent. Recently, the Government has announced reservation of certain types of electric motors for development

in the small-scale sector. In the light electrical section, GLS lamps and dry battery cells having installed capacities of 164 million and 1,291 million respectively performed well, with increases of 29.8 per cent and 10.3 per cent in the production. During the period January-June 1977, while output of dry cells increased to 303.5 million, output of GLS lamps declined to 78 million. The output of electric fans increased from 2,091 thousand in 1975 to 2,376 thousand in 1976 recording a growth rate of 13.6 per cent. During January to June 1977 also, output increased by 36.4 per cent over the corresponding period of 1976, from 1,180 thousand to 1,609 thousand. Increase in overseas demand and relaxation of restriction on construction activity were the main factors responsible for the better performance. Output of radio receivers increased

from 1,541 thousand in 1975 to 1,676 thousand in 1976 with the installed capacity of 2,866 thousand. At 820 thousand, the output during the period January-June 1977 was lower as compared to 838 thousand in the corresponding period of 1976.

(B) METALLURGICAL INDUSTRIES (OTHER THAN IRON & STEEL)

The details of output in respect of various metallurgical industries are given in Table III. 20. Aluminium and copper continued to fare well and recorded increases in production of 26.6 per cent and 30.1 per cent at 211.9 thousand tonnes and 21.2 thousand tonnes respectively during 1976, owing to better utilisation of capacity. With the present capacity of 250 thousand tonnes per annum, aluminium is expected to meet the entire domestic demand. However, production during January-June 1977 at 92.5 thousand tonnes was lower as compared to

105.6 thousand tonnes in the corresponding period of 1976, mainly because of power constraints in the States of Karnataka and Tamil Nadu. Semi-manufactures also recorded overall improvement in 1976, and the output of aluminium wire rods for A.C.S.R. rose by 48.0 per cent to 60.4 thousand tonnes. However, the reduced production of aluminium early in 1977 affected the output of A.C.S.R. to some extent. Production of brass sheets and circles increased by 28.1 per cent to 11.4 thousand tonnes in 1976 as against a decline of 27 per cent in the previous year. Output of aluminium sheets and circles, and copper sheets and circles increased marginally by 0.3 per cent and 4.8 per cent respectively in 1976 as against sharp declines registered in the previous year. For the period January-June 1977, output of aluminium sheets and circles was higher at 28.1 thousand tonnes as compared to 16.6 thousand tonnes in the corresponding period of 1976.

Table III.20: Output of Metallurgical Industries

(Other than Iron and Steel)

(Thousand tonnes)

Item	1974	1975	1976*
1	2	3	4
Virgin Metals			
Aluminium	128.9 (-16.5)	167.4 (+29.9)	211.9 (+26.6)
Copper	11.8 (- 1.7)	16.3 (+38.1)	21.2 (+30.1)
Lead	4.0 (+53.8)	4.8 (+20.0)	5.4 (+12.5)
Semi-manufactures			
Aluminium Sheets and Circles	45.4 (-15.6)	37.9 (-16.5)	38.0 (+ 0.3)
Aluminium Wire Rods for A.C.S.R.	31.0 (-33.9)	40.8 (+31.6)	60.4 (+48.0)
Copper Sheets and Circles†	3.2 (+10.3)	2.1 (-34.4)	2.2 (+ 4.8)
Brass Sheets and Circles†	12.2 (-19.2)	8.9 (-27.0)	11.4 (+28.1)
Zinc Sheets and Strips	6.0 (-20.0)	6.4 (+6.7)	7.1 (+10.9)

* Provisional.

† Includes strips.

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

Source: C.S.O.

C. *Intermediate Goods Industries*

(A) JUTE TEXTILES

The output of jute textiles showed a rise of 5.1 per cent in 1976, and stood at 10.4 lakh tonnes as compared with 9.9 lakh tonnes in 1975. The rise was reflected in only two varieties viz., hessian and sacking. While the production of hessian increased from 2.8 lakh tonnes in 1975 to 3.0 lakh tonnes in 1976, that of sacking rose from 5.3 lakh tonnes to 5.4 lakh tonnes. The production of 'carpet—backing' declined marginally by 1,300 tonnes (Table III.21). During January-June 1977 total jute goods output was same as that achieved in January-June 1976, i.e. 5.5 lakh tonnes.

Despatches for domestic consumption during 1976 were higher at 6.4 lakh tonnes as against 5.5 lakh tonnes in 1975, mainly due to increased despatches of 'sacking' from 4.3 lakh tonnes in 1975 to 4.9 lakh tonnes and that of 'hessian' from 0.68 lakh tonnes in 1975 to 0.85 lakh tonnes in 1976.

Exports of jute goods declined in 1976 from 4.6 lakh tonnes to 4.3 lakh tonnes, mainly owing to a general world-wide demand recession, competition from synthetic substitutes and increasing price competition from Bangladesh, the other major producer of jute manufactures. Sacking showed relatively large decline.

Stocks of jute goods stood at 1.2 lakh tonnes at the end of December 1976 as against 1.4 lakh tonnes at the end of December 1975. Despite the rise in production, the stocks of jute goods with the mills declined due to good offtake in the domestic market.

With the decline in exports and rising raw jute prices and conversion costs, the financial viability of the industry was seriously eroded during the year. The Government, therefore, took a number of remedial measures. A Task Force was constituted to study the financial implications of modernisation requirements of the industry. The report of the Task Force since submitted is under the Government's con- sideration.

Table III.21: Jute Textiles

						(Thousand tonnes)				
Item						Year	Hessian	Sacking	Carpet backing	Total@
1						2	3	4	5	6
Production	..	..	..	..	..	1974	329.8	384.1	135.2	946.8
						1975	283.0	526.3	113.3	990.0
						1976*	304.3	544.2	112.0	1040.3
Exports	..	..	..	..	..	1974	266.6	129.2	144.1	618.9
						1975	230.7	81.9	110.7	459.3
						1976*	222.5	55.3	116.6	426.2
Domestic Consumption@@	..	..	..	..	..	1974	66.3	266.8	4.7	381.8
						1975	68.1	428.0	2.8	546.9
						1976*	85.2	489.9	2.4	641.7
Stocks (as at end-December)	..	..	..	..	..	1974	48.1	37.8	18.7	123.2
						1975	42.3	58.5	18.3	137.3
						1976*	41.1	52.1	14.7	122.7

@ Inclusive of 'others'.

@@ Figures represent despatches for internal consumption.

* Provisional.

Source: C.S.O. data except for stocks for which the source is Ministry of Commerce and Office of the Jute Commissioner.

ration. In the meantime, the Government announced its decision to make concessional finance available to the extent of 75 per cent of the new plant cost, through the IDBI, to encourage modernisation of the industry. The Government also constituted a Committee under the chairmanship of the Commerce Secretary to make a comprehensive study of the problems of the industry for formulation of an integrated approach for their solution. The Committee submitted an interim report in March 1976 and the final report in July 1976. Some of its recommendations have been implemented and others are being considered by the Government.

Export duties on jute products were abolished in two phases on February 12, 1976 and April 22, 1976. Cash compensatory support of 10 per cent of the f.o.b. value of export of carpet-backing and jute decorative fabrics was extended by one year from March 31, 1976. A similar assistance of 10 per cent was introduced on exports of 'hessian' for one year from June 1976 and on exports of 'cotton bagging' at 25 per cent for the period September 1, 1976 to March 31, 1977, so as to enable the industry to meet the cost-price gap. In order to protect the weaker mills, and to arrest the fall in export prices, the Government also notified a minimum export price for hessian of Rs. 110 per 100 yds. effective from June 10, 1976.

A major portion of stocks of raw jute with the Jute Corporation of India (J.C.I.) which had reached a level of about 8 lakh bales during the jute-year 1976-77, was disposed of by April 1977. In view of uncertainties about fibre availability and rise of raw jute prices, the Jute Commissioner took several measures during the year such as purchase quotas and inventory restrictions depending on the circumstances. On June 29, 1977 mills having stocks of raw jute (including purchases from J.C.I.) in excess of 6 weeks' consumption level were directed to bring their stocks to the prescribed level (6 weeks' consumption) within the specified dates. To supplement this measure the Jute Commissioner has asked all the private traders to report data on stocks of raw jute held in their possession as on May 15, 1977, on their account as well as

on account of third parties, to the Jute Commissioner.

To finance growing expenditures on research and development, the Government introduced a cess on jute goods production under the Industries (Development and Regulation) Act, 1951, with effect from March 1, 1976 and also set up a Jute Manufacturers' Development Council to administer the proceeds of cess for promoting research and development work. A few units were licensed to manufacture jute drawing and spinning frames on 100 per cent indigenous basis to reduce the dependence of the industry on foreign companies for the supply of jute mill machinery. By an order dated July 30, 1976, issued under section 18AA of the Industries (Development and Regulation) Act, 1951, the Government appointed an authorised body for taking over the management of National Company, the biggest jute mill in the country, for a period of five years.

(B) RUBBER MANUFACTURES

The index number of production of rubber manufactures (Base: 1970=100) showed a nominal increase in 1976 over the level of 1975. Production of automobile tyres at 51.2 lakh and tubes at 46 lakh registered increase of 11.3 per cent and 1.7 per cent, respectively over 1975 levels (Table III. 22). The relatively low order of growth of the automobile tyre industry may be attributed to (1) higher level of stocks at the end of 1975, (2) the increase in the cost of production and (3) an overall improvement in the goods traffic on the railways arising partly out of increase in output and partly out of lowering of freight charges.

The production of cycle tyres at 234 lakh and tubes at 164 lakh in 1976 showed a decline of 2.3 per cent and 1.4 per cent respectively over the levels of the previous year. The production of rubber footwear at 421 lakh pairs in 1976 showed an increase of 6.3 per cent over the year 1975.

During January-June 1977, production of automobile tyres and tubes at 2,822 thousand and 2,466 thousand showed an increase of 23.0 per cent and 15.2 per cent respectively over the

Table III.22: Rubber Products

(Thousands)										
1	Tyres (Automobiles)		Tubes (Automobiles)		Tyres (Cycles)		Tubes (Cycles)		Footwear (Rubber)†	
	Production	Year-end stocks	Production	Year-end stocks	Production	Year-end stocks	Production	Year-end stocks	Production	Year-end stocks
1	2	3	4	5	6	7	8	9	10	11
1974	4736 (+ 7.3)	106	4198 (- 0.6)	114	24369 (+21.4)	311	18342 (+34.8)	453	375 (- 2.1)	60
1975	4887 (+ 3.1)	263	4502 (+ 7.2)	245	23954 (-1.7)	425	16596 (- 9.5)	533	396 (+ 5.6)	54
1976*	5032 (+ 3.0)	N.A.	4580 (+ 1.7)	N.A.	23571 (- 1.6)	536	16368 (- 1.4)	187	421 (+ 6.3)	49
January-June 1976	2294	—	2141	—	11934	—	8521	—	204	—
1977	2822 (+23.0)	—	2466 (+15.2)	—	11062 (-7.3)	—	7301 (-14.3)	—	207 (+ 1.5)	—

† Figures in lakh pairs.

* Provisional.

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

Source: C.S.O.

corresponding period of 1976. The production of rubber footwear at 207 lakh pairs also increased by 1.5 per cent. However, cycle tyres and tubes at 11,062 thousand and 7,301 thousand declined by 7.3 per cent and 14.3 per cent respectively over the previous year.

The output of natural and synthetic rubber, the major raw materials for the rubber industry registered an increase of 7.6 per cent in 1976 as compared with 8.7 per cent in 1975. The output of natural rubber increased from 136 thousand tonnes in 1975 to 148 thousand tonnes in 1976 or by 8.6 per cent. The production of synthetic rubber increased to 23.3 thousand tonnes in 1976 from 23.0 thousand tonnes in 1975 showing a marginal increase of 1.3 per cent as against 28.1 per cent in 1975 (Table III.23).

Due to steady growth of production and slow growth of consumption, India had to export natural rubber to reduce the stock accumulated with the rubber growers and to ensure economic price to them. During 1976, 21 thousand tonnes were sanctioned for exports, of which 11 thousand tonnes were from the surplus production of 1975-76 and 10 thousand tonnes from

that of 1976-77. Actual exports of natural rubber stood at 8,195 tonnes valued at Rs. 5.6 crores in 1976. As a result of rising stocks with the rubber growers, the average price of RMA 3, 4 and 5 grades at Rs. 717.50 per quintal at the beginning of January 1976, fell to Rs. 590.00 at the end of 1976, coinciding with the fall in the average price of natural rubber as a whole, from Rs. 791.62 per quintal to Rs. 613.23 per quintal. A new development was the announcement of a new support price policy in 1977. In August 1977, the minimum support prices of various grades of natural rubber were raised by the Government. The State Trading Corporation was entrusted with the support price operation.

Stocks of natural rubber showed an increase of 11.4 per cent in 1976 as against 13.0 per cent in 1975. Synthetic and reclaimed rubber which showed a considerable depletion in their stocks seem to have fared better than in the previous year.

(C) CHEMICALS AND CHEMICAL PRODUCTS

During 1976, chemicals and chemical products, with the exception of soap registered increases in terms of output over the previous year (Table

Table III.23: Rubber

				(Tonnes)		
Item				1974	1975	1976†
1				2	3	4
Production						
Natural	..	..	..	128351 (+ 4.2)	136019 (+ 6.0)	147758 (+ 8.6)
Synthetic	..	..	..	17922 (—14.7)	22961 (+28.1)	23265 (+ 1.3)
Reclaimed	..	..	..	18023 (+15.9)	17655 (— 2.0)	20157 (+14.2)
Imports						
Natural	..	..	..	—	—	—
Synthetic	..	..	..	6584 (+17.2)	6448 (— 2.1)	6469 (+ 0.3)
Reclaimed	..	..	..	—	—	—
Consumption						
Natural	..	..	..	133538 (+ 8.3)	129138 (— 3.3)	133494 (+ 3.4)
Synthetic	..	..	..	21490 (—13.1)	31796 (+48.0)	33396 (+ 5.0)
Reclaimed	..	..	..	18343 (+11.1)	18808 (+ 2.5)	20811 (+10.6)
Stocks as at the end of the period						
Natural	..	..	..	47785 (—12.3)	54018 (+13.0)	60172 (+11.4)
Synthetic	..	..	..	14906 (+18.5)	12268 (—17.7)	8538 (—30.4)
Reclaimed	..	..	..	3537 (— 8.3)	2384 (—32.6)	1730 (—27.4)

† Provisional.

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

Source: Rubber Board, Kottayam.

III.24). Though the output of fertilisers recorded increase, the rate of growth was less than that of the previous year. Production of *Nitrogenous fertilisers* recorded an increase of 26.2 per cent to 17.8 lakh tonnes as compared to an increase of 28.1 per cent in 1975 and production of *Phosphatic fertilisers* at 4.3 lakh tonnes registered an increase of 7.2 per cent as against an increase of 37.5 per cent during 1975.

The installed capacity for Nitrogenous fertilisers increased by 5.2 lakh tonnes and for Phosphatic fertilisers by 2.2 lakh tonnes. The capacity utilisation went up from 56.2 per cent in 1975 to 58.8 per cent in the case of Nitrogenous fertilisers, while it declined from 58.2 per cent to 47.2 per cent for phosphatic fertilisers.

Nearly fifteen projects are being undertaken both in public and private sectors to increase fertiliser production. Of these, 12 are in the public sector, two in the co-operative sector and one in the private sector. These would be expected to add a capacity of 23.1 lakh tonnes of Nitrogenous fertilisers and 4.00 lakh tonnes of Phosphatic fertilisers. The total availability of fertilisers during 1976-77 was 36 lakh tonnes as compared to over 37 lakh tonnes in 1975-76. The stocks as at the end of March 1977 were, however, lower at 1.7 lakh tonnes compared to 3.1 lakh tonnes a year earlier, thanks to the better offtake of about 34 lakh tonnes in 1976-77 as compared to 29 lakh tonnes in 1975-76. The improvement was more marked in the case of phosphatic fertilisers where consumption which was only 72.1 per cent and 65.4 per cent

Table III.24: Major Chemicals and Chemical Products

(Thousand tonnes)															
				Sulphuric Acid		Caustic Soda		Paints and Varnishes		Nitrogenous Fertilizers ('N'content)	Phosphatic Fertilizers (P ₂ O ₅ content)	Soda Ash		Soap†	
Year				Production	Year-end Stocks	Production	Year-end Stocks	Production	Year-end Stocks	Production	Production	Production	Year-end Stocks	Production	Year-end Stocks
1				2	3	4	5	6	7	8	9	10	11	12	13
1974	..	..	..	1285 (-2.2)	22	428 (+2.4)	12	62 (-17.4)	7	1101 (+1.7)	293 (-13.3)	510 (+6.9)	17	213 (-0.5)	N.A.
1975	..	..	..	1337 (+4.0)	N.A.	442 (+3.3)	18	63 (+1.6)	8	1410 (+28.1)	403 (+37.5)	541 (+6.1)	34	269 (+26.3)	N.A.
1976*	..	..	..	1682 (+25.8)	N.A.	503 (+13.8)	12	73 (+15.9)	9	1779 (+26.2)	432 (+7.2)	565 (+4.4)	60	267 (-0.7)	N.A.

Source: C.S.O.

* Provisional.

† Figures relate to the production in organised factories.

Note: Figures in brackets represent percentage variation over the previous year

of the total availability of phosphatic fertilisers in 1974-75 and 1975-76 was as high as 117.2 per cent in 1976-77 bringing down the stocks by 27,000 tonnes from 68,000 tonnes in March 1976, as a result of the price support of Rs. 1,250/- per tonne to be passed on to the consumers announced in the 1976-77 budget and the voluntary price reduction offered by the manufacturers. The pick-up in demand resulted in increased production by as much as 50 per cent in 1976-77. Imports of phosphatic fertilisers declined to 23,000 tonnes from 3.3 lakh tonnes in 1975-76.

Among heavy inorganic chemicals, *sulphuric acid* recorded a marked increase of 25.8 per cent to 16.8 lakh tonnes from 13.4 lakh tonnes during the year 1975. Installed capacity went up by 2.4 lakh tonnes during the year to 27.8 lakh tonnes from 25.4 lakh tonnes in 1975. The capacity utilisation ratio also improved to 60.6 per cent from 52.7 per cent in 1975.

Production of *caustic soda* at 5.0 lakh tonnes was higher by 13.8 per cent as compared to the increase of 3.3 per cent in 1975. The capacity utilisation ratio decreased marginally from 73.4 per cent in 1975 to 72.9 per cent in 1976. At present there are 32 units with an installed capacity of 6.90 lakh tonnes. The Fifth Five Year Plan capacity and production targets have been revised to 7.55 lakh tonnes and 6.10 lakh tonnes respectively.

Production of *soda ash* during 1976 increased to 5.7 lakh tonnes from 5.4 lakh tonnes in 1975 registering a growth rate of 4.4 per cent as compared to 6.1 per cent during the previous year. Installed capacity remained unchanged during the year 1976, but the capacity utilisation ratio increased from 85.5 per cent in 1975 to 89.3 per cent in 1976. The Fifth Five Year Plan capacity and production targets have been revised to 9.99 lakh tonnes and 7.10 lakh tonnes respectively.

Production of *soap* in the organised sector fell by 0.7 per cent as against a rise of 26.3 per cent during 1975. This was mainly due to non-availability of vegetable oils. With no additions

to installed capacity during the year, the capacity utilisation ratio declined marginally from 119.0 per cent in 1975 to 118.1 per cent in 1976. The production of toilet soaps (including carbolic soaps) during 1976 is estimated to be about one lakh tonnes. The demand for toilet soaps is likely to be around 1.50 lakh tonnes by 1978-79. In order to meet the additional demand a total additional capacity of 27,000 tonnes has already been approved in favour of the two State-owned public sector undertakings in Karnataka and Kerala. Proposals for sanctioning additional capacity in backward areas are under consideration.

Production of *paints and varnishes* registered a significant increase of 15.9 per cent in 1976 as compared to only 1.6 per cent in 1975.

The production of essential drugs and pharmaceuticals increased during 1976. The monthly average index of production at 156.9 in 1976 was 15.1 per cent higher as compared to the index of 136.3 in 1975. In 1974, this index was 137.6, and there was thus a decline in production by 0.9 per cent in 1975. The value of drugs and pharmaceuticals produced locally in 1975-76 was Rs. 560 crores. By the end of the Fifth Plan period, it is proposed to increase production of drugs to Rs. 700 crores per annum.

The Government have accepted the recommendations of the Committee on Drugs and Pharmaceuticals (to which a reference was made in the Report for 1975-76) pertaining to the leadership role of the public sector, the encouragement for the growth of Indian units and small scale units in the drugs industry and the bringing of foreign companies into the framework and ambit of the Government's policies. In pursuance of the recommendations, fourteen of the ninety industrial licences and letters of intent issued during the year were in favour of public sector undertakings and sixty-four were in favour of companies having foreign equity only upto forty per cent.

By an order dated December 31, 1976, the Government placed a large number of drugs in the Open General Licence list in order to

enable the manufacturers of drugs to import such drugs without any quantity or value restrictions. This step was intended to make drugs available to the actual users at reasonable prices.

D. Consumer Goods Industries

(a) COTTON TEXTILES

Production of cotton textiles at 8,071 million metres in 1976 was 9 million metres less than the output in 1975 (Table III.25). While the mill-sector recorded a marginal rise of 0.3 per cent from 4,079 million metres in 1975 to 4,092 million metres in 1976, output in decentralised sector declined even more—from 4,001 million metres to 3,979 million metres. In 1975, output had decreased by 2.5 per cent. The production in mill sector was, however, sustained during the year under review mainly by timely import of large quantities of raw cotton to meet the shortfall in domestic output. Besides, the mills resorted to increased production of multifibre cloth. The industry was adversely affected by the recessionary trend in domestic demand for cotton cloth, the lower fibre availability and the prohibitive prices of raw cotton due to crop failures in most of the cotton producing states and by the power cuts in Maharashtra, Tamil Nadu and West Bengal. Consequently, output of blended cloth increased by 46.8 per cent to 345 million metres as against 235 million metres in the preceding year. Output of fine and superfine varieties went down by 21.2 per cent from 520 million metres in 1975 to 410 million metres in 1976. During January-June 1977, production of cotton textiles (including blended/mixed fabrics) in mill sector was lower at 2,034 million metres as compared with 2,108 million metres during the corresponding period in the previous year. The fall in production was on account of continued demand recession for cotton yarn and cloth and high degree of cost inflation.

Unsold stocks of cloth as at the end of 1976 stood at 206 million metres and that of yarn at 11 million kgs. as compared to 265 million metres and 15 million kgs. respectively in December 1975.

Estimated domestic production of raw cotton during the cotton year, September 1976-August 1977, was lower at 59.5 lakh bales of 170 kgs. each as compared to 66.5 lakh bales in the corresponding period of 1975-76. To augment the supply, an estimated 10.8 lakh bales of raw cotton were imported during 1976-77 as against 1.7 lakh bales during 1975-76. Mill consumption has been estimated at 69.5 lakh bales during 1976-77 as compared to 75.5 lakh bales in 1975-76.

Yarn production recorded an increase of 1.7 per cent at 1,006 million kgs. in 1976 over the output of 989 million kgs. in 1975. Output was high during the period of January-July, 1976; thereafter it declined due to sharp increase in prices of raw materials. During January-June 1977, cotton yarn output (including blended yarn) was 531 million kgs. as compared with 534 million kgs. during the corresponding period of 1976.

The net addition to the installed spinning capacity of the industry during 1976 was much lower at 3,00,000 spindles as against 6,80,000 spindles in the preceding year. The capacity utilisation ratio in respect of spindles was 70.7 per cent during 1976 as compared to 71.0 per cent in 1975. The loomage slipped down by 1,000 to 2,07,000 with the weaving capacity in the mill sector reverting to the level obtained at the end of 1974. Five mills were added to the industry in 1976, four of which are spinning and one composite, raising the total number of mills to 703. Capacity utilisation ratio of weaving marginally increased from 72.4 per cent in 1975 to 72.5 per cent in 1976.

Exports of Indian textile products including cotton piece goods, yarn, and readymade garments (millmade, powerloom and handlooms) were estimated in value terms at Rs. 558 crores in 1976-77 as against the target of Rs. 400 crores for the year and the actual exports of Rs. 377 crores in the preceding year. The value of exports of cotton piece goods (mill-made and

Table III.25: Cotton Textiles

Sector	(Cloth in Million Metres) (Yarn in Million Kgs.)		
	1974	1975	1976@
1	2	3	4
A. Mill Sector			
(i) Production	4316 (+4.1)	4079 (-5.5)	4092* (+0.3)
Of which fine and superfine	533	520	410
(ii) Exports	450	332	581
(iii) Domestic Consumption†	3586	3661	3341
(iv) Year-end stocks (unsold)	202	265	206
B. Decentralised Sector			
(i) Production	3968 (+8.3)	4001@ (+0.8)	3979 (-0.5)
(ii) Exports	74	55	94
(iii) Domestic Consumption	—	—	—
(iv) Year-end stocks	—	—	—
C. Cloth Total (A+B)			
(i) Production	8284 (+6.9)	8080 (-2.5)	8071 (-0.1)
(ii) Exports	524	387	675
(iii) Domestic Consumption	—	—	—
(iv) Year-end stocks	—	—	—
D. Cotton yarn-mill sector			
(i) Production	1007 (+0.9)	989 (-1.8)	1006 (+1.7)
Of which fine and superfine	39	47	51
(ii) Exports	11	4	15
(iii) Domestic Consumption†	438	438	449
(iv) Year-end stocks (unsold)	11	15	11

@ Provisional.

* Includes blended/mixed fabrics for December 1976.

† Represent deliveries for civil consumption.

Notes: Figures for yarn relate to sale of yarn by mills to handlooms and power-looms. Domestic consumption figures of cloth represent total cloth available for home consumption, i.e. total cloth produced in the mill and decentralised sectors plus actual imports minus actual exports of cloth. Exports in million square metres. Figures in brackets represent percentage changes over preceding year.

Sources: Indian Cotton Mills Federation and C.S.O.

powerloom) showed a sizeable increase of 64.6 per cent to Rs. 221.5 crores as compared with Rs. 134.6 crores in 1975-76. The exports of garments made of mill and powerloom cloth was valued higher at Rs. 89 crores and that of handlooms at Rs. 153 crores in 1976-77 as compared to Rs. 67 crores and Rs. 117 crores respectively in the previous year inspite of stiff competition in the world market and restriction imposed on their imports by some of the developed countries.

The policy relating to compulsory production of controlled cloth by the mill sector was under review in 1976-77. Besides extending by one year (upto the end of 1977) the exemption granted to National Textile Corporation and financially weak mills (numbering 170 out of the total 290 composite mills in the country) from the statutory obligation of producing controlled cloth the Government increased the ex-mill prices by 35 per cent with effect from January 1, 1977 so as to meet the increases in costs. To neutralise the effect of the increase in ex-mill prices on retail prices to consumers, the Government granted a subsidy to the National Co-operative Consumers' Federation and its affiliated public distribution agencies authorised to distribute controlled cloth. With the grant of exemption to weak mills from producing controlled cloth, the total annual obligation of the industry for producing controlled cloth was reduced to about 400 million square metres from the original limit of 800 million square metres. Further, from the beginning of 1977 the Government transferred production of 100 million metres of controlled cloth (sarees and dhoties) to the handloom sector, reducing the obligation of the mill sector to 300 million square metres. The production of controlled cloth declined to 434.8 million square metres in 1976 from 702.0 million square metres in 1975. During the first quarter of 1977, the production was 96.3 million square metres as compared to 166.6 million square metres in the corresponding period of 1976.

With rising cash losses, obsolete machinery and inefficient management, the number of mills closed went up from 21 in August 1976 to

35 by October and further to 41 in November 1976. By May 1977, the number came down to 35, comprising 24 spinning mills and 11 composite mills.

The total number of weak mills taken over by the National Textile Corporation increased from 103 in 1972-73 to 105 at the end of 1976. Of these 103 NTC mills produced 57 million kgs. of yarn and 817 million metres of cloth valued at Rs. 347 crores in 1976-77. The installed capacity of mills under the control of NTC was 2.84 million spindles and 44,226 looms, representing about 16 per cent and 22 per cent respectively of the capacity in mill sector; and corresponding capacity utilisation during 1976-77 was 71.7 per cent and 68.8 per cent respectively. NTC mills exported 4.5 lakh kgs. of yarn valued at Rs. 1 crore and 71.5 million square metres of cloth valued at Rs. 18.0 crores during 1976-77. As a result of the better performance, the NTC could reduce its losses from Rs. 61 crores in 1975-76 to Rs. 36 crores in 1976-77. As a matter of policy, the Government has decided not to take over any more sick mills, but would give all assistance to state governments who would be willing to take over such units provided they could prove the viability of their take-over schemes.

(B) PAPER AND PAPER BOARDS

The output of paper and paper board (excluding newsprint) increased by 8.2 per cent to 8.8 lakh tonnes in 1976 from 8.1 lakh tonnes in 1975. Varietywise, paper board and wrapping paper showed increases in 1976 from 1.3 lakh tonnes in 1975 to 1.4 lakh tonnes and from 1.8 lakh tonnes in 1975 to 1.9 lakh tonnes respectively, while special varieties declined considerably from 31 thousand tonnes to 13 thousand tonnes. The available production data for the first half of 1977 indicated the continuance of the rising trend—443 thousand tonnes as against 431 thousand tonnes in the corresponding period of 1976 and 378 thousand tonnes in 1975 (Table III.26).

The installed capacity of the industry increased by 2.7 per cent to 10.7 lakh tonnes in

Table III.26: Paper and Paper Boards

						(Thousand tonnes)			
Year						Installed Capacity	Production	Year-end Stocks	Capacity Utilisation Ratio
(1)						(2)	(3)	(4)	(5)
1974						992	804 (+7.5)	25	81
1975						1040	813 (+1.1)	..	78
1976†						1068	880 (+8.2)	..	82
Newsprint									
1974						75	55 (+14.6)	3	73
1975						75	52 (-5.5)	..	69
1976†						75	57 (+9.6)	..	76

† Provisional.

Note: Figures in brackets represent percentage changes over the respective preceding year.

Source: C.S.O.

1976 from 10.4 lakh tonnes in 1975, and the capacity utilisation ratio increased to 82 per cent in 1976 from 78 per cent in 1975. Keeping in view the long-term need for raising the production, the Union Government issued letters of intent for setting up additional capacity of the order of 22.35 lakh tonnes per annum and industrial licences to the tune of 17.04 lakh tonnes.

The gap between the demand and installed capacity as at June 1977 was 3.3 lakh tonnes. The draft Fifth Five Year Plan aims at achieving a capacity of 14 lakh tonnes by 1978-79. A provision of Rs. 203 crores has also been made in the Central Sector Plan for the development of paper and newsprint industry.

The Paper (Control of Production) Order, 1974 which requires mills to produce white printing paper to the extent of at least 30 per cent of the total production, for the use of educational institutions and the Director General of Supplies and Disposals continued to be operative. This paper was supplied at a concessional rate of Rs. 2,750 per tonne, as in the previous year.

Three units in India are manufacturing rayon grade pulp, with a total installed capacity of 1.18 lakh tonnes per annum. One of these is implementing substantial capacity expansion

of 20,400 tonnes per annum. The total production of rayon grade pulp from these units during 1975-76 was 1.05 lakh tonnes and the estimated production during 1976-77 is 1.25 lakh tonnes.

Under the aegis of the Hindustan Paper Corporation Ltd. a newsprint project in Kerala with an annual capacity of 80,000 tonnes, and a pulp and paper project in Nagaland for the manufacture of 33,000 tonnes of writing and printing as well as wrapping and packing paper per annum are being implemented. Both are expected to be commissioned in 1978. The Corporation is also setting up two integrated pulp and paper mills with a capacity of 100,000 tonnes per annum each in the Nowgong and Cachar Districts of Assam and a sum of Rs. 5 crores has been allocated in the Annual Plan 1976-77. In addition, it is investigating if a speciality paper project can be set up in Sikkim.

The Corporation with the assistance of the United Nations Development Programme is executing a project namely "Exploration and Identification of Alternative Raw Materials for Paper and News Print Manufacture". The project provides for the installation of laboratory and pilot plant equipment for high yielding complex at the Forest Research Institute, Dehra Dun, and a pilot paper mill at the

Institute of Paper Technology, Saharanpur. The total amount of counterpart Rupee funds to be provided for the project is Rs. 113.76 lakhs, while the United Nations Development Programme's contribution would be U.S. \$ 1.57 million.

The exports of paper and paper board in April-December 1976 were higher at Rs. 4.45 crores as against Rs. 3.80 crores in April-December 1975.

Newsprint: The output of newsprint at the National Newsprint and Paper Mills Ltd., Nepanagar (NEPA) increased from 52 thousand tonnes in 1975 to 57 thousand tonnes in 1976. For the period January-June 1977 production was estimated at 28.4 thousand tonnes as compared with 28.3 thousand tonnes in the corresponding period of the preceding year. A proposal for expansion of the installed capacity of NEPA from 75,000 tonnes to 1,50,000 tonnes per annum is under consideration of the Government. The annual demand for newsprint being around 2 lakh tonnes, the major portion of the demand has to be met from imports.

(C) SUGAR

Sugar production at 48.40 lakh tonnes during the year has exceeded the previous records (Table III.27), registering an increase of 13.6 per cent over the production level of 42.62 lakh tonnes achieved during 1975-76. The opening stock for the 1976-77 season was comparatively low at 8.45 lakh tonnes as against

12.94 lakh tonnes for the 1975-76 season. The total quantity available was 56.85 lakh tonnes during 1976-77, as compared with 55.56 lakh tonnes in 1975-76. The quota released for internal consumption amounted to 37.94 lakh tonnes as against 36.90 lakh tonnes released during the previous year.

Sugar exports handled by the State Trading Corporation on an agency basis on Government account aggregated 3.12 lakh tonnes only in 1976-77 as compared to 10.21 lakh tonnes in the last season.

The policy of partial control on sale of sugar, the proportion of levy sugar to free sale sugar at 65:35 and the system of fixing zone-wise ex-factory prices were continued during 1976-77. The ex-factory prices of levy sugar for different zones during 1976-77 season were the same as in the preceding season and ranged between Rs. 141.96 and Rs. 274.60 per quintal, excluding excise duty.

A sum of Rs. 1.94 crores has been credited to the statutory Levy Sugar Price Equalisation Fund, consisting of the excess realisations made by sugar factories above the Government prices. The Food Corporation of India too has recovered Rs. 7.5 crores from the sugar factories.

To keep in tune with the fluctuations in the open market prices of sugar, the tariff value for the purpose of assessment of excise duty on free

Table III.27: (Sugar)

						(Lakh tonnes)			
Year (October-September)						Opening Stock	Production	Exports	Consumption
1						2	3	4	5
1972-73..	..	..	..	..	..	5.99	38.73	0.97	35.11
1973-74..	..	..	..	..	..	8.64	39.48	4.15	35.19
1974-75..	..	..	..	..	..	8.78	47.97	9.24	34.57
1975-76 (P)	..	..	..	..	..	12.94	42.62	10.21	36.90
1976-77(P)	..	..	..	..	..	8.45	48.40	3.12	37.94

(P) Provisional.

Source: 'Sugar Situation', Ministry of Agriculture and Irrigation, Government of India.

sale sugar was changed in stages during the 1976-77 season as follows:

Month	Tariff Value (Rs. per quintal)
November/December 1976	335.00
January/February 1977	310.00
March 1977	300.00
April 1977	280.00
May 1977	270.00
June-August 1977	275.00
September 1977	270.00

The Central Government has sanctioned incentives to new sugar factories by way of higher levy-free sugar quota and excise duty concessions so as to make the projects economically viable. A soft loan scheme has been designed with the Industrial Finance Corporation of India being assigned the leading role to assist the sugar industry for modernisation and rehabilitation to avoid 'sickness'.

Chapter IV

Price Trends and Policy

Trends in Wholesale Prices

The year 1976-77 (July-June) witnessed a reversal of the decline in the general price level which characterised the preceding year, and recorded a rise of 5.8 per cent on the basis of the average of indices of wholesale prices of 'all commodities' (Base: 1970-71=100). The average index for the twelve months of 1976-77 works out to 180.9 as compared with 171.0 for 1975-76. On a point-to-point basis, however, the 'all commodities' index at 188.8 at the end of

June 1977 was higher by 8.6 per cent than the index of 173.9 at the end of June 1976 (Table IV.1). During the financial year 1976-77 (April-March), the general price level recorded a rise of 2.0 per cent in contrast to a decline of 1.1 per cent in the preceding year. The price rise in the year under review may be attributed to the superimposition of excessive liquidity on the sluggish growth rate in agricultural output, complemented partly by none too satisfactory distribution arrangements in respect of essential commodities.

Table IV.1: Index Numbers of Wholesale Prices (Base: 1970-71 = 100)

Main Groups/Groups/Sub-Groups/ Commodities	Weight	Index as on			Percent 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	188.8	— 1.8	+ 8.6
I. Primary Articles	417	174.7	163.2	187.7	— 6.6	+ 15.0
1. Food Articles	298	174.7	154.0	176.0	— 11.8	+ 14.3
(a) Foodgrains (A+B)	129	194.1	148.2	167.8	— 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	150.6	— 10.3	+ 2.4
(iii) Jowar	8	205.0	179.8	163.5	— 12.3	— 9.1
(iv) Bajra	6	272.6	148.2	167.6	— 45.6	+ 13.1
B. Pulses	22	194.0	130.5	190.5	— 32.7	+ 46.0
(b) Fruits and Vegetables	61	141.9	159.9	187.5	+ 12.7	+ 17.3
(c) Other Food Articles	16	146.7	175.1	253.6	+ 19.4	+ 44.8
2. Non-Food Articles	106	144.6	156.3	186.8	+ 8.1	+ 19.5
(a) Fibres	32	137.4	181.5	196.4	+ 32.1	+ 8.2
(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) Oilseeds	42	142.1	130.3	196.8	— 8.3	+ 51.0
Groundnuts	18	157.8	126.0	199.4	— 20.2	+ 58.3
(c) Other Non-Food Articles	32	155.0	165.2	164.5	+ 6.6	— 0.4
3. Minerals	13	428.2	442.9	473.1	+ 3.4	+ 6.8

Table IV.1: Index Numbers of Wholesale Prices (Base: 1970-71 = 100)

Main Groups/Groups/Sub-Groups/ Commodities	Weight	Index as on			Percent		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	
II. Fuel, Power Light and Lubricants	84	206.3	229.7	232.4	+ 11.3		+ 1.2	
III. Manufactured Products	499	173.9	173.3	182.4	- 0.3		+ 5.3	
1. Food Products	133	191.5	188.7	197.1	- 1.5		+ 4.5	
(i) Sugar	22	169.2	173.6	161.9	+ 2.6		- 6.7	
(ii) Gur	46	242.1	258.4	223.4	+ 6.7		- 13.5	
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 and Tobacco Products	27	162.5	170.0	170.7	+ 4.6		+ 0.4	
3. Textiles	110	150.2	147.5	169.8	- 1.8		+ 15.1	
Cotton Cloth (Mills)	38	164.9	158.6	176.4	- 3.8		+ 11.2	
Jute Manufactures	12	132.7	112.9	122.6	- 14.9		+ 8.6	
4. Chemicals and Chemical Products	56	178.4	170.5	172.6	- 4.4		+ 1.2	
Fertilisers	13	225.7	189.8	178.5	- 15.9		- 6.0	
5. Basic Metals, Alloys & Metal Products	60	178.1	188.8	194.1	+ 6.0		+ 2.8	
6. Machinery and Transport Equipment	67	173.2	170.8	171.4	- 1.4		+ 0.4	
7. Miscellaneous Products	7	170.4	165.3	178.3	- 3.0		+ 7.9	

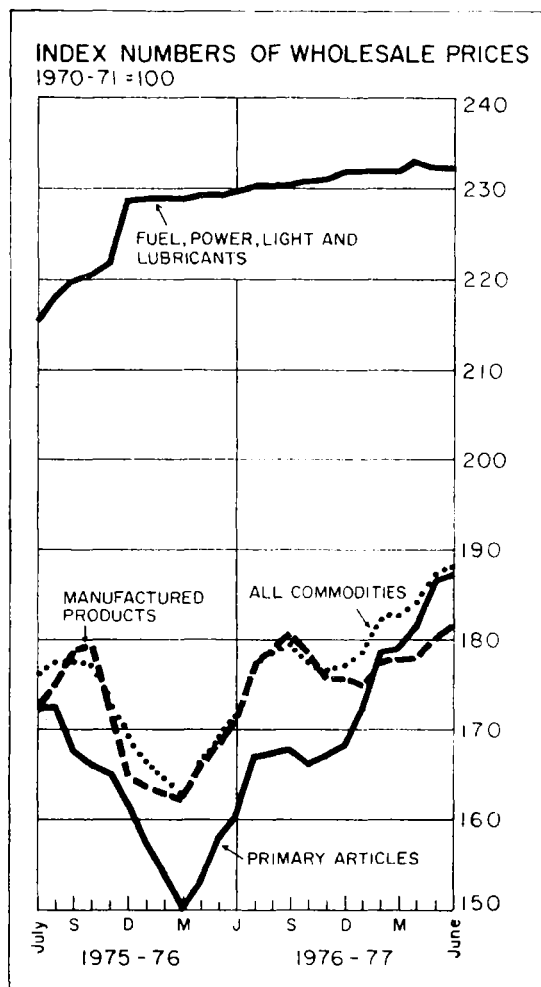
Source: Office of the Economic Adviser, Ministry of Industry, Government of India.

There were two disconcerting developments on the price front during the year. First, the Wholesale Price Index touched a new peak when it reached 188.3 during June 1977. At this level it was 3.5 per cent above the level recorded during September, 1974 (182.0) — the highest level attained during the period of inflation. Secondly, the index has had an almost continuous and steady upward movement during the year—barring a brief spell of easiness between September and November 1976. During the first six months of 1976-77 (*i.e.* July-December), there was a more or less steady trend in prices; as a result, the 'all commodities' index recorded only a moderate rise of 1.8 per cent. The increase in the latter half (January-June), however, was sharp and the price level rose by 6.7 per cent between end-December 1976 and end-June 1977

(from 177.0 at end-December 1976 to 188.8 at end-June 1977).

All the three main groups constituting the index — *viz.*, 'primary articles', 'fuel, power, light and lubricants' and 'manufactured products' — contributed to the rise (Table IV. 1). The maximum pressure on prices emerged from the main group 'primary articles' which recorded an increase of 15.0 per cent during the year. The other two main groups 'manufactured products' and 'fuel, power, light and lubricants' recorded increases respectively of 5.3 per cent and 1.2 per cent. During 1975-76, on the other hand, while the main group 'fuel, power, light and lubricants' alone showed an increase of 11.3 per cent, the other two main groups showed declines.

Graph 2



Primary Articles

All the three groups under 'primary articles' rose significantly during the year. The largest increase was recorded by 'non-food articles', 19.5 per cent, on top of an increase of 8.1 per cent during the previous year. 'Food articles' came next, 14.3 per cent, against a decline of 11.8 per cent during 1975-76. 'Minerals' rose by 6.8 per cent during the year compared to an increase of 3.4 per cent during the last year.

The increase of 14.3 per cent in 'food articles' was mainly due to the large increases in 'pulses' (45.7 per cent) and 'other food articles' (44.9 per cent). Significant increases were also recorded by 'fruits and vegetables' (17.3 per cent) and

'cereals' (7.5 per cent)—the two sub-groups with relatively large weightage. The spurt in the index of 'pulses' was mainly due to continuously rising domestic demand in the face of stagnant production over the years, aggravated further by exports of pulses. The index for 'pulses' hovered around 137.0 during the first four months (July-October 1976) and steadily rose to 173.1 by March 1977; it declined to 168.2 by April 1977 and rose sharply again to touch 189.0 by June 1977.

'Other food articles', comprising tea, coffee and betelnuts, recorded an increase of 44.8 per cent largely on account of the steep hike in tea prices following a sharp spurt in the international price for the commodity. The index for tea touched a high of 346.3 during April 1977 from 192.1 in June 1976 and gradually tapered down to reach 302.8 by June 1977.

'Fruits and vegetables' recorded a significant increase of 17.3 per cent during the year on the top of an increase of 12.7 per cent during 1975-76. Exports of onions and potatoes were mainly responsible for the increase in the indices of this group.

'Cereals', the sub-group with the maximum weight, recorded an increase of 7.5 per cent (against a decline of 21.8 per cent during 1975-76). After a more or less steady trend in the first half (July-December), the index rose to 161.1 by June 1977. With the sole exception of jowar, all the other three major cereals, bajra, rice and wheat, recorded increases of 13.1 per cent, 9.8 per cent and 2.4 per cent respectively. After an increase in August 1976, the index for rice steadily declined to 156.4 by January 1977; then on, it started to rise, and touched the highest level during the year by June 1977. The minimum increase (2.4 per cent) in the case of wheat may be attributed to its comparatively easy availability through the public distribution system. From a low level of 148.2 in July 1976, it rose to 163.2 in February 1977 (touching the highest level during the year—an increase of 10.1 per cent over the July 1976 level). Thereafter, the index began to decline steadily under the pressure of market arrivals

and touched 148.4 in May 1977 and then rose to 149.9 by June 1977. Among major coarse cereals, bajra increased by 13.1 per cent and jowar declined by 9.1 per cent during the year. The index for bajra recorded a steady decline during the first three months of the year (July-September) and rose sharply to 168.7 by June 1977 mainly on account of lower out-turn of crop. Jowar prices recorded a steady decline upto December 1976 and then started rising to touch 160.4 by June 1977.

All the three sub-groups, 'fibres', 'oilseeds' and 'other non-food articles' contributed to the increase in the index of the group 'non-food articles' which recorded an increase of 19.5 per cent. 'Oilseeds' rose unprecedentedly by 51.0 per cent in contrast to a decline of 8.3 per cent during 1975-76. Apart from lower production during the year, exports of HPS groundnuts contributed to a serious imbalance between demand and supply. All the major 'oilseeds' contributed to the increase: the maximum of pressure having emerged from groundnuts. The index for groundnuts increased during the year by 58.3 per cent, in contrast to a decline of 20.2 per cent during 1975-76. From 141.1 in July 1976, it rose to 157.8 in September 1976 and declined steadily to touch a low level of 133.5 in November 1976. Thereafter, the index moved up steadily and touched 183.1 in February 1977. After some easiness during March and April, it again rose and by June 1977 touched the peak level of 200.3. Among other oilseeds while maximum increase was recorded by linseed (92.8 per cent), rape and mustard seed (89.4 per cent) and cottonseed (42.6 per cent) also moved up considerably.

Among 'fibres', both the major commodities raw cotton and raw jute recorded increases. The increase in the case of raw jute was large (20.2 per cent) compared to that of the raw cotton (8.2 per cent). Raw jute had recorded an increase of 7.6 per cent during 1975-76. The rise in raw jute prices took place in the wake of demand for new crop by the mills and holding back of stocks by the traders. Raw cotton prices which had recorded a steep increase of 44.6 per cent during 1975-76, ruled high throughout

the year under review, due to low crop outturn. Frequent downward revision of crop estimate by trade further aided the market sentiment.

'Other non-food articles' declined nominally by 0.4 per cent during the year against an increase of 6.6 per cent recorded during 1975-76.

The group 'minerals' recorded an increase of 6.8 per cent during the year largely due to the increase in the index of 'petroleum crude and natural gas' which rose by 7.1 per cent during the year.

Fuel, Power, Light and Lubricants

The main group 'fuel, power, light and lubricants' recorded a nominal increase of 1.2 per cent during the year, on account of increases in the indices of electricity (5.4 per cent) and mineral oils (0.1 per cent). In 1975-76, these groups showed larger increases of 13.1 per cent and 7.6 per cent respectively.

Manufactured Products

'Manufactured Products' which accounts for nearly 50 per cent of the total weight, in the index, increased by 5.3 per cent during the year against a nominal decline of 0.3 per cent during 1975-76. The group which recorded largest increase under 'manufactured products' was 'textiles' accounting for more than 20 per cent of the weight of this main group. 'Textiles' rose by as much as 15.1 per cent in contrast to a fall of 1.8 per cent during 1975-76. Both cotton cloth (mills' sector) and jute manufactures were responsible for the increase in the index of the group. They reflected among other things, the increase in the prices, as mentioned earlier, of the respective raw materials. While cotton cloth moved up by 11.0 per cent, jute manufactures rose by 8.6 per cent. During 1975-76, both these commodities had declined by 3.8 per cent and 14.9 per cent, respectively.

'Food products', the group with maximum weight in this main group, rose by 4.6 per cent during the year, in contrast to a fall of 1.5 per cent during 1975-76. The sub-group 'edible oils' was largely responsible for the increase in the index of the group. 'Edible oils' rose by 58.3 per

Table IV.2: Weighted Contribution to the Price Variation by Main Groups/Groups

Main Groups/Groups	Weights	Per cent Variation		Weighted Contribution to the Price Variation	
		End-June 1976 over End-June 1975	End-June 1977 over End-June 1976	End-June 1976 over End-June 1975	End-June 1977 over End-June 1976
1	2	3	4	5	6
All Commodities	1000.00	- 1.8	+ 8.6	- 100	+ 100
Primary Articles	416.67	- 6.6	+15.0	- 154	+ 68
Food Articles	297.99	-11.8	+14.3	- 199	+ 44
Non-Food Articles	106.21	+ 8.1	+19.5	+ 40	+ 22
Fuel, Power, Light and Lubricants ..	84.59	+11.3	+ 1.2	+ 64	+ 2
Manufactured Products.. ..	498.74	- 0.3	+ 5.3	- 10	+ 30
Food Products	133.22	- 1.5	+ 4.5	- 12	+ 8
Textiles	110.26	- 1.8	+15.1	- 10	+ 16
Chemicals and Chemical Products ..	55.48	- 4.4	+ 1.2	- 14	+ 1
Basic Metals, Alloys and Metal Products	59.74	+ 6.0	+ 2.8	+ 21	+ 2
Machinery and Transport Equipment..	67.18	- 1.4	+ 0.4	- 5	negl.

cent, largely due to the unprecedented increase in the index of groundnut oil which went up by 78.0 per cent, in sharp contrast to a decline of 32.6 per cent during 1975-76. Besides, the shortfall in groundnut production and exports, restrictions imposed by the major producing States on the movement of groundnut oil from the production centres contributed to the deterioration in the situation. The failure on the part of the trade to arrange for timely imports further worsened the supply situation. Lower crop estimates for the 1975-76 season further affected the market sentiments. From a comparatively low level of 124.1 during July 1976, the index shot upto 193.6 by June 1977. Though there was some easiness in the prices around October-November 1976, it never touched the level from which it had moved up at the commencement of the year. The steepest increase in the index during the year took place between November 1976 and February 1977—i.e. by 31.7 per cent.

The higher level of production coupled with releases of large quantities for internal consump-

tion by the Government helped to keep the sugar prices under control. In contrast to an increase of 2.6 per cent during 1975-76, sugar prices declined by 6.7 per cent during the year. The indices for gur also moved down—by a larger percentage (13.5 per cent).

Other important groups which recorded increases during the year under review were 'miscellaneous products' (7.9 per cent), 'basic metals, alloys and metal products' (2.8 per cent), 'chemicals and chemical products' (1.2 per cent), 'machinery and transport equipment' (0.4 per cent) and 'beverages, tobacco and tobacco products' (0.4 per cent). Under the group 'chemicals and chemical products', the sub-group 'fertilizers' showed a decline of 5.9 per cent on top of a decline of 15.9 per cent during 1975-76.

Analysis of the weighted contribution to the price variations by the major groups reveals that 'primary articles' contributed as much as 69 per cent of the increase in the index, while manufactured products' contributed about 30 per cent

(Table IV.2). Among the major groups, significant contributions to the weighted price variation in the 'all commodities' index were made by 'food articles' (44 per cent), non-food articles (22 per cent), 'textiles' (16 per cent) and 'food products' (8 per cent).

Price Policies

In view of the rising trend in wholesale prices, the Government of India took measures to mitigate the hardship of continuing inflation and at the same time offer incentives for production. On the agricultural front, as already mentioned in Chapter III of this Report (*'Agricultural Output'*) the Government permitted small price increases in respect of two agricultural commodities: viz., wheat and raw cotton. The procurement price of wheat of fair average quality was raised to Rs. 110 per quintal for 1976-77 marketing season as against Rs. 105 per quintal for the preceding season, while the minimum support price of raw cotton was raised by about 4.8 per cent in respect of 320F varieties of *kapas* and by 5 per cent in respect of most other varieties. The Government maintained the procurement price of paddy and coarse grains at Rs. 74 per quintal, the minimum support price of raw jute at Rs. 135 per quintal for 'Assam Bottoms' (Rs. 136 per quintal for the W-5 variety, which is the nearest equivalent to the Assam Bottoms) and the basic minimum price payable by sugar factories to the sugarcane growers at Rs. 8.50 per quintal for the basic recovery of 8.5 per cent or below, subject to the premium of 10 paise for every 0.1 per cent increase over the basic recovery level. The Government also removed all restrictions on the movement of wheat and enlarged/modified the zones in respect of rice, mainly with a view to obtaining uniformity and stability in prices of rice and wheat all over the country.

With regard to the industrial commodities, the Government of India was primarily concerned with making them available at prices that cover costs as far as possible, and induce demand. Thus, the Government raised the retention price of cement by Rs. 3.65 per tonne to Rs. 161.40 per tonne in July 1976, mainly to absorb increases in certain major elements of cost of

production. In order to help the cotton textile industry to overcome losses it has suffered on the sale of controlled cloth, the Government announced in January 1977 a 35 per cent increase in the ex-mill price of controlled cloth. The Government similarly raised the purchase price of iron-ore by Rs. 4 per tonne to help revive the private iron-ore mining industry. The new iron ore prices were effective from April 1, 1977.

There were also instances when the Government slashed down the prices. In April 1976, the Government reduced the fertiliser prices in order to boost agricultural production by making it available to the farmers at cheaper rates. The reduction effected were large: for instance, Super Phosphate was reduced from Rs. 720 per tonne to Rs. 470 per tonne. NPK variety was reduced by Rs. 75—Rs. 155 per tonne depending on the specifications. Further reductions in fertiliser prices granted in February 1977 were as follows:

Urea	Rs. 100 per tonne
Muriate of Potash and Muriate of Sulphur	Rs. 105 per tonne
Complex Phosphatic fertilisers	Rs. 645 per tonne

In the case of certain non-ferrous metals, the Government announced, in July 1977, reduction in prices with a view to improving their domestic sales. Thus, the prices of copper and zinc for actual users were reduced by Rs. 1,600 per tonne and Rs. 1,800 per tonne respectively after a review of the prices of these commodities for the quarter July-September 1977. Similarly the prices of certain nickel items were reduced by as much as Rs. 1,150 per tonne.

Consumer Price Index

The Consumer Price Indices (Base: 1960=100) showed similar trends, as in the case of the wholesale Price Index, during the year (Table IV.3). The All-India Consumer Price Index for Industrial Workers on a point-to-point basis recorded an increase of 10.0 per cent during the year, in sharp contrast to the decline of 11.3 per cent recorded during 1975-76. Taking

Table IV.3: Trends in Consumer Price Index Numbers (All India)

Year/Item	Annual Average (July-June)			Year-end (June)		
	1974-75	1975-76	1976-77	1974-75	1975-76	1976-77
1	2	3	4	5	6	7
Industrial Workers						
(Base: 1960=100)						
Index	326	304	308	328	291	320
Per cent Variation	+22.6	-6.7	+1.3	+9.0	-11.3	+10.0
Urban Non-manual Employees						
(Base: 1960=100)						
Index	278	274	282	283	270	291
Per cent Variation	+19.8	-1.4	+2.9	+10.5	-4.6	+7.8

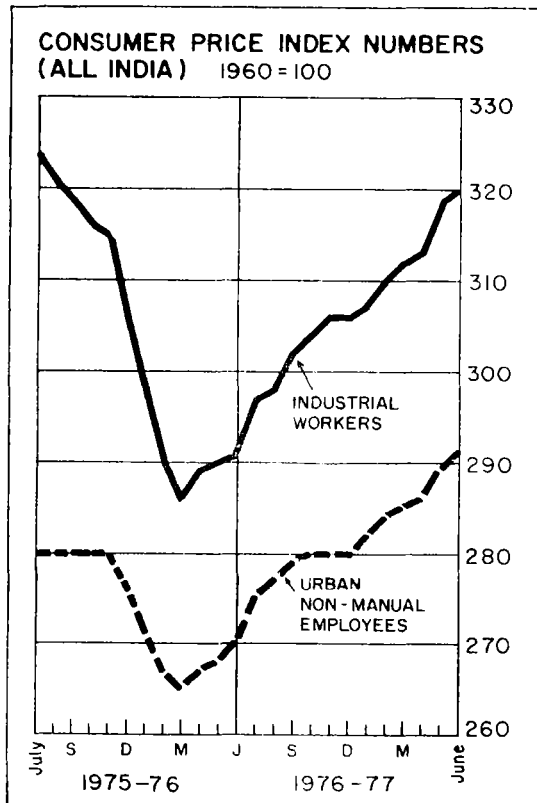
Sources: (1) Labour Bureau, Government of India, for Industrial Workers.

(2) Central Statistical Organisation, for Urban Non-manual Employees.

the average for twelve months, it recorded only a marginal rise of 1.3 per cent in contrast to a decline of 6.7 per cent in 1975-76. This increase

of 1.3 per cent was shared by all the prominent centres excepting Madras and Nagpur which registered declines of 2.3 per cent and 3.8 per cent respectively. The largest rise was in the case of Calcutta (4.9 per cent), followed by Bangalore (3.1 per cent) Bombay and Delhi (2.7 per cent each) and Hyderabad (2.3 per cent). In the previous year all these centres had recorded a decline in the index. Ahmedabad recorded only a marginal rise of 1.4 per cent during the year as against the largest decline of 8.7 per cent last year. The centres showing decline in 1976-77 had also recorded decline last year.

Graph 3



The Consumer Price Index for Non-Manual Employees also showed a substantial increase on a point-to-point basis during the year; it went up by 7.8 per cent against a decline of 4.6 per cent recorded during last year. Taking the average for twelve months, it recorded a lower rise of 2.9 per cent as against a fall of 1.4 per cent in 1975-76. This increase of 2.9 per cent was shared by all the major centres except Madras. The highest increase of 4.9 per cent was recorded in the case of Bombay and Calcutta while the lowest rise of 1.1 per cent was registered in the case of Ahmedabad. In 1975-76 all these centres either witnessed a marginal fall or rise except in the case of Ahmedabad and Bhopal where the decline was of the order of 4.7 per cent and 3.6 per cent respectively.

Chapter V

Monetary Developments

The significant feature of the monetary scene during 1976-77 (July-June) was the substantial increase in liquidity in the economy, as reflected in the expansion of money supply with the public. In this Report, money supply with the public refers to the new series* introduced effective from April 1977, and consists of (a) currency with the public and (b) demand deposits of all commercial banks, of State, Central and Urban co-operative banks and of salary earners' societies, and (c) 'other deposits' with the Reserve Bank of India.

Annual Trends

Money supply with the public expanded by Rs. 2298 crores or 16.4 per cent in 1976-77, as against an increase of Rs. 1496 crores or 11.9 per cent in the preceding year. The rate of growth in money stock during the current year was higher than the annual average growth rate of 12.8 per cent during the preceding five year period, viz., 1971-72 to 1975-76. Aggregate monetary resources of the banking sector comprising money supply and time deposits also increased sharply by Rs. 5024 crores or 20.9 per cent as compared with an expansion of Rs. 3444 crores or 16.7 per cent in 1975-76 (Table V.1).

The expansion in money supply during the year was reflected in both currency with the public and deposit money, the increase in the former making up 47.3 per cent of the total increase, thus raising its incremental share of 38.3 per cent recorded in the preceding year. The rise in deposit money of Rs. 1211 crores or 17.8 per cent, though higher than that of Rs. 923 crores or 15.7 per cent in 1975-76, resulted in the lowering of its share from 61.7 per cent in 1975-76 to 52.7 per cent in the overall expansion of money supply in 1976-77.

* Reference may be made to the Reserve Bank of India's Second Working Group Report entitled, Money Supply in India: Concepts, Compilation and Analysis, Reserve Bank of India, Bombay, 1977. Also published in RBI (Monthly) Bulletin, January 1977.

Money supply continued to increase due to domestic credit expansion and accretion of net foreign exchange assets of the banking sector. While the increase in bank credit to commercial sector by Rs. 2947 crores or 18.4 per cent was lower than that of Rs. 3044 crores or 23.4 per cent in 1975-76, its share in the overall increase in the total assets of the banking sector was higher, at 44.8 per cent than the shares of incremental net bank credit to Government sector and net foreign exchange assets. The increase in bank credit to commercial sector was not uniform over the year: it was very high in the first half of the year (at Rs. 2272 crores) and was marked down to Rs. 675 crores in the second half. The lower order of increase in bank credit to commercial sector during the year was mainly because of the relative decline in the growth of food procurement advances by scheduled commercial banks, to Rs. 351 crores from the increase in such advances of Rs. 1390 crores in 1975-76. There was a steep rise in non-food credit in 1976-77 by Rs. 1658 crores for meeting demands of priority sectors, sick units and of industries burdened with large inventories of raw materials and finished goods on account of slack demand. The Reserve Bank credit to commercial sector recorded a slightly lower order of increase of Rs. 100 crores as compared with the rise of Rs. 115 crores in 1975-76.

Net foreign exchange assets of the banking sector continued to rise at a phenomenal rate; the increase of Rs. 2032 crores during 1976-77 on top of an increase of Rs. 982 crores in 1975-76 formed about 30.9 per cent of the overall increase in the assets of the banking sector. The increase in net bank credit to Government sector at Rs. 1566 crores or 14.4 per cent was over five times the rise in this item in the previous year. Net bank credit to Government sector showed however, a decline of Rs. 318 crores in July-December 1976 and rose steeply by Rs. 1884 crores during the January-June 1977, reflecting the imbalance in Government receipts and

Table V.1: Analysis of Money Supply Variations

							(Rupees crores)				
							June 1975	June 1976	June 1977	Variations June 1976 over June 1975	Variations June 1977 over June 1976
							1	2	3	4	5
1.	M ₁ (Money Supply with the Public) (A+B)	..	..	..	..	..	12543	14039	16337	+1496 (+11.9)	+2298 (+16.4)
	A. Currency with the Public	..	..	..	..	..	6662	7235	8323	+573 (+8.6)	+1088 (+15.0)
	B. Deposit Money	..	..	..	..	..	5881	6803	8014	+923 (+15.7)	+1211 (+17.8)
2.	Sources of change in M ₁										
I.	Net Bank Credit to Government (A+B)	..	..	..	..	..	10539	10841	12407	+303 (+2.9)	+1566 (+14.4)
	A. RBI's Net Credit to Government (a-b)	..	..	..	..	..	7511	7247	7928	-264	+682
	(a) Claims on Government (i+ii)	..	..	..	..	..	7592	7316	8000	-276	+684
	(i) Central Government	..	..	..	..	..	7159	6996	7454	-163	+458
	(ii) State Governments (i.e. Loans & Advances to State Governments)	..	..	..	..	..	433	320	546	-113	+226
	(b) Government Deposits with RBI (i+ii)	..	..	..	..	..	81	69	71	-12	+2
	(i) Central Government	..	..	..	..	..	73	57	64	-16	+7
	(ii) State Governments	..	..	..	..	..	8	12	7	+4	-5
	B. Other Banks' Credit to Government	..	..	..	..	..	3029	3594	4478	+565	+884
II.	Bank Credit to Commercial Sector (A+B)	..	..	..	..	..	12985	16029	18976	+3044 (+23.4)	+2947 (+18.4)
	A. RBI's Credit to Commercial Sector	..	..	..	..	..	625	740	840	+115	+100
	B. Other Banks' Credit to Commercial Sector (i+ii+iii)	..	..	..	..	..	12360	15289	18136	+2929	+2847
	(i) Bank Credit by Commercial Banks	..	..	..	..	..	8967	11492	13501	+2525	+2009
	(ii) Bank Credit by Co-operative Banks	..	..	..	..	..	1974	2106	2525	+132	+419
	(iii) Investments by Commercial and Co-operative Banks in other securities	..	..	..	..	..	1419	1690	2111	+271	+420
III.	Net Foreign Exchange Assets of Banking Sector (A+B)	..	..	..	..	..	366	1348	3380	+982 (+267.3)	+2032 (+150.7)
	A. Net Foreign Exchange Assets of RBI (a-b)	..	..	..	..	..	308	1280	3312	+972	+2032
	(a) RBI's Gross Foreign Assets	..	..	..	..	..	738	1969	3761	+1231	+1792
	(b) RBI's Non-monetary Foreign Liabilities	..	..	..	..	..	430	689	449	+259	-240
	B. Net Foreign Exchange Assets of Banks (A.Ds.' balances)	..	..	..	..	..	58	68	68	+10	—
IV.	Government's Currency Liabilities to the Public	..	..	..	..	..	554	555	581	+1 (+0.2)	+26 (+4.7)
V.	Non-monetary Liabilities of Banking Sector (A+B+C)	..	..	..	..	..	11902	14735	19007	+2833 (+23.8)	+4272 (+29.0)
	A. Time Deposits with Banks	..	..	..	..	..	8030	9978	12704	+1948 (+24.2)	+2726 (+27.3)
	B. Net Non-monetary Liabilities of RBI	..	..	..	..	..	1964	2458	3593	+494	+1135
	C. Other Net Non-monetary Liabilities of Commercial and Co-operative Banks	..	..	..	..	..	1908	2299	2710	+391	+411
	M ₂ (M ₁ +Time Deposits with Banks)	..	..	..	..	..	20573	24017	29041	+3444 (+16.7)	+5024 (+20.9)

expenditures. On the whole, during 1976-77, the expansion in net claims on Government of the banking sector formed 23.8 per cent of the increase in assets of this sector, as compared with 7.0 per cent in the previous year. The Reserve Bank's credit to Government expanded by Rs. 682 crores in 1976-77 in contrast to a contraction of Rs. 264 crores last year. The Bank's net claims on the Union and State Governments were considerably higher at Rs. 451 crores and Rs. 231 crores as against declines of Rs. 147 crores and Rs. 117 crores, respectively, in 1975-76. Other banks' credit to Government also increased by Rs. 884 crores as against Rs. 565 crores in the previous year.

The non-monetary liabilities of the banking sector which offset the expansionary impact of

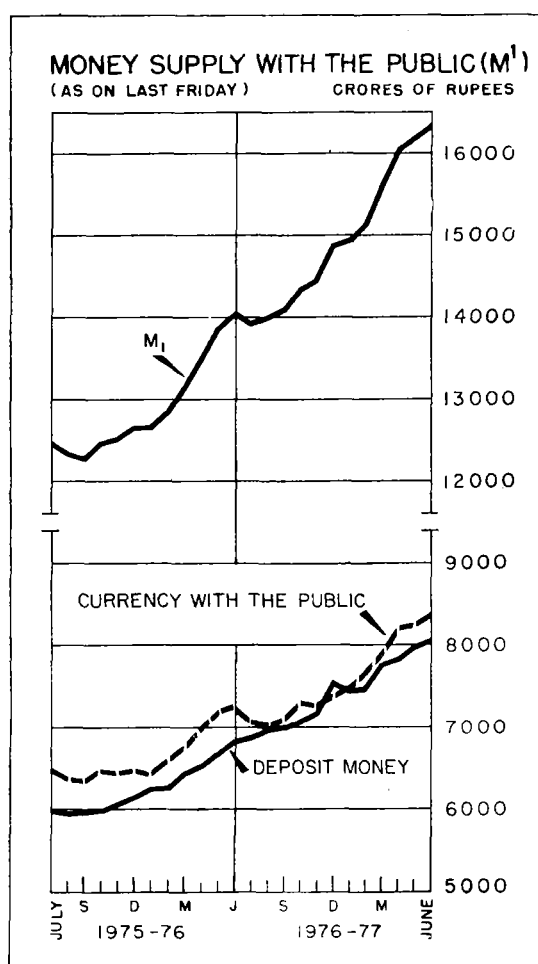
the factors referred to earlier, increased by Rs. 4272 crores or 29.0 per cent during the current year as compared with an increase of Rs. 2833 crores or 23.8 per cent in 1975-76. However, these formed about 65.0 per cent of the gross assets of the banking sector almost the same as in the previous year. Time deposits, which is a major component of non-monetary liabilities, increased by Rs. 2726 crores (27.3 per cent) during the current year: in 1975-76 these deposits rose by Rs. 1948 crores (24.2 per cent).

Seasonal Trends

The *slack season* of 1976 witnessed a continuation of money supply expansion that took place during the busy season of 1975-76. The expansion was unprecedented—Rs. 932 crores compared with the increase of Rs. 281 crores in the slack season of 1975. The expansion took place in both the components of money supply, viz., currency with the public (Rs. 275 crores) and deposit money (Rs. 657 crores). Increases in the net foreign exchange assets of the banking sector (Rs. 925 crores) and bank credit to commercial sector (Rs. 1606 crores) also contributed to the expansion in money supply during the season. The factors which to a large extent moderated the expansionary impact were: the increase of Rs. 1455 crores in non-monetary liabilities of the banking sector and the decline of Rs. 148 crores in net bank credit to Government; during the previous slack season, they recorded increases of Rs. 1193 crores and Rs. 365 crores respectively (Table V.2).

During the *busy season* of 1976-77, money supply with the public expanded by Rs. 1594 crores as compared with Rs. 1030 crores in the previous season. It was reflected in both the components viz., currency (Rs. 939 crores) and deposit money (Rs. 654 crores). A sizeable increase in the net bank credit to Government was primarily responsible for the higher rate of monetary expansion; it increased by Rs. 1437 crores as against only Rs. 193 crores in the previous season. It was mainly the result of an expansion of Rs. 857 crores in Reserve Bank credit to Government, in contrast to a decline of Rs. 143 crores in the busy season

Graph 4



of 1975-76. Net foreign exchange assets of the banking sector also increased by Rs. 1182 crores. On the other hand, the rise in the bank credit to commercial sector of Rs. 1396 crores was less than the increase of Rs. 1951 crores in 1975-76 season, due primarily to a steep fall in the advances for food procurement.

During the slack season of 1977 (upto August), the expansion in money supply with the public was much smaller at Rs. 167 crores (1 per cent) than that recorded during the corresponding period of last slack season (Rs. 507 crores or 3.8 per cent). This was brought about by an

increase of Rs. 397 crores in deposit money offset by a decline in the currency with the public to the tune of Rs. 229 crores. Among the sources of change in money supply, bank credit to the commercial sector as well as the net foreign exchange assets of the banking sector recorded lower order of increases of Rs. 448 crores and Rs. 647 crores, respectively, as compared with those of Rs. 855 crores and Rs. 726 crores during the corresponding period of the previous slack season. On the other hand, the decline in net bank credit to Government at Rs. 201 crores was larger than that during the 1976 slack season (Rs. 165 crores). The increase in

Table V.2: Analysis of Money Supply Variations@

(Rupees crores)

	Variations during					
	Slack Season		April 1976	April 1977	Busy Season	
	1975	1976	August 1976	August 1977	1975-76	1976-77
	1	2	3	4	5	6
1. M₁ (Money Supply with the public) (A+B) ..	+281 (+2.3)	+932 (+6.9)	+507 (+3.8)	+167 (+1.0)	+1030 (+8.3)	+1594 (+11.1)
A. Currency with the public	-107 (-1.6)	+275 (+3.9)	+ 52 (+0.7)	-229 (-2.8)	+504 (+7.8)	+ 939 (+12.9)
B. Deposit Money	+387 (+6.9)	+657 (+10.1)	+455 (+7.0)	+397 (+5.1)	+526 (+8.8)	+ 654 (+ 9.1)
2. Sources of change in M₁ (1+2+3+4-5)						
I. Net Bank Credit to Government (A+B)	+365	-148	-165	-201	+193	+1437
A. RBI's Net Credit to Government (a-b)	+127	-562	-414	-314	-143	+ 857
(a) Claims on Government (i+ii)	+ 61	-582	-469	-586	- 34	+1064
(i) Central Government ..	+246	-397	-312	-326	-156	+722
(ii) State Governments ..	-185	-185	-158	-260	+122	+343
(b) Government Deposits with RBI (i+ii)	-67	-20	- 55	-272	+109	+207
(i) Central Government ..	-65	-22	- 60	-273	+108	+210
(ii) State Governments ..	- 2	+ 2	+ 4	+ 1	+ 1	- 2
B. Other Banks' Credit to Government	+237	+414	+249	+113	+336	+580
II. Bank Credit to Commercial Sector (A+B)	+1043	+1606	+855	+448	+1951	+1396
A. RBI's Credit to Commercial Sector	- 20	+ 99	+ 73	- 12	+85	+72
B. Other Banks' Credit to Commercial Sector (i+ii+iii)	+1063	+1506	+781	+460	+1866	+1325
(i) Bank Credit by Commercial Banks	+711	+1068	+562	+242	+1769	+1052
(ii) Bank Credit by Co-operative Banks	+152	+133	+ 16	- 25	+42	+233
(iii) Investments by Commercial & Co-operative Banks in other Securities	+200	+307	+204	+243	+54	+39

Table V.2: Analysis of Money Supply Variations@

(Rupees Crores)						
	Variations during					
	Slack Season		April 1976		April 1977	
	1975		August 1976		August 1977	
	1	2	3	4	5	6
III. Net Foreign Exchange Assets of Banking Sector (A+B)	+ 54	+925	+726	+ 647	+ 430	+1182
A. RBI's Net Foreign Exchange Assets (i-ii)	+70	+925	+726	+647	+369	+1182
(i) Gross Foreign Assets ..	+270	+688	+726	+355	+428	+1182
(ii) Non-monetary Foreign Liabilities	+200	-237	—	-292	+59	—
B. Other Banks' Net Foreign Exchange Assets	- 16	—	—	—	+61	—
IV. Government's Currency Liabilities to the Public	+ 12	+ 4	- 7	+ 7	+ 7	+14
V. Non-monetary Liabilities of Banking sector (i+ii+iii)	+1193	+1455	+902	+734	+1550	+2436
(i) Time Deposits with Banks ..	+ 836	+1442	+986	+1043	+914	+1186
(ii) Net Non-monetary Liabilities of RBI	+ 299	+ 137	+178	- 36	+ 106	+ 700
(iii) Other Net Non-monetary Liabilities of Commercial and Co-operative Banks	+ 58	- 123	-262	-273	+531	+ 549
3. M₃ (M₁ + Time Deposits with Banks) ..	+1117	+2374	+1492	+1210	+1944	+2780
	(+5.6)	(+10.3)	(+6.5)	(+4.3)	(+9.2)	(+11.0)

@Revised series of Money Supply statistics based on the Report of the Second Working Group.

- Notes: 1. Due to rounding off of figures, the constituent items may not add up to the totals shown.
2. Figures within brackets indicate percentage variations.

the aggregate monetary resources was of the order of Rs. 1210 crores—Rs. 282 crores less than that during the last slack season.

Trends in Currency Ratio

The large expansion of currency with the public during the year did not alter the general trend of decline in the ratio of currency to money supply or to aggregate monetary resources (Table V.3). The ratio of currency to money supply declined marginally from 51.5 per cent in 1975-76 to 51.0 per cent in 1976-77, while the ratio of currency to aggregate monetary resources declined to 28.7 per cent in 1976-77 from 30.1 per cent in 1975-76. The incremental ratios of currency to money supply and to aggregate monetary resources however moved up to 47.3 per cent and 21.6 per cent in 1976-77, respectively,

from 38.3 per cent and 16.6 per cent in 1975-76. This may be attributed to the phenomenal increase in net foreign exchange assets of the banking sector and also to factors like the spurt in advances on account of procurement of foodgrains and increased government spending.

Trends in Reserve Money

The accelerated growth in currency has resulted in a considerable increase in reserve money of Rs. 1647 crores during 1976-77, which was more than twice the increase of Rs. 686 crores in 1975-76 (Table V.4). However, the increase in currency formed about 65 per cent of the overall expansion of reserve money during 1976-77 as against 86 per cent in the previous year. Unlike in 1975-76 when bank reserves

Table V.3: Average and Incremental Ratios Relating to Components of Money Supply and Aggregate Monetary Resources

(Rupees Crores)											
Year (July-June)	Currency	Deposit Money	Money Supply	Time Deposits	Aggre- gate Monetary Resources	Proportion of Money Supply (%)		Proportion of Aggregate Monetary Resources (%)			
						Currency	Deposit Money	Currency	Deposit Money	Time Deposits	
1	2	3	4	5	6	7	8	9	10	11	
Outstandings as at June end						(Average Ratios)					
1972-73..	..	5789	4455	10244	5747	15991	56.5	43.5	36.2	27.9	35.9
1973-74..	..	6552	5219	11771	6766	18537	55.7	44.3	35.3	28.1	36.6
1974-75..	..	6662	5881	12543	8030	20573	53.1	46.9	32.4	28.6	39.0
1975-76..	..	7235	6803	14038	9978	24016	51.5	48.5	30.1	28.3	41.5
1976-77..	..	8323	8014	16337	12704	29041	51.0	49.0	28.7	27.6	43.7
Increases (July-June)						(Marginal Ratios)					
1972-73..	..	+ 841	+ 670	+1511	+1064	+2574	55.7	44.3	32.7	26.0	41.3
1973-74..	..	+ 763	+ 764	+1527	+1019	+2546	50.0	50.0	30.0	30.0	40.0
1974-75..	..	+ 110	+ 662	+ 772	+1264	+2036	14.2	85.8	5.4	32.5	62.1
1975-76..	..	+ 573	+ 922	+1496	+1948	+3443	38.3	61.7	16.6	26.8	56.6
1976-77..	..	+1088	+1211	+2299	+2726	+5025	47.3	52.7	21.6	24.2	54.2

increased by only Rs. 150 crores, in 1976-77 they rose by Rs. 508 crores. The main contributory factors to changes in reserve money were the large increase in net foreign exchange assets of the RBI, and increase in RBI's net claims on the Government. However, the increase in the net non-monetary liabilities of the Reserve Bank during the year of Rs. 1135 crores as compared with the increase of Rs. 494 crores in 1975-76 had considerably offset the expansion in reserve money.

In view of the expansion in both money supply and reserve money, the average money multiplier remained more or less stable (Table V.5). But with the higher incremental growth rate in reserve

money than that in money supply during 1976-77 the marginal money multiplier fell sharply from 2.999 in 1975-76 to 1.579 in 1976-77. There was a sharp fall in the incremental multiplier of reserve money with respect to aggregate monetary resources from 6.955 in 1975-76 to 3.392 in 1976-77. The declines in the incremental money multipliers may be attributed to the Reserve Bank's raising of variable reserve ratio twice from 4 to 5 per cent in September 1976 and again from 5 to 6 per cent in November 1976, of aggregate deposits as also to the Reserve Bank's impounding of 10 per cent of incremental deposits as reserves since January 14, 1977 and by the relatively sluggish rate of growth of demand deposits with the banking sector.

Table V.4: Analysis of Sources of Change in Reserve Money

(Rupees Crores)								
Item	Out-standings as at the end of June 1972	1972-73	1973-74	1974-75	1975-76	1976-77†	Out-standings as at the end of June 1977	
1	2	3	4	5	6	7	8	
Reserve Money (1+2+3+4)...	5609	+1134	+ 841	+ 82	+ 686	+1647	9999	
1. Currency with the Public	4948	+ 841	+ 763	+ 110	+ 592	+1069	8323	
2. Other Deposits with R.B.I.	66	— 26	+ 7	+ 18	— 19	+ 7	53	
3. Cash with Banks	293	+ 56	+ 49	+ 34	— 37	+ 63	458	
4. Bankers' deposits with R.B.I. ..	302	+ 263	+ 22	— 80	+ 150	+ 508	1165	
Sources of change in Reserve Money								
Reserve Bank's Claims on:								
1. Government (net)	5189	+ 954	+ 421	+ 946	— 262	+ 681	7929	
2. Commercial and Co-operative Banks..	258	+ 131	+ 268	— 24	+ 354	— 57	930	
3. Commercial Sector	205	+ 85	+ 362	— 27	+ 115	+ 100	840	
<i>Of which:</i>								
(a) Commercial bills rediscounted with R.B.I.	11	+ 4	+ 259	— 142	+ 12	— 28	116	
4. Net Foreign Exchange Assets of R.B.I.	605	— 17	+ 83	— 363	+ 972	+2032	3312	
5. Government's Currency Liabilities to the public	424	+ 59	+ 37	+ 34	+ 1	+ 26	581	
6. Net Non-monetary Liabilities of R.B.I.	1072	+ 78	+ 331	+ 483	+ 494	+1135	3593	
Reserve Money (1+2+3+4+5-6)...	5609	+1134	+ 841	+ 82	+ 686	+1647	9999	

† Provisional

Note: Figures relate to the last Friday of June.

Income velocity of Money

Income velocity of money supply declined from 4.81 in 1975-76 to 4.40 in 1976-77. The velocity of aggregate monetary resources with respect to income also came down to 2.52 in 1976-77 from 2.87 in 1975-76 (Table V.6). The decline in the velocities suggests that larger cash balances were held by the community in the context of the re-emergence of inflationary pressures in the economy in 1976-77.

Currency and Coinage

The year 1976-77 was characterised by a phenomenal increase in 'Currency in Circulation'; at Rs. 8268 crores as at the end of March 1977, it showed an expansion of Rs. 1221 crores or 17.3 per cent which was more than three times the expansion in 1975-76 (Rs. 368 crores or 5.5 per cent). This large expansion was brought about almost entirely by a spurt in the 'notes in circulation' (Rs. 1208 crores) or 18.6

Table V.5: Trends in Money Multiplier in India

Average of last Fridays of the months (July-June)	Reserve Money		Money Supply		Aggregate Monetary Resources		Average Money Multiplier			Increase in (Rupees Crores)			Marginal Money Multiplier	
	(Rupees Crores)						Money Supply	Aggregate Monetary Resources		Reserve Money	Money Supply	Aggregate Monetary Resources	Money Supply	Aggregate Monetary Resources
1	2	3	4	5	6	7	8	9	10	11			10	11
1972-73	..	5774.3	9159.6	14392.6	1.586	2.493	+	582.9	+1172.3	+2132.6	2.011	3.659		
1973-74	..	7029.4	10754.6	17120.3	1.530	2.435	+	1255.1	+1595.0	+2727.7	1.271	2.173		
1974-75	..	7265.5	11755.7	19196.0	1.618	2.642	+	236.1	+1001.1	+2075.7	4.240	8.792		
1975-76	..	7647.8	12902.1	21854.8	1.687	2.858	+	382.3	+1146.4	+2658.8	2.999	6.955		
1976-77†	..	9003.6	15042.8	26453.5	1.671	2.938	+	1355.8	+2140.7	+4598.7	1.579	3.392		

Note:

1. Aggregate Monetary Resources are net of P.L. 480 and P. L. 665 funds as furnished by American Embassy.
 2. Reserve Money comprises Currency with public, bank reserves i.e. Cash with banks and banks' balances with R.B.I. and 'other deposits' with R.B.I.
 3. Money Multiplier refers to ratio of money supply or aggregate monetary resources to reserve money.
- † Provisional.

Table V.6: Income Velocity of Money Supply and Aggregate Monetary Resources

(Rupees Crores)												
Year	National Income at Current Prices £		Currency with the Public*		Money Supply with the Public*		Aggregate Monetary Resources*		Average Income Velocity of			
	Amount	Annual percentage increase	Amount	Annual percentage increase	Amount	Annual percentage increase	Amount	Annual percentage increase	Currency	Money Supply	Monetary Resources	
1	2	3	4	5	6	7	8	9	10	11	12	
1972-73..	..	39643	9.1	4946.5	8.5	8776.8	13.4	13747.5	16.4	8.01	4.52	2.88
1973-74..	..	49396	24.6	5821.5	17.7	10360.5	18.0	16469.8	19.8	8.49	4.77	3.00
1974-75..	..	58137	17.7	6291.8	8.1	11572.3	11.7	18710.2	13.6	9.24	5.02	3.11
1975-76..	..	60293	3.7	6520.8	3.6	12546.8	8.4	21036.4	12.4	9.25	4.81	2.87
1976-77..	..	63600	5.5	7285.1	11.7	14445.3	15.1	25188.5	19.7	8.73	4.40	2.52

£ At factor cost and not at market prices (for want of details).

* Average of outstandings as on last Friday of every month (April to March).

Table V.7: Details of Currency in Circulation

Financial Year	(Rupees crores)									
	Notes in Circulation		Circulation of Rupee coins		Circulation of small coins		Currency in circulation		Of which with Banks	
	Out-standing	Variation over the previous year	Out-standing	Variation over the previous year	Out-standing	Variation over the previous year	Out-standing (2+4+6)	Variation over the previous year	Out-standing	Variation over the previous year
1	2	3	4	5	6	7	8	9	10	11
1974-75..	6147 (92.0)	+ 64	322 (4.8)	+ 8	210 (3.2)	+ 22	6679 (100.0)	+ 94	331	+ 54
1975-76..	6492 (92.1)	+ 345	331 (4.7)	+ 9	224 (3.2)	+ 14	7047 (100.0)	+ 368	343	+ 12
1976-77..	7700 (93.1)	+1208	335 (4.0)	+ 4	231 (2.8)	+ 7	8268 (100.0)	+1221	399	+ 56

Note: Figures in brackets represent proportion to total Currency in Circulation.

per cent, the other two components i.e., 'small coins' and 'rupee coins' increasing only nominally by Rs. 9 crores (4.0 per cent) and Rs. 4 crores (1.2 per cent), respectively (Table V.7). As a result, the share of 'notes in circulation' in the total 'currency in circulation' went up from about 92 per cent as at the end of March 1975 and March 1976 to 93.1 per cent as at the end of March 1977, with a corresponding decline in the proportion of 'rupee coin' and 'small coins' to 4.1 per cent and 2.8 per cent, respectively, as at end-March 1977 from 4.7 per cent and 3.2 per cent as at the end of previous March.

Circulation of Notes and Coins

The large expansion in 'notes in circulation' (Rs. 1208 crores) was spread over the entire year 1976-77, except for a short spell of contraction during the quarter July-September. From Rs. 6492 crores at the end of March 1976, the notes in circulation increased sharply to Rs. 7094 crores at the end of June 1976, i.e. by Rs. 602 crores, as compared with a rise of Rs. 394 crores in the corresponding period of 1975-76. This was partially offset by a contraction of Rs. 194 crores in the following quarter July-September which was less than one half of the decline recorded in the same period last year (Rs. 449 crores). The slack season of 1976 (May-October) witnessed a contra-seasonal expansion of

Rs. 327 crores in notes in circulation as against a contraction of Rs. 154 crores in the 1975 slack season. During the rest of the year the uptrend continued and reached a record level of Rs. 7700 crores at the end of March 1977.

Denomination-wise, hundred rupee notes continued to dominate in the total currency; their circulation increased by Rs. 304 crores as compared to an increase of Rs. 137 crores last year.¹ Their share in the total currency in circulation, however, declined to 44.5 per cent from 47.9 per cent in 1976² (Table V.8). The circulation of 10 rupee notes—the second important denomination—increased by Rs. 87 crores as compared to a decline of Rs. 82 crores in 1975-76. Even so their share in the total dropped from 26.3 per cent in 1975-76 to 23.5 per cent in 1976-77. Among the other important denominations, the circulation of notes of Rs. 20/-, Rs. 50/-, Rs. 1000/- and Rs. 10,000/- showed sharp increases both in absolute and relative terms. The share of Rs. 50/- notes in total currency in circulation increased from 1.2 per cent in 1975-76 to 8.8 per cent in 1976-77. On the other hand, circulation of Re. 1/- notes and Rs. 5000/- notes declined. Notes of Rs. 2 and Rs. 5/- declined as a percentage of the total currency in circulation.

1. See statement No. 103 in Volume II of this Report.

2. These ratios are to the total currency in circulation inclusive of small coins.

Four coins with Development Oriented Designs having a common theme "Food and Work for All" in the denominations of 50 rupees, 10 rupees, 10 paise and 5 paise were issued with effect from August 15, 1976. While 10 paise and 5 paise coins were issued by the Bank for regular circulation, coins of denominations of 50 rupees and 10 rupees were sold to the public direct by the India Government Mint, Bombay, in uncirculated sets. Besides, new notes in denomination of Rs. 2/- with the picture of 'Aryabhata' the first Indian Satellite orbiting the Earth, were issued with a new series effective October 20, 1976.

Circulation of Rupee Coins and Small Coins

During 1976-77, rupee coins in circulation, slightly over 80 per cent of which represents one rupee notes issued by the Government of India, increased by Rs. 4 crores or 1.2 per cent to Rs. 335 crores as compared with a rise of Rs. 9 crores or 2.8 per cent in the preceding year. The circulation of small coins amounting to Rs. 233 crores recorded a smaller increase (Rs. 9 crores or 4 per cent) than in the previous year (Rs. 14 crores or 6.7 per cent).

Table V.8: Percentage share of Rs. 10/- and Rs. 100/- notes in Total Currency in Circulation

End of March	Percentage Share		Total of (2) + (3)
	Rs. 10/-	Rs. 100/-	
1	2	3	4
1974	29.7	48.2	77.9
1975	29.0	48.5	77.5
1976	26.3	47.9	74.2
1977	23.5	44.5	68.0

*Inclusive of Circulations of small coins.

Mintage³

Decimal coins of various denominations (excluding Development Oriented Design—"International Women's Year" 50 Rupee and 10 Rupee coins issued by Government of India Mint, Bombay) valued at Rs. 18.83 crores were minted in 1976-77. Since the introduction of decimal coinage in 1956-57, the mintage of

decimal coins aggregated Rs. 263 crores till end-March 1977.

Lost, Destroyed and Mutilated Notes⁴

The number of claims in respect of lost, destroyed and mutilated notes received during the year was higher at 1.87 lakhs as against 1.55 lakhs last year. Such claims aggregated Rs. 5.58 crores compared with Rs. 5.11 crores in the preceding year. During the year, claims approved for payment totalled Rs. 5.41 crores. Payments against these approved claims, including those admitted during the previous years, amounted to Rs. 4.84 crores as compared to Rs. 4.89 crores in 1975-76.

Note Forgeries⁵

The total number of forged notes including one rupee notes received by the Bank increased sharply to 9357 from 7456 in the previous year and their value was correspondingly higher at Rs. 1,77,462 as compared with Rs. 1,05,575 in 1975-76.

Trends in Gold and Silver prices

GOLD

The trends in gold prices in the domestic market during the year may be viewed against the trends in the international gold markets. The year 1976-77 witnessed an uptrend in gold prices in the London Market despite developments which would normally have taken prices to lower levels; the most important of these developments was the periodical auction of gold by the IMF. The price quotation for gold which opened at \$ 123.25 per fine ounce on July 1, 1976, increased by \$ 19.70 per fine ounce (+16.0 per cent) during the year, in contrast to a fall of \$ 43.20 or 25.9 per cent in 1975-76. The decision taken in early 1976 by the International Monetary Fund to sell one sixth of its gold in the market over a period of four years had a psychological impact on the London gold market during the year under review, though these sales represented less than a tenth of the total market supplies. The market was on the defensive when the price declined earlier;

3. See Statement Nos. 112 and 113 in Volume II of this Report.

4. Ibid, Statement No. 109.

5. Ibid, Statement No. 110.

however, as the volume of purchases by industry and for hoarding also increased, the IMF auctions did not have any depressing effect on prices. A detailed account of the trends in gold prices in the international markets is given in Chapter X of this Report.

Domestic Market: The price of gold in the Bombay Bullion Market ruled firm during 1976-77. Against a fall of 6.1 per cent in 1975-76, the price increased by 13.9 per cent during 1976-77, reflecting the trend of gold prices abroad. The prices rose almost without any interruption, the monthly average price having increased during the first ten months from Rs. 515.96 in June 1976 to Rs. 601.00 per 10 grams in April 1977, except for a negligible decline in November 1976.

The market opened at Rs. 510.00 per 10 grams on July 1, 1976 rose to Rs. 532.00 on July 29, 1976 due to the strict vigilance exercised so as to check smuggling of gold into the country. The price started rising again thereafter and reached Rs. 544.00 on August 23, the peak price for the month, and Rs. 554.00 on September 27, largely due to increased seasonal demand. This uptrend continued during October and the price reached Rs. 566.00 on October 31, reflecting largely the increased demand on account of Diwali, in the face of limited supplies. During November 1976 prices fluctuated between Rs. 560.00 and Rs. 565.00 except for a decline to Rs. 556 around the middle of the month, due to better supplies, following the sale of gold by Tirumalai Tirupati Devasthanam. Prices ruled generally steady in December—between Rs. 557.00 and Rs. 563.00—notwithstanding the sales of about 220 Kgs. of gold by the Tirumalai-Tirupati Devasthanam. These were readily absorbed by jewellers and upcountry dealers.

Towards the end of 1976, gold prices resumed their upward trend and in January, 1977 prices rose almost throughout the month to reach Rs. 584.00 per 10 grams on January 25, though the Tirumalai-Tirupati Devasthanam sold 315 Kgs. of standard 24 carat gold by auction on January 20, at rates ranging between Rs. 570.00 and Rs. 580.00 per 10 grams with the increased

demand on account of the marriage season, limited arrivals and higher overseas advices, prices started rising thereafter and this trend was aided by the staggering of sales of gold (in the expectation of higher prices) by the Tirumalai-Tirupati Devasthanam authorities. After oscillating between Rs. 578.00 and Rs. 583.00 per 10 grams in the first two weeks of February, 1977 the price rose to Rs. 596.00 on February 18, though latterly it started sliding down gradually, to reach Rs. 584.00 at the end of February. The market which opened at Rs. 585.00 per 10 grams on March 1, 1977 continued to be buoyant till the third week of the month and, thereafter, recorded a decline. The declining trend in prices during March 1977 was due to some extent, to the apprehensions that the Gold Control Act might be made stricter again with the likely fixation of ceilings on individual's holdings and partly to the improvement in supplies resulting from sales of gold by Tirumalai-Tirupati Devasthanam and the slackening of seasonal demand for gold.

In April 1977, the price increased by Rs. 44.00 from Rs. 574.00 on April 1, 1977 despite the sale of 100 Kgs. of gold by Tirumalai-Tirupati Devasthanam on April 16, 1977. This buoyancy continued in May 1977 also when the price reached the unprecedented level of Rs. 628.00 on May 5. Towards the end of the month, however, the price declined steeply to close at Rs. 567.00 per 10 grams. The average price for May was only marginally lower than that in April 1977. Due to lack of fresh demand and heavy offerings of old ornaments from up-country centres, the price of gold showed a decline in the first few days of June, but later recovered, reaching Rs. 587.00 on June 24. The final closing price of Rs. 581.00 on June 30, represented a net increase of Rs. 71.00 over the opening price of Rs. 510.00 on July 1, 1976.

Thus, despite the IMF auctions of gold and the sales of gold by the Tirumalai-Tirupati Devasthanam in the Indian Market, gold prices reached higher levels during the year, mainly because of the enhanced demand for industrial uses and for private hoarding, which could absorb the supplies that came on to the market.

SILVER

International Markets: The price of silver in the New York Market fell by 9.8 per cent (or 48.50 cents per ounce) during the year in contrast to a rise of 7.4 per cent in the previous year. The price of silver which was 483.5 U.S. cents per ounce as at the end of June 1976, spurted upto 510.0 cents on July 6, 1976 due presumably to increased speculative activity and support from rising grain prices following the drought in Europe. This bullish tendency did not, however, last long and the market reacted sharply to the second I.M.F. auction of gold that took place on July 29, 1976, after which prices started declining and touched 404.5 cents on August 30, 1976. This declining trend continued till early November 1976 when the market revived and the price rose to 452.5 cents on 10th November 1976, largely due to the strengthening of sterling in the exchange markets. Towards the end of the month, the market turned bearish, when the liquidation of the December contracts on New York commodity exchange and the Chicago Board of Trade exerted a further downward pressure on the market, pushing down the price to 428.5 cents (for cash delivery) on December 1, 1976. Thereafter, prices moved within the range of 428.5 to 440.0 cents.

During the third quarter (viz., January to March 1977) the prices moved in an erratic manner fluctuating between 430.0 cents and 496.0 cents per ounce, the highest level having been reached on March 21, 1977. In April, there was a mixed trend. The basic downtrend which started in the latter half of April, persisted in May also, leading to a lower price level than in the previous months. This trend remained unchanged during June and the prices fluctuated between 432.3 and 457.5 cents per ounce. The price slid down ultimately to 446.5 cents on June 30, which, over the year, represented a fall of 37.0 cents (7.7 per cent) in New York.

In the London market, the supplies of silver were reportedly sufficient to meet both industrial and coinage requirements during the year. Exports of silver from India to U.K. slackened

somewhat, following the Indian Government's decision to channelise these exports through the State Trading Corporation of India and this affected, though slightly, the supplies in the London Market in the last quarter of 1976 (1250 tons compared with 1350 tons the year before). However, with the improvement in the techniques of recovering from silver bearing metals, the supplies in the U.K. are expected to improve.

Domestic Market: The price of silver in the domestic market fell sharply by Rs. 143 per kg. or 10.6 per cent during 1976-77 in line with the trends in the international markets. This was in contrast to the trends in 1975-76 when silver price rose by Rs. 135 per kg. or 11.2 per cent.

The price of silver which closed at Rs. 1340 per kg. at the end of June 1976, rose to Rs. 1410 per kg. on July 9, 1976, on encouraging advices from London and the reported spurt in export commitments. But the optimism waned soon and the market turned bearish on account of subdued overseas interest and the revaluation of the Indian rupee in September 1976. Consequently, the prices hovered around Rs. 1212 per kg. during this period. Thereafter, the prices recovered partially and rose to Rs. 1242 per kg. on November 13, 1976 on fresh export commitments based on encouraging overseas advices and the reserved attitude of sellers. In December 1976, the prices fluctuated at a higher level and within a range of Rs. 1180 and Rs. 1228 on account of the increased demand (internal as well as external). This trend continued during January-March 1977 with the quotation fluctuating between Rs. 1198 and Rs. 1360 per kg. Thereafter, on firm overseas advices and fresh export commitments, prices moved upwards to reach Rs. 1315 on February 28, 1977. During February, the prices moved both ways, on account of weaker overseas advices and increased inflow on the one hand, and the reported completion of the silver export quota for the financial year 1976-77 on the other. Nevertheless, the firmness in prices continued in the wake of the announcement of fresh export quota of 70 tonnes by the State Trading Corporation consequent on the steep rise in the overseas

prices of silver and the expectation of good export business. The bullish trend continued due to firmness in overseas advices, buoyant export demand and relatively reduced supplies and the price of silver reached Rs. 1360 per kg. on March 22, 1977. Beginning from April 4, prices continued to fluctuate between Rs. 1272 and Rs. 1330. Measures like the adoption of floor price and area-wise allocation of export

quota by the STC led to lack of interest in export business by the silver trade. Later, the suspension of silver exports by the STC led to the decline in prices in May, which fluctuated between Rs. 1170 and Rs. 1292 per kg. For the rest of the year, the prices fluctuated between Rs. 1093 and Rs. 1202 closing finally at Rs. 1200 on June 30, 1977. This represented a fall of 10.4 per cent over the year.

Chapter VI

Banking Developments

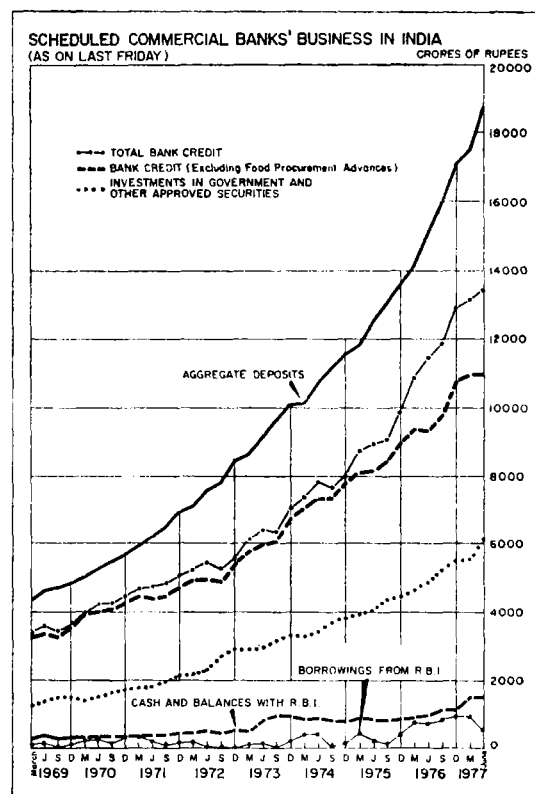
Introduction

During 1976-77 (July-June) credit policy continued to remain restrictive in the context of the rising trend in prices and faster pace of expansion in money supply. Though qualitatively the sources of change in money supply during the year were different in that the increase in the country's foreign exchange assets was the major contributing factor, credit policy was directed towards restraining monetary expansion to the maximum extent possible. Thus, restraint and discipline continued to be the main ingredients of credit policy, though the Bank continued to provide as in the previous years, necessary selective support to the banking system to enable it to meet adequately the requirements of credit for public food procurement, exports and other essential needs of production.

Banking trends during 1976-77 were characterised by a sharp deceleration in credit expansion, a higher deposit growth and a lower reliance on RBI refinance. The lower pace of credit expansion resulted largely from the decline in the pace of public food procurement advances, which had experienced a record increase in the previous year. The rate of deposit growth reached a record level; branch expansion, particularly in rural unbanked centres, gained further momentum. There was also a considerable increase in the number of Regional Rural Banks and their offices.

Objectives of Credit Policy

In order to contain the rate of monetary expansion, a number of measures of both general and selective credit control were applied. Thus, the excess liquidity with banks which developed principally from the faster growth in deposit resources, was absorbed by raising the cash reserve requirements of banks twice during the year. The additional requirement of reserves



on incremental deposits (used only once before in 1960) was also enforced. Reserve Bank accommodation to commercial banks was made extremely limited and selective, and the refinance formula in respect of food procurement credit was tightened. Besides, margins on all types of advances against inventories and book debts were stepped up. In the field of selective credit controls, margin requirements were enhanced in respect of advances against certain sensitive commodities. Some changes were made towards the end of the year in the interest rates of certain categories of deposits with the aim of rationalising the structure of deposit rates.

Credit Policy: Slack Season, 1976

The credit policy for 1976 slack season stressed the need for continued monetary

restraint and credit discipline. Banks were advised to conduct their credit operations in such a manner as to relate the additional availability of bank credit to the actual increase in real output and sales. While restraint and credit discipline continued to be the main ingredients of policy, the Bank provided selective and necessary support to banks through refinance and rediscount assistance in order to enable them to meet the genuine requirements of credit for food procurement operations, exports and other essential needs of production.

While the general features of accommodation from RBI remained unchanged, the refinance formula for food procurement credit was tightened as a sequel to the spurt in such credit. According to the revised formula, no refinance was available up to an outstanding level of food credit of Rs. 800 crores (as against Rs. 450 crores earlier) and for food credit above this level, refinance was provided on the basis of two-thirds of incremental food procurement credit. There were no major changes in respect of other refinance facilities. The basic refinance limit (equivalent to 1 per cent of demand and time liabilities of banks as on the last Friday of September 1975) was continued till the end of October 1976. Discretionary accommodation, specifically related to export performance of banks, was also continued till end-October 1976. As regards bill rediscount, the basic limits in force were continued till the end of October 1976.

As the slack season progressed, further pressures developed in regard to monetary and price situation which was aggravated by some speculative tendencies in sensitive commodity markets. There was considerable liquidity in the money market, brought about, among other reasons, by fast accretion to deposit resources of banks. Taking into account all these factors and with a view to regulating the lendable resources of commercial banks, the Bank raised the cash reserves required to be maintained by every scheduled commercial bank with the RBI from 4 per cent of the total of the bank's de-

mand and time liabilities to 5 per cent from the week beginning September 4, 1976. The interest on additional cash reserve continued at the rate of 5.5 per cent per annum. Simultaneously, the statutory liquidity requirement of banks was raised from 37 to 38 per cent of demand and time liabilities with effect from the same date. In view of the continued pressure on prices, banks were asked in September 1976 to limit their credit expansion during the financial year 1976-77 (other than for public food procurement and imported fertiliser transactions of the Food Corporation of India) to approximately the same order as in the preceding financial year. It was emphasised by the Bank that with a view to achieving this, the credit budgeting of banks was to be done with greater sense of purpose and commitment. With the introduction of quarterly credit budgeting within the framework of annual credit budgets, a shift from the conventional approach to credit policy formulation, based on seasonality, viz., busy and slack seasons was also indicated. The shift reflected the efforts to move towards perspective credit planning, with an annual perspective demand for credit and supply of funds to bring about a meaningful co-relation between projected output increase and supply of credit.

The banks were advised that the refinance and rediscount facilities should be used to the barest minimum necessary. Banks were made eligible, effective November 1, 1976, for a basic refinance limit equal to 1 per cent of total demand and time liabilities (as of September 24, 1976) till the end of June 1977. The basic rediscount limits equal to 10 per cent of the inland bills purchased and discounted (as of September 24, 1976) were also made available up to June 1977. A further modification in the refinance formula for food was announced in September 1976. According to the revised formula, effective from November 1, 1976, no refinance was to be made available up to an outstanding level of food procurement credit of Rs. 1,000 crores. For food procurement level above Rs. 1,000 crores, refinance equal to 50 per cent of the increase was provided at a rate of interest of 10 per cent. All additional require-

ments of refinance and rediscount were provided by the RBI on a strictly discretionary basis after a review of the credit budget of each individual bank.

Credit Policy: Busy Season, 1976-77

As the monetary and price trends continued to be a matter of concern, measures were taken to restrict further the lendable resources of banks. Accordingly, the legal cash reserve requirements of banks were raised from 5 per cent to 6 per cent with effect from November 13, 1976. Banks were to be paid 5.5 per cent interest on the additionally impounded reserves. The minimum cash and liquidity requirements were thus raised from 38 to 39 per cent of demand and time liabilities. Further, in view of the need to regulate the lendable resources by banks and contain the expansion of bank credit, the banks were also called upon to deposit with the Reserve Bank 10 per cent of their incremental demand and time liabilities accruing since January 14, 1977 over and above their cash reserve requirements of 6 per cent. While originally this was intended to continue till April 1, 1977, it was subsequently extended upto the end of April. An interest of 5.5 per cent was to be paid on these also. The other measures to check the expansion in bank credit were the raising of the margins on all types of advances against inventories (raw materials, goods in process and finished goods) and book debts by 10 percentage points; the over-all margin was, however, not to exceed 60 per cent. The enhanced margins were not applicable to certain special categories of advances such as those to small-scale industries, exports, sick units and advances covered under the selective credit control scheme, as well as those exempt from the minimum lending rate. In respect of accounts which were then overdrawn in terms of the new norms, banks were advised to work out a phased programme for regularisation of the accounts in order to avoid undue hardships to borrowers. The banks were asked to undertake a scrutiny of all big borrowal accounts with limits exceeding Rs. 50 lakhs and where the actual drawals had already reached 60 per

cent or more of the sanctioned limits. They were advised to take sufficient care to ensure that drawals (already taken place as well as intended drawals in the immediate future) were related to concrete production programmes.

With a view to avoiding any indiscriminate cut in credit limits without due regard to the essential needs of industries to sustain and augment production, the banks were advised subsequently in February 1977, to relax on merits, the application of the enhanced margins in case of deserving units. In the context of the need for a realistic appraisal of the credit needs of individual industries, the Bank suggested certain guidelines (e.g. in respect of cotton textile industry) to be kept in view in dealing with their credit requirements. The need to maintain a delicate balance between judicious restraint on credit on the one hand, and full support to enhance production on the other, was emphasised upon banks.

Credit Trends: Slack Season, 1976

During the conventional slack season 1976, the growth in both credit and deposits was faster than that recorded during the 1975 slack season. The increase in gross bank credit (including bills rediscounted with the RBI) was of the order of Rs. 1,092 crores (9.7 per cent) which was substantially higher compared with an increase of Rs. 630 crores (7.1 per cent) recorded in the 1975 slack season. Food procurement credit recorded a substantially larger expansion of Rs. 489 crores in the 1976 slack season compared to Rs. 173 crores in the previous slack season. The non-food gross credit also showed a larger rise of Rs. 603 crores than in the 1975 slack season (Rs. 457 crores). Food procurement advances touched a peak level at Rs. 2,273 crores on July 9, 1976 and formed 19.2 per cent of total bank credit as on that date. Aggregate deposit accretion at Rs. 1,861 crores (12.9 per cent) was also larger as compared with Rs. 1,166 crores (9.7 per cent), recorded in the previous slack season. Time deposits rose sharply by Rs. 1,282 crores as compared with Rs. 774 crores in the last slack season and thus, accounted for a larger

Table VI.1 : Seasonal Variations in Scheduled Commercial Banks' Data

(Rupees Crores)

Items	Seasonal Variations					
	Slack Season 1975	Busy Season 1975-76	Slack Season 1976	Busy Season 1976-77*	Slack Season	
					1976 (till July 30, 1976)	1977* (till July 29, 1977)
1	2	3	4	5	6	7
1. Aggregate Deposits	+1166	+1271	+1861	+1706	+1030	+1141
(a) Demand	+ 392	+ 432	+ 579	+ 598	+ 335	+ 319
(b) Time	+ 774	+ 839	+1282	+1108	+ 695	+ 822
2. Borrowings from RBI	- 38	+ 627	+ 83	- 304	- 16	- 170
3. Cash and Balances with RBI	+ 43	+ 137	+ 178	+ 225	+ 39	+ 183
4. Money at Call and Short Notice	+ 29	- 7	+ 54	- 7	+ 23	+ 18
5. Investments in Government and Other Approved Securities	+ 403	+ 384	+ 663	+ 617	+ 338	+ 422
(a) Government Securities	+ 226	+ 342	+ 398	+ 574	+ 145	+ 199
(b) Other Approved Securities	+ 177	+ 42	+ 265	+ 43	+ 193	+ 223
6. Bank Credit	+ 710	+1764	+1070	+1052	+ 589	+ 253
(a) Food Procurement Advances	+ 173	+ 874	+ 489	+ 175	+ 613	+ 233
(b) Other Advances	+ 537	+ 890	+ 581	+ 877	- 24	+ 20
7. Bills Rediscounted with RBI	- 80	+ 44	+ 22	+ 21	+ 21	- 66
8. Gross Bank Credit (6+7)	+ 630	+1808	+1092	+1073	+ 610	+ 187

* Provisional.

Notes: 1. Data are based on weekly returns submitted by banks under Section 42 (2) of the Reserve Bank of India Act, 1934.

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

proportion—nearly three-fourths of the incremental deposits during the season. Reflecting these trends, the gross credit-deposit ratio at 75.8 per cent as on October 29, 1976 was 4.0 percentage points higher than that at the end of 1975 slack season (71.8 per cent). Excluding food credit, the residual gross credit-deposit ratio at 62.9 per cent was lower by 3.3 percentage points than that a year ago (66.2 per cent) (Table VI-1).

The scheduled commercial banks' borrowings from the RBI at Rs. 918 crores on October 29, 1976, showed a rise of Rs. 83 crores during the slack season as against a decline of Rs. 38 crores in the 1975 slack season mainly on account of a rise in refinance for food advances

(Rs. 58 crores) as against a decline (Rs. 30 crores) in the last slack season. The banks' borrowings from RBI, as well as their refinance for food credit, reached the peak levels of Rs. 1,105 crores and Rs. 976 crores, respectively, on July 9, 1976; refinance for food credit forming as much as 88.3 per cent of the outstanding borrowings on that date. The banks' addition to their investment portfolio at Rs. 663 crores was also significantly higher than that in the 1975 slack season (Rs. 403 crores). Their cash and balances with RBI during the season showed an increase of Rs. 178 crores compared with a rise of Rs. 43 crores in the previous slack season. The cash-deposit ratio at 7.2 per cent on October 29, 1976 was also higher than that a year ago (6.6 per cent).

Credit Trends : Busy Season, 1976-77

During the busy season 1976-77, gross bank credit increased by Rs. 1,073 crores (8.7 per cent) which was significantly lower than Rs. 1,808 crores (19.1 per cent) in the 1975-76 busy season. This was mainly on account of slower pace of expansion in public food procurement credit which increased by Rs. 175 crores as compared with Rs. 874 crores in the previous busy season. Non-food credit (gross) accounted for a major proportion of the expansion (Rs. 898 crores) in gross bank credit and was also somewhat lower compared to that in the previous busy season (Rs. 934 crores). The growth in aggregate deposits at Rs. 1,706 crores (10.4 per cent) was larger compared with an increase of Rs. 1,271 crores (9.6 per cent) in the last busy season. Both time and demand deposits recorded larger increases of Rs. 1,108 crores and Rs. 598 crores, respectively as compared with those of the previous year. The share of time deposits in the total deposit accretion declined to 64.9 per cent in the 1976-77 busy season from 66 per cent in the previous busy season. The gross credit-deposit ratio at 74.6 per cent, as on April 29, 1977, was 3.4 percentage points lower than that a year ago (78.0 per cent).

Banks reduced their borrowings by Rs. 304 crores in the 1976-77 busy season in contrast to the sizeable increase of Rs. 627 crores in the previous busy season. This was due to the decline in the refinance for food credit to the extent of Rs. 332 crores in contrast to an increase of Rs. 509 crores in 1975-76 busy season. Consequently, the share of refinance for food credit in the total borrowings by banks from RBI declined from 81.7 per cent at the beginning of the busy season to 68.1 per cent at the close. Banks' cash in hand and balances with the RBI showed a rise of Rs. 225 crores during 1976-77 busy season as compared with Rs. 137 crores in the 1975-76 busy season. Banks also stepped up their investments in Government and other approved securities by Rs. 617 crores compared with Rs. 384 crores in the last busy season. As a result, the investment-deposit ratio at 33.5 per cent, as on April 29, 1977 was

higher by 0.6 percentage point than the ratio a year ago.

Annual Trends: 1976-77

During 1976-77 (July-June), credit expansion was substantially lower and deposit growth more pronounced than in the previous year. The accretion to aggregate deposits at Rs. 3634.9 crores (23.9 per cent) was higher by more than Rs. 1000 crores than that recorded in the previous year (Rs. 2633.1 crores or 21.0 per cent). Time deposits accounted for Rs. 2509.4 crores or 69.0 per cent of the total deposits mobilised during the year compared with Rs. 1783.4 crores or 67.7 per cent in the previous year. On the other hand, the expansion in gross bank credit (including bills rediscounted with RBI) at Rs. 1981.3 crores (17.1 per cent) was significantly lower than the expansion of Rs. 2533.4 crores (27.9 per cent) in 1975-76. This was on account of deceleration in the growth of public food procurement advances which rose by Rs. 351.8 crores compared with the sharp increase of Rs. 1389.6 crores in the previous year. Food procurement advances at Rs. 2535.8 crores, as on the last Friday of June 1977, accounted for 18.6 per cent of total gross bank credit, compared with Rs. 2185.0 crores or 18.8 per cent a year ago. The expansion in non-food credit (gross) at Rs. 1630.5 crores (17.3 per cent) was, however, substantially higher than that in the previous year (Rs. 1143.8 crores or 13.8 per cent). The gross credit-deposit ratio at 72.3 per cent on June 24, 1977 was lower by 4.3 percentage points than the ratio a year ago (76.6 per cent).

The banks' indebtedness to RBI declined by Rs. 197.5 crores in contrast to an increase of Rs. 486.3 crores in the preceding year due mainly to the cut in the refinance entitlement for food credit. The refinance from RBI for food advances showed a decline of Rs. 241.7 crores as against a rise of Rs. 456.1 crores last year.

With the stepping up of the cash reserve ratio and the impounding of the incremental deposits with banks since January 14, 1977,

cash in hand and balances with RBI registered a sharp rise of Rs. 556.2 crores compared to Rs. 118.6 crores in the previous year. Consequently, the cash-deposit ratio at 8.2 per cent on June 24, 1977 was 1.7 percentage points higher than that a year ago. The banks' investments in Government and other approved securities also showed a larger rise of Rs. 1253.0 crores compared with a rise of Rs. 799.8 crores last year. The investment-deposit ratio at 32.6 per cent, as on June 24, 1977, was higher by 0.4 percentage point over the year (32.2 per cent).

Credit Policy: 1977-78

In the context of the large expansion in money supply and the pressure on prices during the financial year 1976-77, the credit policy continued to be directed towards restraining monetary expansion to the maximum extent possible, but at the same time, oriented towards promoting investment, aiding production and exports and augmenting supplies of essential consumer goods and industrial raw materials through imports.

With a view to realising a degree of restraint on credit, it was decided that the cash reserve ratio as well as the incremental reserve ratio would continue until further notice. The refinance and rediscount accommodation continued to be selective and at the discretion of RBI. The basic rediscount quota equivalent of 10 per cent of inland bills purchased and discounted previously available on an automatic basis was withdrawn and the rediscount facility placed entirely at the discretion of the Bank. However, the basic refinance quota of one per cent of demand and time liabilities as on the last Friday of March 1977, was continued at a rate of interest of 10 per cent per annum. This facility was provided to meet the day-to-day clearing and other operational requirements. The refinance formula in respect of food procurement advances was made more restrictive. Under the revised formula, effective June 1, 1977, the base level not eligible for refinance was raised from Rs. 1000 crores to Rs. 1500 crores. For a food credit level in

excess of Rs. 1500 crores, refinance would be provided upto 50 per cent of the increase at a rate of interest of 10 per cent per annum. The concessional refinance (at 10.5 per cent) was to be provided up to 50 per cent of the incremental performance in export credit of a bank over its annual average performance in 1976. The quantum and terms and conditions of all other refinance were to be entirely at the discretion of RBI. Such accommodation would be on merits related to the individual bank's credit-deposit ratio and its sectoral deployment of credit, its assistance for capital investment through provision of term loans, its credit to sick units and its overall resources planning.

Revisions in Deposit Rates Structure

The interest rate structure of deposits was also rationalised in June 1977, and the spread between short and long term deposit rates was widened. An important element in the change was the distinction made between savings deposits accounts which are functionally transaction-oriented and others which are savings-oriented. Thus, for the first time, savings bank accounts were bifurcated into two categories those with and without cheque facilities. It was indicated that, with effect from July 1, 1977, savings bank accounts without cheque facilities would be paid 5 per cent interest per annum and those with cheque facilities would yield a lower rate of 3 per cent per annum. The interest rates on term-deposits in most of the shorter maturity groups were reduced by 1.5 to 2 per cent. The rate on deposits of 3 to 5 years was cut from 9 per cent to 8 per cent. Deposits of over 5 years, however, were continued at 10 per cent. (Table VI-2.)

While the revised rates were effective from June 1, 1977, the rates applicable to recurring or cumulative deposits were to come into force from July 1, 1977. However, on deposits which were yet to mature, the rates of interest already in force were allowed to continue till the maturity of such deposits. In the case of overdue fixed deposits, banks, at their discretion, could pay higher rate of interest prevailing earlier, but with effect from June 1, 1977 the

Table VI-2. : Rates of interest on deposits payable by Scheduled Commercial Banks effective June 1, 1977*

	Old Rates (Per cent per annum)	New Rates (Per cent per annum)
I. Savings Deposits		
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	
II. Fixed Deposits		
(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 and up to 5 years	9.0	8.0
(8) Above 5 years	10.0	10.0

Note: 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. Regional Rural Banks can also 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.

*Except on savings deposits which were effective from July 1, 1977.

revised interest rates would apply. RBI also enhanced, with effect from June 1, 1977, the rate of interest on impounded deposits of banks (viz., on cash reserves in excess of the statutory minimum of 3 per cent and that related to incremental deposits) by 0.5 percentage point to 6 per cent. The banks were asked to pass on the benefit of interest savings on deposits and the higher earnings on additionally impounded deposits to their borrowing constituents, particularly in the priority sectors by appropriate readjustments in their rates on advances.

Further, to stimulate the medium-term capital investment, rates on term loans by banks were lowered—on term loans of over three years for capital investment by industry, banks were advised to charge a rate of interest not exceeding 12.5 per cent (inclusive of interest tax where applicable) as against the then prevalent rate of 15 per cent for periods over three years upto seven years and 14 per cent for periods of over seven years (exempt from interest tax).

Credit Trends: Slack Season 1977

During the slack season of 1977 (end-April to end-July), while the magnitude of deposit accretion was more or less of the same order, the expansion in gross bank credit was substantially lower than that during the corresponding period of the previous slack season. Aggregate deposits increased by Rs. 1141 crores (6.3 per cent) compared to an increase of Rs. 1030 crores (7.1 per cent) during the same period of 1976 slack season. Component-wise, time deposits constituted 72.0 per cent of the deposit accretion in the 1977 slack season compared to 67.5 per cent in the corresponding period of the previous slack season. On the other hand, the increase of Rs. 187 crores (1.4 per cent) in gross bank credit in the 1977 slack season was lower as compared with the sharp rise of Rs. 610 crores (5.4 per cent) in the same period of the 1976 slack season. This was mainly due to the smaller expansion in food procurement credit, which increased by Rs. 233 crores, as

against a rise of Rs. 613 crores in the corresponding period of the last slack season. The non-food advances (gross) also showed a larger decline of Rs. 46 crores in the current slack season as compared to the nominal decline of Rs. 3 crores in the corresponding period of last slack season. Reflecting these trends, the gross credit-deposit ratio at 71.1 per cent, as on July 29, 1977, was lower by 5.6 percentage points compared to 76.7 per cent a year ago. The banks reduced their indebtedness to the Reserve Bank by Rs. 170 crores during the current slack season compared with the decline of Rs. 16 crores only in the same period last year. The level of borrowings from RBI at Rs. 444 crores was nearly half of that a year ago (Rs. 819 crores). About 83.1 per cent of these borrowings represented refinance against food advances compared to 88.3 per cent at the end of July 1976.

Banks' cash in hand and balances with RBI rose by Rs. 183 crores compared with Rs. 39 crores in the corresponding period of the last slack season. Banks also increased their investments in Government and other approved securities by Rs. 422 crores as compared to Rs. 338 crores during the same period last year.

Selective Credit Controls

In the context of the rising trend in prices of certain commodities such as cotton, *gur/khandsari*, oilseeds and vegetable oils, controls on advances against them were tightened up further, essentially through increased margins. The ceiling limits for advances against selected commodities continued to be fixed on a party-wise basis. The basis for fixing the permissible level of credit in respect of advances against foodgrains, oilseeds, vegetable oils (including *vanaspati*), was related to 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 instead of the years 1974-75, 1973-74 and 1972-73. No changes were, however, made in the minimum lending rates, which varied between 14 and 15 per cent. The exemption limit in respect of advances covered by

the guarantee scheme of the Credit Guarantee Corporation of India Ltd., and coming within the purview of the directive on advances against foodgrains was raised to Rs. 50,000 from the existing level of Rs. 25,000, with effect from August 20, 1977. A similar relaxation was provided in respect of advances against foodgrains covered by Credit Guarantee Organization and those granted to processing/manufacturing units covered under Rural Industries Projects.

No other changes were made in selective credit controls in respect of advances against foodgrains. The credit control directive on advances against cotton textiles also remained unchanged during the year. The changes made in respect of other commodities are given below.

Oilseeds and Oils

The continuous pressure on prices of oilseeds and vegetable oils called for a hike in the 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, castorseed, linseed, rapeseed/mustard seed, castor oil and linseed oil. Advances against cottonseed and cottonseed oil were also brought within the purview of selective credit control. 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 in Table VI-3.

In support of the Government programme for private imports of edible oilseeds/oils and, at the same time, to ensure that imported stocks were released for consumption without delay, complete exemption was provided from the minimum margin requirements for advances against imported oils and oilseeds (subject hitherto 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 margin stipulated

Table VI.3 : Changes in Margins on Scheduled Commercial Banks' Advances against Oils, Oilseeds and Vanaspati

Commodity	Before May 31, 1977		From May 31, 1977	
OILSEEDS				
General				
Groundnut, cottonseed, rapeseed, mustard seed, castor seed and linseed	60 %	against stocks	70 %	
	50 %	against warehouse receipts	60 %	
Registered Oil Mills				
Mills in Rajasthan, Uttar Pradesh, Madhya Pradesh, Bihar and West Bengal	35 %	on stocks equivalent to 2 months' consumption —on groundnut, rapeseed/mustard seed	45 %	
	60 %	on other oilseeds	70 %	
Mills in other areas	50 %	on stocks equivalent to 2 months' consumption—on rapeseed/mustard seed	60 %	
	60 %	on other oilseeds	70 %	
VEGETABLE OILS				
Groundnut oil, cottonseed oil, rapeseed/mustard oil, castor oil, linseed oil and Vanaspati				
A. Registered Oil Mills	75 %	against stocks		
	65 %	against warehouse receipts	No. change	
B. Vanaspati Manufacturers				
<i>(a) Against Vanaspati</i>				
In States other than Gujarat and Maharashtra	60 %	against stocks	70 %	against stocks
	50 %	against warehouse receipts	60 %	against warehouse receipts
In Gujarat and Maharashtra	75 %	against stocks	85 %	against stocks
	65 %	against warehouse receipts	75 %	against warehouse receipts
<i>(b) Against controlled oils (other than cottonseed oil)</i>				
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 Zone	50 %	on stocks equivalent to 4 weeks' consumption	60 %	
C. For Others				
	75 %	against stocks	85 %	
	65 %	against warehouse receipts	75 %	

in the directive was to apply to the credit outstanding. Imported oilseeds/oils were completely exempted from the level of credit stipulation. On such imported oils and oilseeds as were not normally covered by credit control (e.g. sunflower oil and sunflower seeds, soyabean oil and soyabean seeds, etc.), a minimum margin of 60 per cent was to be applied on credit outstanding beyond the period of 4 weeks or 8 weeks, as the case may be, as stipulated in the directive. Banks were further advised that they could open Letters of Credit for periods beyond 45 days, provided they were convinced about the need for it. However, in order to prevent the hoarding of stocks and to facilitate

a faster movement of goods it was stipulated in case they established Letters of Credit for imports, they should advise that, after 30 days from the date of arrival of the goods, the importer should deposit with the banks an amount equivalent to the margin amount which he would have provided under selective credit control directive, had he availed of advances against the commodity. In view of the ready market for imported oilseeds/oils banks were advised that they need not have any hesitation in making available adequate funds for the import of the commodities. At the same time in view of the continued pressure on prices of edible oilseeds/oils they were further advised

to undertake an immediate scrutiny of all their existing advances to trade (against indigenous and imported oilseeds and oils) so as to initiate appropriate measures to bring about a faster return flow of funds and thereby ensure that bank funds were not used for withholding of stocks from the market.

Cotton and Kapas

The uptrend in cotton prices necessitated the tightening 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 which 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 need 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 would be no double financing of the same stocks.

Gur/Khandsari

In view of the increases in the prices of *gur* and *khandsari* the minimum margins for advances against them were raised from 50 per cent to 60 per cent of the value of stocks for manufacturers of the commodities and from 65 per cent to 75 per cent for others, with effect from October 14, 1976. Banks were advised not to allow any further enhancement in credit limits to parties dealing in *gur* and *khandsari* and to effect reductions, where warranted. They were also asked to undertake a case by case review of the existing credit limits against *gur* and *khandsari* and to forward a report on the action taken by them in that regard.

Table VI-23 indicates the position of selective credit controls as on August 20, 1977.

Advances Against Sensitive Commodities

Scheduled commercial banks' outstanding advances against selected commodities at Rs. 631 crores at end-March 1977 showed an increase of Rs. 143 crores over the year (Table VI-4). Excluding Rs. 56 crores outstanding against raw jute (which is not covered by selective credit control) the advances amounted to Rs. 575 crores indicating an increase of Rs. 135 crores over the year. Of the total amount of Rs. 575 crores, advances against cotton and *kapas*, and sugar accounted for Rs. 291 crores (50.5 per cent), and Rs. 191 crores (33.2 per cent), respectively. The proportion of advances against commodities covered under selective credit control to total credit of all scheduled commercial banks for all purposes, increased marginally from 4.1 per cent to 4.4 per cent during the year.

The major beneficiaries of advances against selected commodities cover mills, factories and industrial users, which accounted for 68 per cent of total advances against these commodities at end-March 1977, as compared with 80 per cent a year ago (Table VI-5). Commodity-wise, this proportion was considerably higher at end-March 1977 than at end-March 1976 in the case of linseed oil and linseed but was considerably lower for paddy and rice. The variations in the case of other commodities were of a small order as between the two dates under reference.

Call Money Market

The inter-bank call money markets both at Bombay and Calcutta ruled generally firm in 1976-77 (July-June) compared with the previous year.

During the first fortnight of July 1976, owing to the demand for funds for subscription to the Government loans, the rate firmed up to 11.5 per cent in Bombay and 12.5 per cent in Calcutta. The rate tended to ease somewhat in

Table VI.4: Scheduled Commercial Banks' outstanding advances against selected commodities

(Amount in Rupees Lakhs)

As on the last Friday of										

Notes: * Data are provisional. **Not covered by selective credit control.

@ Inclusive of advances granted to Cotton Corporation of India.

£ Inclusive of advances granted to Jute Corporation of India.

† According to returns from Commercial Banks received under Section 42(2) of Reserve Bank of India Act, 1934.

Source: Data for March 1971 are based on return on Form 7 received directly from the branches of the banks, Data for March 1976 and March 1977 are estimates based on BSR 3 received from Head Offices of banks.

the subsequent two months and ruled between 8 to 11 per cent till mid-September 1976. In the second fortnight of September, however, the rate hardened again to 12.5 per cent in both the markets. Following the increase in the cash reserve ratio and the tightening of refinance formula for food credit by the RBI since November 1976, the rate ruled firm at the ceiling level of 12.5 per cent throughout the busy season 1976-77. Towards the close of the busy season, the call rate tended to ease and fluctuated between 9.5 to 11.5 per cent in the second fortnight of April 1977. In the context of comfortable supply position thereafter, the rate dipped to as low as 4.5 per cent in Bombay on April 29, 1977. It gradually rose up to 9 per cent by mid-June 1977. Following the changes made by the RBI in the structure of interest rates payable by the scheduled commercial banks on deposits of different maturities with effect from June 1, 1977, the Indian Banks' Association also lowered the ceiling rate applicable to the inter-bank transactions to 10 per cent with effect from June 15, 1977. From June 20, 1977, the call rate firmed up to the new ceiling level of 10 per cent in both the markets because of the spurt in demand for funds to meet the subscription to the new Central Government loans and remained at that level till the end of June 1977.

Table VI.5: Security-wise Advances to Mills/Factories and Industrial Users
(As percentages of total credit against respective commodities)

Commodity	Last Friday of	
	March 1977	March 1976
1	2	3
1. Linseed oil	100	58
2. Sugar	98	94
3. Castor oil	97	92
4. Vanaspati	93	95
5. Wheat	91	92
6. Castor seed	87	81
7. Groundnut	75	68
8. Rapeseed/Mustard oil ..	74	78
9. Groundnut oil	70	76
10. Rapeseed/Mustard seed ..	66	60
11. Cotton and <i>Kapas</i>	52	68
12. Linseed	50	11
13. Paddy and Rice	50	82
14. Other Foodgrains	36	45
All Selected Commodities	68	80

Source: Basic Statistical Return—3.

Working of Different Schemes

(a) Credit Authorisation Scheme

WORKING OF CREDIT AUTHORISATION SCHEME IN RELATION TO STUDY GROUP'S RECOMMENDATIONS

The Credit Authorisation Scheme, which was introduced in 1965, has been playing a significant role as one of the methods of credit regulation. In the wake of the measures taken for implementation of the recommendations of the RBI Study Group to frame guidelines for follow-up of bank credit (Tandon Committee), the efficacy of the Scheme has further improved, particularly in the context of the Bank's policy of credit restraint to curb inflationary trends in the economy.

A mention was made in the last year's Report about the steps suggested by the RBI to be taken by all scheduled commercial banks, with a view to gearing up banks' organisational set-up through delegation and decentralisation and provision of adequate staff, together with training for improving credit appraisal skills at different levels. To ensure that the switch-over to the new system of lending was smooth, speedy and effective, the banks were advised to report on the action plans drawn up by them in areas like issuing the required instructions to their offices/branches, setting up of machinery for overseeing the implementation of the instructions, improving the appraisal and operational skills of the staff through training programmes, etc. Comprehensive guidelines for scrutiny and interpretation of the data obtained through the information system were also issued to banks to enable them to make effective use of the data collected for monitoring the use of credit facilities extended by them.

COMMITTEE OF DIRECTION

The Committee of Direction constituted by RBI in 1975 for an on-going review of the norms recommended by the Study Group on follow-up of bank credit and generally to advise the Bank in matters concerning imple-

mentation of the new lending system, held several meetings to examine a number of issues raised by banks, industries, chambers of commerce, etc., in regard to the application/modification of lending norms, in general, as well as in lending to particular sectors such as exports, sick units, etc. The recommendations made by the Committee were accepted by the Bank. Norms in respect of fertilizers and cotton spinning mills were modified in the light of the circumstances obtaining in those industries. With a view to improving their operational efficiency and developing a better understanding of the new lending system by banks, the RBI, on the advice of the Committee, delegated powers to banks to permit, on merits, deviations from the norms pertaining to inventory and receivables, in the case of borrowers with credit limits not exceeding Rs. 50 lakhs from the banking system.

CONDUCT OF SPECIAL STUDIES OF SPECIFIC INDUSTRIES

In the light of the recommendations of the Study Group on industry-wise studies to be undertaken by selected banks and with a view to building up sufficient expertise in the banking system in this regard certain banks were requested to conduct special studies of seventeen major industries, in the light of their experience in financing the industries concerned. The Committee of Direction finalised the outline of the aspects to be covered by these banks in such studies. These studies are expected to be of mutual benefit to both the banks as well as the industries in understanding each other's problems in a better way.

In order to enable the RBI to study the trends in credit extended by banks to larger borrowers and facilitate, on that basis policy formulation, banks were asked in December 1976 to furnish data on utilisation of limits and operational data at monthly and quarterly intervals, respectively.

CHANGE IN THE DATA BASE FOR SUGAR INDUSTRY

A mention was made in last year's Report about the revision of data base for purposes

of scrutiny of applications, under the Credit Authorisation Scheme, to ensure a smooth switch-over to the new approach to lending, as recommended by the Study Group. In view of the special characteristics of the sugar industry it was found necessary to devise for the use of banks separate credit appraisal/follow-up forms for the industry based on monthly cash budgets.

ADVANCES TO SUGAR INDUSTRY

On a review of the prospects of production of sugar during 1976-77 season, banks were advised in November 1976 that they might sanction credit limits, on merits, to individual sugar mills to the extent of a maximum outstanding under the regular limits (exclusive of 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. 1975-76 season) without obtaining RBI's prior authorisation under the Credit Authorisation Scheme. Banks were also advised that in case a bank considered 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 came within the purview of credit authorisation, it should release the additional limits only after obtaining prior authorisation. In order to ensure prompt payments to sugarcane growers, instructions issued earlier to banks, suggesting that they should obtain the required data, were reiterated once again; they were further advised that such data might be obtained preferably once a week, in the case of those sugar mills which proved to be habitual defaulters in making payments to cane growers. It was also emphasised that the dues of the sugar mills to the cane growers would have a first charge on the drawing power against stocks of sugar and that the funds from the "cane price payable account" should not be allowed to be utilised by mills for meeting their other requirements.

ADVANCES TO TEXTILE INDUSTRY

In view of the importance of providing adequate credit to the sick textile mills taken

over by the National Textile Corporation (NTC), the RBI agreed to the banks granting upto end-September 1976 (since extended up to June 1977) reasonable *ad hoc* limits to them in relation to their production plans, without prior authorisation. At a meeting of the representatives of the NTC and the financing banks, convened by the RBI in June 1977, it was decided that the working capital requirements of NTC mills should be determined unit-wise, in the same way as in the case of any other textile mill and that the NTC should endeavour to have the accounts of the mills audited as speedily as possible. It was also indicated that the NTC mills should accept the covenants proposed by their bankers with a view to ensuring proper financial discipline and that they should furnish data on the lines recommended by the Reserve Bank of India Study Group on Follow-up of Bank Credit, including the quarterly information system.

In view of the difficulties experienced by the cotton spinning mills, the relaxation in the operation of norms applicable upto end-July 1976, permitting holding of a higher level of finished goods with correspondingly lower holding of raw cotton, up to a maximum of 3 months for finished goods and receivables put together, was extended up to end-June 1977.

ADVANCES TO FERTILISER INDUSTRY

The relaxations permitted in the operation of norms for inventory and receivables in respect of advances in fertiliser industry were further reviewed in October 1976 and the existing norms for finished goods and receivables taken together were increased from 2½ months' to 3 months' cost of sales/sales in the case of plants manufacturing nitrogenous fertilisers and 4 months' cost of sales/sales in respect of plants manufacturing phosphatic and complex fertilisers. In addition, the existing norms for the level of holding of inventory of raw materials were fixed at 3 months' consumption in respect of all phosphatic plants, whether situated in port areas or away from port areas. These relaxations which were initially valid up to March 1977 have been since reviewed and extended with slight modifications.

ADVANCES TO OTHER INDUSTRIES

The relaxations in the inventory and receivables norms allowed to paper industry and automobile—ancillary units up to September 1976 were withdrawn, as it was considered that the conditions in these industries had improved.

CONSORTIUM ARRANGEMENT

A mention was made in last year's Report about the recommendations to banks for entering into proper consortium/participation arrangements in the case of borrowers having multiple banking arrangements. As the progress made by the banks was found to be slow in this regard, a time-bound programme was called for from banks. Banks were called upon to furnish information regarding the names of all their borrowers enjoying multiple banking arrangements, details of consortium arrangements finalised and those yet to be completed. Banks were impressed upon the need to introduce suitable systems and procedures in order to minimise the time taken to process credit proposals even in regard to consortium advances and ensure the timeliness of credit sanction.

DELAYED PAYMENT FOR SUPPLIES EFFECTED TO GOVERNMENT AND PUBLIC SECTOR UNDERTAKINGS

The Study Group on follow-up of bank credit which considered the question of delay in payment for supplies to Government and public sector undertakings, recommended to the Government to initiate suitable remedial action in this regard in view of the effects of such delays on the liquidity position of the supplier units and the consequent pressure on banks.

WORKING OF CREDIT AUTHORISATION

During the year under review the number of parties covered under the Scheme increased from 851 as 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 end-June 1976. The total limits in force relating to the parties covered under CAS at

Table VI. 6: Distribution of Credit Limits by Type of Credit

(Amount in Rupees Crores)

Type of Credit	As on December 31, 1974		As on June 30, 1975		As on December 31, 1975		As on June 30, 1976		As on June 30, 1977	
	Total	Of which public sector units	Total	Of which public sector units	Total	Of which public sector units	Total	Of which public sector units	Total	Of which public sector units
1	2	3	4	5	6	7	8	9	10	11
1. Working Capital*	6064 (88.7)	2225 (90.6)	6443 (88.8)	2390 (90.4)	7329 (88.8)	3006 (91.4)	7604 (89.7)	4157 (93.6)	8813 (89.6)	5157 (93.6)
Of which:										
(a) Bills purchased and discounted ..	642 (9.4)	90 (3.7)	697 (9.6)	89 (3.4)	820 (9.9)	134 (4.1)	725 (8.6)	120 (2.7)	775 (7.9)	131 (2.4)
Export finance	651 (9.5)	124 (5.0)	697 (9.6)	128 (4.8)	737 (8.9)	146 (4.4)	553 (6.5)	68 (1.5)	583 (5.9)	54 (1.0)
2. Sale of machinery on deferred payments basis	206 (3.0)	21 (0.8)	209 (2.9)	21 (0.8)	242 (2.9)	29 (0.9)	263 (3.1)	34 (0.8)	328 (3.3)	58 (1.1)
3. Term finance	568 (8.3)	211 (8.6)	601 (8.3)	233 (8.8)	681 (8.3)	252 (7.7)	609 (7.2)	249 (5.6)	698 (7.1)	295 (5.4)
Total Limits in force	6839 (100.0)	2457 (100.0)	7253 (100.0)	2644 (100.0)	8252 (100.0)	3287 (100.0)	8476 (100.0)	4440 (100.0)	9839 (100.0)	5509 (100.0)
Number of Parties	1654	183	1786	192	1924	207	851	154	890	159

* Includes cash credit and overdrafts, bills purchased and discounted and export finance.

Note: Figures in brackets indicate percentages to total limits in force.

Table VI. 7: Occupation-wise Distribution of Total Limits in Force
(As on June 30, 1977)

(Rupees Crores)

Industry										Total limits in force	Of which public sector units
1										2	3
Agriculture and Allied Activities										316 (3.2)	244 (4.4)
A. Agriculture										239 (2.4)	206 (3.7)
(i) Direct finance										46 (0.5)	21 (0.4)
(ii) Indirect finance										193 (2.0)	184 (3.3)
(a) Distribution of fertilisers										181 (1.8)	172 (3.1)
(b) Others										12 (0.1)	12 (0.2)
B. Plantations										76 (0.8)	38 (0.7)
(i) Tea										41 (0.4)	3 (0.1)
(ii) Others										35 (0.4)	35 (0.6)
II. Industry										5376 (54.6)	1568 (28.5)
A. Mining and quarrying										182 (1.8)	164 (3.3)
(i) Coal mining										113 (1.1)	113 (2.1)
(ii) Iron Ore										7 (0.1)	4 (0.1)
(iii) Others										63 (0.6)	47 (0.9)
B. Manufacturing										5193 (52.8)	1404 (25.5)
1. Sugar										303 (3.1)	26 (0.5)
2. Edible oil & Vanaspati										86 (0.9)	6 (0.1)
3. Tobacco & tobacco products										88 (0.9)	—
4. Cotton textiles										667 (6.8)	78 (1.4)
5. Jute textiles										157 (1.6)	—
6. Silk & synthetic fibres										147 (1.5)	17 (0.3)
7. Wool and Wollen textiles										22 (0.2)	—
8. Other textiles										3	—
9. Paper and paper products										89 (0.9)	—
10. Leather and leather products										22 (0.2)	—
11. Rubber and rubber products										142 (1.4)	—
12. Manufacture of chemicals & chemical products										605 (6.1)	108 (2.0)
(a) Heavy industrial chemicals										168 (1.7)	18 (0.3)
(b) Fertilisers (Production)										240 (2.4)	81 (1.5)
(c) Drugs & pharmaceuticals										95 (1.0)	9 (0.2)
(d) Plastic and plastic products										2	—
(e) Others										100 (1.0)	—
13. Petroleum										78 (0.8)	68 (1.2)
14. Cement										67 (0.7)	—
15. Basic metal and metal products										398 (4.0)	218 (4.0)
(i) Iron and Steel										323 (3.3)	209 (3.8)
(ii) Others										75 (0.8)	9 (0.2)
16. Engineering (except transport equipment)										1561 (15.9)	481 (8.7)
(a) Heavy engineering										1128 (11.5)	446 (8.1)
(i) Machinery (except electric machinery)										654 (6.6)	193 (3.5)
(ii) Electrical machinery										474 (4.8)	253 (4.6)
(b) Light engineering (including light metal products)										433 (4.4)	35 (0.6)
17. Manufacture of transport equipment										361 (3.7)	124 (2.3)
(i) Railway equipment										169 (1.7)	82 (1.5)
(ii) Others										192 (2.0)	42 (0.8)
18. Others (manufacture)										116 (1.2)	16 (0.3)
19. Electricity generation and distribution										280 (2.8)	261 (4.7)
III. Trade										3845 (39.1)	3542 (64.3)
(a) Foodgrains										2763 (28.1)	2763 (50.2)
(b) Fertilisers										411 (4.2)	411 (7.5)
(c) Mineral Oils										95 (1.0)	65 (1.2)
(d) Raw Cotton										229 (2.3)	188 (3.4)
(e) Raw Jute										52 (0.5)	48 (0.9)
(f) Others										296 (3.0)	68 (1.2)
IV. All Others										303 (3.1)	155 (2.8)
Total										9839 (100.0)	5509 (100.0)

Note: Figures in brackets represent percentages to total limits.

Rs. 9839 crores at the end of June 1977 showed an increase of 16 per cent over the limits (Rs. 8476 crores) in force at the end of June 1976. (Table VI-7). Of this, the limits claimed by the public sector undertakings amounted to Rs. 5509 crores, or 56 per cent. This shows an increase of 24 per cent over the limits aggregating Rs. 4440 crores available to 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 the same as last year, that is, about 89.6 per cent for working capital purposes (including packing credit and bills), 7.1 per cent for term finance and 3.3 per cent for sale of machinery on deferred payment basis. (Table VI-6). Activity-wise, trading accounted for 39.1 per cent (with food procurement operations alone at 28.1 per cent), engineering industry accounted for 15.9 per cent and cotton textiles about 6.8 per cent. (Table VI-7). Of the credit limits in force relating to public sector, viz., Rs. 5509 crores, trading accounted for 64.3 per cent (the share of food procurement advances being 50.2 per cent), engineering 8.7 per cent, electricity undertakings about 4.7 per cent and basic metal and metal products (mostly iron & steel) 4.0 per cent.

The number of applications received for R.B.I.'s authorisation during 1976-77 was 982, inclusive of applications in respect of public sector units numbering 156, as compared to 1181 applications received (out of which 216 were in respect of public sector) during the previous year. (Table VI-8). The decrease in the number of applications may be attributed to the raising of the cut-off point prescribed for CAS parties in the private sector from Rs. 1 crore to Rs. 2 crores in November 1975. In other words, the number of applications received for prior authorisation during the year 1975-76 covered also those parties in private sector, having aggregate credit limits between Rs. 1 crore and Rs. 2 crores from the banking system up to November 1975. The amount involved in the case of the applications received for authorisation in 1976-77 also showed a decline from Rs. 2646 crores in 1975-76 to

Rs. 2574 crores. Of this, the amount accounted for by the public sector units, (including Food Corporation of India, Jute Corporation of India, Fertilizer Corporation of India and Cotton Corporation of India) amounted to Rs. 1525 crores. The total number of applications authorised, decreased from 716 in 1975-76 to 362 in 1976-77, and the amount involved showed a decline from Rs. 1963 crores to Rs. 1583 crores. The relative figure in respect of public sector units was lower at Rs. 1337 crores, as against Rs. 1498 crores during the previous year. The number of cases where reduced limits were authorised was 46 and the reduction in the amount was of the order of Rs. 76 crores; of these, the public sector parties were 10, involving reduction in limits of Rs. 46 crores. In certain cases, the limits were authorised for reduced period as the financial position and/or the credit requirement of the companies concerned called for a fresh examination. In a few other cases, certain stipulations such as utilisation of the limits for specific purposes, or declaration of dividends with the financing bank's prior permission, or prohibition of inter-corporate investments, etc., as considered necessary on the basis of facts of individual cases, were made while authorising the credit limits.

(b) *Participation Certificates Scheme*

The Scheme, operative till June 1977 on a periodical extension basis, was made permanent from July 1, 1977. Further, the participation arrangement, which had been limited to certain banks only was made applicable to all scheduled commercial banks. There was no change in the number of institutions eligible to participation certificates received from banks. The total amount outstanding as at the end of February 1977 at Rs. 159.19 crores in respect of certificates issued by 43 banks was higher as compared to Rs. 125.76 crores, at the end of February 1976.

(c) *Export Credit (Interest Subsidy) Scheme, 1968*

Claims for interest subsidy amounting to Rs. 9.19 crores received from 54 eligible banks

Table VI.8: Particulars of Applications received, approved, rejected/withdrawn and cases reported under Credit Authorisation Scheme during the period between July 1976—June 1977

Particulars		Number					Amount involved (In Lakhs of Rupees)				
		July-September 1976	October-December 1976	January-March 1977	April-June 1977	Total	July-September 1976	October-December 1976	January-March 1977	April-June 1977	Total
1.	Applications received ..	269 (57)	270 (47)	245 (26)	198 (26)	982 (156)	796.08.18 (493,09.53)	482,23.17 (242,85.28)	471,49.00 (207,70.00)	824,17.56 (581,33.85)	2573,97.91 (1524,98.66)
2.	Applications approved ..	104 (27)	74 (18)	83 (14)	101 (9)	362 (68)	477,97.35 (429,16.15)	246,97.61 (172,71.56)	211,63.44 (162,44.00)	646,34.57 (572,56.76)	1582,92.97 (1336,88.47)
3.	Applications rejected/ withdrawn	12 (7)	2 (1)	8 (3)	3 (1)	25 (12)	8,26.28 (5,22.28)	2,89.00 (89.00)	5,06.00 (2,53.00)	1,56.50 (1,00.00)	17,77.78 (9,64.28)
4.	Reporting cases	190 (30)	130 (20)	185 (23)	155 (18)	660 (91)	—189,01.97 (—205,70.60)	—70,74.80 (—71,21.60)	34,10.72 (8,47.74)	5,98.58 (84.00)	—219,67.47 (—267,60.46)

Note: (1) Figures in brackets relate to 'Public Sector'.

(2) The data in this table may not agree in all respects with those appearing in the Report on Trend and Progress of Banking in India 1976-77, due to revisions incorporated subsequently.

were settled during the period under review (July 1, 1976 to June 30, 1977). The subsidy towards pre-shipment credit accounted for Rs. 5.15 crores while the share of subsidy towards post-shipment credit loans was Rs. 4.04 crores; total amount of subsidy disbursed since the inception of the Scheme upto June 30, 1977 amounted to Rs. 49.10 crores.

Interest subsidy at $1\frac{1}{2}\%$ p.a. from the Market Development Fund of the Commerce Ministry and at 3% p.a. from the funds allotted by the Ministry of External Affairs, is also being paid to the Industrial Development Bank of India, the United Commercial Bank and the United Bank of India on a special bank credit of Rs. 25 crores extended by them to certain financial institutions in Bangladesh for import of specified capital goods. The total interest subsidy disbursed to the three banks during the period under review amounted to Rs. 39.12 lakhs (Rs. 10.48 lakhs at $1\frac{1}{2}\%$ and Rs. 28.64 lakhs at 3%).

(d) *Differential Rates of Interest Scheme*

During the calendar year 1976 there was a net increase of 5.4 lakhs in the number of borrowal accounts, i.e., from 4.6 lakhs to 10.0 lakhs, while the amount of loans outstanding recorded an increase of Rs. 26.2 crores (from Rs. 21.0 crores to Rs. 47.2 crores). The average amount of loan per account increased from Rs. 452, at the end of December 1975, to Rs. 470, at the end of December 1976. This large rise is attributable to the intensified efforts made by public sector banks to step up their lendings under the economic programmes for the weaker sections. Table VI-9 shows the progress of lendings under the Scheme.

Table VI.9: Progress of lending under scheme of differential interest rates

At the end of	No. of Accounts (Lakhs)	Balance outstanding (In Rs. Crores)
March 1974	2.6	10.85
March 1975	3.3	14.23
December 1976	4.6	20.98
December 1976*	10.0	47.24

*Provisional.

The Scheme, implemented in the past by public sector banks and the three non-nationalised banks with lead responsibilities (viz., Punjab and Sind Bank, Andhra Bank and Bank of Rajasthan), was extended to cover on a voluntary basis other non-nationalised banks also. The coverage of the Scheme was extended to all parts of the country. State-sponsored corporations established for the welfare of scheduled castes and scheduled tribes were also made eligible to avail of the Scheme subject of course to certain conditions.

(e) *Lead Bank Scheme*

As mentioned in the last year's Report, the RBI constituted a High Power Committee for the purpose of keeping under critical review the overall progress of the Lead Bank Scheme and to issue policy guidelines for the effective functioning of the Scheme. As decided by the Committee, the State Governments were requested to create separate cells both at the State and District levels in order to maintain effective liaison between the Lead Banks and various departments of the State Governments concerned. Accordingly thirteen State Governments had either set up or agreed to set up such cells. Half-yearly progress reports were also called for from the Lead Banks about the implementation of the Lead Bank Scheme in the respective districts to enable the Committee to review the progress from time to time. The progress reports for the period ended June 1976 were received in respect of all the districts. The progress reports for the half-year ended December 1976 were received in respect of 201 out of the total of 375 districts. The reports received are being analysed.

Lead banks were prevailed upon to assume a more positive role in the districts under their command and initiate action for an integrated development of the districts by launching, as early as possible, bankable schemes in accordance with the guidelines appended to the Study Group Report on the working of the Lead Bank Scheme in the States of Gujarat and Maharashtra. They were also advised that, although area development was best under-

taken with the initiative and active participation of the State Government agencies, it was desirable, where the State Government machinery was not properly geared up, that the Lead Bank should display greater innovativeness in formulating bankable schemes and try to involve the State Government through their own initiative. As it was observed that the other banks and financial institutions functioning in the concerned district considered it the sole responsibility of the Lead Bank to grant developmental loans even in areas served by the non-lead banks, the RBI invited the attention of such banks to the Study Groups' Report, according to which the loans in the various programmes were to be shared by different financial institutions on the basis of their resources and capacity and the non-lead banks had as much responsibility as the Lead Banks in promoting the development efforts in the districts concerned through a process of collective action. Further, in order to have an effective liaison among the Lead Banks and other banks working in a particular district, the RBI advised the Lead Banks that unless banks met often and developed a closer relationship between one another, it would be difficult for the Lead Banks to launch the various programmes of development.

According to the information available, credit plans have been prepared for 148 districts in all. For the remaining 227 districts, the plans are either under various stages of preparation or are yet to be taken up. The banks are expected to complete the work by March 1978.

(f) *Bills Rediscounting Scheme*

As in the previous year, all licensed scheduled commercial banks continued to enjoy under the New Bill Market Scheme basic bill rediscount facility at Bank Rate equivalent upto 10 per cent of total bills purchased and discounted (including bills rediscounted with RBI). The limits aggregated as of the last Friday of September 1976 to Rs. 133 crores. All additional bill rediscount limits were sanctioned to banks purely at the discretion of the RBI after having detailed discussions with the banks on their

sectoral deployment of credit, sources and uses of funds, etc. Additional bill rediscount limits aggregating to Rs. 96 crores were sanctioned at rates of rediscount between 10 per cent and 12 per cent per annum initially up to March 31, 1977 and subsequently extended up to June 1977. Banks' recourse to the bill rediscounting accommodation was of the same order as in the last year, the peak availment being Rs. 189 crores in 1976-77 as compared to Rs. 181 crores in 1975-76 and Rs. 269 crores in 1974-75 (July-June).

The basic rediscount quota equal to 10% of inland bills purchased and discounted, which was made available on an automatic basis at Bank Rate, was put on a discretionary basis in May 1977, all discretionary rediscount facilities being subject to terms and conditions stipulated by RBI. Such limits, as at the end of July 1977, amounted to Rs. 150 crores at rates of rediscount varying between 9 per cent and 11 per cent. The outstanding, as at the end of July 1977, amounted to Rs. 108 crores, as against Rs. 152 crores last year.

It may be recalled that banks, were permitted, in January 1975, to rediscount bills with other commercial banks as well as certain approved financial institutions. In June 1977, a ceiling rate of rediscount of 12 per cent was imposed on such bills rediscounted with other banks and approved financial institutions.

(g) *Export Credit*

The measures taken in the field of export financing during the year under review are enumerated below :

POST-SHIPMENT CREDIT

The export sector continued to be accorded high priority in the matter of provision of bank credit. There was no change in the ceilings stipulated on the rates of interest to be charged by banks on export credit. However, in the case of post-shipment credit (other than that given on deferred payment terms for more than one year) banks were required to charge the concessional ceiling rate of interest of 11.5 per

cent up to a maximum period of 120 days in the case of exports to Western Hemisphere and 90 days for others. With a view to bringing about uniformity in this regard, banks were advised by RBI in November 1976, to charge the concessional rate of interest of 11.5 per cent per annum up to a maximum period of 128 days consisting of usance period up to 90 days, normal transit period stipulated by FEDAI and grace period of 3 days (wherever permissible), irrespective of the country to which the exports were made.

The FEDAI also revised its schedule of 'normal transit period' to 15 days to 35 days as against 10 days to 35 days earlier.

BID BONDS

Banks were advised not to insist upon any cash margin in respect of bid bonds and guarantees counter-guaranteed by Export Credit and Guarantee Corporation Ltd. (ECGC). In other cases, they might stipulate a reasonable cash margin, where necessary. They were required to refund 75 per cent of the commission charged in respect of unsuccessful bid bonds. They were also advised to streamline procedures and to designate at important centres, branches with adequate trained staff, to deal with export proposals expeditiously.

Commission charged by banks on bid bonds with export guarantees issued by banks was also reduced to 1/24th of 1 per cent per month for amounts up to Rs. 1 crore and 1/48th of 1 per cent per month on amounts in excess of Rs. 1 crore in cases where the bank guarantees were backed by a counter-guarantee of ECGC covering risk to the extent of 90 per cent of the guarantee value. If ECGC cover was less than 90 per cent, the commission was fixed at 0.05 per cent per month up to Rs. 1 crore and at 0.025 per cent per month for amounts exceeding Rs. 1 crore.

SUB-GROUP FOR FORMULATING GUIDELINES FOR OVERSEAS CONSTRUCTION CONTRACTS

A sub-group consisting of the representatives of RBI, IDBI, ECGC, FEDAI, Ministry of

Finance (Department of Revenue and Banking and Department of Economic Affairs) and Ministry of Commerce was constituted to go into the special features of the overseas construction contracts and to frame suitable guidelines and devise application forms for financial assistance in respect of such contracts. The representatives of Engineering Export Promotion Council and Overseas Construction Council also participated in the discussions of the Group. The guidelines were approved by the Standing Committee on Export Finance and issued to banks.

SUB-GROUP ON CREDIT INFORMATION SYSTEM

Another group consisting of the representatives of RBI, SBI, IDBI, ECGC and FEDAI was set up to work out details relating to 'Export Credit Information System'. In pursuance of the recommendations of the Group, it was decided that ECGC might take necessary action for setting up the Central Data Bank.

AD-HOC COMMITTEES OF BANKS, ECGC AND OTHER FINANCIAL INSTITUTIONS AT PORT-TOWNS

It was decided that ECGC would set up Regional Committees at Bombay, Calcutta, Delhi and Madras to serve as a general forum for exchange of views among the financial institutions and to promote liaison with the various exporting interests in the area. The Committees were to consist of representatives of RBI, IDBI, FEDAI and major banks in the area. In pursuance of the above decisions, ECGC has since set up regional committees at Calcutta and Madras.

The outstanding export credit, which stood at Rs. 977 crores as at the end of June 1976, increased by Rs. 207 crores to Rs. 1184 crores, as at the end of April 1977.

On the basis of a communication from the Ministry of Commerce, Government of India, the various Export Promotion Councils advised their members to present to the RBI their problems relating to export credit. RBI accord-

ingly, received a number of representations from the exporters, which related mostly to non-availability of export credit, while some sought clarifications on matters like eligibility for concessional rate of interest. The representations were followed up where necessary with the concerned banks for remedial action.

DUTY DRAW-BACK CREDIT SCHEME, 1976

The Scheme, introduced by RBI in February 1976 for grant by banks to exporters of interest-free advances upto 90 days against their duty draw-back entitlements, as provisionally certified by customs authorities, had been in operation for more than a year. To avoid any hardship to banks in the availment of refinance from RBI, the minimum amount admissible for the purpose was reduced in June 1976, from Rs. 1 lakh to Rs. 20,000. To review the working of the Scheme, a meeting of the representatives of the major banks, the Customs Department and the Government of India was convened by RBI in September 1976. In the light of the discussions, the Customs authorities were requested to expedite the issue of provisional entitlement certificates and banks were advised to expedite the grant of advances under the Scheme against all eligible entitlement certificates. The issue of provisional entitlement certificates by Bombay Customs authorities since recorded considerable progress. At the other centres, however, the progress in this regard has been somewhat slow.

The working of the Scheme since the beginning, viz., November 1, 1976 has been satisfactory. Limits aggregating Rs. 39.05 crores were sanctioned to 45 banks up to June 30, 1977; 26 banks availed of refinance to the extent of Rs. 27.60 crores, during the period November 1, 1976 to June 30, 1977, as against Rs. 1.57 crores availed of by 14 banks during the seven month period ended October 1976. The amount outstanding, as on the last Friday of June 1977, was Rs. 4.37 crores.

(h) Sick Industrial Undertakings

A Cell created in the Bank has been monitoring the performance of banks 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, in order to serve as an early warning system to throw up signals of incipient sickness.

To have an idea of the intensity of sickness in different industries, the reasons for sickness, the present position and the tasks involved in the 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 RBI quarterly statements giving particulars of all sick units enjoying credit facilities aggregating Rs. 1 crore and above from the banking system. For this purpose, broad guidelines were indicated to banks, *inter alia*, defining a sick unit.

The information contained in the first quarterly statements received from banks showed that they had been able to identify 241 such sick units (excluding the units taken over by the National Textile Corporation) involving aggregate bank finance of about Rs. 610 crores. Data on industry-wise and State-wise distribution of these units, prepared on the basis of the information contained in the quarterly statement as at the end of December 1976, submitted by the banks are presented in Table VI-10.

The Cell also handles problems arising out of the general sickness affecting a particular industry as a whole. Thus, in November 1976, the problems of the sick units exporting sea-food were discussed. Certain decisions to mitigate the problems of the industry as a whole were taken in this meeting.

Further, in the case of certain major units facing difficulties, meetings of banks/financial institutions were convened with a view to sorting out the problems of the units and pave the way for their rehabilitation, once their potential viability was established.

Table VI.10: Chart showing the State-wise and Industry-wise distribution of large sick units enjoying credit limits of Rs. 1 crore and above from the banking system as reported by banks in the quarterly statements as at the end of December 1976

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		(In Crores of Rupees)																	
		Industry-wise																	
		Engineering and Electricals		Textiles*		Jute		Chemicals		Sugar		Rubber		Cement		Others		Total	
		No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit	No. of units	Out-standing credit
1. Maharashtra	..	28	56.32	22	69.38	—	—	3	4.03	1	1.08	1	5.21	—	—	5	8.96	60	144.98
2. West Bengal	..	20	116.10	2	2.62	22	50.36	1	1.78	1	1.32	2	8.62	—	—	10	24.76	58	205.56
3. Tamil Nadu	..	9	17.17	5	29.46	—	—	3	27.02	2	1.26	1	3.61	1	0.40	5	8.46	26	87.38
4. Gujarat	..	6	14.28	18	32.14	—	—	1	2.06	—	—	—	—	—	—	1	0.48	26	48.96
5. Uttar Pradesh	..	5	6.50	4	3.53	1	0.06	—	—	14	8.59	—	—	—	—	2	2.90	26	21.58
6. Andhra Pradesh	..	3	3.90	—	—	1	1.89	1	0.54	1	N.A.	—	—	—	—	2	6.60	8	12.93
7. Bihar	..	2	4.65	—	—	—	—	—	—	1	1.41	—	—	1	2.17	2	6.70	6	14.93
8. Madhya Pradesh	..	1	1.44	3	5.71	1	3.51	—	—	—	—	—	—	—	—	1	1.76	6	12.42
9. Rajasthan	..	1	3.09	1	2.90	—	—	—	—	1	1.29	—	—	1	10.78	—	—	4	18.06
10. Karnataka	..	4	7.13	—	—	—	—	1	4.64	2	3.13	—	—	—	—	—	—	7	14.90
11. Kerala	..	1	1.15	—	—	—	—	—	—	—	—	—	—	—	—	3	5.52	4	6.67
12. Orissa	..	1	2.52	1	5.18	—	—	—	—	—	—	—	—	—	—	1	2.96	3	10.66
13. Haryana	..	3	3.73	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3	3.73
14. Punjab	..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	1.44	1	1.44
15. Assam	..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	0.38	1	0.38
16. Goa Daman & Diu.	..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	0.88	1	0.88
17. New Delhi	..	1	3.29	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	3.29
Total	..	85	241.27	56	150.92	25	55.82	10	40.07	23	18.08	4	17.44	3	13.33	35	71.80	241	608.75

* Excludes sick textile mills taken over by N.T.C.

Table VI.11: Sectoral Deployment of Gross Bank Credit
(Including Bills Rediscounted with the Reserve Bank)

Item	(Amount in Rupees Crores)	
	Variations during the period	
	April 25, 1975 to April 30, 1976	April 30, 1976 to April 29, 1977
1	2	3
1. Public Food Procurement Credit..	+1047 (42.9)	+ 664 (30.7)
2. Priority Sectors (including Export Credit)	.. + 688 (28.3)	+ 655 (30.3)
(a) Small-scale Industries	+ 172 (7.1)	+ 198 (9.1)
(b) Agriculture	.. + 282 (11.6)	+ 224 (10.4)
(c) Other Priority Sectors	.. + 234 (9.6)	+ 233 (10.8)
3. All Other Sectors* (including Export Credit)	.. + 702 (28.8)	+ 847 (39.0)
4. Non-Food Credit (2+3)	.. +1391 (57.1)	+1501 (69.3)
5. Of item 4: Export Credit	.. + 275 (11.3)	+ 125 (5.8)
6. Total Gross Bank Credit (1+4)	.. +2438 (100.0)	+2165 (100.0)

* Includes large and medium industries and wholesale trade.

Note: Figures in brackets are proportions to Gross Bank Credit.

Qualitative Changes in Bank Credit Distribution

Sectoral Deployment of Credit

An analysis of the sectoral deployment of credit indicates the broad observance by commercial banks of the priorities indicated by RBI. Thus, besides public food procurement operations, agriculture, fertiliser distribution, industries in the core sector and manufacturing undertakings in the public sector received financial assistance. Public food procurement credit and priority sectors together accounted

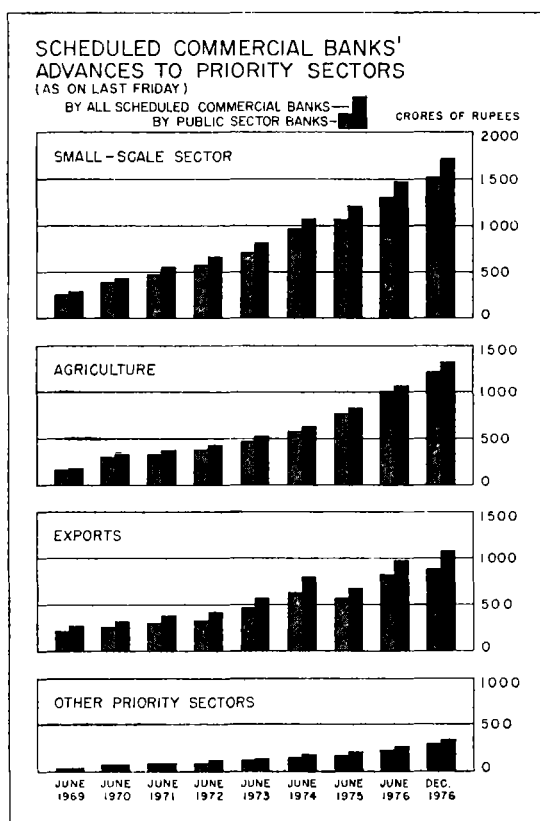
for 61 per cent of the increase in bank credit during April 1976—April 1977 (Table VI-11). Since public food procurement credit rose by only Rs. 664 crores during the year under review as compared with Rs. 1047 crores in the earlier year, its share in incremental credit declined from 42.9 per cent to 30.7 per cent. The priority sector advances recorded a slight increase in their share as compared with last year, in both absolute and relative terms. With the decline in food procurement credit, there was a spurt in advances to other sectors including large and medium industries from Rs. 702 crores or 29 per cent last year to Rs. 847 crores or 39 per cent. The annual trends in regard to sectoral classification of commercial bank credit between March 31, 1968 and June 27, 1975, were reviewed in the last year's Report. Latest data available for December 1975 reveal a similar pattern, (Table VI-12). Similarly the industry-wise break-up of bank credit, as at the end of December 1975, indicates a pattern similar to those of June 1975 (Table VI-13).

Bank Credit to Public Sector

The rising trend in the share of public sector in total bank credit observed in the earlier years continued; this sector accounted for 20.6 per cent of bank credit as against 13.6 per cent a year earlier (Table VI-14). Besides trading activities in the public sector, namely food procurement and distribution, industries like engineering and basic metal and metal products benefited from the increase in bank credit.

Distribution of Credit According to Interest Range

Nearly 40 per cent of total bank credit outstanding at the end of December 1975 carried as in the previous year an interest rate above 15 per cent reflecting the impact of dear money policy and a continuation of the trend observed in the last year's Report. Another 39 per cent of credit was at an interest rate at 12 to 15 per cent, 17 per cent at 9 to 12 per cent and the balance of 4 per cent at 9 per cent or less (Table VI-15).



Advances to Priority Sectors

The continuing expansion of branch banking in rural and semi-urban areas resulted in further increase in bank advances to priority sectors in alignment with national objectives. Total bank credit to these sectors increased by Rs. 1,028 crores during 1976 as against Rs. 691 crores in the earlier year (Table VI-16). The proportion of priority sector advances (excluding food credit) to total bank credit also registered an increase (41.6 per cent) at the end of 1976 as compared with that a year ago (38.6 per cent). Advances to agriculture which stood at Rs. 1,335 crores constituted 30 per cent of total priority sector advances and registered a growth of 30 per cent during the year. Advances to small-scale sector registered a rise of 27 per cent.

Advances to Small-scale Sector

Of the total advances to small-scale sector (Rs. 1,719 crores) at the end of 1976, small-

scale industries accounted for 80 per cent. The increase in advances to this sector during the year was Rs. 274 crores representing a growth rate of 24 per cent. The increases in advances to road and water transport operators and setting up of industrial estates amounted to Rs. 87 crores and Rs. 8 crores, respectively.

Advances to other Priority Sectors

Further progress was made in the extension of bank credit to other neglected sectors like retail trade and small business and professional and self-employed persons, advances to the former increasing by Rs. 78 crores and those to the latter by Rs. 27 crores. The increase in the number of accounts was equally noteworthy in respect of these two sectors indicating a wider dispersal of bank credit.

Exports

Bank credit for exports which stood at Rs. 1,080 crores at the end of 1976 was higher by Rs. 242 crores compared with the position at the end of 1975, the proportionate increase being 29 per cent. The increase in export credit reflected the effect of export promotion measures adopted by Government and RBI. Public sector banks accounted for 80 per cent of the increase in export credit. The share of export credit in the total priority sector advances remained at 24 per cent i.e., the same as in the previous year.

Geographical and Functional Coverage of Banks

Branch Expansion and Geographical Coverage

Commercial banks' branch expansion made further progress during the year with the opening of 3582 offices as against 2490 offices last year. The main emphasis continued to be on systematic branch expansion and progressive reduction in regional disparities. To accelerate the thrust into areas unexposed to commercial banking, the entitlement formula for the opening of new branches was changed. 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

Table VI.12: Sectoral Classification of Scheduled Commercial Banks' Advances

(Rupees Crores)

Sector	Outstanding as on											
	March 31, 1968		June 30, 1972		June 29, 1973		June 28, 1974		June 27, 1975		December 26, 1975	
	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total
1	2	3	4	5	6	7	8	9	10	11	12	13
I. INDUSTRY	2068	67.5	3053	57.6	3490	55.1	4555	56.9	5092	56.5	5600	55.9
(a) Large and Medium Industries ..	1857	60.6	2414	45.5	2731	43.1	3550	44.4	3974	44.1	—	—
(b) Small-Scale Industries ..	211	6.9	639	12.1	759	12.0	1005	12.5	1118	12.4	1178	11.8
II. AGRICULTURE & ALLIED ACTIVITIES	67	2.2	360	6.8	572	9.0	709	8.9	976	10.8	1070	10.7
Of which:												
(a) Direct Finance	..	..	213	4.0	262	4.1	349	4.4	465	5.2	589	5.9
(b) Plantations	58	1.9	115	2.2	109	1.7	133	1.7	136	1.5	155	1.5
III. INTERNAL TRADE	588	19.2	924	17.4	1176	18.6	1396	17.5	1485	16.5	1820	18.2
(a) Wholesale Trade	541	17.7	766	14.4	1006	15.9	1180	14.8	1251	13.9	1557	15.6
Of which:												
Food Procurement	109	3.5	542	10.2	468	7.4	523	6.5	795	8.8	936	9.4
(b) Retail Trade	47	1.5	158	3.0	170	2.7	216	2.7	234	2.6	263	2.6
IV. SERVICES	..	..	..	..	362	5.7	461	5.7	539	6.0	616	6.2
V. PERSONAL LOANS	..	..	..	..	204	3.2	289	3.6	320	3.6	316	3.1
VI. ALL OTHERS	341*	11.1	963*	18.2	529	8.4	589	7.4	599	6.6	591	5.9
VII. TOTAL	3064	100.0	5300	100.0	6333	100.0	7999	100.0	9011	100.0	10013	100.0

.. Not available.

* Includes 'Services and Personal Loans'.

Source: Data for March 31, 1968 are based on 'Survey of Advances of Scheduled Commercial Banks According to Purpose'. Data for June 30, 1972 are based on U.B.B. returns. Data for June 29, 1973, June 28, 1974, June 27, 1975 and December 26, 1975 are based on 'Basic Statistical Returns'.

Table VI.13: Advances of Scheduled Commercial Banks to Major Industries

(Percentage to total bank credit)

Industry	As on					
	March 31, 1968	June 30, 1972	June 29, 1973	June 28, 1974	June 27, 1975	December 26, 1975
1	2	3	4	5	6	7
1. Basic Metal & Metal Products	N.A.	4.3	6.6	6.5	7.2	7.6
(a) Iron & Steel	3.7	2.8	3.7	3.7	4.4	4.7
2. Beverage and Tobacco	N.A.	1.0	1.2	1.3	1.2	0.8
3. Cement	1.3	0.5	0.5	0.5	0.4	0.5
4. Chemicals & Chemical Products	6.0	5.4	5.1	5.6	5.8	5.9
Of which:						
(a) Heavy Industrial Chemicals ..	N.A.	N.A.	0.7	0.7	0.6	0.6
(b) Drugs & Pharmaceuticals ..	N.A.	1.4	1.3	1.3	1.3	1.2
(c) Fertilisers	N.A.	0.6	0.7	0.9	1.3	1.4
5. Coal	0.8		0.4	0.6	0.4	0.5
6. Edible Oils and Vanaspati	1.4	0.6@	1.2	1.2	1.0	0.8
7. Engineering	15.7	12.9	9.9	10.8	11.2	12.3
(a) Heavy Engineering	8.9	N.A.	6.8	7.3	7.7	8.8
(b) Light Engineering	6.8	N.A.	3.1	3.5	3.5	3.5
8. Leather & Leather Products	N.A.	0.6	1.0	0.8	0.7	0.7
9. Manufacture of Basic Minerals	N.A.	N.A.	0.3	1.0	0.8	1.1
10. Paper, Paper Products & Printing	1.6	@	1.8	1.7	1.7	1.8
11. Rice Mills, Flour & Dal Mills	N.A.	N.A.	0.5	0.6	0.5	0.7
12. Rubber and Rubber Products	0.7	0.9	0.6	0.7	0.9	1.0
13. Sugar	5.3	1.9	2.6	2.1	2.6	1.2
14. Textiles	15.5	10.0	12.0	12.2	10.9	10.6
Of which:						
(a) Cotton Textiles	10.3	7.5	7.3	7.3	6.5	6.2
(b) Jute Textiles	3.1	1.5	1.5	1.7	1.3	1.3
15. Vehicles, Vehicle Parts and Transport Equipment	N.A.	2.9	2.5	2.7	2.9	3.1
16. Other Industries	17.6	16.6	8.7	8.6	8.1	7.3
Total Credit to Industries	67.5	57.6	55.1	56.9	56.5	55.9
Total Bank Credit	100.0	100.0	100.0	100.0	100.0	100.0

N.A.: Not available. @ Included under 'Other Industries'.

Sources: Data for March 31, 1968 are based on 'Survey of Advances of Scheduled Commercial Banks According to Purpose'.

Data for June 30, 1972 are based on U.B.B. returns.

Data for June 29, 1973, June 28, 1974, June 27, 1975 and December 26, 1975 are based on 'Basic Statistical Returns'.

Table VI.14: Scheduled Commercial Banks' Credit to Public and Private Sectors

(Amount in Rupees Crores)					
As on	Public Sector		Private Sector		Total Bank Credit Outstanding
	Amount outstanding	Percent to total credit	Amount outstanding	Percent to total credit	
1	2	3	4	5	6
June 28, 1968	267.2	8.6	2835.7	91.4	3102.9
June 28, 1974	1218.9@	15.2	6780.2	84.8	7999.1
December 27, 1974	1106.7@	13.6	7036.8	86.4	8143.5
June 27, 1975	1651.1@	18.3	7359.9	81.7	9011.0
December 26, 1975	2062.2	20.6	7951.0	79.4	10013.2
<i>Of which:</i>					
(a) Trade and other Sectors	1267.7	29.4	3044.7	70.6	4312.4
(b) Manufacturing	721.1	13.3	4708.3	86.7	5429.4
<i>Of which:</i>					
(1) Cotton Textiles	24.1	3.9	591.2	96.1	615.3
(2) Chemicals and Chemical Products ..	40.0	6.8	549.9	93.2	589.9
(3) Basic Metal & Metal Products ..	158.8	21.0	596.4	79.0	755.2
(4) Engineering	322.4	26.2	908.3	73.8	1230.7
(5) Electricity Generation, Transmission and Distribution	73.4	69.1	32.9	30.9	106.3

@ Sector-wise break-up of credit available from BSR-I (Part A) relates to accounts with credit limits of over Rs. 10,000. However, it may be assumed that there are no public sector borrowings with limits below this level. Hence, the amounts under 'Public Sector' are taken from Part A of BSR-I while figures from Part B (i.e., relating to accounts with limits of Rs. 10,000 and below) are included wholly under 'Private Sector'.

banked centre, for every four offices opened in unbanked rural centres. Formerly, banks were allowed to open one office in a metropolitan or urban centre for every two opened in rural or semi-urban centres (1:2); in the case of banks who had less than 60 per cent of their offices in rural and semi-urban areas, the formula was somewhat more stringent at 1:3. Thus the emphasis has now shifted away from the population group classification of rural and semi-urban centres to expansion in unbanked areas. This change it would appear has begun to have an impact on the pattern of branch distribution, as may be seen from Table VI-18. The proportion of rural offices in total offices has increased from 36.2 per cent in June 1976 to 38.4 per cent in June 1977, because of the faster pace of rural branch expansion. This is clearly brought out in Table VI-17, which shows the trend in the share of rural offices in total offices opened.

In the years immediately following nationalisation, the accent on opening rural offices was

pronounced and, in consequence, over 60 per cent of the total new offices opened were in rural centres. Thereafter, the tempo of rural expansion slackened, so that between 1974 and 1976 only around one-third of total new offices were rural. In 1976-77, however, the tempo increased again with over half of total new offices being rural.

The number of commercial bank offices in the country since July 19, 1969 increased by 16,481 to 24,802 at the end of June 1977. The number of offices opened in the unbanked centres was 7722 or 46.7 per cent of the increase during July 1969-June 1977. The average population per bank office (based on estimated mid-year population) came down progressively from 64,000 at the end of June 1969 to 29,000 at the end of June 1976 and further to 25,000 at the end of June 1977.

Regional Rural Banks

During the year ended June 1977, 29 Regional Rural Banks were established bringing the total

Table VI.15 : Distribution of Outstanding Credit† of Scheduled Commercial Banks According to Interest Range

(Amount in Lakhs of Rupees)

Interest Range	As on the last Friday of							
	June 1973		June 1974		June 1975		December 1975	
	No. of Accounts	Amount outstanding	No. of Accounts	Amount outstanding	No. of Accounts	Amount outstanding	No. of Accounts	Amount outstanding
1	2	3	4	5	6	7	8	9
6 per cent and less ..	16,558 (4.3)	143,28 (3.0)	19,235 (4.2)	141,51 (2.5)	23,663 (4.8)	147,55 (2.2)	27,063 (5.1)	170,27 (2.4)
Above 6 per cent and upto 8 per cent	35,984 (9.4)	431,51 (9.2)	34,588 (7.6)	546,24 (9.4)	5,816 (1.2)	113,05 (1.7)	5,380 (1.0)	98,05 (1.4)
Above 8 per cent and upto 9 per cent	20,240 (5.5)	554,22 (11.8)	22,588 (4.9)	386,30 (8.4)				
Above 9 per cent and upto 10 per cent	56,329 (14.7)	935,43 (19.8)	43,437 (9.5)	228,49 (4.0)				
Above 10 per cent and upto 11 per cent	135,321 (35.5)	1770,39 (37.6)	98,860 (21.7)	1500,19 (26.0)	24,008 (4.8)	110,38 (1.7)	24,346 (4.6)	102,23 (1.4)
Above 11 per cent and upto 12 per cent	90,281 (23.6)	721,79 (15.3)	72,637 (15.9)	1032,18 (17.9)	49,402 (10.0)	769,88 (11.7)	55,073 (10.4)	1031,99 (14.4)
Above 12 per cent and upto 13 per cent	27,147 (7.1)	147,55 (3.1)	1551,05 (34.0)	1875,21 (32.5)	50,519 (10.2)	322,55 (4.9)	53,841 (10.2)	296,30 (4.1)
Above 13 per cent and upto 14 per cent					60,190 (12.2)	583,35 (8.9)	62,866 (11.9)	661,98 (9.2)
Above 14 per cent and upto 15 per cent					64,935 (13.1)	1700,01 (25.8)	71,718 (13.6)	1843,48 (25.7)
Above 15 per cent and upto 16 per cent					65,624 (13.2)	1465,76 (22.2)	66,673 (12.7)	1565,63 (21.9)
Above 16 per cent and upto 17 per cent	89 (*)	30 (*)	10,252 (2.2)	74,54 (1.3)	56,698 (11.4)	715,98 (10.9)	58,986 (11.2)	720,13 (10.0)
Above 17 per cent and upto 18 per cent	89 (*)	30 (*)	10,252 (2.2)	74,54 (1.3)	51,394 (10.4)	406,29 (6.2)	57,466 (10.9)	443,42 (6.2)
Above 18 per cent ..					13,102 (2.6)	123,83 (1.9)	14,083 (2.7)	113,10 (1.6)
Unclassified	280 (0.1)	8,77 (0.2)	—	—	10 (*)	3 (*)	—	—
Total	382,229 (100.0)	4713,24 (100.0)	456,702 (100.0)	5766,66 (100.0)	495,508 (100.0)	6580,39 (100.0)	527,318 (100.0)	7164,87 (100.0)

† Relates to accounts with credit limit more than Rs. 10,000; excludes inland and foreign bills purchased and discounted.

* Negligible.

Note: Figures in brackets indicate percentages to total.

Source: Basic Statistical Returns.

Table VI.16 : Scheduled Commercial Banks' Advances to Priority Sectors

						(No. of accounts in thousands) (Amount in Rupees Crores)			
Sector						Public Sector Banks		All Scheduled Commercial Banks	
						No. of Accounts	Amount outstanding	No. of Accounts	Amount outstanding
As on the last Friday of									
						3	4	5	6
1						2			
1. Agriculture	..	..	..	June 1969	165	162	268	188	
				December 1975	3033	937	3448	1024	
				December 1976	4401	1229	4919	1335	
<i>Of which:</i>									
(i) Direct Finance	..	..	..	June 1969	160	40	257	54	
				December 1975	2692	659	3096	725	
				December 1976	3908	916	4413	1003	
(ii) Indirect Finance	..	..	..	June 1969	5	122	11	134	
				December 1975	341	278	352	299	
				December 1976	493	313	506	332	
2. Small-Scale Sector@	..	..	..	June 1969	75	257	85	294	
				December 1975	342	1199	363	1350	
				December 1976	528	1529	553	1719	
<i>Of which:</i>									
(i) Road & Water Transport Operators@	..	..	..	June 1969	2	6	3	8	
				December 1975	84	153	94	191	
				December 1976	144	237	156	278	
(ii) Small-Scale Industries@	..	..	..	June 1969	73	251	82	286	
				December 1975	258	1034	269	1147	
				December 1976	384	1274	397	1421	
(iii) Setting-up of Industrial Estates	..	..	..	June 1969	Neg.	Neg.	Neg.	Neg.	
				December 1975	Neg.	12	Neg.	12	
				December 1976	Neg.	18	Neg.	20	
3. Exports	..	..	..	June 1969	—	204	—	270	
				December 1975	—	698	—	838	
				December 1976	—	891	—	1080	
4. Other Priority Sectors	..	..	..	June 1969	42	22	N.A.	N.A.	
				December 1975	730	203	774	235	
				December 1976	1291	297	1359	341	
<i>Of which:</i>									
(i) Retail Trade and Small Business	..	..	..	June 1969	33	19	N.A.	N.A.	
				December 1975	464	155	496	179	
				December 1976	805	222	854	257	
(ii) Professional and Self-Employed Persons	..	..	..	June 1969	8	2	N.A.	N.A.	
				December 1975	250	43	260	51	
				December 1976	460	69	476	78	
(iii) Education	..	..	..	June 1969	1	1	N.A.	N.A.	
				December 1975	16	5	18	5	
				December 1976	26	6	29	6	
Total Priority Sector Advances (1+2+3+4)	..	..	..	June 1969	282	645	353	752	
				December 1975	4105	3037	4585	3447	
				December 1976	6220	3946	6831	4475	
Total Bank Credit (excluding food advances)	..	..	..	June 1969		2783		3366	
				December 1975		7549		8938	
				December 1976		9081		10743	
Percentage of Priority Sector Advances to Total Bank Credit (excluding food advances)									
				June 1969		23.2		22.3	
				December 1975		40.2		38.6	
				December 1976		43.5		41.6	

Note: Figures for December 1976 are provisional.
 Neg. — Negligible
 N.A. — Not Available

@ The total is based on number of units and not number of accounts in respect of small-scale sector.

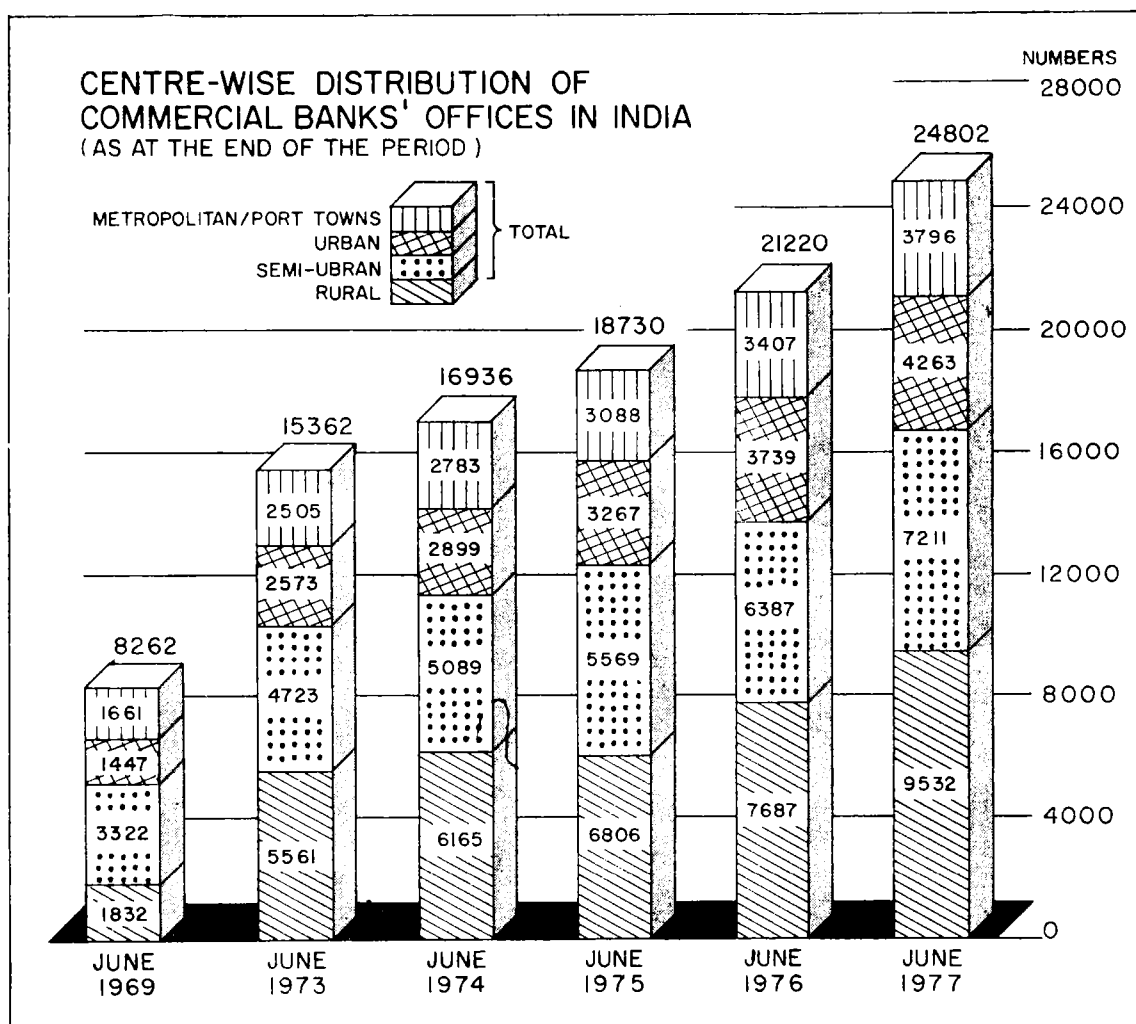


Table VI.17: Share of new rural offices in total new offices

Period July-June	Total office opened during the year	Of which those opened in rural centres	3 as per cent of 2
1	2	3	4
1969-70	1869	1230	65.8
1970-71	1882	1217	64.7
1971-72	1609	537	33.4
1972-73	1740	744	42.8
1973-74	1574	605	38.4
1974-75	1794	641	35.7
1975-76	2490	881	35.4
1976-77	3582	1846	51.5

number thus for the Regional Rural Banks to 48. Of the 29 Regional Rural Banks established during the year, 5 were set up in Bihar, 4 in Uttar Pradesh, 3 in Madhya Pradesh, 2 each in Andhra Pradesh, Karnataka, Kerala, Orissa, Rajasthan and West Bengal and 1 each in Assam, Himachal Pradesh, Maharashtra, Tamil Nadu and Tripura; all these banks have been sponsored by the public sector banks. The total deposits mobilised by all the Regional Rural Banks aggregated to Rs. 15.7 crores and credit extended to Rs. 19.6 crores as at end June 1977.

Table VI.18: Centre-wise Distribution of Commercial Bank Offices in India

Bank Group	Number of offices as on														
	19-7-1969					30-6-1976					30-6-1977				
	Rural	Semi-urban	Urban	Metro-politan/ Port Town	Total	Rural	Semi-urban	Urban	Metro-politan/ Port Town	Total	Rural	Semi-urban	Urban	Metro-politan/ Port Town	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
State Bank of India	462 (29.4)	796 (50.7)	163 (10.4)	150 (9.5)	1571 (100.0)	1616 (41.2)	1312 (33.5)	559 (14.2)	435 (11.0)	3922 (100.0)	1869 (42.8)	1417 (32.5)	604 (13.9)	469 (10.8)	4359 (100.0)
Associate Banks of State Bank of India	358 (40.0)	375 (42.0)	86 (9.6)	75 (8.4)	894 (100.0)	789 (42.7)	639 (34.6)	239 (12.9)	181 (9.8)	1848 (100.0)	847 (42.4)	670 (33.5)	275 (13.7)	208 (10.4)	2000 (100.0)
14 Nationalised Banks ..	703 (16.9)	1465 (35.1)	928 (22.3)	1072 (25.7)	4168 (100.0)	3860 (35.1)	2980 (27.1)	2128 (19.3)	2042 (18.5)	11010 (100.0)	4481 (35.7)	3392 (27.0)	2405 (19.2)	2265 (18.1)	12543 (100.0)
Regional Rural Banks ..	—	—	—	—	—	94 (83.9)	13 (11.6)	5 (4.5)	—	112 (100.0)	688 (88.2)	75 (9.6)	17 (2.2)	—	780 (100.0)
Other Commercial Banks ..	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1688 (100.0)	1328 (30.7)	1443 (33.3)	808 (18.7)	749 (17.3)	4328 (100.0)	1648 (32.2)	1656 (32.3)	962 (18.8)	854 (16.7)	5120 (100.0)
Grand Total	1860 (22.3)	3344 (40.2)	1456 (17.5)	1661 (20.0)	8321 (100.0)	7687 (36.2)	6387 (30.1)	3739 (17.6)	3407 (16.1)	21220 (100.0)	9533 (38.4)	7210 (29.1)	4263 (17.2)	3796 (15.3)	24802 (100.0)

Notes: 1. Centres are defined as:

(a) Rural Centres—Places with a population upto 10,000.

(b) Semi-urban Centres—Places with a population over 10,000 and upto 1,00,000.

(c) Urban Centres—Places with a population over 1,00,000 and upto 10,00,000.

(d) Metropolitan Centres—Places with a population over 10,00,000.

(e) Port Towns—Cochin, Kakinada, Mangalore, Nagapattinam, Okha, Paradeep, Pondicherry, Port Blair, Kandla, Visakhapatnam, Tuticorin and Murmugao.

2. Figures in brackets relate to percentages to the total in each bank group.

Source: Returns submitted by banks.

Table VI.19 : Distribution of Deposits and Advances of Scheduled Commercial Banks According to Population Groups (June 1969—December 1975)

		(Rupees Crores)							
Population Group*		As on last Friday of						Variations (June 1969 to December 1975)	
		June 1969		December 1974		December 1975			
		Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
1		2	3	4	5	6	7	8	9
1. Rural	.. .. .	145	54	924	483	1168	608	1023	554
Percent to total	.. .. .	3.1	1.5	8.0	5.9	8.5	6.0	11.3	8.6
Average amount per office	.. .. .	0.10	0.04	0.14	0.07	0.16	0.09		
2. Semi-Urban	.. .. .	1024	407	2627	1225	3108	1456	2084	1049
Percent to total	.. .. .	22.0	11.3	22.6	14.8	22.7	14.5	23.0	16.2
Average amount per office	.. .. .	0.31	0.12	0.48	0.22	0.50	0.24		
3. Urban	.. .. .	1209	722	2853	1870	3390	2181	2181	1459
Percent to total	.. .. .	25.9	20.0	24.6	22.7	24.7	21.6	24.1	22.6
Average amount per office	.. .. .	0.63	0.38	0.86	0.56	0.90	0.58		
4. Metropolitan	.. .. .	2287	2426	5206	4667	6045	5828	3758	3402
Percent to total	.. .. .	49.0	67.2	44.8	56.6	44.1	57.9	41.6	52.6
Average amount per office	.. .. .	1.53	1.62	1.93	1.73	2.01	1.94		
Grand Total	.. .. .	4665	3609	11610	8245	13711	10073	9046	6464
		(100.0)	(100.0)	((100.0)	(100.0)	(100.0)	(100.0)		
Average amount per office	.. .. .	0.57	0.44	0.65	0.46	0.68	0.50		

*Based on 1971 census

Note: Data for December 1975 are provisional.

Source: Basic Statistical Returns.

The impact on the regional distribution of deposits and credit of the geographical expansion of banking facilities since June 1969 (upto December 1975 for which data are now available) may be seen from the data, presented in Table VI-19.

Deposits and Credit

During the period June 1969 to December 1975 a substantial increase, both in deposit mobilisation and credit disbursement, was witnessed, the increase recorded by rural offices being particularly remarkable. Over the period the total increases in deposits and advances were Rs. 9046 crores and Rs. 6464 crores respectively, of which rural offices of scheduled commercial banks recorded a rise of Rs. 1023 crores and Rs. 554 crores, respectively, their respective share in the overall rise in deposits and advances being 11.3 per cent and 8.6 per cent. It may also be pointed out that the share

of rural offices in total deposits and advances which was only 3.1 per cent and 1.5 per cent in June 1969, improved to 8.5 per cent and 6.0 per cent, respectively, at end December 1975. However, the share of business of rural offices still remained low in the total business. In the case of offices in semi-urban centres, deposits and advances increased three fold; however, their share in total increased over the period only slightly in the case of deposits while in respect of advances it was higher by about 3 percentage points. The combined share of rural and semi-urban centres taken together was 31.2 per cent of total deposits and 20.5 per cent of the total advances and at the end of December 1975, 34.3 per cent and 24.8 per cent of the total incremental deposits and advances, respectively. Consequently, the percentage shares of urban and metropolitan centres taken together, which accounted for nearly two thirds of the increase in deposits and

three fourths of the rise in advances over the period, formed only 68.8 per cent of total deposits and 74.9 per cent of total advances at end-December 1975 as compared to 79.4 per cent and 87.2 per cent, respectively, in June 1969. Nonetheless, over one-half of the total bank credit (57.9 per cent) was outstanding in metropolitan centres.

An analysis of State-wise distribution of deposits and advances of commercial bank offices according to different population groups reveals that Uttar Pradesh showed the largest increase in deposits between June 1969 and December 1975 in rural areas (Rs. 142 crores) followed by Gujarat (Rs. 131 crores) and Punjab (Rs. 120 crores). These three states together accounted for about 38.5 per cent of the total increase recorded by all the states in rural centres. Among the States which recorded sizeable increases in deposits in semi-urban centres, the highest, viz., Rs. 258 crores was in Bihar followed by U.P. (Rs. 236 crores) Gujarat (Rs. 180 crores), Punjab (Rs. 172 crores), West Bengal (Rs. 164 crores) and Maharashtra (Rs. 160 crores). Among the urban and metropolitan centres, the increase witnessed in Maharashtra was the highest (Rs. 1,528 crores). This was followed by West Bengal (Rs. 958 crores), Delhi (Rs. 831 crores), Uttar Pradesh (Rs. 494 crores) and Tamil Nadu (Rs. 451 crores). The share of Maharashtra in total deposit increase (all population groups) was about 19.3 per cent.

State-wise distribution of bank credit in respect of the three population groups during the period June 1969 to December 1975 shows that the offices in rural centres in Karnataka registered the largest increase of Rs. 83 crores followed by Andhra Pradesh (Rs. 66 crores), Tamil Nadu (Rs. 57 crores), Uttar Pradesh (Rs. 53 crores) and Maharashtra Rs. 50 crores which together accounted for about 56 per cent of the increase in credit in rural centres in all the States. In the case of semi-urban centres, Bihar topped the list with an increase of Rs. 124 crores followed by Tamil Nadu (Rs. 107 crores), Karnataka and Maharashtra (Rs. 93 crores each) and Gujarat (Rs. 92 crores).

Among the urban and metropolitan centres, Maharashtra recorded a rise of Rs. 1257 crores in extension of credit which was more than one fourth of the rise in credit in all urban and metropolitan centres. Sizeable increases were also registered by Delhi (Rs. 895 crores), West Bengal (Rs. 583 crores) and Tamil Nadu (Rs. 492 crores). However, the increase in credit in Maharashtra State (all population groups) at Rs. 1400 crores formed a little above one-fifth of the total increase in credit extended in all the States.

Distribution of deposits, as at end-December 1975, according to type in various population groups, is given in Table VI-20. Fixed deposits continued to account for the largest proportion of deposits for all the population groups. Savings deposits. In rural centres formed 39.1 per cent of total deposits. Current deposits, usually associated with trade and industry, were concentrated in urban and metropolitan centres. Nonetheless about 22 per cent of current deposits were in rural and semi-urban offices indicating the increasing significance of the share of industry and trade in the transactions of these offices. Data presented in the Table also reveal the substantial difference in the average size per account of all the types of deposits, the difference being more pronounced between the rural and metropolitan centres.

Indian Banks' Offices Abroad

During 1976-77, Indian commercial banks opened 11 offices abroad as against 17 offices opened in the previous year. Out of these 6 were opened in the United Kingdom (3 at London, one each at Huddersfield, Finchley and Kilburn), 2 in Hongkong and one each at Bahrain, Brussels (Belgium) and Abu Dhabi (U.A.E.). In addition, State Bank of India opened a representative office each in Manila (Philippines), Toronto (Canada) and Teheran (Iran).

As at end of June 1977, there were 11 Indian commercial banks having 94 offices functioning in 22 countries. Besides, there was one subsidiary of an Indian commercial bank (viz.

Table VI.20: Distribution of Deposits of Scheduled Commercial Banks According to Population Group and Type of Deposits
(As on last Friday of December 1975)

(No. of Accounts in Thousands) (Amount in Lakhs of Rupees)																
Population Group	Current			Savings			Fixed			Others			Total			
	No. of Accounts	Amount Out- standing	Average per Account (Rs.)	No. of Accounts	Amount Out- standing	Average per Account (Rs.)	No. of Accounts	Amount Out- standing	Average per Account (Rs.)	No. of Accounts	Amount Out- standing	Average per Account (Rs.)	No. of Accounts	Amount Out- standing	Average per Account (Rs.)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
RURAL	..	511	10803	2114	7007	45720	652	2394	59665	2492	32	586	1831	9944	116774	1174
Percent to total deposit category	..	(11.7)	(4.4)		(18.1)	(12.7)		(15.4)	(7.9)		(12.6)	(5.4)		(16.9)	(8.5)	
Percent to total deposits	..	5.1	9.3		70.5	39.1		24.1	51.1		0.3	0.5		100.0	100.0	
SEMI-URBAN	..	1217	43425	3568	11848	96303	813	4787	169815	3547	70	1222	1746	17922	310765	1734
Percent to total deposit category	..	(27.9)	(17.7)		(30.6)	(26.7)		(30.9)	(22.5)		(27.7)	(10.8)		(30.5)	(22.7)	
Percent to total deposits	..	6.8	14.0		66.1	31.0		26.7	54.6		0.4	0.4		100.0	100.0	
URBAN	..	1232	59149	4801	9777	91519	936	4186	185609	4434	88	2762	3139	15283	339039	2218
Percent to total deposit category	..	(28.2)	(24.1)		(25.3)	(25.4)		(27.0)	(24.6)		(34.8)	(25.2)		(26.0)	(24.7)	
Percent to total deposits	..	8.0	17.5		64.0	27.0		27.4	54.7		0.6	0.8		100.0	100.0	
METROPOLITAN	..	1408	131947	9371	10045	127194	1266	4150	338813	8164	63	6541	10383	15666	604495	3859
Percent to total deposit category	..	(32.2)	(53.8)		(26.0)	(35.2)		(26.7)	(45.0)		(24.9)	(58.6)		(26.6)	(44.1)	
Percent to total deposits	..	9.0	21.8		64.1	21.0		26.5	56.1		0.4	1.1		100.0	100.0	
TOTAL	..	4368	245324	5616	38677	360736	933	15517	753902	4859	253	11111	4392	58815	1371073	2331
Percent to total deposit category	..	(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)	
Percent to total deposits	..	7.4	17.9		65.8	26.3		26.4	55.0		0.4	0.8		100.0	100.0	

Note: Data are provisional.

Source: Basic Statistical Returns.

Table VI.21: ECGC's guarantees and policies for exporters (July-June)

	No. of policies and guarantees				Bank finance availed of (Rs. Crores)	
	Issued during		In force at the end of		1975-76	1976-77
	1975-76	1976-77	1975-76	1976-77		
Standard Policies	2973	3371	5345	5194	178.36	194.97*
Packing Credit Guarantee	1478	1614	1157	1590	1669.92	2353.75
Post-shipment Guarantee	694	774	544	620	82.01	132.74
Export Finance guarantee	253	385	209	425	11.94	16.47
Export Production Finance Guarantee	49	42	55	57	36.95	133.65
Export Performance Guarantee	506	1113	418	1162	24.43	38.31
Transfer Guarantee	29	57	9	43	0.66	27.45
Total	5982	7356	7737	9091	2004.27	2897.24

*Registrations only

Bank of Baroda) with 3 offices operating in one foreign country.

Working of Different Institutions

(a) *Export Credit and Guarantee Corporation Ltd.*

The Corporation showed further progress in its business during 1976-77. The number of policies and guarantees in force increased from 7737, at the end of June 1976, to 9091 at the end of June 1977. The value of risk covered during the year increased from Rs. 2332.25 crores to Rs. 3324.78 crores out of which the value of shipments covered under policies amounted to Rs. 624.68 crores, as compared to Rs. 506.36 crores in the previous year, and the financial guarantees accounted for Rs. 2700.10 crores, as against Rs. 1825.89 crores in 1975-76. The income from premium during the year amounted to Rs. 6.30 crores, as compared to Rs. 3.89 crores during 1975-76.

An important development during the year under review was the announcement of the Scheme covering the risk of commercial banks against non-repayment of advances availed of by the Indian exporters at the post-shipment stage in the event of the buyer dishonouring the bill. The percentage of cover under the new guarantee was to be 85 per cent and the

premium 2.5 paise per Rs. 100 per month, as against 75 per cent cover and premium of 5 paise per Rs. 100 per month, under individual guarantees. The Corporation would, however, continue to operate the scheme of individual post-shipment guarantees also. The new guarantee would be operative after finalising the documentation.

Another new scheme announced during the year was the one relating to insurance cover for joint ventures in third countries. This scheme will provide insurance cover for the execution abroad of projects and civil construction contracts—jointly with another country to third countries. The Corporation will put this scheme into operation shortly.

Yet another important development during the year under review was the enlarging of the scope of the export performance guarantee by offering the following additional facilities:

- (a) Bank guarantees furnished by exporters, STC, MMTC, Export Promotion Councils, Commodity Boards and recognised export houses in the course of export business
- (b) Bank guarantees issued for the purpose of waiver of payment of sales tax for goods intended for export

- (c) Bank guarantees in connection with immigration security bond and customs bond in lieu of customs duty and sales tax on construction equipment furnished by the Indian exporters in the course of export contracts overseas.

Such guarantees would be considered for counter-guarantee by the Corporation.

An amendment effected during the year in respect of performance guarantee related to payment of claims. The Corporation settled claims under its guarantees to banks four months after the due date for payment and hence banks were charging a separate and full rate of commission and even cash margin on the performance guarantees issued on the plea that the ECGC settled claims with a four-month delay. To create confidence among banks about settlement of claims by the ECGC under performance guarantee, it was decided to pay claims as soon as the bank certified that it had in its turn made the payment to the foreign buyer.

(b) *Credit Guarantee Corporation of India Ltd.*

ENLARGEMENT OF SCOPE AND BENEFITS OF GUARANTEE

The Corporation, with a view to enlarging the scope and benefits of its guarantee cover, took several measures during 1976. Thus, advances for consumption needs or for purchase or construction of houses or tenements, wholly or mainly for dwelling purposes, granted directly to 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 those borrowers for their main business or activities. To ensure that the benefit of the guarantee went to the smaller borrowers, certain maximum limits were stipulated for the amount of credit to be extended for such purposes. Similarly, in order to extend the benefit of guarantee cover to landless agricultural labourers, these were specifically

included in the category of "Farmers" and "Agriculturists".

In the case of approved fair price shops, consumer co-operative stores and super-bazars, handling a wide range of commodities of mass consumption, in view of the rise in the volume the operative limit of Rs. 2 lakhs for their annual sales turnover was raised to Rs. 4 lakhs and the ceiling in respect of the Corporation's liability enhanced from Rs. 25,000 to Rs. 50,000 in order to provide adequate guarantee support for advances to these borrowers and of their business.

CHANGE IN PERIODICITY OF PAYMENT OF GUARANTEE FEE

With a view to relieving the pressure of work on the credit institutions, the periodicity of the statements of guaranteed accounts and payment of guarantee fee was changed from once a quarter to once every half-year.

NUMBER OF PARTICIPATING INSTITUTIONS

Thirty four Regional Rural Banks were established during 1976 increasing the total number of such banks to 40. Out of these, 19 and 11 banks joined the Small Loans Guarantee Scheme and the Service Co-operative Societies Guarantee Scheme, respectively. During the year, one more scheduled commercial bank joined the Small Loans Guarantee Scheme, while another scheduled commercial bank ceased to be a participant, consequent upon the transfer of its select assets and liabilities to another bank. Thus, the number of banks participating in the Scheme increased from 76 to 95 (90 scheduled and 5 non-scheduled banks).

With the extension of the Deposit Insurance Corporation Act to the States of Rajasthan and West Bengal, 45 co-operative banks functioning in these States became eligible to participate in the Service Co-operative Societies Guarantee Scheme, raising the total number of eligible banks to 164. But the total number of co-operative banks which joined this Scheme remained unchanged at 29. The number of

scheduled commercial banks participating in the Scheme declined to 62 due to the transfer of assets and liabilities of one of the banks as already referred to. With 11 Regional Rural Banks joining this Scheme, the number of participating institutions increased from 92 to 102. The number of financial corporations participating in the Financial Corporations Guarantee Scheme remained unchanged at 18.

WORKING OF SCHEME

The total amount of advances guaranteed under the three schemes of the Corporation was Rs. 1100.28 crores at the end of December 1976 recording an increase of Rs. 300.68 crores (+37%) over the year (Table VI-22). As in the previous years, about 99 per cent of the guarantee was accounted for by the Small

Loans Guarantee Scheme. Here too, the pattern was similar in that the bulk of guarantees was in favour of farmers and agriculturists. 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 1738 in 1975 to 4031 in 1976 and 3204 during January to May 1977, the amounts involved being Rs. 60 lakhs, Rs. 135 lakhs and Rs. 91 lakhs, respectively. In cases where the Corporation had made payments in respect of claims, it became subrogated to the rights of the credit institution to the extent of such payments. Accordingly, amounts aggregating Rs. 1.63 lakhs towards repayments on account of claims paid were received by the Corporation during 1976 and Rs. 2.76 lakhs during January-May 1977.

Table VI.22: Credit Facilities Guaranteed by the Credit Guarantee Corporation

(Rupees Crores)

	As on last Friday of			
	June 1975	December 1975	June 1976	December 1976
1	2	3	4	5
A. Small Loans Guarantee Scheme				
1. Transport operators	77.15	104.84	149.93	168.35
2. Traders in goods other than fertilisers or mineral oils	60.17	69.12	86.48	97.58
3. Traders in fertilisers or mineral oils	10.62	11.35	13.10	13.97
4. Professional and self-employed persons	34.44	40.69	52.27	57.01
5. Business enterprises	19.09	24.67	31.87	35.38
6. Farmers and agriculturists	426.93	538.74	645.65	708.06
7. Residual category of borrowers under the Differential Interest Rates Scheme	4.02	6.67	10.46	13.99
Total	632.42	796.08	989.76	1094.34
B. Financial Corporations Guarantee Scheme				
1. Transport operators	2.61	2.42	4.98	5.43
2. Business enterprises	0.26	0.20	0.24	0.31
Total	2.87	2.62	5.22	5.74
C. Service Co-operative Societies Guarantee Scheme				
Service Co-operative Societies	0.84	0.90	0.28	0.20
Total (A+B+C)	636.13	799.60	995.26	1100.28

Table VI.23: Selective Credit Controls: Position as on August 20, 1977
(Summary of the provisions of the directives to Scheduled Commercial Banks on advances against selected commodities)

A. Foodgrains				
No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit*	Complete Exemption
(1)	(2)	(3)	(4)	(5)
DBOD. No. Dir. BC. 102/C.218-75 dated 11th November, 1975 and DBOD. No. Dir. BC. 106/C. 218-77 dated 20th August, 1977	35% on advances against paddy to rice mills. 35% on advances against stocks of foodgrains (used as raw material) other than paddy and rice to foodgrains processing units (other than rice mills) for stocks equivalent to four weeks' consumption of such units. 25% on advances against wheat to roller flour mills. 40% on advances against official warehouse receipts covering stocks of foodgrains. 50% on all other advances.	15% per annum for all parties.	In respect of each party, 100% of the peak level of credit maintained by the party in any of the three preceding years (Nov.-Oct.) viz., 1975-76, 1974-75 and 1973-74 (separately in respect of advances against (i) Paddy and Rice and (ii) 'Other Foodgrains' i.e. wheat and foodgrains other than paddy and rice but including coarse grains and pulses). <i>Note:</i> Credit limits granted to any party against wheat at any time during the preceding three years viz., 1975-76, 1974-75 and 1973-74 shall not be utilised by banks for granting credit against 'other foodgrains' (other than wheat) and banks shall strictly enforce this stipulation. <i>Additional Limit for New Branches—</i> Combined limit for advances against any one or both the groups of foodgrains stated above for each new branch opened on or after 1-1-1970 at a centre with a population of 1 lakh or below for granting advances upto Rs. 1 lakh per branch to <i>new parties</i>.	The following categories of advances are completely exempted from control: <i>States:</i> (i) Advances in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. <i>Public Procurement, Storage and Distribution Agencies:</i> (ii) Advances to the Food Corporation of India and State Governments. (iii) Advances to Co-operative Marketing Federations, Central or State Warehousing Corporations and such other agencies duly appointed as agents for the purpose of food procurement/distribution by the Food Corporation of India/Central or State Government to the extent of the stock held by them as such agents. (iv) Advances to rice millers against pledge/hypothecation of paddy and rice held to the extent they act as Government agents, provided the stock is held separately on producers' levy account. (v) Advances against rationed foodgrains granted to wholesale and retail dealers appointed/licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories. (vi) Advances granted to Wholesale consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.
	<i>Exemptions:</i> (i) Advances to manufacturing units and other borrowers, wholly or partly against the security of foodgrains which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., Credit Guarantee Organization, subject to a maximum of Rs. 50,000/- for each such manufacturing unit/borrower provided it/he undertakes to borrow against foodgrains from only one bank.		<i>Exemptions:</i> (i) Advances against wheat granted to roller flour mills. (ii) Advances to traders wholly or partly against the security of foodgrains which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 50,000/- for each such trader, provided he undertakes to borrow against foodgrains from only one bank. (iii) Advances to manufacturing units and other borrowers, wholly or partly against security of foodgrains which are covered by a guarantee scheme of the Credit	

- (ii) Advances to traders wholly or partly against the security of foodgrains which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 50,000/- for each such trader, provided he undertakes to borrow against foodgrains from only one bank.

- Guarantee Corporation of India Ltd.,/ Credit Guarantee Organization, subject to a maximum of Rs. 50,000/- for each such manufacturing unit/borrower provided it/he undertakes to borrow against foodgrains from only one bank.
- (iv) Advances against foodgrains to foodgrain Processing units.
- (v) Advances granted against the security of warehouse receipts issued by the Central or State Warehousing Corporations provided that the amount does not exceed Rs. 25,000/- per borrower.

Others:

- (vii) Advances against the security of maize and barley to manufacturing units (i.e. industrial users) and against the security of soji (rawa), flour (atta) and maida to biscuit manufacturers.
- (viii) Advances granted to processing/manufacturing units covered under the Rural Industries Projects, up to Rs. 50,000/- per unit.
- (ix) Advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of foodgrains.
- (x) Advances against high yielding/hybrid seeds produced under contract with the National Seeds Corporation Ltd., Delhi or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government, or of any certification agencies authorised under the Seeds Act, 1966 and seeds notified under Section 5 of the said Act.
- (xi) Advances directly granted to farmers and to primary co-operative societies for extending credit to their cultivator-members against foodgrains which represent an extension of advances granted earlier against the standing crop for a period of three months from the date of harvesting the said crop, provided that the amount of each of such credit limit does not exceed Rs. 2,500/- per farmer or the amount of the crop loan outstanding which ever is lower.

Exports:

- (xii) Pre-shipment credit granted to exporters against the security of rice and other foodgrains on the basis of firm export orders/irrevocable letters of credit and post-shipment credit given in the form of purchase, negotiation or discounting of export bills or advances there against in respect of export of rice and other foodgrains.

*No bank shall advance against the security of any of the foodgrains where a ban on trading has been imposed in respect of that foodgrain except to wholesale or retail traders who are authorised by the State Government to deal in that foodgrain and to processing units to the extent to which and the manner in which such processing is allowed by the respective State Governments.

(Contd.)

B. Oilseeds, (Indigenous and Imported Groundnut, Rapeseed/Mustard, Cottonseed, Castorseed, Linseed and other imported Oilseeds)

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
(1)	(2)	(3)	(4)	(5)
DBOD No. Dir. BC. 63/C. 218(H)-76/77 dated the 31st May, 1977	A. <i>Indigenous and Imported Oilseeds Groundnut, Cottonseed, Rapeseed/Mustard, Castorseed and Linseed.</i> B. <i>All other Imported Oilseeds</i> (Other than groundnut, cottonseed, rapeseed/mustard, castorseed and linseed) 70% on advances against stocks of groundnut, cottonseed and rapeseed/mustard, castorseed and linseed 60% on advances against warehouse receipts issued by the Central or State Warehousing Corporations covering stocks of groundnut, cottonseed, rapeseed/mustard, castorseed and linseed. 60% on advances against stocks of rapeseed/mustard, equivalent to two months' consumptions of each oil mill in all the States and Union Territories other than Rajasthan, U.P., M.P., West Bengal and Bihar. 45% on advances against stocks of groundnut and rapeseed/mustard seed, equivalent to two months' consumption of each oil mill in Rajasthan, U.P., M.P., West Bengal and Bihar. 60% on advances against imported oilseeds <i>other than</i> groundnut, cottonseed, rapeseed/mustard seed castorseed and linseed <i>after a period of 8 weeks from the arrival of the goods in India.</i>	15% per annum for all parties on loans/advances cash credits/overdrafts against groundnut, cottonseed, mustardseed, castorseed and linseed.	In respect of each party, separate ceiling for each of (i) Groundnut, (ii) Cottonseed (iii) Linseed and Castorseed together 100% of the peak level of credit maintained by the party in any of the three preceding years (November-October) viz., 1975-76, 1974-75 and 1973-74. <i>Exemptions:</i> - Advances against the security of oilseeds grown in India to registered oil mills* and vanaspati manufacturers. - Advances to traders wholly or partly against the security of oilseeds which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 25,000/- for each trader provided he undertakes to borrow against oilseeds from only one bank. - Advances to manufacturing units and other borrowers, wholly or partly against the security of oilseeds, which are covered by a guarantee scheme of Credit Guarantee Corporation of India Ltd./Credit Guarantee Organization subject to a maximum of Rs. 25,000/- for each unit/borrower, provided it/he undertakes to borrow against oilseeds from only one bank. - Advances directly granted to farmers and primary co-operative societies for extending credit to their cultivator-members against oilseeds, which represent an extension of advances granted earlier against the standing crop for a period of three months from the date of harvesting the said crop, provided that the amount does not exceed Rs. 2,500/- per farmer or the amount of the crop loan outstanding whichever is lower.	The following categories of advances are <i>completely</i> exempted from Control: <i>States:</i> - Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. <i>Public Procurement, Storage and Distribution Agencies:</i> - Advances to the Food Corporation of India and the State Trading Corporation against stocks of oilseeds. - Wholesale and retail dealers appointed/licensed by Government/and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution. - Advances to the Wholesale Consumers' Co-operative Stores and the State and National Federation of Consumers' Co-operatives. <i>Exports:</i> - Credit limits in favour of exporters against oilseeds all varieties of cakes in respect of oilseeds meant for exports and/or extractions of oilseeds in respect of specific firm export contracts and/or against export bills. - Packing credit advances to the exporters of HPS groundnut against the security of groundnut to the extent of the value of raw materials required (which should be reasonably assessed) for selecting HPS groundnuts covered

Exemptions:

- (a) Advances to traders wholly or partly against the security of oilseeds which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 25,000/- for each trader provided he undertakes to borrow against oilseeds from only one bank.
- (b) Advances to manufacturing units and other borrowers, wholly or partly against the security of oilseeds, which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd./Credit Guarantee Organization subject to a maximum of Rs. 25,000/- for each unit/borrower, provided it/he undertakes to borrow against oilseeds from only one bank.
- (c) Advances directly granted to farmers and primary co-operative societies for extending credit to their cultivator-members against oilseeds, which represent an extension of advances granted earlier against the standing crop for a period of three months from the date of harvesting the said crop, provided that the amount does not exceed Rs. 2,500/- per farmer or the amount of the crop loan outstanding, whichever is lower.
- (d) Advances against all imported oilseeds *for a period not exceeding eight weeks after arrival of the goods in India.*

(e) Advances against warehouse receipts issued by the Central or State Warehousing Corporations, provided that the amount does not exceed Rs. 25,000/- per borrower.

(f) Advances against imported oilseeds.

by the export order even through the value of the raw materials exceeds the value of the relative export order, provided that such advances to the extent of the value of the residual groundnut shall be adjusted either by the sale proceeds of the residual groundnut or in cash, as soon as the selection of the HPS groundnut is completed, within 15 days from the date of such advances and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bills.

(g) Advances granted to processing/manufacturing units covered under the Rural Industries Projects upto Rs. 25,000/- per unit.

Others:

(h) Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of commodities covered by the directive.

* All mills registered under the Factories Act, 1948 or licensed under the Industries (Development and Regulation) Act, 1951 or registered with the State Department of Industries and Commerce or any other Governmental Authority.

C. Vegetable Oils (Indigenous and Imported Groundnut Oil, Cottonseed Oil, Rapeseed/Mustard Oil, Castor Oil, Linseed Oil, Vanaspati and other Imported Edible oils)

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
(1)	(2)	(3)	(4)	(5)
DBOD No. Dir. BC. 63/C. 218 (H)-77 dated 31st May, 1977	<i>Indigenous and Imported Oils:</i> 1. (a) 85% on advances against stocks of groundnut oil, cottonseed oil, rapeseed/mustard oil, vanaspati, castor oil and linseed oil. <i>Imported Edible Oils:</i> (b) 60% on advances against imported oils (other than those mentioned at 1(a)* after a period of four weeks from the arrival of the goods in India. 2. 75% on advances against warehouse receipts issued by the Central or State Warehousing Corporations covering stocks of groundnut oil, cottonseed oil, rapeseed/mustard oil, vanaspati, castor oil and linseed oil. 3. <i>On advances against vanaspati to vanaspati manufacturers—</i> (a) 70% in all the States and Union Territories other than Gujarat and Maharashtra (b) 85% in the States of Gujarat and Maharashtra 4. On advances to vanaspati manufacturers against warehouse receipts issued by the Central or State Warehousing Corporation covering stocks of vanaspati 75% in the States of Gujarat and Maharashtra, and 60% in all the other States and Union Territories. 5. <i>On advances to vanaspati manufacturers against controlled vegetable oils mentioned in 1 above:</i>	15% per annum to all parties on loans/ advances/ cash credits/over-drafts against groundnut oil, cottonseed oil, rapeseed/ mustard oil, castor oil, linseed oil and vanaspati.	In respect of each party, 100% of the peak level of the credit maintained by the party in any of the three preceding years (November-October) viz., 1975-76, 1974-75 and 1973-74. <i>Exemptions:</i> (a) Advances against vegetable oils and vanaspati (manufactured in India) to vanaspati manufacturers and registered oil mills. (b) Advances to consumers' Co-operatives in respect of stocks held under the centrally-sponsored scheme for distribution of essential consumer articles. (c) Advances to traders wholly or partly against the security of vegetable oils (including vanaspati) which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 25,000/- for each such trader, provided he undertakes to borrow against vegetable oils (including vanaspati) from only one bank. (d) Advances to manufacturing units and other borrowers, wholly or partly against the security of vegetable oils (including vanaspati) which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd./Credit Guarantee Organization, subject to a maximum of Rs. 25,000/- for each such unit/borrower, provided it/he undertakes to borrow against vegetable oils (including vanaspati) from only one bank. (e) Advances against warehouse receipts issued by the Central or State Warehousing Corporations, provided the amount does not exceed Rs. 25,000/- per borrower. (f) Advances against all imported vegetable oils.	The following categories of advances are completely exempted from control. <i>States:</i> (a) Advances in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. <i>Public Procurement, Storage and Distribution Agencies:</i> (b) Advances to the Food Corporation of India and the State Trading Corporation against the stocks of vegetable oils and vanaspati. (c) Wholesale and retail dealers appointed/ licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution. (d) Advances against stocks of oils processed from linseed oil and castor oil for use as industrial raw material by factories. (e) Advances against receivables arising out of sale of vegetable oils (including vanaspati) delivered to Army Purchase Organisation and against stocks of vanaspati held by vanaspati manufacturers for being delivered to the Army Purchase Organisation in the Ministry of Food and Agriculture, Government of India, New Delhi and with the prior approval of the RBI, other agencies designated for the purpose by the Central and State Governments, in pursuance of contracts entered into or to be entered into with the said Organisation by the said manufacturers.

- (a) 50% on advances against stocks of such oils used as raw material equivalent to 6 weeks' consumption of each factory located in Eastern Zone,
- (b) 60% on advances against stocks of such oil used as raw material equivalent to 6 weeks' consumption of each factory located in Northern Zone, and
- (c) 60% on advances against stocks of such oils used as raw materials equivalent to 4 weeks' consumption of each factory in Southern and Western Zones.

The stocks of oils mentioned in 5(a) to 5(c) have to be worked out on the basis of average of *weekly* consumption during the period from October 1976 to March 1977.

For New Vanaspati Factories:

The basis is the average actual weekly consumption from the date of establishment, and

For Vanaspati Units likely to start production in future:

The margin is to be related to 4 to 6 weeks' requirement (as stipulated) depending upon the location of the factory, based on one-third of the average weekly production capacity of the units for the first six months and thereafter based on the average actual weekly consumption during the preceding six months.

- 6. On advances to registered oil mills (other than vanaspati manufacturers) against stocks of groundnut oil, cottonseed oil, rapeseed/mustard oil, castor oil and linseed oil—75% of the value of stocks; 65% for advances against warehouse receipt of Central or State Warehousing Corporations covering these commodities.

- (f) Advances to Wholesale Consumers' Co-operative Stores and the State and National Federations of Consumers' Co-operatives.

Exports:

- (g) Packing credit advances to the exporters of de-oiled and/or de-fatted cakes against the security of oilseeds and/or other raw material to the extent of the value of raw material required for producing cakes covered by the export order, even though the value of the raw material exceeds the value of the relative export order;

Provided:

- (h) (i) Such advances to the extent of the value of by-product oil shall be adjusted by the sale proceeds of the by-product oil or in cash as soon as the oil is extracted but within a period not exceeding 15 days from the date of advance and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bills, and (ii) advances, if any, against the by-product oil granted in a separate account are exempted for a period of 15 days from the date of such advances.
- (i) Pre-shipment credit granted to exporters against the security of linseed oil on the basis of firm export orders/irrevocable letters of credit and post-shipment credit given in the form of purchase, negotiation or discounting of export bills or advances there against in respect of export of linseed oil.

Others

- (j) Advances granted to processing/manufacturing units covered under the Rural Industries Projects up to Rs. 25,000/- per unit.
- (k) Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.

* All scheduled commercial banks are prohibited from discounting usance bills arising out of sale of commodities covered under selective credit controls.

C. Vegetable Oil (Indigenous and Imported Groundnut Oil, Cottonseed Oil, Rapeseed/Mustard Oil, Castor Oil, Linseed Oil, Vanaspati and other Imported Edible oils)

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No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
(1)	(2)	(3)	(4)	(5)
<i>Exemptions:</i> (a) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for the distribution of essential consumer articles. (b) Advances to traders wholly or partly against the security of vegetable oils (including vanaspati) which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 25,000/- for each such trader, provided he undertakes to borrow against vegetable oils (including vanaspati) from only one bank. (c) Advances to manufacturing units and other borrowers, wholly or partly against the security of vegetable oils (including vanaspati), which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd./Credit Guarantee Organization subject to a maximum of Rs. 25,000/- for each such unit/borrower, provided it/he undertakes to borrow against vegetable oils (including vanaspati) from only one bank. (d) Advances to vanaspati manufacturers against cottonseed oil. (e) Advances against all imported vegetable oils for a period not exceeding 4 weeks after arrival of the goods in India. Banks should not establish letters of credit on more than 45 days' D/A basis for import of edible oils, as far as possible. In case banks establish letters of				

Ref. DBOD. No. Dir.
BC. 73/C. 218 (H)-77
dated 15th June, 1977

credit on more than 45 day's D/A basis, they should stipulate that, after 30 days from the date of arrival of the goods in the port, the importer will deposit with them an amount equivalent to the margin amount which he would have provided under the directives had he availed himself of advances against the commodity.

D. Cotton and Kapas

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
(1)	(2)	(3)	(4)	(5)
DBOD. No. Dir. BC. 76/C218 (F)-76 dated the 8th July, 1976 and DBOD. No. Dir. BC. 107/C.218(F)-77 dated 20th August, 1977	(A) <i>Mills under National Textile Corporation</i> (i) 20% for stocks of 6 weeks' consumption (ii) 35% for stocks in excess of 6 weeks' consumption (B) <i>Other Mills</i> 1. For mills other than those in Bombay, Ahmedabad and in the States of Bihar and West Bengal. (i) 25% for stocks of 6 weeks' consumption (ii) 45% for stocks in excess of 6 weeks' consumption	(a) 14% p.a. on advances to Cotton mills in respect of raw cotton stocks or Kapas of four, six or, eight weeks' consumption for which they are entitled for the benefit of lower margin as specified in the directive (b) 14% p.a. for mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton and kapas equivalent to eight weeks' consumption and	In respect of each party other than a cotton mill: 100% of the peak level of credit maintained by that party with the bank in any of the three preceding years (November-October) viz., 1975-76, 1974-75 and 1973-74 <i>Exemptions:</i> 1. Advances against cotton and kapas to industrial users such as manufacturers of surgical cotton (absorbent cotton wool), provided that such stock is held by the borrower for processing and not for re-sale. 2. Advances against the security of stocks of (a) imported cotton and (b) new and/or long-staple varieties of cotton grown in India. viz. Hybrid 4 and 5 (Shankar 4 and 5), Gujarat 67 (LSC-67), MCU 4, 5 and 8, Sujatha, Sea Island Andrews, Hampi, Varalaxmi, Maljhari, Narmada A. 51/9, Khandwa 1 and 2, Suvin, Vishnu and Badnavar 1, 320-F, Bengal Deshi, J-34 and 205, H-14, Bikaneri-Narma, R.S.-89, Jawahar Kapas, Sujay, SRT-1 Jyoti, Mahalakshmi, NH-12, Bhagya (GS-25), CBS-156 and Giza-7.	The following categories of advances are completely exempted from control: <i>States:</i> 1. Advances in Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura, <i>Exports:</i> 2. Advances in respect of pre-shipment credit for cotton exports, provided the advances are made in respect of firm export order and repaid on negotiation of the relevant export bills on shipment. 3. Advances to cotton mills in respect of pre-shipment credit against such stocks of indigenous cotton and kapas as are required for the manufacture of cotton textiles (including yarn) in respect of which firm export orders have been received either directly by the mills or by merchant-exporters through whom the mills are exporting cotton textiles (including yarn) provided the contracts with merchant-exporters are registered with Cotton Textiles Export Promotion Council and other requirements of the pre-shipment finance are complied with.

(Contd.)

D. Cotton and Kapas (Contd.)

No and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
(1)	(2)	(3)	(4)	(5)
		(c) 15% per annum for other stocks of raw cotton held by the mills as well as to parties other than cotton mills.		
C. For mills in Bombay and Ahmedabad			4. Advances against warehouse receipts issued by Central or State Warehousing Corporation, provided the amount does not exceed Rs. 25,000 per borrower /-	4. Advances against the security of or by way of purchase or discount of export bills relating to export of cotton from India.
(i) 25% for stocks of 4 weeks' consumption				
(ii) 45% for stocks in excess of 4 weeks' consumption				
D. For mills in Bihar and West Bengal				Others
(i) 20% for stocks of 8 weeks' consumption				5. Advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of cotton and kapas.
(ii) 40% for stocks in excess of 8 weeks' consumption				
E. For mills solely engaged in spinning yarn				6. Advances granted to processing/manufacturing units covered under the Rural Industries Projects, upto Rs. 25,000/- per unit.
(i) 20% for stocks of 6 weeks' consumption				
(ii) 35% for stocks in excess of 6 weeks' consumption				
F. To others (parties other than the cotton mills):				
(i) 45% for stocks of new and/or long-staple varieties of cotton grown in India viz. Hybrid 4 and 5 (Shankar 4 and 5), Gujrat 67 (LSC-67), MCU 4, 5 and 8, Sujatha, Sea Island Andrews,				

Hampi, Varalaxmi, Maljhari, Narmada A-51/9, Khandwa-1 and 2, Suvin, Vishnu and Badnavar-1, 320F, Bengal Deshi, J-34 and 205, H-14, Bikaneri-Narma, R. S. 89, Jawahar Kapas, Sujay, SRT-1, Jyoti, Mahalakshmi, NH-12, Bhagya (GS-23), CBS-156 and Giza-7.

- (ii) 25% for stocks of imported cotton.
- (iii) 60% of stocks of other varieties of cotton.
- (iv) 50% of stocks covered by warehouse receipts.

Exemptions:

1. Advances against cotton and kapas to industrial users such as manufactures of surgical cotton (absorbent cotton wool), provided that such stock is held by the borrower for processing and not for re-sale.
2. Advances to mills run by the Government of West Bengal under the National Textile Corporation or by its authorised agencies, against stocks equivalent to eight weeks' consumption of each mill. @
3. Advances granted to mills against the security of imported cotton.

DBOD No. Dir. BC. 64/C. 218(F)-77 dated 31st May, 1977

@ Minimum rate of interest of 14 per cent per annum applies to advances against these stocks.

(Contd.)

E. Sugar, Gur and Khandsari

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No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Complete Exemption
(1)	(2)	(3)	(4)
DBOD. No. Dir. BC. 105/C. 218(J)-75 dated the 11th November, 1975 and DBOD No. Dir. BC. 113/C. 218(J)-76 dated the 14th October, 1976.	A. <i>To Sugar Factories:</i> (i) 65% on advances against the stocks of free sale sugar which have been released for sale. (ii) 55% on advances against warehouse receipts issued by the Central or State Warehousing Corporations covering stocks of sugar referred to in (i) above. (iii) The minimum margin on advances against the stocks of sugar other than those referred to in (i) above will be as under: 15% for both free sale sugar and levy sugar provided that stocks of levy sugar are valued at levy price fixed by Government and stocks of free sale sugar are valued at tariff value fixed by Government or at market price, whichever is lower. B. <i>Manufacturers of Gur and Khandsari:</i> 60%. C. <i>To Others:</i> (i) 65% on advances against sugar and 75% on advances against gur and khandsari. (ii) 55% on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of sugar, gur and khandsari. <i>Exemption:</i> Advances to consumers' co-operatives in respect of stocks held under the Centrally-Sponsored Scheme for the distribution of essential consumer articles.	(i) <i>For Sugar Factories:</i> (a) 15% per annum in respect of free sale sugar stocks which have been released by Government for sale. (b) 14% per annum for free sale sugar stocks which have not been released by Government for sale. (ii) <i>For parties other than sugar factories:</i> 15% per annum.	The following categories of advances are completely exempted from control. <i>Public procurement, storage and distribution agencies:</i> (i) Advances to Food Corporation of India. (ii) Advances to Wholesale Consumers' Co-operative Stores or State and National Federations of Consumers' Co-operatives. <i>Exports:</i> (iii) Advances granted in respect of stocks of sugar pledged/hypothecated with banks which are intended for export out of India. <i>Others:</i> (iv) Advances granted by way of purchase of demand documentary bills drawn in connection with movement of commodities covered by this directive. (v) Advances granted to processing/manufacturing units covered under the Rural Industries Projects, up to Rs. 25,000/- per unit. (vi) Advances granted to industrial users such as confectionaries, bakeries, biscuit manufacturers, etc., against stocks of sugar, gur and khandsari pledged/hypothecated with the banks. (vii) Advances against sugar granted to wholesale and retail dealers appointed/licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of quantum of sugar allotted to them by Government.

**F. Cotton Textiles including Cotton Yarn, Man-made Fibres and Yarn and Fabrics
made out of Man-made Fibres (Including Stocks-in-Process)**

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Complete Exemption
(1)	(2)	(3)	(4)
DBOD. No. Dir. BC. 106/C.218(T)-75 dated 11th November, 1975 and DBOD No. Dir. BC. 32/C. 218(T)-76 dated 15th March, 1976.	<i>For traders, dealers and agents:</i> 30%.	15 % per annum for traders, dealers and agents.	<i>Exports:</i> (i) Advances in respect of pre-shipment credit for exports of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres provided the advance is made in respect of firm export order and is repaid on negotiation of relevant export bills on shipment. (ii) Advances against the security of or by way of purchase or discount of export bills relating to export of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres, from India. <i>Others:</i> (iii) Advances to traders wholly or partly against the security of cotton textiles including cotton, yarn, man-made fibres and yarn and fabrics made out of man-made fibres which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to maximum of Rs. 25,000/- for each such trader, provided he undertakes to borrow against these commodities from only one bank. (iv) Advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres. (v) Advances against the security of handloom powerloom and hand-woven cotton cloth. (vi) Advances against controlled cloth. (vii) Advances to co-operatives and nominees of State Governments handling these commodities. (viii) Industrial users such as those manufacturing ready made garment, sewing threads, umbrella cloth etc.

No scheduled commercial bank shall discount bills of exchange arising out of sale of cotton textiles having a usance in excess of sixty days.

Table VI.24: Statement showing (a) The position in regard to Licences issued to Banks for opening Offices in India, in Terms of Section 23 and (b) Particulars of Moratorium granted under Section 45 of the Banking Regulation Act, 1949 during July 1976 to June 1977

No. of licences issued for opening new offices	No. of licences issued for opening temporary/seasonal offices	No. of licences issued for changing location of existing offices	Total number of licences issued
(1)	(2)	(3)	(4)
4104	..	@	4104

@ No fresh licenses were issued for this purpose. Existing licenses are duly amended.

No Moratorium was granted to any bank during July 1976 to June 1977 under Section 45 of the Banking Regulation Act, 1949.

Table VI.25: Statement showing the number of offices opened or closed in foreign countries by Indian Banks during July 1976 to June 1977

No. of offices opened:	1	6 in the United Kingdom—3 at London, one each at Huddersfield, Finchley and Kilburn, 2 in Hong Kong—both at Tsin Sta Tsui, (Kowloon) and one each at Bahrain, Brussels (Belgium) and Abu Dhabi (U.A.E.)
	2	Representative offices opened by State Bank of India one each in Manila (Philippines), Toronto (Canada) and Teheran (Iran).
No. of offices closed:	Nil.	

Table VI.26: Particulars in respect of amalgamation and transfer of liabilities and assets of banking companies during the period July 1976 to June 1977

	Name of the bank	No. of offices	Name of the transferee bank	Date of amalgamation or transfer
	(1)	(2)	(3)	(4)
I. List of banks amalgamated under Section 44(A) of the Banking Regulation Act, 1949	—	—	—	—
II. List of banks which have transferred their liabilities and assets to other banks	Narang Bank of India Ltd.	4	United Bank of India	1-8-1976
III. List of banks whose business has been acquired by the State Bank of India under Section 35 of the State Bank of India Act, 1955 or by its subsidiaries under section 38 of the State Bank of India (Subsidiary Banks) Act, 1959.	—	—	—	—

The Corporation received 10,010 claims for an amount of Rs. 3.12 crores up to the end of May 1977. Out of these, the largest number of claims, viz., 6,476 involving an amount of Rs. 1.9 crores, was in respect of farmers and agriculturists. Of the total claims received up to 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 would be paid immediately on settlement, subject to the condition that in the event of counter-claims, the credit institution would refund such amount as may be determined by the Corporation in due course, for pro-rata distribution, wherever necessary.

(c) Deposit Insurance Corporation

An important development during the year was the raising of the amount of insurance cover with effect from July 1, 1976 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 development was the extension of the Deposit Insurance Scheme to 295 co-operative banks in three more States, viz., West Bengal (56) in September 1976, Rajasthan (39) in November 1976 and Karnataka (200) on January 1977. During the year under review, the number of insured commercial banks came down from 79 to 78 consequent upon deregistration of the Narang Bank of India Ltd., the same having been taken over by the United Bank of India with effect from August 1, 1976. Further, during the year, 28 Regional Rural Banks were registered as insured banks increasing their number to 47. Subsequently, one more Regional Rural Bank, established in June 1977 was also registered as an insured bank with effect from July 1, 1977. The number of insured co-operative banks went up from 536 as on June 30, 1976 to 848 as on June 30, 1977. The Scheme now covers co-operative banks in 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 and Union Territories is under active consideration.

The total claims paid, or provided for, by the Corporation since its inception amounted to Rs. 113.04 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. 70.46 lakhs, including Rs. 2.58 lakhs received during the year. Claims amounting to Rs. 9.86 lakhs received from three co-operative banks in Maharashtra which were taken into liquidation were paid or provided for during the period under review.

Other Banking Developments

Committee on Transfer of Loan Accounts

A reference was made in last year's Report about the constitution by the Bank of a committee on Transfer of Loan accounts in March 1976 for suggesting norms for regulating the orderly transfer of borrowal accounts among banks and the Bank's acceptance thereof. Necessary guidelines and the procedure to be followed for transfer of borrowal accounts with credit limits of Rs. 25 lakhs and above were issued by the RBI to all scheduled commercial banks in June 1977.

Committee on Penal Rates and Service Charges by Banks

The recommendations of the Committee on Penal Rates and Service Charges have been accepted by the RBI 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 so long as they were applied with selectivity and discrimination. Secondly, penal rates were not to be used 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 1 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 RBI.

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 one per cent per annum on the outstanding debit balance by January 1, 1977 and to one half of one per cent by July 1, 1977. Banks are required to do away with the existing 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 have not hitherto levied such charges. As regards cases where customers, having applied for credit facilities, do not avail of limit/s sanctioned, broadly or substantially on the conditions sought 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. RBI 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

In the last year's Report brief particulars of the recommendations incorporated in the Interim Report submitted by the Working Group on Customer Service were given. Out of the 97 recommendations made in the aforesaid Report, 13 recommendations require legislative or other action on the part of the Government/

RBI. Necessary action on these recommendations has already been taken or initiated. Of the remaining 84 recommendations, 15 recommendations require discussion with Unions of employees. Another 69 recommendations could be implemented by banks without any difficulty. From the reports received from banks, it is observed that 80 per cent of the recommendations in the last category have been implemented by them. The Working Group has since submitted its final report to the Government. The final report contains as many as 176 recommendations, i.e., 79 more recommendations than in the Interim Report. The Government have appointed a small group consisting of the representatives of the Banking Division of the Department of Economic Affairs, RBI and the public sector banks to examine the recommendations and to oversee the implementation of those which are accepted by the Government.

Working Group on Operational Efficiency and Profitability of Banks

As already mentioned in the last year's Report, the RBI 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 in regard to 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 was submitted in October 1977.

Inter-Institutional Group on Financing of Gobar Gas Plants

RBI constituted in July 1975 an Inter-Institutional Group to review the scheme of the Khadi and Village Industries Commission in regard to *gobar* gas plants and to suggest lines of action enabling greater involvement of banks and larger flow of credit from them for successful and speedy implementation of the programme. Based on the recommendations of the

Group, RBI has circulated a set of guidelines for the financing of *gobar* gas plants by commercial banks.

Working Group to Study Problems of Bank Credit in the North-Eastern Region

The Bank appointed a Working Group in August 1976 to examine the special socio-economic features of the North-Eastern Region, to identify the factors impeding the flow of bank credit and to make appropriate recommendations for speedy banking development in the region. The working Group has since submitted its report. A committee has been constituted to process the report and suggest measures for the speedy implementation of the recommendations contained therein.

Working Group to Study Problems Arising out of the Adoption of the Multi-agency Approach in Agricultural Financing

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 its actual implementation. The position has been further complicated with the establishment recently of Regional Rural Banks. With a view, therefore, to studying in depth the problems created by the multi-agency approach and to suggest solutions, the Bank constituted a Working Group in October 1976.

Working Group on Finance for Housing

RBI constituted a Working Group to examine the role of the banking system in providing finance for housing schemes. According to its terms of reference, the Group is, *inter alia*, required to review the credit facilities presently available for building activities, both direct and indirect, to consider the types of house construction and other building activities, which may be deemed eligible for institutional credit generally, and, of these, the activities, which may be considered eligible for bank credit. The Working Group has been asked to assess the need and the scope for direct and indirect finance for

house construction and other building activities and in the context of the constraint on the lendable resources of banks, to determine the basis of allocation of bank credit for housing schemes vis-a-vis the demand for such credit from the different priority sectors and the customary users of credit.

Committee to Study Functioning of Public Sector Banks

RBI set up a Committee in June 1977 to study all aspects of the functioning of public sector banks and in the light of its findings, make recommendations on them. 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.

Committee on Regional Rural Banks

A Committee was constituted by RBI in June 1977 to evaluate the performance of Regional Rural Banks in the light of the objectives for which they were set up, to indicate their precise role in the rural credit structure and to make recommendations with regard

to the scope, methods and procedures for their functioning and other matters germane to the enquiry.

Expert Group on Agricultural Credit Schemes of Commercial Banks

In pursuance of the recommendations of the Estimates Committee of the Fifth Lok Sabha (contained in its 62nd Report) RBI constituted an Expert Group on Agricultural Credit Schemes of Commercial Banks in August 1977 to review the different types of schemes formulated by Commercial Banks for extending short, medium and long-term financial assistance for various agricultural and allied activities and, in the light of its findings and taking into consideration technological and other changes, suggest the general pattern of new schemes which banks could frame and implement so as to meet the credit requirements of farmers and agriculturists.

Working Group on Planned Participation of Commercial Banks in Schemes of Rural Electrification

RBI constituted in August 1977 an informal Working Group to examine the scope for the planned participation of commercial banks in schemes of rural electrification aimed at area development and/or energisation of pump-sets, to make suitable recommendations in that regard and to indicate further steps necessary to bring about more effective co-ordination between commercial banks and the concerned long-term financial institutions such as the Agricultural Refinance and Development Corporation and Rural Electrification Corporation.

Recommendations of the Banking Commission

In the Reports of earlier years it was mentioned that banks were requested by RBI to take steps to implement such recommendations of the Banking Commission as were accepted by the Government. Progress reports received from banks revealed that steps were being taken by them to implement these recommendations.

Some recommendations relating to the regulation of *Multani* business which have also been accepted by the Government are being examined by RBI.

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

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 had 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. The implementation of the Banking Agreement was to have been watched by a Committee consisting of the representatives of the Finance Ministries of the two countries. There had been no meeting of the Committee after March 1962. 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 Custodian of Enemy Property in India. The Government of India issued an order on June 24, 1976 directing the Custodian of Enemy Property to release the amount. The amount aggregating Rs. 16.33 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.

Age of Retirement of Officer-employees of Nationalised Banks

In June 1976 the Government of India directed the public sector banks also to enforce the age of retirement applicable to others. In terms of the above decision, the age of retirement of officers recruited in the post-nationalisation period was to be fixed at 58. In the case of officers recruited or promoted prior to nationalisation, or recruited prior to nationalisation but promoted after nationalisation, the age of retirement was to be 58 if the rules of superannuation of the concerned bank had set 58 as the age of retirement. If, however, the rules of superannuation provided for the age of retirement at 60, the age of retirement was to be 60 for these officers. RBI has, in consultation with the Government of India, finalised draft model regulations providing for the age of retirement of officers in the public sector banks on the lines indicated above. The draft model regulations have been furnished to all the nationalised banks and they have been requested to take suitable steps to adopt them.

Control over Non-Banking Companies

Implementation of the recommendations of the Study Group on Non-Banking Companies relating to financial and miscellaneous non-banking companies

A gist of the main recommendations of the Study Group on Non-Banking Companies, as also the steps taken to implement them, was given in the last year's Report. In view of the far-reaching nature of the recommendations made by the Group for the purpose of tightening up control over the deposit-acceptance activities of non-banking financial companies, as also the operational aspects relating to their working, it was decided to enact a separate comprehensive legislation in the place of Chapter IIIB of the Reserve Bank of India Act, 1934. While the drafting of the relative legislation was in progress, certain instruc-

tions were issued to financial companies and miscellaneous non-banking companies, with a view to implementing such of the recommendations of the Group as could be given effect to under the existing provisions of the Reserve Bank of India Act. These directions styled as Non-Banking Financial Companies (Reserve Bank) Directions, 1977 and Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977 were issued in supersession of the earlier directions and have become effective 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 taking 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.

The Study Group also made certain recommendations for tightening up the regulatory measures over the issue of advertisements by non-banking companies. With a view to implementing them, in so far as they relate to financial and miscellaneous non-banking companies, the Government of India issued, under the Companies Act, 1956, the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977, which came into force from July 1, 1977, i.e., the same date on which the fresh sets of directions issued by RBI to financial companies and miscellaneous non-banking companies

came into force. In terms of the new Advertisement Rules which are to be administered by the RBI, financial companies, as also miscellaneous non-banking companies, inviting deposits will have to furnish certain particulars and declarations, on the lines suggested by the Group, in the advertisements issued by them along with copies of the advertisements.

The drafts of the Bill for regulation of the activities of conventional *chits* to be enacted as a central legislation and the Bill for the banning of prize chits and benefit/savings schemes were under consideration of the Government of India.

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

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 Government of India, in consultation with RBI. It has, however, been decided by the Government to defer giving effect to the amendments pending certain changes to the Companies Act, 1956. In the meantime, non-financial companies, which were granted time up to 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 share-holders to 15 per cent of their net owned funds, were allowed further extension of time up to December 31, 1977 by suitable amendment to the Rules.

Acceptance of Deposits by Unincorporated Bodies

As regards the amendments to the Reserve Bank of India Act, 1934, referred to in the last year's Report, prohibiting the acceptance of deposits by unincorporated bodies, it has been decided by the Government to drop the proposal in view of the divergent views expressed regarding the constitutionality of the amendment.

Growth of Deposits with Non-Banking Companies, 1973-74

The Survey of Deposits with Non-Banking Companies for the year ended March 31, 1974 showed that the total number of reporting companies increased during the year by 1395 to 4236. The aggregate amounts 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, deposits falling within the purview of ceiling restrictions amounted to Rs. 483.7 crores, while exempted deposits/loans accounted for Rs. 544.9 crores.

The aggregate deposits including exempted deposits/loans of the 3048 reporting non-financial companies stood at Rs. 724.6 crores, as on March 31, 1974, as against Rs. 517.4 crores in respect of 1962 reporting companies, as at the end of the previous year. The deposits falling within the purview of the ceiling restrictions under the directives amounted to Rs. 403.7 crores.

As regards financial companies, the aggregate deposits including exempted loans of the 1188 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.

X. TRENDS IN RURAL CREDIT

1. INSTITUTIONAL FINANCE FOR AGRICULTURE

Total direct institutional credit for agriculture during the year ended June 1977 at Rs. 2029 crores, recorded an increase of 21.1 per cent over that of the previous year ended June 1976 (Rs. 1675 crores) which itself was 20 per cent higher than the credit extended during the year ended June 1975.

The increase was shared by all the credit institutions and was more pronounced in respect of medium and long term loans extended by co-operatives which recorded a rise of 14.7 per cent as against 8.0 per cent in 1976. The total term loans at Rs. 600.3 crores, represented an increase of 20.6 per cent as compared with the rise of 19.2 per cent in 1975-76. The shares of short and medium term loans in the aggregate loans extended to agriculture, however, continued at around 70.3 per cent and 29.7 per cent as in 1975-76.

Out of the total direct institutional finance of Rs. 2029 crores disbursed in 1977, co-operatives continued to account for the major share (Rs. 1367 crores or 67.4 per cent) of the total. A notable feature, as pointed out earlier was the increase in the disbursal of term loans by the co-operatives. Loans issued by scheduled commercial banks during the financial year 1976-77, estimated at Rs. 565.0 crores, representing a rise of 40 per cent over that of the previous year, accounted for 27.8 per cent of the total of direct institutional credit for agriculture as against 24.2 per cent in 1975-76. In contrast, the quantum of loan assistance provided by various State Governments and also that of Regional Rural Banks formed relatively insignificant proportions amounting to Rs. 85.5 crores and Rs. 11.6 crores respectively, during the year under review (Table VI-27).

The estimated total of indirect institutional credit shown in Table VI-28 has also shown a rise of 14.2 per cent from Rs. 632.0 crores in 1975-76 to Rs. 722.2 crores during 1976-77, of which Rs. 633.9 crores were accounted for by co-operatives for procurement of foodgrains, marketing of agricultural commodities, distribution of fertilisers, etc., as compared with Rs. 556.0 crores during 1975-76. Data on indirect finance extended by scheduled commercial banks are not available. The outstanding level of such advances (both short-term and medium/long-term) as at end-June 1977 is estimated at Rs. 350.0 crores as compared with Rs. 301.5 crores during the preceding year.

2. RESERVE BANK'S POLICY TOWARDS CO-OPERATIVE CREDIT

In furtherance of the Bank's objective of narrowing down the gaps in credit structure, measures were taken to strengthen the associate credit institutions (such as farmers' service societies (FSS) and large sized multi-purpose societies (LAMPS)). The quantum of credit limits against owned funds of central co-operative banks (CCBs) was also increased besides enlarging the scope of assistance to State Governments from the Bank's National Agricultural Credit (Long-term Operations) Funds. Towards the close of the year, the Bank allowed, on merit, a 5 per cent cut in the minimum recovery performance required of CCBs (from 60 per cent to 55 per cent) for drawals on credit limits sanctioned against them for 1977-78. A new scheme entitled Agricultural Credit Intensive Development Scheme (ACID) was initiated during the year in 41 districts.

Short-term Credit

A reference was made in last year's report to the recommendations of the Export Committee on consumption credit and the action taken thereon. To make the scheme more effective, the overall credit limit which was Rs. 250 per borrower was raised to Rs. 500 and the State Governments were advised that only loans extended to the weaker sections, namely, farmers with land-holding upto 0.5 acre, landless labourers and rural artisans should be taken into account for the purpose of government contribution to "Risk Fund for Consumption Credit" and enhancement of short-term credit limits by the Bank on this account.

Although co-operatives were expected to meet Rs. 70 crores (subsequently revised to Rs. 115 crores) out of the total consumption credit needs of Rs. 170 crores, estimated by the Sivaraman Committee, the progress in this regard has been far from satisfactory.

Working Capital : Eligibility Limits Enhanced

A significant development during the year was the upward revision of the credit made

Table VI.27: Direct Institutional Finance for Agriculture

(Rupees crores)

Source					Loans and Advances issued during the year ended June 30				
					1973	1974	1975	1976	1977
I. Co-operatives					957.9	876.7 ^R	1040.0 ^R	1186.7 ^R	1366.6 ^R
<i>Of which:</i>									
(a) Short-term ¹					612.8	663.1 ^R	750.9 ^{R1}	881.4 ^R	1016.3 ^R
(b) Term-loans ²					345.1	213.6 ^R	289.1 ^R	305.3 ^R	350.3 ^R
II. Government ³ (Short-term)					176.8	90.8	77.5	81.5	85.5
III. Scheduled Commercial Banks ⁴					20.9 ⁵	219.2	274.3	404.9	565.0 ^R
<i>Of which:</i>									
(a) Short-term					N.A.	105.4	146.1	212.5	315.0 ^R
(b) Term-loans					20.9 ⁵	113.8	128.2	192.4	250.0 ^R
IV. Regional Rural Banks (Short-term)					—	—	—	1.5	11.6 ^R
V. Total of I to IV					1155.6	1186.7 ^R	1391.8 ^R	1674.6 ^R	2028.7 ^R
<i>Of which:</i>									
(a) Short-term					789.6	859.3 ^R	974.5 ^R	1176.9 ^R	1428.4 ^R
(b) Term-loans					366.0	327.4 ^R	417.3 ^R	497.7 ^R	600.3 ^R

R = Revised.

E = Estimated.

1. Relates to primary agricultural credit societies.

2. Relates to primary agricultural credit societies and land development banks.

3. Data are based on State Budgets and relate to financial year. Data for the years ended March 1973 and 1974 are advances to cultivators; for the years ended March 1975 onwards they represent provision in the State budgets for advances to "agriculture and minor irrigation" and deemed to be for short-term.

4. Relates to financial year.

5. Represents only loans routed through schemes sponsored by ARDC and AFC.

available to Central Co-operative Banks in relation to their owned funds and audit classification to enable them to meet the increasing demand for working capital. The revised eligibility limits for banks in audit class 'A' was raised to six times the owned funds (from four times earlier), for class 'B' upto four times the owned funds (three times earlier) and for banks in class 'C' upto three times the owned funds (twice earlier). Under audit classification 'B' and 'C' with Government guarantees, the eligibility limit was raised to five times the owned funds as against four times earlier.

Financing of Housing Schemes for Weaker Sections

Instructions were issued by the Bank permitting CCBs as well as urban co-operative banks to provide finance for housing construction taken up both on individual as well as co-operative basis by weaker sections of the society and members of scheduled castes, subject to specific ceilings. Besides housing schemes, these banks would also be able to finance construction of hostels for scheduled castes and scheduled tribes, slum clearance schemes, family planning clinics and rural health centres under Public Health Programme.

Table VI.28: Institutional Finance for Agriculture

(Rupees Crores)

	Loans issued during the year ended June 30					Loans outstanding as on June 30				
	1973	1974	1975 ¹	1976 ¹	1977 ¹	1973	1974	1975 ¹	1976 ¹	1977 ¹
1	2	3	4	5	6	7	8	9	10	11
A. DIRECT FINANCE										
1. Short-term (i to iv) ..	789.6	859.3	974.5	1176.9	1428.4 ²	859.6	985.2	1149.9	1377.4	1596.6 ²
(i) Primary Agricultural Credit Societies ¹⁰ ..	612.8	663.1 ^R	750.9 ^R	881.4 ^R	1016.3 ²	721.1	806.6	903.7	1012.1 ^R	1133.5 ²
(ii) Government Department Loans ³ ..	176.8	90.8	77.5	81.5	85.5	N.A.	N.A.	N.A.	N.A.	N.A.
(iii) Scheduled Commercial Banks ⁴ ..	N.A.	105.4	146.1	212.5	315.0 ²	138.5	178.6	246.2	363.8	450.0 ²
(iv) Regional Rural Banks ⁵ ..	—	—	—	1.5	11.6 ²	—	—	—	1.5	13.1
2. Medium-term/Long-term (i to iii) ..	366.0	327.4	417.3	497.7	600.3 ²	1319.2	1419.8	1573.7	1771.5	1966.2 ²
(i) Primary Agricultural Credit Societies ¹⁰ ..	163.4	55.5 ^R	108.4 ^R	89.9 ^R	98.9 ²	257.7	248.4	272.9	287.1 ^R	308.9 ²
(ii) Land Development Banks ⁶ ..	181.8	158.1	180.7	215.4 ^R	251.4 ²	858.2	914.5	983.5	1057.9 ^R	1137.3 ²
(iii) Scheduled Commercial Banks ⁴ ..	20.9 ⁷	113.8	128.2	192.4	250.0 ²	203.2	256.9	317.4	426.5	520.0 ²
Of which:										
Loans routed through schemes financed by:										
(a) Agricultural Refinance and Development Corporation ..	4.5	17.4	27.9	70.8	84.0	11.1	27.1	51.5	112.0	177.0
(b) Agricultural Finance Corporation Ltd. ..	16.4	16.9	3.6	12.1	2.0	N.A.	N.A.	N.A.	N.A.	N.A.
Total Direct Finance (1+2) ..	1155.6	1186.7	1391.8	1674.6	2028.7²	2178.8	2404.9	2723.6	3148.9	3562.8²

BANKING DEVELOPMENTS

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(Contd.)

Table VI.28: Institutional Finance for Agriculture (Concd.)

(Rupees Crores)										
	Loans issued during the year ended June 30					Loans outstanding as on June 30				
	1973	1974	1975 ¹	1976 ¹	1977 ¹	1973	1974	1975 ¹	1976 ¹	1977 ¹
1	2	3	4	5	6	7	8	9	10	11
B. INDIRECT FINANCE										
1. Short-term (i to iii) ..	486.6	430.5	512.0	556.0	633.9 ²	203.5	254.1	393.5	337.0	393.4 ²
(i) State Co-operative Banks ⁸ ..	276.6	234.5	263.3	280.1 ^R	306.2 ²	74.2	102.9 ^R	176.8 ^R	150.5 ^R	193.4 ²
(ii) Central Co-operative Banks ⁸ ..	210.0	196.0	248.7	275.9 ^R	327.7 ²	66.5	94.8 ^R	118.4 ^R	86.8 ^R	90.0 ²
(iii) Scheduled Commercial Banks ^{4@} ..	N.A.	N.A.	N.A.	N.A.	N.A.	62.8	56.4	98.4	99.7	110.0 ²
2. Medium-term/Long-term (i+ii) ..	49.3	50.9	77.9	76.0	88.3	239.6	318.2	421.9	517.3	640.0 ²
(i) Scheduled Commercial Banks ⁴ ..	N.A.	N.A.	N.A.	N.A.	N.A.	127.4	155.1	181.2	201.8	240.0 ²
(ii) Rural Electrification Corporation Ltd. ⁹ ..	49.3	50.9	77.9	76.0	88.3	112.2	163.1	240.7	315.5	400.0 ²
Total Indirect Finance (1+2)	535.9	481.4	589.9	632.0	722.2 ²	443.1	572.3	815.4	854.3	1033.4 ²

1. All data for years ended June 30, 1975 to 1977 are provisional.

2. Estimated.

3. Data are based on State budgets and relate to financial year. Data for the years 1973 and 1974 are advances to cultivators; from 1975 onwards they represent provision for direct advances to 'agriculture', 'minor irrigation', 'soil conservation' and 'area development' and are presumed to be for short-term.

4. Data on loans issued relate to financial year while the loans outstanding relate to the year ended June.

5. Presumed to be for short-term.

6. Excludes advances to primary banks and societies by CLDBs but includes total loans disbursed by primary LDBs as well as those to individuals by the CLDBs.

7. Represents only the loans routed through the schemes financed by the ARDC & AFC.

8. Loans issued are inclusive of procurement finance while loans outstanding are exclusive of such advances and relate mainly to advances extended directly to apex, regional or primary level societies other than agricultural credit societies.

9. Excluding Harijan Basti Loans but inclusive of loans to co-operative societies and S. E. Boards for the years ended June 1973 to 1976.

10. Direct loans issued by PACSs in 1976-77 are exclusive of 'non-agricultural purposes' under short-term and for 'other purposes' under medium-term loans although these are included in outstanding figures.

@ Relates to advances for distribution of fertilisers and taken to be for short-term.

R. Revised.

Agricultural Credit Intensive Development Scheme

During the year, the Bank formulated a special scheme known as the Agricultural Credit Intensive Development Scheme aimed at strengthening the co-operative credit structure. The Bank undertook to depute officers on a full-time basis to assist the task forces in the conduct of surveys, preparation of district credit plan and overseeing the implementation of the Scheme in the selected districts. It assured adequate credit support for the Scheme and enthused the banks to make available maximum possible credit facilities for agriculture and small-scale industries besides extending on its part refinance for assistance to rural artisan members of the primary agricultural credit societies engaged in financing approved small and cottage industries. The first phase of the scheme was to strengthen the structure of co-operative credit institutions for intensive agricultural credit in the next 2-3 years in about 41 districts (including SFDA and DPAP districts) in 16 States, selected on the basis of certain objective criteria. Measures were also initiated to enlist the co-operation of the commercial banks functioning in the area especially of the respective lead banks.

In November 1976, the Bank extended the scope of advances for seasonal agricultural operations to pisciculture (i.e. development of fisheries, inland and marine) in addition to the financial assistance already provided for processing, canning and extraction of fish and was to be in the nature of short-term and medium-term loans.

Revision of Rate of Interest on Deposits

Following the announcement on May 31, 1977 by the Bank of certain changes in the minimum interest rates payable by commercial banks on savings and term deposits, the minimum rates of interest payable by co-operative banks were also revised correspondingly to bring them in line with those of commercial banks. However, co-operative banks were allowed to pay interest on deposits beyond the currently permitted excess above those of the scheduled

commercial banks, namely, one quarter of one percent in the case of SCBs, one half of one percent in the case of SCBs in Union Territories and CCBs and one percent in the case of PACS. A further concession to sub-divide the prescribed blocks of periods and offer different rates of interest within the permissible limits was also allowed.

Selective Credit Controls

Restrictions on advances against the security of selected sensitive commodities (i.e., cotton and kapas, sugar, gur and khandsari, food-grains, oilseeds and oils and vanaspati) by the State, Central and urban co-operative banks imposed under the selective credit control measures were continued during the year under review with slight modifications.

Medium-term Credit

During the year 1977, no major change is being contemplated in regard to the basic policy of providing financial accommodation out of N.A.C. (L.T.O.) Fund to State co-operative banks on behalf of central co-operative banks for medium-term agricultural purposes and for conversion under N.A.C. (stabilization) Fund. The Bank revised the terms and conditions for financing pig-breeding activities; medium-term loans would be advanced on personal security upto Rs. 2,000 (exclusive of subsidy, if any, available from SFDA/DPAP/IDA or any other agency) and loans beyond Rs. 2,000 would be given against mortgage of lands. The bank extended the existing medium-term facilities for purchase of camels in 8 districts of Rajasthan to camel/camel carts, in other arid and semi-arid zones of Rajasthan and Haryana, subject to specified conditions.

Gobar Gas Plants

The Fifth Five-Year Plan envisages the setting up of one lakh gobar gas plants in the country as a supplementary source for fuel and fertilisers in rural areas. The scope for participation in the scheme by co-operative banks was widened as recommended by the informal inter-Institutional Group set up by the Bank with a view to encouraging larger flow of credit from the banking system. The

Bank modified the terms and conditions of governing the grant of advances by SCBs and CCBs. For medium-term loans upto Rs. 4,000/-, the gas holder and frame, pipeline, stoves and cattle maintained by the borrower would be hypothecated in favour of the society. For loans in excess of this amount, a charge or mortgage of land would be insisted upon. The Bank would charge the SCBs interest for this purpose at $1\frac{1}{2}$ per cent below the Bank Rate, as in the case of "other approved" medium-term purposes. The CCBs would be free to provide medium-term finance for a minimum period of five years; beyond this period the LDBs may provide such finance.

Other Regulations

The interest rate structure of the co-operatives continued unchanged during the period under review. The concessional treatment accorded to co-operative banks in regard to changes in liquidity and cash reserve requirements applicable to commercial banks (as per provisions of the RBI Act) were continued for a further period of two years from June 24, 1976. By a notification issued by the Government of India, balances maintained by co-operative banks in the current accounts of the 14 nationalised banks were to be treated as cash reserves for the purpose of Section 18 and as liquid assets under Section 24 of the Banking Regulation Act applicable to Co-operative Societies.

Maximum Limit on Unsecured Advances

Directives issued to primary co-operative banks for regulating their unsecured advances were modified in May 1977. With a view to benefiting cottage and small industries, housing and education, the existing limit of Rs. 5,000 to a single party was raised to Rs. 10,000 or 5 per cent of total T.D.L. (time and demand liabilities) whichever is lower for banks having T.D.L. between Rs. 1 lakh to Rs. 2 crores and upto Rs. 10,000 (irrespective of the percentage limit of T.D.L.) for banks with T.D.L. above Rs. 2 crores. Unsecured advances to all directors put together which were limited

to Rs. 10,000 for all categories of banks have been restricted to 10 per cent of T.D.L. for smaller banks (with less than Rs. 1 lakh T.D.L.) and raised to Rs. 50,000 or 10 per cent of T.D.L. whichever is lower for banks with T.D.L. of Rs. 1 lakh to Rs. 1 crore and to Rs. 1 lakh for banks with T.D.L. above Rs. 1 crore. The primary co-operative banks were also permitted to sanction in cases of emergency, temporary overdrafts upto Rs. 1,000 for a period of 30 days, without insisting on personal security of another member.

Credit Guarantee Scheme for Small-Scale Industry

As on end-June 1977, nine State Co-operative Banks, 83 Central Co-operative Banks and 68 Primary (Urban) Co-operative Banks joined the scheme by executing the necessary agreement with the Government of India.

Credit Authorisation

The credit authorisation scheme for granting advances for meeting block capital requirements of manufacturing/processing units and for working capital requirements of co-operative marketing, processing societies and consumer stores/societies was continued during the year. Under the scheme, prior authorisation from the Bank would be necessary for advances by SCBs and CCBs in excess of Rs. 2 crores and Rs. 1 crore respectively, for working capital and advances above Rs. 25 lakhs for meeting block capital requirements. The specified norms for minimum margins and the rate of interest were also to be observed. Accordingly, the Bank examined applications from CCBs and SCBs involving working capital advances of Rs. 165 crores and of Rs. 35 crores for block capital requirements of which Rs. 136 crores and Rs. 26 crores, respectively, were granted during the year.

Handloom Finance

The norms for financing the existing handloom weavers' societies were liberalised and the societies were made eligible for additional working capital requirements at $33\frac{1}{3}$ per cent (as against 25 per cent hitherto) of the

anticipated production during the current year assuming that the societies would maintain stocks of four months (as against three months earlier) and that the working capital would be rotated three times in a year. Further, the criteria for renewal/enhancement of cash credit limits to weavers' societies for financing production and marketing of handloom cloth were also revised by raising the per loom scale of finance for cotton from Rs. 1,000 to Rs. 1,500 with effect from May 1977, so as to encourage quality products for exports. Similarly, with a view to ensuring that their activities were not hampered by locking up funds in credit sales, certain relaxations were granted in treating book debts as cover for borrowings from the Bank.

Long-term Agricultural Credit

The basic policy governing disbursement of loans by land development banks (LDBs) remained unchanged during the year 1976-77. However, the Bank issued detailed guidelines outlining the role of CLDBs and the State Governments in the formulation and implementation of long-term agricultural development schemes. The schemes to be initiated before the end of December 1976 were to be prepared taking into account the needs and responses of cultivators with reference to local conditions and cover as many of the economically weak and small farmers as possible. The CLDBs were advised to ensure that PLDBs/branches advance loans with reference to the potential for development in specific local areas under their jurisdiction, keeping in mind, the need for timely disbursement of loans as well as optimum benefits to cultivators from the investment credit provided to them. The State Governments were directed to provide the necessary technical assistance to CLDBs and as far as possible to get the schemes financed through CLDBs rather than handling them on their own from budgetary allocations.

Regulation of Advances by State Land Development Banks Relaxed

Since July 1975, the total quantum of loans a primary bank or a branch of a SLDB could

advance, has been linked to its recovery performance in respect of loans issued in the previous year, the quantum being restricted to a certain percentage (ranging from 50 per cent to 80 per cent) of loans issued in the previous year, if the range of overdues was between 26 per cent and 60 per cent. With a view to helping small farmers, this policy was relaxed and a larger quantum (equal to one slab above the permitted range) of loans was permitted if the primary LDBs and branches of State LDBs disbursed at least 50 per cent of the amount to small farmers. A major portion of the additional amount so permitted (75 per cent) was also required to be advanced to small farmers. During the year, CLDBs were permitted to extend their assistance to sugarcane cultivators within the radius of 40 miles as against the earlier limit of 25 miles subject to availability of low-cost transport and sugar factories in the area. Further, the existing norms relating to the acreage of land in respect of loans for tractors were relaxed so as to extend the benefit to smaller cultivators with holdings of 10 acres of perennially irrigated land with high cropping intensity or corresponding acreage of dry lands as against 20 acres and 50 acres, respectively, stipulated earlier. Each tractor purchased out of this loan was expected to have work for at least 500 hours during the year.

Banks are also required to ensure that the borrowers are able to finance 50 per cent of the repayment from the income derived from the use of tractors on the borrower's own landholding and there is adequate scope for generating 50 per cent of income out of custom services.

3. RESERVE BANK'S CREDIT TO CO-OPERATIVE BANKS

During the year ended June 1977, short-term credit limits sanctioned by the Bank to SCBs at Rs. 812.5 crores registered a rise of 8.1 per cent over 1975-76. The drawals during the year at Rs. 904.8 crores were, however, lower by 12.5 per cent. As the repayments at Rs. 826.3 crores were also lower by as much as 26.7 per

cent as compared with last year, the outstandings moved up by 43.1 per cent to Rs. 260.7 crores (Table VI-29).

Seasonal agricultural operations continued to account for a major portion of the short-term credit limits at Rs. 696.3 crores, recording increases both in terms of quantum (Rs. 84.4 crores) as well as percentage (by 4 per cent) as compared with 1975-76. The increase may be attributed mainly to larger coverage by co-operatives, widening of eligibility criteria for sanction of credit, reorganisation of societies and the improvement in the recovery performance by central co-operative banks. There was, however, a fall in the actual drawals as well as repayments, the declines in these amounting to Rs. 80 crores and Rs. 230.8 crores, respectively. Consequently, the outstandings rose to Rs. 230.1 crores from Rs. 146.6 crores in the preceding year. Among other purposes for which credit limits were sanctioned by the Bank, production and marketing of handloom products and financing of other cottage and small-scale industries together recorded an increase of Rs. 8.3 crores during the year, while those for marketing of cotton, working capital needs of sugar factories against pledge of sugar and for the purchase and distribution of fertilisers declined by Rs. 5.9 crores, Rs. 6.7 crores and Rs. 13.9 crores, respectively, over 1975-76. Limits sanctioned for marketing of cotton and kapas and other crops at Rs. 31.5 crores, were also lower by Rs. 5.9 crores owing to the decline in the number of eligible applicant banks, which reflected, apart from the general weakness of the marketing societies in several States, the absence of proper linking of marketing credit with production credit and the inability of banks to ensure recovery of production loans out of marketing advances. Limits against cotton and kapas were not drawn during the year. Sanction of credit limits for working capital requirements of sugar factories during 1976-77 was substantially lower at Rs. 7.8 crores as against Rs. 14.5 crores sanctioned last year. The Bank also sanctioned a lower credit limit of Rs. 33.2 crores during 1976 for purchase and distri-

bution of fertilisers as compared with Rs. 47.1 crores in 1975. Sanctioned limits were also not fully utilised as the amounts drawn were only one-third (Rs. 21.2 crores) of those in 1975 (Rs. 62.9 crores). However, larger repayments as compared with the drawals enabled the SCBs to reduce the outstandings to Rs. 9.9 crores as against Rs. 19.9 crores last year. As in the previous year, higher credit limits for production and marketing of handloom products were sanctioned during the year. Drawals against these exceeded the sanctioned limits. Thus, limits sanctioned and drawals amounted to Rs. 26.4 crores and Rs. 35.8 crores, respectively, reflecting in the main, the liberalised policy of the Bank in respect of eligibility norms as well as the criteria of renewal of cash credit limits. Repayments during the year, however, declined marginally to Rs. 32.2 crores from Rs. 33.9 crores during 1975-76, leaving an outstanding balance of Rs. 15.0 crores.

In respect of medium-term credits, utilisation fell far short of sanctioned limits. While the limits sanctioned amounted to Rs. 147.0 crores or about 125 per cent higher than in the previous year, drawals amounted to Rs. 87.6 crores showing a rise of 78.8 per cent. A major portion of these, however, related to conversion loans for which the limits sanctioned were Rs. 130.4 crores drawals amounting to Rs. 77.8 crores as against respective figures of Rs. 50.5 crores and Rs. 41.8 crores during 1975-76. Sanction of limits for agricultural purposes amounted to Rs. 14.9 crores, as against Rs. 11.6 crores during the previous year and drawals during the year also stood higher at Rs. 9.3 crores compared with Rs. 7.2 crores last year.

In regard to long-term finance, assistance to State Governments for contribution to share capital of co-operative credit institutions also registered a rise in respect of both limits sanctioned and drawals of Rs. 17.8 crores and Rs. 17.0 crores to Rs. 31.3 crores and Rs. 30.5 crores, respectively. The Bank's sanction of loans to ARDC amounted to Rs. 50 crores as against Rs. 60 crores in the previous year. Though the ARDC's repayments during the

Table VI.29: Reserve Bank Credit to Co-operatives 1975-76 and 1976-77
(July-June)

(Rupees crores)

Purpose of finance	1975-76				1976-77			
	Limits sanctioned	Drawals	Repay-ments	Out-standings	Limits sanctioned	Drawals	Repay-ments	Out-standings
	1	2	3	4	5	6	7	8
I. Short-term	751.4	1033.6	1127.7	182.2	812.5	904.8	826.3	260.7
(i) Seasonal agricultural operations (at 2% below Bank Rate) ¹	611.9	899.7	965.3	146.6	696.3	818.8	735.3	230.1
(ii) Marketing of crops other than cotton and <i>kapas</i> (at 3% above Bank Rate)	37.4	—	0.5	Nil	31.5	4.6	4.4	0.2
(iii) Marketing of cotton and <i>kapas</i> (at 3% above Bank Rate) ²		21.9	32.0	0.2		Nil	0.2	Nil
(iv) Purchase and distribution of fertilizers (at 3% above Bank Rate) ³	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) ⁴	20.1	34.3	33.9	11.4	26.4	35.8	32.2	15.0
(vi) Financing other cottage and small scale Industries ⁴	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) ⁴	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
II. Medium-term	65.1	49.0	53.5	94.8	147.0	87.6	47.6	134.8
(i) Agricultural purposes (at 1½% below Bank Rate) ⁵	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 ⁶	41.8 ⁶	45.6 ⁶	78.8 ⁶	130.4 ⁶	77.8 ⁶	39.6 ⁶	117.0 ⁶
(iii) Purchase of shares in co-operative sugar factories/ processing societies (at Bank Rate) ⁵	3.0	—	0.4	0.6	1.7	0.5	0.3	0.8
III. Long-term	73.5	73.5	17.2	214.5	81.3	80.5	23.7	271.3
(i) Loans to State Governments for contributions to share capital of co-operative credit institutions ⁴	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
Total Credit: (I+II+III)	890.0	1156.1	1198.4	491.5	1040.8	1072.9	897.6	666.8

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 the Bank Rate from the calendar year 1974. Data relate to calendar years 1975 and 1976.
4. Data relate to financial years.
5. Data relate to calendar years 1975 and 1976.
6. Including rephasing and rescheduling.

year were higher at Rs. 15.8 crores as compared with Rs. 9.8 crores last year, the outstandings as at end-June 1977 showed an increase of Rs. 34.2 crores to Rs. 172.6 crores.

The aggregate of the Bank's short, medium and long-term credit to co-operatives showed during the year, an increase of Rs. 151 crores in respect of limits sanctioned (amounting to Rs. 1041 crores) and a decline of Rs. 83 crores in regard to drawals (Rs. 1073 crores). Since the repayments at Rs. 898 crores were substantially lower (Rs. 300 crores) as compared with the previous year, the outstandings of Rs. 667 crores at the end of June 1977 were higher by Rs. 175 crores as compared with the outstandings a year ago.

*National Agricultural Credit
(Stabilisation) Fund*

Drawals from the National Agricultural Credit (Stabilisation) Fund by way of medium-term conversion loans were substantially higher during the year at Rs. 77.8 crores as compared with the drawals of Rs. 41.8 crores during 1975-76. The Bank transferred out of its profits, a sum of Rs. 20.0 crores to the Fund raising the balance in the Fund to Rs. 165.0 crores as at end-June 1977.

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

The policy of sanctioning of loans to State Governments for contribution to the share capital of primary agricultural credit institutions was modified to enable the co-operatives to undertake disbursement of consumption loans, financing of the weaker sections and also assisting in the supply of consumer articles on a larger scale.

Loans sanctioned during the year from the National Agricultural Credit (Long-term Operations) Fund were also higher at Rs. 81.3 crores, as against Rs. 73.5 crores in the preceding year. Advances were given to State Governments for contributing to the share capital of 7 SCBs, 185 CCBs, 5 central land

development banks, 126 primary LDBs, 26 urban co-operative banks, 8913 PACS, 173 FSS and 748 LAMPS. The Bank transferred out of its profits a sum of Rs. 95 crores to this Fund raising the total balance in the Fund to Rs. 495 crores as at the end of June 1977.

4. CO-OPERATIVE CREDIT: PRIMARY LEVEL

Primary Agricultural Credit Societies

Total loans advanced by PACS are estimated to have increased from Rs. 971 crores in 1975-76 (Revised) to Rs. 1115 crores in 1976-77 of which Rs. 1016 crores were issued as short-term. The outstandings as at the end of June 1977 are also estimated to have risen to Rs. 1442 crores from Rs. 1299 crores in 1975-76 (Revised).

Land Development Banks

Loans advanced by Land Development Banks (LDBs) during 1976-77, are estimated to be higher at Rs. 251 crores, representing an increase of about Rs. 36 crores over those of 1975-76. The outstanding position as on end-June 1977, estimated at Rs. 1137 crores, is also expected to be higher by Rs. 79 crores over the outstanding at the end of June 1976. The total approved lending programme (Rs. 284.5 crores) of central land development banks for the financial year 1976-77 was higher by Rs. 55.0 crores as compared with the previous year and comprised Rs. 121.2 crores under normal lending and Rs. 163.3 crores against schemes refinanced by ARDC. As usual, the normal lending was to be financed mainly by the issue of ordinary debentures (Rs. 88 crores) and supplemented by the resources available from internal funds (Rs. 33.2 crores). As against the target of Rs. 88 crores, actual debentures issued amounted to Rs. 80.3 crores and were subscribed as follows: Central Government (Rs. 6.0 crores), LIC (Rs. 15.0 crores), State Governments (Rs. 6.6 crores), State Bank of India Group (Rs. 4.7 crores) Commercial Banks (Rs. 9.2 crores) self help (Rs. 8.2 crores) and from the sinking funds

under the scheme of mutual support (Rs. 30.6 crores). In 1975-76, the figures for debentures issued and subscribed were Rs. 71.4 crores and Rs. 75.5 crores, respectively.

5. COMMERCIAL BANKS AND RURAL CREDIT

Financing of Societies by Commercial Banks

The scheme of financing primary agricultural credit societies by commercial banks introduced in 1970, was in operation in 11 States* with 24 commercial banks participating in the scheme through their 528 branches which took over 3,453 societies and also financed 1,654 societies as at the end of December 1976. Karnataka and Andhra Pradesh together accounted for 47.6 per cent of the total number of societies taken over (1,046 and 598 societies, respectively). Total loans disbursed and outstanding through these societies are estimated to have risen to Rs. 24.1 crores and Rs. 36.0 crores in 1976-77 as against Rs. 18.8 crores and Rs. 26.7 crores respectively, during 1975-76. (July-June).

The State Governments of Gujarat, Punjab, Kerala and Union Territories of Delhi and Chandigarh have advised that there is no need to introduce the scheme in their areas as the needs of agricultural credit societies could be fulfilled by co-operative banks. The scheme was introduced in Tripura from kharif 1976.

SBI Village Adoption Scheme

Under the scheme of Village Adoption, selected villages are adopted for intensive financing of agriculture to cover all the viable and potentially viable farmers. As on December 31, 1976, the State Bank Group had adopted 16,621 villages (excluding areas covered by Agricultural Development Branches) serving about 6 lakh farmers under the scheme. The outstanding level of credit advanced to them was Rs. 114.2 crores.

* Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Haryana, Karnataka, Orissa, Jammu & Kashmir, West Bengal, Bihar, Maharashtra and Assam.

PROGRESS OF ADBS

The State Bank Group also extends assistance for agricultural development through its special branches (ADBs) opened for the purpose in consultation with the concerned States and the ARDC. As at the end of December 1976 there were 256 ADBs in the field (of which 166 were in the backward districts) and the total credit provided by these branches to over six lakh farmers, stood at Rs. 130.5 crores. The State Bank Group has also submitted 986 area development schemes to the ARDC with an outlay of Rs. 326.3 crores of which 672 schemes with a total outlay of Rs. 237.9 crores were approved.

Progress of Farmers' Service Societies

Farmers' Service Societies are organised as a part of the reorganisation programme and could be formed by converting an existing primary co-operative society or organising a new one. The public sector banks have played a leading role in organising these societies as compared to co-operatives and out of the total number of 233 FSS organised as on June 30, 1977 as many as 164 were formed by 18 commercial banks in 13 states and only 69 were formed by co-operatives as on June 1976. Not all the FSS have, however, started operations and only 89 commercial banks are reported to have advanced short, medium and long-term loans. As on April 1, 1976 total outstandings amounted to Rs. 5.7 crores.

6. WORKING OF OTHER IMPORTANT INSTITUTIONS IN THE FIELD OF RURAL CREDIT

1. Agricultural Refinance and Development Corporation

The number of schemes sanctioned by the Agricultural Refinance and Development Corporation (ARDC) at 1653 recorded an increase of 82 per cent over the number (909) sanctioned last year. Consequently, its commitments during the year, at Rs. 307.1 crores, were also higher though in percentage terms the rise was nominal (3.4 per cent). The operations

were spread over a large number of small schemes benefitting small borrowers, such as those for land development, dairy development and minor irrigation schemes which recorded steep increase from 16 to 193, 84 to 157 and 410 to 657, respectively. Purpose-wise, minor irrigation continued to account for the bulk of the ARDC assistance and accounted for 39.7 per cent of schemes sanctioned, 57.8 per cent of commitments and 64.4 per cent of disbursements. There was, however, a welcome diversification of commitments to all other purposes particularly to storage and market yards and a consequent lowering of commitments for farm mechanisation (from Rs. 79.5 crores to Rs. 37.0 crores) and fisheries (from Rs. 5.2 crores to Rs. 3.4 crores). A significant increase in the financial commitment was recorded in respect of assistance to storage/market yards (from Rs. 7.6 crores to Rs. 25.2 crores) followed by minor irrigation (from Rs. 166.8 crores to Rs. 177.5 crores), land development (from Rs. 21.8 crores to Rs. 27.1 crores) and dairy development (from Rs. 7.6 crores to Rs. 12.2 crores). Two additional purposes viz. Integrated Cotton Development Project (ICDP) and Forestry were introduced during the year with the commitments of Rs. 5.8 crores and Rs. 2.5 crores, respectively. The total amount disbursed during the year also recorded a rise of 29.0 per cent at Rs. 220.8 crores, as against Rs. 171.2 crores during 1975-76. The total number of schemes sanctioned by the Corporation since inception upto end-June 1977 was 4487 involving Corporation's commitments of Rs. 1465.0 crores of which Rs. 815.0 crores were disbursed. (Table VI-30)

Reduction of Regional Imbalances

The Corporation continued its efforts on reducing the regional and intra-state imbalances in agricultural development and sanctioned 725 schemes in 1976-77, as against 398 schemes in 1975-76, in 13 less developed/under-banked states and disbursed Rs. 100.6 crores as against Rs. 69.3 crores last year. Uttar Pradesh and Madhya Pradesh accounted for a major share at Rs. 63.3 crores, followed by Bihar (Rs. 17 crores), Rajasthan (Rs. 8 crores), Orissa

and West Bengal (Rs. 6 crores each). The underdeveloped areas in Andhra Pradesh, Orissa and Uttar Pradesh also received larger financial assistance during the year as part of the Corporation's drive at reducing regional imbalances.

Changes in Policy

Among the important decisions taken during the year was the extension by ARDC of its 90 per cent concessional refinance facilities to SFDA/MFAL schemes, special schemes sponsored under the DPAP, Girijan corporations and special schemes intended for scheduled castes and tribes. Similarly, with a view to augmenting storage facilities in the country, loan assistance to private parties by the eligible banks for construction of godowns for the purpose of leasing to FCI were made eligible for re-finance to the extent of 80 per cent. The existing scope of refinance facilities in respect of loans given to State Electricity Boards for energisation programme was further extended with effect from March 1, 1977, by including therein, loans received by farmers from sources other than from co-operatives and commercial banks as well as energisation of pumpsets under REC scheme areas after the target number of pumpsets have been energised. The refinance assistance would now be made available even where the wells are constructed out of the own resources of the farmer or from sources other than from co-operatives or commercial banks. A new type of activity undertaken during the year was the refinancing of sericulture schemes in Karnataka State both under the integrated programme as well as under the DPAP Programme.

Role of Commercial Banks and other Agencies

It may be seen from Table VI-31 that scheduled commercial banks continued to account for the major share in ARDC refinanced schemes during 1976-77 and shared 66.8 per cent of the number of schemes sanctioned and 50.8 per cent in commitments, as against 71.5 per cent and 40.2 per cent, respectively, in 1975-76. The number of schemes routed through

Table VI.30: Purpose-wise sanctions and disbursements during 1975-76 and 1976-77

Purpose	(Rupees crores)								
	1975-76			1976-77			As on 30-6-1977		
	No. of schemes sanctioned	ARDC commitments	Disbursements	No. of schemes sanctioned	ARDC commitments	Disbursements	No. of schemes sanctioned	ARDC commitments	Disbursements
Minor Irrigation	410	166.8	108.2	657	177.5	142.1	2175	1001.0	588.3
Land Development/CAD	16	21.8	4.9	193	27.1	5.9	309	127.7	40.6
Farm Mechanisation	264	79.5	45.8	227	37.0	51.8	711	165.7	116.6
Plantation/Horticulture	37	7.4	3.1	103	13.0	5.1	385	57.7	21.7
Poultry/Sheep breeding	25	1.0	0.7	53	3.2	0.7	124	6.7	2.3
Fisheries	31	5.2	2.4	48	3.4	1.9	168	18.4	9.0
Dairy Development	84	7.6	2.9	157	12.2	3.5	325	30.0	9.5
Storage/Market Yards	41	7.6	3.2	190	25.2	9.5	272	53.7	26.5
Agricultural Aviation	1	—	—	1	0.2	—	3	0.4	0.2
ICDP	—	—	—	14	5.8	0.1	2	0.1	0.1
Forestry	—	—	—	9	2.5	0.2	12	3.6	0.2
Gobar Gas	—	—	—	1	—	—	1	—	—
TOTAL	909	296.9	171.2	1653	307.1	220.8	4487	1465.0	815.0

Table VI.31: Sanctions during 1975-76 and 1976-77 (July-June) — Agency-wise

Agency	(Rupees crores)							
	No. of Schemes		Financial Assistance		ARDC Commitments		Commitments of State Governments/Banks	
	1975-76	1976-77	1975-76	1976-77	1975-76	1976-77	1975-76	1976-77
	1	2	3	4	5	6	7	8
State Land Development Banks	256 (28.2)	528 (31.9)	206.6 (58.0)	161.3 (43.8)	176.6 (59.5)	140.8 (45.9)	30.0 (50.4)	20.4 (33.6)
Scheduled Commercial Banks	650 (71.5)	1105 (66.8)	148.8 (41.7)	194.2 (52.8)	119.5 (40.2)	156.1 (50.8)	29.3 (49.3)	38.1 (62.7)
State Co-operative Banks	3 (0.3)	20 (1.3)	1.0 (0.3)	12.4 (3.4)	0.8 (0.3)	10.2 (3.3)	0.2 (0.3)	2.3 (3.7)
Total	909	1653	356.4	367.9	296.9	307.1	59.5	60.8

State Co-operative Banks during the year also increased from 3 to 20 with a rise in ARDC commitments thereon from 0.3 per cent to 3.3 per cent. The share of State/Central Land Development Banks consequently declined to 45.9 per cent of commitments as against 59.5 per cent in 1975-76.

IDA Credit

During the year, the International Development Association (IDA) assistance to the Kerala agricultural development project amounted to \$ 30 million. The project is intended mainly for development of tree crops* besides energisation of pumpsets in minor irrigation projects. Besides, an integrated Fisheries Development project for Gujarat with an assistance of about \$ 18 million has also been sanctioned. As at the end of June 1977, there were 29 projects assisted by the World Bank Group.

The disbursements under the General Line of Credit (ARDC credit project-I) from the IDA was completed by the end of June 1977-six months ahead of schedule. Total disbursements by the ARDC under IBRD/IDA projects amounted to Rs. 477.0 crores as on end-June 1977. Four more credits including a second general line of credit of \$ 200 million from IDA were negotiated during the year.

IDA/World Bank Group commitments of resources to ARDC through the Government of India now amount to Rs. 698 crores, forming about 61 per cent of the Corporation's lending programme under these projects.

Sources of Finance

During the year 1976-77, additional resources were available to the Corporation through (i) borrowing from the Government of India (Rs. 90 crores), (ii) limits under the National Agricultural Credit (L.T.O.) Fund, fully drawn (Rs. 50 crores) (iii) a short-term credit limit of Rs. 10 crores from R.B.I. (not drawn),

*Coconut, Cashew, Cocoa, Spices, Pepper and Rubber.

(iv) Addition to share capital (Rs. 10 crores), (v) floatation of xi and xii series of Bonds of 10 years maturity (Rs. 44 crores) and (vi) Repayments by member banks (Rs. 48 crores). The total resources raised by way of market borrowings stood as on June 1977 at Rs. 182 crores.

2. Agricultural Finance Corporation Ltd.

The main activities of the Agricultural Finance Corporation Ltd. (AFC) during the year continued to be focussed on project formulation in backward areas and for the weaker sections of the country on a consultancy basis and imparting of training facilities to participant member banks through workshops and training courses. Such project assistance was availed of by the State Governments of Bihar and Bengal and the Corporation completed two command area development projects for Government of Bihar and two integrated tribal development projects for West Bengal. The total outlay for the Command Area Development Projects in Bihar was Rs. 9.1 crores and for the tribal developments in West Bengal it was Rs. 12.3 crores. Projects for tribal development in Madhya Pradesh, Uttar Pradesh and Tripura are being finalised. The Corporation also completed preliminary investigations in respect of a detailed survey on apple marketing, at the instance of the Government of India. The more important of the aspects to be covered under the survey were estimation of credit demand from apple growers in Himachal Pradesh, Uttar Pradesh and Jammu & Kashmir and the analysis of consumer preferences in all States.

During the year ended June 1977, the Corporation approved only one scheme involving net commitment of Rs. 3.3 crores entirely by member banks as against 4 schemes in the previous year involving Rs. 7.8 crores by member banks and the balance by AFC. The total number of schemes approved by the Corporation upto end-June 1977 was 62, involving net commitments of Rs. 204.1 crores, of which, the share of AFC was negligible at Rs. 4.4 crores. Total disbursements upto June

1977 aggregated Rs. 92.2 crores of which Rs. 3.8 crores were by AFC out of its own resources.

3. Rural Electrification Corporation Ltd.

During the year ended June 1977, the operations of the Rural Electrification Corporation Ltd. (REC) increased substantially in contrast to the decline recorded last year both in regard to schemes sanctioned as well as in disbursements of loans. The number of schemes sanctioned at 368 were higher than 278 schemes sanctioned in 1975-76 and the total outlay involved was also higher at Rs. 156.0 crores as against Rs. 146.4 crores during 1975-76. The Corporation's fresh commitments and disbursements in the year amounted to Rs. 115.6 crores and Rs. 88.3 crores, respectively, recording as compared to the previous year, a rise of Rs. 1.9 crores and Rs. 13.1 crores, respectively. The total loans disbursed since inception of the Corporation aggregated Rs. 404.4 crores in addition to Rs. 4.5 crores disbursed for Harijan Basti schemes till June 1976. The total loan assistance for this purpose received from the Government of India was fully utilised. The projects sanctioned so far cover 1.2 lakh villages, energisation of 8.6 lakh irrigation pumpsets and supply of power to 1.3 lakh small industries. During the year, two more rural electric co-operative projects were sanctioned at Athagarh in Cuttack district of Orissa and Samba in Jammu and Kashmir bringing the total number of co-operative schemes sanctioned by REC to 12 and the amount of loans disbursed to Rs. 15.3 crores as on June 1977.

Apart from the sanctioning of schemes under existing categories, two new categories were introduced during the year viz. Mini-Farm-Lift Irrigation (MFLI) loan and a special category of short-term loan called Special loan for meeting the financial requirements of the SEBs for financing training programmes for Linemen/Asstt. linemen, installation of LT capacitors, setting up of transformer repair workshop etc. required to improve the quality of distributive services in rural areas. The (MFLI) loan has

been introduced for rural electrification programme such as lift irrigation and tube well projects undertaken by State Government Departments, State sponsored Corporations and co-operatives. The maximum loan assistance for an individual RE project of this category was restricted to Rs. 25 lakhs.

The Corporation also reviewed the terms and conditions of the existing schemes and introduced suitable modification so as to relax the scope and viability norms in respect of certain schemes.

The resources of the Corporation at Rs. 411.6 crores showed a rise of Rs. 88.5 crores over 1975-76 and the rise was mainly shared by the Government of India's loan assistance of Rs. 62.2 crores and contribution of Rs. 12.0 crores to share capital as indicated below :

SOURCES	(Rs. Crores)		
	1977	1976	Rise during the year
1. Government of India			
(a) Equities	67.00	55.00	12.00
(b) Loans	196.12	133.93	62.19
2. U.S. Grants	105.00	105.00	—
3. Borrowings	30.42	19.42	11.00
4. Internal resources	13.04	9.70	3.34
	411.58	323.05	88.53

4. Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) sanctioned much larger financial assistance during the year ended June 1977, which amounted to Rs. 17.1 crores for 21 projects as compared with 12.3 crores for 15 projects sanctioned during 1975-76. These accounted for 20 per cent of its total rupee loan assistance as against 26.9 per cent during 1975-76. About one half (Rs. 8.7 crores) of the financial assistance was directed to projects located in less developed areas including 10 sugar co-operatives and 2 textile co-operative

projects. The amount disbursed aggregated Rs. 17.5 crores for 41 projects in co-operative sector including those sanctioned in earlier years. The cumulative net financial assistance sanctioned to co-operatives by the Corporation aggregated Rs. 145.1 crores in respect of 155 projects of which Rs. 134.1 crores were disbursed. The outstanding amount of loans was Rs. 88.1 crores. The bulk of the assistance sanctioned and disbursed, namely Rs. 138.5 crores and Rs. 130.1 crores, respectively, was on account of the 121 sugar co-operatives and 29 co-operatives in textiles. As such, out of the total net amount of Rs. 145.1 crores sanctioned to co-operatives, Maharashtra State accounted for 47 per cent of the total.

5. National Co-operative Development Corporation

During the year ended March 1977, the activities of the National Co-operative Development Corporation (NCDC) in respect of planning, promotion and financing of co-operatives in the field of processing, storage, marketing etc. recorded further progress. Financial assistance extended by the Corporation at Rs. 31.4 crores, however, showed an increase of Rs. 7.3 crores only as against the rise of over Rs. 13 crores recorded last year. Almost the entire rise was accounted for by Central Government schemes which increased by Rs. 13.1 crores to Rs. 20.4 crores while the schemes sponsored by the Corporation amounted to Rs. 11.0 crores showing no change over 1975-76. The total financial assistance provided by the Corporation since its inception in 1963 amounted to Rs. 200.9 crores of which Rs. 115.3 crores were outstanding at the end of March 1977.

In order to provide livelihood to the weaker sections of the society, the Corporation extended its patronage for the development of handlooms, sericulture, student consumer stores, scheduled castes, coir marketing and processing in the co-operative sector. Apart from this, the old schemes i.e. dairy, poultry, fishery etc. basically intended to benefit the most vulnerable sections of the community were continued. The Corpo-

ration, provided Rs. 1.1 crores for dairy and poultry, and Rs. 1.3 crores for the distribution of consumer articles in rural areas during the year. The scheme for financial assistance to poultry co-operatives has been further liberalised to cover the poultry co-operatives having membership of 50 and an annual turnover of Rs. 1 lakh and above. Under the special scheme for distribution of consumer articles in rural areas through co-operatives, commenced last year, NCDC made further progress and sanctioned 243 projects during the year involving an assistance of Rs. 2.8 crores. The number of primary marketing societies and village service societies engaged in the distribution of consumer articles in rural areas during the year 1975-76 were 1,862 and 54,417, respectively.

6. Warehousing Corporations

During the year ended March 1977, the activities of the Central Warehousing Corporation, increased further and the number of godowns showed an increase from 154 to 171. The total capacity (including hired and plinth capacity) also increased by 7.6 lakh tonnes to 25.1 lakh tonnes showing a rise of 43.2 per cent as against 10.8 per cent noticed in 1975-76.

The Corporation, in view of the need for the industrial based and port warehouses, expanded its activities beyond purely agriculture-based warehouses by setting up one warehouse for industrial goods in New Delhi and other one in the vicinity of Palam Airport (under construction). In order to assist the stream-lining of public distribution system in high altitude areas, a warehouse was also constructed at Dimapur in Nagaland.

The State Warehousing Corporations also recorded progress in their business during the year with the substantial increase in the number of warehouses and in regard to storage capacity as well. The total number of godowns with warehousing corporations in fifteen* important

*The information relates to Corporations in Andhra Pradesh, Assam, Bihar, Haryana, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh, Karnataka, Rajasthan, Meghalaya, Punjab and Gujarat.

states, for which revised data are available rose from 936 at the end of March 1976 to 1913 at end-March 1977, their total capacity registering a rise of 30.0 per cent from 36.5 lakh tonnes to 47.5 lakh tonnes.

Other Developments

Deposit Insurance Corporation

An important development during the year in the field of deposit insurance was the raising of the amount of insurance cover (with effect from 1st July 1976) 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. The Deposit Insurance Scheme was extended during the year to 295 co-operative banks in three new States of West Bengal, Rajasthan and Karnataka besides Andhra Pradesh, Madhya Pradesh, Maharashtra, Jammu and Kashmir, Kerala, Tripura, and the Union Territories of Delhi, Goa, Daman and Diu and Pondicherry covered earlier. Further, during the year, 28 new Regional Rural Banks were registered as insured banks increasing their number to 47. Claims amounting to Rs. 10.4 lakhs received from 3 co-operative banks in Maharashtra which were taken into liquidation have been paid or provided for during the period under review. At the end of June 1977, there were 1,544 co-operative banks comprising 28 SCBs, 354 CCBs and 1,162 primary co-operative banks coming under the purview of the Banking Regulation Act, 1949 (as applicable to co-operatives). Out of the 1,544 co-operative banks, 842 banks comprising 13 SCBs, 177 CCBs, 580 primary urban co-operative banks and 72 salary earners societies were registered with the Corporation as on June 30, 1977.

Integration of Co-operative Credit Institutions

In pursuance of the arrangements relating to the general line of credit sanctioned by IDA, the Bank had constituted in September 1975, a committee on integration of short-term and long-term co-operative credit structure, which submitted its report in August 1976. The Committee recommended phased integration of the

two wings at all levels, 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 also recommended organisation of new institutions at the intermediate and apex levels to be called as District Co-operative Development Bank and State Co-operative Development Bank respectively, so as to replace the existing institutions in the two wings. The Study Team on the integration of CCBs and the branches of State LDBs in Bihar had recommended their amalgamation in six districts served by 8 CCBs into a new unit called the District Co-operative Development Bank. Since the CCBs showed no prospects of attaining viability, these suggestions were accepted by the Bank and recommended for implementation to the State Government and the concerned agricultural credit institutions in the State.

Study Team on Institutional Arrangements for Agricultural Credit in Sikkim

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 the Working Group was formed to initiate work relating to suitable legislative action in the matter.

The working group has prepared for adoption the Sikkim Co-operative Societies Bill, the Sikkim Co-operative Societies Rules, the by-laws of the Sikkim State Co-operative Bank Ltd., and the State Bank of Sikkim Transfer of Undertaking Bill.

The Study Team on Agricultural Credit Institutions in Uttar Pradesh has also submitted its report on 26th March 1977. According to the report, the short-term agricultural credit potential of the state is estimated at Rs. 415 crores by 1981-82. The team has recommended integration of short-term, medium-term and long-term credit structure in order to improve their prospects of viability. As regards overdues,

the team has recommended a phased programme of rehabilitation of non-wilful defaulters and enforcement of strict measures for recoveries from wilful defaulters. It has identified 147 blocks in which 173 branches of commercial banks would take up financing of primary credit societies.

Other Studies

With a view to finding out whether any correlation existed between under-financing, under-utilisation and overdues of co-operative banks, pilot studies were undertaken by the Agricultural Credit Board in 8 States viz., Maharashtra, Gujarat, Andhra Pradesh, West Bengal, Orissa, Uttar Pradesh, Karnataka and Punjab for this purpose. The findings of pilot studies have revealed that scales of finance were by and large realistic, having regard to the cost of cultivation and the repaying capacity as reflected by the anticipated returns of the produce. The limits fixed for individual members of societies were also broadly in conformity with the adopted scales, except in States of Maharashtra and Orissa where limits were pegged down at a lower level. The studies also revealed that overdues were the direct result of several lacunae in the implementation of the crop-loan system and could also be attributed to factors such as wilful defaults, crop failures, dilatoriness in taking effective coercive steps for recovery of overdues, etc. rather than to under-financing or under-utilisation of loans.

The Bank also conducted a study of the staffing pattern of State and Central Co-operative Banks in Uttar Pradesh and a detailed study of the institutional credit structure and the production and marketing of fruits in the three fruit growing districts of Jammu and Kashmir.

Central Sector Plan for Rehabilitation of Weak Co-operative Banks

Thirty-eight additional CCBs were brought under the Central Sector Plan Scheme raising their total number to 120 at the end of June 1977 for whom a sum of Rs. 5.7 crores was

sanctioned by the Government of India for writing off bad debts in respect of advances made by them to small/marginal farmers, tenants, share croppers, small artisans, etc. Out of this, a sum of Rs. 5.0 crores was released upto June 30, 1977.

The three State Co-operative Banks functioning in the areas served by two tier credit structure either wholly or partially viz., Manipur, Tripura and Himachal Pradesh, which were brought under the scheme of rehabilitation were sanctioned Rs. 17.4 lakhs, by the Government of India of which Rs. 14.71 lakhs were released to these three banks as their share of assistance.

Assistance to Co-operative Banks in Weak Tribal Areas

The Central Sector Plan Scheme, introduced in January 1975, for providing loans to CCBs so as to enable them to maintain non-overdue cover in respect of borrowings from RBI, was hitherto applicable to 9 States having per hectare advances below Rs. 20. This was extended to weak tribal areas also covering additional 11 States. Loans granted under the Scheme are for a period of nine years with a moratorium for the first three years and repayable in six equal annual instalments thereafter. They carry the same rate of interest prescribed by the Ministry of Finance from time to time on loans to State Governments.

Progress in the implementation of the Talwar Committee's Recommendations

During the period under review, the Government of Manipur had passed the necessary legislation and the Government of Assam and Bihar issued ordinances on the lines of the Model Bill suggested by the Talwar Committee to ensure greater flow of commercial bank finance to agriculture. So far, 13 States have passed enactments in this regard. The Governments of Andhra Pradesh, Gujarat, Jammu and Kashmir, Meghalaya and Tamil Nadu are also reported to be contemplating legislative action in this regard.

Fiscal Developments*

The changes in the budgetary position of the Central and State Governments over the year are reviewed in the first two sections of this chapter. Sections three and four discuss finances of Railways and of Posts & Telegraphs Departments, respectively. Changes in Public Debt are reviewed in the last section.

Combined Position of Central and State Governments

With a view to stimulating savings and investment and thus promoting accelerated economic growth, the structure of direct taxation was rationalised and Annual Plan outlay was substantially raised during 1976-77. Thus, the rates of taxes on personal incomes and wealth were reduced at all levels. Besides promoting savings, this measure was expected to evoke better tax compliance. For encouraging the growth and modernisation of specified priority industries, the scheme of investment allowance was introduced in the budget for 1976-77. The public sector Annual Plan outlay was stepped up to Rs. 7,852 crores i.e., an increase of Rs. 1,519 crores or 24 per cent over the revised outlay for 1975-76.

According to revised estimates for 1976-77, the combined budgetary deficit¹ of the Centre and States was higher at Rs. 506 crores² than the deficit of Rs. 291 crores in 1975-76. Net Reserve Bank credit to these Governments spurted to Rs. 830 crores as against a decline of Rs. 195 crores observed in 1975-76 (Table

VII-1). An overwhelmingly large part of the increase during 1976-77 and the entire decline during 1975-76 were on account of changes in net R.B.I. credit to the Central Government.

The combined aggregate receipts, according to revised estimates for 1976-77, rose by Rs. 2,414 crores or 12.3 per cent in the year over the level of 1975-76 (Table VII-2). Their proportion to national income at current prices at 34.3 per cent was higher than 32.4 per cent in 1975-76. A major part of the increase during 1976-77 (55.3 per cent) was contributed by capital receipts.

Tax receipts increased by 7.9 per cent and their proportion to national income moved up to 18.7 per cent from 18.4 per cent in 1975-76. As compared with tax receipts, capital receipts recorded a higher rate of growth of 25.3 per cent, mainly on account of larger gross market borrowings (Rs. 472 crores) and special borrowings of Rs. 480 crores by the Central Government from the Reserve Bank against the funds accruing under the Compulsory Deposit Schemes. The increase in revenue receipts was almost entirely on account of larger receipts from taxes on commodities and services. The rise in aggregate receipts during 1977-78 is estimated at Rs. 1,634 crores which is only two-thirds of that during the preceding year. The deceleration may be due to the expected stagnancy in capital receipts, the rise in revenue receipts estimated to be about one and a half times as much as during 1976-77.

*Figures in this Chapter relate to fiscal years (April-March).

¹ 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 States by the State budget figures of (i) net increase/decrease in R.B.I. 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 accounts and (iv) encashment of/investment in securities held in revenue reserve funds.

² According to the books of the Reserve Bank of India, the combined deficit for 1976-77 amounts to only Rs. 137.5 crores—Rs. 134.5 crores on Centre's account (i.e., net variation in outstanding treasury bills and cash balances) and Rs. 3 crores on account of the States (i.e., variation in cash balances, holdings of treasury bills and ways and means advances from the Reserve Bank). Corresponding details of receipts and expenditure are, however, not available.

Table VII.1: Trends in Budgetary Deficits and Net RBI Credit to Government

(Rupees Crores)

Year	Budgetary Surpluses (+) or Deficits (—) ^a			Net RBI Credit to Government ^b		
	Centre	States	Total	Centre	States	Total
1	2	3	4	5	6	7
1971-72	— 519	— 289	— 808	583	287	870
1972-73	— 869	— 7	— 876	1211	— 386	825
1973-74	— 328	— 226	— 554	630	134	764
1974-75	— 721	— 31	— 752	533	134	667
1975-76	— 366	+ 75	— 291	— 286	91	— 195
1976-77 (Revised Estimates) ..	— 425	— 81	— 506	808	22	830
1977-78 (Budget Estimates) ..	— 85 ^c	— 126 ^d	— 211			

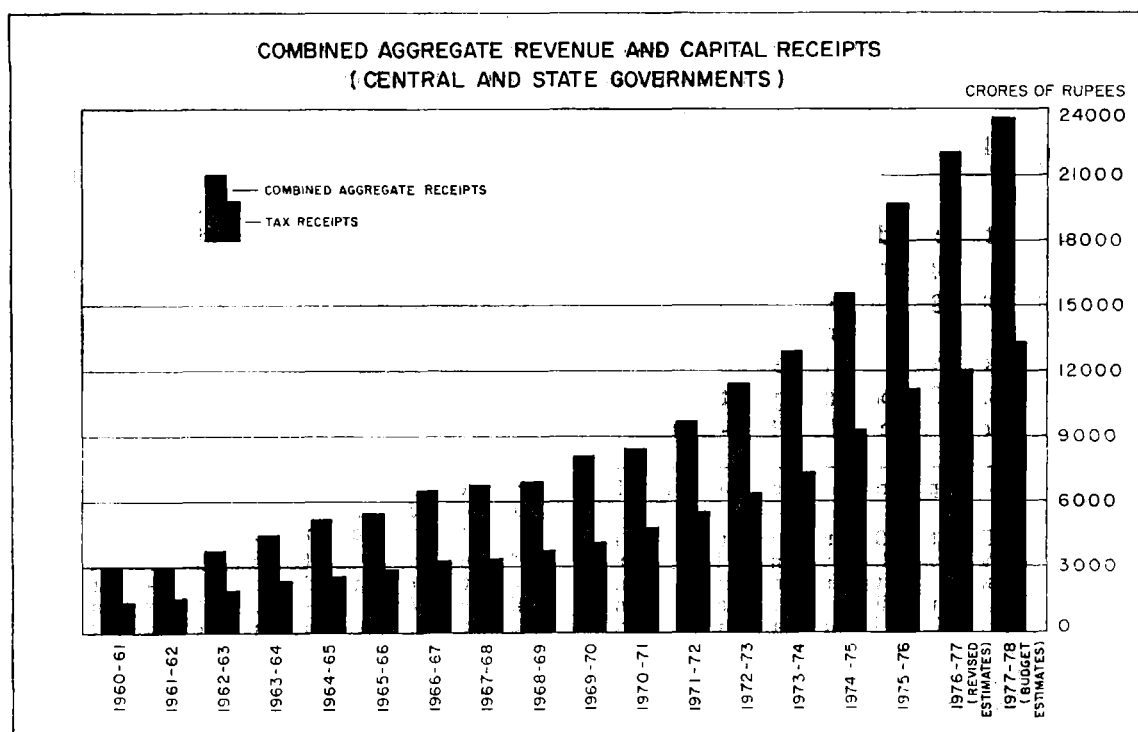
^a For definition see footnote No. 1 on earlier page.

^b Comprising net changes in (i) RBI holdings of treasury bills, other Government securities, rupee coins in issue department, loans and advances to State Governments and (ii) Governments' balances with the RBI, so that an increase in cash balances will imply a decline in RBI Credit to Governments and vice versa. Data refer to full fiscal year (i.e. from April 1 to March 31) and take into account adjustments made at the time of final closure of Government accounts.

^c Based on the budget presented in the month of June 1977.

^d Based on the interim budgets.

Source: Central and State budget documents for budgetary data.



Aggregate combined disbursements of the Centre and States increased by Rs. 2,629 crores or 13.2 per cent in 1976-77 and their proportion to national income moved up to 35.1 per cent from 32.9 per cent in the preceding year. A major part of the increase—53.8 per cent—was on account of developmental outlay on revenue account (Table VII-2).

I. Budgetary Operations of the Central Government

The revised estimates for 1976-77 place the overall budgetary deficit of the Central Government at Rs. 425 crores*, Rs. 59 crores more than in 1975-76.

* The overall budgetary deficit of the Central Government in 1976-77, according to the Reserve Bank's books, amounted 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 not yet available.

Total disbursements during 1976-77 went up by Rs. 1,693 crores to Rs. 14,832 crores. A major part of the increase amounting to Rs. 1,365 crores was on account of revenue expenditure, the rise in expenditure on capital account being Rs. 328 crores. Increases in expenditure on agriculture and allied services (Rs. 354 crores), foreign trade and export promotion (Rs. 135 crores), grants-in-aid to States and Union Territories (Rs. 355 crores) and interest payments (Rs. 273 crores) contributed to the increase in expenditure on revenue account. Expenditure on agriculture and allied services and foreign trade and export promotion recorded increases due to larger subsidies on (a) domestic manufactures of phosphatic fertilisers, (b) stocks of foodgrains issued, and carrying cost of foodgrains buffer stocks, and (c) exports and product promotion, respectively. On capital account, increases were recorded

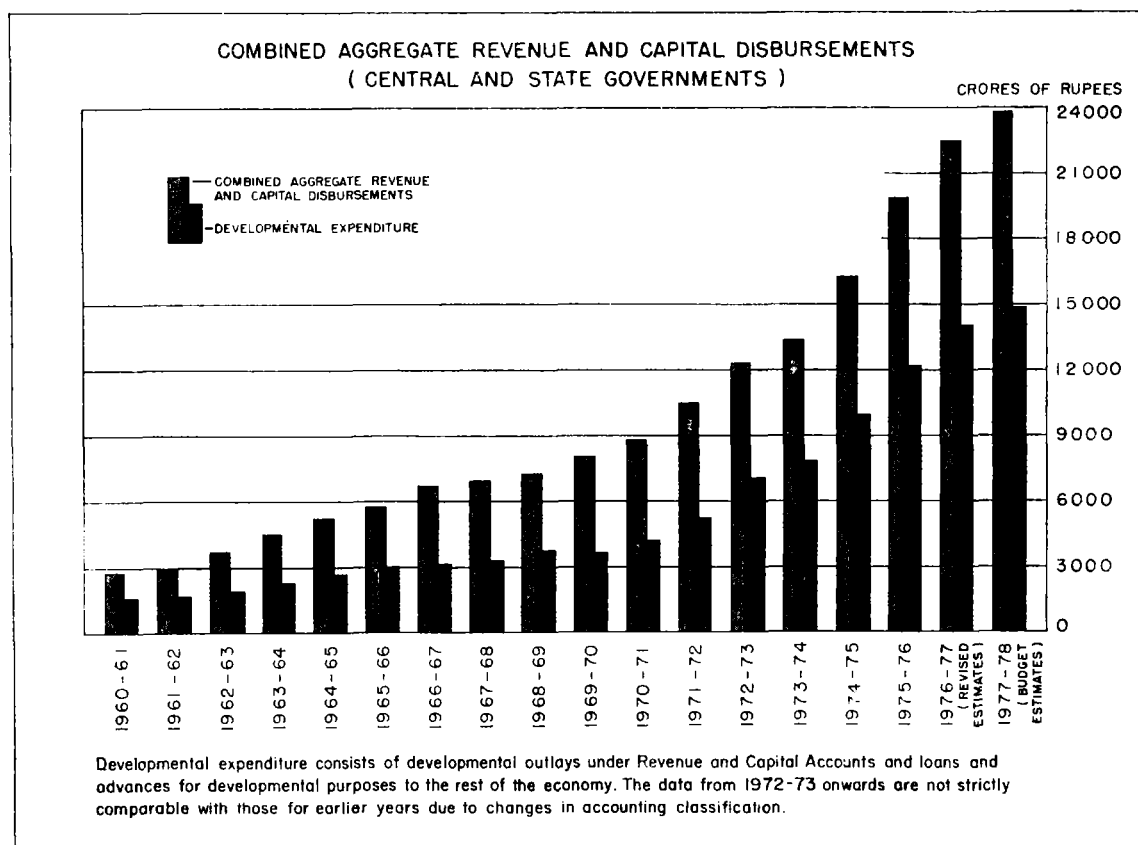


Table VII.2: Combined Receipts and Disbursements of Central and State Governments

(Rupees Crores)

Items											1975-76 (Accounts) Amount	1976-77 (B.E.)@		1976-77 (R.E.)		1977-78 (B.E.)@		
											Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year		
(1)											(2)	(3)	(4)	(5)	(6)	(7)	(8)	
I. Total Disbursements	..	..	..	..	..	..	..	..	..	..	19912	20667	+ 3.8	22541	+13.2	23880	+ 5.9	
Of which:																		
1. Developmental (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 (2933)+	2979	— 6.0	3312	+ 4.5	3551	+ 7.2	
2. Non-Developmental Outlay (a+b)	..	..	..	..	..	..	..	..	..	..	6655	7016	+ 5.4	7303	+ 9.7	8061	+10.4	
(a) Revenue	..	..	..	..	..	..	..	..	..	..	6169	6715**	+ 8.9	6944	+12.6	7516	+ 8.2	
(b) Capital	..	..	..	..	..	..	..	..	..	..	486*	301	—38.1	359*	—26.1	545pp	+51.8	
II. Total Receipts (A+B)	..	..	..	..	..	..	..	..	..	..	19621	20297	+ 3.4	22035	+12.3	23669	+ 7.4	
(A) Revenue Receipts	..	..	..	..	..	..	..	..	..	..	14344	14848	+ 3.5	15423	+ 7.5	17046	+10.5	
Of which:																		
Tax Receipts (a+b)	..	..	..	..	..	..	..	..	..	..	11155	11724	+ 5.1	12031	+ 7.9	13369	+11.1	
(a) Taxes on Commodities and Services	..	..	..	..	..	..	..	..	..	..	8431	9046	+ 7.3	9267	+ 9.9	10281	+10.9	
(b) Taxes on Income and Property	..	..	..	..	..	..	..	..	..	..	2724	2678	— 1.7	2764	+ 1.5	3088	+11.7	
(B) Capital Receipts	..	..	..	..	..	..	..	..	..	..	5277	5449	+ 3.3	6612	+25.3	6623	+ 0.2	
Of which:																		
(i) Market Borrowings (Gross)	..	..	..	..	..	..	..	..	..	..	936	1113	+18.9	1408	+50.4	1429	+ 1.5	
Market Borrowings (Net)	..	..	..	..	..	..	..	..	..	..	729	733	+ 0.5	1028	+41.0	1193	+16.1	
(ii) Small Savings (Net)	..	..	..	..	..	..	..	..	..	..	393	390	— 0.8	410	+ 4.3	425	+ 3.7	
(iii) State Provident Funds (Net)	..	..	..	..	..	..	..	..	..	..	354	360	+ 1.7	381	+ 7.6	440	+15.5	
(iv) Subscription to Bonds issued under Voluntary Disclosure Scheme	..	..	..	..	..	..	..	..	..	..		—		—		—		

III. Overall Surplus (+) or Deficit (-) (II-I)	..	..	..	..	..	..	..	—	291	—	370	—	506	—	211p
<i>Financing of Surplus (+) or Deficit (-):</i>															
(i) Increase (+) or Decrease (-) in Cash Balances of Centre and States	..	..	÷	455	—	8	—	708	—	60					
(ii) Increase (-) in Treasury bills of Centre	..	..	..	..	..	..	..	—	846	—	328	÷	320	—	83
(iii) Withdrawals from (-) or Additions to (+) Cash Balance Investment Accounts and Revenue Reserve Funds of States..	..	..	..	..	..	..	..	+	91	—	24	—	128	—	67
(iv) Increase (-) or Decrease (+) in Ways and Means Advances and Overdrafts from the Reserve Bank of India to States	..	..	..	..	..	..	..	÷	9	—	÷	10	—	1	
(v) Uncovered	..	..	..	..	..	..	..	..	—	—	10@	—	—	—	

@ Includes the effects of budget proposals as adjusted for tax concessions announced on May 12, 1976 for 1976-77 (B.E.) and on July, 15, 1977 for 1977-78 (B.E.).

4. Figures given here would slightly differ from those given in Bank's Annual Report due to revisions in data.

due to larger amount of loans and advances sanctioned to States and Union Territories (Rs. 208 crores) and to other institutions (Rs. 267 crores).

Improvement in receipts, both revenue and capital, helped to finance the larger disbursements in 1976-77. Revenue receipts were higher by Rs. 431 crores or 5.3 per cent while capital receipts recorded a substantial rise of Rs. 1,203 crores or 25.6 per cent. Among the taxes, maximum increase in yield was from corporation tax (Rs. 251 crores) followed by Union excise duty (Rs. 161 crores) and customs duty (Rs. 71 crores). Non-tax revenue also rose by Rs. 49 crores over that of the preceding year. Under capital receipts, though Government resorted to larger gross internal market borrowings (Rs. 463 crores), other receipts moved up sharply over the year by Rs. 1,113 crores. This included, among others, special borrowings of Rs. 480 crores from the Reserve Bank against the funds accruing under the Compulsory Deposit Schemes. However, these increases were partly offset by a decline of Rs. 308 crores in gross external borrowings.

Economic and Functional Classification of the Central Government Budget

The total expenditure* of the Central Government, according to the Economic and Functional Classification of the Budget, amounted to Rs. 13,499 crores in 1976-77 (revised estimates) showing an increase of Rs. 1,462 crores or 12.1 per cent over the preceding year (Table VII-3).

ECONOMIC CLASSIFICATION

According to the economic classification of the budget, the increase in expenditure was mainly the result of a 17.6 per cent rise in financial resources provided to the rest of the economy which moved up by Rs. 1,297 crores to Rs. 8,680 crores in 1976-77. Consequently, the share of such transfer of resources in total

expenditure moved up from 61.3 per cent during 1975-76 to 64.3 per cent in 1976-77. Of the increase in such transfers, about 40 per cent was for capital formation. As regards final outlays, representing Government's direct expenditure on consumption and capital formation, the increase of Rs. 165 crores recorded during the year was entirely on account of Government's direct demand for goods and services for consumption (Rs. 173 crores). Final outlay on capital formation actually declined, though marginally, by Rs. 8 crores mainly due to transfer of transactions relating to imported fertilisers and financing of increases in their inventories to the Food Corporation of India from March 1976; earlier, expenditure on these transactions was included in the budget.

Financial resources provided for capital formation to the rest of the economy showed a smaller rise of 14.5 per cent than the increase of 20.3 per cent in resources provided for purposes other than capital formation. In the result, the sum total of direct and indirect expenditure for capital formation increased over the year at a lower rate of 10.6 per cent than the rise of 13.2 per cent recorded by expenditure for purposes other than capital formation. Consequently, the proportion of capital formation expenditure to total expenditure declined to 38.2 per cent from 38.7 per cent in the preceding year.

The proportion of expenditure for developmental capital formation to total developmental expenditure declined over the year from 71.6 per cent to 69.3 per cent.

FUNCTIONAL CLASSIFICATION

Developmental expenditure of the Central Government comprising disbursements on account of social and economic services increased by Rs. 895 crores or by 13.8 per cent to Rs. 7,367 crores in 1976-77 and accounted for 54.6 per cent of the total expenditure in 1976-77

* The figure of total expenditure as given in the Economic and Functional Classification is lower than that indicated in the Budget, mainly because the former does not include the following items:

(i) discharge of debt and (ii) current expenditure of departmental commercial undertakings including their interest payments and (iii) net transfer to various reserve funds by them.

Table VII.3: Economic Classification of Total Budgetary Expenditure of the Central Government

(Rupees Crores)

Item	1975-76 (Accounts)	Per cent variation over the previous year	1976-77 (Budget Estimates)	Per cent variation over the previous year	1976-77 (Revised Estimates)	Per cent variation over the previous year	1977-78 (Budget Estimates)	Per cent variation over the previous year
1	2	3	4	5	6	7	8	9
I. Total Expenditure	12037 (100.0)	+23.0	12604 (100.0)	+ 4.7	13499 (100.0)	+12.1	14826 (100.0)	+ 9.8
A. Final Outlays	4654 (38.7)	+13.7	4650 (36.9)	— 0.1	4819 (35.7)	+ 3.5	4998 (33.7)	+ 3.7
(a) Consumption Expenditure	3449 (28.7)	+20.3	3526 (28.0)	+ 2.2	3622 (26.8)	+ 5.0	3860 (26.0)	+ 6.6
(b) Capital Formation	1205 (10.0)	— 0.8	1124 (8.9)	— 6.7	1197 (8.9)	— 0.7	1138 (7.7)	— 4.9
B. Financial Resources Provided to the Rest of the Economy	7383 (61.3)	+29.7	7954 (63.1)	+ 7.7	8680 (64.3)	+17.6	9828 (66.3)	+13.2
(a) For Capital Formation	3459 (28.7)	+41.2	3781 (30.0)	+ 9.3	3961 (29.3)	+14.5	4571 (30.9)	+15.4
(i) To States and Union Territories	1433 (11.9)	+20.6	1520 (12.1)	+ 6.1	1594 (11.8)	+11.2	1925 (13.0)	+20.8
(ii) To Others*	2026 (16.8)	+60.5	2261 (17.9)	+11.6	2367 (17.5)	+16.8	2646 (17.9)	+11.8
(b) For Purposes other than Capital Formation	3924 (32.6)	+21.1	4173 (33.1)	+ 6.3	4719 (35.0)	+20.3	5257 (35.4)	+11.4
(i) To States and Union Territories	1239 (10.3)	+16.0	1311 (10.4)	+ 5.8	1379 (10.2)	+11.3	1429 (9.6)	+ 3.6
(ii) To Others*	2685 (22.3)	+23.6	2862 (22.7)	+ 6.6	3340 (24.8)	+24.4	3828 (25.8)	+14.6
II. Total Capital Formation Expenditure	4664 (38.7)	+26.8	4905 (38.9)	+ 5.1	5158 (38.2)	+10.6	5709 (38.5)	+10.7
III. Total Expenditure for purposes other than Capital Formation	7373 (61.3)	+20.7	7699 (61.1)	+ 4.4	8341 (61.8)	+13.1	9117 (61.5)	+ 9.3

*Comprise non-departmental commercial undertakings, local authorities, foreign governments, etc.

Note: Figures in brackets represent percentages to total expenditure.

Source: Economic and Functional Classification of the Central Government Budget.

as compared with 53.8 per cent in the preceding year (Table VII-4). The bulk of the rise, i.e. Rs. 756 crores or 84.5 per cent of the total rise in developmental expenditure, was in respect of expenditure on economic services (such as investments in government companies, loans to non-departmental non-financial companies and subsidies to industries).

Non-developmental expenditure, i.e., disbursements for general services and unallocable items, rose over the year by Rs. 567 crores or by 10.2 per cent. The rise was mostly (i.e. Rs. 560 crores) in expenditure on unallocable items (e.g., consumption subsidies, interest payments and statutory grants-in-aid).

Pattern of Expenditure for 1977-78 : Budget Estimates

In March 1977, the Central Government presented an interim budget for vote on account, and in June 1977 the regular budget was introduced in the Parliament. In the regular budget for 1977-78, the Finance Minister outlined the major task ahead as of devising an effective strategy for dealing with the problems of inadequate growth, poverty, unemployment, growing regional imbalances and rising prices. He emphasised that only an all round and accelerated growth and development of agriculture could provide an effective solution to these problems. Accordingly, the Plan outlay on

Table VII.4: Functional Classification of Central Government's Total Expenditure

(Rupees Crores)									
		1975-76 (Accounts)		1976-77 (Budget Estimates)		1976-77 (Revised Estimates)		1977-78 (Budget Estimates)	
		Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
		1	2	3	4	5	6	7	8
Total Expenditure (A+B)		12037 (100.0)	23.0	12604 (100.0)	4.7	13499 (100.0)	12.1	14826 (100.0)	9.8
A. Developmental Expenditure (i+ii)		6472 (53.8)	30.1	6595 (52.3)	1.9	7367 (54.6)	13.8	8092 (54.6)	9.8
(i) Social Services		784 (6.5)	32.4	815 (6.5)	3.9	923 (6.9)	17.7	1012 (6.8)	9.6
(ii) Economic Services*		5688 (47.3)	29.8	5780 (45.8)	1.6	6444 (47.7)	13.3	7080 (47.8)	9.9
B. Non-Developmental Expenditure (i+ii)		5565 (46.2)	15.7	6009 (47.7)	8.0	6132 (45.4)	10.2	6734 (45.4)	9.8
(i) General Services		3344 (27.8)	27.7	3201 (25.4)	-4.3	3351 (24.8)	0.2	3667 (24.7)	9.4
(ii) Unallocable		2221 (18.4)	1.3	2808 (22.3)	26.4	2781 (20.6)	25.2	3067 (20.7)	10.3

Note: Figures in brackets are percentages to total expenditure.

*Include block grants and loans.

Source: Economic and Functional Classification of the Central Government Budget.

agriculture and allied services, irrigation and fertilisers together with provisions for co-operatives and power sectors attributable to rural areas, has been stepped up by 31 per cent from Rs. 2,312 crores in 1976-77 to Rs. 3,024 crores in 1977-78. The allocation constitutes 30.4 per cent of the aggregate outlay of Central, State and Union Territories Plans. The budget estimates for 1977-78 envisage a deficit of Rs. 72 crores as against Rs. 425 crores according to the revised estimates for 1976-77. However, in view of the modifications of the tax proposals announced by the Finance Minister, the estimate has been revised upwards to Rs. 85 crores. This deficit is arrived at after taking into account the provision for special borrowings from the Reserve Bank of Rs. 800 crores against drawal of foreign exchange reserves and Rs. 130 crores against the accretions under compulsory deposit schemes as compared with Rs. 480 crores in 1976-77.

Economic Classification

According to the economic classification, the total expenditure estimated at Rs. 14,826 crores in 1977-78 shows a lower rate of increase of 9.8 per cent as compared to 12.1 per cent in 1976-77. This is due to (a) decline in inventories as against net expenditure on this item in the preceding year in respect of imported fertilisers and financing of their inventories, and (b) decline in the rate of increase in financial resources provided to the rest of the economy for purposes other than capital formation. The latter expenditure which accounts for roughly one-third of the total expenditure is expected to rise at a lower rate of 11.4 per cent in 1977-78 than in the previous year (20.3 per cent).

The provision for final outlays during 1977-78 at Rs. 4,998 crores is estimated to rise by Rs. 179 crores or 3.7 per cent i.e., marginally higher than the rate of growth in the previous year (3.5 per cent). The provision for final outlays accounted for 33.7 per cent of the total expenditure as against 35.7 per cent in the preceding year. The provision for direct gross capital formation expenditure is expected to be lower by 4.9 per cent due to a decline in

inventories in respect of imported fertilisers as indicated earlier, the decline in the preceding year being 0.7 per cent. The provision for direct gross capital formation would form 7.7 per cent of the total estimated expenditure in 1977-78 as against 8.9 per cent in the preceding year.

Consumption expenditure, which is the major component of final outlays, is likely to increase from Rs. 3,622 crores in 1976-77 to Rs. 3,860 crores (or by 6.6 per cent) in 1977-78 and would account for 26.0 per cent of the total expenditure compared to a slightly higher proportion of 26.8 per cent in the previous year.

Financial resources provided to the rest of the economy by way of transfer payments and financial investments and loans at Rs. 9,828 crores are expected to go up by 13.2 per cent from the level of Rs. 8,680 crores in 1976-77. As proportion of total expenditure they are expected to rise to 66.3 per cent from 64.3 per cent in 1976-77.

Total gross capital formation expenditure at Rs. 5,709 crores is expected to rise at a marginally higher rate of 10.7 per cent than in the previous year (10.6 per cent). Consequently, its proportion to total expenditure would go up slightly from 38.2 per cent in 1976-77 to 38.5 per cent in 1977-78 (Table VII-5).

Functional Classification

Developmental expenditure of the Central Government at Rs. 8,092 crores is estimated to rise at a lower rate of 9.8 per cent in 1977-78 than in the preceding year (13.8 per cent). This is due to deceleration in expenditure both for social and economic services. However, the growth rate declined more steeply in the case of expenditure on social services (from 17.7 per cent to 9.6 per cent) than in the case of expenditure on economic services (from 13.3 per cent to 9.9 per cent). The proportion of developmental expenditure to the total expenditure is expected to remain at 54.6 per cent, i.e. same as in 1976-77.

Table VII.5 : Provision for Capital Formation

(Rupees Crores)										
				1975-76 (Accounts)	1976-77 (Budget Estimates)	1976-77 (Revised Estimates)	1977-78 (Budget Estimates)	Per cent variation of		
								Column 4 over 2	Column 5 over 4	
				1	2	3	4	5	6	7
I. Total Provision for Capital Formation..				..	4664	4905	5158	5709	10.6	10.7
A. Developmental					4635	4858	5108	5653	10.2	10.7
1. Social Services					128	156	156	252	21.9	61.5
2. Economic Services					3565	3692	3875	4145	8.7	7.0
(a) Agriculture					570	232	391	189	—31.4	—51.7
(b) Industry					1702	2124	2126	2370	24.9	11.5
(c) Transport and Communications					989	1037	1022	1219	3.3	19.3
(d) Other Economic Services					304	299	336	367	10.5	9.2
3. Block Grants and Loans					942	1010	1077	1256	14.3	16.6
B. Non-Developmental					29	47	50	56	72.4	12.0
1. General Services					29	47	50	56	72.4	12.0
2. Unallocable					—	—	—	—		
II. Total Developmental Expenditure					6472	6595	7367	8092	13.8	9.8
III. I A as per cent of II					71.6	73.7	69.3	6.99		

Source: Economic and Functional Classification of the Central Government Budget.

Non-developmental expenditure at Rs. 6,734 crores is estimated to move up at a lower rate of 9.8 per cent in 1977-78 than in the previous year (10.2 per cent).

Major Tax Proposals

Initially tax proposals were made in the regular budget for 1977-78, presented in June 1977, for mobilising additional resources of Rs. 143 crores for the rest of 1977-78, of which Central Government's share was Rs. 130 crores. On July 15, 1977, certain tax concessions were announced involving a revenue loss of Rs. 21.6 crores in a full year. For the rest of 1977-78, the loss is likely to be Rs. 15.5 crores of which Centre's share is estimated at Rs. 12.6 crores.

The tax changes are designed to raise resources as well as to strengthen the redistributive role of direct taxes. They also aim at

increasing corporate savings, channelising more funds into investment and accelerating the pace of industrial growth. In respect of indirect taxes, the emphasis is on simplifying and rationalising tariff structure so as to enhance the competitiveness of industry and satisfy the domestic demand.

PERSONAL INCOME AND WEALTH TAX

It is provided that no income-tax shall be payable by individuals and Hindu Undivided families whose taxable income does not exceed Rs. 10,000. To minimise the loss of revenue, the nil rate slab of income is retained at Rs. 8,000 for persons with income of more than Rs. 10,000. Hence, where the taxable income exceeds Rs. 10,000, the excess over Rs. 8,000 will be liable to tax at the prescribed rates, subject to the grant of marginal relief in cases where the taxable income exceeds Rs. 10,000 by a small margin. The rate of surcharge on income-tax in the case of all categories of tax

payers, except companies, has been raised from 10 per cent to 15 per cent. With this increase, the maximum marginal rate of personal income-tax, inclusive of surcharge, will now be 69 per cent as against 66 per cent previously.

As regards wealth tax, the rate of one-half of one per cent will continue unchanged on the first Rs. 2.5 lakhs of net wealth; for the higher slabs there will be an increase of half a percentage point over the previous rates, while in the highest slab of over Rs. 15 lakhs, the new rate will be 3.5 per cent, that is, an increase of one percentage point. There are corresponding changes in the rates applicable to Hindu Undivided Families having one or more members with net wealth exceeding Rs. one lakh.

The compulsory deposit scheme in its application to additional dearness allowance was terminated with effect from May 6, 1977. However, in the context of prevailing inflationary pressures, the compulsory deposit scheme for income-tax payers has been extended for another two years.

The prevailing structure of capital gains taxation was considered to be inhibiting the mobility of investible resources and encouraging investment in low priority assets. So the minimum holding period in respect of capital asset for grant of tax concession has been reduced from 60 months to 36 months. Capital gains are exempted from tax if the sale proceeds of any asset are re-invested within six months in shares, bank deposits, units of Unit Trust or other prescribed assets. Formerly, such a concession was allowed on the sale and purchase of residential houses only. To prevent abuse of this concession, it is required that assets in which the sale proceeds have been re-invested should be held for not less than three years. With a view to avoiding inconvenience to small investors in joint-stock companies and in particular to investors from rural areas, the requirement of deduction of tax at source from dividends will be waived in cases where the dividend paid does not exceed Rs. 250.

CORPORATE TAXATION

The investment allowance scheme has been extended to all except 29 low priority large-scale industries. Further, investment allowance at the higher rate of 35 per cent would be allowed on machinery and plant installed for the manufacture of any article in accordance with the know-how developed in government laboratories, public sector companies, universities and recognised institutions.

To encourage companies and co-operatives in the work of rural welfare and uplift, the expenditure incurred by them on approved programmes of rural development will be allowed to be deducted in computing their taxable profits. To give a direct stimulus for the setting up of small-scale industrial undertakings in rural areas, preferential tax treatment will be accorded to industries which are set up in such areas and which begin their manufacturing activity after September 30, 1977. Such industrial undertakings will be entitled to a deduction in the computation of their taxable profits of an amount equal to 20 per cent of the profits. The concession will be available for each of the ten years commencing from the year in which the undertaking begins manufacturing activities.

Closure of any sizeable manufacturing unit in any industry entails social costs in terms of loss of production and employment and also waste of valuable capital assets. With a view to avoiding such a waste and for facilitating the voluntary amalgamation of sick industrial units with sound ones by providing certain incentives and by removing impediments in the way of such amalgamation, a provision has been made that where an amalgamation is accepted by the Central Government to be in public interest, the accumulated losses and unabsorbed depreciation of the amalgamating company will be allowed to be carried forward and set off in the hands of the amalgamated company. In the budget of 1976-77 an option was granted to companies so that instead of paying 5 per cent surcharge on income tax, the companies could deposit the equivalent amount with the

Industrial Development Bank of India for a period of five years. This option was withdrawn in the budget for 1977-78.

According to an announcement made by the Finance Minister in the course of the budget speech, the Government has appointed a Committee of experts to make recommendations for the simplification and rationalisation of the Direct Tax Laws.

UNION EXCISE AND CUSTOMS DUTIES

Certain changes have been made in excise duties to raise additional resources, to reduce or abolish them and to rationalise and simplify the duty structure. The modifications of customs duties are designed to stimulate industrial growth and to enhance the competitiveness of our industry.

The changes in excise duties made for raising resources, included among others, a ten per cent levy on hand tools and small tools not already excisable, weighing machines and weighbridges, watches, clocks and time pieces, electric light fittings and polishes for footwear, metals and cars, etc. An excise duty of 12 per cent is levied on acetylene gas. Some concession in these duties has been given to small scale manufacturers of these products.

The general excise duty which was levied in 1975 on commodities which did not attract any excise duties under any specific head has been raised from one per cent to two per cent with certain modifications. In order to minimise the cascading effect, a set off will be given where these goods go into the manufacture of other goods that are themselves excisable.

The progression in rates of *ad valorem* duty on cigarettes has been raised, and in the case of branded biris duty of rupee one per thousand has been raised to rupees two per thousand. The rate of duty on motor cars has been increased by $2\frac{1}{2}$ percentage points to $17\frac{1}{2}$ per cent and on two-wheeler and three-wheeler motor vehicles from 9 per cent to $12\frac{1}{2}$ per cent. Simultaneously, tyres, tubes and batteries supplied as original equipment to two and three wheelers were exempted from duty; so,

the net increase in duty in the case of these items will be about $2\frac{1}{4}$ percentage points.

Reduction or abolition of excise duties has been designed to benefit the textile industry, especially handloom and powerloom sectors, the yarn crimping industry, small paper mills, small cottage units in match industry, mini steel plants and small scale electronics industry. Now cotton yarn in cross reel hanks upto 20 counts supplied to handloom sector is exempted from excise duty while cotton yarn of higher counts in cross reel hanks is exempted to the extent of 30 paise per kilogram. Similar concessions will be extended to viscose spun yarn. Handloom fabrics processed without aid of power and processed with aid of power by handloom cooperatives or Government organisations are exempted from processing duty. The licensed powerlooms have been exempted from the compounded excise levy, but unlicensed powerloom owners are required to pay compounded levy of Rs. 400 per annum per loom.

The rates of duty on cotton fabrics would be on *ad valorem* basis and in respect of fabrics coming under coarse and medium varieties duty will be in a range of 20 per cent to 15 per cent as the price increases. However, in case of fine and superfine fabrics, the rate of excise duty will be 15 per cent. In respect of cheaper varieties of cloth, the prices will be brought down and in respect of costlier varieties of cloth, there may be some rise. Reduction of 50 per cent in excise duty has been made in respect of controlled cloth and drill.

The duty leviable on paper produced by small paper mills has been reduced on a graded basis from 75 per cent to 50 per cent of the excise duty leviable depending upon the installed capacity of the mill. This concession will be subject to the use of non-conventional raw materials and waste paper to the extent of at least 50 per cent. To conserve the country's fast depleting timber resources, even larger paper mills, if they use non-conventional raw materials to the extent of at least 50 per cent will get a duty relief of $33\frac{1}{3}$ per cent of the excise duty leviable.

For helping such of the small cottage units in match industry as are members of registered co-operative societies or are certified as such by the Khadi and Village Industries Commission, it was decided to double the previous concession of 55 paise for a gross of match boxes.

With a view to supporting the mini steel plants, exemption has been granted to them from the excise duty of Rs. 180 per tonne on steel ingots. They are also exempted from excise duty on the identifiable types of fresh melting scrap cleared from the main steel plants as raw material for the mini steel plants and from customs duty on imported scrap.

The duty on electronic items, which was so far on a varying basis, some specific and others *ad valorem*, has now been made uniformly *ad valorem*. The large manufacturers producing radios and transistor sets, tape recorders, tape recorder-cum-radios, stereos and hi-fi musical systems will pay duty varying from 15 per cent to 35 per cent *ad valorem* depending on the item and the ex-factory price. Small manufacturers have been given a uniform concession of 15 per cent. They will pay duties varying from nil to 20 per cent *ad valorem*.

Excise duty on woollen yarn was collected from a number of small spinners, which led to evasion and other malpractices. Therefore, it has been replaced by an increase in the customs duty at the stage of import of raw wool, waste wool and rags. As regards wool tops, excise duty of Rs. 10 per kilogram has been reduced to Rs. 5 per kilogram and the loss is made good by increasing the import duty on raw wool suitably.

Pursuant to the Government's acceptance of the recommendations of the Sixth Finance Commission, from 1976-77 onwards, auxiliary duties of excise have become shareable with the States in the same way as basic excise duties. Thus the justification for levying auxiliary duties separately has now disappeared. In order to simplify the duty structure and to eliminate unnecessary calculations, it is decided

to merge the auxiliary duties with the basic duties of excise.

The Government has decided to allow the import of watches through Hindustan Machine Tools so as to satisfy domestic demand and reduce smuggling. Moreover, import duty on watches and watch parts has been reduced from 120 per cent *ad valorem* to 50 per cent *ad valorem*. Import duty on newsprints has been completely withdrawn. With a view to enabling the Indian capital goods industry to meet foreign competition more effectively, import duty on copper wire bars used for manufacture of certain larger sized electrical motors, generators and transformers has been reduced from 45 per cent plus Rs. 5,600 per tonne to 40 per cent *ad valorem*. Besides, the rate of import duty on cold rolled non-grain-oriented sheets, alloy steel, tool steel, special steel and high carbon steel has been reduced from 75 per cent to 40 per cent.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS

Revised Estimates 1976-77:

Budgetary operations of State Governments, according to the revised estimates for 1976-77, show a deficit of Rs. 81 crores as against a surplus of Rs. 75 crores for 1975-76 (Table VII-6). The change was the combined result of a decline of Rs. 194 crores in the surplus on revenue account and an increase of Rs. 147 crores in the deficit on capital account adjusted by increase in net remittances by Rs. 185 crores. The deficit was wholly covered by withdrawals from cash balance investment account.

Receipts

According to the revised estimates, the aggregate receipts of the States during 1976-77 rose by Rs. 1,392 crores to Rs. 11,926 crores. The rise may be attributed mainly to the increase in revenue receipts which went up by Rs. 1,023 crores, of this Rs. 529 crores were contributed by non-tax receipts and the rest by tax receipts.

Higher tax receipts largely reflect States' own efforts in mobilising resources. Revised estimates indicate that States' tax revenue rose by Rs. 447 crores to Rs. 3,993 crores during the year. A major part of the increase—Rs. 454 crores—came from taxes on commodities and services, primarily sales tax. Sales tax receipts, which constitute about two-thirds of the total receipt from taxes on commodities and services, increased by Rs. 317 crores to Rs. 2,260 crores, though the rate of growth at 16.3 per cent was substantially lower than that recorded during the preceding year (25.4 per cent). Growth of receipts from State excise duties (Rs. 56 crores) and taxes on vehicles (Rs. 34 crores) were also significant. As regards the State taxes on income, Gujarat, Karnataka, Kerala and Tripura also introduced profession tax. Consequently, aggregate receipts under this head spurted

by Rs. 10 crores to Rs. 27 crores during the year. Among other tax receipts, those from land revenue declined by Rs. 43 crores as compared to the rise of Rs. 69 crores during the preceding year. This was largely on account of remissions granted in the drought-affected areas. The yield from stamps and registration fees increased by Rs. 26 crores. Increase in States' share of Central taxes by Rs. 47 crores was wholly on account of larger receipts from Central excise duties, the other major shared tax, viz., income-tax, having declined by Rs. 82 crores.

The increase in interest receipts by Rs. 103 crores, mostly from departmental and non-departmental undertakings, and higher revenue of Rs. 107 crores from economic services like forest services and royalty from mines and

Table VII.6: Overall Budgetary Position of State Governments

(Amounts in Rupees Crores)							
	1975-76 (Accounts) Amount	1976-77 (B.E.)		1976-77 (R.E.)		1977-78 (B.E.)	
		Amount	Per cent variation over the previous year (col. 2 over col. 1)	Amount	Per cent variation over the previous year (col. 4 over col. 1)	Amount	Per cent variation over the previous year (col. 6 over col. 4)
	1	2	3	4	5	6	7
I. Aggregate Receipts (A + B) ..	10534	10885 (10746)	+ 3.3 (+ 2.0)	11926	+ 13.2	12632 (12584)	+ 5.9 (+ 5.5)
A. Revenue Receipts (i+ii) ..	7938	8396 (8257)	+ 5.8 (+ 4.0)	8961	+ 12.9	9778 (9730)	+ 9.1 (+ 8.6)
(i) Tax Receipts (a+b) ..	5145	5468 (5343)	+ 6.3 (+ 3.8)	5639	+ 9.6	6163 (6119)	+ 9.3 (+ 8.5)
(a) States' Taxes ..	3546	3833 (3740)	+ 8.1 (+ 5.5)	3993	+ 12.6	4400 (4365)	+ 10.2 (+ 9.3)
(b) Share in Central Taxes ..	1599	1635 (1603)	+ 2.3 (+ 0.3)	1646	+ 2.9	1763 (1754)	+ 7.1 (+ 6.6)
(ii) Non-tax Receipts (c+d) ..	2793	2928 (2914)	+ 4.8 (+ 4.3)	3322	+ 18.9	3615 (3611)	+ 8.8 (+ 8.7)
(c) Grants from the Centre ..	1219	1258	+ 3.2	1506	+ 23.5	1646	+ 9.3
(d) Other Non-tax Receipts ..	1574	1670 (1656)	+ 6.1 (+ 5.2)	1816	+ 15.4	1969 (1965)	+ 8.4 (+ 8.2)
B. Capital Receipts (i+ii) ..	2596	2489	— 4.1	2965	+ 14.2	2854	— 3.7
(i) States' Capital Receipts ..	1301	1207	— 7.2	1478	+ 13.6	1332	— 9.9
Of which:							
(a) Market Borrowings (Gross)	275	303	+ 10.2	284	+ 3.3	300	+ 5.6
(b) Recovery of Loans and Advances ..	420	360	— 14.3	387	— 7.9	329	— 15.0
(ii) Loans from the Centre (Gross)	1295	1282	— 1.0	1487	+ 14.8	1522	+ 2.4

Table VII.6: Overall Budgetary Position of State Governments (Contd.)

(Amounts in Rupees Crores)								
	1	2	3	4	5	6	7	
II. Aggregate Disbursements	10459	10927	+ 4.5	12007	+ 14.8	12758 (12760)	+ 6.3 (+ 6.3)	
<i>Of which:</i>								
(a) Developmental Expenditure* (i+ii) ..	7072	7466	+ 5.6	8268	+ 16.9	8934	+ 8.1	
(i) Social and Community Services	3057	3206	+ 4.9	3577	+ 17.0	3705	+ 3.6	
<i>Of which:</i>								
Expenditure on Natural Calamities	118	53	— 55.1	86	— 27.1	59	— 31.4	
(ii) Economic Services ..	4015	4260	+ 6.1	4691	+ 16.8	5229	+ 11.5	
(b) Non-Developmental Expenditure*	2316	2659†	+ 14.8	2718	+ 17.4	2937 (2939)	+ 8.1 (+ 8.1)	
(c) Repayment of Loans to the Centre	762	562	— 26.2	689	— 9.6	634	— 8.0	
(d) Discharge of Internal Debt ..	33	138	+318.2	138	+318.2	143	+ 3.6	
<i>Of which:</i>								
Market Loans	2	105		105		107	+ 1.9	
III. Overall Surplus (+) or Deficit (—) (I-II)	+ 75	— 42 (—181)		—81		—126(b) (—176(b))		

Notes: 1. Figures are based on interim budgets of States. 2. Budget estimates for 1976-77 include estimated yield from the States' Budget proposals (Rs. 107 crores) and the States' share in the Centre's net additional taxation (Rs. 32 crores). Figures in brackets reflect 1975-76 rates of taxation.

3. Budget estimates for 1977-78 include estimated yield from tax proposals (Rs. 34 crores), non-tax proposals (Rs. 4 crores) and Sale of additional stock in Public Works Department (Rs. 2 crores) and the States' share in the Centre's net additional taxation (Rs. 9 crores). Figures in brackets reflect 1976-77 rates of taxation.

* Comprises States' expenditures on revenue and capital accounts and loans and advances extended by States.

† 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.

(b) 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.

minerals were the major contributors to the rise in other non-tax receipts by Rs. 242 crores to Rs. 1,816 crores.

Total capital receipts rose by Rs. 369 crores to Rs. 2,965 crores during 1976-77. The increase was shared almost equally by States' own capital receipts and loans from the Centre. The increase of Rs. 177 crores over the year in States' own capital receipts is reflected in the net rise in the small savings, provident funds etc. by Rs. 77 crores and contingency funds by Rs. 89 crores and reserve funds by Rs. 19 crores. Gross market borrowings at Rs. 284 crores was only marginally higher than during the previous year; net market borrowings, however, declined by Rs. 94 crores on account of repayment of loans of Rs. 105 crores which matured during

the year. The receipts from recovery of loans and advances declined by Rs. 33 crores to Rs. 387 crores.

The deficit of Rs. 81 crores, as mentioned earlier, between aggregate receipts and disbursements would have been as high as Rs. 1,898 crores but for the substantial net transfer of resources from the Central Government to States which comprise grants-in-aid—Rs. 1,506 crores and loans—Rs. 1,487 crores, adjusted for loan repayment of Rs. 689 crores and interest payments of Rs. 487 crores. During 1976-77, the net increase in these transfers worked out to 39.1 per cent or Rs. 511 crores compared to the increase of Rs. 64 crores or only 5.2 per cent during the previous year. Total net resources transferred from the Centre as a

proportion of their aggregate receipts, excluding the loan repayment to the Centre, increased from 13.4 per cent to 16.2 per cent. The grants from the Centre at Rs. 1,506 crores increased by 23.5 per cent or by Rs. 287 crores. Of the total grants, 53.6 per cent were marked for plan schemes. The grants for the State plan schemes increased by Rs. 81 crores to Rs. 439 crores, for Central and Centrally sponsored schemes by Rs. 124 crores to Rs. 368 crores, for non-plan expenditure by Rs. 82 crores to Rs. 699 crores. The gross loans increased by 14.8 per cent or Rs. 192 crores to Rs. 1,487 crores. But the increase in the loans net of repayment was Rs. 265 crores. The 50.8 per cent of the increase (or Rs. 98 crores) in the gross loans was allocated to non-plan expenditure. The State plan schemes were the beneficiary to the extent of Rs. 89 crores or 46.1 per cent of increase in the loans from the Centre. The remaining Rs. 6 crores were accounted for Centrally sponsored schemes and Central plan schemes.

Disbursements

Aggregate disbursements increased by Rs. 1,548 crores to Rs. 12,007 crores as compared to the rise of Rs. 1,826 crores or 21.2 per cent in the previous year. Of this increase, 77.3 per cent or Rs. 1,196 crores represented increase in developmental expenditure which, at Rs. 8,268 crores, was higher by 16.9 per cent. Non-developmental expenditure also went up by Rs. 402 crores or 17.4 per cent. States' direct developmental expenditure was stepped up by Rs. 1,029 crores, while their loan assistance to third parties for developmental purposes was higher by Rs. 167 crores. Developmental expenditure constituted 75.3 per cent of the States' total expenditure. But the proportion of developmental expenditure financed by own resources declined from 80.7 per cent during 1975-76 to 75.2 per cent in 1976-77 after meeting their non-developmental expenditure.

Budget Estimates 1977-78

The combined budgetary position of the States, based on the interim budgets presented by them before the recent State assembly

elections, reveals a larger deficit of Rs. 126 crores compared to the deficit of Rs. 81 crores disclosed by the revised estimates for 1976-77. In the wake of forthcoming state assembly elections, most of the state governments, refrained from imposing taxes to raise additional resources, provided for deficits in their budgetary operations during 1977-78. Only 9 States, viz., Assam, Himachal Pradesh, Karnataka, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa and Rajasthan announced measures for mobilisation of additional resources of Rs. 41 crores as compared to 15 States which proposed measures for raising Rs. 107 crores in 1976-77.

Receipts

Aggregate receipts at Rs. 12,632 crores at the revised rates of taxation are budgeted to show a rise of Rs. 706 crores or by 5.9 per cent over the preceding year, thereby registering a sharp fall in the rate of growth of receipts from 13.2 per cent recorded in 1976-77. The deceleration is on account of smaller increases budgeted under non-tax receipts including grants from the Centre. Tax receipts are budgeted to increase by a larger amount of Rs. 524 crores than those in the preceding year (Rs. 494 crores) wholly on account of expected larger receipts from States' own taxes. States' own tax revenues are expected to increase from Rs. 3,993 crores to Rs. 4,400 crores i.e. by Rs. 407 crores. A major part—over 85 per cent—of the increase is expected from taxes on commodities and services, mainly sales tax which would bring in an additional Rs. 235 crores and state excise duties, receipts from which are expected to be Rs. 54 crores higher; yield from taxes on property and capital transactions, particularly from land revenue is also expected to be higher during 1977-78.

Total capital receipts during 1977-78 at Rs. 2,856 crores would be Rs. 111 crores less than that during the preceding year even though gross market borrowings would be higher by Rs. 16 crores. The decline is expected to be on account of recovery of loans and advances and deposits received by them. Other capital

receipts which are budgeted to show declines are contingency funds (net) and suspense and miscellaneous funds (net). Though loans from the Centre (net of repayments) and grants are expected to be higher, net transfer of resources from the Centre to the States at Rs. 2,021 crores in 1977-78 would show an increase of only Rs. 204 crores over the year, as compared to the increase of Rs. 511 crores recorded in 1976-77.

Disbursements

At Rs. 12,758 crores aggregate disbursements of State Governments are budgeted to increase over the year by Rs. 751 crores or 6.3 per cent or by less than half the rate of increase of 14.8 per cent in 1976-77. The deceleration would be in both developmental and non-developmental expenditure which declined from 16.9 per cent and 17.4 per cent in 1976-77 to 8.0 per cent and 8.1 per cent respectively in 1977-78. States' developmental expenditure would increase by only Rs. 666 crores to Rs. 8,934 crores as compared to a rise of Rs. 1,196 crores in 1976-77. Of this, expenditure on social and community services would increase by only Rs. 128 crores during 1977-78 as against by Rs. 519 crores during the preceding year. The expenditure on economic services is budgeted to increase by Rs. 538 crores or 11.5 per cent as compared to the rise of Rs. 676 crores or 16.9 per cent recorded in 1976-77. Agriculture and allied services and water and power development services are expected to benefit most from this higher outlay during the year.

Non-developmental expenditure which increased by Rs. 401 crores or 17.4 per cent in 1976-77 is expected to be pruned considerably, the budgeted increase being of the order of Rs. 219 crores to Rs. 2,937 crores. The liability on account of interest payments would be higher by only Rs. 45 crores than in 1976-77 when it increased by Rs. 97 crores. While the States have proposed to effect economies under various major heads of expenditure, outlay on administrative services is expected to be stepped up by Rs. 95 crores to Rs. 1,022 crores as

against the rise of Rs. 129 crores in the preceding year mainly because of the pre-poll concessions given by several States in the form of additional dearness allowance, remission of land revenue to small holders etc.

States' Plan Outlay

The Plan outlay for 1977-78 at Rs. 4,605 crores represents an increase of Rs. 901 crores over the outlay for 1976-77 (Table VII-7). In accordance with the changed objectives and Plan priorities, larger outlay has been provided for power, irrigation and the development of rural infrastructure (Table VII-8). The Plan outlay for power at Rs. 1,631 crores which forms 35.4 per cent of the total outlay would be higher by Rs. 360 crores or by 28 per cent over that in 1976-77. The outlay on irrigation and flood control has also been raised by Rs. 237 crores or 35 per cent to Rs. 904* crores in 1977-78.

Central assistance for the Plan outlay of the 22 States, North Eastern Council and Union Territories is also being raised to Rs. 1,813 crores from Rs. 1,412 crores in 1976-77. Of this, Rs. 29 crores are for Plan Schemes of North Eastern Council, Rs. 167 crores towards Plans of Union Territories and Rs. 1,617 crores for States' Plan Schemes. The total of Rs. 1,617 crores for States' Plan by way of Central Assistance includes Rs. 111 crores for loans to Rural Electrification Corporation and Rs. 68 crores for tribal sub-plan schemes. Hence, the net provision of Central Assistance for State Plan Schemes would work out to Rs. 1,438 crores as compared to Rs. 1,154 crores in the budget for 1976-77. As a result, proposed States' Plan outlay of Rs. 4,605 crores proposed for 1977-78 is expected to be financed by States' own resources to the extent of Rs. 3,167 crores (or 68.8 per cent).

Proposals to raise additional resources

Of the 22 States, measures for additional resource mobilisation to the extent of Rs. 40.68

* Besides this, an additional provision of Rs. 100 crores will be available for irrigation projects in the current year.

Table VII. 7: Plan Outlay of States and Union Territories

States/Union Territories	(Rupees Crores)						
	Total proposed Plan Outlay (1969-70 to 1973-74)	Target for IVth Plan	As proposed in				
			1974-75	1975-76	1976-77	1977-78	
1	2	3	4	5	6	7	
Andhra Pradesh	421	421	127	158	262	366	
Assam	245* (28)	262	54	59	73	116	
Bihar	480	531	169	189	242	300	
Gujarat	485	455	143	173	193	281	
Haryana	277	225	82	92	111	148	
Himachal Pradesh	79	—	31	32	37	56	
Jammu & Kashmir	164	158	48	54	79	90	
Karnataka	340	350	111	139	200	230	
Kerala	274	258	74	90	111	137	
Madhya Pradesh	461	383	152	215	272	345	
Maharashtra	906	898	276	350	460	647	
Manipur	17	—	12	14	17	23	
Meghalaya	—	—	14	15	20	24	
Nagaland	42	40	14	15	18	19	
Orissa	245	223	71	89	125	150	
Punjab	360	294	108	163	219	258	
Rajasthan	300	302	80	105	135	168	
Sikkim	—	—	—	6@	12	12	
Tamil Nadu	467	519	112	143	201	260	
Tripura	20	—	11	12	15	16	
Uttar Pradesh	1023	965	255	388	518	648	
West Bengal	321	322	148	170	232	311	
Hill & Tribal Areas	—	—	25	40	76	99	
A. States' Plan Outlay (Total) ..	6927	6606	2117	2711	3628	4704+	
B. Union Territories	365	425	88	96	117	168	
C. North Eastern Council				10	17	29	
Total (A to C)	7292	7031	2205	2817	3762	4901	

Note: Figure in bracket indicates Plan Outlay for Meghalaya.

* Includes Plan Outlay for Meghalaya also.

@ Excludes provision for Lagyap project.

+ Additional provision of Rs. 100 crores will be available for irrigation projects in the current year.

Source: Planning Commission.

Table VII. 8: States' Plan Outlay

(Rupees Crores)			
	As proposed in		Increase over the previous year
	1976-77	1977-78	
1	2	3	4
1. Agriculture and Allied Programmes including A.R.C. ..	514 (14.2)	675 (14.7)	161 (31.3)
2. Irrigation and Flood Control	667 (18.4)	904 (19.6)	237 (35.5)
3. Power	1271 (35.0)	1631 (35.4)	360 (28.3)
4. Village and Small Industries	40 (1.1)	52 (1.1)	12 (30.0)
5. Industry and Minerals	133 (3.7)	144 (3.1)	11 (8.3)
6. Transport and Communications	247 (6.8)	335 (7.3)	88 (35.6)
7. Others	756 (20.8)	864 (18.8)	108 (14.3)
Total (1 to 7) ..	3628 (100.0)	4605@ (100.0)	977 (26.9)

Notes: 1. Figures in brackets under Col. Nos. 2 and 3 are percentages to total.

2. Figures in bracket under Col. No. 4 indicate percentage variation over the previous year.

@ Excluding Hill and Tribal areas.

Source: Planning Commission.

crores have been announced by 9 States viz; Assam, Himachal Pradesh, Karnataka, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa and Rajasthan.

All the States except Assam have relied on conventional measures such as Sales Tax, Excise and Electricity Duty for raising additional resources. Maharashtra has relied mainly on the revision of rates of excise duties on liquor (in all forms, viz., country and Indian made foreign liquor and beer) which is expected to yield Rs. 22.62 crores during the year. But for concessions in respect of sales tax (Rs. 5.53 crores), land revenue (Rs. 1.19 crores) and non-tax revenue (Rs. 0.23 crore) which would entail a revenue loss of Rs. 6.95 crores, Maharashtra's

additional resource mobilisation would amount to Rs. 29.34 crores in 1977-78. Among the concessions, mention may be made of Kerosene which is exempted from sales tax in Maharashtra and which involves a revenue loss of Rs. 3 crores and a relief to smaller farmers who were liable to pay agricultural land revenue of Rs. 5 or less, from payment of such revenue. Orissa has proposed to raise additional tax revenue through sales tax (Rs. 2 crores) and electricity duty (Rs. 2.90 crores). Besides, procedural changes made in sales tax and irrigation rates which would yield Rs. 1.19 crores, reduction in PWD stocks to the extent of Rs. 2 crores has been treated by Himachal Pradesh as additional resource available in 1977-78. Revisions in additional sales tax and entertainment tax in the Karnataka budget would yield Rs. 1.05 crores. Rajasthan has proposed to raise additional resources of Rs. 3 crores by increasing the rates of excise duty on liquor and rounding off stamp duty and court fees below rupee one. Assam is the only State which proposes to raise additional Rs. 1.31 crores by the upward revision of the rates of agricultural income tax. State-wise and tax-wise details of the additional tax proposals are given in Table VII-9.

Tax-wise, excise duty has displaced sales tax in terms of additional yield expected during the year. Sales tax, the major revenue earner of the States, would earn only Rs. 2.86 crores more through the additional taxation proposals during the year as against measures of Rs. 41 crores proposed last year, whereas excise duty has been revised to yield Rs. 27.15 crores more during the year as compared to Rs. 3.60 crores in 1976-77. Duties on liquor were raised by Maharashtra and Rajasthan. Maharashtra alone is revising the rate of excise duty on liquor to collect Rs. 26.13 crores in 1977-78. Besides state excise duties, revision in electricity duty by Orissa is also expected to fetch Rs. 2.90 crores. Concessions in regard to land revenue resulting in a revenue loss of Rs. 1.19 crores have been proposed by Maharashtra during this year. Revisions in entertainment tax are expected to yield Rs. 0.55 crore as against Rs. 4.16 crores

mobilised in 1976-77. Non-tax revenue of Rs. 4.20 crores is expected to be raised during 1977-78 as compared to Rs. 14.49 crores in 1976-77. This would be raised mainly by increasing forest revenue, enhancing water rates, imposing cess on mining royalty and toll on bridges.

Table VII. 9: Estimated Yield from Budget Proposals 1977-78

				Additional Yield (Rupees Crores)
1				2
<i>By States</i>				
1.	Assam	..	..	1.51
2.	Himachal Pradesh	..	..	3.19@
3.	Karnataka..	..	..	1.05
4.	Maharashtra	..	..	22.39
5.	Manipur	..	..	0.30
6.	Meghalaya	..	..	0.02
7.	Nagaland	..	..	0.22
8.	Orissa	..	..	9.00
9.	Rajasthan	..	..	3.00
Total				40.68
<i>By Major Heads</i>				
1.	State Excise Duties	..	..	27.15
2.	Sales Tax	..	..	2.86*
3.	Electricity Duties	..	..	2.90
4.	Agricultural Income Tax	..	..	1.31
5.	Land Revenue	..	..	-1.19**
6.	Entertainment tax	..	..	0.55
7.	Stamps and Registration Fees	..	..	0.50
8.	Others	..	..	0.40
9.	Non-Tax Receipts	..	..	4.20+
10.	Reduction in PWD Stock	..	..	2.00
Total				40.68

@ Includes Rs. 2 crores by way of realisation of sale of stock, which the State Government treated as additional resource mobilisation

* Inclusive of tax concession of Rs. 5.53 crores in the case of Maharashtra.

** Represents tax concession

+ Inclusive of concession of Rs. 0.23 crores in the case of Maharashtra.

III. Railway Finances

The final Railway Budget for 1977-78, presented to the Lok Sabha in June 1977, shows an improvement in railway finances. Reflecting the spurt in the industrial output, receipts on account of freight have been estimated to go up as compared to the previous year. On the other hand the rise in expenses is estimated to be of a relatively smaller magnitude; as a result, there would be a net surplus for the second consecutive year.

1976-77 Revised Estimates

The revised estimates for 1976-77 place the total receipts higher by Rs. 221.4 crores to Rs. 1,996.9 crores (Table VII.10). The increase was mainly on account of larger receipts from both goods and passenger traffic. 'Passenger' earnings went up by Rs. 58.1 crores (11.3 per cent) to Rs. 572.2 crores in 1976-77 as compared to Rs. 514.1 crores in the previous year, while 'goods' earnings during the same period went up by Rs. 143.9 crores (12.5 per cent) to Rs. 1,294.2 crores. Passenger earnings shot up mainly due to the introduction of new trains, an all round improvement in passenger train operations (including increase in capacity and frequency of non-suburban trains), and check on ticketless travel. Increase in 'goods' earnings was achieved despite a change in the traffic mix and lower average lead of traffic. Receipts from 'other' coaching remained practically unchanged around Rs. 90.0 crores. Other earnings (including suspense) rose by Rs. 17.7 crores to Rs. 30.9 crores in 1976-77.

Total expenditure of the railways increased by Rs. 111.4 crores, from Rs. 1,638.5 crores in 1975-76 to Rs. 1,749.9 crores in 1976-77. Component-wise, the increase was mainly on account of 'repairs and maintenance' (Rs. 37.5 crores) followed by 'fuel' (Rs. 28.9 crores) and appropriations to the Depreciation Reserve Fund (Rs. 20.0 crores) and Pension Funds (Rs. 10.5 crores). As the rise in total expenditure was only one-half of the increase in total receipts, the ratio of total expenditure to total receipts declined from 92.3 per cent in 1975-76 to 87.6 per cent in 1976-77.

Table VII. 10: Financial Results of Railways

						(Rs. Crores)				
Items						1973-74 (Actuals)	1974-75 (Actuals)	1975-76 (Actuals)	1976-77 (R.E.)	1977-78 (B.E.)
1						2	3	4	5	6
I.	Total Receipts	..	..	..	..	1138.2	1415.2	1775.5	1996.9	2119.8
II.	Total Expenditure	..	..	..	..	1082.8	1341.5	1638.5	1749.9	1862.0
III.	Ratio of Total Expenditure to Total Receipts					95.1	94.8	92.3	87.6	87.8
IV.	Net Revenue (I—II)	..	..	..	..	55.4	73.7	137.0	247.0	257.8
V.	Capital-at-Charge*	..	..	..	..	3893.4	4105.6	4354.8	4605.6	4900.6
VI.	Net revenue as percentage of Capital-at-Charge	..	..	..	..	1.4	1.8	3.1	5.4	5.3
VII.	Dividend to General Revenues	..	..			155.1	203.3	198.1	211.3	225.3
VIII.	Net Surplus (+)/Deficit (—) (IV—VII)	..	—			99.7	— 129.6	— 61.1	+ 35.7	+ 32.5
IX.	Appropriations to (+) or withdrawals from (—) Funds or Loans from (—) General Revenues to finance deficit									
	(a) Development Fund	..	..	..		—	—	—	+ 24.7	+ 26.7
	(b) Revenue Reserve Fund	..	..	..		—	—	—	+ 11.0	+ 5.8
	(c) General Revenues	..	..	..	—	99.7	— 129.6	— 61.1	—	—

* Excluding Outlay on Metropolitan Transport Projects.

Net revenue of the railways improved further during the year by Rs. 110 crores to Rs. 247.0 crores. In keeping with the growth in railways activities, the capital-at-charge during 1976-77 increased by Rs. 250.8 crores to Rs. 4,605.6 crores. The ratio of net revenue to capital-at-charge improved from 3.1 per cent to 5.4 per cent during this period. Dividend to General Revenues increased by Rs. 13.2 crores (6.7 per cent) to Rs. 211.3 crores in 1976-77.

In the result, according to the revised estimates, the railways would end the year with a net surplus of Rs. 35.7 crores as against a deficit of Rs. 61.1 crores during the preceding year.

Developmental Expenditure 1976-77

Developmental expenditure of railways during 1976-77 was placed at Rs. 417.0 crores

as compared to Rs. 399.7 crores in 1975-76 (Table VII.11). The rise was mainly on account of increase in expenditure on rolling stocks by Rs. 12.1 crores, on traffic facilities by Rs. 11.4 crores, on track renewals by Rs. 4.0 crores, on new lines and staff quarters by Rs. 3.0 crores each, which was partly offset by a fall in expenditure on electrification by Rs. 3.3 crores, on plant and machinery by Rs. 2.0 crores and on signalling and interlocking works by Rs. 1.8 crores.

1977-78 Final Budget Estimates

For the year 1977-78, the budget was presented twice to the Lok Sabha—first on March 28, 1977 for taking a vote on account and finally on June 11, 1977. The final budget places total receipts at Rs. 2,119.8 crores as compared to Rs. 1,996.9 crores in 1976-77. The rise of Rs. 122.9 crores in total receipts is

Table VII. 11: Development Expenditure of Railways

(Rs. Crores)

Items				1973-74 (Actuals)	1974-75 (Actuals)	1975-76 (Actuals)	1976-77 (R.E.)	1977-78 (B.E.)
1				2	3	4	5	6
1.	Rolling Stock	..	..	149.3	174.2	200.6	212.7	227.5
2.	Traffic Facilities	..	..	54.0	56.5	52.4	63.8	69.1
3.	Track Renewals	..	..	39.8	31.1	54.0	58.0	65.6
4.	Electrification	..	..	19.1	22.0	20.2	16.9	19.0
5.	New Lines	..	..	14.4	18.8	16.7	19.7	22.0
6.	Signalling and Interlocking Works, etc.	..	..	12.3	13.2	14.8	13.0	13.7
7.	Staff Quarters	..	..	5.8	9.2	4.2	7.2	7.0
8.	Plant and Machinery	..	..	6.0	6.9	10.3	8.3	7.0
9.	Others	..	..	22.2	26.9	26.5	17.4*	51.9*
<i>Of which:</i>								
	Metropolitan Transport Projects..			4.7	7.1	6.9	9.2	10.0
	Total	..	..	322.9	358.8	399.7	417.0	482.8

*Includes the working capital requirement in respect of Export Orders amounting to Rs. 2.2 crores during 1976-77 and Rs. 2.8 crores during 1977-78.

expected to be achieved without any change in passenger and/or freight rates*. However, the platform ticket rate stands reduced from 50 paise to 30 paise, with effect from July 1, 1977. Component-wise, the increase in total receipts would be shared mainly by a rise in 'goods' earnings, followed by 'passenger' earnings. Earnings from 'goods' are expected to go up from Rs. 1,294.2 crores in 1976-77 to Rs. 1,382.9 crores i.e. higher by Rs. 88.7 crores or 6.9 per cent. Passenger earnings are expected to rise by Rs. 34.8 crores or 6.1 per cent to Rs. 607.0 crores during the same period. Receipts from 'other coaching' at Rs. 91.3 crores do not show any significant change as compared to previous year; while 'sundry other earnings' (including suspense) at Rs. 29.0 crores show a marginal decline of Rs. 1.9 crore.

* However, an expert committee is appointed to examine the fare and freight structure and recommend rationalisation of the same.

Total expenditure of the railways is estimated to rise by Rs. 112.1 crores (6.4 per cent) to Rs. 1,862.0 crores during 1977-78. A major part of the increase is likely to be on account of 'repairs and maintenance' which is placed at Rs. 638.5 crores, or higher by Rs. 43.4 crores (7.3 per cent) as compared to previous year. Expenditure on 'fuel' also is estimated higher by Rs. 36.6 crores (12.9 per cent) at Rs. 320 crores as compared to Rs. 283.4 crores in the previous year. Appropriations to 'Depreciation Reserve Fund' and 'Pension Funds' have been stepped up by Rs. 5 crores each, while payments to worked lines has remained unchanged at Rs. 0.2 crore.

In the result, the railways would show during the year a net revenue of Rs. 257.8 crores as against Rs. 247.0 crores in 1975-76. An increase of Rs. 295.0 crores (6.4 per cent) is estimated in capital-at-charge which would go up from

Rs. 4,605.6 crores in 1976-77 to Rs. 4,900.6 crores in 1977-78. The ratio of net revenue to capital-at-charge during the year would be a shade lower at 5.3 per cent as compared to previous year. Allowing for a dividend of Rs. 225.3 crores to General Revenues in 1977-78, the railways would be left with a net surplus of Rs. 32.5 crores as compared to Rs. 35.7 crores in the previous year. The railways total indebtedness to General Revenues is budgeted to go up by Rs. 9.1 crores to Rs. 471.1 crores as at the end of March 1978.

Developmental Expenditure 1977-78

In view of the need for development of backward and other areas, the proposed expenditure for 1977-78 on development is placed at Rs. 482.8 crores as compared to Rs. 417.0 crores in 1976-77. Rolling stock continue to account for almost one-half of the outlay at Rs. 227.5 crores as compared to Rs. 212.7 crores in 1976-77. The provision for traffic facilities has also been stepped up considerably from Rs. 63.8 crores in 1976-77 to Rs. 69.1 crores in 1977-78. In addition to the construction of 25 new railway lines already in hand, the budget provides for 3 new railway lines and surveys for 7 more lines. The developmental expenditure for such of the new lines is placed at Rs. 22.0 crores during the year as against Rs. 19.7 crores in the previous year. Provision for electrification projects is placed at Rs. 19.0 crores during the year and for metropolitan transport projects is placed at Rs. 10.0 crores.

New Amenities

While presenting the final budget for the year 1977-78, the Railway Minister announced several policy measures aimed at reducing over-crowding in the long distance trains and providing increased amenities for the passengers and constructing new lines in the backward areas. The Minister also indicated that the additional long-distance trains to be introduced in the coming years would all be *classless Janata trains* and that priority would be given to the reduction of multiplicity of gauges. He

added that the use of double-decker trains on certain specified routes (after trial) and the increase from 18 to 20 coaches in the load of important trains on electric traction are being considered. The manufacture of a prototype of second class coach with more toilets and better water supply facilities was proposed. The provision for adequate drinking water supply both at stations and on trains and for not very expensive padded cushion beds in the second-class coaches of long-distance trains was being considered.

IV. Finances of the Indian Posts and Telegraphs Department

Revised Estimates for 1976-77

Finances of the Posts and Telegraphs Department (P & T) improved noticeably during 1976-77: the surplus on revenue account before making contributions towards capital expenditure and paying dividend to General Revenues during the year was Rs. 176.6 crores (revised estimates)—nearly 240 per cent higher than the surplus of Rs. 52.0 crores in 1975-76 (accounts). Revenue receipts went up by Rs. 163.1 crores or 33.7 per cent to Rs. 646.7 crores, largely following the raising of tariffs for a number of services from March 1, 1976. Telecommunications services accounted for over 87 per cent of the increase in gross receipts and the postal services for the remainder. Net working expenses also rose over the year but more modestly, by Rs. 38.5 crores or 8.9 per cent to Rs. 470.1 crores (Table VII.12). Provision for depreciation on historical costs was stepped by Rs. 6.8 crores to Rs. 38.0 crores. At Rs. 37.3 crores, the contributions towards capital expenditure were Rs. 6.3 crores or 20 per cent higher than in 1975-76. The dividend to General Revenues increased by Rs. 2.9 crores to Rs. 28.3 crores. Thus the surplus after making contributions towards capital expenditure and paying dividend to General Revenues amounted to Rs. 111.0 crores in 1976-77, a sharp improvement over the deficit of Rs. 4.4 crores in 1975-76. Consequently, it was possible to credit the P&T Revenue Reserve Fund and P&T Capital

Table VII.12: Financial Working of Posts and Telegraphs Department

(Rupees Crores)

Items	1974-75	1975-76	1976-77		1977-78
	(Actuals)	(Actuals)	(B.E.)	(R.E.)	(B.E.)
1	2	3	4	5	6
1. Revenue Receipts	401.6	483.6	648.3	646.7	717.4
2. Working Expenses (net)	351.9	431.6	469.5	470.1	508.9
3. Dividend to General Revenues	21.2	25.4	24.1	28.3	30.2
4. Surplus (+)/Deficit (-) (1-(2+3)) before making contributions towards capital expenditure	+ 28.5	+ 26.6*	+154.7	+148.3@	+178.3
<i>Of which: On account of</i>					
(i) Postal Services	- 34.0	- 45.8	- 50.0	- 40.4	- 46.5
(ii) Telecommunication Services	+ 62.5	+ 72.4	+204.7	+188.7	+224.8
5. Contributions towards Capital Expenditure	26.2	31.0	37.0	37.3	44.8
6. Surplus (+)/Deficit(-) after making contributions towards capital expenditure (4-5)	+ 2.3	- 4.4*	+117.7	+111.0@	+133.5
Appropriation to (+) or Withdrawal from (-)					
(a) Revenue Reserve Fund	+ 0.1	- 4.4	+ 13.3	+ 6.7	+ 3.3
(b) Capital Reserve Fund	+ 2.2	-	+104.4	+104.3	+130.2

* This does not take into account rebate on fund balances (Rs. 34 lakhs).

@ A sum of Rs. 12.3 crores was withdrawn from the P&T Revenue Reserve Fund during 1976-77 towards repayment of loans & interest on it taken during 1975-76.

Sources: (1) Explanatory Memorandum on the Budget of the Central Government.

(2) Annual Reports of Posts & Telegraphs Department.

Reserve Fund with Rs. 6.7 crores and Rs. 104.3 crores respectively in 1976-77, in contrast to the drawal of Rs. 4.4 crores from the P&T Revenue Reserve Fund in 1975-76. With the improved revenue position, the capital outlay was stepped up by Rs. 45.3 crores from Rs. 187.7 crores in 1975-76 to Rs. 233.0 crores in 1976-77 (Table VII.13). 'Telecommunications' and 'stores and manufacture suspense' accounted for the major proportion of the increase, while postal services showed a small rise of Rs. 0.9 crore. The Capital Reserve Fund, and receipts and recoveries on capital account played a larger role in financing capital outlay, and the resort to General Revenues for capital expenditure was lower despite the substantial fall in advance rentals received

under Own Your Telephone (O.Y.T.) and other schemes.

Budget Estimates for 1977-78

According to the Central budget presented in June 1977, the revenue account of the P&T Department would show in 1977-78 a surplus of Rs. 208.5 crores before making contributions towards capital expenditure and paying dividend to General Revenues. This would be Rs. 31.9 crores larger than the similar surplus in 1976-77. Revenue receipts are expected to rise further over the year by Rs. 70.7 crores or 10.9 per cent to Rs. 717.4 crores. The increase would be brought about entirely by the growth in traffic as no changes in tariffs are proposed during this year. Net working

Table VII.13: Capital Outlay of Posts and Telegraphs Department

Items	(Rupees Crores)					
	Total for 1969-70 to 1973-74	1974-75 (Actuals)	1975-76 (Actuals)	1976-77		1977-78 (B.E.)
				(B.E.)	(R.E.)	
1	2	3	4	5	6	7
I. Expenditure						
(a) Postal	29.9	3.6	5.1	5.0	6.0	9.9
(b) Telecommunications	357.6	134.9	174.8	188.6	208.5	307.1
(c) Stores and Manufacture Suspense	35.0	8.5	7.8	18.5	18.5	29.6
Total Expenditure (a to c)	422.5	147.0	187.7	212.1	233.0	346.6
II. Financed from:						
(i) Receipts and Recoveries on Capital A/c... .. .	0.1	—	2.5	23.7	24.6	25.8
(ii) Advance Rentals Received under O.Y.T. and Other Schemes.. .. .	27.6	—	45.6	55.0	20.0	21.0
(iii) Capital Reserve Fund	73.3	38.3	0.5	44.1	96.3	166.9
(iv) Depreciation on Historical Costs Trans- ferred from Revenue	77.6	26.2	31.2	38.3	38.0	45.8
(v) Contribution towards Capital Expendi- ture from Revenue.. .. .	81.5	26.2	31.0	37.0	37.3	44.8
(vi) Capital Advanced from the General Revenues	162.4	56.3	76.9	14.0	16.8	42.3
Total (i to vi)	422.5	147.0	187.7	212.1	233.0	346.6

Sources: 1. Combined Finance and Revenue Accounts of the Central and State Governments.
2. Explanatory Memorandum on the Budgets of the Central Government.
3. Annual Reports of Indian Posts and Telegraphs Department.

expenses would rise over the year at a smaller rate than the receipts. They are budgeted to grow by Rs. 38.8 crores or 8.3 per cent to Rs. 508.9 crores on account of higher operational costs, larger expenditure on engineering and increased provision for depreciation on historical costs. The capital outlay would rise over the year by Rs. 113.6 crores or 48.8 per cent to Rs. 346.6 crores in 1977-78 overwhelmingly on account of telecommunication services. The capital outlay on postal services has been stepped up from Rs. 6 crores to Rs. 9.9 crores, that on telecommunication services from Rs. 208.5 crores to Rs. 307.1 crores and that on stores and manufacture suspense from Rs. 18.5 crores to Rs. 29.6 crores. As much as Rs. 304.3 crores or 87.8 per cent of the total capital outlay would be financed from the P&T Department's internal resources and the remaining Rs. 42.3 crores by advances from General Revenues. Capital

outlay during the first four years of the Fifth Plan would amount to Rs. 914.3 crores accounting for 79.2 per cent of the P&T Department's total Fifth Plan outlay of Rs. 1,153.8 crores.

V. Public Debt and Other Liabilities

The aggregate debt liabilities@ of the Government of India, comprising public debt and other liabilities rose by Rs. 3,014 crores (9.9 per cent) and stood at Rs. 33,435 crores at the end of March 1977 as against a rise of Rs. 3,585 crores (13.4 per cent) at the end of March 1976. A major part of such liabilities was made up of public debt, the share of which in the total, however, declined from 70.4 per cent at end-March 1976 to 68.0 per cent at end-March 1977.

@ Including amount due from Pakistan on account of pre-partition debt.

Table VII.14: Public Debt and Other Liabilities of the Government of India

(Rupees Crores)							
Items	As at the end of March						
	1972	1973	1974	1975	1976*	1977 (Revised Estimates)	1978 (Budget Estimates)
1	2	3	4	5	6	7	8
A. Public Debt (1+2)	15,163 (41.7)	17,319 (43.7)	16,973 (34.4)	18,789 (31.6)	21,427 (35.4)	22,744 (35.4)	25,851
1. Internal Debt (i to v)	8,332	10,195	11,104	12,368	13,938	14,521	16,734
(i) Current Market Loans†	4,840	5,427	5,990	6,415	6,978	7,926	8,926
(ii) Others@	—	—	—	156	190	189	190
(iii) Treasury Bills	2,765	4,044	4,384	5,064	5,810	5,390	5,590
(iv) Special Floating Loans‡	727	724	730	733	960	1,016	1,228
(v) Special Borrowings against Foreign Exchange Reserves	—	—	—	—	—	—	800
2. External Debt	6,831	7,124	5,869	6,421	7,489	8,223	9,117
B. Other Liabilities (1 to 3)	6,259 (17.2)	6,622 (16.7)	7,297 (14.8)	8,047 (13.5)	8,994 (14.8)	10,691 (16.6)	12,058
1. Oil Credits	—	—	—	—	236	330	453
2. Unfunded Debt (a to d)	4,235	4,673	4,595	5,043	6,016	7,450	8,650
(a) Small Savings	2,432	2,802	3,276	3,554	3,946	4,356	4,781
(b) State Provident Funds	940	1,024	1,115	1,292	1,514	1,693	1,948
(c) P. L. 480 Deposits	645	627	—	—	—	—	—
(d) Other Unfunded Debt@@	218	220	204	197	556	1,401	1,921
3. Reserve Funds and Deposits††	2,024	1,949	2,702	3,004	2,742	2,911	2,955
C. Aggregate Liabilities (A + B)	21,422 (59.0)	23,941 (60.4)	24,270 (49.1)	26,836 (45.1)	30,421 (50.2)	33,435 (52.0)	37,909
D. Amount due from Pakistan on account of pre-partition debt	300	300	300	300	300	300	300
E. Net Liabilities (C — D)	21,122	23,641	23,970	26,536	30,121	33,135	37,609

* Provisional.

† Includes Others upto 1974.

@ Comprise mainly balances of expired loans, Prize Bonds, Premium Prize Bonds, Banks Compensation Bonds, etc. Annuity Certificates are excluded from here and shown under small savings.

‡ These represent non-negotiable, non-interest bearing securities issued to International financial Institutions like IMF, IBRD, IDA, ADB.

@@ Includes mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against Compulsory Deposits, Income-Tax, Annuity Deposits, etc.

†† Include depreciation and reserve funds of Railways and Posts & Telegraphs, deposits of local funds, departmental and judicial deposits, civil deposits, etc.

Notes: 1. Figures in this Table differ from those published in earlier Currency Reports. For explanation, please refer to note on Statement No. 81 in Volume II of the Report.

2. Figures in brackets represent percentages to the C.S.O. estimates of national income at current prices

Source: Finance Accounts of the Union Government for end-March 1972 to 1975, Ministry of Finance for end-March 1976 and Explanatory Memorandum on the Budget of the Central Government 1977-78 for end-March 1977 and 1978.

Public Debt

The outstanding public debt of the Government of India stood at Rs. 22,744 crores at the end of March 1977, the increase during 1976-77 being Rs. 1,317 crores (6.2 per cent) as compared to Rs. 2,638 crores (14.0 per cent) in the previous year (Table VII.14). As a proportion of national income at current prices, public debt is estimated to have remained unchanged at the previous year's level of 35.4 per cent. A major part of the increase during the year (56 per cent) was

on account of increase in external debt. The internal debt, however, still accounted for 63.8 per cent of the total public debt.

External Debt

The external debt of the Government of India, at Rs. 8,223 crores at end-March 1977 was higher by Rs. 734 crores (9.8 per cent) over the previous year. The gross receipts under external loans during 1977-78 are estimated to be Rs. 1,295 crores as against Rs. 1,108 crores in 1976-77.

Table VII.15: Market Borrowings of Government of India during 1976-77

(Rupees Crores)								
Date	Loans floated	Issue Price (Rupees per cent)	Offered	Amount			Repayment in Cash for un- converted matur- ing securities	Net Market Borrow- ings (5-8)
				Cash	Con- ver- sion	Total (Cols. 5+6)		
1	2	3	4	5	6	7	8	9
July 1, 1976†	5½% Loan 1984	99.50	475.00	8	33	41		
	6% Loan 1994	98.00		39	50	89		
	6½% Loan 2000	100.00		231	164	395		
				278	247	525	28	250
October 16, 1976*	6% Loan 1993 (Second Issue)	99.25	275.00	69	—	69		
	6½% Loan 2002	100.00		235	—	235		
				304	—	304	—	304
December 28, 1976*	6% Loan 1993 (Third Issue)	99.25	100.00	45	—	45		
	6½% Loan 2003 (Second Issue)	100.00		65	—	65		
				110	—	110	—	110
February 1, 1977*	6½% Loan 1997	99.95	100.00	25	—	25		
	6½% Loan 2002	100.30		75	—	75		
				100	—	100	—	100
March 1, 1977*	6½% Loan 1997	99.95	85.00	50	—	50		
	6½% Loan 2003	100.15		35	—	35		
				85	—	85	—	85
Total during 1976-77			1035.00	877	247	1124	28	849

† Offered on cash-cum-conversion basis.

* Offered for cash subscription only.

Source: Reserve Bank of India Records.

Internal Debt

The internal debt of the Government of India stood at Rs. 14,521 crores at the end of March 1977 showing an increase of Rs. 583 crores during the year (Table VII.14). Among the components of internal debt, current Market Loans and Special Floating Loans showed an increase during the year. On the other hand, Treasury Bills recorded a decline. The internal debt during 1977-78 is estimated to rise by Rs. 2,213 crores. Special borrowings against foreign exchange reserves during 1977-78 are estimated at Rs. 800 crores.

*Market Borrowings 1976-77**

Government market borrowings were substantially higher in 1976-77 as compared with the previous year. The net receipts of the Central Government from market loans amounted to Rs. 849 crores in 1976-77 as against Rs. 453 crores in the previous year. During the year under review, the Centre entered the market on as many as three occasions raising the gross amount of Rs. 1,124 crores (Table VII.15). 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 amount of Rs. 525 crores. In October 1976, the Centre floated two loans on cash basis—6 per cent loan 1993 (second issue) and 6½ per cent loan 2002 raising an aggregate amount of Rs. 304 crores. The third floatation, on cash basis, came in December 1976 raising an aggregate amount of Rs. 110 crores through 6 per cent loan 1993 (third issue) and 6½ per cent loan 2003 (second issue). Further tranches of two loans for a total amount of Rs. 100 crores viz., 6¼ per cent loan 1997 and 6½ per cent loan 2002 were issued in February 1977. Another block of Rs. 85 crores of two outstanding loans viz., 6¼ per cent loan 1997 and 6½ per cent loan 2003 together 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. As in the previous year, longer maturities and higher nominal rates of interest continued to be the feature of market loans. For the year 1976-77 the monthly average of gross redemption yield on Government of India securities stood at 5.73 per cent as compared to 5.79 per cent in 1975-76.

1977-78

During the financial year 1977-78 against the budget provision of Rs. 1129.0 crores (gross), or Rs. 999.8 crores (net), the Centre has raised Rs. 1,182.9 crores. On May 25, 1977 the Government of India issued further tranches of two outstanding loans viz., 6¼ per cent loan 1997 for Rs. 75 crores and 6½ per cent loan 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 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.

On 1st August 1977, Central Government issued further tranches of two outstanding loans—6 per cent loan 1994 for Rs. 25 crores and 6½ per cent loan 2004 for Rs. 75 crores which were subscribed by the Reserve Bank of India. The Centre made second approach to the market on October 1, 1977 issuing three loans—6 per cent loan 1993 (fourth issue), 6¼ per cent loan 1998 and 6½ per cent loan 2005 for total amount of Rs. 496 crores on cash-cum-conversion basis. An aggregate amount of Rs. 496 crores was raised through this floatation. On 7th December 1977, the Centre issued tranches of three outstanding loans viz., 6 per cent loan 1994, 6¼ per cent loan 1998 and 6½ per cent loan 2005 for total amount of Rs. 175 crores which were fully subscribed by the Reserve Bank of India. Taking into account repayments of Rs. 129.3 crores, the net amount raised by the Centre has so far aggregated Rs. 1182.9 crores.

* Subscription figures as drawn from Reserve Bank of India records.

Maturity Pattern of Rupee Debt

The maturity pattern of the Government of India rupee loans as in March 1977 showed some changes as compared to the position in March 1976 (vide Statement No. 89 in Volume II of the Report). While the proportion of long-dated securities (maturing after 10 years and undated) improved from 61.1 per cent to 64.6 per cent, that of medium-dated (maturing between 5 and 10 years) and short-dated ones (maturing within 5 years) registered a decline.

Treasury Bills

The Government of India's outstanding Treasury Bills registered a sharp decline of Rs. 438 crores to Rs. 5,372 crores during the year ending March 1977 (vide Statement No. 79 in Volume II of the Report). Of the total outstandings, the Reserve Bank of India accounted for Rs. 3,591 crores or 66.8 per cent, other banks for Rs. 1,012 crores or 18.8 per cent and State Governments for Rs. 674 crores or 12.5 per cent.

Special Floating Loans

Special floating loans representing India's contribution towards share capital of international financial institutions, stood at Rs. 1,016 crores at end March 1977, higher by Rs. 56 crores over the previous year.

*Other Liabilities**

At the end of March 1977, the non-marketable debt liabilities of the Government of India at Rs. 10,691 crores, showed a sharp rise over the previous year. Such liabilities, increased by Rs. 1,697 crores (18.9 per cent) during 1976-77 as against Rs. 947 crores (11.8 per cent) in the previous year.

Small Savings

Small Savings collections amounted to Rs. 464 crores in 1976-77 as compared to Rs. 580 crores in the previous year (vide Statement No. 91 in Volume II of the Report). Media-wise, the

decline in collections is noticeable in the case of Post Office Saving Bank Deposits and Post Office Time Deposits.

Promotional Measures

Some of the measures taken during 1976-77 to promote small savings are as follows: A new National Savings Annuity Scheme was introduced from the 1st April 1976 under which a person can pay an initial deposit of Rs. 3,200 or Rs. 6,400 in lump sum or in suitable instalments within a period of 2 years, and after expiry of 36 months is entitled to receive monthly a sum of Rs. 50 or Rs. 100 as the case may be for a period of 84 months in addition to full amount of deposit with a handsome premium at the end of that period. The Post Office Time Deposits Rules were amended to provide for (a) opening of accounts by co-operative societies, co-operative banks and commercial banks on behalf of their clients, (b) premature closure of an account after the expiry of a period of one year, and (c) facility for re-deposit, after an account has become due for repayment. The Recurring Deposit Rules were amended to provide for higher return from October 1, 1976. The rate of commission payable to Authorised Agents and others was increased with effect from July 1, 1976. A system of pension withdrawal through Post Office Savings Banks was introduced for the Pensioners of Railways and Post and Telegraphs Department. The maturity value of National Saving Certificate (V-Issue) was increased with the result that a Rs. 100 certificate fetches Rs. 200 (instead of Rs. 198) after 7 years.

State Governments' Debt Position

The outstanding debt liabilities of State Governments increased by Rs. 1,233 crores or 9.1 per cent during 1976-77 and stood at Rs. 14,824 crores in March 1977 as against an increase of Rs. 1,037 crores or 8.3 per cent during the previous year (Statement No. 84 in Vol. II of the Report). At Rs. 14,824 crores in March 1977, they formed 23.1 per cent of national income during 1976-77 as against 22.4 per cent in 1975-76. These liabilities are

* These liabilities include Unfunded Debt, Oil Credits (from 1976) and Reserve Funds & Deposits of departmental undertakings.

expected to rise further by Rs. 1,439 crores or 9.7 per cent during 1977-78 to reach Rs. 16,263 crores in March 1978. @

Loans and advances from the Central Government

A major item of State debt is by way of loans and advances from the Central Government for plan and non-plan purposes including loans against small savings collections. Though such loans and advances rose by as much as Rs. 799 crores or 8.2 per cent during 1976-77 as against only Rs. 533 crores or 5.8 per cent in the previous year, their share in States' debt declined marginally to 70.7 per cent in March 1977 from 71.2 per cent in March 1976. The States' indebtedness to the Centre is expected to rise by Rs. 888 crores or 8.5 per cent during 1977-78 to Rs. 11,369 crores in March 1978.

Market loans and bonds

Market loans and bonds comprising loans floated in the market (current as well as expired) and the bonds issued by the State Governments such as Zamindari/Jagirdari abolition bonds, housing bonds, etc. increased by Rs. 183 crores or 8.7 per cent during 1976-77 (Rs. 271 crores or 14.7 per cent during 1975-76) to Rs. 2,291 crores at the end of March 1977. They are expected to rise further by Rs. 203 crores or 8.9 per cent during 1977-78 to Rs. 2,494 crores at the end of March 1978.

Market Borrowings 1976-77*

The State Governments entered the market twice during 1976-77. On August 24, 1976, 13 State Governments issued 6 per cent 1986, 10 year loans at a discount of 1 per cent. These were oversubscribed. Total subscription amounted to Rs. 190.76 crores, of which Rs. 119.12 crores or 62.4 per cent represented cash subscription and the balance conversion of maturing securities. Twelve State Governments including 4 State Governments which had borrowed earlier during the year, entered

the market on September 15, 1976 and issued 9 years and 11½ months cash issues with a coupon rate of 6 per cent. Total subscription amounted to Rs. 92.47 crores as compared to the notified amount of Rs. 82.75 crores. Thus the States raised Rs. 283.23 crores from the market during 1976-77 as against Rs. 274.44 crores raised in 1975-76. Adjusting for repayment of loans on maturity, the net absorption amounted to Rs. 179.71 crores during 1976-77 as compared to Rs. 174.23 crores (after repaying the Centre Rs. 100.2 crores) during the previous year.

The loan floatations of the States had no distinctive features during 1976-77. The redemption yield at the issue price in 1976-77 at 6.14 per cent was also the same as in 1975-76. The monthly average of gross redemption yields on the State Government securities was slightly higher at 6.02 per cent during 1976-77 as against 5.98 per cent during the previous year.

1977-78

The States are expected to borrow about Rs. 283 crores (gross) in 1977-78 and repayments of maturing loans are anticipated at Rs. 105 crores. Twenty State Governments have raised Rs. 283.96 crores (gross) through the floatation of market loan on August 23, 1977 of 10 year, 6 per cent loans issued at a discount of ½ per cent. After the repayment of maturing loans amounting to Rs. 105.17 crores, the net loans raised aggregated Rs. 178.79 crores. Of the total, cash subscriptions and conversion issues accounted for Rs. 234.07 crores or 82.4 per cent and Rs. 49.89 crores or 17.6 per cent, respectively.

Ways and Means Advances from the Reserve Bank of India

'Ways and Means Advances from the Reserve Bank of India' which include normal and special ways and means advances and overdrafts from the Bank repayable within seven working days declined by Rs. 10 crores or 6.0 per cent during 1976-77 (compared to a decline of Rs. 9 crores or 5.1 per cent during 1975-76) and amounted to Rs. 157 crores at the end

@ For State-wise break-up, please refer to Statement No. 88 in Vol. II of the Report.

* Subscription figures are drawn from the Reserve Bank of India records.

of March 1977. During 1977-78 these advances are expected to rise by Rs. 2 crores or 1.3 per cent to Rs. 159 crores.

Loans from Banks and other institutions

Loans from banks and other institutions include, *inter alia*, loans and cash credit from commercial banks and loans from National Agricultural Credit (Long term Operations) Fund of the Reserve Bank of India, the National Co-operative Development Corporation and the Life Insurance Corporation of India. Loans from banks and other institutions to the State Governments rose by Rs. 35 crores or 7.2 per cent during 1976-77 (Rs. 92 crores or 23.5 per cent during 1975-76) to Rs. 518

crores at the end of March 1977. A further rise of Rs. 125 crores or 24.1 per cent is anticipated during 1977-78 thereby raising these loans to Rs. 643 crores at the end of March 1978.

Provident Funds, etc.

The item 'Provident Funds' mainly represents balances in the state provident funds, trusts and endowments. These funds rose by Rs. 226 crores or 19.6 per cent during 1976-77 (by Rs. 150 crores or 15.0 per cent during 1975-76) to Rs. 1,377 crores at the end of March 1977. A further rise of Rs. 221 crores or 16.0 per cent is expected in these funds during 1977-78 thereby raising their level to Rs. 1,598 crores at the end of March 1978.

Chapter VIII

Industrial Finance

There was a slackening in the activity of the capital market during 1976-77 in contrast to the strong undercurrent of revival noticed during 1975-76. Though capital consents/acknowledgements showed a rise during the year 1976 and the first half of 1977 new capital issues declined sharply. The total amount consented/acknowledged rose from Rs. 259 crores in 1975 to Rs. 359 crores in 1976. However, new capital issues by non-Government public limited companies which spurted from Rs. 57 crores in 1974 to Rs. 99 crores in 1975, declined substantially to Rs. 56 crores during 1976; this declining trend continued through the first half of 1977. This partly reflects the corporate sector's increasing depen-

dance on term-lending institutions, whose sanctions and disbursements during 1976-77 were of the order of Rs. 901 crores and Rs. 547 crores as compared with Rs. 580 crores and Rs. 403 crores, respectively in 1975-76 (Table VIII.1). The index of equity prices, however, recorded a rise of 10.5 per cent during the year compared to the rise of 11.7 per cent during 1975-76.

I. Capital Market

(i) Industrial Securities Market

During the year 1976-77 (July-June), stock exchanges showed a mixed trend. The prices

Table VIII.1: Trends in Financial Assistance Sanctioned and Disbursed by Term-lending Institutions(a)

(Rupees Crores)

Year (April- March)	Sanctions		Disbursements	
	Direct Loans(c)	Total Assistance(b)	Direct Loans(c)	Total Assistance(b)
1	2	3	4	5
1972-73	255.5 (— 2.4)	295.9 (— 2.2)	176.0 (+13.7)	199.2 (+ 8.0)
1973-74	358.2 (+40.2)	412.0 (+39.2)	252.0 (+43.2)	274.0 (+37.6)
1974-75	439.3 (+22.6)	498.8 (+21.1)	336.3 (+33.5)	363.3 (+32.6)
1975-76	514.4 (+17.1)	580.2 (+16.3)	357.3 (+ 6.2)	402.5 (+10.8)
1976-77*	805.3 (+56.6)	901.0 (+55.3)	490.3 (+37.2)	546.6 (+35.8)

* Provisional.

(a) Covers IDBI, IFCI, ICICI, IRCI, SFCs and SIDCs.

(b) Total assistance comprises (i) in respect of IDBI, all types of assistance with exception only of subscription to shares and bonds of financial institutions; refinance of SFCs industrial loans are excluded to avoid double counting, (ii) all types of assistance of other institutions.

(c) Direct loans comprise total assistance as at (b) minus IDBI's export assistance and underwriting of and direct subscriptions to shares and debentures by all these institutions.

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

of industrial securities moved in three distinct phases during the year. The first phase was characterised by a bullish undertone which lasted upto mid-September 1976. This was followed by a bearish phase, when prices drifted downwards for about six months. But the market recovered after March 19, 1977 and firmed up on expectations of incentives in the Union Budget. These expectations did not materialise and industrial security prices showed a steep decline. The all-India Index Number of Security Prices for Ordinary Shares (1970-

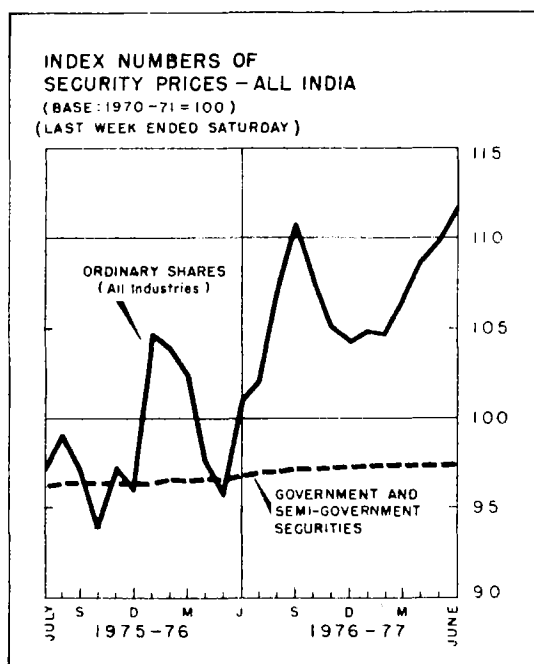
71 = 100) moved up from 101.0 for the week ended June 26, 1976 to 110.8 for the week ended September 18, 1976; however, it declined to 103.5 for the week ended March 5, 1977. The index rose again to 113.0 for the week ended June 18, 1977—the highest point for the year—but later it moved down to close at 111.6 for the week ended June 25, 1977. Thus, over the year, the index recorded a rise of 10.5 per cent which was slightly lower than the rise of 11.7 per cent during the previous year (Table VIII.2).

Table VIII.2: Variations in Index Numbers of Industrial Security Prices

(Year: July-June)									(Base: 1970-71 = 100)		
Week-ended									Debentures	Preference Shares	Ordinary Shares
1									2	3	4
1975-76											
June 28, 1975									93.1	85.8	90.4
									(-2.3)	(-3.6)	(-13.9)
December 27, 1975									90.6	83.0	96.0
									(-2.7)	(-3.3)	(+6.2)
June 26, 1976									90.2	81.2	101.0
									(-0.4)	(-2.3)	(+5.2)
% Variation over the year									-3.1	-5.4	+11.7
1976-77											
December 25, 1976									90.7	80.4	104.3
									(+0.6)	(-1.0)	(+3.5)
June 25, 1977									90.8	79.5	111.6
									(+0.1)	(-1.1)	(+7.0)
%Variation over the year									+0.7	-2.1	+10.5
Annual Average											
1974-75									95.2	89.2	101.8
									(-2.1)	(-5.2)	(-15.9)
1975-76									83.5	83.0	98.2
									(-12.3)	(-7.0)	(-3.5)
1976-77									88.9	78.8	104.8
									(+6.5)	(-5.1)	(+6.7)

Note: Figures in brackets are percentage variations over the Previous period.

Graph 10



In the first phase upto September 18, 1976, the uptrend in prices noticed towards the end of the previous year continued. This favourable trend in the market was aided by the withdrawal on July 6, 1976 of restrictions on dividends imposed in July 1974 and the amendment of the Companies (Transfer of Profits to Reserves) Rules 1975, liberalising the issue of bonus shares by companies. Revival of the market sentiment was also helped by an impressive rise in industrial production, favourable balance of trade, continuing accruals to foreign exchange reserves and building up of a sizeable buffer stock in foodgrains.

In the second phase between the fourth week of September 1976 and March 19, 1977 the stock market remained uncertain and the industrial security prices drifted downwards. The decline in prices was due to such adverse developments as power cuts in some States, credit curbs announced by the Reserve Bank of India raising cash reserve requirements of scheduled commercial banks from 5 per cent to 6 per cent of their total demand and time liabilities from November 13, 1976. In January

1977, the decision of the Government to dissolve the Lok Sabha and to hold elections in March 1977 created an atmosphere of uncertainty. The impounding by the Reserve Bank of India of 10 per cent of incremental deposits of scheduled commercial banks between January 14, and April 1, 1977 over and above their cash reserve requirements of 6 per cent, raising of margins on all types of advances against inventories by 10 percentage points and other measures introduced by the Reserve Bank to curb inflationary pressures dampened the market sentiment further.

During the third phase upto the week ended June 18, 1977, the market became bullish and industrial security prices firmed up. The formation of the new Government at the Centre enthused stock markets and gave rise to expectations that pragmatic policies would be pursued to revive the economy and the investment climate in the country. The credit policy announced by the Reserve Bank on May 27, 1977 envisaging lowering of interest rates on short-term deposits upto five years and on term-loans for periods exceeding three years, gave a fillip to trading sentiments on the expectation that there would be sizeable flow of funds into equities. The market also expected that there would be incentives for the revival of the capital market and relief in excise duties. The all-India Index Number for ordinary shares rose to 113.0 for the week ended June 18, 1977 from 103.5 for the week ended March 5, 1977. However, soon after the presentation of the Union Budget, stock markets suffered a set-back and prices declined sharply due to heavy selling by the erstwhile bulls. As a result, the index closed lower at 111.6 for the week ended June 25, 1977. The market circles were disappointed by the Union Budget which did not provide tax concessions to corporate sector, or the expected relief in excise levies. On the other hand, the increase in income tax surcharge from 10 per cent to 15 per cent was looked upon as a disincentive. Though the budget contained several proposals to revive the investment climate such as restructuring of capital gains tax by exempting gains on sale of any asset

subject to certain conditions, exemption from taxation at source of dividends on shares upto Rs. 250/-, raising of income tax exemption limit from Rs. 8,000/- to Rs. 10,000/- for individuals and Hindu Undivided Families, extension of investment allowance to quite a large number of industries,* these could not boost the market sentiment.

The annual average index for ordinary shares (1970-71 = 100) at 104.8 for 1976-77 recorded a gain of 6.7 per cent in contrast to a decline of 3.5 per cent during 1975-76. While the average index for debentures at 88.9 showed a rise of 6.5 per cent as against a decline of 12.3 per cent in the previous year, the average

index for preference shares fell from 83.0 to 78.8 during 1976-77.

YIELDS ON INDUSTRIAL SECURITIES

The average gross yields on all types of industrial securities (ordinary and preference shares and debentures) were higher in 1976-77 as compared with the levels of 1975-76.

The ceiling rate of dividend on preference shares and debentures, as prescribed by the Controller of Capital Issues, remained unchanged during 1976-77 at 11 per cent and 10.5 per cent, respectively. The actual rate of dividend offered on different issues of preference shares and rate of interest on debentures also remained unchanged at 11.0 per cent and 10.5 per cent, respectively (Table VIII.3).

* For details of tax changes see chapter VII.

Table VIII.3: Return on Securities Issued by Non-Government Public Limited Companies

(Base: 1970-71 = 100)

(Year: July-June)						(Per cent per annum)								
						1973-74	1974-75	1975-76	1976-77					
A. Average Gross Yield														
(i) Ordinary Shares						5.4	3.8†	5.7	6.2					
(ii) Preference Shares						10.4	11.1	12.1	12.4					
(iii) (a) Debentures (Redemption Yield)						9.0	9.8	11.6	14.7					
(b) Debentures (Running Yield)						8.0	8.1	8.4	8.6					
B. Ceiling Dividend/Interest Rates fixed by the Controller of Capital Issues on														
(i) Preference shares						9.8\$	11.0*	11.0*	11.0*					
(ii) Debentures						8.5\$	10.5*£	10.5*£	10.5*£					
							10.0*††	10.0*††	10.0*††					
						Lowest	High- est	Modal	Lowest	High- est	Modal	Lowest	High- est	Modal
C. Actual Dividend/ Interest Rates offered on public issues:														
(i) Preference Shares (at par)						9.5	9.8	9.6	9.5	11.0	11.0	11.0	11.0	11.0
(ii) Debentures (at par)						..	8.0	9.0	8.5	10.0	10.0	10.0	9.0	10.5

† Average for 11 months from August 1974 to June 1975.

\$ Effective from November 1973.

* Effective from September 12, 1974.

£ For a term exceeding seven years.

†† For a term upto seven years.

(ii) The Gilt-edged Market

The gilt-edged market showed some buoyancy in 1976-77. The Reserve Bank's all-India Index for Government and Semi-Government Securities (new series with base: 1970-71 = 100) recorded an increase (of 0.3 point) from 96.7 on June 26, 1976 to 97.0 on August 7, 1976 and remained at that level till September 11, 1976. Thereafter the index rose to 97.2 at which level, it remained between November 13, 1976 and January 8, 1977 and at 97.3 from January 15, 1977 to June 4, 1977. The index moved up again closing finally at 97.4 on June 25, 1977, recording a rise of 0.7 point over the year.

The indices of the Central and State Government Security prices increased by 0.9 and 0.2 point, respectively, during the year under review. Prices of most of the Central Government Securities registered increases ranging between Re 0.25 and Rs. 2.40—of which 4 per cent 1981 loan recorded the largest increase followed by 4½ per cent 1986 (Rs. 2.30) and 4 per cent 1980 loan (Rs. 2.20). Only three of the long-dated securities and the 7 per cent 1980 Gold Bond recorded declines in price during the year. Almost all the securities showed a nominal reduction in their yields with the exception of some, notably the 4 per cent 1979 loan which registered an increase of 0.33 point (Table VIII.4).

Prices of the majority of State Government securities recorded increases over the year. Short-dated 5½ per cent 1977 loan of most of the states showed increases ranging between 35 and 60 paise. Notable among others were 5½ per cent 1982 loan of Punjab (Rs. + 1.25 to Rs. 99.95), 5½ per cent 1984 loan of Assam (Rs. + 1.20 to Rs. 99.95), 6 per cent 1985 loan of Himachal Pradesh (Rs. + 1.20 to Rs. 100.20) followed by 5½ per cent 1978 loan of Tamil Nadu (Rs. + 1.10 to Rs. 100). Besides, the 5½ per cent 1981 loan of Assam and of Orissa also showed increases of Re. 1 each, while 5½ per cent 1984 and 1985 loans of Tamil Nadu and Kerala showed increases of Re. 0.95 each. In contrast to these, price declines were noticed

in respect of a few loans viz., 5½ per cent 1983 loan of Gujarat (— 0.90 paise) and 1981 loan of Tamil Nadu (— 0.65 paise).

The yields on most of the State Government securities showed declines during the year. The decline was more marked in the case of 5½ per cent 1977, 1978 and 5½ per cent 1979 and 1984 loans of most states. The loan of 5½ per cent 1977 recorded a steeper decline in the yield of 2.37 percentage points in respect of Maharashtra followed by 1.31 and 1.01 percentage points in respect of Rajasthan and Andhra Pradesh respectively. The 5½ per cent 1979 loan of Punjab had also registered a decline of 1.00 percentage point whereas 5½ per cent 1978 loan of Rajasthan, Tamil Nadu and Karnataka registered declines of 0.33, 0.31 and 0.30 percentage point respectively. On the other hand, sizeable increases in yields were recorded in respect of 5½ per cent 1978 loan of West Bengal (+0.19 percentage point), 5½ per cent 1983 loan of Gujarat (+0.18 percentage point), 5½ per cent 1979 loan of Karnataka (+0.14 percentage point) followed by 5½ per cent in 1977 loan of Assam (+0.11 percentage point).

(iii) New Issue Activity

During the year 1976 the capital market witnessed a marked decline in the new issue activity as compared to the previous year. Capital issued by non-Government public limited companies (excluding financial institutions) by way of shares (other than bonus) and debentures aggregated Rs. 56.1 crores as compared with Rs. 98.6 crores in 1975. The number of issues also declined from 170 to 117 during the year (Table VIII.5).

New issues through prospectus came down from Rs. 85.5 crores in 1975 to Rs. 46.8 crores in 1976. Similarly, the amount raised through rights in 1976 at Rs. 9.3 crores was lower than the amount of Rs. 13.1 crores issued in 1975. Although issues through prospectus continued to account for the major portion of the capital issued, their percentage share in the total value declined from 86.7 to 83.4.

Table VIII.4: Prices and Yields of Selected Central Government Securities

Loans						As on		Variations			
						June 29, 1976		June 29, 1977			
						Price Rs.	Yield per cent	Price Rs.	Yield per cent	Price Rs.	Yield per cent
1						2	3	4	5	6	7
Terminable Less than 5 years											
4½%	1978	..	..	..	..	98.90	5.34	99.60	5.16	+0.70	-0.18
5¼%	1978	..	..	..	..	100.05	5.23	100.40	4.95	+0.35	-0.28
4%	1979	..	..	..	..	96.65	5.22	97.10	5.55	+0.45	+0.33
4½%	1979	..	..	..	..	98.05	5.45	99.30	5.11	+1.25	-0.34
5%	1979	..	..	..	..	98.80	5.43	99.75	5.12	+0.95	-0.31
4½%	1979 (Bk. Com. Bonds)	..	..	..	..	97.60	5.36	98.10	5.49	+0.50	+0.13
7%	1980 (Gold Bonds)	..	..	..	..	106.50	5.03	106.00	4.59	-0.50	-0.44
4½%	1980	..	..	..	..	97.15	5.58	98.60	5.28	+1.45	-0.30
4%	1980	..	..	..	..	93.85	5.72	96.05	5.42	+2.20	-0.30
4½%	1981	..	..	..	..	96.20	5.62	97.85	5.34	+1.65	-0.28
4%	1981	..	..	..	..	92.30	5.78	94.70	5.46	+2.40	-0.32
5%	1981(N.D.L.)	..	..	..	..	98.40	5.34	98.70	5.33	+0.30	-0.01
5 to 10 Years											
5%	1982	..	..	..	..	97.50	5.49	98.40	5.36	+0.90	-0.13
5½%	1982	..	..	..	..	99.45	5.61	100.65	5.35	+1.20	-0.26
5%	1983	..	..	..	..	95.75	5.74	97.65	5.46	+1.90	-0.28
5%	1984	..	..	..	..	96.55	5.54	97.00	5.53	+0.45	-0.01
5½%	1984	..	..	..	..	—	—	100.00	5.50	—	—
4½%	1985	..	..	..	..	90.50	5.87	92.60	5.66	+2.10	-0.21
5½%	1985	..	..	..	..	97.90	5.80	99.60	5.56	+1.70	-0.24
4½%	1986	..	..	..	..	89.65	5.90	91.95	5.67	+2.30	-0.23
5½%	1986	..	..	..	..	95.45	5.86	97.15	5.66	+1.70	-0.20
5½%	1986(N.D.L.)	..	..	..	..	95.30	5.86	97.05	5.66	+1.75	-0.20
10 to 15 Years											
5½%	1987	..	..	..	..	94.95	5.88	96.65	5.69	+1.70	-0.19
5½%	1988	..	..	..	..	94.20	5.94	95.80	5.77	+1.60	-0.17
6%	1988	..	..	..	..	102.25	5.74	102.10	5.75	-0.15	+0.01
4½%	1989	..	..	..	..	88.85	6.01	90.70	5.85	+1.85	-0.16
5½%	1990	..	..	..	..	96.25	5.90	97.00	5.83	+0.75	-0.07
5½%	1991	..	..	..	..	94.45	6.07	95.75	5.95	+1.30	-0.12
15 Years and above											
5½%	1992	..	..	..	..	95.00	5.99	95.70	5.93	+0.70	-0.06
6%	1993	..	..	..	..	99.00	6.09	99.70	6.03	+0.70	-0.06
6%	1994	..	..	..	..	—	—	99.15	6.08	—	—
5½%	1995	..	..	..	..	92.50	6.18	94.00	6.05	+1.50	-0.13
6½%	1996	..	..	..	..	100.10	6.24	100.75	6.18	+0.65	-0.06
6½%	1997	..	..	..	..	100.10	6.24	100.50	6.21	+0.40	-0.03
6%	1998	..	..	..	..	97.00	6.25	98.10	6.16	+1.10	-0.09
5½%	1999	..	..	..	..	90.75	6.27	90.05	6.35	-0.70	+0.08
5½%	1999 (Bk. Com. Bonds)	..	..	..	..	91.00	6.24	90.00	6.35	-1.00	+0.11
5½%	2000	..	..	..	..	90.00	6.32	90.00	6.33	—	+0.01
6½%	2000	..	..	..	..	—	—	101.75	6.35	—	—
5½%	2001	..	..	..	..	92.15	6.38	92.50	6.36	+0.35	-0.02
5½%	2001(N.D.L.)	..	..	..	..	91.90	6.40	91.90	6.41	—	+0.01
5½%	2002	..	..	..	..	92.00	6.38	91.60	6.43	-0.40	+0.05
6½%	2002	..	..	..	..	—	—	100.90	6.43	—	—
5½%	2003	..	..	..	..	91.35	6.43	91.70	6.41	+0.35	-0.02
6½%	2003	..	..	..	..	101.20	6.41	100.50	6.46	-0.70	+0.05
6½%	2004	..	..	..	..	—	—	100.15	6.49	—	—
Non-Terminable											
3%	1986 or later	..	..	..	..	59.75	5.02F	60.00	5.00F	+0.25	-0.02
3%	(Govt. Rupee Paper)	..	..	..	..	59.60	5.03F	59.60	5.03F	—	—

F=Flat Yield.

Table VIII.5: New Capital Issues Through Prospectus and Rights by Non-Government Public Limited Companies

(Rupees Crores)																	
Year	Issues through Prospectus				Total (3+4+5)	Issues through Rights				Total (8+9+10)	Grand Total		istribution Between				
	No. of Issues	Equity Shares	Prefe- rence Shares	Deben- tures		No. of Issues	Equity Shares	Prefe- rence Shares	Deben- tures		No. of Issues	Amount	Issues of New Compa- nies	Amount	Issues of Exis- ting Compa- nies	Amount	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
January-December																	
1974	..	126	35.9 (78.2)	5.0 (10.9)	5.0 (10.9)	45.9 (100.0)	47	10.4 (98.1)	0.2 (1.9)	— —	10.6 (100.0)	173	56.5 (100.0)	84	23.6 (41.8)	89	32.9 (58.2)
1975	..	136	76.4 (89.3)	7.6 (8.9)	1.5 (1.8)	85.5 (100.0)	34	12.4 (94.7)	0.7 (5.3)	— —	13.1 (100.0)	170	98.6 (100.0)	91	58.4 (59.2)	79	40.2 (40.8)
1976	..	93	41.1 (87.8)	4.7 (10.0)	1.0 (2.2)	46.8 (100.0)	24	6.6 (71.0)	0.4 (4.3)	2.3 (24.7)	9.3 (100.0)	117	56.1 (100.0)	66	35.3 (62.9)	51	20.8 (37.1)
January-June																	
1976	..	47	22.8 (90.8)	2.3 (9.2)	— —	25.1 (100.0)	17	5.3 (67.1)	0.3 (3.8)	2.3 (29.1)	7.9 (100.0)	64	33.0 (100.0)	32	19.5 (59.1)	32	13.5 (40.9)
1977*	..	26	18.3 (97.9)	0.4 (2.1)	— —	18.7 (100.0)	12	4.0 (100.0)	— —	— —	4.0 (100.0)	38	22.7 (100.0)	13	9.1 (40.1)	25	13.6 (59.9)

* Provisional.

Notes: 1. Data exclude capital issued by term-lending institutions.

2. Figures in brackets indicate percentages to totals.

Source: Prospectuses/circulars received from the companies.

Security-wise, equity shares declined from Rs. 88.8 crores in 1975 to Rs. 47.7 crores in 1976, while the amount of preference shares also recorded a fall from Rs. 8.3 crores to Rs. 5.1 crores in 1976. Debentures were higher at Rs. 3.3 crores in 1976 as against Rs. 1.5 crores in 1975.

The average amount of capital issued through prospectus works out lower at Rs. 50 lakhs in 1976 as against Rs. 63 lakhs in 1975. The average amount per equity and preference issues stood at Rs. 58 lakhs, and Rs. 22 lakhs as against Rs. 77 lakhs and Rs. 23 lakhs, respectively in 1975.

Out of the total of Rs. 46.8 crores issued through prospectus, the amount offered for public subscription was Rs. 30.7 crores (65.7 per cent) as compared with Rs. 57.4 crores (67.2 per cent) out of a total Rs. 85.5 crores during the previous year.

(iv) Consents/Acknowledgement of Proposals

The total value of consents/acknowledgement of proposals granted by the Controller of Capital Issues for issue of shares (including bonus shares), debentures and other miscellaneous issues to non-Government public limited companies increased from Rs. 259 crores in 1975 to Rs. 359 crores in 1976 and this trend continued in the first half of 1977 also (Table VIII.6). While a major part of the increase of Rs. 65.2 crores in approvals recorded in 1975 was attributable to larger issues of equity and preference shares and debentures to the public (Rs. 53.2 crores), loans accounted for Rs. 71.2 crores out of the total rise of Rs. 100.3 crores in 1976. Bonus shares also increased by Rs. 46.2 crores. The decline of Rs. 17.1 crores in approvals for issue of shares and debentures during 1976 as compared to the rise of Rs. 53.2 crores in the previous year was probably due to the sluggishness in the capital market. The proportion of shares (equity and preference) and debentures to the total amount of consents/acknowledgements granted declined from 60.5 per cent in 1975 to 38.8 per cent in 1976.

Security-wise, equity and preference shares were lower in 1976 at Rs. 77.7 crores (55.6 per cent) and Rs. 7.2 crores (5.2 per cent) as against Rs. 111.5 crores (71.1 per cent) and Rs. 11.3 crores (7.2 per cent), respectively in 1975. Approvals for debentures at Rs. 54.8 crores were, however higher by Rs. 20.8 crores in 1976. Within the group 'shares and debentures', new companies accounted for 25.8 per cent (Rs. 36.1 crores); these accounted for 40.4 per cent (Rs. 63.5 crores) in the previous year. Bonus shares at Rs. 118.2 crores formed 32.9 per cent of the total amount consented in 1976 as against 27.8 per cent in the previous year. Loans, etc. also rose by more than three times to Rs. 101.5 crores during 1976.

During the first half of 1977, total consents granted were higher by Rs. 79.8 crores at Rs. 220.8 crores compared with the corresponding period of 1976. Security-wise, equity shares, bonus issues and loans, etc. were also higher.

(v) Capital Raised

Data on capital raised against consents/acknowledgement of proposals during 1975-1976 and in the first-half of 1977 are shown in Table VIII.7. The total amount of capital subscribed and paid-up by non-Government and Government companies together, increased from Rs. 208.8 crores and Rs. 201.1 crores in 1975 to Rs. 239.5 crores and Rs. 233.6 crores, respectively, in 1976. Though the bulk of the capital (paid-up) in 1976 was accounted for by non-Government public limited companies, in absolute terms, their share declined from Rs. 176.0 crores in 1975 to Rs. 171.2 crores in 1976. On the other hand, capital raised (paid-up) by Government public limited companies recorded an impressive rise from Rs. 11.4 crores during 1975 to Rs. 53.7 crores in 1976.

Security-wise, capital raised in 1976 in the form of equity and preference shares and debentures by the private corporate sector recorded a marginal rise of Rs. 2.8 crores over the previous year, whereas Government companies showed a substantial increase under

Table VIII.6: Consents/Acknowledgement of Proposals Granted by the Controller of Capital Issues to Non-Government Public Limited Companies*

(Rupees Crores)									
Year	Shares (Other than bonus) and Debentures				Consents to		Bonus Shares	Miscellaneous Issues (loans, etc.)	Grand Total (5+8+9)
	Equity Shares	Preference Shares	Debentures	Total (2+3+4) or (6+7)	New Companies†	Existing Companies			
1	2	3	4	5	6	7	8	9	10
(January-December)									
1972	51.2 (45.7)	10.5 (9.4)	50.2 (44.9)	111.9 (100.0)	25.9 (23.1)	86.1 (76.9)	32.1	45.4	189.4
1973	78.2 (71.2)	9.6 (8.8)	22.0 (20.0)	109.8 (100.0)	45.8 (41.7)	64.0 (58.3)	50.6	11.5	171.9
1974	69.4 (67.0)	7.1 (6.8)	27.1 (26.2)	103.6 (100.0)	30.5 (29.4)	73.1 (70.6)	69.4	20.9	193.9
1975	111.5 (71.1)	11.3 (7.2)	34.0 (21.7)	156.8 (100.0)	63.5 (40.4)	93.3 (59.6)	72.0	30.3	259.1
1976	77.7 (55.6)	7.2 (5.2)	54.8 (39.2)	139.7 (100.0)	36.1 (25.8)	103.6 (74.2)	118.2	101.5	359.4
(January-June)									
1976	36.3	5.1	34.3	75.8	16.2	59.6	28.6	36.6	141.0
1977@	78.3	1.5	24.9	104.7	41.7	63.0	65.7	50.4	220.8

@ Provisional.

* Excluding banks, insurance companies and provident fund societies incorporated as companies.

† Companies making public issue for the first time are classified as new companies while the rest are classified as existing companies.

Note: Figures within brackets are percentages to totals.

Source: Controller of Capital Issues, Government of India.

Table VIII.7: Capital Raised under Consents/Acknowledgement of Proposals

(Rupees Crores)

NON-GOVERNMENT COMPANIES													
	1975				1976				1977 (Upto June 30, 1977)				
	Public		Private		Public		Private		Public		Private		
	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	
1	2	3	4	5	6	7	8	9	10	11	12	13	
(a) Initial													
(i) Equity	35.0	32.1	—	—	28.2	26.0	—	—	8.8	9.0	—	—	
(ii) Preference	2.1	1.9	—	—	1.0	1.2	—	—	0.4	0.5	—	—	
(b) Further													
(i) Equity	34.9	31.2	0.1	0.1	30.6	28.2	0.1	0.1	7.1	7.6	—	—	
(ii) Preference	3.9	3.0	—	—	4.5	5.1	—	—	0.2	0.1	—	—	
(c) Debentures	30.1	30.1	—	—	40.6	40.6	—	—	4.2	4.2	—	—	
Total (a+b+c)	106.0	98.3	0.1	0.1	104.9	101.1	0.1	0.1	20.7	21.4	—	—	
(d) Bonus	69.2	69.2	5.3	5.3	66.7	66.7	4.0	4.0	58.8	58.8	1.4	1.4	
(e) Loans, etc.	8.5	8.5	—	—	3.4	3.4	—	—	1.3	1.3	—	—	
Total (a+b+c+d+e)	183.7	176.0	5.4	5.4	175.0	171.2	4.1	4.1	80.8	81.5	1.4	1.4	

(Continued)

Table VIII.7 (Contd.)

(Rupees Crores)

GOVERNMENT COMPANIES													
1975				1976				1977 (Upto June 30, 1977)					
Public		Private		Public		Private		Public		Private			
Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up
14	15	16	17	18	19	20	21	22	23	24	25		
(a) Initial													
(i) Equity	—	—	—	—	6.5	5.0	—	—	—	—	—	—	—
(ii) Preference	—	—	—	—	0.3	—	—	—	—	—	—	—	—
(b) Further													
(i) Equity	2.3	2.3	—	—	0.5	0.2	—	—	—	—	—	—	—
(ii) Preference	0.5	0.5	—	—	—	—	—	—	—	—	—	—	—
(c) Debentures	7.3	7.3	8.3	8.3	34.6	34.6	4.6	4.6	0.1	0.1	—	—	—
Total (a+b+c)	10.1	10.1	8.3	8.3	41.9	39.8	4.6	4.6	0.1	0.1	—	—	—
(d) Bonus	—	—	—	—	13.9	13.9	—	—	0.8	0.8	—	—	—
(e) Loans, etc.	1.3	1.3	—	—	—	—	—	—	5.1	5.1	—	—	—
Total (a+b+c+d+e)	11.4	11.4	8.3	8.3	55.8	53.7	4.6	4.6	6.0	6.0	—	—	—

Table VIII.7 (Concl.d.)

(Rupees Crores)

TOTAL GOVERNMENT AND NON-GOVERNMENT COMPANIES															

Source: Office of the Controller of Capital Issues, Government of India.

these heads from Rs. 18.4 crores in 1975 to Rs. 44.4 crores in 1976. Capitalisation of reserves (bonus issues) was higher at Rs. 84.6 crores as against Rs. 74.5 crores during the previous year. Loans declined from Rs. 9.8 crores in 1975 to Rs. 3.4 crores during 1976.

Capital raised by Government companies showed a marked increase from Rs. 19.7 crores in 1975 to Rs. 58.3 crores in 1976; the rise of Rs. 38.6 crores was mainly because of the pick-up in debenture floatations by Rs. 23.6 crores and issue of bonus shares of Rs. 13.9 crores.

During the six month period January-June 1977, non-Government public limited companies accounted for Rs. 81.5 crores out of the total capital raised of Rs. 87.5 crores as against Rs. 69.8 crores out of Rs. 99.1 crores during the corresponding period of 1976 indicating a decline in the amount of capital raised by the Government companies.

(vi) Developments in Policy

A series of measures were taken during the year to stimulate the capital market.

On June 6, 1977, the Central Government issued additional guidelines for issue of bonus shares to the effect that companies submitting proposals for capitalisation and issue of bonus shares should obtain a certificate from the auditors of the company that adequate provision for depreciation has been made in the accounts of the company as allowable under the Income-tax Act and if there is a change in the method of depreciation the companies should further ensure that adequate provision for deferred taxation liability has been made and the auditor's certificate to this effect should also be furnished.

With a view to stimulating industrial development and economic growth a number of inducements for investment have been provided for in the Union Budget for 1977-78. The scope of the scheme of investment allowance has been extended to all industries except those which are engaged in the manufacture of low priority

items such as cigarettes, cosmetics and alcoholic beverages. Investment allowance will be granted at a higher rate of 35 per cent on machinery and plant installed for the manufacture of any article made in accordance with the know-how developed in Government laboratories, public sector companies, universities and any recognised institution. Closely-held industrial companies will be exempted from the requirement of compulsory distribution of dividends. Capital gains arising from the transfer of a long-term capital asset are exempted from income tax if the full value of the consideration received is invested within six months in shares, bank deposits, units of the Unit Trust of India or other specified assets and such assets are held by the tax payer for a period not less than three years. Expenditure incurred by companies on approved programmes of rural development will be allowed to be deducted in computing their taxable profits. Industrial undertakings setting up small-scale units in rural areas and which go into production after September 30, 1977 will be entitled to a deduction for a period of ten assessment years, in computation of their taxable profits, of an amount equal to 20 per cent of the profits earned by them from such small-scale units. With a view to avoiding inconvenience to small investors, the requirement of deduction of tax at source on dividends upto Rs. 250 has been waived. The option given to companies in the last year's budget of depositing an equivalent amount of 5 per cent surcharge on income-tax with the Industrial Development Bank of India for a period of five years has been withdrawn.

On August 13, 1977, Government announced that companies which intend making an application to the Controller of Capital Issues for issue of right shares shall, before making such a proposal, give in a letter addressed to the existing shareholders information in sufficient details as to how they propose to utilise the additional monies that are being raised by the rights issue and give some broad ideas of the future earnings after the investment of such additional capital.

II. Term Lending Institutions

The volume of financial resources provided by the term-lending institutions (i.e., the IDBI, IFCI, ICICI, IRI, SFCs and SIDCs) to the corporate sector scaled new heights during 1976-77 (April-March). The total sanctions rose by Rs. 320.8 crores to Rs. 901.0 crores, while disbursements went up by Rs. 144.1 crores to Rs. 546.6 crores during the year. The overall increase in sanctions and disbursements was, to a major extent, made possible by increases on account of rupee loans, which rose by Rs. 318.7 crores and Rs. 139.0 crores, respectively, whereas foreign currency loans sanctioned declined by Rs. 13.5 crores during 1976-77. The IDBI was the major source of funds in as much as its sanctions and disbursements (excluding refinance facilities to SFCs, SIDCs and SIICs) constituted 55.9 per cent and 51.0 per cent respectively, of the total sanctions and disbursements by all the term-lending institutions during the year. The total book value of the investments of Life Insurance Corporation of India (LIC) in stock exchange securities, loans and capital of the U.T.I. increased from Rs. 3078 crores as on March 31, 1976 to Rs. 3492 crores as on March 31, 1977. The Unit Trust of India made a commendable progress during 1976-77; sales of units under 1964 Scheme aggregated Rs. 33.5 crores as against only Rs. 20.8 crores in the previous year.

The outstanding level of credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled commercial banks to small scale industries stood at Rs. 1421.1 crores at the end of December 1976 showing a net increase of Rs. 258.1 crores during April-December 1976 as against a rise of only Rs. 107.1 crores during the corresponding period of the preceding year. The guarantees outstanding under the Credit Guarantee Scheme for Small Scale Industries increased to Rs. 2195 crores at the end-June 1977 from Rs. 1950 crores a year ago.

Financial assistance to new and existing companies sanctioned by the IDBI, IFCI and

ICICI increased from Rs. 216.5 crores to Rs. 368.0 crores during 1976-77. Similarly, the amount disbursed was higher at Rs. 195.0 crores as compared with Rs. 138.7 crores in 1975-76 (Table VIII-8).

Trends in the financial assistance sanctioned and disbursed by the term-lending institutions to (i) industrial projects in the small-scale sector, (ii) backward areas and new/small entrepreneurs and (iii) industrial companies in the co-operative and public sectors are indicated in Tables VIII-9, VIII-10 and VIII-11, respectively. Both sanctions and disbursements for projects in the small-scale sector increased from Rs. 203.6 crores and Rs. 124.5 crores in 1975-76 to Rs. 273.1 crores and Rs. 146.7 crores, respectively in 1976-77 (Table VIII-9). Similarly, sanctions for backward areas and new/small entrepreneurs were stepped up from Rs. 208.3 crores and Rs. 29.6 crores to Rs. 411.2 crores and Rs. 55.5 crores, respectively. Total disbursements were higher at Rs. 204.9 crores and Rs. 23.1 crores as against Rs. 131.3 crores and Rs. 15.8 crores, respectively. While all the institutions increased the amount of financial assistance to backward areas, IDBI trebled the quantum of its assistance; its sanctions increased from Rs. 76.8 crores in 1975-76 to Rs. 228.2 crores in 1976-77 and the disbursements more than doubled from Rs. 45.6 crores to Rs. 98.3 crores. IFCI and ICICI also showed substantial improvement in their sanctions (Table VIII-10). Amounts sanctioned for co-operative and public sectors were higher during 1976-77 at Rs. 71.2 crores and Rs. 146.1 crores than Rs. 31.8 crores and Rs. 87.3 crores respectively in 1975-76. The amounts disbursed were also higher in 1976-77 at Rs. 42.3 crores and Rs. 80.7 crores compared to Rs. 16.5 crores and Rs. 35.4 crores, respectively in the preceding year (Table VIII-11).

(i) Industrial Development Bank of India

OPERATIONS

The Industrial Development Bank of India (IDBI) recorded an impressive performance in its operations during 1976-77 (July-June) with the total effective sanctions going up by Rs. 269.7 crores from Rs. 458.3 crores (9286

Table VIII. 8: Financial Assistance sanctioned and disbursed by IDBI, IFCI and ICICI to New and Existing Companies

(Rupees Crores)

Year (April—March)	Direct Loans Sanctioned £				Direct Loans Disbursed £			
	Newly Established Companies	Existing Companies		Total (2+3+4)	Newly Established Companies	Existing Companies		Total (6+7+8)
		New Projects	Expansion of existing capacity, modernisation, etc.			New Projects	Expansion of existing capacity, modernisation, etc.	
1	2	3	4	5	6	7	8	9
1974-75	67.9 (52.6)	8.1 (6.3)	53.1 (41.1)	129.1 (100.0)	51.1 (41.5)	12.9 (10.5)	59.0 (48.0)	122.9 (100.0)
1975-76	94.8 (43.8)	44.2 (20.4)	77.5 (35.8)	216.5 (100.0)	63.4 (45.7)	15.2 (11.0)	60.1 (43.3)	138.7 (100.0)
1976-77*	224.1 (60.9)	33.2 (9.0)	110.7 (30.1)	368.0 (100.0)	110.2 (56.5)	10.8 (5.5)	74.0 (38.0)	195.0 (100.0)

£ Include foreign currency loans and loans to small scale industries.

* Data are provisional.

Note : Figures in brackets are percentages to totals.

Table VIII.9: Financial Assistance sanctioned and disbursed by Term-Lending Institutions to Projects in the Small Scale Industries Sector

(Year: April-March)		(Rupees Crores)			
Institutions		1975-76		1976-77\$	
		Sanc- tioned	Dis- bursed	Sanc- tioned	Dis- bursed
1		2	3	4	5
1. I.D.B.I.(a)	..	104.4	63.8	159.3	83.4
2. I.F.C.I.	..	—	—	—	—
3. I.C.I.C.I.	..	-0.1*	0.2	0.1	0.1
4. I.R.C.I.	..	0.2	0.5	0.3	0.4
5. S.F.Cs £	..	98.5	59.1	112.7	62.2
6. S.I.D.Cs £	..	0.6	0.9	0.7	0.6

\$ Provisional.

@ Includes assistance to small road transport operators under refinance of industrial loans and assistance under IDA line of credit.

* Negative because of subsequent reduction.

£ Includes 18 SFCs and 14 SIDCs

— Means not relevant.

applications) in 1975-76 to Rs. 728.0 crores (15528 applications) in the current year (Table VIII-12). The amount disbursed also went up by Rs. 101.0 crores from Rs. 291.6 crores in the preceding year to Rs. 392.6 crores in 1976-77. Category-wise, direct loans sanctioned to industrial concerns (other than for exports) shot up from Rs. 103.5 crores during 1975-76 to Rs. 244.9 crores during 1976-77, thus recording a 136.6 per cent rise; disbursements during the year were higher at Rs. 88.3 crores as compared to Rs. 48.7 crores, giving a rise of 81.3 per cent over the previous year. The amount sanctioned for direct subscription to and underwriting of shares and debentures of industrial concerns more than doubled from Rs. 12.1 crores during 1975-76 to Rs. 28.5 crores, while disbursements on this account increased from Rs. 6.8 crores to Rs. 8.1 crores. The total direct assistance sanctioned was

Table VIII.10: Financial Assistance sanctioned and disbursed by Term Lending Institutions for Backward Areas and New/Small Entrepreneurs

(Year : April-March)		(Rupees Crores)											
Institutions		Backward Districts/Areas						New/Small Entrepreneurs					
		1974-75		1975-76		1976-77\$		1974-75		1975-76		1976-77\$	
		Sanc- tions	Dis- burse- ments	Sanc- tions	Dis- burse- ments	Sanc- tions	Dis- burse- ments	Sanc- tions	Dis- burse- ments	Sanc- tions	Dis- burse- ments	Sanc- tions	Dis- burse- ments
1		2	3	4	5	6	7	8	9	10	11	12	13
1. I.D.B.I.(a)	..	63.9	22.3	76.8	45.6	228.2	98.3	1.1	0.1	2.5	0.7	4.0	4.1
2. I.F.C.I.	..	13.9	18.8	26.5	16.8	45.3	27.7	4.1	4.7	5.0	4.2	8.5	4.4
3. I.C.I.C.I.	..	24.5	12.0	29.1	23.0	44.5	25.7	0.7	3.4	3.9	1.7	16.8	5.1
4. I.R.C.I.	..	0.8	1.0	1.0	1.4	4.7	2.6	—	—	—	—	—	—
5. S.F.Cs£	..	68.0	31.0	74.7	44.3	88.1	50.4	10.1	2.8	8.2	N.A.	11.0	N.A.
6. S.I.D.Cs	..	4.9@	2.8@	0.2*	0.2*	0.4*	0.2*	0.3@	0.1@	10.0+	9.2+	15.2+	9.5+
Total	..	176.0	87.9	208.3	131.3	411.2	204.9	16.3	11.1	29.6	15.8	55.5	23.1
7. L.I.C.	..	7.5	15.7	15.4	9.4	19.4	11.1	—	—	—	—	—	—

\$ Provisional.

(a) Data on assistance to backward districts/areas relate to concessional finances and those to new/small entrepreneurs cover assistance to technician entrepreneurs only.

£ Includes 18 SFCs.

@ Figures cover 7 SIDCs.

* Figures cover 6 SIDCs.

+ Figures cover 14 SIDCs.

Table VIII. 11: Financial Assistance sanctioned and disbursed by Term Lending Institutions to the Industrial Companies in the Co-operative and Public Sectors

(Year: April-March)		(Rupees Crores)											
Institutions		Co-operative Sector						Public Sector					
		1974-75		1975-76		1976-77\$		1974-75		1975-76		1976-77\$	
		Sanc-tions	Dis-burse-ments	Sanc-tions	Dis-burse-ments	Sanc-tions	Dis-burse-ments	Sanc-tions	Dis-burse-ments	Sanc-tions	Dis-burse-ments	Sanc-tions	Dis-burse-ments
1		2	3	4	5	6	7	8	9	10	11	12	13
1. I.D.B.I. (a)	..	4.6	3.6	14.0	4.8	41.0	18.8	41.0	28.9	56.5	22.9	118.6	63.3
2. I.F.C.I.	..	4.0	12.1	11.6	8.9	17.0	18.3	1.2	2.7	11.7	1.3	11.5	9.5
3. I.C.I.C.I.	..	1.6	0.9	3.4	1.1	11.5	2.8	0.2	—	6.2	0.4	3.9	0.5
4. I.R.C.I.*	..	—	—	—	—	—	—	3.1	4.3	1.0	2.4	2.6	3.6
5. S.F.Cs£	..	1.7	1.4	2.2	1.3	1.7	2.4	1.2	0.6	6.8	2.2	4.3	1.4
6. S.I.D.Cs	..	0.1@	0.1@	0.6**	0.4**	—	0.03**	8.3@	6.0@	5.1**	6.2**	5.2**	2.4**
Total	..	12.0	18.1	31.8	16.5	71.2	42.3	55.0	42.5	87.3	35.4	146.1	80.7
7. L.I.C.	..	0.5	12.1	7.7	4.5	14.5	8.0	14.1	12.5	13.6	3.7	13.8	7.5

\$ Provisional.
 (a) Total assistance under all schemes of IDBI (excluding guarantees and assistance to financial institutions).
 * Projects in public sector include units, the management of which is taken over by the Central Government under I (D & R) Act special enactment and one coal unit since nationalised.
 £ Includes 18 SFCs
 ** Covers 14 SIDCs
 @ Covers 7 SIDCs

substantially higher at Rs. 273.4 crores as compared to Rs. 115.6 crores in 1975-76. The assistance sanctioned for refinance of industrial loans increased from Rs. 163.2 crores during the last year to Rs. 251.7 crores showing a rise of 54.2 per cent; the amount disbursed recorded a rise of 38.0 per cent from Rs. 102.5 crores to Rs. 141.4 crores in the current year. Of the total refinance of industrial loans sanctioned and disbursed, the small scale industries and small road transport operators secured Rs. 174.5 crores (69.3 per cent) and Rs. 88.0 crores (62.2 per cent), respectively. The sanctions under the bills rediscounting scheme also showed considerable increase from Rs. 120.8 crores in 1975-76 to Rs. 151.3 crores in 1976-77, recording a rise of 25.2 per cent. Sanctions under export finance were marginally lower at Rs. 41.0 crores as against Rs. 42.0 crores in the last year but disbursements showed a rise from Rs. 27.8 crores to Rs. 28.8 crores.

ASSISTANCE TO BACKWARD AREAS AND TO SMALL-SCALE SECTOR

The direct project assistance of Rs. 105.6 crores was sanctioned on concessional terms to units in specified backward areas. The assistance sanctioned under both direct and refinance of industrial loans totalled Rs. 199.2 crores during 1976-77 compared to Rs. 118.8 crores during the previous year, thereby recording an increase of 67.7 per cent; disbursements for these projects amounted to Rs. 98.9 crores during 1976-77 compared to Rs. 53.2 crores in the previous year, recording a rise of 85.9 per cent (Table VIII-13). Assistance sanctioned to small-scale industries and small road transport operators under refinance of industrial loan scheme increased from Rs. 116.8 crores covering 8583 applications in 1975-76 to Rs. 174.5 crores covering 13806 applications during the period under review and disburse-

Table. VIII. 12: Summary of Operations of I.D.B.I.

(Year: July-June)

(Rupees Crores)

Type of Assistance	Sanctions					Disbursements			
	1975-76		1976-77		Cumulative sanctions since inception upto June end 1977	1975-76	1976-77	Cumulative disbursements since inception upto end June 1977	Assistance outstanding as on June 30, 1977
	No. of Applications	Amount	No. of Applications	Amount		Amount	Amount		
1	2	3	4	5	6	7	8	9	10
1. Direct loans to industrial concerns (other than for Export)	96	103.5	193	244.9	679.9	48.7	88.3	348.6	279.3
2. Underwriting of and direct subscriptions to shares/debentures of Industrial concerns ..	52	12.1	77	28.5	105.3	6.8	8.1	48.3	38.9
3. Refinance of industrial loans	8132	163.2	14214	251.7	717.8	102.5	141.4	491.1	280.7
4. Rediscounting of bills	951	120.8	995	151.3	647.8	91.7	113.3	518.1	316.9
5. Subscriptions to shares and bonds of financial institutions	21	16.8	23	10.6	82.6	14.2	12.8	81.6	70.5
TOTAL PROJECT ASSISTANCE (1 to 5)	9252	416.3	15502	687.0	2233.4	263.8	363.8	1487.8	986.3
6. Direct loans for exports	16	29.8	9	11.7	105.5	13.7	17.9	71.9	45.6
7. Refinance of export credits	15	5.3	12	5.9	53.7	8.6	3.0	46.1	18.6
8. Overseas buyer's credit	3	6.9	2	11.0	22.4	0.3	5.1	5.4	5.4
9. Foreign line of credit	—	—	3	12.4	32.9	5.2	2.8	11.0	11.2
Total (1 to 9)	9286	458.3	15528	728.0	2448.0	291.6	392.6	1622.3	1067.1
10. Guarantee for loans and deferred payments	—	—	—	—	26.7	—	—	19.5@	—
11. Advance payment guarantee (export credit)	4	2.4	12	41.9	46.6	2.9@	25.1@	29.8@	—

@ Guarantees executed.

INDUSTRIAL FINANCE

Table VIII.13: IDBI's Assistance to Backward Areas on Concessional Terms

(Year: July-June)		(Rupees Crores)							
		1974-75		1975-76		1976-77		Since inception of the scheme in July 1970 to June 1977	
Type of Assistance		No. of Appli- cations	Amount	No. of Appli- cations	Amount	No. of Appli- cations	Amount	No. of Appli- cations	Amount
1		2	3	4	5	6	7	8	9
1. Direct Assistance:									
	Sanctions	49	26.0	72	55.2	109	105.6	275	238.8
	Disbursements		9.5		20.0		46.8		91.1
2. Refinance of Industrial Loans:									
	Sanctions	1511	33.7	2397	63.6	3227	93.6	8826	217.4
	Disbursements		16.2		33.2		52.1		115.1
Total :	Sanctions	1560	59.7	2469	118.8	3336	199.2	9101	456.2
	Disbursements		25.7		53.2		98.9		206.2

ments showed a corresponding increase from Rs. 69.6 crores to Rs. 88.0 crores (Table VIII-14).

Table VIII.14: IDBI's Assistance for Small-Scale Industries and Small Road Transport Operators under Refinance of Industrial Loans

(Rupees Crores)				
Year (July-June)	Sanctioned (Gross)			Disbursed
		Number	Amount	Amount
1		2	3	4
1974-75	..	6082	76.40	37.04
1975-76	..	8583	116.81	69.61
1976-77	..	13806	174.51	88.00

Note: Data include assistance sanctioned under IDA line of credit.

SOFT LOAN SCHEME

A scheme designed to provide financial assistance to productive units in selected industries, viz., cement, cotton textiles, jute, sugar and certain engineering industries on concessional terms to enable them to overcome the backlog

in modernisation, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of production and thereby improve their competitiveness in the domestic as well as international markets is in operation since November 1976. The IDBI, the IFCI and the ICICI are the participating institutions and the scheme is administered by the IDBI. Industrial concerns which are not in a position to service loans raised for the purpose of modernisation of their units at normal lending rates of financial institutions and are in a position to attain viability in a relatively short period following modernisation are eligible for assistance under the scheme. The basic criterion for assistance under the scheme would be to adjudge the weakness of the units on account of obsolescence of machinery. The interest rate chargeable on such assistance is 7.5 per cent for the entire amount of loan and the period of repayment of loan would be upto 15 years including a moratorium of 3 to 5 years. In other cases, concessional assistance is granted upto a maximum of 65 per cent (75 per cent in case of jute industry).

The IDBI has assumed "lead responsibility" for industries in cotton textiles and cement, the IFCI for sugar and jute industries and the ICICI for industries in the engineering group. The progress of the scheme upto June 30, 1977 is as under :

Applications and Amounts
Sanctioned by the Institutions

Industry	No	Amount (Rs. crores)
Cotton Textiles	33	21.59
Cement	5	22.17
Sugar	4	7.55
Jute	2	5.15
Engineering	9	9.40
Total	53	65.86

The interest rate structure of I.D.B.I. is set out in Table VIII-15.

(ii) Industrial Finance Corporation of India

During 1976-77 (April-March), the number of projects assisted by the Industrial Finance Corporation of India (IFCI) as well as the net financial assistance sanctioned moved up from 118 to 153 and from Rs. 51.3 crores to Rs. 77.1 crores, respectively; the sanctions thus recording an increase of 50.3 per cent over the previous year. The disbursements also showed a rise of 58.2 per cent, from Rs. 34.7 crores in 1975-76 to Rs. 54.9 crores in 1976-77, as against the decline of 6.2 per cent in the preceding year. Of the total sanctions, rupee loans amounted to Rs. 66.3 crores, foreign currency loans Rs. 4.6 crores and underwriting and direct subscriptions Rs. 6.2 crores. Of the total disbursements, rupee loans claimed the major share at Rs. 49.5 crores, followed by foreign currency loans of Rs. 3.4 crores and underwriting and direct subscriptions at Rs. 2.0 crores.

Table VIII.15: Structure of IDBI's Interest Rates

		(Per cent per annum)	
		IDBI rate	Ceiling on primary lenders' rate
1.	Direct Assistance to Industrial Concerns (other than for exports)		
(a)	Normal rate	11.00	
(b)	Concessional rate to units in special backward districts ..	9.50	
(c)	Soft loan	7.50	
(d)	Technical Development Fund	11.00	
2.	Refinance of Industrial Loans		
(a)	Normal rate	9.00	12.50
(b)	Special rate for single truck operators covered by the guarantee of the Credit Guarantee Corporation of India Ltd. ..	8.00	11.50
(c)	Special rate for small-scale industrial units covered under the Credit Guarantee Scheme and Technician-entrepreneur schemes and loans upto Rs. 5 lakhs to fishing units	7.50	11.00
(d)	Special rate for units in the specified backward districts ..	6.00	9.50
(e)	Under World Bank Credit (Foreign Currency Component)		
(i)	To small-scale industries covered under Credit Guarantee Scheme, Technician-entrepreneur schemes and units in specified backward districts	8.00	11.50
(ii)	Other cases	8.75	12.00
3.	Export Credit		
(a)	Refinance against medium-term export credits	6.50	8.00
(b)	Participation export finance scheme	The rate on IDBI's portion of the credit is such that after taking into account the participating bank's rate, the average rate payable by the exporter/importer on the entire credit is generally 7.50 per cent.	
(c)	Buyer's credit scheme		

(Continued)

Table VIII.15: Structure of IDBI's Interest Rates (Concl'd.)

(Per cent per annum)		
	IDBI rate	Ceiling on primary lenders' rate
4. Bills Rediscounting Scheme		
Unexpired usance of bills/promissory notes (normal)		
(a) 6 months to 36 months	10.00	11.75
(b) Over 36 months and upto 60 months	8.75	10.50
(c) Over 60 months and upto 84 months	8.25	10.00
Unexpired usance of bills/promissory notes (for jute industry)		
(a) 6 months to 36 months	7.25	9.00
(b) Over 36 months and upto 60 months	7.00	8.75
(c) Over 60 months and upto 84 months	6.25	8.00
Unexpired usance of bills/promissory notes (for SEBs and SRTC's in Himalayan Hill Region)*		
(a) 6 months to 36 months	6.50	8.25
(b) Over 36 months and upto 60 months	6.00	7.75
(c) Over 60 months and upto 84 months	6.00	7.75

*Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu & Kashmir, Sikkim and Himachal Pradesh and Union Territories of Arunachal Pradesh and Mizoram.

Direct loans (including foreign currency loans) sanctioned by the Corporation increased from Rs. 46.8 crores during 1975-76 to Rs. 70.9 crores during the year under review. Newly established companies claimed a substantial share at Rs. 48.4 crores (as compared to Rs. 26.6 crores in the previous year). There was a marginal rise in sanctions to the existing companies for expansion of capacity and modernisation and for new projects from Rs. 20.2 crores in the previous year to Rs. 22.5 crores in the current year. Direct loans disbursed also increased considerably from Rs. 32.7 crores to Rs. 52.9 crores. As in the case of sanctions, disbursements to newly established companies constituted the largest component (Rs. 36.7 crores), followed by loans for new projects and expansion of existing capacity (Rs. 16.2 crores).

The Corporation assisted 85 new projects during the year for an aggregate amount of Rs. 59.5 crores. Out of 153 projects 78 were located in notified backward districts, involving Rs. 45.3 crores.

Since its inception in July 1948 upto March 31, 1977, the IFCI has sanctioned net financial assistance to the extent of Rs. 620.1 crores in respect of 868 projects and disbursed Rs. 468.5 crores.

There was no change in net lending rates of IFCI during the year. However, as a result of

streamlining of procedure for charging of interest with effect from February 28, 1977, the normal lending rates in respect of rupee and foreign currency sub-loans continued to be 11 per cent per annum subject to the condition that the defaulted instalments of principal and interest shall carry liquidated damages at 2 per cent per annum.

The IFCI participated in the soft-loan scheme for modernisation of selected industries, viz., cement, sugar, cotton textiles, jute and certain engineering industries.

The Risk Capital Foundation, operated by the Corporation since June 1976, with a view to providing supplementary finance on soft terms to new entrepreneurs and technologists had sanctioned loans aggregating Rs. 25.9 lakhs upto March 31, 1977. The loans are interest-free and carry only a nominal service charge of 1 per cent per annum on the amount outstanding and they are to be repaid by the promoters out of their own income, including income from dividends.

During the year under review, IFCI raised funds to the extent of Rs. 51.7 crores by issue of bonds in May and September 1976. The total outstanding bonds as on March 31, 1977 amounted to Rs. 167.9 crores.

(iii) Industrial Credit and Investment Corporation of India

The operations of the Industrial Credit and Investment Corporation of India Ltd. (ICICI) showed a sizeable growth in sanctions and disbursements during 1976-77 (April-March). The net financial assistance sanctioned during the year amounted to Rs. 98.7 crores as against Rs. 83.2 crores in the preceding year. Rupee loans sanctioned (including guarantees) went up from Rs. 25.1 crores to Rs. 56.1 crores. But foreign currency loans sanctioned declined from Rs. 45.2 crores to Rs. 33.8 crores. Underwriting of and direct subscription to shares and debentures amounted to Rs. 8.7 crores in 1976-77 as compared to Rs. 12.9 crores in 1975-76. The total amount disbursed by the Corporation rose from Rs. 61.1 crores to Rs. 67.0 crores. Rupee disbursements increased from Rs. 16.3 crores to Rs. 21.7 crores, while foreign currency loan disbursements decreased marginally from Rs. 40.0 crores to Rs. 38.9 crores. Disbursals on account of underwriting and direct subscription moved up from Rs. 4.9 crores to Rs. 6.5 crores. Upto the end of March 1977, ICICI sanctioned total assistance of Rs. 801.1 crores while the total disbursements amounted to Rs. 571.0 crores.

The loan requirements of backward areas continued to receive special attention of the Corporation. The amounts sanctioned and disbursed aggregated Rs. 44.5 crores and Rs. 25.7 crores, respectively during 1976-77 as compared to Rs. 29.1 crores and Rs. 23.0 crores sanctioned and disbursed in 1975-76. The assistance sanctioned and disbursed till the end of March 1977, for projects located in backward areas totalled Rs. 184.3 crores and Rs. 106.9 crores respectively; of these, sanctions and disbursements on concessional terms amounted to Rs. 69.0 crores and Rs. 34.3 crores, respectively.

To meet the growing requirements of rupee funds for its operations, the Corporation made two issues of debentures for an aggregate amount of Rs. 27.5 crores, which were over-

subscribed. The ICICI obtained two more lines of credit of DM 10 million each from the Kreditanstalt fur Wiederaufbau in addition to an allocation of £ 4 million from the U.K. Government. The total resources (net of cancellations and repayments) available to the Corporation at the end of March 1977 amounted to Rs. 426.3 crores.

There was no change in the rate of interest of 11 per cent charged by the ICICI on rupee loans and foreign currency loans. The concessional rate of interest on loans for projects located in backward areas also remained unchanged at 9.5 per cent on rupee loans and 10 per cent on foreign currency loans.

The ICICI is one of the members of the consortium of financial institutions under the Soft Loan Scheme, providing finance on concessional terms to companies with limited liability, engaged in sugar, jute, cotton textiles, cement and certain engineering industries to enable them to overcome the backlog in modernisation, replacement and renovation of their plant and equipment. The rate of interest charged on such assistance is 7.5 per cent. Under the Soft Loan Scheme, the Corporation sanctioned Rs. 9.4 crores to 9 companies till June 30, 1977.

(iv) Life Insurance Corporation of India

The total book value of the Life Insurance Corporation's investment in stock exchange securities and loans increased from Rs. 3077 crores as on March 31, 1976 to Rs. 3491 crores as on March 31, 1977. The share of investments in the public sector in the total investment of L.I.C. rose marginally from Rs. 2328.0 crores (74.3 per cent) to Rs. 2652.95 crores (74.7 per cent). Investment in co-operative sector stood at Rs. 410.0 crores while private sector accounted for Rs. 382.4 crores at end-March, 1977 accounting for 11.5 per cent and 10.7 per cent, respectively of the total investment. The investment in joint-sector declined by Rs. 7.9 crores to Rs. 20.1 crores over the year.

Financial assistance sanctioned@ by the Corporation during 1976-77 (April-March) declined to Rs. 57.1 crores from Rs. 61.0 crores during 1975-76. Disbursements@, however, recorded a rise from Rs. 27.5 crores in 1975-76 to Rs. 38.9 crores in 1976-77. The fall in assistance sanctioned was mainly because of a steep fall in the underwriting of debentures from Rs. 26.2 crores to Rs. 2.7 crores, but this shortfall was made up by a substantial rise in the sanctions of rupee loans from Rs. 29.2 crores in 1975-76 to Rs. 50.1 crores in 1976-77. Of the total amount sanctioned, rupee loans constituted 87.6 per cent and underwriting and direct subscriptions to shares and debentures of companies formed 12.4 per cent. The total disbursements rose from Rs. 27.5 crores in 1975-76 to Rs. 38.9 crores in 1976-77. The increase in disbursements was mainly accounted for by underwriting and direct subscription of debentures which rose by Rs. 8.3 crores over Rs. 0.2 crore of preceding year. The rupee loan disbursement also showed a rise from Rs. 22.8 crores in 1975-76 to Rs. 27.4 crores in 1976-77. The projects in backward areas availed of larger L.I.C. assistance at Rs. 19.4 crores during 1976-77 compared to Rs. 15.4 crores during 1975-76. The amount disbursed for these projects also increased from Rs. 9.4 crores during 1975-76 to Rs. 11.1 crores during 1976-77.

During the year 1976-77, there was no change in the lending rates for different classes of companies and industrial co-operatives which continued to remain at 11 per cent per annum.

(v) Unit Trust of India

The Unit Trust of India recorded a commendable progress in its activities during 1976-77 (July-June). The sales of units under the 1964 Scheme aggregated to Rs. 33.5 crores during the year as against Rs. 20.8 crores in 1975-76,

@ Sanctions and disbursements relate to investments made by way of grant of term-loans to companies, industrial co-operatives, sugar co-operative societies, underwriting/direct subscriptions and subscriptions to right issues of shares and debentures of companies.

surpassing the previous peak of Rs. 30.3 crores reached in 1973-74. While the sales under the Unit Scheme 1971 were of the order of Rs. 1.1 crores, sales under the Unit Scheme 1976 remained suspended during the year. Thus, the total sales of units stood at Rs. 34.6 crores as compared with Rs. 29.0 crores during 1975-76. Repurchases of units declined substantially from Rs. 11.0 crores in the previous year to Rs. 8.0 crores in 1976-77. Units sold and outstanding at the end of the year under all the schemes aggregated to Rs. 193.3 crores. The rate of dividend was increased from 8.75 per cent for 1975-76 to 9 per cent for 1976-77 for the Unit Scheme 1964 and from 7 per cent to 8 per cent for the Unit Scheme 1971; the rate of dividend under the Unit Scheme 1976 was maintained at 3 per cent. The declaration of a higher dividend both for the 1964 and 1971 Schemes was made possible by the income of Rs. 20.0 crores earned by the Trust, which is the highest on record so far.

The Trust made considerable progress in respect of the Unit-Linked Insurance Plan. During the year 3,182 members joined the Plan for a total target amount of Rs. 2.9 crores as against 2,946 members for a total target amount of Rs. 2.7 crores in the previous year. Sales of units increased to Rs. 1.1 crores from Rs. 0.73 crore last year.

The total investible funds of the Trust increased from Rs. 184.6 crores at the end June 1976 to Rs. 214.4 crores at the end of June 1977, of which Rs. 177.1 crores represented investments in corporate securities. Of the total investible funds ordinary shares accounted for 46.6 per cent, preference shares 7.4 per cent, debentures 28.6 per cent and the balance of 17.4 per cent represented advance deposits against commitments, bridging finance, other deposits, money at call with banks, etc. During the year, the financial assistance provided by the Trust by way of underwriting and direct subscription amounted to Rs. 13.8 crores which was more than twice the previous year's assistance of Rs. 6.0 crores (Table VIII-16).

Table VIII.16: Trends in Sales of Units by U.T.I.@

(Rupees Crores)					
Year (July-June)	Sales of Units	Units repurchased (Face Value)	Amount invested under Reinvestment Plan	Investible funds of the Trust at the end of the year	Dividend rate for unit holders of the Unit Scheme 1964 (Per cent)
1	2	3	4	5	6
1972-73	23.1	3.0	0.9	142.0	8.50
1973-74	30.6	3.7	1.2	172.1	8.50
1974-75	17.2	20.4	1.4	170.0	8.60
1975-76	29.0	11.0	1.4	184.6	8.75
1976-77	34.6	8.0	1.4	214.4	9.00

@ Covers Unit Schemes 1964, 1971 and 1976.

(vi) Industrial Reconstruction Corporation of India

Financial assistance sanctioned (gross) by the Industrial Reconstruction Corporation of India (IRCI) increased from Rs. 6.0 crores in 1975-76 to Rs. 10.3 crores in 1976-77, showing a rise of 71.7 per cent. Disbursements also went up from Rs. 4.6 crores in 1975-76 to Rs. 10.8 crores in 1976-77; these rose by 135 per cent as against a decline of 47 per cent during the previous year. The cumulative sanctions and disbursements stood at Rs. 44.7 crores and Rs. 35.1 crores, respectively at the end March 1977 (Table VIII-17).

The IRCI paid special attention to the units located in the classified backward areas as also to those in the small-scale sector. While the net amount sanctioned for the projects in the classified backward areas had gone up to Rs. 4.7 crores, disbursements aggregated to Rs. 2.6 crores during 1976-77 as against Rs. 1.0 crore and Rs. 1.4 crores, respectively in 1975-76. The IRCI charges interest at 8.5 per cent per annum, with half-yearly rests on its term loans with the further provision of concessional rates of 7.5 per cent and 7 per cent per annum to small-scale units and units located in the backward areas, respectively.

(vii) State Financial Corporations

OPERATIONS

The operations of the State Financial Corporations (SFCs) showed improvement during 1976-77. Loans sanctioned and disbursed by the 18 SFCs, including the Tamilnadu Industrial Investment Corporation Ltd. (TIIC) aggregated Rs. 168.3 crores and Rs. 105.3 crores as compared with Rs. 162.9 crores and Rs. 100.5 crores, respectively in 1975-76. The share of small-scale industrial units in the total loans sanctioned and disbursed during 1976-77 was Rs. 112.7 crores (67.0 per cent) and Rs. 63.1 crores (60.1 per cent), respectively.

LENDING RATES

The normal effective lending rate and the rate for units located in backward areas ranged between 8.0 per cent and 15.5 per cent. In cases where refinance from the IDBI was available, the normal rate ranged between 8 per cent and 11 per cent for small scale industries (including technician-entrepreneurs) and between 8.5 per cent and 12.5 per cent for others.

CAPITAL AND RESOURCES

During the year 1976-77, 14 SFCs (Andhra Pradesh, Bihar, Delhi, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya

Table VIII.17: Details of Financial Assistance £ Sanctioned and Disbursed by I.R.C.I.

(Rupees Crores)												
Year (April-March)						Number of Units	Amount sanctioned			Total amount disbursed	Amount arranged through banks/ other institutions†	Labourers involved
							Loans	Guarantees	Total			
1						2	3	4	5	6	7	8
1975-76						22	5.9	0.1	6.0	4.6	36.9	2388
1976-77						35	9.5	0.8	10.3	10.8	4.8	6408
Cumulative Position as at the end of												
March 1976						94	33.8	0.6	34.4*	24.3	61.9	78756
March 1977						103	43.3	1.4	44.7**	35.1	66.7	85164
June 1977						107	47.0	1.9	48.9***	36.2	71.2	95770

£ Includes fresh and supplementary assistance.

† Assistance arranged through banks/other institutions include borrowings outstanding at the commencement of reconstruction in respect of all the assisted units.

* Net of cancelled reconstruction assistance of Rs. 165.74 lakhs sanctioned earlier to 13 cases. Further, an amount of Rs. 62.76 lakhs has since been repaid by 12 assisted units.

** Net of cancelled reconstruction assistance of Rs. 193.54 lakhs sanctioned earlier to 15 cases. Further, an amount of Rs. 142.62 lakhs has since been repaid by 18 assisted units.

*** Net of cancelled reconstruction assistance of Rs. 197.89 lakhs sanctioned earlier to 16 cases. Further, an amount of Rs. 179.87 lakhs has since been paid back by 18 assisted units.

Pradesh, Maharashtra, Rajasthan, TIIC, Uttar Pradesh and West Bengal) raised their ordinary paid up capital by an aggregate amount of Rs. 11.0 crores which was subscribed by the concerned State Governments and IDBI on a matching basis. Besides the increase in the ordinary paid-up capital, 7 SFCs (Andhra Pradesh, Assam, Delhi, Gujarat, Jammu & Kashmir, Maharashtra and TIIC) raised special capital under Section 4A of the SFCs Act, 1951 to the extent of Rs. 1.8 crores during the year 1976-77 which was contributed equally by the RBI/IDBI and the concerned State Governments.

The total paid-up capital of all SFCs (including TIIC) stood at Rs. 52.4 crores (including special capital of Rs. 3.5 crores) as at the end of March 1977 as against Rs. 39.6 crores (including special capital of Rs. 1.7 crores) a year ago. The total free reserves of all the SFCs (including the Special Reserve Fund under Section 35A of the SFCs Act) showed an increase from Rs. 18.3 crores as on March 31, 1976 to Rs. 25.1 crores as on March 31, 1977. During the year 1976-77, 16 SFCs, i.e. all the SFCs excepting the RSFC and TIIC floated bonds for an aggregate notified amount of Rs. 38.3 crores. With 10 per cent of excess subscription allowed to be retailed, the total amount raised aggregated Rs. 42.1 crores. The total amount of bonds outstanding rose from Rs. 155.6 crores as on March 31, 1976 to Rs. 191.0 crores as on March 31, 1977. 7 SFCs redeemed bonds totalling Rs. 5.0 crores during the year. Borrowing limits aggregating Rs. 23.6 crores against *ad hoc* bonds were sanctioned by the RBI to 12 SFCs during 1976-77. The aggregate borrowing limits in force in respect of all the SFCs (including TIIC) amounted to Rs. 26.8 crores and the outstandings thereunder aggregated Rs. 2.1 crores as on March 31, 1977 as against Rs. 13 crores as at the end of the previous year. Borrowings of 4 SFCs from their respective State Governments stood at Rs. 0.7 crore as on March 31, 1977.

All the SFCs availed themselves of refinance from the IDBI to a much larger extent than

in the past; the total amount of refinance availed of during 1976-77 was Rs. 80.6 crores as against Rs. 59.1 crores during 1975-76. The amount of refinance outstanding as at the end of March 1977 aggregated Rs. 182.2 crores against Rs. 127.2 crores a year ago. The total amount of deposits accepted by the SFCs amounted to Rs. 37.0 crores as on March 31, 1977; of this, Rs. 23.7 crores were accounted for by TIIC.

AGENCY WORK

Three SFCs (Assam, Orissa and Uttar Pradesh) continued to act as agents of their respective State Governments for sanctioning and disbursing loans to small scale industries. Loans outstanding under this arrangement as on March 31, 1977 stood at Rs. 4.9 crores.

(viii) The National Industrial Development Corporation Limited

The important assignments taken up by the Corporation during 1976-77 included (i) detailed engineering and construction management services for the expansion of a paper mill in Karnataka, (ii) design and engineering of civil works for cement plant at Yerraguntala for Cement Corporation of India Ltd., (iii) total consultancy services for development and establishment of Solar Grain Driers for Department of Science and Technology, Government of India and (iv) preparation of project report for manufacture of Diesel Generating sets for the Ministry of Railways. The major assignments taken up overseas included projects on capacity utilisation and upgrading product standards of subsidiary companies of National Development Corporation, Tanzania; techno-economic survey of Uganda; Road Development Plan for Zanzibar, etc. The detailed design, engineering and construction management services for Steel Melting and Billet Casting Plant in Libya were successfully completed.

The Corporation rendered consultancy services during 1976-77 of the value of Rs. 1.4 crores as against Rs. 0.9 crore during 1975-76. The net foreign exchange earnings also went

up from Rs. 25 lakhs in 1975-76 to Rs. 34 lakhs in 1976-77.

(ix) National Small Industries Corporation

Under the Hire-Purchase Scheme, the National Small Industries Corporation (NSIC) received 324 applications for supply of machinery valued at Rs. 2.8 crores during the year 1976-77 (April-March) as against 456 applications for Rs. 4.5 crores in the preceding year. The NSIC accepted 275 applications for machinery worth Rs. 1.5 crores. The Corporation assisted 161 units by way of supply of machines of the aggregate value of Rs. 2.9 crores; during 1976-77 these included 48 units in backward areas which were supplied machinery worth Rs. 0.6 crore. In the previous year, 287 units were assisted to the tune of Rs. 9.1 crores, of which 69 units with a value of Rs. 1.2 crores were in backward areas. At the end of March, 1977 the total amount due from the hirers stood at Rs. 9.6 crores as against the outstandings of Rs. 8.8 crores in preceding year. The performance of the NSIC in the field of marketing was encouraging. Sale of brass scraps amounted to Rs. 7.9 crores, thus exceeding the target fixed for sale by Rs. 0.8 crore. A new scheme for marketing cotton hosiery, which is expected to be commercially viable and conducive to the growth of small-scale industries, was also undertaken. The NSIC helped small units to secure 4547 Government contracts worth Rs. 47.0 crores, compared to the last year's 5081 contracts worth Rs. 57.4 crores. A new registration scheme was introduced by the Corporation in May 1976 under which the units enlisted with the NSIC are treated on par with those registered with the D.G.S. & D. The number of such units enlisted with the Corporation during the year was 87, thus bringing the total number of enlisted units to 21,378. Under its training programme, the Corporation trained 648 persons while an equal number was undergoing training during the year. A prototype Development & Training Centre was started in Madras in collaboration with the Government of Denmark to develop prototype and produce

leather machinery for commercial reproduction by small-scale sector and to train personnel engaged in leather machinery and industry.

III. Financing of Small-Scale Industries by Scheduled Commercial Banks

The outstanding level of credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled commercial banks to small-scale industries stood at Rs. 1421.1 crores as at the end of December 1976, showing a net increase of Rs. 258.1 crores during April-December 1976 as against a rise of Rs. 107.1 crores during the corresponding period of the preceding year (Table VIII-18).

SCHEDULED COMMERCIAL BANKS' ADVANCES TO SMALL-SCALE INDUSTRIES

The net increase in the limits sanctioned by the banks to this sector during April-December 1976 was Rs. 248.9 crores compared to Rs. 148.4 crores during April-December 1975. The share of small-scale industries in the total outstanding bank credit (excluding advances for food procurement) improved marginally to 13.2 per cent in December 1976 from 12.8 per cent a year ago. The number of units financed during April-December 1976 rose to 1.2 lakhs as compared to the increase of 0.4 lakh in the corresponding period of 1975 reflecting more than a three-fold rise during April-December 1976. The average amount of credit sanctioned per unit, however, declined from Rs. 64,000 in December 1975 to Rs. 50,000 in December 1976.

The outstanding credit extended by the State Bank Group to small-scale industries during April-December 1976 recorded a net increase of Rs. 74.9 crores as against Rs. 38.6 crores during the corresponding period of the previous year. During the same period credit extended by the 14 nationalised banks to this sector increased by Rs. 149.1 crores at compared to Rs. 63.6 crores.

Table VIII.18: Advances of Scheduled Commercial Banks to Small Scale Sector

(Rupees Crores)

Particulars as on the last Friday of	Number of Units				Limits in force				Balance Outstanding			
	March 1976	December 1976	Increase (3-2)	Increase between March 1975 & Decem- ber 1975	March 1976	December 1976	Increase (7-6)	Increase between March 1975 & Decem- ber 1975	March 1976	December 1976	Increase (11-10)	Increase between March 1975 & Decem- ber 1975
1	2	3	4	5	6	7	8	9	10	11	12	13
1. State Bank of India and its subsidiaries	125898	190434	64536	19439	562.6	628.2	65.6	49.8	401.7	476.6	74.9	38.6
2. 14 Nationalised Banks.. ..	139273	193262	53989	16224	1007.0	1157.0	150.0	92.0	648.5	797.6	149.1	63.6
3. Other Scheduled Banks	11956	13326	1370	559	180.6	213.9	33.3	6.6	112.8	146.9	34.1	4.9
Total	277127	397022	119895	36222	1750.2	1999.1	248.9	148.4	1163.0	1421.1	258.1	107.1
Term loans for small scale industries												
4. All Scheduled Commercial Banks	60089	80152	20063	6673	267.6	293.1	25.5	20.4	222.2	247.5	25.3	14.3

Note: (i) Data for December 1976 are provisional. (ii) Data on scheduled commercial banks' advances from September 1975 onwards cover advances granted to small-scale industrial units and small road and water transport operators having their respective ceiling investment upto Rs. 10 lakhs as against Rs. 7.50 lakhs earlier.

The share of public sector banks in the total outstanding bank credit to small-scale industries as at the end of December 1976 showed a marginal decline at 89.6 per cent as against 90.2 per cent at end-December 1975. This was because of a decline in the share of SBI Group from 35.8 per cent to 33.5 per cent. The nationalised banks' share has gone up from 54.4 per cent to 56.1 per cent.

The credit limit sanctioned by scheduled commercial banks to craftsmen and other qualified entrepreneurs in the small-scale sector amounted to Rs. 82.2 crores covering 63,077 units at the end of December 1976 and the outstanding credit stood at Rs. 59.9 crores. Loans and advances sanctioned to small road and water transport operators at the end of December 1976 amounted to Rs. 336.1 crores spread over 1,55,897 units and the balance outstanding was Rs. 278.4 crores. As at the end of December 1976, loans and advances sanctioned to craftsmen and other qualified entrepreneurs by the S.B.I. Group and other nationalised banks totalled Rs. 78.0 crores.

TERM LOANS

The term loans (including instalment credits) sanctioned by scheduled commercial banks to small-scale industries increased by Rs. 25.5 crores to Rs. 293.1 crores compared to an increase of Rs. 20.4 crores during April-December 1975. There was also a substantial increase in the outstanding term loans from Rs. 222.2 crores in March 1976 to Rs. 247.5 crores in December 1976 covering 80,152 units. The share of the outstanding term loans in the total outstanding bank credit to small-scale industries by these banks, had gone up to 17.4 per cent in December 1976, as compared to 16.8 per cent in December 1975.

Term loans (including instalment credits) sanctioned by the S.B.I. Group, however, declined from Rs. 94.0 crores in March 1976 to Rs. 79.6 crores in December 1976, while the amount of term loans sanctioned by the 14 Nationalised Banks to this sector at the end of December 1976 stood at Rs. 183.8 crores as

against Rs. 144.6 crores at the end-December 1975.

ADVANCES FOR SETTING UP OF INDUSTRIAL ESTATES

At the end of December 1976, credit limits totalling Rs. 24.3 crores to 143 units were sanctioned by 21 scheduled commercial banks, including 14 public sector banks, for the setting up of industrial estates. The amount outstanding was Rs. 19.6 crores. During April-December 1976, the limits sanctioned and balance outstanding increased by Rs. 4.9 crores and Rs. 6.1 crores, respectively.

IV. Credit Guarantee

(1) SCHEME FOR SMALL-SCALE INDUSTRIES

During 1976-77 (April-March), 2 licensed primary urban co-operative banks, 15 unlicensed primary urban co-operative banks and 47 regional rural banks were included in the list of approved credit institutions under clause 2(c) of the Credit Guarantee Scheme. Of these, one licensed primary urban co-operative bank, six unlicensed primary urban co-operative banks and ten regional rural banks joined the Scheme by executing the necessary agreement. One scheduled commercial bank was deleted from the list of eligible credit institutions due to its amalgamation with a nationalised bank. The number of credit institutions joining the scheme as at the end of March 1977 stood at 259.

The outstanding guarantees increased to Rs. 2,147 crores at the end of March 1977, from Rs. 1,871 crores a year ago. Since the inception of the Scheme upto the end of March 1977, 2,451 claims for an aggregate sum of Rs. 2.3 crores were paid to the credit institutions. Out of the total claims paid, amounts aggregating Rs. 20.4 lakhs were recovered in full in 164 cases by December 1976. As at the end of March 1977, the accounts reported under default which may eventually lead to invocation of guarantees numbered 21,455 in respect of 15,175 units involving an aggregate amount of

Rs. 85.7 crores as against 16,992 accounts in respect of 11,815 units for Rs. 54.6 crores as at the end of March 1976.

The amount of claims pending settlement increased from Rs. 7.9 crores (14.4 per cent of the total advances in default) at the end of March 1976 to Rs. 15.8 crores (18.4 per cent) at the end of March 1977.

(II) CREDIT GUARANTEE

CORPORATION OF INDIA LIMITED

The Corporation extended its Guarantee Scheme during 1976 to cover advances for consumption needs or for purchase or construction of houses or tenements, wholly or mainly for dwelling purpose, provided such loans were granted directly to the various categories of borrowers already covered by the Small Loans Guarantee Scheme and such facilities formed a part of the credit extended to those borrowers for their main business or activities. In order to ensure that the benefit of the guarantee went to the smaller borrowers, certain maximum limits were stipulated for the amount of the credit to be extended for the above purposes.

The advances guaranteed under the three Schemes of the Credit Guarantee Corporation of India Ltd., viz., (i) Small Loans Guarantee Scheme, (ii) Financial Corporations Guarantee Scheme, and (iii) Service Co-operative Societies Guarantee Scheme, have nearly trebled during the last four years to Rs. 1,100.3 crores as on

last Friday of September, 1976, the increase since 1975 alone being over 50 per cent. The number of claims received by the Corporation has gone up in 1976 and 1977. During the period January-May 1977, the Corporation received 3,204 claims for a total amount of Rs. 91 lakhs. During the calendar year 1976, there were in all 4,031 claims for a total amount of Rs. 135 lakhs. Several measures have been taken to cope with the unprecedented increase in the volume of claims. As a result of the measures, claims are now being disposed of at a faster rate. The number of commercial banks participating in the Small Loans Guarantee Scheme has increased during 1976 from 76 to 95 and the number of participating institutions in Service Co-operative Societies Guarantee Scheme has increased from 92 to 102, while the number of Financial Corporations participating in the Financial Corporations Guarantee Scheme remained unchanged at 18.

V. Investment in Private Industrial Sector

The size of investment in the private sector as indicated by the assets formation is given in Table VIII-19 (page 208). The data in respect of 1,650 medium and large public limited companies reveal that the rate of gross and net fixed assets formation which was persistently on the increase since 1970-71 recorded a marginal decline at 10.3 per cent and 10.0 per cent, respectively during 1975-76. The data for 1976-77 are not yet available.

Table VIII.19: Rates of Gross and Net Fixed Assets Formation of Different Groups of Public/Private Limited Companies and Government Companies.

						(Per cent)					
Year (April-March)						Medium and Large Public Limited Companies (1650)	Large Public Limited Companies (385)	Small Public Limited Companies (750)	Medium and Large Private Limited Companies (1001)	Small Private Limited Companies (1125)	Government Companies£
1						2	3	4	5	6	7
Gross Fixed Assets Formation											
1971-72	..	..	..	..	..	7.4	7.5	6.6	10.9	10.4	6.1
1972-73	..	..	..	..	..	8.5	8.7	5.1	11.2	8.6	9.6
1973-74	..	..	..	..	..	8.8	8.3	6.6	9.3	10.4	11.5
1974-75	..	..	..	..	..	10.6	10.2	9.2	11.7		13.6
1975-76	..	..	..	..	..	10.3	10.3				
Net Fixed Assets Formation											
1971-72	..	..	..	..	..	3.6	3.4	5.2	9.0	7.6	1.7
1972-73	..	..	..	..	..	5.6	5.4	2.1	8.7	5.2	7.0
1973-74	..	..	..	..	..	6.9	5.6	4.9	6.6	7.3	9.2
1974-75	..	..	..	..	..	10.2	9.1	9.4	10.3		13.2
1975-76	..	..	..	..	..	10.0	9.7				

Note: Figures in brackets in the captions relate to the number of companies.

£ Number 121 for 1971-72, 116 for 1972-73, 143 for 1973-74 and 167 for 1974-75.

Source: RBI Studies on Company Finance.

Chapter IX

Developments in Trade and Tariffs

Introduction

During the financial year 1976-77, India emerged with a surplus on her external trade account. Although, the magnitude of the surplus was not very large, it marked a break with the preceding three years (1973-74 to 1975-76) during which there was a sharply progressive rise in the trade deficits as the growth in imports outpaced the rise in exports. In 1976-77 this trend was reversed following a sharp decline in the quantum of imports, almost entirely attributable to lower purchases of foodgrains (following the good 1975-76 harvests) and of fertilisers (due to higher domestic production) and a faster rate of growth in exports in terms of both volume and value.

The growth in exports was aided by a combination of factors such as the almost stable domestic price level at a time when inflation abroad raged at high levels, the curbing of domestic demand to augment export availabilities and the impact of certain developments in regard to competing sources: for example the shortfall in coffee production in Brazil and Ecuador, reduced tea production in Sri Lanka and Argentinian restrictions on leather. These developments coupled with efforts to strengthen, expand and diversify India's trade relations all helped to boost exports.

In the result, India's visible trade balance showed a surplus of Rs. 71 crores after three consecutive years of rising trade deficits, Rs. 432 crores in 1973-74, Rs. 1,190 crores in 1974-75 and Rs. 1,222 crores in 1975-76.

Exports

Aggregate exports (including re-exports) during 1976-77 amounted to Rs. 5,134 crores (DGCI & S) or Rs. 1,091 crores (27 per cent) higher than the preceding year's level of Rs. 4,043 crores, reversing the deceleration in the export growth rate which dipped from 32 per cent in 1974-75 to 21 per cent in 1975-76.

Thus the annual growth during the first three years of the Fifth Plan worked out to a compound rate of 26.7 per cent as against the target growth rate of 8.5 per cent per annum envisaged for the Fifth Plan period. The marked increase in exports during 1976-77 may be attributed, *inter alia* to (i) the overall improvement in world exports which rose by 13 per cent in U.S. \$ values during 1976 as against an increase of 5 per cent in 1975, (ii) the pick-up in demand for engineering goods in the major markets abroad, (iii) the spurt in the international prices of coffee and tea, and (iv) the substantial increase in the domestic availability of industrial products, particularly of engineering goods.

Imports

Total imports during the year amounted to Rs. 5,063 crores registering a decline of Rs. 202 crores from the peak level of Rs. 5,265 crores attained in 1975-76. In percentage terms, the decline worked out to 3.8 per cent, in sharp contrast to the increase of 16.5 per cent in 1975-76 and the record increase of 58 per cent in 1973-74. This decline, despite the continued high prices of the crude oil and some liberalisation of the import policy for 1976-77 is ascribable mainly to the substantial reduction in imports of items like fertilisers, foodgrains and iron and steel. Petroleum imports, which accounted for one quarter of total imports in 1975-76, also showed no significant increase in the nine months of 1976-77, and the same was the case with some of the other intermediate products such as chemicals and non-ferrous metals.

Terms of Trade

The year under review also saw an improvement in India's net terms of trade* on the

* Net terms of trade
= $\frac{\text{Unit value index of exports}}{\text{Unit value index of imports}} \times 100$

one hand, and a deterioration in the gross terms of trade** on the other. The gain in the net terms of trade was brought about by an increase of 6.6 per cent in the unit value index of exports from 197 in 1975-76 to 210 in 1976-77 (Base: 1968-69 = 100) coupled with a fractional decline of 0.7 per cent in the unit value index of imports from 280 to 278. Consequently, India's net terms of trade which declined sharply from 106 in 1973-74 to 77 in 1974-75 and further to 70 in 1975-76 improved to 76 in 1976-77. The gross terms of trade which had declined from 91 in 1973-74 to 75 in 1974-75 and remained at that level during 1975-76, dipped to 56 in 1976-77. The decline in gross terms of trade resulted from a larger increase of 18.4 per cent in the quantum index of exports from 147 in 1975-76 to 174 in 1976-77 (Base: 1968-69 = 100) than the decline of 12.6 per cent in the quantum index of imports from 111 to 97.

Commodity-wise analysis: exports and imports

Commodity-wise details of exports and imports which are available only for the first nine months (April-December) of the financial year 1976-77 are set out in Table IX-1 and IX-2 respectively. These data, though relate to the nine month period, show that the increase in exports was quite broad-based. Total exports during April-December 1976 showed an increase of Rs. 838 crores to Rs. 3,546 crores. Exports of all the major items except sugar, jute manufactures and silver recorded an increase in relation to the corresponding period of 1975-76 (Table IX-1). However, the increase was most pronounced in the case of engineering goods (including iron and steel) which moved up by Rs. 271 crores to Rs. 599 crores; the increase accounted for 32 per cent of the increase of Rs. 838 crores in total exports recorded during the period. In fact, engineering goods emerged as the country's leading export item accounting for 17 per cent of the total exports during the nine month period. Other items which recorded substantial

increases were: cotton textiles including yarn (Rs. 116 crores), clothing (Rs. 99 crores), pearls and precious and semi-precious stones (Rs. 93 crores), leather and leather manufactures including footwear (Rs. 63 crores), fish and fish preparations (Rs. 45 crores), tea (Rs. 36 crores) and coffee (Rs. 32 crores). The sharp increase in the case of engineering goods (including iron and steel) resulted mainly from the pick up of demand in industrial countries for an array of items ranging from consumer durables to machinery and capital goods, and from the growing offtake from a number of oil exporting countries in the Middle East which have undertaken infra-structural projects like road, ports and rail construction, telecommunication, and civil construction. Exports of iron and steel recorded a more than five-fold increase in quantum indicating the increased domestic supply of these items, and inability of the economy to use this basic developmental good. The rise in exports of fish and fish preparations, oil cakes and tea reflected larger quantum as well as higher unit value realisation, the increase in the case of coffee was wholly due to the rise in the unit value as the international price of this commodity rose sharply. The unforeseen reduction in world coffee supplies following the severe frost in Brazil which destroyed the major part of the Brazilian coffee crop, pushed up prices of coffee in the London market from £825 per tonne in the first week of March 1976 to £2,530 per tonne in mid-December 1976. The sharp escalation in coffee prices generated a shift from coffee to tea, particularly in industrial countries. This together with several factors like a fall in Sri Lanka's production and low stocks led to a sizeable rise in tea prices. Resumption of exports to Pakistan also helped our tea earnings.

In contrast, exports of sugar, jute manufactures and silver recorded declines. Exports of sugar which reached a peak level of Rs. 472 crores in 1975-76 dropped to a low of Rs. 103 crores in April-December 1976 showing a fall of Rs. 194 crores over the comparable period of last year following the precipitous fall in

** Gross terms of trade = $\frac{\text{Quantum index of imports}}{\text{Quantum index of exports}} \times 100$

Table IX-1: India's Principal Exports

(Rupees Crores)													
Commodities					1972-73	1973-74	1974-75	1975-76	April-December		Increase (+)/ Decrease (-) of Col. (6) over Col. (5)		
									1975	1976			
					1	2	3	4	5	6	Actual	Per- centage	
					1	2	3	4	5	6	7	8	
A. Major Non-traditional Items													
Engineering goods					130	176	299	355	259	319	+	60	+ 23.4
Iron and steel					42	61	86	117	69	280	+	211	+308.2
Iron Ore					110	133	160	214	140	158	+	18	+ 13.4
Chemicals					40	58	104	89	69	85	+	16	+ 24.5
Silver (bullion bar)					—	8	78	174	134	121	—	13	— 9.2
Rice					3	8	21	13	4	4	—	—	—
B. Other Items													
Jute yarn & manufactures					250	227	296	248	188	138	—	50	— 26.6
Cotton yarn and manufactures					150	251	233	219	138	254	+	116	+ 84.6
Tea					147	145	224	237	180	216	+	36	+ 20.2
Hides, skins, leather & leather goods including footwear					188	187	166	223	147	211	+	64	+ 43.0
Cashew kernels					69	74	118	96	81	95	+	14	+ 18.3
Oilcakes					75	171	96	86	55	141	+	86	+156.8
Pearls, precious and semi-precious stones Unworked/worked					79	107	95	123	80	173	+	93	+115.9
Spices					29	55	61	71	38	34	—	4	— 9.4
Fish & fish preparations					54	89	66	126	93	138	+	45	+ 47.6
Sugar					13	42	339	472	297	103	—	194	— 65.2
Coffee					33	46	51	67	53	85	+	32	+ 60.5
Manganese Ore					9	9	17	18	12	11	—	1	— 8.3
Tobacco (unmanufactured)					61	68	80	93	84	84	—	—	—
Cotton raw and waste					25	37	17	39	19	37	+	18	+ 93.0
Clothing					56	100	136	200	124	223	+	99	+ 79.3
Crude animal and vegetable materials (n. e. s.)@					50	75	117	87	62	76	+	14	+ 22.6
C. Total (including others)					1,971	2,523	3,329	3,942*	2,708	3,546	+	838	+ 30.9

@Includes guar gum, lac, etc.

* Subsequently revised to Rs. 4,043 crores.

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

unit value arising from the heavy build-up of stocks in international markets and the prospects of better world supplies. Exports of jute manufactures at Rs. 138 crores were Rs. 50 crores lower than in April-December 1975 continuing the downtrend noticed in 1975-76. The decline resulted from a fall in both quantum and unit values. The decline in the quantum was shared by all the three main

products (hessian, sacking and carpet backing) but that in the unit value was largely confined to hessian and sacking, the unit value for carpet backing showing a marginal rise. The continued poor performance of jute manufactures reflected the growing competition from other suppliers and from the synthetics. Silver exports at Rs. 121 crores were lower by Rs. 13 crores due wholly to the fall in quantum.

The value of imports during the first nine months of 1976-77 was 8.3 per cent lower than in the same period for 1975-76 (Table IX-2). The decline represented largely the sharply reduced outlays on imports of fertilisers, food-grains, and iron and steel. With large stocks on hand at the beginning of the year, increased

domestic production of chemical fertilisers consequent on better utilisation of installed capacity, and the encouragement provided for the use of organic manures, the quantum of imports of fertilisers was much lower in 1976-77. The reduction in volume accompanied by the fall in world prices resulted in a sharp drop

Table IX-2: India's Principal Imports

		(Rupees Crores)							
Commodities		1972-73	1973-74	1974-75	1975-76	April-December		Increase(+)/ Decrease (—) of (7) over (6)	
						1975	1976		
						Actual		Per- centage	
1		2	3	4	5	6	7	8	9
1. Food (excluding cashewnuts)	.. ..	128	518	818	1390	986	829	—157	— 15.9
Of which:									
Cereal & Cereal preparations	.. ..	81	473	764	1338	949	790	—159	— 16.7
2. Raw Cotton	.. ..	91	52	27	26	25	68	+ 43	+175.1
3. Raw jute and waste	.. ..	1	12	4	3	1	7	+ 6	+600.0
4. Cashewnuts	.. ..	32	29	37	34	30	14	— 16	— 53.3
5. Minerals oils	.. ..	204	561	1157	1226	912	930	+ 18	+ 19.7
Of which:									
(a) Petroleum crude and partly refined		145	417	955	1052	772	809	+ 37	+ 34.9
(b) Others	.. ..	59	144	202	174	140	121	— 19	— 13.5
6. Chemicals	.. ..	259	357	731	721	628	296	—332	— 52.8
Of which:									
(a) Fertilizers manufactured	.. ..	96	163	436	434	407	118	—289	— 71.0
(b) Other chemicals	.. ..	163	194	295	287	221	178	— 43	— 19.4
7. Iron and Steel	.. ..	226	249	424	306	236	168	— 68	— 28.8
8. Non-ferrous metals	.. ..	109	140	179	98	72	124	+ 52	+ 72.2
9. Crude rubber including synthetic and reclaimed	.. ..	4	4	7	7	5	6	+ 1	+ 20.0
10. Wool and other animal hair	.. ..	12	21	27	26	21	20	— 1	— 4.7
11. Animal and vegetable oils and fats	.. ..	25	65	35	18	29	74	+ 45	+ 15.5
12. Paper, paper boards and manufactures thereof	.. ..	31	29	60	56	51	53	+ 2	+ 3.9
13. Pearls, precious and semi-precious stones	.. ..	42	74	53	84	60	123	+ 63	+105.0
14. Machine and transport equipment	.. ..	532	652	696	882	667	680	+ 13	+ 19.4
Of which:									
(a) Machinery other than electric	.. ..	298	427	404	564	408	471	+ 63	+ 15.4
(b) Electrical machinery	.. ..	134	130	167	187	151	119	— 32	— 21.1
(c) Transport equipment	.. ..	100	95	131	130	108	90	— 18	— 16.6
15. Others	.. ..	171	192	264	279	193	200	+ 7	+ 3.6
Total	.. ..	1867	2955	4519	5158*	3916	3592	—324	— 8.3

*Subsequently revised to Rs. 5,265 crores.

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

in the value of imports of fertilisers from Rs. 407 crores in 1975-76 to around Rs. 118 crores in 1976-77. In view of the all time record domestic output of wheat at 28 million tonnes during 1975-76 and the significant increase in public sector stocks of foodgrains from 7.8 million tonnes in 1975-76 to 18.2 million tonnes in 1976-77, the imports of foodgrains declined from Rs. 986 crores in 1975-76 to Rs. 829 crores in 1976-77. Following the commencement of production at Bokaro which augmented domestic production and improved capacity utilisation and recessionary conditions in the engineering industries during the period under review, the value of iron and steel imports receded to Rs. 168 crores from Rs. 236 crores imported in the nine months of 1975-76; in fact exports of iron and steel for the first time exceeded imports by Rs. 112 crores in 1976-77. Among other items, imports of raw cashew nuts and petroleum products also showed a decline of Rs. 16 crores and Rs. 19 crores respectively. Reduction in import of cashew nuts was due to reduced availability of raw nuts from the major African producing countries brought about by the growth of processing units in these countries. It is, however, significant to note that the increase under mineral oils was wholly on account of petroleum crude; imports of petroleum products showing a decline of Rs. 19 crores, which may be attributed to the increase in the domestic production of petroleum products while the growth of domestic demand continued to be modest. These four items namely food, fertilisers, iron & steel and cashewnuts, together accounted for an aggregate decline of Rs. 530 crores, which was partly offset by an increase of Rs. 243 crores in imports of such items as vegetable oils, (Rs. 45 crores), raw cotton (Rs. 43 crores), petroleum crude (Rs. 37 crores), copper (Rs. 25 crores), zinc and machinery and transport equipment (Rs. 13 crores each). The poor groundnut crop resulted in severe domestic shortage of edible oils which necessitated larger imports of soyabean and palm oils for use in the vanaspati industry. Like-wise to relieve the acute shortage of domestic raw materials for the cotton textile

industry, larger imports of raw cotton and synthetic fibres were programmed for during the year under review.

Despite the liberalisation of import policy, imports of machinery and transport equipment in first nine months of 1976-77 showed only a marginal rise of barely Rs. 13 crores in value over the 1975-76 level—in fact electrical and transport equipment imports were lower than in the previous period. Absence of a sizeable pick-up on imports of capital goods despite the liberalisation of import policy reflects, in addition to the lower utilisation of external assistance, the overall sluggish demand for imports of capital goods. On the other hand, the impact of import policy liberalisation was more evident in items like newsprint, precious stones, copper and zinc, imports of which were distinctly higher in the period under review.

Direction of Trade

The data on regional pattern of India's foreign trade which are available for the nine months, April-December 1976, (latest available) show that the increase in exports during the period was shared by all the regions while the decline in imports was wholly concentrated in trade with the ECM, North America, the East European and EFTA countries (Table IX-3).

Region-wise, the growth in exports was most pronounced in the case of the ECM countries accounting for Rs. 371 crores or 45 per cent of the total increase of Rs. 838 crores during the nine months under review. As a result, the share of this region in India's total exports moved up from 21 per cent in 1975-76 to 26 per cent in 1976-77. This increase was shared by all the major countries in the group with the U.K. accounting for Rs. 92 crores, Germany Rs. 85 crores, the Netherlands Rs. 74 crores, Belgium Rs. 42 crores, Italy Rs. 36 crores, France Rs. 35 crores, and Denmark Rs. 8 crores. The U.K. imports from India rose by nearly 33 per cent during April-December 1976, thanks mainly to the buoyant demand for manufactured items like cotton yarns, textiles, garments and leather manufactures. In the case

Table IX-3: Regional Pattern of India's Trade Balance

					(Rupees Crores)					
Region					Exports		Imports		Trade Balance	
					April 1975	December 1976	April 1975	December 1976	April 1975	December 1976
E.C.M.	..	..	..	..	560 (20.7)	931 (26.2)	835 (21.3)	662 (18.4)	—275	+269
North America	..	..	..	..	377 (13.9)	447 (12.6)	1079 (27.5)	931 (25.9)	—702	—484
Middle-East Countries ⁽¹⁾	..	..	..	..	475 (17.5)	535 (15.1)	887 (22.6)	910 (25.3)	—412	—375
E.S.C.A.P. ⁽²⁾	..	..	..	..	599 (22.1)	779 (22.0)	463 (11.8)	507 (14.1)	—136	+272
East European Countries	..	..	..	..	490 (18.1)	560 (15.8)	432 (11.0)	312 (8.7)	+ 58	+248
Africa ⁽³⁾	..	..	..	..	122 (4.5)	157 (4.4)	73 (1.9)	146 (4.1)	+ 49	+ 11
E.F.T.A.	..	..	..	..	52 (1.9)	87 (2.4)	116 (2.9)	74 (2.1)	— 64	+ 13
Latin America..	..	..	..	..	10 (0.4)	12 (0.3)	21 (0.5)	30 (0.1)	— 11	— 18
Others	..	..	..	..	23 (0.8)	38 (1.1)	10 (0.2)	21 (0.1)	+ 13	+ 28
Total	..	..	..	..	2708	3546	3916	3592	—1208	— 36

Notes: (1) Middle East Countries include Abu Dhabi, Arab Republic of Egypt, Bahrain, Cyprus, Dubai, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Syria, Yemen Arab Republic, Yemen Peoples' Republic.

(2) ESCAP excludes Iran.

(3) Africa excludes Arab Republic of Egypt.

Figures in brackets represent percentage to totals.

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

of Germany, the main items contributing to the increase in exports were garments, carpets, leather manufactures, oil cakes, iron ore and tea. New items which got an entry into the German market were rubber, bauxite, structural steel and steel pipes, paper and printing machinery and silk goods.

Exports to North America and to the East European bloc increased by Rs. 70 crores each. A large number of Indian manufactured products were able to find a better market in the USA during 1976-77. Fish, cotton textiles, iron and steel bars, hand and machine tools, diamonds were some of the items that fared well during the period under review. In contrast, exports of some of the traditional products like jute manufactures, sugar, pepper and mica to this market were distinctly lower in the period under review.

As in the case of the ECM countries, the export growth of Rs. 70 crores to the East

European countries was also well distributed; the USSR accounting for Rs. 18 crores, GDR Rs. 16 crores, Poland Rs. 12 crores and Yugoslavia Rs. 9 crores. The centrally planned economies continued to remain a major market for India's traditional exports such as jute manufactures, tea, cashewnuts, pepper and leather manufactures. In regard to non-traditional items however, not much progress appears to have been made in the COMECON countries, except for the USSR.

The ESCAP countries too showed a rise of Rs. 180 crores, more than half of which was accounted for by Japan (Rs. 99 crores). Japan emerged as the second largest buyer of Indian goods followed, by Australia, Singapore and Sri Lanka which also improved their off-take by Rs. 9 crores, Rs. 7 crores and Rs. 6 crores respectively.

Export growth to the Middle East region was of the order of Rs. 60 crores. India's exports

to this region benefitted notably from the larger off-take by Kuwait and Dubai which together accounted for a rise of Rs. 112 crores. Construction and transport equipment, and drugs and chemicals were mainly responsible for the increase in exports to these countries. In contrast, exports to Iran and Iraq slumped by as much as Rs. 127 crores. Exports to the African continent recorded a moderate rise of Rs. 35 crores in the nine month period April-December 1976 and this was shared by Tanzania, Libya, Sudan, Zaire and Kenya. Lastly, a rise of Rs. 2 crores to Rs. 12 crores was recorded by the vast Latin American region which virtually remains inaccessible to Indian exports because of the long haul involved.

The overall decline in imports was widely spread over almost all the industrial countries. The ECM accounted for the largest decline of Rs. 173 crores: imports from Germany receding by Rs. 69 crores, France Rs. 55 crores, Belgium Rs. 33 crores and Italy Rs. 23 crores owing mainly to subdued industrial demand for capital goods and intermediate raw materials.

Similarly, the decline of Rs. 148 crores in imports from North America was shared both by the USA (Rs. 63 crores) and Canada (Rs. 85 crores). Here the suspension of imports of foodgrains on commercial account and sharply reduced purchases of fertilisers were the main contributory factors affecting imports from the region.

Imports from the East European countries also dropped by Rs. 130 crores and the decline was shared by all countries except Yugoslavia imports from which showed a moderate rise of Rs. 9 crores. The order of decline was the USSR (Rs. 48 crores), Poland (Rs. 35 crores), Bulgaria (Rs. 13 crores), GDR (Rs. 10 crores), Hungary (Rs. 9 crores), Rumania (Rs. 8 crores) and Czechoslovakia (Rs. 7 crores).

In contrast, imports from Africa, the ESCAP region, Middle East and Latin America increased by Rs. 73 crores, Rs. 44 crores, Rs. 22 crores and Rs. 9 crores. The increase in the

case of Africa was shared by Zaire (Rs. 27 crores), Sudan (Rs. 14 crores) and Tanzania (Rs. 12 crores). Larger purchases of certain items like diamonds, raw cotton, copper explain the increase in India's off-take from the African countries.

Despite the sharp decline in imports from Japan of which fertilisers and chemicals amounted to Rs. 64 crores, the total value of imports from the group of countries belonging to the ESCAP region was higher by Rs. 44 crores on account of an impressive rise of Rs. 110 crores in imports mainly of wheat earlier contracted for from Australia and modest increases in imports from the neighbouring countries like Afghanistan and Nepal.

Imports from the middle east countries showed an overall increase of Rs. 23 crores largely reflecting the higher prices of mineral oils. This resulted from an increase of Rs. 51 crores from Iran and Rs. 40 crores from Saudi Arabia, partly offset by an aggregate decline of Rs. 68 crores from other countries; of this Rs. 60 crores were accounted for by Kuwait (Rs. 29 crores), Abu Dhabi (Rs. 18 crores) and Bahrain (Rs. 13 crores) mainly on account of lower imports of mineral oils and products thereof from these countries.

Reflecting the changes in the movement of exports and imports, India's trade balance with all the regions except Africa and Latin America, showed distinct improvement during the period under review. Thus, the trade balance which showed deficits of Rs. 275 crores and Rs. 64 crores with the ECM and EFTA regions last year gave way to surpluses of Rs. 269 crores and Rs. 13 crores, respectively. In the case of the ESCAP region and East European countries, the magnitude of the trade surplus increased respectively from Rs. 136 crores to Rs. 272 crores and from Rs. 58 crores to Rs. 248 crores. Although, the trade balance with North America and the Middle East, remained adverse, the size of deficit narrowed considerably from Rs. 702 crores to Rs. 484 crores in the case of North America and moderated from Rs. 412 crores to Rs. 375 crores

in case of the Middle East. In contrast, however, the trade surplus with African countries declined from Rs. 49 crores to Rs. 11 crores and with the Latin American region, the deficit widened from Rs. 11 crores to Rs. 18 crores.

Further, the relative positions of the ECM, countries, the Middle East and North American countries as India's trading partners underwent significant changes during the period under review. Trade turnover with the ECM and Middle East countries increased by Rs. 198 crores and Rs. 83 crores to Rs. 1,593 crores and Rs. 1,445 crores, respectively; while that with North America dropped by Rs. 78 crores to Rs. 1,378 crores. Consequently, the ECM countries as a region, which ranked second last year, emerged as India's leading trade partner replacing North America. Middle East also moved up from the third rank to the second position while the North American region slipped to the third position. The ESCAP region and the East European bloc continued to rank fourth and fifth, with the trade turnover with the ESCAP region increasing by Rs. 224 crores to Rs. 1,286 crores, while that with the East European bloc declining by Rs. 50 crores to Rs. 872 crores, the relative position of other regions remained unchanged although some increase in the trade turnover was recorded in each case.

Trade Policy

During the year under review trade policy continued the emphasis on incentives to exports. Some of the export promotion measures introduced in recent years were streamlined and incentives under others enlarged to provide added impetus to the export effort. The import policy was liberalised further to facilitate larger imports of items required by the growing export sector.

The main incentives available to Indian exporters in 1976-77 were the tax rebates on exports, export credits on preferential terms, the duty drawback credit, the Cash Compensatory Support, and the Duty Exemption. Particulars of these schemes are set out in Part B of Appendix I. An important development in

case of the Cash Compensatory Support Scheme was the extension to the end of March 1979 of the rates of cash compensatory support at the level permissible during 1976-77. The assurance about the continuance of the rate of assistance was extended to enable exporters to plan their export programmes on a relatively long term basis. In the case of the Duty Exemption Scheme which was introduced in February 1976, the number of eligible items of imports was expanded in August 1976 from 55 to 91. This helps exporters dependent on imported inputs for the manufacturing of their export products, to meet their import requirements to a large extent without blocking up their funds for the payments of import duties.

Export Finance

The export sector continued to enjoy concessional export credit facilities provided in the previous year and there were no basic changes in the rates prescribed for export credit, both in respect of pre-shipment and post-shipment credit.* The provision for granting blanket foreign exchange permit facilities for travel abroad to representatives of consultancy/design engineering firms, for encouraging export of consultancy services was continued during the year. Consultancy firms also continued to remain eligible for suitable pre-shipment credit facilities from scheduled banks for meeting expenses of technical and other staff employed and purchase of materials required for projects set up abroad at the concessional rate applicable to pre-shipment credit in general.

Export control

Exports of specified items were regulated mainly to provide adequate domestic availability of important necessities or to encourage further domestic processing of certain raw materials. Thus exports of items, like cotton soft and waste, kardi seed oil, nigerseed oil, linseed expeller cake, molasses, ethyl alcohol or rectified spirit and pulses were banned during the year, in view of their short supply position,

* For details please see page 88, Chapter VI.

while exports of few others like groundnuts in shell and kernels, de-oiled rice bran, onions and potatoes were canalised through different canalising agencies. On the other hand, in view of the improved domestic supply positions restrictions on exports were lifted and a number of items were placed on the OGL to encourage their exports. These were certain categories of ferro-alloys and scraps, cotton yarn, silk carpets and carpets made of synthetics or mixed fibre, nylon tyre/cord/fabrics, tent and tent clothes other than olive green shade, castor oil etc. (for details please see Part A, Appendix I).

Export Duties

During the year export duties were imposed on a few commodities, while the existing rates of duties on a few others were modified. In the case of coffee, tea and cardamom duties were imposed/enhanced to mop up handsome increases in profits realised on exports of these commodities owing to sharp upward movement in their prices in international markets. In the case of coffee, adjustments in the duty rates were effected on a number of occasions, in keeping with the sharp fluctuations in world coffee prices. The duty was raised from Rs. 3 per kg. to Rs. 13 per kg. in November 1976 and further to Rs. 22 per kg. in April 1977. However, the duty was brought down from Rs. 16 per kg. in May 1977 and further to Rs. 11 per kg. in June 1977 but was stepped up again to Rs. 13 per kg. with effect from September 13, 1977. Tea prices also rose sharply in the context of the news of a fall in Sri Lanka's production, low stocks and resumption of supplies to Pakistan and due to the sharp spurt in demand from industrial countries as a result of the shift from coffee to tea generated by the steep rise in the international price of coffee. In view of the rise in world demand and the sharp increase in domestic prices, an export duty of Rs. 5 per kg. was put on tea in April 1977. In the case of cardamom, export duty of Rs. 50 per kg. was imposed in January 1977, following the sharp escalation in its price in world markets, mainly due to the shortfall in the cardamom crop in major producing

countries. The rate of duty was, however, reduced to Rs. 10 per kg. in February 1977 to mitigate the hardship to exporters who had already purchased at prices approximating sales values their requirements to meet shipments contracted for. In the context of a sharp increase in international prices, the rate of export duty on groundnut in kernel was raised from Rs. 800 to Rs. 1,500 per tonne and that on groundnut in shell from Rs. 600 to Rs. 1,125 per tonne in November 1977.

The working of the Trade organisations namely the State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), the Trade Development Authority (TDA) and the Electronic Export Processing Zone (EEPZ) during 1976-77 is briefly discussed below.

The State Trading Corporation of India (STC)

During the 1976-77 (April-March) the total trade turnover (exports, imports and inland trade) exports forming the bulk, handled by the STC amounted to Rs. 966 crores as compared with Rs. 923 crores in 1975-76. Exports channelled through the STC in 1976-77 aggregated Rs. 661 crores as compared to Rs. 759 crores in the preceding year, showing a fall of Rs. 98 crores or 13 per cent. Reduced exports of sugar, consequent on the low international price, contributed to the fall in the value of trade routed through the STC. During 1975-76, sugar was the single biggest export item handled by the STC, accounting for as much as Rs. 468 crores, out of the total STC exports of Rs. 759 crores or well over 60 per cent. Excluding sugar, STC's exports, however, showed an increase of 74 per cent over the year, mainly on account of exports of cement, castor oil, silver coffee and natural rubber. The Corporation was also successful during the year in introducing several new items of exports as also in developing new markets for certain products. Imports by the STC during the year under review amounted to Rs. 299 crores as compared with Rs. 217 crores in the previous year, an increase of Rs. 82 crores or 38 per cent.

The major item contributing to the rise in imports was edible oils. The target for exports in 1977-78 is fixed at Rs. 785 crores and that for imports at Rs. 375 crores.

The Minerals and Metals Trading Corporation (MMTC)

The total trade turnover (including domestic trade) of the MMTC for 1976-77 was Rs. 842 crores, showing a rise of 18 per cent over Rs. 711 crores in 1975-76. Exports by the Corporation during 1976-77 amounted to Rs. 199 crores which were higher by 18 per cent over the preceding year, while imports at Rs. 639 crores showed a rise of about 19 per cent. Iron ore continued to dominate the Corporation's export activity, accounting for Rs. 150 crores or three-fourths of the total exports during 1976-77. During the year, the Corporation was successful in despatching trial cargoes of coal to new markets in Western Europe (Belgium, Denmark, France, Holland and Italy) and the Far East (Japan and Taiwan).

Trade Development Authority (TDA)

During the year 1976-77, the Trade Development Authority enrolled 117 new units as clients while 144 units were de-enrolled. The total number of clients at the end of March 1977 stood at 622, of which 65 per cent belonged to the small-scale sector. In the wake of the encouraging response received for the buyer-seller meet organised by the TDA in the U.S.A. in 1975-76, similar meets were arranged during 1976-77 in New York and Los Angeles with a much larger product coverage. These two meets were very successful and export orders to the tune of Rs. 28 crores were booked on the spot, while enquiries for Rs. 62 crores were received later. These meets have been successful in introducing and generating foreign demand for new items like tugs, speed boats, harbour crafts, marine motors, port equipment, handling equipment, bolt cutters, vacuum flasks, CKD furniture. In addition, the TDA sponsored five cases of creation/expansion of capacity for exports, which would entail import of capital goods worth Rs. 1.4 crores and are

expected to generate exports of goods worth Rs. 17.1 crores over a period of 5 years. Further, it sponsored 10 applications for grant of advance licences for an aggregate value of Rs. 17 lakhs for the execution of export orders amounting to Rs. 53 lakhs.

Electronic Export Processing Zone (EEPZ)

The Electronic Export Processing Zone at Santacruz, Bombay, which commenced its operations on September 1, 1974, had 18 units in production by end December 1976, and another 5 units were expected to go into production by March 31, 1977. The Zone made further progress during the year in the electronic products it could offer. Apart from entertainment and consumer electronic items such as radio and TV sets, highly sophisticated technological items, such as integrated circuits including implementation process and hybrid microcircuits were also manufactured for export. As at the end of December 1976, 69 applications were approved for setting up units in the Zone, of which 15 applications were either withdrawn or cancelled, leaving the number of net approved applications at 54. Total exports made from the Zone since September 1, 1974 amounted to about Rs. 2.6 crores, of which Rs. 2.2 crores were made in 1976 alone.

Trend in Import Licences—1976-77

Reflecting the liberalisation of the import policy for 1976-77, the value of import licences issued during the year showed a smart rise. The total value of licences at Rs. 5,921 crores was higher by Rs. 2,605 crores or 78.5 per cent which was more than three times the rate of increase registered in 1975-76. Sector-wise, although a sizeable part of the increase was accounted for by the Government Sector, the value of licences issued to this sector increased by 69.4 per cent from Rs. 2,361 crores to Rs. 4,000 crores; licences issued to the private sector also increased in value from Rs. 955 crores to Rs. 1,921 crores (Table IX-4). As a result the relative share of the private sector to the total which had increased to 28.8 per

Table IX-4: Issue of Import Licences—Sector-wise (1974-75 to 1976-77)

(Rupees Crores)

Category	Year	Total	Of which			
			Government Sector	% to total licences issued during the year	Private Sector	% to total licences issued during the year
1	2	3	4	5	6	7
Established Importers ..	..1974-75	42	—	—	42	1.6
	1975-76	46	1	—	45	1.4
	1976-77	52	—	—	52	0.9
Actual users (Non DGTD, Non SSI)	1974-75	720	645	24.5	75	2.8
	1975-76	633	563	17.0	70	2.1
	1976-77	1404	499	8.4	905	15.3
Raw Materials for scheduled industries (DGTD units) ..	..1974-75	253	46	1.7	207	7.9
	1975-76	619	288	7.2	331	10.0
	1976-77	547	267	4.5	280	4.7
Small scale industries.. ..	..1974-75	59	—	—	59	2.2
	1975-76	88	—	—	88	2.6
	1976-77	107	—	—	107	1.8
Registered Exporters/ Export promotion schemes	..1974-75	166	5	0.2	161	6.1
	1975-76	237	18	0.4	219	6.6
	1976-77	416	26	0.4	390	6.6
Capital goods/heavy electrical plants	1974-75	269	133	5.1	136	5.2
	1975-76	566	415	12.5	151	4.6
	1976-77	510	371	6.3	139	2.3
State Trading Agencies ..	..1974-75	936	936	35.5	—	—
	1975-76	762	762	23.0	—	—
	1976-77	1571	1571	26.5	—	—
Others @	..1974-75	190	171	6.5	19	0.7
	1975-76	364	314	7.8	50	1.2
	1976-77	1313	1265	21.4	48	8.1
Total	1974-75	2636	1936	73.4	700	26.6
	1975-76	3316	2361	71.2	955	28.8
	1976-77	5921	4000	67.6	1921	32.4

@Includes the categories 'Ad hoc Licences', 'Customs clearance permits', 'Director General of Supplies and Disposals', 'Railway Contracts', Government or against Government contracts, 'Co-operative Societies', 'Sole Agents', 'Replacement Licences', 'Blanket Licences' and 'New Comers'.

Source: Chief Controller of Imports and Exports.

cent last year, rose further to 32.4 per cent, while the share of the Government sector receded from 71.2 per cent in 1975-76 to 67.6 per cent in 1976-77.

Category-wise, the increase under the private sector was shared by 'actual users' and 'registered exporters', the former category accounting for an increase of Rs. 835 crores, and the latter category for Rs. 171 crores, partly offset

by decline in other categories. Under the Government sector the increase amounted to Rs. 809 crores in case of State Trading Agencies and Rs. 951 crores in case of the group 'others'. Reflecting the increased availability of capital equipment and raw material items from indigenous as also the sluggishness in the corporate sector investment the value of raw materials as well as 'CG/HEP' licences issued to both government and private sectors declined by Rs. 65 crores and Rs. 63 crores.

Import Policy 1977-78

In the context of the comfortable foreign exchange position the import policy for the year 1977-78 was considerably, liberalised with procedure substantially modified to facilitate imports. The liberalisation aimed at growth of industrial production, maintenances of the price line in respect of items of mass consumption and strengthening of the export effort. Thus, the new policy caters more vigorously to the genuine requirements of industry for imported raw materials, machinery and spare parts, without adversely affecting the legitimate interests of indigenous industry. The salient features of the new policy are set out in the following paragraphs.

Policy for "Actual Users"

With a view to meeting in full the actual users' requirements of imported raw materials, number of items of machinery and raw materials, not indigenously available, were placed on Open General Licence (OGL) and under free licensing. In addition, imports of canalised items were made available to actual users under a direct allotment scheme. Further, the grant of licences on the more realistic basis of actual consumption during the preceding years was made automatic in respect of residuary requirements of raw materials. Actual users were also accorded eligibility for the supplementary licensing facility. The earlier distinction between select and non-select industries was abolished, as a large number of industries producing articles of mass consumption were in the non-select category. A notable measure of liberalisation and procedural simplification introduced in the automatic licensing system related to the provision for endorsement of a new item of import which was not covered by the previous set of licences on the basis of the actual user declaration that the item was required for the manufacture of an end-product for the production of which he held a valid licence.

A large number of iron and steel items were placed under Open General Licence, or under

the direct allotment scheme through the canalising agency viz., SAIL International Limited. In respect of other iron and steel items import licences would be granted to actual users for 100 per cent of their consumption of imported items. In respect of items produced indigenously, the Steel Authority of India or the Iron and Steel Controller would recommend import licences for actual users or arrange imports for them through the canalising agency to the extent the actual users annual requirements as registered through these authorities cannot be met from indigenous sources. The SAIL has been made responsible for advising the actual users about the indigenous source of procurement as also to ensure the delivery of the material to the actual users, according to the phased programme of delivery indicated by them.

Small Scale Units

Additional liberal import facilities have been extended to the small scale sector in recognition of the role of the sector in the national economy. The facilities for automatic licences and supplementary licences as applicable to the larger units have been extended to units in the small sector as a further incentive these small scale units have also been given an increase of 20% on their entitlement for imported raw materials and components. These units will also be entitled to supplementary licences to be granted by the sponsoring authority i.e., the State Director of Industries. This procedural change will not only lead to decentralisation of supplementary licences, but will also bring small scale units on par with larger units by removing the cumbersome procedure of assessment of capacity. In addition, licences on repeat basis would be available to small scale units without reference to consumption, if the value of the previous licence was upto Rs. 50,000/-. A further liberalization is introduced by making the licences upto Rs. 50,000 available under free foreign exchange. In case the licence exceeds Rs. 50,000 in value 70 per cent of the value would be available under free foreign exchange and 30 per cent under the

U.K. credit; but for all units exporting 20% or more of their production, the licences would be entirely against free foreign exchange. New units in the small scale sector will be able to obtain licences for raw materials and components on the basis of 100% of the value of installed machinery. Accordingly, the minimum value limit of licences has been raised from Rs. 10,000 to Rs. 20,000 and the maximum will be Rs. 3 lakhs for all industries. In the case of new/proposed units, licences will be granted to cover 12 months' requirements, of raw material and components as against six months' requirements earlier.

In case of small industrial units set up in backward areas and those set up by ex-service personnel, scheduled castes, scheduled tribes, young entrepreneurs, unemployed youths and graduates in science and technology, licences will now be granted under free foreign exchange upto 100% of the value of machinery instead of 75 per cent under free foreign exchange and 25 per cent under UK credit subject to a minimum of Rs. 30,000 to a maximum of Rs. 4 lakhs.

Import of permissible spares meant for maintenance of imported machinery or imported parts of indigenous machinery will be allowed under free licensing scheme to all actual users including small scale units duly registered with the DGTD or with the State Director of Industries.

Established Importers

The quota for established importers has been raised in respect of a large number of items. The minimum value of licences for established importers has been raised from Rs. 1,500 to Rs. 5,000. A provision has also been made for grant of licences to new comers in respect of certain items like dental material, scientific and surgical instruments, parts of watches etc. on the basis of purchase/sale turnover of Rs. 50,000 or more in any of the past three financial years, subject to a minimum of Rs. 5,000 and a maximum of Rs. 10,000.

A large number of machinery and machine tools which are not available indigenously

have been placed under the free licensing. Powers of licensing by the regional licensing authorities have also been enhanced. With a view to co-ordinate the supplies from indigenous sources with supplies of imported items, a Monitoring Committee has been set up, to ensure that no sector of industry experiences shortages in the matter of supply of inputs. The Monitoring Committee will review and give directions about the manner and distribution of imported raw materials.

The scheme of compulsory export obligation has been dispensed with, though, the Government may require any industry which uses imported machinery and raw materials to show certain export results and the failure to do so when required would render it liable to action.

Registered Exporters

Import policy for registered exporters has been reoriented in order to strengthen the export production base and to give an impetus to the export effort. Hitherto there was a 'shopping list' of raw materials and components which were allowed for import with respect to different export products. In the new policy there is no such 'shopping list'. From now on, registered exporters can import, within the value of the import replenishments earned by them, their requirements of raw materials, components, consumable stores and packing materials required for use in their manufacturing establishments. The import will be subject to actual user condition which means that the imported material will be required to be used for the manufacture of his products. The advantage of this policy would be that the exporter will be able to obtain the inputs at the international prices. While giving this facility to exporters to import their inputs at the international prices, the government have imposed certain restrictions on imports by registered exporters to safeguard the interests of indigenous industries. These are the inclusion of a list of banned items which, either cannot be imported against replenishment licences or import of which cannot exceed 10 per cent of the value of the licence and

the incorporation of an export-linked import list. Imports under this list would be allowed only against exports of specified products and to a specified extent. These restrictions are intended to give the desired protection to the indigenous industry. Further, protection to domestic industry has been given through a provision whereby, the exporters who are allowed to import raw materials and components from abroad against their exports will instead be permitted to buy the same materials from indigenous producers, provided the indigenous producer is willing to sell the goods at a negotiated price, and the licence holder is willing to purchase the same goods from the indigenous producer. In such cases, the indigenous producer will be treated, as if he had exported that material and such supplies will be treated as exports for import replenishments, discharge of export obligation and for other benefits available to export oriented units.

Previously, nomination for obtaining import replenishment licences could generally be made in favour of manufacturer of a product falling in the same product group to which the exported product belonged e.g. engineering product group, chemicals product group etc. In the new policy nomination will be allowed in favour of any manufacturer and not manufacturer of a product in the same group as earlier. This would enable the industry as a whole to make use of export earnings in meeting its legitimate requirements, in respect of raw materials and components and help the exporter to make a more diversified use of export entitlement thereby adding to his capability to export more.

Scheme relating to duty exemption for advance licences

The scheme for duty-free imports of raw materials and components for export production introduced last year has been revised to widen the coverage. The list of duty free imports under the scheme has been expanded to cover drug industry, dyestuff industry and plastic industry. Another change that has been made in the policy is that applications

for advance licences under the Duty Exemption Scheme will be considered, to enable exporters to keep their delivery schedule, even in those cases where the exporter does not have an export order at the time of applying for the licence, provided he is able to quantify the items to be imported and end-products to be exported.

The procedure for Export Houses has been simplified. The minimum export performance for the grant of Export House Certificate has been raised from Rs. 50 lakhs to Rs. 1 crore in respect of selected export products and from Rs. 3 crores to Rs. 5 crores in case of other products. In case of small scale manufacturers, however, the existing limit of Rs. 25 lakhs in respect of select export products, and that of Rs. 2 crores in respect of other products continue unchanged.

Export House would also be eligible for release of foreign exchange for promotional activities, upto 2.5 per cent of the f.o.b. value of total exports in the previous year. The amount could be spent on specified export promotion activities such as expenditures on sales-cum-study teams abroad, participation in exhibitions, advertisement of goods in foreign markets and for the import of testing equipment for setting up common servicing centres.

In addition, facilities have also been provided to merchant exporters who export goods manufactured by small units and cottage industries. From now on, it will be open to merchant exporters to use imported materials for further export production on their own account or to sell the same to actual users from whom they procure manufactured goods for export. This option provides the flexibility needed by small merchant exporters who were earlier required to sell the imported materials to the actual users, and consequently faced difficulties in using their imports.

Several steps have also been taken to simplify the procedures for issue of licences expeditiously and to tone up the functioning of the licence

issuing machinery to make it more honest, efficient and result-oriented.

Trade Agreements and Trade and Payments Arrangements

The efforts to diversify the country's foreign trade both in respect of commodities and countries through the conclusion of trade agreements and establishment of trade and economic relations with other countries continued during the year 1976-77 (July-June). Particulars of the new trade and payments arrangements and trade agreements concluded by India during 1976-77 as also of those arrangements/agreements, the validity period of which were extended during the year are briefly indicated below. Commodity and other details in respect of these arrangements/agreements are set out in Appendix III.

A long-term trade Protocol on the programme of Trade and Development for the years 1977 to 1980 was signed with Poland on October 21, 1976. The major commodities according to projections for each year to be imported into India include ships and parts, mining machinery, while Indian exports to Poland would comprise mainly iron ore, cotton textiles, jute goods and textile machinery. A long-term Trade and Payments Agreement between India and the German Democratic Republic was signed on March 7, 1977 covering the period 1977-1980 which extended the existing bilateral trading arrangements. Imports and exports of goods were to be stipulated in the annual trade Protocols. The major commodities according to the Protocol signed for the year 1977 comprise imports to India of machine tools, machinery, capital goods, cinematographic films, while exports from India cover mainly deoiled cakes, leather and leather goods, auto parts and tractors.

The long-term trade and payments agreement concluded with Hungary for the five years (1971-75) in 1971 and extended upto end of December 1976 was further validated upto December 1977 pending negotiations of a new Agreement.

Besides, annual trade Protocols for 1977 were signed with the U.S.S.R., Bulgaria, Czechoslovakia, Hungary, Rumania, Poland and the German Democratic Republic. The total turnover during the year envisaged under these protocols is around Rs. 1700 crores. Some of the new items included in the export lists under these protocols are electronic items (Czechoslovakia and Poland) machine tools, freight containers, dry core cables, electric motors, aluminium coils, wire ropes, fork lifts, trucks (U.S.S.R.). Cash registers, porcelain, electric insulators and plastic products (Poland). This reflects a shift from the predominantly traditional commodities in India's exports to these countries.

In addition the protocol signed on December 28, 1976 between India and U.S.S.R. include import of crude oil from U.S.S.R. of 5.5 million tonnes over the next four years on rupee payment basis with 1 million tonnes in 1977 and the remaining 4.5 million tonnes equally distributed during the next three years. These will be matched with export of pig iron and steel from India. These supplies would be over and above those already provided for in long-term trade plan signed on April 15, 1976. Specific provision has also been made for export of machinery and equipment from projects set up with Soviet aid in the Protocol.

A new Trade Agreement was signed with Australia on August 2, 1976 at Canberra. This agreement not only formalised the Most-Favoured-Nation treatment but also sought to add a new dimension to the economic relations of the two countries through joint ventures. A trade agreement was signed with Portugal for the first time on December 7, 1976.

The agreement with the Democratic Peoples Republic of Korea was extended for a period of one year ending February 17, 1978. The Indo-Bangladesh trade agreement concluded in 1973 for three years, expired on September 27, 1976 was further renewed for a period of three years from September 28, 1976. Trade Agreements between India and Columbia signed

in 1970 was ratified on September 30, 1976. This is a general Most Favoured Nation-type of Trade Agreement providing an institutional framework in the promotion of trade between India and Republic of Columbia. This arrangement is initially valid for 3 years and provides for exchange of lists of goods available for export and periodic consultation. Trade Agreement between India and Democratic Republic of Vietnam was extended for six months from September 22, 1976.

Indo-Sudan trade talks were held in April 1977 and it was decided that all future trade between India and Sudan would be on payment in convertible currency. As per the provisions of the Indo-Sudan Trade Arrangement for 1975-76, trade between the two countries was to be on free foreign exchange basis w.e.f. 1.1.1977.

Indo-Afghan Trade Review talks were held in Kabul from 29th September, 1977 to 2nd October, 1977. The Indo-Afghan Trade has been brought under Letter of Credit system since November, 1977. A growth rate of 28% during 1977-78 over the 1974-75 base is envisaged under the new arrangements.

The Indo-Pakistan Trade which was earlier restricted to the Public Sector on both sides and was thrown open to private trade with effect from 15.7.76 has undergone further change and it has been agreed in April 1977

Indo-Pak Trade Talks that the Trade between the two countries would be conducted in freely convertible currency as stipulated in Article 7 of the Trade Agreement and that the trade transactions would also be handled through Asian Clearing Union Arrangement.

India resumed trade with Peoples Republic of China in May 1977 when a deal was struck following the Canton trade fair. India would supply China shellac worth Rs. 1.5 crores in return for antimony, zinc and mercury. The trade would be canalised through the S.T.C.

The Agreement on Trade and Economic, Industrial and Technical Co-operation between the Government of India and the Government of Portugal, which was initialled on 7th December, 1976 in New Delhi was signed in Lisbon on 7th April 1977. The Agreement identifies several commodities and industries for which there are considerable possibilities for increasing trade and economic co-operation between the two countries in the coming years. The agreement is valid for a period of 2 years and shall be automatically extended for periods of two years unless either contracting party gives, through diplomatic channels, a written notice to the other 3 months before the expiry of the respective 2 years period, about its desire to terminate the Agreement. The Agreement was ratified by the Government of India on 12.5.1977 and by the Government of Portugal on 14.5.1977.

Balance of Payments and International Monetary Developments

I. Balance of Payments and Trends in Reserves

The buoyancy in the foreign exchange reserves of the country which started late in 1975-76 was maintained throughout the year 1976-77. The country's foreign exchange reserves (excluding gold and SDR holdings) nearly doubled during the year to stand at Rs. 2,863* crores at the end of March 1977 recording an unprecedented rise of about Rs. 1,371 crores from Rs. 1,492 crores at the end of March 1976. This was on top of a rise of around Rs. 881 crores in the preceding year. The higher accretion during 1976-77 came despite sizeable repurchases of Rs. 303 crores from the IMF, an amount equivalent to Rs. 65 crores in April 1976 and Rs. 238 crores in September 1976, in contrast to the purchase of Rs. 207 crores from the Fund in August 1975, under the 1975 Oil Facility. Net inflow of external assistance was about one-third lower in 1976-77 than during the preceding year. The sharp increase in the reserves was thus attributable to the sizeable favourable turn-over in merchandise trade transactions together with the continuing growth in the net surplus on account of current invisible transactions. In terms of the DGCI&S data, the massive trade deficit of Rs. 1,222 crores in 1975-76 gave way to a modest trade surplus of Rs. 69 crores in 1976-77. The growth in net invisible receipts owed to a number of factors in addition to the operation of administrative measures against smuggling and illegal payment transactions. Prominent among these are (i) the relative stability in the external value of the rupee at a time when major international currencies were experiencing sizeable fluctuations, (ii) rise in travel receipts, (iii) the growth in earnings from technical, consulting and

contracting services, and (iv) increase in the number of Indian nationals going abroad for employment.

II. External Assistance†

There was a sharp decline in the aid inflows during 1976-77. Net receipts under external assistance declined by almost one-third to Rs. 667 crores from Rs. 949 crores during the year 1975-76. The fall is mainly attributable to the sharp diminution in the aid receipts from the members of the Organisation of Petroleum Exporting Countries (OPEC).

Authorisations

Authorisations of external assistance—both loans and grants—amounted to Rs. 936 crores during 1976-77, 56 per cent lower than in the preceding year (Table X-1). Reduced loan authorisations accounted for almost the entire drop in the total aid authorisations and the share of the former in the latter fell sharply from 83 per cent in 1975-76 to around 67 per cent in 1976-77. The fall of as much as Rs. 1,134 crores to Rs. 628 crores in the loan authorisations reflected substantially smaller loans authorised by the OPEC group of countries, and the absence of any fresh loan commitment by the IDA. The contraction of Rs. 766 crores in the loan authorisations by the OPEC group of countries over the previous year was almost entirely accounted for by Iran, the authorisations from which came down from Rs. 786 crores to a low of Rs. 34 crores during 1976-77 and the United Arab Emirates and Kuwait which made no fresh commitments during the

* Foreign currency holdings have further risen since then: these stood at Rs. 3,582 crores by end-June 1977, at Rs. 3,998 crores by end-December 1977.

† The data include the USSR wheat assistance as also the oil and other credits provided by the OPEC group. The rupee values of authorisations, utilisations and undisbursed balance are given in this review at pre-December 1971 IMF par values. In Table X-1, however, figures are also given at the rupee's relevant annual average rates of exchange for the years 1972-73 through 1976-77.

Table X-1: External Assistance
(Fiscal Years)

								(Rupees Crores)	
Items								Loans	Grants
								P.L. 480 Aid	Total (2+3+4)
1								2	3
								4	5
1. Amount undisbursed as at the end of March 1966								1,614	86
2. Amount undisbursed as at the end of March 1969								1,642	25
3. Authorisations during									
(a) 1969-70	..	..	..	..	..	..	..	522	29
(b) 1970-71	..	..	..	..	..	..	..	658	63
(c) 1971-72	..	..	..	..	..	..	..	831	36
(d) 1972-73	..	..	..	..	..	..	..	600 (653)	35 (39)
(e) 1973-74	..	..	..	..	..	..	..	1,198 (1,302)	34 (42)
(f) 1974-75	..	..	..	..	..	..	..	1,154 (1,290)	132 (150)
(g) 1975-76	..	..	..	..	..	..	..	1,762 (2,125)	373 (418)
(h) 1976-77	..	..	..	..	..	..	..	628 (837)	308 (320)
Total								7,353	1,010
4. Utilisation during									
(a) 1969-70	..	..	..	..	..	..	..	700	29
(b) 1970-71	..	..	..	..	..	..	..	690	52
(c) 1971-72	..	..	..	..	..	..	..	762	50
(d) 1972-73	..	..	..	..	..	..	..	594 (640)	11 (12)
(e) 1973-74	..	..	..	..	..	..	..	778 (862)	16 (20)
(f) 1974-75	..	..	..	..	..	..	..	859 (974)	72 (80)
(g) 1975-76	..	..	..	..	..	..	..	1,193 (1,454)	265 (316)
(h) 1976-77	..	..	..	..	..	..	..	991 (1,260)	246 (260)
Total								6,567	741
5. Amount undisbursed as at the end of March 1977								2,428 (2,893)	294 (297)

Notes: (1) Loans include P.L.480 Title I convertible currency credits. 'Loans' and 'grants' include refinancing credits and grants under debt relief. But they exclude rupee loans and grants out of P.L.480/PL 665 rupee counterpart funds. 'Grants' also exclude grants under P.L.480 Title II and III programmes. P.L.480 aid comprises value of imports on rupee payment terms under P.L.480 Title I programme.

(2) The rupee values of amount undisbursed at the end of March 1966 (except those for P.L.480 aid which are given at the pre-devaluation rate of exchange) are shown at the post-devaluation rate of exchange. The rupee values of amounts undisbursed at the end of March 1969, the amounts authorised and utilised during each of the subsequent years and the amounts undisbursed at the end of March 1977 have been arrived at on the basis of pre-December 1971 I.M.F. par values. Figures in brackets shown under each of the years 1972-73 to 1976-77 indicate the rupee values calculated at the rupee's annual average rate of exchange for the respective years, while the figures in brackets shown against 'Amount undisbursed' as at the end of March 1977 item 5 represent rupee values calculated at rates prevalent at end-March 1977.

Table X-2: Loans Authorised and Utilised During 1975-76 and 1976-77

(Fiscal Years)

(Rupees Crores)

Country/Institution	Authorisations								Utilisation							
	1975-76				1976-77				1975-76				1976-77			
	Project	Non-Project	Debt Relief	Total	Project	Non-Project	Debt Relief	Total	Project	Non-Project	Debt Relief	Total	Project	Non-Project	Debt Relief	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. I.B.R.D./I.D.A.	538	150	—	688	236	—	—	236	249	150	—	399	314	144	—	458
2. Canada	2	7	—	9	—	7	—	7	5	18	—	23	5	8	—	13
3. France	27	19	8	54	28	18	8	54	19	15	8	42	21	8	8	37
4. West Germany ..	17	30	29	76	19	26	29	74	8	36	29	73	13	31	29	73
5. Italy	—	—	—	—	—	—	6	6	—	8	—	8	—	4	4	8
6. Japan	22	15	—	37	—	21	—	21	20	18	—	38	48	14	—	62
7. Netherlands ..	—	15	—	15	—	47	2	49	—	13	—	13	—	25	2	27
8. Sweden	—	—	—	—	—	—	—	—	1	18	—	19	4	—	—	4
9. U.K.	—	—	—	—	—	—	—	—	23	39	—	62	18	—	—	18
10. U.S.A.	17	—	—	17	—	74	—	74	19	86	—	105	1	56	—	57
11. Switzerland ..	—	—	—	—	—	—	—	—	4	—	—	4	4	—	—	4
12. O.P.E.C.* ..	504	354	—	858	13	79	—	92	75	283	—	358	14	171	—	185
13. U.S.S.R.	—	—	—	—	—	—	—	—	27	—	—	27	26	—	—	26
14. Czechoslovakia ..	—	—	—	—	—	—	—	—	5	—	—	5	3	5	—	8
15. Others	2	2	4	8	—	11	4	15	6	7	4	17	3	4	4	11
Total	1,129	592	41	1,762	296	283	49	628	461	691	41	1,193	474	470	47	991

*Comprises Iran, Iraq, Kuwait, United Arab Emirates, Abu Dhabi Fund for Economic Development and O.P.E.C. Special Fund.

year. On the other hand, Abu Dhabi and the OPEC Special Fund for the first time authorised assistance to India amounting to Rs. 13 crores and Rs. 16 crores respectively, while loan authorisations from Iraq were marginally higher. Among industrial countries, both the USA and the Netherlands increased their loan authorisations to Rs. 74 crores and Rs. 49 crores from Rs. 17 crores and Rs. 15 crores, respectively, during last year. Loan authorisations by France and West Germany during 1976-77, however, were more or less of the same magnitude as in the preceding year (Table X-2).

Grants authorised during the year amounted to Rs. 308 crores, Rs. 65 crores or 17 per cent less than in 1975-76. Though the UK's contribution declined by Rs. 20 crores to Rs. 208 crores, her share in the total remained at the high level of a little over two-thirds. The countries which actually expanded the quantum of their assistance in the form of subventions were Canada from Rs. 38 crores to Rs. 47 crores and Sweden from Rs. 12 crores to Rs. 28 crores (Table X-3).

Both project and non-project loans shared the fall in loan authorisations. The decline in the volume of project assistance was, however, much more marked; project loans authorisations dropped by around 74 per cent to Rs. 296 crores with non-project loans showing a relatively smaller reduction of 52 per cent to Rs. 283 crores. As a result, the share of project loans in aggregate loan authorisations substantially fell down to 47 per cent from 64 per cent in the preceding year (Table X-2).

Debt Relief

Debt relief authorised during 1976-77 aggregated Rs. 102 crores (Table X-4). The small rise of Rs. 8 crores over the preceding year represented fresh authorisations amounting to Rs. 6 crores by Italy after an interregnum of two years and of Rs. 2 crores by the Netherlands; authorisations by other donor countries remained more or less the same.

Utilisation

Total aid available for utilisation—aid in the pipeline at the beginning of the year amounting

Table X-3: Grants@ Authorised and Utilised During 1975-76 and 1976-77
(Fiscal Years)

Country/Institution	(Rupees Crores)				
	Authorisations		Utilisation		
	1975-76	1976-77	1975-76	1976-77	
1	2	3	4	5	
1. Australia ..	13	7	13	7	
2. Belgium ..	1	—	1	—	
3. Canada ..	38	47	42	47	
4. Denmark ..	1	1	1	1	
5. France ..	—	4	—	4	
6. West Germany	4	—	3	—	
7. Netherlands	18	13	15	10	
8. Sweden ..	12	28	28	21	
9. U.K. ..	228	208	77	154	
10. EEC under U.N. Emergency Operation Scheme ..	39	—	49	2	
11. U.N. Special Fund ..	19	—	36	—	
Total	373	308	265	246	

@Including debt relief.

to Rs. 3,023 crores plus the aid authorised during the year—amounted to Rs. 3,959 crores during 1976-77 as against Rs. 4,481 crores during the preceding year. Total aid utilised during the year amounted to Rs. 1,237 crores. The fall of Rs. 221 crores in aid utilisation during the year was mainly on account of loan utilisation which declined from Rs. 1,193 crores to Rs. 991 crores, the utilisation of grants at Rs. 246 crores being only Rs. 19 crores lower than in 1975-76 (Tables X-5 & 6). The ratio of aid utilised to the total available for utilisation during the year was as low as 31 per cent—57 per cent in the case of non-project assistance and 18 per cent in the case of project assistance.

Debt Servicing

Debt service payments (payments on account of amortization and interest charges) which have steadily risen to Rs. 509 crores rose further by nearly 11 per cent to Rs. 570 crores during 1976-77. Following the substantial decline in aid utilisation and the rise in the debt service payments, the total net inflow of resources declined by almost a third to Rs. 667 crores from Rs. 949 crores during the preceding year. Debt service liabilities as proportion of gross aid receipts recorded a marked rise to 46 per cent as compared with 35 per cent in 1975-76. As a proportion of exports, however, these payments declined to 13.9 per cent during 1976-77 from 16.1 per cent in 1975-76 and 17.3 per cent in 1974-75, following the rapid growth in exports (Table X-5).

Cumulative Assistance

Total external assistance authorised to India from August 15, 1947 to March 31, 1977 totalled Rs. 19,540 crores of which Rs. 15,581 crores was in the form of loans. Assistance utilised upto end-March 1977 aggregated Rs. 16,930 crores or nearly 87 per cent of the total aid authorised. Loans accounted for about 80 per cent of the total assistance authorised and 78 per cent of that utilized (Table X-6).

The combined authorizations by the IBRD and the IDA rose from Rs. 4,181 crores at end-March 1976 to Rs. 4,417 crores at end-March 1977. Their share in the total cumulative aid authorizations, however, remained almost unchanged at the preceding year-end level of 23 per cent. The cumulative total of utilization of assistance provided by the IBRD and the IDA rose from Rs. 2,815 crores to Rs. 3,273 crores. Their share in the total aid utilisation went up by one percentage point to a little over 19 per cent as at end-March 1977.

Among the countries offering bilateral aid, the USA topped the list, as in the past, followed by the UK, West Germany, the USSR and Japan in that order. Aid authorised by the

USA totalling Rs. 6,091 crores constituted a little over 31 per cent of aggregate assistance, a decline of 1 percentage point over the previous year. At Rs. 6,172 crores, the utilisation of US assistance worked out to about 37 per cent of the aggregate assistance utilized; this represented a fall of 2 percentage points over corresponding amount of the last year. The cumulative aid authorisations and utilisation in the case of the UK amounted to Rs. 1,875 crores and Rs. 1,614 crores respectively, the UK's share in the total rising marginally over the year. West Germany with total aid authorisations at Rs. 1,370 crores and utilisation of Rs. 1,282 crores maintained its relative position at preceding year's level of 7 and 8 per cent of the totals, respectively. The USSR did not authorise any aid during 1976-77; its share in the total assistance authorised consequently dropped slightly to 6 per cent. Its share in the total aid utilised also registered a marginal decline to 6 per cent or Rs. 987 crores. Though the total aid authorizations and utilization in the case of Japan marginally improved to Rs. 612 crores and Rs. 571 crores, respectively, its relative share both in respect of authorizations and utilization showed little change over the last year-end level of 3 per cent (Table X-7).

At the end of March 1977, the total assistance comprising loans and grants available in pipeline was of the order of Rs. 2,722 crores, Rs. 301 crores below the level at the commencement of the year under review. Of this, Rs. 2,142 crores represented project assistance.

Aid Prospects for 1977-78

The Aid-India Consortium at its meeting held in July 1977 pledged aid of US \$ 2.1 billion for 1977-78; US \$ 423 million more than in 1976-77. Of this, about US \$ 978 million is to be provided by industrial donor countries, US \$ 22 million by the EEC—as an organisation for the first time, and the balance of US \$ 1,100 million as assistance from the IBRD/IDA. The larger commitment, despite the country's growing foreign exchange reserves

Table X-4:
(Fiscal

Country/Institution	Authorisations								
	1966-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
1	2	3	4	5	6	7	8	9	10
A. By way of refinancing									
cash credits									
1. Austria ..	1,72	82	1,13	67	1,70	1,70	1,54	1,59	1,35
2. Belgium ..	83	83	82	1,13	1,13	1,13	1,50	2,25	3,00
3. France ..	3,75	—	7,50	3,75	4,49	6,36	9,35	8,24	8,24
4. Germany (West)	16,35	11,63	15,60	14,55	20,08	20,08	26,64	29,69	28,69
5. Italy ..	4,13	5,55	—	—	9,71	12,60	—	—	6,30
6. U.K. ..	55,50	27,00	—	13,50	14,40	14,40	16,92	—	—
7. U.S.A. ..	—	—	—	—	21,86	22,01	33,75	—	—
8. Netherlands	—	—	—	—	—	—	—	—	1,62
Total—A ..	82,28	45,83	25,05	33,60	73,37	78,28	89,70	40,77	49,20
B. By way of postponement of payments									
1. I.B.R.D. ..	22,50	11,25	11,25	—	—	—	—	—	—
2. U.S.A. ..	6,53	6,53	6,53	6,53	—	—	—	—	—
3. Canada ..	1,13	68	—	60	1,38	1,38	—	—	—
Total—B ..	30,16	18,46	17,78	7,13	1,38	1,38	—	—	—
C. By way of rescheduling of payments									
Japan ..	19,13	14,70	19,05	15,45	24,53	31,20	25,30	25,53	25,50
Total—C	19,13	14,70	19,05	15,45	24,53	31,20	25,30	25,53	25,50
D. By way of grants									
1. Austria ..	37	38	37	—	—	—	—	—	—
2. Canada ..	7,80	—	—	—	—	60	—	59	—
3. Germany (West)	3,60	3,60	3,53	3,90	4,51	4,97	—	—	—
4. Netherlands	45	45	53	53	48	49	—	5,37	3,68
5. Sweden ..	—	—	—	—	36	41	51	70	82
6. Denmark	—	—	—	—	10	—	20	57	76
7. Norway ..	—	—	—	—	—	17	—	—	—
8. U.K. ..	—	—	—	—	—	—	—	20,16	21,78
Total—D ..	12,22	4,43	4,43	4,43	5,45	6,64	71	27,39	27,04
Grand Total	143,79	83,42	66,31	60,61	104,73	117,50	115,71	93,69	101,74

Debt Relief Assistance

Years)

(Rupees Lakhs)

Utilisation								
1966-69	1969 70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
11	12	13	14	15	16	17	18	19
1,66	82	1,13	67	1,70	1,70	75	1,54	1,44
83	83	82	1,13	1,13	1,13	1,50	2,25	3,00
2,77	98	7,50	3,75	4,49	6,36	9,35	8,24	8,24
16,35	12,22	15,60	14,55	20,08	20,08	26,64	28,69	28,69
—	—	4,13	—	11,02	—	—	—	4,20
55,12	27,00	—	13,50	14,40	14,40	16,92	—	—
—	—	—	—	21,86	22,01	33,75	—	—
—	—	—	—	—	—	—	—	1,62
76,73	41,85	29,18	33,60	74,68	65,68	88,91	40,72	47,19
22,50	11,25	11,25	—	—	—	—	—	—
6,53	6,53	6,53	6,53	—	—	—	—	—
1,13	67	—	60	1,38	1,38	—	—	—
30,16	18,45	17,78	7,13	1,38	1,38	—	—	—
19,13	14,70	19,05	15,45	24,53	31,20	25,30	25,53	25,50
19,13	14,70	19,05	15,45	24,53	31,20	25,30	25,53	25,50
37	38	37	—	—	—	—	—	—
7,80	—	—	—	—	60	—	59	—
3 60	3,75	3,53	3,90	4,51	4,97	—	—	—
45	45	53	53	48	49	—	5,37	3,68
—	—	—	—	36	41	47	70	82
—	—	—	—	10	—	20	57	76
—	—	—	—	—	17	—	—	—
—	—	—	—	—	—	—	20,16	21,78
12,22	4,58	4,43	4,43	5,45	6,64	67	27,39	27,04
138,24	79,58	70,44	60,61	106,04	104,90	114,88	93,64	99,73

Table X-5: Inflow of Foreign Assistance—Gross and Net
(Fiscal Years)

(Rupees Crores)					
Year	Gross aid utilisation	Amortisation payments	Interest payments	Total debt services (3+4)	Net inflow of aid (2-5)
1	2	3	4	5	6
1966-67	1,132	157	115	272	860
1967-68	1,177	194	122	316	861
1968-69	913	207	137	344	569
1969-70	837	238	142	380	457
1970-71	780	254	158	412	368
1971-72	821	271	175	446	375
1972-73	605	302	177	479	126
1973-74	794 (882)	300 (355)	184 (196)	484 (551)	310 (331)
1974-75	931 (1,054)	331 (368)	181 (201)	512 (569)	419 (485)
1975-76	1,458 (1,770)	335 (427)	174 (224)	509 (651)	949 (1,119)
1976-77	1,237 (1,520)	383 (471)	187 (242)	570 (713)	667 (807)

- Notes: 1. Gross aid utilisation includes debt relief provided in the form of refinancing credits and grants. Debt service payments in these cases are covered in columns (3) and (4).
2. Figures in brackets indicate the rupee values at the current rates of exchange during respective years.
3. Both amortisation and interest payments exclude payments which are either postponed or rescheduled as under:—

(Rupees Crores)											
	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
Japan	2	5	13	14	19	15	25	31	25	26	25
I.B.R.D.	—	11	11	11	11	—	—	—	—	—	—
U.S.A.	—	—	7	7	7	7	—	—	—	—	—
Canada	—	1	1	1	1	1	1	1	—	—	—
Total	2	17	32	33	38	23	26	32 (44)	25 (32)	26 (36)	25 (36)

Table X-6: Aggregate External Assistance
(Fiscal Years)

(Rupees Crores)				
Period	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total
1	2	3	4	5
Authorisations:				
1. Upto March 1966	5,960	617	1,511	8,088
2. Upto March 1969	8,228	784	2,133	11,145
3. (a) During 1969-70	522	29	23	574
(b) During 1970-71	658	63	—	721
(c) During 1971-72	831	36	9	876
(d) During 1972-73	600	35	—	635
(e) During 1973-74	1,198	34	—	1,232
(f) During 1974-75	1,154	132	—	1,286
(g) During 1975-76	1,762	373	—	2,135
(h) During 1976-77	628	308	—	936
Total (upto March 1977)	15,581	1,794	2,165@	19,540
Utilisation:				
1. Upto March 1966	4,346	531	1,403	6,280
2. Upto March 1969	6,586	759	2,122	9,467
3. (a) During 1969-70	700	29	108	837
(b) During 1970-71	690	52	38	780
(c) During 1971-72	762	50	9	821
(d) During 1972-73	594	11	—	605
(e) During 1973-74	778	16	—	794
(f) During 1974-75	859	72	—	931
(g) During 1975-76	1,193	265	—	1,458
(h) During 1976-77	991	246	—	1,237
Total (upto March 1977)	13,153	1,500	2,277@	16,930

Note: Refer to notes to Table X-1.

@P.L. 480 aid authorisations were fully utilised by the end of 1971-72. The differences between the rupee values of the total authorisations and total utilisation is attributable to the devaluation of rupee on June 6, 1966.

Table X-7: Aggregate External Assistance—Source-wise
(Fiscal Years)

(Rupees Crores)

Country/Institution	Authorised upto March 1977				Utilised upto March 1977			
	Loans	Grants	P.L. 480/ 665 Aid and Third Country Currency Assistance	Total	Loans	Grants	P.L. 480/ 665 Aid and Third Country Currency Assistance	Total
1	2	3	4	5	6	7	8	9
I.B.R.D./I.D.A.	4,417	—	—	4,417 (22.6)	3,273	—	—	3,273 (19.4)
U.S.A.	3,640	286	2,165	6,091 (31.2)	3,618	277	2,277	6,172 (36.5)
U.S.S.R.	1,223	12	—	1,235 (6.3)	976	11	—	987 (5.8)
U.K.	1,422	453	—	1,875 (9.6)	1,370	244	—	1,614 (9.5)
West Germany	1,328	42	—	1,370 (7.0)	1,243	39	—	1,282 (7.6)
Japan	611	1	—	612 (3.1)	570	1	—	571 (3.4)
Others	2,940	1,000	—	3,940 (20.2)	2,103	928	—	3,031 (17.9)
Total	15,581	1,794	2,165	19,540 (100.0)	13,153	1,500	2,277	16,930 (100.0)

Notes: 1. Refer to notes to Table X-1.

2. Figures in brackets represent percentages to the total.

represented a recognition of the need to supplement India's domestic resources through aid to step up investment activity. The Consortium acclaimed the good performance of the Indian economy and particularly welcomed the Government's emphasis on agriculture and irrigation and larger financial allocation for rural development. On the question of debt relief, the pledges amounted to only US \$ 43 million for 1977-78 which amount is significantly lower than the debt relief of US \$ 160 million for 1976-77. Japan and West Germany scaled down their debt relief but agreed to make a corresponding increase in commodity aid.

An important development in the field of external assistance is the shift in the IBRD credit strategy from the project approach to the package approach. The Bank made a start with a line of credit of US \$ 200 million for the minor irrigation programme to be executed in Orissa.

III. India's External Assistance to Other Countries

Authorisations

India continued to extend assistance to developing countries. However, the total assistance authorised during 1976-77 was at Rs. 50 crores, about 30 per cent lower than in the previous year. Though the authorisations of grants to Nepal remained unchanged at the earlier year's level of Rs. 10 crores, loan authorisations to that country dropped to about Rs. 10 crores during 1976-77. Sri Lanka was authorised loan assistance aggregating Rs. 7 crores, compared with that of Rs. 15 crores in the preceding year. No aid authorisations were made in favour of Bangladesh which was authorised Rs. 7 crores during 1975-76. Loans and grants authorised to Bhutan on the other hand rose from Rs. 19 crores in the previous year to nearly Rs. 23 crores in 1976-77 (Table X-8).

Table X-8: Assistance Extended by India to Other Countries

(Fiscal Years)

(Rupees Crores)

Country	Authorised upto March 1976			Authorised during 1976-77			Utilised upto March 1976			Utilised during 1976-77			Undisbursed balance as at the end of March 1977		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Bangladesh	87.0	145.4	232.4	—	—	—	53.4	128.0	181.4	6.9	1.0	7.9	26.7	16.4	43.1
Bhutan	3.6	89.7	93.3	1.5	21.2	22.7	3.6	89.7	93.3	1.5	21.2	22.7	—	—	—
Burma	20.0	—	20.0	—	—	—	20.0	—	20.0	—	—	—	—	—	—
Indonesia	10.0	—	10.0	—	—	—	10.0	—	10.0	—	—	—	—	—	—
Mauritius	5.0	—	5.0	—	—	—	—	—	—	0.2	—	0.2	4.8	—	4.8
Nepal	21.5	127.8	149.3	10.0	10.4	20.4	21.2	119.3	140.5	0.1	9.9	10.0	10.2	9.0	19.2
Sri Lanka	37.4	—	37.4	7.1	—	7.1	19.8	—	19.8	5.9	—	5.9	18.8	—	18.8
Tanzania	5.0	—	5.0	—	—	—	—	—	—	—	—	—	5.0	—	5.0
Total	189.5	362.9	552.4	18.6	31.6	50.2	128.0	337.0	465.0	14.7	32.1	46.9	65.5	25.4	90.9

Notes: (1) Aid to Nepal excludes the grant expenditures on Kosi and Gandak Schemes executed by the Bihar Government and the grant expenditure on training of Nepalese scholars in India.

(2) Aid to Bangladesh does not cover the relief goods of the value of Rs. 17 crores supplied to that country in 1971-72.

(3) Authorisations are net of de-obligations/cancellations.

Table X-9: Assistance Extended by India to Other Countries
(Fiscal Years)

Countries	(Rupees Crores)					
	Authorisations upto March 1977			Utilisation upto March 1977		
	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7
Bangladesh	87.0	145.4	232.4	60.3	129.0	189.3
Bhutan	5.1	110.9	116.0	5.1	110.9	116.0
Burma	20.0	—	20.0	20.0	—	20.0
Indonesia	10.0	—	10.0	10.0	—	10.0
Mauritius	5.0	—	5.0	0.2	—	0.2
Nepal	31.5	138.2	169.7	21.3	129.2	150.5
Sri Lanka	44.5	—	44.5	25.7	—	25.7
Tanzania	5.0	—	5.0	—	—	—
Total	208.1	394.5	602.6	142.6	369.1	511.7

Note: Refer to notes to Table X-8.

Utilisation

Like the authorisations, utilisation of Indian assistance also declined over the year, from Rs. 61 crores in 1975-76 to about Rs. 47 crores during 1976-77. The sizeably lower utilisation by Bangladesh and Nepal was only partially offset by the higher utilisation of grants by Bhutan (Table X-8).

Upto the end of March 1977, the total aid authorisations amounted to nearly Rs. 603 crores, of which grants accounted for nearly two-thirds (Table X-9). Country-wise, Bangladesh continued to be the largest beneficiary (39 per cent of total assistance) closely followed by Nepal (28 per cent) and Bhutan (19 per cent). All these three countries received both loans and grants, other countries receiving the assistance in the form of loans. By the end of March 1977, Indian aid utilised by recipient countries amounted to Rs. 512 crores or nearly 85 per cent of the total authorisations.

IV. Foreign Investment Policy

Since April 1972, a scheme is in operation under which non-resident Indians are allowed to start industrial units in India by bringing in imported machinery. This scheme was substantially liberalised in October 1976 to permit

equity investment upto 74 per cent (without any minimum limit) in a number of priority sector industries (listed in Appendix I to the Ministry of Industry's press note of February 2, 1973) and to permit investment in other industries provided the investor undertakes to export 60 per cent of the output (75 per cent in case of industries reserved for small scale sector). The scheme is applicable only to new units and to existing industrial undertakings seeking expansion and diversification, it does not cover purchase of shares in existing companies in respect of the existing activities. Dividends on investments made under the scheme are allowed to be remitted subject to usual regulations. Capital invested under the scheme is eligible for repatriation after the unit has gone into commercial production subject to the adherence to export obligations.

The total value of consents granted by the Controller of Capital Issues to joint stock companies for non-resident participation rose to Rs. 145.5 crores during 1976-77 from Rs. 48.3 crores during 1975-76. The sharp increase mainly represented the rise in consents for loans to Rs. 104.1 crores from Rs. 24.6 crores in 1975-76. Consents for bonus issues, initial issues and further issues during the year were also higher at Rs. 32.7 crores, Rs. 4.6

crores and Rs. 4.0 crores respectively as compared to Rs. 17.2 crores, Rs. 3.7 crores and Rs. 2.8 crores respectively during 1975-76.

Financial/technical collaboration agreements approved during 1976-77 numbered 279—a marginal rise over 271 approvals for the preceding year.

V. Developments in Exchange Control

The main developments in exchange control regulations during the year ending June 30, 1977 related to the liberalisation of facilities accorded to non-resident Indians abroad for investing in industrial ventures in India, private participation in trade with Pakistan and introduction of a facility for encouraging exports through air cargo, besides the adjustments in the rupee-pound sterling rates. The exchange value of the rupee continued to be determined in accordance with the procedure indicated in the last year's Report. In view of the fluctuations in the exchange rates of major international currencies, the exchange rate between the rupee and the pound sterling was thus changed three times during the year ending June 1977:

RBI's Spot Rates for Purchase and Sale of Pound Sterling

Date	Buying rate	Selling rate	Middle rate
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

Note: RBI's spot rate was revised on November 1, 1977 to yield a middle rate of Rs. 15.75 per pound sterling.

Forward Purchases of Pound Sterling

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. The Bank also 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 margins 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

On October 26, 1976, the Reserve Bank temporarily suspended forward purchases of pound sterling including those under the Scheme for providing long-term exchange cover to exporters against exports under deferred payment terms due to the downward drift in the value of the pound sterling and unsettled conditions about this currency in the international exchange markets. Forward purchases of the U.S. dollar, the Deutsche mark and the Japanese yen were also suspended. Forward buying of these currencies by the RBI was resumed on November 8, 1976 following the reports of grant of stand-by credit of SDR 3.4 billion being granted by the IMF to

* The procedure for purchase of foreign currencies by the RBI was revised, effective August 16, 1977, from quarterly options to monthly options.

the United Kingdom and improvements in the value of pound sterling. 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.

Trade with Pakistan

After the hostilities of 1965 when political relations between India and Pakistan improved, the trade with that country was resumed under the agreements concluded in January 1975. Initially the trade between India and Pakistan was to be conducted on a government-to-government basis or through government controlled trade corporations of the two countries in freely convertible currency in accordance with the foreign exchange regulation in force at that time. Effective July 15, 1976 Government allowed private participation in the trade with Pakistan. To start with, the National Bank of Pakistan and the State Bank of India have been allowed to negotiate documents to be settled in convertible currency and all designated banks when settlement is to be effected through the Asian Clearing Union.

Remittances to Pakistan towards agency commission against exports from India under these arrangements required to be approved by RBI. However, in December 1976, the RBI delegated its authority for approval to the authorised dealers not only in respect of remittances against exports but also other payments such as towards patent and trade mark registration fees, purchase of newspaper articles and subscription to magazines, membership fees and advertisement charges. But guarantees in respect of exports which were to be paid for outside the Asian Clearing Union will be issued only by the State Bank of India. Other guarantees would continue to require prior approval of the Reserve Bank.

Air Cargo System

A new system of consolidation of air cargo was introduced on August 25, 1976 for the benefit of the exporters as well as carriers. Under the new system, the Air Company's Master Air

Way Bill would be issued only to the consolidating air cargo agents who, in turn, would issue their own House Air Way Bills (HAWBs) to the individual exporters. The authorised dealers in the foreign exchange would freely accept the House Air Way Bills from the shippers along with other documents for collection.

Foreign Currency (Non-Resident) Accounts Scheme

The Reserve Bank on September 23, 1976 decided to allow authorised dealers to accept deposits under the Foreign Currency (Non-resident) Accounts Scheme with the facility of automatic re-investment of interest, provided the interests are compounded at half-yearly rests, the period of deposits was 12 months or more and the plans were in conformity with Bank's directive issued earlier on the subject.

Capital Repatriation by Foreign Nationals

The annual instalment of capital remittance allowed to be repatriated by foreign nationals temporarily resident in India (in addition to the initial amount of Rs. 1 lakh at the time of retirement) was raised from Rs. 30,000 to Rs. 50,000 from October 19, 1976. The scheme was extended to cover foreign-born widows of Indian nationals who have decided to go back to their countries of origin.

The authorised dealers' limits to approve of remittances without reference to the Reserve Bank were enhanced as follows :

Purpose	Initial Limit	Enhanced Limit
1. Cost of advertisement through any media other than radio by established exporters (calendar year)	£ 75	\$ 500
2. Cost of reprint of articles in scientific/technical magazines abroad	\$ 50	\$ 100
3. Specified correspondence courses (annual limit)	\$ 50	\$ 100
4. Remittance made by Indian universities on account of honoraria for examination of theses	\$ 50	\$ 100

Credit Agreement with Sri Lanka

Under the Indo-Sri Lanka Credit Agreement dated January 19, 1977, Sri Lanka has been sanctioned a line of credit upto Rs. 7 crores for purchasing Indian goods. The goods to be imported from India have been classified into two parts 'A' and 'B'. In the case of category 'A' goods, the credit will cover 90 per cent of the f.o.b. value of the goods, with 10 per cent of the value being remitted by importers in Sri Lanka in freely convertible foreign currency as down-payment. In respect of goods under category 'B', the credit will cover the entire f.o.b. value of goods.

Priority Allotment of Scooters

Under the scheme of priority allotment against inward receipt of foreign exchange, allotment for scooters ceased to be made from January 1977, except for Bajaj 'Chetak' scooters.

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

Under the Foreign Exchange Regulation Act, the Reserve Bank advised in February 1977 that issue and transfer of securities and shares expressed to be payable in Indian rupees to persons resident in Nepal including transfers of Indian rupee securities and shares standing in the names of persons resident in Nepal to other residents of Nepal would require its approval. 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, however, allowed to be remitted in rupees as hitherto.

Investment in Equity Capital

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 purpose of 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 the output. The

scheme applies to only new investment, including expansion and diversification of existing industrial undertakings, but not to the purchase of shares of existing companies in respect of their current activities. Remittances of profits/dividends from the investment would be subject to the usual regulations. Capital would be eligible for repatriation after the unit has gone into commercial production and subject to the adherence to export obligations wherever stipulated.

Blanket Exchange Permits

The facility of blanket exchange permits has been extended to construction companies/firms repatriating annual minimum net amount of foreign exchange equivalent to Rs. 15 lakhs as earnings out of contracts executed abroad.

Asian Clearing Union

With effect from April 1, 1977, the Union of Burma Bank, Rangoon (Burma) joined the Asian Clearing Union, which was established on December 9, 1974 and commenced clearing operations from November 1, 1975. It designated the Myanma Foreign Trade Bank, Rangoon, to handle transactions with Burma cleared through the Clearing Union.

Burma is the seventh country whose Central Bank has joined the Clearing Union; those who had already joined are the Central Banks of Bangladesh, India, Iran, Nepal, Pakistan and Sri Lanka. 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.

Rediscounting of Foreign Currency Usance Bills in Foreign Countries

In view of the improvement in the country's foreign exchange reserves, the Bank advised authorised dealers in May 1977 to discontinue rediscounting of foreign currency usance bills abroad. Such rediscounting involved foreign exchange loss to the country in the shape of discount charges payable to the overseas bank or branch which could be avoided if the bills are held by the Indian banks till their maturity.

Opening of new Offices of Exchange Control Department

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

Other Developments

With effect from July 12, 1976, persons eligible to travel to Mauritius can also visit the Seychelles on either leg of the journey or visit only the Seychelles Islands. A visit to the Seychelles under the Mauritius Travel Scheme will be treated on par with visit to Mauritius, and will not debar the traveller from availing of the Foreign Travel Scheme for a visit to any other country abroad including the Seychelles Islands. 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 Maldive Islands effective February 1977 and also to Bangladesh or Sri Lanka from May 1977. Fresh licences to deal in foreign exchange business were granted to the United Industrial Bank Ltd., Calcutta, the Lakshmi Vilas Bank Ltd., Madras (November 1976), the Nedungadi Bank Ltd., Calicut, Sangli Bank Ltd., Sangli (December 1976) and Karnataka Bank Ltd., Mangalore (June 1977).

VI. International Monetary Developments

World Economic Outlook

After two years of severe recession, world economic activity picked up momentum in the

first half of 1976. The momentum however, slowed down sharply during the second half of the year. The growth of real output in industrial countries which had improved from 5 per cent during the second half of 1975 to 6.8 per cent during the first half of 1976, slumped to a mere 3.0 per cent during the second half of the year, mainly due to the weakness of private capital spending and the reluctance of major industrial countries, except the USA, to adopt strong reflationary measures. The hesitancy of the major industrial countries to pursue strong expansionary measures may partly be traced to the fears of renewed inflation.

Overall, real output in industrial countries is estimated to have risen by about 4 per cent during the first half of 1977 and 3.25 per cent during the second half. The U.S. is expected to record real growth in output of 5 per cent in 1977 and Japan of 6 per cent. But for the OECD as a whole, an overall growth in output of, at best, around 4.5 per cent in 1977 was expected. The slack in growth is likely to be particularly marked in Western Europe where official forecasts of real growth in 1977 have been revised downward in several countries. On present indications, the gain in real GNP in Western Europe in 1977 may not exceed 3.5 per cent. The lower-than-expected growth is generally attributed to the absence of marked improvement in investment demand, consumers' expenditure and exports. It may also be mentioned that the factors responsible for the pick-up in economic activity and the growth actually recorded is believed to have been brought about by essentially short term factors such as the build-up of inventories, purchases of consumer durables and government reflationary measures. Capital investment in most countries has been generally weak.

In the U.S., economic activity picked up in the first half of 1976, real output rising by 6.4 per cent. The growth, however, decelerated markedly during the second half with the increase in GNP of no more than 3.5 per cent. With the turn of the year, economic activity started picking up again despite the disruptions

caused by the severe winter; the gathering pace was led by consumer spending and residential investment. Economy's real growth in the second quarter of 1977 was around 7 per cent, i.e., almost the same as during the weather-affected first quarter. However, as both consumer spending and inventory investment were less buoyant than in the first half, the pace is unlikely to be sustained during the latter half of the year. On present indications, the U.S. economy may end the year with a gain of under 5 per cent in real GNP. The German economy, aided by buoyant export demand and pick-up in domestic investment, recorded a growth rate of 5.6 per cent in 1976. The growth, however, slowed down considerably during the first half of 1977. The real growth slowed to a seasonally adjusted 4 per cent annual rate in the first quarter of 1977 from a 6 per cent rate in the fourth quarter of 1976; the second quarter failed to show any perceptible increase over the first. OECD projects that the growth in output during the second half of 1977 over the first half may not exceed 1.5 per cent. Thus, on present indications, real GNP may not grow by more than 3 per cent over 1977. Led by a sharp increase in its exports, Japan had a swift growth of 7.6 per cent in real GNP during the first half of 1977. OECD Secretariate expects that the economy may not grow by more than 5.5 per cent during the second half of 1977 as none of the factors contributing to growth in Japan, except exports, have been particularly strong. Despite the increased flow of North Sea oil and the consequent improvement in the balance of payments, the U.K. economy continues to remain weak. Real output, after recording a rise of 1.7 per cent during the second half of 1976 as compared to the first, is estimated to show a decline of around 1.8 per cent during the first half of 1977. Though the economy is projected to grow by about 3 per cent during the second half, it is unlikely that the real GDP will rise by much more than 0.5 per cent during 1977.

The non-industrial countries presented a rather mixed economic picture in 1977. In the

more advanced primary producing countries, growth rates in 1977 are unlikely to be any significantly higher than three per cent which was the average rate of growth in 1976. In the oil-exporting countries, the rates of output growth in 1977 is likely to be around 8.6 per cent as against 11.7 per cent in 1976. The economic prospects of the non-oil developing countries are now much less disturbing than in 1974 and 1975. The rate of growth of real output, which declined to 3.4 per cent in 1975 from 5.2 per cent in 1974, recovered to 5.1 per cent in 1976. It is expected to be nearly 6 per cent in 1977, quite close to the average for the period 1967-72.

Unemployment continues to remain a major problem in most major industrial countries. For these countries as a group, the overall rate of unemployment remains close to its recession peak. What is more, the situation appears to have somewhat deteriorated during the second quarter of 1977 without much hope for a marked improvement in the labour market conditions in the immediate future.

Price inflation, though partially contained in 1976, was once again heating up in industrial countries generally. The rate of inflation in the U.S. as measured by the consumer price index fell from 9 per cent in 1975 to 6 per cent in 1976 mainly because of the reduction in food prices which at end-1976 were only half a per cent above the level a year earlier, as against the rise of 6.5 per cent during the preceding year. Largely reflecting the rise in food prices attributable to the severe winter, however, the inflation has been running at a higher rate of 7.5 per cent during the first half of 1977. In Canada, price inflation in terms of the rise in consumer price index declined from 10.5-11 per cent in 1975 to 7.5 per cent in 1976. But the improvement is likely to be nullified by the poor productivity performance accompanying the overall weakness in demand and by the rise in prices of imported goods brought about by the devaluation of the Canadian dollar. In Japan, consumers' prices increased by more than 9 per cent in 1976

and the prospects of reducing the inflation rate in 1977 appear dim. In West Germany, wage increases during 1977 were distinctly higher than in 1976. So has been the rise in consumer prices. In the UK, inflationary pressures accelerated with sharp fall in sterling exchange rates in 1976. Inflation was running at an annual rate of 21.8 per cent during the first quarter of 1977, and consumer prices are expected to rise during 1977 at about the same rate of 1976, i.e., by around 15 per cent; a most optimistic forecast puts the year-on-year rate of inflation at around 13 per cent by the end of 1977. In France the rate of inflation is now expected to be around 8 to 9 per cent in 1977, moderately lower than that of 9.6 per cent during 1976, but higher than the earlier anticipations in this regard. Overall, available data indicate that the rate of inflation in major industrial countries may range between 6-7 per cent in 1977 and possibly also in 1978—only marginally lower than the rate of 7.2 per cent recorded in 1976.

World Trade and Balance of Payments

The value of world trade rose by 12 per cent to reach close to \$ 1,000 billion mark in 1976. In terms of volume, it increased by 11.5 per cent over the depressed level of 1975 when it actually declined by 4.5 per cent. The growth of the trade was more pronounced in the first half as compared to the second half of 1976. The main expansionary factor was the strong import demand from the industrial and the major oil exporting countries.

The cyclical recovery within the developed areas of world generated strong import demand. Taking 1976 as a whole, both the volume and the value of imports into developed countries rose by around 13.5 per cent, significantly more than the increase in exports from these countries. The increased demand came mainly from the major industrial countries, that from other developed countries remaining sluggish during the greater part of 1976. In the case of the major oil-exporting countries, the imports went up by 26 per cent in value and 23 per cent in volume, while their exports rose by 20 per cent

and 14 per cent, respectively. Other developing countries pushed up their export by 6 per cent in volume and some 15 per cent in value; increase in their import, both in value and volume, was marginal. For the developing countries as a group, the increase in their exports, both in value and volume, was much more pronounced than the increase in their import demand.

The volume of world trade has continued to grow during 1977, though at a much subdued rate. On present indications, the growth may not exceed 7 per cent during the year. The slow-down is attributed to many factors, the main among them being: (1) the process of restocking which contributed to the gain in 1976 is practically over, (2) deceleration in the growth of imports of the major oil-exporting countries, and (3) restrained import demand of most developing, Southern European, and Eastern block countries in view of the need to reduce their current account deficits.

A welcome development from the point of view of the developing countries related to the movement in the terms of trade. The terms of trade of non-oil developing countries, which had deteriorated sharply during the last two years, improved by 4 per cent during 1976; that of major oil-exporting countries also turned around to register an improvement of 5 per cent.

As a result of these developments the aggregate trade balances of industrial countries, which had improved from a deficit of \$ 10 billion in 1974 to a surplus of \$ 21 billion in 1975, turned again into a deficit of \$ 6 billion in 1976, reflecting mainly the sharp deterioration in their trade balances with major oil-exporting countries and a decline in their trade surplus with the Eastern trading partners. This is also reflected in the current account balances of the industrial countries which turned from a surplus of \$ 21 billion in 1975 to a deficit of \$ 1 billion in 1976; it is estimated to have remained at around the same level in 1977. Among developing countries, the trade surplus of the

major oil-exporting countries rose by \$ 11 billion to \$ 64 billion in 1976; their current account surplus rose by \$ 6 billion to an estimated \$ 41 billion but is expected to decline to \$ 37 billion in 1977. In the case of other developing countries, while their combined trade deficit declined by \$ 14 billion from its 1975 peak to \$ 16 billion in 1976, their overall current account deficit declined from the record \$ 38 billion in 1975 to an estimated \$ 26 billion in 1976; the deficit is projected to decline marginally to \$ 25 billion in 1977.

World Reserves

Aggregate international reserves increased by SDR 31.1 billion or 15 per cent during the year to reach SDR 238.5 billion in June 1977 as compared with a rise of SDR 21.0 billion or 11.3 per cent to SDR 207.4 billion in end-June, 1976. The bulk of the growth in the reserves occurred in the foreign exchange holdings. Consequently, the share of foreign exchange component increased to 73.5 per cent in June 1977 as against 70.8 per cent a year ago. A major part of the increase accrued to the industrial countries whose holdings including SDRs, gold, reserve position in the Fund and foreign exchange increased by SDR 13.3 billion to reach SDR 123.3 billion in June 1977 as against the rise of SDR 10.2 billion to SDR 110.0 billion in June 1976. The major oil producing countries* also increased their reserves by SDR 9.7 billion in 1976-77 as against by SDR 6.4 billion in 1975-76 with their share in the total rise in both years remaining slightly less than one-third. Reserve holdings of other Asia comprising mainly non-oil developing countries at SDR 17.8 billion in June 1977 reflected a rise of SDR 3.6 billion during 1976-77 nearly of the same order as was recorded during 1975-76. The reserves of other developed countries, including Australia, New Zealand, South Africa and other European countries in fact declined significantly both in terms of the absolute amount and as their share

in world reserves; their holdings at SDR 13.8 billion in June 1977 were lower by SDR 1.3 billion than the level a year ago and by SDR 2.5 billion than the level two years ago.

Development Assistance

Net disbursement of official development assistance (ODA) to developing countries and multilateral agencies from the members of the Development Assistance Committee (DAC) of the OECD remained virtually stagnant in U.S. dollar terms at \$ 13.7 billion in 1976 as compared with \$ 13.6 billion in the preceding year. Adjusted for inflation and exchange rate changes, the real flow of resources in 1976 may have actually recorded a decline of 1.3 per cent over the 1975 level. As a percentage of the combined GNP of DAC countries, ODA declined from 0.36 per cent in 1975 to 0.33 per cent in 1976—less than half the target of 0.7 per cent set for the Development Decade and accepted by members of the DAC; only three countries viz., Netherlands, Sweden (0.82 per cent each) and Norway (0.71 per cent), have exceeded the target. The average grant element of ODA remained practically unchanged at 88.9 per cent.

Total net flows of capital from members of the DAC including private grants and non-concessional flows by way of direct investment amounted to \$ 39.5 billion in 1976, slightly less than the record total of \$ 39.9 billion in 1975. Expressed as a share of GNP, the total flow of financial resources from DAC to developing countries which had exceeded the target of 1 per cent in 1975, fell again to 0.95 per cent in 1976.

Thanks largely to the emergence of OPEC as an important source of development assistance and concessional funds and vastly increased recourse by developing countries to eurocurrency markets, the total estimated receipts of developing countries rose rather sharply from \$ 55 billion in 1975 to \$ 71 billion in 1976. Net eurocurrency loans to developing countries in 1976 amounted to a record figure of \$ 22.5 billion, more than

* Countries included are: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Saudi Arabia, United Arab Emirates and Venezuela.

double the total of \$ 9.5 billion in 1975. The resource flow from OPEC members is estimated to have reached \$ 7.5 billion in 1976, two-thirds of which was on concessional terms.

Compensatory Financing Facility

Mainly as a result of the liberalisation effected in December 1975, and the decline in commodity prices that accompanied the unusually severe recession in 1975 members' use of the Compensatory Financing Facility for the year ending April 1977 at SDR 1.75 billion was double from the previous year's level. The total outstanding balance as at the end of April 1977 at SDR 2.67 billion was also more than double the amount of SDR 1.21 billion outstanding a year earlier. In view of the growing purchases, a review of this facility was made in March 1977. The Executive Board then decided that no change in the provisions are necessary and agreed to review the facility again before March 31, 1979 if the drawings under this facility exceed SDR 1.5 billion in any twelve-month period or if the outstanding purchases exceed SDR 4 billion.

International Economic Co-operation

The Conference on International Economic Co-operation (CIEC), a body representing 27 industrial, oil-exporting and developing countries, which convened its first meeting in Paris towards the end of 1975 to open a dialogue on new world economic order based on better international co-operation and fair deal to all and particularly the most seriously affected developing countries, continued its deliberations in several meetings. In the final ministerial level meeting held in Paris from May 30 to June 2, 1977, a limited agreement, in principle, on the establishment of a common commodity fund and a special programme for low-income countries was reached. The purpose, objectives and provisions of the Common Fund would be further negotiated in the United Nations Conference on Trade and Development (UNCTAD). There was also an agreement on the provision by developed countries of \$ 1 billion in a special action

programme for individual low-income countries.

In the energy field, the participants were able to agree on conclusions and recommendations concerning availability and supply; the urgency of a transition from an oil-based energy-mix to a more permanent and renewable sources of energy was recognised. As regards raw materials and trade, the participants agreed that research and development efforts should be devoted to natural products competing with synthetics. Under the subject of development, there was agreement on broad issues relating to agricultural development, the need to assist infrastructure development in developing countries, several aspects of the industrialisation of developing countries, and implementation of relevant UNCTAD resolutions on the transfer of technology. In the area of finance, agreement was reached on a number of major aspects of foreign direct investment, on the need for developing country access to capital markets, on other financial flows, and on co-operation among developing countries.

Subsidy Account

Subsidy Account was established by the Fund in August 1975 to assist the Most Seriously Affected (MSA) members to meet the cost of using resources made available through the Oil Facility for 1975. Contributions to the Account were solicited from all members including oil-exporting and industrial countries and these are expected to total SDR 160.5 millions though the contributions actually received till end-April 1977 amounted to SDR 61.8 million. The Executive Directors decided that the rate of subsidy would be 5 per cent for the fiscal year ending April 1977, same as in the preceding year, reducing the effective cost of using the 1975 Oil Facility for the MSA countries from 7.71 per cent to 2.71 per cent. The subsidy aggregating SDR 27.5 million was received by 18 countries* during the year ending April 1977, with India receiving SDR 10.1 million.

* Purchases under the 1975 Oil Facility made by these countries amounted to SDR 551.0 million.

Exchange Rates

During the period under review, further polarisation of major currencies into weak and strong came about on the international exchange markets. The stronger currencies like the D.M. and Japanese yen continued to appreciate further. The U.S. dollar remained relatively stable during 1976 and in the early part of 1977 but tended to soften thereafter. The French franc remained somewhat weak throughout while the lira continued to decline. The pound sterling, after falling with the lira initially, however, firmed up during the latter part of the period under review.

Despite sharp deterioration in the U.S. current account balance of payments, the U.S. dollar remained fairly stable, during the greater part of the second half of 1976. The trade-weighted depreciation from the Smithsonian level which had widened from 2.04 per cent in June to 2.92 per cent in September, contracted to 1.53 per cent by the end of the year. The dollar improved further during the first quarter of 1977 when the depreciation amounted to only 0.61 per cent. However, it weakened thereafter and by the June 1977 stood depreciated by 1.48 per cent on a trade-weighted basis from the Smithsonian level.

The relative stability of the U.S. dollar on a trade-weighted basis during the later half of 1976, was the net outcome of large variations in both directions against individual currencies. The dollar depreciated by an average of about 9 per cent against major EEC snake currencies, by 6 per cent against the Swiss franc, 4 per cent against the Canadian dollar, and 1.6 per cent against the yen. These depreciations were more than offset by a much larger appreciation of 28 per cent against the lira, of 19 per cent against the sterling and 10 per cent against the French franc.

The effective exchange rate of the dollar in terms of the IMF's Multilateral Exchange Rate Model which had declined slightly from 88.3 in June 1976 (May 1970 = 100) to 87.2 in

September 1976, recovered to 88.4 in December 1976 but moved down again to 87.5 by June 1977. During June-July 1976, the *Deutsche mark* remained stable in relation to the U.S. dollar, moving in the trading range of \$ 0.3846 to 0.3952. Thereafter, however, due to the weakness of the lira, the French franc and the pound sterling and also on account of a minor realignment within the EEC 'snake', the D.M. gained considerable strength, especially during September-November 1976. The currency appreciated against U.S. dollar steadily and was quoted around \$ 0.4239 by the end of December 1976 as against \$ 0.3863 by end-January 1976; during the same period, its trade-weighted appreciation widened by some 14 points to 30 per cent. The upward trend in D.M. continued in the first half of 1977 except for a slight decline in January and May, due partly to the interventions by the Bundesbank and partly to the rise in the interest rates in U.S. in May 1977. By the end-June 1977, the D.M. was quoted around \$ 0.4270 and even crossed \$ 0.4300 in the period immediately following thereafter.

The *Pound sterling* continued to sink during 1976. Between December 1975 and December 1976, its external value, as measured by the effective exchange rate (the Fund's MERM) fell by about 17 per cent because of the worsening prospect of the U.K. economy which triggered a massive outflow of official sterling balances; it depreciated by 17 per cent against the U.S. dollar and 25 per cent against the D.M.

Towards the end of the 1976, however, the sterling started improving in anticipation of the December budget. It continued to firm in early January 1977 in anticipation of the early conclusion of the BIS "safety net" arrangements. Sterling was further bolstered by the approval of the \$ 3.9 billion I.M.F. loan and the successful negotiation of the \$ 1.5 billion Euro-loan. In addition to the tighter exchange control enforced by the authorities leading to the substantial unwinding of leads and lags, restrictions on the use of sterling for third

country trade, and the inflow of capital seeking higher interest rates and the improvement in the British balance of payments encouraged by the flow of North Sea oil further helped the uptrend. The behaviour of monetary aggregates and domestic credit further strengthened the newly created confidence in sterling. As a result, the pound sterling which had sunk to \$ 1.55 by the end of October 1976 gradually improved to \$ 1.72 by the end of June 1977. In fact, during this period the Bank of England had to intervene in the market repeatedly to prevent rise in the U.S. dollar value of the pound sterling.

The *French franc*, which left the European joint float in mid-March 1976, generally ruled weak during the later half of 1976, except for a short period of recovery in September 1976, in anticipation of corrective actions by the new government. The weakness is to be attributed to fears of acceleration of inflation rate and concern about the balance of payments effect of the drought. At the end of the year, its trade-weighted post-Smithsonian depreciation stood at nearly 8 per cent, a deterioration of 13 percentage points since mid-March. During 1977, however, the franc tended to strengthen marginally. Its depreciation in terms of the U.S. dollar from the Smithsonian level which stood 8 per cent in June 1976, was narrowed down to 4 per cent by end June 1977.

Gold Prices

Sharp price fluctuation characterised the international gold market during 1976. The final London fixing for the year, however, was only \$ 6.24 short of the first fixing for the year. As was mentioned in the last year's Report, the main factor dominating the price trends was the Fund's regular gold auctions which started on June 2, 1976. Though the Fund's gold sales constituted only a small part of total market supplies, their psychological impact was significant. Following the second auction of July 14, 1976, the gold price fell to \$ 107.75 (p.f.o.) by July 20, as a result of substantial speculative selling. By that time

it came to be realised that the Central Bank support to the market would be lower than anticipated earlier. Another important factor weighing on market psychology was the anticipated substantial sales of gold by the USSR to meet balance of payments deficit. There was a mild recovery to \$ 115.35 by end-July and from then until mid-August, gold was traded nervously between \$ 110 and \$ 114. With the usual seasonal decline in industrial and hoarding demand around this time, the market then plunged to \$ 101 on August 25—the lowest level since December 1973, when some investment interests reappeared and industrial demand re-emerged. Buying support was also reported to have emerged from the Far East for covering the large short positions taken earlier. The market, therefore, recovered despite the Fund setting for its September auction a price lower than in the previous two auctions and the gold price again passed \$ 120 by September end. The October gold auction, which attracted large response at higher prices, renewed the confidence of investors and speculators. The sentiment was further aided by instability among minor currencies and fears of a possible resurgence of inflation in the United States and a further increase in OPEC oil prices. The strength gathered momentum from reported industrial and investment demand exceeding current supplies; the price jumped from \$ 117.85 on October 27, to \$ 122.75 on the next day and further swiftly to \$ 138.85 by mid-November 1976—the highest level since early January 1976. Although there was a minor reaction in prices to \$ 130.47 by end-November, prices recovered again on speculative demand to \$ 135.65 on December 8. The results of the December auction, when gold was awarded at the highest price of \$ 137, only confirmed the underlying upward trend. The monthly average London gold fixing for December at \$ 134.19 was some \$ 2.60 over the comparable January figure.

The gold market was rather listless during early 1977, the price moving in the narrow range of \$ 130-136 till the third week of

February. Thereafter price started firming up. Renewed fears of revival of inflationary pressures coupled with the disappointing performance of the equity market probably helped further investment demand for gold. At the same time, the introduction of monthly instead of six-weekly gold auctions by the Fund probably reduced market supplies at a time when there was heavy investment demand from the Middle East and the Far East. By the end of February, the price crossed the \$ 140 level; by March 25, 1977 the price had reached a peak of \$ 153.55. Thereafter prices reacted on slack demand. The activities in the currency markets and the widespread retreat in commodity prices undermined the attraction of gold. Falling silver prices also pushed down gold in sympathy. Thus, by the end of June the gold price came down to around \$ 140. The average London fixing for June at \$ 141.13 was higher by some \$ 8.75 as compared with January 1977 and by \$ 15.43 as compared with June 1976.

VII. International Monetary Reforms

Second Amendment of the Articles

As mentioned in last year's Report, the Board of Governors adopted a Resolution on April 30, 1976 approving the Second Amendment of the Articles as agreed at the meeting of the Interim Committee held in Jamaica in early January 1976. The Amendment will become effective only when accepted by three-fifths of the members having four-fifths of the total voting power. By the end of December 1977, 64 members accounting for 64.76 per cent of the total voting power had accepted the Amendment.

Review of Quotas

As indicated in the last year's Report, the Board of Governors in its meeting held in March 1976, approved the provisions of the Sixth General Review of quotas under which the total of the quotas would be raised from the present SDR 29.2 billion to SDR 39.0 billion; India's quota would be revised from

the present SDR 940 million to SDR 1,145 million. However, the increase will not become effective before (i) the effective date of the Second Amendment of the Articles or (ii) the date of the Fund's determination that members having not less than three-fourths of the total of quotas as on February 19, 1976 having consented to an increase in their quotas whichever is the later of these dates. The Board of Governors in their Resolution also provided that the Seventh General Review of quotas shall be completed by February 9, 1978. Though the Interim Committee has agreed that there should be an "adequate increase" in the total of quotas pursuant to the Seventh General Review, there is no agreement so far on either the quantum of the increase or its distribution among members. Discussions in this regard are continuing.

Surveillance over the Exchange Rate Policy

In pursuance of the provisions of Article IV of the amended Articles which calls for the Fund to "adopt specific principles for the guidance of the exchange rate policies" and to exercise "firm surveillance" over these policies, the Executive Board of the Fund adopted a resolution in April 1977 endorsing the agreement reached at the earlier meeting of the Interim Committee concerning the principles for the guidance of members exchange rate policies, and principles and procedures for surveillance by the Fund. The principles for the guidance of members' exchange rate policies, which necessarily are broad in scope, enjoin members to (a) avoid manipulation of exchange rates or the international monetary system in order to prevent effective balance of payments adjustments or to gain an unfair competitive advantage over other members, (b) counter disorderly short-term conditions in exchange markets, and (c) take into account the interests of other members while resorting to intervention in exchange markets.

Supplementary Financing Facility

The Interim Committee at its meeting held in April 1977 reviewed the developments in international liquidity and in the financial

activities and resources of the Fund. In this context it recognised the urgent need for a supplementary arrangement of a temporary nature that would enable the IMF to expand its assistance to members facing payments imbalances in the next several years which are large in relation to their economies. As in the case of the Oil Facility, the Fund, under the Supplementary Financing Facility, would recycle a substantial amount of resources borrowed from surplus countries and thus enlarge sizeably the access to conditional credit by countries in balance of payments need. The Facility is to be made available to all members and is subject to adequate conditionality. The assistance would be of a stand-by nature and would normally be for a period longer than one year. The repurchase period would be in the range of 3 to 7 years. Operational features of this facility were still being worked out. The size of the new facility will be not less than SDR 7.75 billion.

Trust Fund

As mentioned in last year's Report, the Executive Directors established a Trust Fund in May 1976 to provide special balance of payments assistance on concessional terms to eligible developing members. The major source of resources of the Fund is the profit from the sale of a portion of the Fund's own gold

and any financing that may be available from voluntary contributions or from loans, together with the income from the investment of funds held by the Trust pending disbursement. At the end of June 1977, the resources of the Trust Fund totalled SDR 543.3 million including the net proceeds of the auctions conducted in May and June 1977.* The first interim disbursement of loans (for the period July 1976 to June 1978) amounting to SDR 31.6 million was made in February 1977 to 12 members that had qualified for the loans out of the 61 eligible members including India. Since the first loan disbursement, 12 other eligible members qualified for Trust loans with suitable programmes. Therefore, second interim loan disbursements equivalent to SDR 121.3 million was made to 24 of the 61 members towards the end of July 1977 bringing the total disbursement to SDR 152.9 million. All the twelve members receiving loans under the first disbursement also received under the second disbursements.

Loans from the Trust Fund, carry an interest of $\frac{1}{2}$ of one per cent and are repayable in ten equal semi-annual instalments beginning $5\frac{1}{2}$ years from the date of disbursement and to be completed at the end of the tenth year after the date of disbursement.

* Total profits realised from the sale of gold by the Fund totalled \$ 615.9 million.

APPENDIX I

IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS JULY 1976—JUNE 1977

A. CHANGES IN EXPORT CONTROL

Item	Month of Announcement	Details
1	2	3
1. Bauxite	April 1977	During the licensing year 1977-78, export of (i) bauxite with alumina content less than 40% and (ii) bauxite with alumina content between 40% and 50% but with silica content exceeding 5% would be allowed on production of a certificate from a recognised public analyst regarding alumina and silica content. Long-term commitments would be permitted for a period not exceeding five years from the date of announcement. Export of (iii) bauxite with alumina content above 50% and (iv) bauxite with alumina content between 40% to 50% but with silica content at 5% or below would be allowed within a limited ceiling on first-come, first served basis.
2. Bone meal	August 1976 and May 1977	Export of bone meal was decontrolled with effect from August 30, 1976 and would be allowed upto June 30, 1977 against the unutilised ceiling released for export during 1976-77, on first-come, first-served basis by all categories of exporters to all permissible destinations, against 100% irrevocable letter of credit.
3. Calcined Magnesite	March 1977	Export of calcined magnesite with silica content of over 6.5% would be allowed on first-come, first-served basis, within a limited ceiling.
4. Cardamom	November 1976	It was announced that export of cardamom large would be canalised through the National Agricultural Co-operative Marketing Federation Ltd., with effect from November 5, 1976.
5. Castor Oil	February, March and May 1977	Export of castor oil was banned with effect from February 5, 1977 and pre-ban commitments supported by irrevocable letters of credit opened and accepted by Indian banks before February 5, 1977 would be allowed. The ban would not be applicable to export of derivatives of castor oil, viz. (i) hydrogenated castor oil, (ii) dehydrated castor oil, (iii) dehydrated castor oil fatty acid and (iv) castor oil fatty acid. On May 18, 1977, the ban was removed and exports would be allowed through State Trading Corporation.
6. Cattle	August 1976 and April 1977	During 1976-77, the ban on the export of cattle was removed and export of the following breeds of cattle were allowed within a limited ceiling (i) Haryana, (ii) Ongole, (iii) Gir, (iv) Kankrej and (v) Buffaloes (All breeds). Exports would be allowed only for breeding purposes and be canalised through Indian Dairy Corporation. The same policy would be continued for 1977-78. Export would be allowed only against the unutilized ceiling released for export during 1976-77.
7. Cement	October 1976	It was decided that export of cement would be canalised through (i) State Trading Corporation and (ii) Engineering Projects (India) Ltd., only for use in construction projects undertaken by them in foreign countries.
8. Chemicals	July, October 1976 and May 1977	The ban on export of acetic anhydride was withdrawn in October 1976 and its exports would be allowed within a limited ceiling on first-come, first-served basis during 1976-77. The ban on export of phenol was continued and that of P.V.C. resin was banned with effect from May 11, 1977.

Item	Month of Announcement	Details
1	2	3
9. Chicory roots	May 1977	Export of chicory roots was decontrolled with effect from May 11, 1977.
10. Cinematographic films, exposed	February 1977	It was decided that exposed cinematographic films would be exported through Indian Motion Picture Export Corporation instead of Film Finance Corporation.
11. Cotton textiles: exports to Austria	October 1976	According to the Scheme for export of cotton yarn, mill-made cotton fabrics and products manufactured out of mill-made fabrics including made-ups and ready made garments to Austria, export of handloom fabrics and products would be permitted quota free entry into Austria on basis of a certificate showing handloom origin from Textiles Committee as provided for in Indo-Austria Agreement.
12. Cotton textiles: exports to Norway	March 1977	It was decided that export of Indian shirts, blouses and cotton bedlinen to Norway during the quota year ending 31st December 1977, would be allowed from any port in India. Exports would be permitted within a limited ceiling on production of an export certificate issued by the Cotton Textiles Export Promotion Council. In case of garments made of handloom fabrics, handloom certificate issued by the Textile Committee would be necessary.
13. Cotton textiles: exports to U.S.A.	August 1976	The Scheme for export of Indian Cotton Yarn, cotton mill-made textiles including ready-made garments and made-ups and cotton knitted goods but excluding 'India Items' to U.S.A. for the quota year ending September 30, 1977, was announced in August 1976. For the purpose of quota allotment the shipment period would be divided into two six-monthly periods. Quotas during the first six-monthly period ending March 31, 1977 would be allotted on high price realisation basis by the Cotton Textiles Export Promotion Council. The second six-monthly allotment will be made later in terms of the decision of the U.S.A. Textiles Licensing Advisory Committee. The imports into the U.S.A. would be permitted only for such consignments which are exported from India directly to the U.S.A. where the Special Customs Invoice No. 5515 be an endorsement of visa issued by the Cotton Textiles Export Promotion Council, Bombay or its authorised upcountry representatives. The entire scheme would be supervised by the U.S.A. Textiles Licensing Advisory Committee. Further, exports of cotton yarn to the U.S.A. will also be subject to the policy of export as announced by the Government from time to time. Quotas shall not be transferrable without the express consent in writing of the U.S.A. Textiles Licensing Advisory Committee.
14. Cotton waste and yellow-pickings	July 1976 and January 1977	Exports of soft cotton waste and yellow-pickings were banned with effect from July 13, 1976 upto August 31, 1977. However, exports would be allowed against firm contracts already entered into with foreign buyers on or before the imposition of the ban (i.e. 13-7-76) and registered with the office of the Textile Commissioner, Bombay, within ten days of the issue of the ban order and in some other cases involving export commitment on the part of the Government of India, with the specific approval of the Government of India, in the Ministry of Commerce.
15. Cotton Yarn	February 1977	All types of cotton yarn would be exported freely, subject to the registration of export contracts with the Cotton Textiles Export Promotion Council.
16. De-oiled groundnut cake (Extractions)	February 1977	During 1977, export of de-oiled groundnut cake (extractions) would be allowed within a limited ceiling on an ad-hoc basis and its exports would continue to be canalised through the Groundnut Extractions Export Development Association and they would be responsible for fixing the ceiling.

Item	Month of Announcement	Details
1	2	3
17. De-oiled rice bran	April 1977	For the licensing period ending March 1978, export of de-oiled rice bran would continue to be canalised through the Solvent Extractors Association of India, Bombay.
18. Hides and Skins, cuttings and fleshing	July 1976	Export of cuttings and fleshings of hides and skins used as raw material for the manufacture of animal glue/gelatine would be allowed within a limited ceiling on first-come, first-served basis against 100% irrevocable letter of credit, by making endorsement on shipping bills with a validity period of 15 days. No extension shall be allowed, once the validity period expires. The unshipped quantity would be deemed to have lapsed and shall be available for reallocation. As soon as ceiling is reached, the licensing will be suspended.
19. Hides and skins, semi-processed	April 1977	For the licensing year 1977-78, export of semi-processed hides and skins including crust leather and ready-to-finish leather would be allowed in accordance with the following conditions: (i) the quotas allotted to each of the exporters of semi-tanned goat and sheep skins of both E.I. and wet blue varieties during 1976-77 would be reduced by 15%, (ii) the quotas to each exporter of semi-tanned buffalo hide, buffalo calf skin, cow hide and cow calf skin of both E.I. and wet-blue varieties during 1976-77 would be reduced by 10%, (iii) the quota reduction would not apply to small tanners whose quota (i.e. number of pieces) allotments did not exceed the following limits: buffalo calf skins and cow calf skins—7,500 each, cow hides and buffalo hides—5,000 each, sheep skins and goat skins—25,000 each, (iv) the quota reductions would not be applicable to quotas with the STC in respect of non-exporting tanners and job-tanners.
20. HPS groundnuts	July, September and November 1976	In July 1976, a ban was imposed on export of HPS groundnuts (in shell and kernel). Exports against pre-ban commitments were banned with effect from September 1, 1976. On November 11, 1976, the ban was lifted and for the licensing period ending March 1977 export of HPS groundnuts (in shell and kernel) would be allowed within a limited ceiling through the Indian Oil and Produce Exporters' Association. The canalising agency would be responsible for monitoring the ceiling and would be distributing it to its members on the basis of past performance. The ceiling shall <i>not</i> be used on 'first-come, first-served' basis.
21. Kardi seed and kardi oil	May 1977	Export of kardi seed and kardi oil was banned with effect from May 13, 1977.
22. Kyanite	November, December 1976 and May 1977	Kyanite (including calcined kyanite) was brought under the purview of the Exports (Control) Order, 1968, with effect from November 11, 1976. During 1976-77, export of high grade kyanite containing Al_2O_3 60% or above was banned and export of kyanite concentrates derived by beneficiation of low grade kyanite and beneficiated kyanite would be allowed on merits in consultation with the Department of Steel. All other grades of kyanite would be allowed free exports within a limited ceiling. Export policy for 1977-78 was announced in May 1977, which is as follows: (i) kyanite containing Al_2O_3 below 50% would be exported within a limited ceiling, (ii) kyanite containing Al_2O_3 between 50% to 55% would be exported within a limited ceiling, (iii) export of high grade kyanite containing Al_2O_3 55% or above would be banned, (iv) in case of kyanite concentrates produced by beneficiation of low grade kyanite containing not more than 45% Al_2O_3 in raw form, exports would be allowed within a limited ceiling on the basis of certificates from Indian Bureau of Mines.

Item	Month of Announcement	Details
1	2	3
23. Linseed expeller cakes	July 1976	A ban was imposed on export of linseed expeller cakes with effect from July 9, 1976. However, export of linseed expeller cakes would be allowed against pre-ban commitments on production of (i) Irrevocable letter of credit opened prior to the date of ban, (ii) Contract, and (iii) Telegraphic offer and acceptance bearing postal stamp of a date prior to the date of ban.
24. Malt	January 1977	The Ministry of Commerce announced that export of malt would be allowed within a limited ceiling during the licensing period April 1976—March 1977. As soon as the ceiling is reached the licensing would be suspended.
25. Molasses and ethyl alcohol	January 1977	It was decided by the Ministry of Commerce in consultation with the Ministry of Chemicals and Fertilisers that export of molasses and ethyl alcohol or rectified spirit of any proof or degree, whether denatured or not, would not be allowed till 30th November, 1977.
26. Niger Seed and Niger Seed Oil	May 1977	Export of niger seed and niger seed oil was banned with effect from May 13, 1977.
27. Non-poisonous snake skins	September 1976 and October 1976	The ban on the export of snakes of all varieties, including their skins, was relaxed by allowing export of only skins of non-poisonous snakes of any variety and finished products made thereof by the registered exporters of wild life and wild life products upto 31st October 1976 without any other conditions.
28. Nux vomica seeds and bark	July 1976 and April 1977	For the licensing year ending 1977, export of nux vomica seeds and bark would be allowed within a limited ceiling on first come, first served basis. Export of nux vomica seeds would be allowed on production of (i) declaration to the effect that the exporter has ready stock of nux vomica seeds with him and (ii) firm sale contract/cable offer and acceptance. Export of nux vomica bark would be allowed on production of (a) a certificate from the Forest Department to the effect that the nux vomica bark tendered for export has been collected from felled trees, (b) a declaration to the effect that the exporter has ready stock of bark with him and (c) firm sale contract/cable offer and acceptance. The same policy would be continued during 1977-78 for export of nux vomica seeds and bark. Licencing would be done by endorsement on shipping bills and the period of validity shall not be more than 10 days. No extension in the period of validity would be allowed under any circumstances. The unshipped quantity would be deemed to have lapsed, and will be available for re-allocation.
29. Nylon and Synthetic fibre	February 1977	Export of Nylon tyre yarn/cord/fabrics and synthetic blended yarn containing 50% or more of synthetic fibre was brought under the purview of Export (Control) Order, 1968, with effect from February 17, 1977. The export would be allowed on the authorisation issued by Silk and Rayon Textile Export Promotion Council until further orders.
30. Onions	April 1977	Export of Onions would continue to be canalised through the National Agricultural Co-operative Marketing Federation of India Ltd.
31. Paper, writing and printing paper	July, December 1976 and January 1977	Export of writing and printing paper, all sorts, excluding hand-made paper would be allowed, on production of a certificate from a chartered accountant to the effect that the quantity to be exported would be limited to the production in excess of the concerned company's best year's production, (among the years 1973, 1974 and 1975). If any unit was not in existence before

Item	Month of Announcement	Details
1	2	3
		1-1-1976, the best year's production would be taken as nil. Units which are currently implementing a substantial expansion programme, would be exempted from this requirement, but they must show the increased output within a year after the export. Export of (i) M.G. poster paper, and (ii) air mailpaper would be allowed on free licensing basis.
32. Potatoes/Potato seeds	April, May 1977	Export of potatoes would continue to be canalised through the National Agricultural Co-operative Marketing Federation of India Ltd. During the licensing period April 1977—March 1978, export of potato seeds of 'kufri sinduri', 'kufri chandramukhi' and 'up-to-date' varieties would be allowed within a limited ceiling on first come, first served basis, on production of a certificate of quality control issued by the National Seeds Corporation of India for each consignment. Export of other varieties of Potato seeds would not be allowed.
33. Peanuts	February 1977	Export of blanched and roasted peanuts would be allowed within a limited ceiling on 'first-come, first-served basis.'
34. Pulses	March 1977	Export of pulses would not be allowed with effect from March 23, 1977 until further orders.
35. Rats and Mice	November 1976	Export of rats and mice (dead or alive or part thereof or produce therefrom) would be allowed without any licensing formalities and other conditions stipulated for export of wild life and its products.
36. Samo seeds and kodari seeds	April 1977	During the licensing period ending March 1978, export of samo seeds and kodari seeds would be allowed within a limited ceiling on 'first-come, first-served basis.'
37. Sesame seeds/oil	April 1977	Export of sesame seed and sesame oil was banned during the period 1977-78.
38. Sheep and goats	April 1977	During the licensing period 1977-78, export of live sheep and goats would be allowed within a limited ceiling on 'first-come, first-served basis.' In case of sheep, only weathers (i.e. castrated male) and culled female stock would be permitted for export. Sheep procured from temperate zone of J & K/H.P./hill areas of U.P./Arunachal Pradesh and from Bannur/Madhya of Karnataka would not be allowed for exports. In case of goats, three milk breeds viz. Jamnapari, Beetal and Barbari and one mutton type viz. Black Bengal would not be permitted for export. The export would be subject to a f.o.b. minimum export price of Rs. 6.00 per Kg. of live weight.
39. Silk waste	April 1977	During the licensing year ending March 1978, export of silk waste would be regulated as follows: (i) non-mulberry silk waste (tasar, eri and muga) and mulberry pierced cocoons would not be allowed for export, (ii) mulberry silk waste including cleaned and degummed silk waste of South Indian origin, would be allowed for export under the linking arrangements of supplies to the three Government Spun Silk Mills at Channapatna (Karnataka), Jaggi Road (Assam) and Bhagalpur (Bihar) in the following relations: (a) 1:1 in respect of mulberry silk waste other than processed silk waste, and (b) 100:15 in respect of processed silk waste, (iii) export would be allowed only from the port of Madras, (iv) exports would be subject to the production of a certificate furnished by the Government Spun Silk Mills about the sales having been effected before permitting exports, (v) export of hard silk waste of South Indian origin would be subject to the production of (a) certificate from Government Spun Silk Mills that material intended for export is hard silk waste and (b) pre-shipment.

B. EXPORT PROMOTION MEASURES

The more significant developments in the field of export promotion during the year are briefly indicated below.

Cash compensatory support: The scheme of cash compensatory support which was introduced in 1966 with a view to providing support to exports of specific non-traditional products to make these goods competitive in the international markets continued to operate during the year. The scheme covers such products as engineering goods, chemicals and allied products, sports goods, plastic goods, processed foods, fish and fish products, synthetic fabrics and garments, carpets and handicrafts, leather goods, natural silk made-ups and garments etc. The rates of cash compensatory support which vary from product to product do not normally go beyond twenty-five per cent of value added. The rates of cash compensatory support on a number of export products wherever available during the year 1976-77 were allowed to remain valid upto March 1979. However, certain export products which contained a high proportion of non-ferrous metals or whose f.o.b. price fluctuated to a considerable degree were excluded from the scope of these orders.

Drawback of duties: The drawback scheme under which the export products get relief of the burden of duty incidence of customs and central excise on raw materials and components used at various stages of production continued to play an important and effective role in export promotion. The total number of drawback claims on exports disposed of during 1975-76 aggregated 3,08,000 as against the disposals of 2,71,000 in 1974-75. The total amount of drawback paid was Rs. 82 crores in 1975-76 as against Rs. 60 crores during 1974-75.

Duty Drawback Credit Scheme, 1976

The Duty Drawback Credit Scheme which was introduced in February 1976 (vide Report on Currency and Finance 1975-76 Vol. I p. 279) was continued during 1976-77. Under the scheme banks are asked to grant interest free advances to exporters upto 90 days against their entitlement of duty drawback.

Duty Exemption Scheme

With a view to enabling the manufacturer-exporters to import raw materials for their export products without blocking their funds for making payment of duties on such imports, a scheme known as the 'Duty Exemption Scheme' was introduced on February 1, 1976. Under the Scheme, a manufacturer-exporter is exempted from payment of duties in respect of specified items which are permitted to be imported by the Advance Licensing Committee under the Advance Licences Scheme against specific export orders. However, in such cases, the manufacturer-exporter is required to execute a bond for an amount equivalent to the amount of duty chargeable on imports and has also to undertake to fulfil his export obligation as decided upon by the Advance Licensing Committee. The coverage of the scheme was enlarged on August 2, 1976 to include 91 items as against 55 items initially stipulated.

Marketing Development Assistance

The Marketing Development Assistance Scheme under which exporters are provided with financial assistance from Marketing Development Assistance Fund to meet the expenditure incurred by them abroad in connection with activities relating to promotion of exports was continued during the year. The expenditure under this Scheme during 1976-77 was also higher at Rs. 240 crores as against Rs. 148 crores during 1975-76.

Kandla Free Trade Zone: During the year 1976, the performance of the Kandla Free Trade Zone showed significant improvement. The number of units functioning in the Zone which was 20 as on 1st January 1976 went up to 28 by December 1976. The total exports from the Zone during 1976 amounted to Rs. 2.8 crores as against Rs. 1.8 crores during 1975. The total value of exports from the Zone since its inception upto December 1976 amounted to Rs. 11.8 crores. The number of industrial sheds in the Zone also rose from 32 to 38 during 1976.

APPENDIX II

A. IMPORTANT ANNOUNCEMENTS IN REGARD TO IMPORT CONTROL POLICY, JULY 1976—JUNE 1977

Item	Month of Announcement	Details
1	2	3
Open General Licence No. CII & CIII	June 1976	With effect from July 15, 1976 all importers and exporters were allowed to participate in trade with Pakistan subject to the policy, procedures and regulations that were in force and changes thereof from time to time. Earlier, trade between the two countries was conducted on Government to Government basis or through Government controlled trade corporations of the two countries.
Mono-Ethylene Glycol D.M.T. and Polyester fibre	July 1976	1. Import of Mono-Ethylene Glycol was canalised through the STC under the scheme of direct allotment of imported raw materials to actual users. 2. "D.M.T." and polyester fibre which were also released under release orders were brought under the scheme of direct allotment by the canalising agency to actual users.
Viscose/polynosic fibre	July 1976	Direct import of viscose/polynosic fibre (cellulosic staple fibre) was allowed by actual users engaged in the textile industry. Actual users holding an industrial licence were to submit their applications to the Regional Licensing Authority. Imported goods were to be used, only in the licensee's own unit of production. Licences issued were valid till November 30, 1976.
Professional scientific instruments	July 1976	Scientists returning from abroad were allowed to bring professional scientific instruments and equipment upto a value not exceeding Rs. 50,000 provided (1) the scientists had been living abroad continuously for a period of not less than 2 years, (2) the imported equipment had been purchased out of his foreign exchange earnings abroad and (3) the instruments/equipment had been brought for his own use in India. Import was allowed without the usual requirement of import licence or Customs Clearance Permit.
Family planning instruments and equipment	July 1976	Hospitals, medical institutions including nursing homes and registered medical practitioners for their own use were given permission to import the following items (1) Laproscope, (2) Culdoscope, (3) Hysteroscope and vacuum suction apparatus, with accessories and spares thereof.
Newsprint	August 1976	For the year April 1976-March 1977 import of newsprint was canalised through the STC, New Delhi and releases were effected in favour of the publishers/printers of newspapers/periodicals on the basis of the release order issued by the Registrar of Newspapers for India. The STC, on receipt of the release order from the Registrar of Newspapers for India would arrange for the imports and delivery of the newsprint either after importation or on high sea sale basis.
Phenol/carbolic acid	August 1976	Import of "phenol carbolic acid excluding substituted phenols" was brought under the scheme of direct allotment of import of raw materials to actual users and canalised through the State Chemicals and Pharmaceuticals Corporation of India Ltd.
USSR Cotton	September 1976	Under the Indo-USSR Trade Plan, 1976 the Cotton Corporation of India was permitted to import Cotton from the USSR to the extent of 10 thousand tonnes valued at Rs. 23 crores for allocation to Mills on the basis of their bona fide consumption needs.

Item	Month of Announcement	Details
1	2	3
Second hand or re-conditioned leather machinery	September 1976	Import of second hand or re-conditioned specified leather machinery covered by OGL No. CI was allowed upto March 31, 1977 in individual cases by actual users through the STC.
Polyethylene moulding powder	October 1976	Import of polyethylene moulding powder (both high and low density) was brought under the scheme of direct allotment of imported raw materials to actual users by the canalising agencies.
Cotton	October 1976	Additional Rs. 80 crores in free foreign exchange were released for the import of about 3 lakh bales of raw cotton from global areas. The import was to be effected through the CCI, and allocations were to be made by the Textile Commissioner to mills for their bonafide consumption only. Cotton imported under this facility was exempted from import duty.
Machinery	December 1976	Industrial undertakings which were exporting more than 20% of their total production during the past three years and undertook to continue to export more than 20% of their total enhanced production for the next five years, were allowed to import machinery freely upto a total value of Rs. 1 crore in a year.
Machinery and machine tools	December 1976	Licensing procedure in respect of import of certain specified machinery and machine tools by actual users was simplified. Goods so imported were required to be actually installed in the industrial undertaking.
Capital equipment	December 1976	Entrepreneurs intending to set up new industrial capacity (including expansion of the existing capacity) were permitted to import freely capital equipment upto the value of 10% of equipment procured indigenously, subject to a ceiling of Rs. 1 crore. Import of items which were not normally permissible under the existing import policy were allowed under this liberalised policy.
Polyester fibre	December 1976	Direct licences for import of polyester fibre by actual users engaged in the textile industry holding requisite industrial licence was permitted.
Spare parts for maintenance of imported machinery	January 1977	Import of spare parts by actual users for maintenance of imported machinery was allowed without an import licence subject to certain conditions. In case of non-permissible imports, licences were to be granted to actual users on the basis of one per cent of the c.i.f. value of imported machines.
Edible oils and oil seeds	January 1977	Import of edible oils for direct human consumption or for refining and blending for direct human consumption was allowed with a view to overcoming the shortage of edible oils in the country. Import of oil-seeds for production of edible oil was also allowed. This facility was not available for vanaspati industry or for any other use, such as soap manufacturing, etc.
Cotton	January 1977	Additional Rs. 110 crores in free foreign exchange were released for the import of about 4 lakh bales of raw cotton from global areas. The entire quantity was to be contracted for and imported by the CCI Bombay and allocations were to be made by the Textile Commissioner to mills for their bonafide consumption only.
Edible oils and oil seeds	January 1977	Units engaged in the manufacture of vanaspati and also engaged in refining and blending and/or marketing of edible oils for direct use were considered eligible for import of edible oils. Alongwith their applications for import licences actual users in this category were to furnish an undertaking, that the imported edible oil would not be used in the manufacture of vanaspati but would be used only for blending, refining and/or marketing for direct use.

Item	Month of Announcement	Details
1	2	3
Rayon grade wood pulp	February 1977	Import of rayon grade wood pulp was brought under the scheme of direct allotment of imported raw materials to actual users by the canalising agency. Accordingly, all actual users, both in the large and small scale sectors were to register their requirements in this respect with the STC.
Raw wool	February 1977	Direct import of raw wool by the following categories of actual users engaged in the textile industry was permitted: (i) actual users holding industrial licence issued under certain provisions of the Industries (Development and Regulation) Act 1951, (ii) actual users engaged in the manufacturing of woollen products and hitherto recognised for release of raw wool under the actual user quota conditions, (iii) worsted/woollen spinners holding permits issued under the Woollen Textiles (Production and Distribution/Control) Order 1962, (iv) worsted spinners who have not so far been able to receive any quota for imported wool and (v) registered exporters of hosiery.
Watch parts	March 1977	Import policy for dealers in watches and parts of watches was liberalised.
Anti-cancer and life saving drugs	March 1977	General permission was granted for the import of anti-cancer drugs and life saving drugs of specified description by hospitals/nursing homes, registered medical practitioners and individuals, until further notice. The requirements regarding possession of licence/permit under the Drugs and Cosmetics Act, 1940, if any, was to be complied with before actual imports.
Open General Licence No. CXIII and CXIV	May 1977	General permission was granted for the import of machinery, raw materials, components, spare parts of machinery, consumables, tools, jigs, gauges and fixtures, packaging materials and technical and trade samples for a total c.i.f. value not exceeding Rs. 10,000 during 1977-78, unless such samples are supplied free of charge, from any country into Kandla Free Trade Zone and Santacruz Electronics Export Processing Zone. The import shall be only by an actual user situated in the KFTZ and SEEPZ and should be used in his own industrial unit exclusively for export production.
Imports through Air India/ Indian Airlines	May 1977	The facility given for importing raw materials/components/spares/capital goods/heavy electrical plants through Air India/ Indian Airlines against REP licences and Actual users' licences has been extended and would continue to be available upto March 31, 1978.
Edible oils and oil seeds	May 1977	All licences for edible oils/oil seeds under free licensing would be issued with a validity period of twelve months, provided the licensee undertook firm commitments for the import of oil/oil seeds within a period of three months from the date of issue of the licence, failing which the licence would be automatically invalidated. If licences, already issued, do not satisfy the aforesaid conditions, they would be deemed to have been invalidated.
Edible oils and oil seeds	May 1977	On a further review, it was decided that licences for import of edible oils and oil seeds would be granted on the basis of firm commitment entered into by the applicant with the overseas suppliers.
Dates, dry fruits, nutmegs/ mace, cinnamons and cloves	June 1977	Licences for import of dates, dry fruits, nutmegs/mace, cinnamons and cloves would be granted on the basis of firm commitments.
Cotton	June 1977	Last date for the shipment of cotton from the USSR against Indo-USSR Trade Plan 1976 was extended to 30th September 1977, with one month grace period.

Note: The salient features of the Import Policy for 1977-78 are discussed in Chapter IX: Developments in Trade and Tariffs.

B. CHANGES IN IMPORT DUTIES

Item	Month of Announcement	Details
1	2	3
Union Budget for 1977-78	June 1977	Changes in import duties announced in the Central Government budget for 1977-78. (a) Revision of the basic import duty on exposed cinematograph films from the specific rate to an <i>advalorem</i> rate; (b) Increase in the basic import duty on acrylic yarn from 100% <i>advalorem</i> plus Rs. 20 per kg. to 10% <i>advalorem</i> plus Rs. 30 per kg., (c) Increase in the basic import duty on polyester fibre from 100% <i>advalorem</i> to 140% <i>advalorem</i>; (d) Increase in the basic import duty on certain electronic components and materials to 100% <i>advalorem</i>; (e) Increase in import duty (basic plus auxiliary) on raw wool (including wool tops) from 45% <i>advalorem</i> to 75% <i>advalorem</i> and increase in duty on woollen waste and woollen rags from 5% to 25% <i>advalorem</i>; (f) Reduction in the import duty (basic plus auxiliary) on watches and parts thereof from 120% <i>advalorem</i> to 45% <i>advalorem</i>; (g) Reduction in import duty (basic plus auxiliary) on alloy steel and high carbon steel from 75% <i>advalorem</i> to 40% <i>advalorem</i>; (h) Reduction of import duty (basic plus auxiliary) from 45% to 40% <i>advalorem</i> and abolition of additional duty of Rs. 5,600 per tonne of electrolytic copper used in the manufacture of certain specified types of electric motors, generators and transformers; (i) Reduction of import duty (basic plus auxiliary) on stainless steel plates, sheet and strips from 120% and 320% <i>advalorem</i> to different rates ranging from 40% to 120% <i>advalorem</i> depending upon thickness; (j) Reduction of the total incidence of import duty on newsprint from 5% <i>advalorem</i> to 2½% <i>advalorem</i>.

APPENDIX III
TRADE AGREEMENTS AND TRADE AND PAYMENTS ARRANGEMENTS ENTERED INTO BY INDIA
DURING JULY 1976 TO JUNE 1977

Country	Date of Agreement/ Trade Protocol	Duration of Agreement/ Trade Plan	Commodity details	Other particulars
1	2	3	4	5
Bulgaria	November 16, 1976	January 1, 1977 to December 31, 1977	Imports: Machine tools, computer peripheral and accessories, capital goods and other equipment, urea, caprolactum, cranes and parts thereof, electrical transformers and spares, diesel generators and parts, chemicals and fertilizers, stainless steel plates, rolled steel products, C.R.G.O. electrical sheets, copper and brass sheets and wood pulp. Exports: Machine tools and accessories, metal-forming machines, electrical equipment, earth-moving machinery and equipment, steel products, drugs and pharmaceuticals, tea, coffee, cashew kernels, spices, groundnuts, de-oiled groundnut cakes, fruits and vegetables, jute manufactures, cotton textiles and yarn, tanned hides and skins, leather manufactures, tobacco, ferro-manganese ores, jute manufactures, iron ore, plastic goods and linoleum.	This is a trade plan for 1977 in terms of trade and payments agreement signed on March 6, 1974 in New Delhi.
Czechoslovakia	October 14, 1976	January 1, 1977 to December 31, 1977	Imports: Rolled steel products, capital goods and machinery, textile machinery and parts, machine tools, electric and electronic instruments and components, shoe making, tanning and leather making machinery and spare parts, diesel generating sets and spares thereof, spares and components for motor vehicles and tractors under collaboration scheme, laboratory instruments, newsprint, organic and inorganic chemicals, fertilizers and pharmaceutical materials etc. Exports: Tea, coffee, cashew kernels and other nuts, pepper, vegetable oil and oil cakes, tobacco, mica and mica products, iron and manganese ores, hides and skins, cotton yarn and textiles and manufactures thereof, jute manufactures, structural steel and fittings, hand tools and small tools, medicines and pharmaceuticals and textile machinery.	This is a trade plan for 1977 in terms of trade and payments agreement signed on December 4, 1974.

Country	Date of Agreement/ Trade Protocol	Duration of Agreement/ Trade Plan	Commodity details	Other particulars
1	2	3	4	5
German Democratic Republic	March 7, 1977	January 1, 1977 to December 31, 1980	Imports: Printing machinery and parts, mini computers and parts thereof, machine tools and metal making machinery, plastic machinery and wire-making manufacturing machinery, textile machinery and parts, agricultural machinery, generators and turbines, electrical and tele-communication equipments, cinematographic films—raw, including jumbo rolls, photographic materials, cargo ships, navigational and harbour equipment, diesel generating sets and spare parts, spares and parts for motor vehicles, chemicals, fertilizers, etc. Exports: Tea, coffee, spices, cashew kernels and other nuts, oil and de-oiled cakes, marine products, mica and mica products, machine tools, hand tools, fittings, steel pipes and tubes, iron ore, electric components and computer soft ware, chemical and allied products, leather and leather goods, coir and jute manufactures, cotton textiles and manufactures thereof, engineering goods, etc.	This is an annual trade plan in terms of trade and payments agreement signed on March 7, 1977.
Poland	October 21, 1976	January 1, 1977 to December 31, 1977	Imports: Ships and ships' equipment, metal working machinery and parts including textile and agricultural machinery, mining machinery and spare parts, electrical machinery, roller vessels, container oriented liner vessels and bulk carriers and equipment, agricultural aircraft, gliders and spares, capital goods and equipment of various types, such as equipment for Koradi project power station, special diesel engines and spares, railway machinery, zinc, synthetic rubber and yarn, chemicals, pharmaceuticals and various chemicals and fertilizers, etc. Exports: Tea, coffee, pepper, cashew kernels, fish, fruit and vegetables, vegetable oils, iron ore and minerals, mica, hides and skins, leather and leather goods, coir and jute products, cotton textiles and manufactures thereof, rayon and synthetic fabrics, handicrafts and jewellery, electrical appliances, steel pipes and fittings, building materials, bicycles and spare parts, chemicals, machine tools, hand tools, etc.	This is a trade plan for the year 1977, in terms of trade and payments agreement signed on December 21, 1974.

Country	Date of Agreement/ Trade Protocol	Duration of Agreement/ Trade Plan	Commodity details	Other particulars
1	2	3	4	5
Rumania	December 23, 1976	January 1, 1977 to December 31, 1977	Imports: Machinery and equipments for various industries, oil drilling and refining machinery and equipment, electrical machinery, machine tools, agricultural machinery including tractors and spares thereof, cargo vessels, chemicals and fertilizers, etc. Exports: Tea, coffee, spices, cashew kernels, de-oiled seed extractions, iron ore and other mineral ores, shellac and products, hides and skins, leather and leather goods, cotton textiles, jute goods, rolled steel products, engineering goods, etc.	This is a trade plan for 1977 in terms of trade and payments agreement signed on December 10, 1975.
U.S.S.R.	December 28, 1976	January 1, 1977 to December 31, 1977	Imports: Sunflower seed oil, mining and oil drilling equipments, agricultural machinery including tractors and spares thereof, textile machinery and parts, machine tools, electrical equipment, other machinery and equipment, steel mill rolls, air transportation means including helicopters, other equipment and spares, ships and marine engines, tankers and cargo ships, mineral oil, fertilizers and chemicals, ferro alloys and steels, newsprint, etc. Exports: Tea, coffee, spices, cashew kernels, essential oils (sandalwood oil, castor oil etc.), tobacco and cigarettes, mica and mica products, dyes, paints, varnishes and enamels, chemicals, leather and leather goods, textile manufactures, jute and coir products, aluminium cables, handicrafts, dry batteries, machinery and equipment manufactured at industrial enterprises built in India with the assistance of U.S.S.R., automobile ancillaries, and engineering goods, etc.	This is a trade plan in terms of trade agreement signed on April 15, 1976.
Colombia	December 30, 1976		Provide for exchange of lists of goods available for export and periodic consultation.	This agreement (which came into force on September 30, 1976) is initially valid for three years.
Nepal	August 14, 1976		The treaty of 1971 on trade and transit extended till such time the two countries negotiate and conclude a new treaty.	

Country	Date of Agreement/ Trade Protocol	Duration of Agreement/ Trade Plan	Commodity details	Other particulars
1	2	3	4	5
Portugal	April 7, 1977	Valid for 2 years and shall be automatically extended for a period of 2 years unless either side gives a written notice of its desire to terminate the Agreement.	Imports: Specialised textile machinery, materials handling equipment, fishing vessels and cargo ships. Exports: Coffee, tobacco, iron ore, sea foods, certain types of electrical goods and engineering goods.	This is the first trade agreement concluded with this country.
Bangladesh	September 28, 1976		Imports: Raw jute, newsprints and textile yarn thread. Exports: Coal, unmanufactured tobacco, iron and steel, machinery items and transport equipment.	The three years trade agreement which expired on September 27, 1976 has been renewed for a further period of three years.
Democratic Republic of Vietnam	September 30, 1976			The present agreement has been extended for six months from September 22, 1976.
Hungary	December 8, 1976		Imports: Special steel products, microwave equipment, machine tools, various kinds of machinery including garment-making machines, a large range of testing and measuring instruments, components for hydro-power stations, drugs and medicines in bulk and chemicals. Exports: Non-traditional consumer goods like tinned fruit juices and vegetables, cosmetics, gramophone records, cassettes, cotton hosiery and knit-wear garments, batteries, leather goods and stationery articles. Among traditional exports there will be de-oiled groundnut cakes, iron ore, jute goods, textiles, tobacco, tea, coffee and mica.	The long-term trade and payments agreement which was due to expire was extended for one year in this protocol signed in December 1976.

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