

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

REPORT ON CURRENCY AND FINANCE



**VOLUME I
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1977-78**



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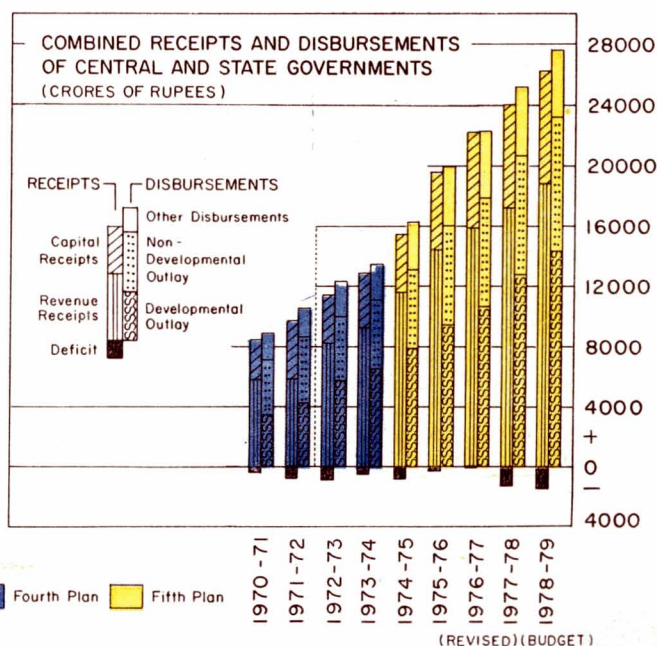
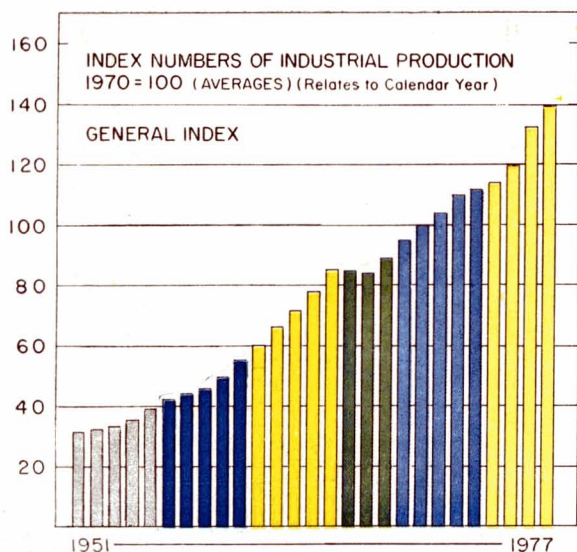
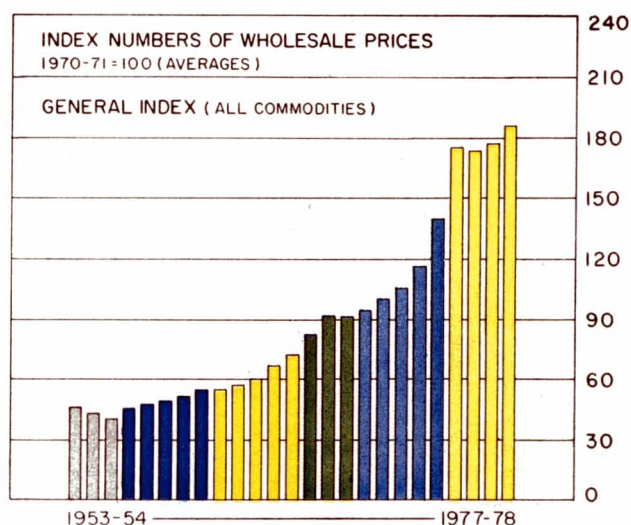
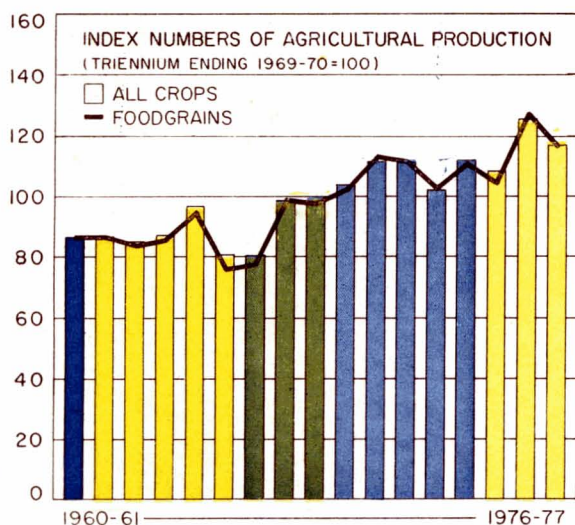
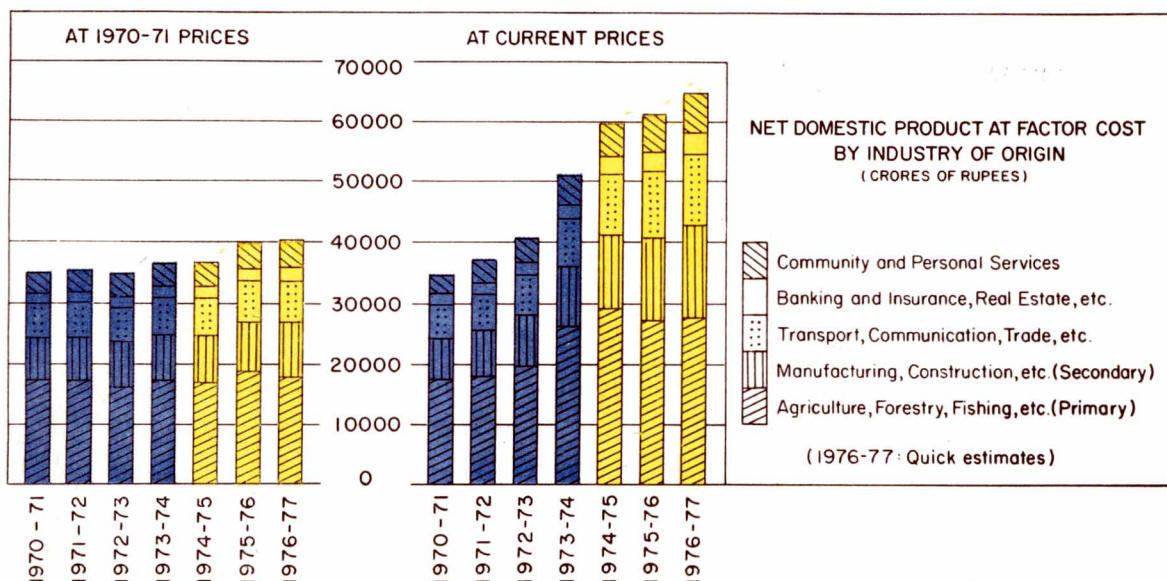
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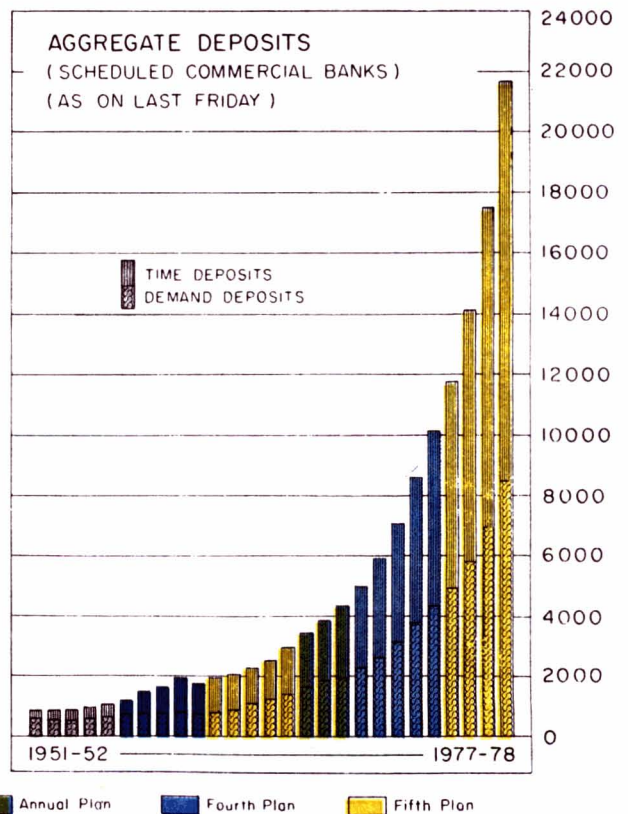
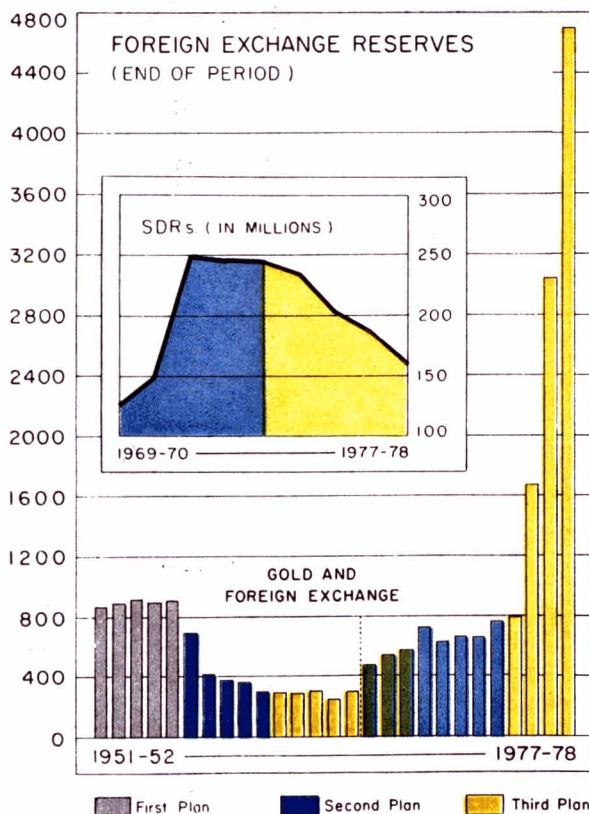
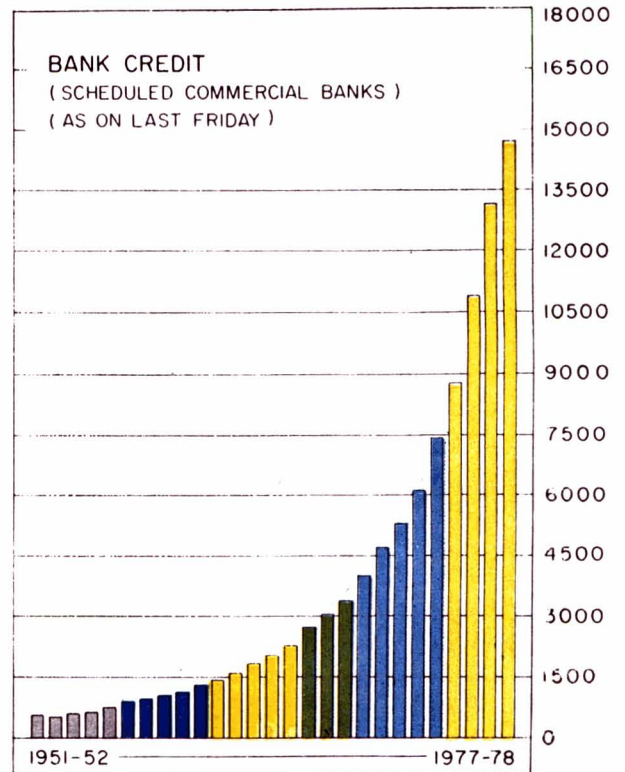
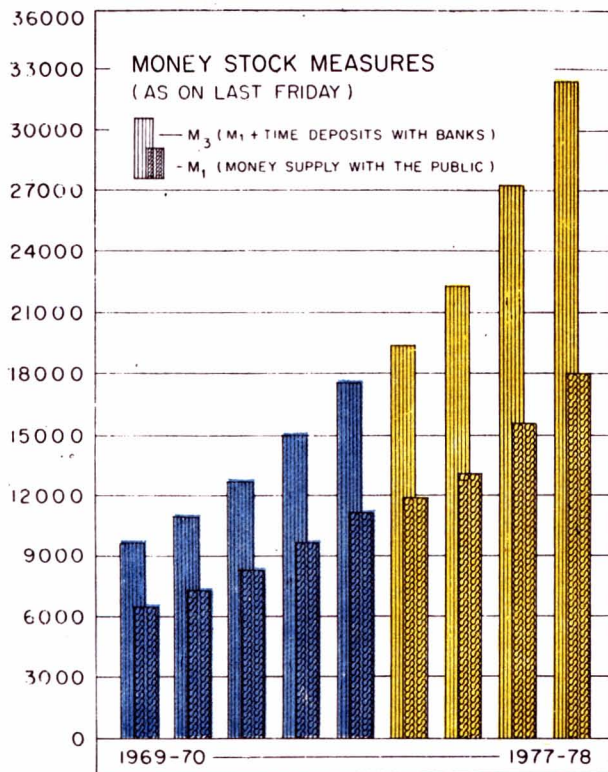
SELECTED ECONOMIC INDICATORS



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

SELECTED ECONOMIC INDICATORS

(CRORES OF RUPEES)



Chapter I

Review and Outlook

The principal economic indicators for the period July 1977 to June 1978 can, in the aggregate, be interpreted as a further enlargement of elements favourable to output expansion. The rate of growth in real national income showed a fairly impressive increase over the previous year. The food situation remained comfortable and the foreign exchange reserves continued to grow. Though money supply increased substantially for the second successive year, the price level remained relatively stable, principally because of the easier supply position of basic consumer goods. Certain details of this generally comforting picture are, however, less favourable.

The growth in real national income during the year at 6 per cent was not only much higher than the rate recorded in the previous year, which was only 1.6 per cent, but also exceeded the average pace of growth in the past decade. The average growth rate for the period 1965-66 to 1976-77 was 3.2 per cent and that for the six years 1970-71 to 1976-77 was slightly lower at 2.7 per cent. While the growth attained during the year was better than the annual average rate of about 5 per cent envisaged in the new draft Plan, its composition was strikingly unbalanced, which might suggest difficulties in sustaining the rate in the remaining years of the current Plan period. The growth in 1977-78 was principally on account of agriculture; and the record agricultural output, in turn, followed principally from favourable climatic conditions.

Output of foodgrains during the year reached a new high at 126 million tonnes—an improvement of 5 million tonnes over the earlier peak touched two years ago. Several cash crops—sugar-cane, tea, coffee and cotton—also

recorded substantial improvement in production levels. The larger use of fertilizers during the year no doubt contributed to the increase in agricultural output, and the reduction in fertilizer prices effected by the Government in 1977 was a factor that influenced the consumption of fertilizers. The off-take of fertilizers rose by 23 per cent during 1977-78; their use was also presumably more effective because of a better balance in the composition, with a pronounced increase in the consumption of phosphatic fertilizers in contrast to the former excessive reliance on nitrogenous fertilizers. Nonetheless, as the demand for fertilizers and other inputs declines sharply in the absence of favourable weather conditions, it was the good and well-spread rainfall that facilitated the use of more fertilizers and other inputs.

In contrast, industrial growth was disappointing. The spread-effect of good agricultural production was felt to some extent in industry, especially in the sugar industry—the output of which rose to an all-time record level. A consequential development is also worth noting; the subgroup “sugar, gur and khandsari” made a significant contribution to the reduction over the year in the wholesale price index. But the overall industrial growth was only about half that attained in the previous year. In the last Report (for the year 1976-77), certain features were cited as influencing the substantial growth in industrial output recorded that year. These were the improved availability of raw materials such as iron and steel and cement, railway wagons for transportation of goods, as also power. During the year reviewed in this Report, these same critical sectors were principally responsible for the slowing down of the pace of industrial growth, though not necessarily in the order in which they have been just listed.

The shortage of power was particularly acute in some areas with high concentration of industry; the available supplies of coal, iron and steel and cement were inadequate to meet current demand; and transport bottlenecks delayed the movement of goods. Fortunately, in the latter part of the year there were indications of improvement in all these respects. Electricity generation in the period December to June 1978 improved by 10.4 per cent over the preceding five months; in comparison, electricity generation showed a rise of 5.2 per cent only in the corresponding periods of the previous year.

All the same, sluggishness and uncertainty marked the psychology prevailing during the year as a whole, perhaps inevitably in a period when new policies were being formulated. This is reflected in the tempo of saving and investment during the year; according to the provisional estimates for 1977-78 made in the Reserve Bank, despite money incomes growing at a higher rate than in the previous year, aggregate domestic savings showed a decline of 5 per cent, mainly because of a fall in the financial savings of the household sector. As in the past two years, aggregate savings exceeded domestic investment in 1977-78 also, but the net outflow of resources was lower than in the preceding year.

The outflow of resources reflects a surplus in the current account in the balance of payments, adjusted for certain items. This surplus, while contributing to the accumulation of our foreign exchange reserves, is not equivalent to the annual addition to the reserves, which cover other components as well. In Chapter X, the trends in reserves are discussed in detail. A feature of consequence to the economic outlook for the immediate future is the pronounced slackening in the pace of accretion to the reserves in the last quarter of the financial year. The increase in reserves over the year as a whole was Rs. 118 crores more than in the previous year. But in the quarter April-June 1978, the Reserve Bank's

foreign currency assets rose by Rs. 19 crores only, while the increase in the immediately preceding quarter (January-March 1978) was Rs. 501 crores and that in the corresponding quarter of the previous year was as much as Rs. 719 crores.

This sharp decline in the reserve growth follows from the slackening in the growth of exports and the sharp increase in imports. The growth in exports during 1977-78 (financial year) is placed at only 4.5 per cent. This was sharply down from the growth of 27.3 per cent in the preceding year but has to be viewed in the context of the growth of barely 4 per cent in the volume of world exports in 1977. Some of the developments contributing to the lower growth of India's exports in 1977-78 could be considered transitory. This would apply to the regulation of exports of a few commodities such as fresh vegetables and tea in the interests of domestic price stability. The set-back in the export of a commodity like cashew kernels because of difficulties in obtaining raw material can also be expected to be overcome. But there are more fundamental factors such as the poor growth in the volume of world trade, and the growing protectionist sentiments abroad—both reflecting largely the recessionary conditions in major industrial economies—which would continue to adversely affect our exports. At the same time, the prospect in respect of non-merchandise receipts, which have contributed substantially to the growth in reserves in recent years, is somewhat mixed. While the increase in receipts from travel, transportation, investment and technical services may be sustained, the remittances from Indians abroad for family maintenance may have already begun to level off, since the emigration of Indians for employment overseas, especially to the Middle East, is now probably past its peak. Simultaneously, there has been a marked uptrend in imports, following the liberalisation measures. For the year as a whole, imports registered an increase of 19.6 per cent, while in the previous year they had declined by 3.6 per cent. This spurt in imports was undoubtedly influenced by the

pent-up demand for a variety of industrial inputs, the imports of which were facilitated by the relaxation of controls. After meeting such demand, industrial imports may not continue to increase at the same pace. However, as the policy of liberalisation is extended and its effects take hold, imports may be expected to continue to rise.

The present level of our foreign exchange reserves, at just over Rs. 4,500 crores at the end of June 1978, appears comfortable, especially in contrast with the reserve levels upto 1976. In considerable measure, this position has followed from the fact that agricultural production in the past few years has not only obviated the need for large scale imports of food, but permitted the build-up of substantial stocks of foodgrains. Nonetheless, a predominantly agricultural economy has to be prepared for the consequences of sharp fluctuations in domestic output as well as in world prices and availability of agricultural commodities. Further, unlike the industrial nations, India lacks access to "secondary" reserves such as swap lines of credit and large-scale borrowings in private international capital markets. Seen in this light, the country's foreign exchange reserves cannot be considered as abundant. The recent developments in the quantum of export and import trade and in the pace of reserve accretion underline the need not to be complacent about the external payments position.

In regard to food reserves there is the need for a rapid turnover because of the possibility of deterioration and waste, and the problems of storage. Further, the accumulation of food stocks beyond minimal buffer stock requirements represents the loss of an opportunity of deploying a resource for development. The new development strategy, spelt out in the Five Year Plan, places emphasis on economic decentralisation with a bias towards rural and small-scale sectors. Excess food reserves can be utilised effectively towards the strengthening of these sectors. The limited operation of the Food for Work programme, initiated during the year,

marks only a beginning in this direction. A widespread and successful implementation of such a programme requires a massive organisational effort. At present, even the spread of the food distribution net-work is limited and urban-biased. Institutional rigidities, which cannot be easily overcome especially in the short run, may prove a major handicap at the present stage of planned development.

Various policies were adopted during the year, directed towards an improvement of the investment climate. Industrial licensing requirements have been relaxed, imports liberalised, and a revival of the new issues market sought through tax benefits for investment in new capital issues. A lowering of the interest rates structure has brought down the cost of credit. However, it is only as the public sector investment outlays proposed under the Plan gain momentum and their spread-effect is established that the economy would be fully freed from its present state of sluggishness. Even as the tempo of investment activity picks up, certain infrastructural inadequacies, already evident, are likely to prove more acute. The position in regard to power generation is an example. The problem of industrial sickness, which has been growing in dimension and seriousness, suggests some basic imbalances within the industrial sector which would require attention.

The price situation during the year was generally satisfactory, with a decline of 2.1 per cent in the wholesale price index over the period end-June 1977 to end-June 1978. In the corresponding previous year, the index had risen by 8.6 per cent. This decline was brought about largely by the comfortable position in regard to the availability of several sensitive commodities through the effective management of supplies. The import of commodities in short supply like vegetable oils, the regulation of exports of some items and the relaxation of restrictions on internal movement of foodgrains were measures taken to this end. Further extension of this improvement and the stabilisation in prices are imperative. But there are elements in the present situation which portend

difficulties. In the first place, the rate of growth in money supply continues to be very high—18.4 per cent in the year under review and 16.6 per cent in the previous year. This pace of increase has to be seen in conjunction with the annual average increase of about 5 per cent in real national income. Secondly, the decline in the wholesale price index has so far not

been fully reflected in consumer prices. Perhaps the reduction in wholesale prices will have to be more pronounced, widespread and sustained for the benefit to be felt fully at the consumer level. While increasing investment and other developmental outlays, it will therefore remain necessary to maintain overall monetary restraint.

Chapter II

National Income, Savings and Investment

1. Trends in National Income

The growth rate in real net national product during 1976-77, the latest year for which the estimates prepared by the Central Statistical Organisation are available, has been placed at 1.4 per cent, sharply down from the record increase of 8.7 per cent achieved in 1975-76. With the increase in population assumed to be at an average annual rate of 2 per cent this would mean that the per capita income has fallen by 0.6 per cent (Table II.1).

The sluggish growth in national income during 1976-77 is mainly ascribable to lower agricultural output, which resulted in the net product originating from agriculture declining over the year by 6.1 per cent as against a rise of 11.1 per cent in 1975-76. Apart from this, the growth rates were lower than those in the last year, in forestry and logging, mining and quarrying, construction, transport, storage and communication and trade, hotels and restaurants. Important sectors which showed

substantial increases over the years included manufacturing, fishing, electricity, gas and water supply and banking and insurance. At current prices net national product at factor cost is estimated to have increased by 6.1 per cent.¹

Official estimates of national income in 1977-78 are not available so far. However, the growth rate in GNP during the year, in real terms, has been provisionally placed at 6 per cent.

2. Aggregate Domestic Savings

According to provisional estimates, although the rate of growth in money income in 1977-78 was much higher than that in the preceding year, aggregate domestic savings recorded an absolute decline of Rs. 553 crores or 4.8 per

¹For details please see "Review of National Accounts Statistics" in the April 1978 issue of the RBI Bulletin.

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

						(Rupees Crores)				
						1973-74	1974-75	1975-76	1976-77	1977-78@
National Income										
At 1970-71 prices	..	..	..	..	..	36183 (+ 5.4)	36455 (+ 0.8)	39626 (+ 8.7)	40164 (+ 1.4)	42574 (+ 6.0)
At current prices	..	..	..	..	..	50498 (+25.0)	59417 (+17.7)	60596 (+ 2.0)	64279 (+ 6.1)	70257 (+ 9.3)
Per Capita Income (Rs.)										
At 1970-71 prices	..	..	..	..	..	626 (+ 3.3)	618 (- 1.3)	659 (+ 6.6)	655 (- 0.6)	675 (+ 3.1)
At current prices	..	..	..	..	..	874 (+22.4)	1007 (+15.3)	1008 (+ 0.1)	1049 (+ 4.1)	1114 (+ 6.2)

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

@ Estimated.

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

cent as against a marked rise of over Rs. 2,000 crores or 22 per cent, in the preceding year, which would suggest a proportionate increase in aggregate consumption expenditure in the economy. As a result, domestic savings as a proportion of net national product at current prices (factor cost) fell from the record rate of 17.9 per cent in 1976-77 to 15.6 per cent in 1977-78.

Estimates of savings are made on the basis of sector of origin, for which purpose the economy is segregated as follows: (1) household sector comprising individuals; non-Government, non-corporate entities in agriculture, trade and industry; and non-profit organisations like trusts, charitable and religious institutions; (2) public sector comprising Central and State Governments, local authorities, and departmental and non-departmental undertakings; (3) domestic private corporate sector comprising non-government financial institutions, non-financial public and private limited companies and co-operative institutions.

Savings in each of these sectors are discussed below.

3. Household Sector

Savings of the household sector comprise savings in the form of financial assets and physical assets from which the change in the sector's financial liabilities has to be deducted. The resultant net savings of the household sector continued to have a preponderant share (about two-thirds) in the totality of domestic savings. The saving behaviour of this particular sector is thus the deciding factor of the overall size of domestic savings. During 1977-78, the saving-income ratio of households declined sharply to 10.4 per cent from 12.5 per cent in 1976-77 (Table II.2).

Financial Assets :

Savings in the form of financial assets accounting for more than 86 per cent of the household's total savings, are estimated to have declined from Rs. 7,143 crores in 1976-77 to Rs. 6,301 crores or 11.1 per cent of NNP at current prices to 9.0 per cent. All the com-

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

Sector	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1976-77	1977-78
1. Public Sector	3203	3363
Per cent of Net National Product at current prices	5.0	4.8
2. Domestic Private Corporate Sector (including co-operatives)	270	308
Per cent of Net National Product at current prices	0.4	0.4
3. Household Sector	8041	7290
Per cent of Net National Product at current prices	12.5	10.4
4. Total Domestic Savings (1+2+3)	11514	10961
Per cent of Net National Product at current prices	17.9	15.6

ponents, except insurance, provident funds and corporate and co-operative shares/debentures (inclusive of the units of UTI), recorded declines (Tables II.3 & 4).

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

Item	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1976-77	1977-78
1. Financial Assets (Gross)	7143	6301
Per cent of Net National Product at current prices	11.1	9.0
2. Physical Assets	2121	2318
Per cent of Net National Product at current prices	3.3	3.3
3. Financial Liabilities	1223	1329
Per cent of Net National Product at current prices	1.9	1.9
4. Total Net Savings (1+2-3)	8041	7290
Per cent of Net National Product at current prices	12.5	10.4

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

Item	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1976-77	1977-78
Total Financial Assets (1 to 6)	7143	6301
Per cent of Net National Product at current prices	11.1	9.0
1. Currency	1109	749
(a) Per cent of Total Financial Assets	15.5	11.9
(b) Per cent of Net National Product at current prices	1.7	1.1
2. Deposits	3532	3491
(a) Per cent of Total Financial Assets	49.4	55.4
(b) Per cent of Net National Product at current prices	5.5	5.0
3. Insurance	527	590
(a) Per cent of Total Financial Assets	7.4	9.4
(b) Per cent of Net National Product at current prices	0.8	0.8
4. Provident Funds	1130	1193
(a) Per cent of Total Financial Assets	15.8	18.9
(b) Per cent of Net National Product at current prices	1.7	1.7
5. Claims on Government	748	133
(a) Per cent of Total Financial Assets	10.5	2.1
(b) Per cent of Net National Product at current prices	1.2	0.2
6. Corporate and Co-operative shares and debentures including units of Unit Trust of India	97	145
(a) Per cent of Total Financial Assets	1.4	2.3
(b) Per cent of Net National Product at current prices	0.2	0.2

CURRENCY

Savings in the form of currency at Rs. 749 crores were much lower than that of Rs. 1,109 crores in the previous year. Its share in the total financial assets declined from 15.5 per cent to 11.9 per cent in 1977-78. The decline in the savings of household sector through currency probably reflects the combined effect of substitution among available financial and physical assets, and fall in the money income of the farm sector in 1976-77 following the poor agricultural output.

DEPOSITS

The deceleration in aggregate deposits accretion with banks during the year (20 per cent as compared with 26 per cent last year) contributed to the lower order of savings in this financial asset than in the preceding year. In absolute terms, deposits held by the household sector declined from Rs. 3,532 crores to Rs. 3,491 crores. However, as compared with the position last year, there was substantial improvement in the share of deposits in total financial assets implying that deposits continued to be the most popular asset of the household sector.

INSURANCE AND PROVIDENT FUNDS

Insurance and provident funds, which represent contractual savings of the household sector, increased by a lower amount during the year. Savings in insurance are measured by changes in the Life Fund of the Life Insurance Corporation of India, postal insurance and State insurance and premium deposits with the Life Insurance Corporation. Of these, life insurance constitutes the bulk of the savings. The growth in the Life Fund of the LIC which depends on savings mobilised through new business is estimated to be of the same order as in the previous year. The rise in State Insurance is much larger than that of 1976-77. Thus, the total savings in this form at Rs. 590 crores were higher by Rs. 63 crores over the year. Although its proportion to aggregate financial savings increased from 7.4 per cent to 9.4 per cent,

no change is marked in relation to national income from the previous year's level of 0.8 per cent.

Accruals under provident funds comprising the Employees Provident Fund, State Provident Funds and 'other Provident Funds' amounted to Rs. 1,193 crores as compared with Rs. 1,130 crores in 1976-77. Among these, the Employees Provident Fund contributes more than half of the savings in this form. The share of provident funds in total financial assets moved up from 15.8 per cent to 18.9 per cent, while as a proportion of NNP these funds remained at the previous year's level of 1.7 per cent.

CLAIMS ON GOVERNMENT

Claims on Government represent small savings collections, household's direct investment in Government securities, and deposits made under Compulsory Deposit Scheme (applicable to employees and income-tax payers). There was a steep fall in this form of savings during 1977-78, following partial scrapping of the Compulsory Deposit Scheme and repayments, in instalments, of amounts impounded in the earlier years. Accretions under the Compulsory Deposits fell perceptibly from Rs. 613 crores to a nominal sum of Rs. 14 crores in 1977-78. This, coupled with lower small savings collections, resulted in a sharp decrease in the savings in the form of claims on Government from Rs. 748 crores in 1976-77 to Rs. 133 crores in 1977-78; the proportion of these assets in the total household sector's savings declined in the period from 10.5 per cent to 2.1 per cent.

OTHER FINANCIAL ASSETS

These include the household sector's holdings of shares and debentures of the corporate and cooperative sectors, and units of the Unit Trust of India. These are estimated to have increased by Rs. 48 crores to Rs. 145 crores mainly because of the increase in investments in units of the Unit Trust of India (Rs. 40 crores in 1977-78 as against Rs. 18 crores in 1976-77).

Financial Liabilities

The financial liabilities of the household sector consist of borrowings from commercial and cooperative banks; loans from the Life Insurance Corporation of India, Central and State Governments; and net borrowings from the corporate sector in the form of trade credit i.e., change in net trade credit position. Liabilities by way of bank advances, that is advances from commercial banks and co-operatives, recorded a substantial increase over the year. Borrowings from the corporate sector which has been a net lender to the household sector since 1975-76 (because the amount of trade credit the corporate sector received from the household sector was less than the trade debt it allowed to the latter) increased by Rs. 50 crores as against a marked rise of Rs. 211 crores in 1976-77. Of the other components, while advances by the Government sector declined, those by the LIC and other financial institutions showed nominal increases. On the whole, additions to financial liabilities of the household sector, aggregated to Rs. 1,329 crores in 1977-78, as compared with Rs. 1,223 crores in 1976-77.

4. Savings of the Public Sector

The public sector's contribution to total domestic savings rose from 27.8 per cent to 30.7 per cent in 1977-78. Bulk of the public

sector savings is accounted for by the Union and State Governments (including departmental undertakings), the rest being contributed by non-departmental undertakings.

Savings of the Union Government

Net savings of the Union Government administration are estimated to have declined from Rs. 457 crores to Rs. 338 crores representing a deterioration from 5.7 per cent in 1976-77 to 3.8 per cent in 1977-78, in relation to the revenue receipts of the Government. At Rs. 278 crores, savings of departmental undertakings in the form of retained earnings and depreciation provisions, (net of expenditure on renewals and replacements) increased over the year, but by a smaller amount of Rs. 16 crores; the rise in such savings amounted to as much as Rs. 280 crores in 1976-77.

Estimated savings of State Governments and local authorities amounting to Rs. 2,132 crores recorded an increase of 8.5 per cent in contrast to the decline of 2 per cent in 1976-77 (Table II.5).

Other constituents of the public sector showing increases in savings included non-departmental financial institutions like public sector banks, the Reserve Bank of India and non-departmental commercial undertakings. Re-

Table II.5: Savings of the Public Sector (Group-wise)
(Provisional)

Item	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1976-77	1977-78
1. Central Government (including Departmental undertakings)	719	616
2. State Governments and Local Authorities	1965	2132
3. Non-Departmental Financial and Non-Financial Undertakings	519	615
4. Total (1 + 2 + 3)	3203	3363
Per cent of Net National Product at current prices	5.0	4.8

tained profits of the Reserve Bank, represented by transfers to various National Funds, increased by Rs. 55 crores (to Rs. 345 crores) compared with Rs. 69 crores in 1976-77. Likewise, the rise in the savings of the public sector non-departmental companies, from Rs. 190 crores to Rs. 224 crores, was less than half of that in 1976-77.

5. Savings of the Domestic Private Corporate Sector

Estimates based on partial data indicate that savings of the non-government corporate sector (including co-operative institutions) have risen from Rs. 270 crores to Rs. 308 crores in 1977-78. As a proportion to total savings in the economy, they improved marginally from 2.3 per cent to 2.8 per cent. However, in terms of NNP, the share at 0.4 per cent was the same as in the previous year. Preliminary examination of the data indicates that while there has been a decline in retained profits over the year, the tax provision (net of advances of tax) recorded a substantial increase as against nil change in 1976-77.

6. Aggregate Investment in the Economy

Aggregate investment in the economy is estimated on the basis of total domestic savings and net inflow or outflow of resources to or from the economy.² The net inflow or outflow

²Net inflow of foreign resources comprises net current account deficit on balance of payments excluding net official transfer payments, retained earnings and non-cash inflow of foreign controlled rupee companies and net transactions on account of branches of foreign companies. This is different from net external assistance which represents the amount of such assistance adjusted for debt servicing charges and amortisation payments.

of resources is measured by the position (i.e. deficit or surplus) in respect of balance of payments on current account. According to preliminary estimates based on partial data available in this regard, there has been a net outflow of resources from the country but of a lower order than in the last year. Such net outflow as a proportion of NNP, had increased from 0.3 per cent in 1975-76 to 1.8 per cent in 1976-77 and was lower at 1.4 per cent in 1977-78. This fall in outflow has to be viewed in the context of the decline in the overall savings itself.

Thus, during 1977-78 also, savings exceeded investment in the economy as in the past two years. During the three years 1975-76, 1976-77 and 1977-78 investment as a proportion of NNP was of the order of 15.3 per cent, 16.1 per cent and 14.2 per cent as against the saving rates of 15.6 per cent, 17.9 per cent and 15.6 per cent respectively.

Sectoral Investment

A brief account of the investment position in various sectors during 1977-78 on the basis of available indicators from diverse sources is presented below.

PUBLIC SECTOR

Capital formation of the Central Government through the budget allocations as a proportion of NNP at 8.1 per cent showed a slight improvement over the position in 1976-77 (7.5 per cent). Gross capital formation takes two forms: direct investment, and financial assistance provided for investment purposes. Over the year, gross direct fixed capital forma-

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

	1976-77	1977-78
1. Domestic Savings	17.9	15.6
2. Inflow of Foreign Resources (Net)	(-) 1.8	(-) 1.4
3. Aggregate Investment (Net) (1+2)	16.1	14.2

tion improved by Rs. 183 crores, which was about Rs. 43 crores higher than that in 1976-77. Besides, the increase of Rs. 778 crores to Rs. 4,657 crores in the financial assistance for investment purposes to States, Union Territories and non-departmental commercial undertakings and others, was higher, as compared with a rise of Rs. 420 crores in 1976-77. Of the assistance so provided, the share of State Governments was larger (49 per cent) than that of non-departmental undertakings (47 per cent). This was in contrast to the position in 1976-77 when the assistance provided to non-departmental commercial undertakings was much higher (56 per cent) than to the State Governments (39 per cent).

Gross capital formation in non-departmental commercial and industrial undertakings during 1976-77 rose by a lower amount of Rs. 151

crores (to Rs. 3,522 crores), as against a marked rise registered in 1975-76 (by Rs. 1,532 crores to Rs. 3,371 crores). The substantial improvement in gross fixed assets formation (by Rs. 720 crores) was offset by a marked fall in inventory accumulation (Rs. 569 crores). Relevant data for 1977-78 are not yet available. However, judging by the trend in the financial assistance provided by the Central Government for financing investment activities, as also by that in the savings of these undertakings in the form of retained earnings, the rate of capital formation in 1977-78 would seem to have been much lower than in 1976-77.

PRIVATE CORPORATE SECTOR

A precise estimate of the magnitude of the investment of the private corporate sector is not possible. Nevertheless an estimate of the trend in investment could be made with the

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

								(Rupees Crores)	
								1976-77	1977-78 (R.E.)
1.	Gross direct fixed capital formation	..	..	..	..	..	..	1090	1273
2.	Variation in Inventories	..	..	..	..	..	..	22	(-)31
(a)	Works stores	..	..	..	..	..	..	(-)30	34
(b)	Stocks of foodgrains and fertilisers	..	..	..	..	..	..	52	(-)65
3.	Net capital formation (i.e. gross direct fixed capital formation minus expenditure on renewals and replacements plus increase in inventories)	..	..	..	..	..	..	945	1047
4.	Financial Assistance for Capital Formation	..	..	..	..	..	..	3879	4657
(a)	To States, Union Territories	..	..	..	..	..	..	1524	2258
(b)	To non-departmental commercial undertakings	..	..	..	..	..	..	2183	2206
(i)	Financial concerns	..	..	..	..	..	..	278	338
(ii)	Others	..	..	..	..	..	..	1905	1868
(c)	Other parties	..	..	..	..	..	..	172	193
5.	Investments in Central Government's non-departmental industrial and commercial undertakings	..	..	..	..	..	..	3522	N.A.
(i)	Gross Fixed Assets	..	..	..	..	..	..	2283	N.A.
(ii)	Variation in Inventories	..	..	..	..	..	..	1239	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, 1976-77, Ministry of Finance, Government of India.

aid of identifiable sources of funds flowing to this sector through financial intermediaries and resources generated internally. The data on sources and uses of funds are presented in Table II.8. It may be seen that except for retained earnings and capital raised in the stock market, the funds obtained through borrowings

from term-lending institutions, commercial banks, Central and State Governments, and depreciation provisions increased substantially during the year. These data suggest larger capital formation, at least in absolute terms, in the private corporate sector during 1977-78.

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

(Rupees Crores at Current Prices)					
Financial Year (April-March)					
Sources			Uses		
	1976-77	1977-78		1976-77	1977-78
1. Capital Raised (including debentures)	101	105	1. Cash and Bank balances and Investments	25	21
Less—Intra—sectoral Flows (Estimated)	20	21	2. Sundry Debtors	393	234
	81	84			
2. Retained Profits	215	193	3. Gross Fixed Assets and Inventories	1205	1522
3. Change in Tax Provision	—	46			
4. Borrowings	468	524			
5. Sundry Creditors	182	184			
6. Depreciation Provision	677	746			
7. Total	1623	1777	4. Total	1623	1777

N.B.: Borrowings under item 4 include borrowings from commercial banks, term financing institutions and others.

Chapter III

Agricultural and Industrial Output

1. Agricultural Output

Agricultural production during 1977-78 is estimated to be higher by about 11 to 12 per cent than in the previous year; this was in contrast to a decline of 7 per cent in 1976-77. The increase in 1977-78 was attributable to favourable overall climatic conditions which also enabled larger use of fertilisers. Production of foodgrains, sugarcane, tea and coffee scaled new peaks; even other important agricultural commodities showed improvement over the production levels in 1976-77.

1. Foodgrains

PRODUCTION AND DISTRIBUTION

The total foodgrains production in 1977-78 is estimated at around 126.0 million tonnes, which would be higher than the earlier peak of 120.8 million tonnes reached in 1975-76.

Production in 1976-77 was 111.6 million tonnes. Both *kharif* and *rabi* foodgrains production are estimated higher at about 77.0 million tonnes and 48.0 million tonnes in 1977-78 as against 66.6 million tonnes and 45.0 million tonnes, respectively, in 1976-77.

The overall net availability of foodgrains which had declined from 102.1 million tonnes in 1976 to 99.3 million tonnes in 1977, is expected to rise during 1978 (Table III.1). The daily per capita availability of foodgrains which declined from 457.8 grammes in 1976 to 438.7 grammes in 1977 is expected to rise during 1978.

Offtake from the public distribution system was higher at 11.6 million tonnes in 1977 as compared to 9.2 million tonnes in 1976. During January-June 1978, the quantum of public distribution was also marginally higher at

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

(Million tonnes)										
Year	Gross output(a)	Net output	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
1972	.. 105.2	92.0	— 0.5	— 4.7	96.2	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	4.8	— 0.4	96.8	452.5	411.6	40.9	5.7	10.8
1975	.. 99.8	87.3	7.4	+ 5.6	89.1	408.6	368.5	40.1	9.6	11.3
1976	.. 120.8	105.9	6.5	+10.3	102.1	457.8	406.6	51.2	12.8	9.2
1977*	.. 111.6	97.6	0.5	— 1.2	99.3	438.7	395.4	43.3	10.2	11.6

* Provisional.

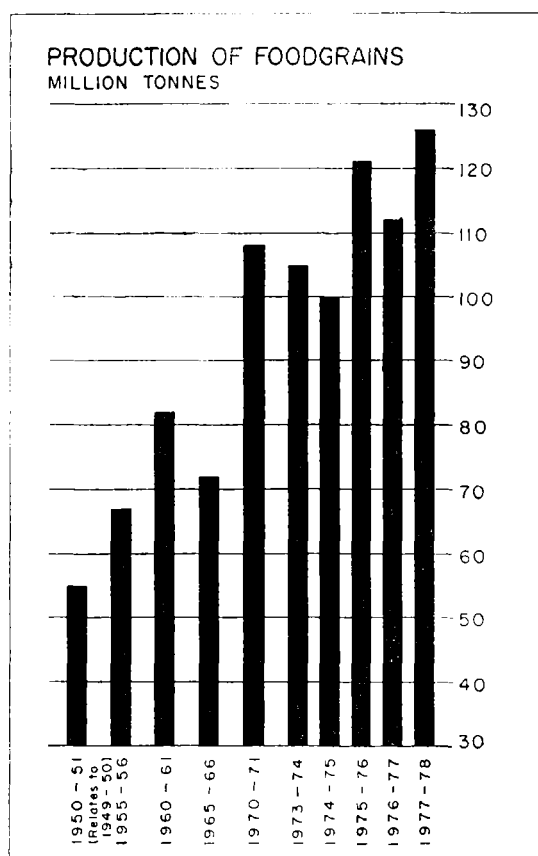
(a) For the agricultural year July-June.

@ 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, 1977-78, Government of India.



5.6 million tonnes than 5.5 million tonnes during the corresponding period of 1977. The requirements of State Governments in respect of rice and wheat for supply through the public distribution system were fully met. In addition, wheat was made available to State Governments for "Food for Work" programme and relief work in cyclone/flood affected areas. Also a part of the Soviet wheat loan was returned in kind. A small quantity of foodgrains were made available to countries like Vietnam and Indonesia for meeting their shortages.

RATIONING—STATUTORY AND INFORMAL

In view of the comfortable supply position of foodgrains, controls and restrictions on movement and/or distribution of foodgrains were considered unnecessary. Statutory rationing of foodgrains was discontinued except in

Greater Calcutta and Durgapur-Asansol group of industrial towns in West Bengal. The population covered under statutory rationing was about 9.5 million at the end of 1977. Informal rationing of foodgrains continued in other areas. The total number of fair price/ration shops functioning in the country by the end of 1977 increased to 2.43 lakhs from 2.36 lakhs at the end of 1976.

PROCUREMENT AND BUFFER STOCKS

Though no specific targets were fixed, the actual procurement in the year so far turned out to be higher than that in the corresponding period of last year. Procurement of rice between November 1977 and August 26, 1978 was higher at 4.8 million tonnes as against 4.3 million tonnes procured during the corresponding period of the last season. During the 1978-79 season, purchases of wheat by the Government till August 26, 1978 aggregated 5.4 million tonnes as against 5.1 million tonnes procured during the corresponding period of last season (Table III.2). Under the price support measure, the Government procured 17.8 thousand tonnes of *kharif* coarse grains by the end of July 1978. The total physical stocks with the Central and State Governments were lower at 19.0 million tonnes at the end of June 1978 than a year ago (20.7 million tonnes).

2. Commodity-wise Review

RICE

Rice production during 1977-78 is estimated at 50.0 million tonnes; at this level, it would surpass the earlier peak of 48.7 million tonnes reached in 1975-76 and the output of 42.8 million tonnes in 1976-77 (Table III.2).

Under the *kharif* policy for the 1977-78 season, the Agricultural Prices Commission (APC) had recommended an increase of Rs. 3 in the procurement price of paddy from Rs. 74 in 1976-77 to Rs. 77 per quintal. The Commission also recommended a procurement target for rice of 5 million tonnes.

@Please see page No. 28 for details.

Table III.2: Basic Data Relating to Major Foodgrains

(Million tonnes)															
Year	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	
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	..	48.7	28.8	29.5	6.3	6.6	0.3	0.1	7.1	0.3	3.2	7.5	2.6	4.8	0.4
1976-77	..	42.8	29.1	28.5	4.4	5.2	0.3	0.1	5.8	0.5	3.7	5.1	5.7	12.3	0.7
1977-78	..				4.8*	5.4*		—	0.5	—	4.6	6.2	5.7	11.5	0.2

* Upto August 26, 1978.

Notes: 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.

As regards zonal arrangements, the Commission felt that the existing rice zones could be selectively enlarged keeping in view their viability and the need for increasing the rice component of the buffer stock of foodgrains. Government accepted the recommendation relating to prices, but did not fix any procurement target and also made free, the inter-state movement of rice and paddy with effect from October 1, 1977. Since no procurement target was fixed, the scheme of bonus to State Governments in excess of the target has been done away with. The issue price of rice has been retained in the range of Rs. 135 to Rs. 172 per quintal (Table III.3). A premium of Rs. 5 per quintal to millers for processing par-boiled rice was announced for 1977-78 as also for the next two years.

Rice procurement during 1977-78 season so far (November 1977 to August 26, 1978) totalled 4.8 million tonnes compared with 4.3 million tonnes in the corresponding period of 1976-77.

In 1977, 4.6 million tonnes of rice were distributed through the public distribution

system as against 3.7 million tonnes distributed in 1976. During January-June 1978, distribution of rice through public distribution system aggregated 1.7 million tonnes as against 2.2 million tonnes during the corresponding period of 1977.

In view of the comfortable stock position, the Government decided to export on a payment basis 50,000 tonnes of rice to Indonesia. During 1977, 19,500 tonnes of Basmati rice was exported.

WHEAT

Wheat production in 1977-78 is estimated at around 31.0 million tonnes as compared with 29.1 million tonnes during 1976-77 (Table III.2).

Under the procurement policy for wheat for the 1978-79 marketing season (April-March), procurement price for the fair average quality wheat has been fixed at a marginally higher level, Rs. 112.50 per quintal, as against the APC's recommendation to retain the preceding season's price of Rs. 110 per quintal (Table III.3). No procurement targets have been fixed

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

(Rupees per quintal)

Commodity	1974-75			1975-76			1976-77			1977-78		
	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		74.00			74.00			74.00			77.00	
Rice ..		104.00-	135.00-		135.00-			135.00-			135.00-	
(Standard Variety) ..		125.00										
(Coarse Variety) ..		115.78-	172.00		172.00			172.00			172.00	
		125.00										
Wheat*		105.00	125.00		105.00	125.00		110.00	125.00		112.50	125.00
Jowar		74.00	86.00		74.00	86.00		74.00	86.00		74.00	86.00
Bajra		74.00			74.00			74.00			74.00	
Maize		74.00			74.00			74.00			74.00	
Ragi		74.00			74.00			74.00			74.00	
(Small Millets)												
(Kodon & Kutki) ..		—			—							
Barley				65.00			65.00			67.00		
Gram				90.00			95.00			125.00		

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

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

for the marketing season of 1978-79. The procurement of wheat by the State public agencies would be mainly by way of price support operations. The issue price has been kept unchanged at Rs. 125 per quintal. States have been asked not to enforce any levy on producers or traders. The policy of free movement of wheat throughout the country and the ban on purchases from the open market by roller flour mills has been continued. The actual purchases of wheat during the 1978-79 season till August 26, 1978 aggregated 5.4 million tonnes as against 5.2 million tonnes procured during the corresponding period last season (Table III.4).

In 1977, 6.2 million tonnes of wheat were distributed through public distribution system as against 5.1 million tonnes distributed in 1976. During January-June 1978, public distribution of wheat aggregated 3.8 million tonnes

as against 3.0 million tonnes during the corresponding months of 1977. As referred to earlier, India returned 1.06 lakh tonnes of Russian wheat loan up to end June 1978.

COARSE GRAINS

The output of coarse cereals for the year 1977-78 estimated at 29.3 million tonnes was comparable with that of 28.9 million tonnes in 1976-77. The output of bajra and maize were reportedly not satisfactory. Under the price support measure, the Government procured 17.8 thousand tonnes of coarse grains by end-July 1978. Distribution of coarse grains through the public distribution system was considerably higher at 7.69 lakh tonnes in 1977 as against 4.69 lakh tonnes in 1976. During January-June 1978, public distribution amounted to 0.89 lakh tonnes as against 3.52 lakh tonnes during the corresponding period of last year.

Table III.4: Procurement of Rice and Wheat[£]

State	(Thousand tonnes)											
	1973-74		1974-75		1975-76		1976-77		1977-78		1978-79	
	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice*	Wheat	Rice	Wheat*
Andhra Pradesh	.. 697	—	888	—	1380	—	465	—	590	—	—	—
Assam	.. 112	—	129	—	257	—	152	—	21	—	—	—
Bihar	.. 57	50	61	2	60	51	42	101	6	11	—	29
Gujarat	.. 18	—	12	—	27	—	32	—	—	—	—	—
Haryana	.. 417	586	278	249	480	433	632	907	740	908	—	932
Jammu & Kashmir	.. 39	—	25	—	41	—	33	—	49	8	—	13
Karnataka	.. 98	—	123	—	265	—	65	—	47	—	—	—
Kerala	.. 44	—	42	—	32	—	20	—	15	—	—	—
Madhya Pradesh	.. 208	192	151	124	292	137	175	274	194	11	—	20
Maharashtra	.. 161	—	87	—	52	—	37	—	—	6	—	—
Orissa	.. 214	—	55	—	234	—	118	—	73	—	—	—
Punjab	.. 943	2707	970	1083	1201	2361	1504	2942	2179	3234	—	3186
Rajasthan	.. —	146	—	127	—	185	—	474	—	123	—	77
Tamil Nadu	.. 272	—	439	—	888	—	173	—	92	—	—	—
Uttar Pradesh	.. 429	816	282	319	762	791	691	1711	562	853	—	1163
West Bengal	.. 159	—	225	—	301	—	169	—	235	—	—	16
Others	.. 19	34	27	51	50	91	75	193	3	19	—	19
TOTAL	.. 3887	4531	3795	1955	6322	4049	4383	6602	4804	5165	—	5456

£ 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.

* Upto August, 1978.

Source: Bulletin on Food Statistics, Government of India.

PULSES

Official estimates of output of pulses for 1977-78 are not yet available. However, production is expected to be around 11.8 million tonnes against 11.2 million tonnes in 1976-77. The production of pulses has not shown any improvement over the years. The near-stagnation in the output led to chronic shortages and escalation in price levels. The Government decided to supplement internal supplies by large scale imports. Public distribution of pulses was undertaken and so far about 32 thousand tonnes of pulses have been procured to build up buffer stocks for the proposed public distribution system. Simultaneously de-hoarding measures were also initiated. At the end of September 1977, the Pulses and Edible Oils (Storage Control) Order was issued under the Essential Commodities Act prescribing *inter alia*, ceiling on stocks that could be held by wholesalers and retailers. In addition, measures to increase output were also initiated since high-yielding-variety seeds in respect of pulses have not as yet been evolved. Other measures suggested to increase and stabilize the

yield were the use of phosphatic fertilizers, cultivation of pulses in rice fallows and the growing of *moong* as a catch crop between wheat and rice in the northern States. Minimum support prices of gram which were first fixed at Rs. 90 per quintal for 1975-76, were raised to Rs. 95 for the subsequent two years (1976-77 and 1977-78). A significant departure from this was made for 1978-79, by announcing in advance, support price of Rs. 125 per quintal for gram.

COTTON

The all-India fourth estimate of cotton for 1977-78 places area under cotton at 75.42 lakh hectares as compared with the corresponding estimate of 68.10 lakh hectares for 1976-77, registering a rise of 7.32 lakh hectares (10.7 per cent). Official estimates of cotton production for 1977-78 are not yet available. The Cotton Advisory Board (CAB) has estimated cotton production in 1977-78 at 67.5 lakh bales as compared with 59.5 lakh bales in 1976-77 (Table III.5); the official estimates

Table III.5: Trends in Availability of Cotton

					(In '000 bales of 170 kgs. each)					
Year (September- August)					Production	Yield per hectare (in kgs.)	Imports	Exports	Mill Consumption	Stocks as at the end of the season
1972-73	..	..	..	..	5735	127	468	180	6867	2161@
1973-74	..	..	..	..	6309	142	190	367	7278	1795@
1974-75	..	..	..	..	7156	161	89	96	7111	1208@
1975-76	..	..	..	..	6650 (5950)*	138	166	427	7545	1426
1976-77 ^p	..	..	..	..	5950 (5781)**	142	818	—	6752	1242
1977-78 ^p	..	..	..	..	6750	N.A.	378	—	6600	1570

* Revised Official estimate.

@ Stocks with mills only.

N.A.: Not available.

** Final Official estimate.

p Provisional.

Sources: Directorate of Cotton Development, for the years 1972-73 to 1974-75 and Cotton Advisory Board, for the years 1975-76, 1976-77 and 1977-78.

for 1976-77 placed cotton production at 57.8 lakh bales. According to CAB, the 1977-78 cotton season started with a relatively small opening stock of 12.4 lakh bales. Imports, mainly under contracts signed in the previous year, are estimated at 3.8 lakh bales in 1977-78 as compared with CAB's estimate of 8.2 lakh bales in 1976-77*. Consumption of cotton by mills has been estimated to be lower at 66.0 lakh bales in 1977-78 as compared with 67.5 lakh bales in 1976-77, on account of larger consumption of man-made fibre by the cotton textile mills. On the assumptions that exports** of raw cotton would not be permitted in 1977-78 and extra-factory consumption would be around 2 lakh bales, stocks of raw cotton at the end of the season, according to CAB, would be around 15.7 lakh bales. In view of the comfortable supply position of raw cotton, the ceiling limits on the holding of raw cotton by mills were raised with effect from June 1, 1978.

Measures taken during the year for increasing the productivity of cotton per hectare included the aerial spray of larger areas for control of pests and diseases and the extension of the Centrally Sponsored Intensive Cotton District Programme (ICDP) to 8 more districts in rainfed areas so as to cover in all 24 districts in 9 major cotton growing States. The total area targeted to be covered under the programme by the end of 1977-78 season was 16.6 lakh hectares as compared with 14.6 lakh hectares of the previous season.

For the 1977-78 season, the Agricultural Prices Commission (APC) recommended that the minimum support price for kapas of fair average quality (F.A.Q.) of Punjab American 320 F variety be fixed at Rs. 255 per quintal and that the corresponding prices for other varieties be fixed on the basis of the normal price differentials between Punjab American 320 F and other varieties. The Government of

India accepted the Commission's recommendations and announced in September and October 1977 the minimum support prices for important varieties of kapas. No support prices had been fixed for the 1976-77 season.

During the 1977-78 cotton season, the Cotton Corporation of India (CCI) continued to purchase cotton in domestic markets at ruling prices on behalf of the National Textile Corporation mills (NTC units) only. In the eleven months of the 1977-78 cotton season (September 1977—July 1978), the CCI purchased 6.6 lakh bales of cotton worth Rs. 132 crores. Its total purchases during the 1976-77 and the 1975-76 seasons were of the order of 5.3 lakh bales and 1.5 lakh bales, respectively.

The CCI has not entered into any major commitments for imports during 1977-78. Out of the balance from the 1976-77 commitments, 3.6 lakh bales arrived by July end. A small quantity of the order of about 0.36 lakh bales of superior varieties of Egyptian cotton was contracted to be imported as shortage of superior varieties was feared on account of cyclones in Southern States. Of this, 34,074 bales arrived by the end of August this year. Thus, according to the CCI, total imports during the 1977-78 season aggregated 3.9 lakh bales as against 7.7 lakh bales in 1976-77.

The Government of Maharashtra suspended its "Cotton Monopoly Procurement Scheme" with effect from August 17, 1977 and lifted the ban on trading, transport, ginning and pressing of cotton by parties other than the Government and a modified scheme, viz., "Cotton Procurement Scheme" was introduced for the 1977-78 cotton season. The Maharashtra State Co-operative Marketing Federation (MSCMF) continued to purchase kapas on behalf of the State Government at the support prices fixed by the Union Government. The MSCMF purchased 7.78 lakh quintals of kapas during the 1977-78 season, as against 40.95 lakh quintals purchased during the 1976-77 cotton season, under the Monopoly Procurement Scheme.

*As per CCI data, actual imports during 1976-77 cotton season aggregated 7.7 lakh bales.

**On June 22, 1978, Government permitted export of Bengal Deshi cotton (25,000 bales) through CCI only.

RAW JUTE AND MESTA

Official final estimates place production of raw jute during 1977-78 at 53.38 lakh bales as compared with 53.53 lakh bales produced during the 1976-77 season. Production of mesta during 1977-78 is, however, estimated to be marginally higher at 17.80 lakh bales than 17.46 lakh bales in 1976-77. The aggregate production of raw jute and mesta at 71.18 lakh bales represents a marginal increase of 0.19 lakh bales over the preceding year's output of 70.99 lakh bales (Table III.6). The annual plan for 1978-79, fixed the target of production for raw jute and mesta at 76.0 lakh bales.

The estimated opening stock of raw jute and mesta in the 1977-78 season was lower at 6.34 lakh bales as compared with 7.67 lakh bales in 1976-77. There was no import of raw jute during 1977-78 as against 0.37 lakh bales imported during 1976-77. The total availability of raw jute and mesta during 1977-78 was estimated to be lower at 77.52 lakh bales as against 79.03 lakh bales in 1976-77. Actual consumption of raw jute by mills during the first 11 months of 1977-78 was 62.32 lakh

bales as compared with 62.73 lakh bales in the corresponding period of the previous season. For the 1977-78 season, mill consumption of raw jute and mesta is estimated at 68 lakh bales that is, same as in 1976-77. With the village level consumption of 2.50 lakh bales and exports estimated at 0.13 lakh bales, the closing stock of raw jute and mesta at the end of 1977-78 would be about 6.89 lakh bales.

For 1977-78, the Agricultural Prices Commission (APC) had recommended retention of the previous season's minimum support price of raw jute at Rs. 136 per quintal; the Union Government, however, fixed a higher minimum support price for raw jute (W-5 variety) at Rs. 141 per quintal in Assam. For 1978-79, the Union Government has fixed the minimum support price for raw jute (W-5 variety) for Assam at Rs. 150 per quintal as recommended by the Agricultural Prices Commission.

During the 1977-78 season, the Jute Corporation of India purchased in all 0.68 lakh bales

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

(In '000 bales of 180 kgs. each)

Year	Production	Imports	Exports	Consumption(a)	Closing Stocks(b)	Availability
1	2	3	4	5	6	7
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	399	6520	1789	9273
1975-76	5914	335	121	7725	767	8038
1976-77	7099	37	17	7070	634*	7903
1977-78	7118	—	13+	6482*	689*	7752

(a) Includes village consumption of 2.0 lakh bales upto 1974-75 and 2.5 lakh bales thereafter.

(b) Estimated stocks with mills and other stockists at the end of the season.

+ Upto March, 1978.

* Upto May, 1978.

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

of raw jute against the target of 15 lakh bales for the year and actual purchases of 8.11 lakh bales during 1976-77. Initially, the JCI could buy raw jute only upto Rs. 5 above the minimum support price per quintal; subsequently this margin was raised upto Rs. 15. In early October 1977, the JCI was allowed to make commercial purchases.

In view of the tight supply position, a series of measures were taken to prevent a sharp rise in prices. These included the fixation of maximum price for raw jute, restrictions on the holding of stocks of raw jute by mills and the introduction of a scheme of licensing of jute traders. In the beginning of the 1977-78 season, when prices were on the decline, the ceilings prescribed on mill purchases and stocks of raw jute were withdrawn effective September 15, 1977. However, with the resumption of the uptrend in raw jute prices, the Jute Commissioner issued an order on October 29, 1977 directing mills having stocks in excess of 12 weeks' consumption to reduce their stocks. Subsequently, on December 9, 1977 this limit was reduced to 8 weeks' consumption level, on January 20, 1978 to 6 weeks', on April 28, 1978 to 5 weeks', and was further slashed to 4 weeks' consumption level on May 26, 1978, valid upto July 31, 1978. A notification was issued on January 20, 1978 directing stockists/dealers of raw jute to disclose gradewise, the quantities of raw jute held by them within 2 weeks from the date of notification and subsequently on a fortnightly basis.

On October 28, 1977, the maximum price was reimposed at Rs. 225 per quintal in Calcutta, basis W-5 grade grown in States other than West Bengal and Rs. 219 for West Bengal jute. Subsequently, the maximum prices were also fixed statutorily for the upcountry markets with effect from November 30, 1977. In January 1978, the scheme of licensing of jute trade was announced which became effective from May 1, 1978.

OILSEEDS

Official estimate of oilseeds output during 1977-78 is not yet available. Trade estimate

places the production of five major oilseeds at 9.4 million tonnes as against 8.6 million tonnes last year which was higher than the official estimate of 7.8 million tonnes for that year. The output, though higher than last year's, is still lower than the targeted figure of 10.8 million tonnes for the year under review. Production of groundnut during 1977-78 is estimated by trade at over 60.0 lakh tonnes or 14.1 per cent more than the production of 52.6 lakh tonnes in the previous year. Production of the other four major oilseeds during 1977-78 was also higher than during 1976-77 : that of rapeseed/mustard at 22.2 lakh tonnes (a rise of 42.3 per cent), sesamum 4.3 lakh tonnes (7.5 per cent), linseed 5.5 lakh tonnes (27.9 per cent) and castorseed 2.1 lakh tonnes (23.5 per cent).

The Centrally Sponsored Intensive Oilseeds Development Programme was continued during 1977-78. The programme covered an area of 21.9 lakh hectares, at an estimated cost of Rs. 126.82 lakhs. The area actually covered under the programme in 1977-78 exceeded the target of 19.3 lakh hectares by 13.6 per cent. The Scheme for extension of oilseeds, particularly groundnut, rapeseed and mustard, sesamum, sunflower and safflower to newly irrigated areas in the 'Command Area' of major irrigation projects in the States of Andhra Pradesh, Karnataka, Orissa and Rajasthan was sanctioned at an estimated cost of Rs. 51.1 lakhs to cover an area of 4.1 lakh hectares, though the actual area covered was only 2.7 lakh hectares.

Under the Centrally Sponsored Scheme for the Development and Production of Non-traditional oilseeds, 2.7 lakh hectares and 1.9 lakh hectares, respectively, were covered under sunflower and soyabean, against the targets of 4.3 lakh hectares and 2.6 lakh hectares, respectively, for 1977-78.

Besides, efforts to raise the yield of oilseeds by adopting a package of improved practices and increasing the area of irrigated groundnut by suitable crop rotation were taken up during

the year under review by different States under the Package Programme and the Integrated Oilseeds Development Scheme in the State sector.

With effect from November 1, 1977, the minimum usage of imported oils in the manufacture of vanaspati was reduced from 90 per cent to 75 per cent and that of cottonseed oil was fixed at 10 per cent. Minimum usage for cottonseed oil was raised to 15 per cent with effect from February 28, 1978.

For the 1977-78 season, Government of India fixed the following support prices (per quintal): for fair average quality of groundnut-in-shell Rs. 160, for sunflower seed Rs. 165, and soya-bean Rs. 145 (inclusive of a promotional premium of Rs. 10 per quintal), and for mustard seed (fair average quality) Rs. 225. The price support operations were entrusted to the National Agricultural Co-operative Marketing Federation (NAFED).

The Government of India announced the removal of restrictions on inter-State movements of groundnut in November 1977. Export of HPS variety of groundnut was banned in December 1977.

About 12 lakh tonnes of edible oils are expected to be imported during the year 1977-78 (November-October). Of this, the STC would import about 7.5 lakh tonnes. The Government of India has extended till December 1978, the ban imposed on refining of indigenous groundnut oil of expeller origin. The ban is expected to relieve the pressure on groundnut oil and make refining capacity available for refining imported oils.

SUGARCANE

According to the all-India second estimate for 1977-78, the area under sugarcane is placed at 30.4 lakh hectares, which shows an increase of 9.0 per cent over the corresponding estimate of 27.9 lakh hectares for the previous season. Production of sugarcane (in terms of cane) is estimated to be higher by 7.1 per cent at 165

million tonnes as compared with 154 million tonnes produced last year.

For 1977-78, the basic minimum price payable by sugar factories to sugarcane growers was kept unchanged for the fourth successive year at Rs. 8.50 per quintal for 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. In addition, sugar factories have to pay the cane growers 50 per cent of higher realisation from the sale of levy free sugar. @

With a view to checking the delay in payment to cane growers, the Union Government announced on February 2, 1978, an amendment of the Sugarcane (Control) Order, 1966, to provide for payment of interest at 15 per cent per annum to cane growers on delayed payment of cane price. Payments to cane growers' societies would be made through the district collectors. The amounts, remaining unpaid beyond three years with the latter, would be used by the States for cane development after deducting administrative charges.

The centrally sponsored scheme for development of sugarcane through production of disease-free varieties, training of the cane development workers, etc. continued to be in operation in different States and Union Territories during the year. Intensive cane development programmes were undertaken in 245 sugar factory areas covering an area of about 3.7 lakh hectares. Under the centrally sponsored scheme for sugarbeet development, an area of 1140 hectares was brought under sugarbeet crop during 1977-78 as compared with 1206 hectares in 1976-77. Production of sugarbeet is estimated at 32,823 tonnes and 3,199 tonnes of beetsugar with average sugar recovery of about 9.78 per cent.

TEA

Production of tea registered a substantial increase of 48.0 million kgs. to scale a new

@With effect from August 16, 1978, the statutory minimum price payable for sugarcane by the sugar factories has been raised to Rs. 10.00 per quintal

peak level of 559.8 million kgs. in 1977 (Table III.7). Production in North India increased by 29.0 million kgs. to 429.6 million kgs. and that in South India by 19.0 million kgs. to 130.2 million kgs. Production during the first 7 months of 1978 is provisionally estimated lower at 269.0 million kgs. as compared with 275.8 million kgs. in the corresponding period of 1977. For the year 1978, a production target of 585 million kgs. has been fixed.

The target for tea exports during 1977 was originally fixed at 240 million kgs. However, with a view to making more tea available in domestic market at a reasonable price, the target was lowered to 225 million kgs. in June 1977. Total exports during 1977 have been provisionally placed at 224 million kgs. as against 234 million kgs. exported during 1976. However, with a substantially higher unit value of Rs. 23.55 per kg. in 1977, as compared with Rs. 11.69 per kg. in 1976, the value of tea exports during 1977 at Rs. 527.43 crores was almost double the value of tea exports of Rs. 273 crores during 1976.

COFFEE

According to provisional data, production of coffee set a new record of 120.5 thousand tonnes in 1977-78 as compared with 102.5 thousand tonnes in 1976-77 (Table III.7) and the earlier peak level of 110.2 thousand tonnes established in 1970-71. The increase in coffee production in 1977-78 was due entirely to an increase of 24.2 thousand tonnes in the production of Robusta coffee, offset to some extent by a decline of 6.8 thousand tonnes in the production of Arabica coffee.

The quantity of coffee released for internal consumption during the year 1977 was higher at 44.1 thousand tonnes as compared with 37.7 thousand tonnes in 1976. The export of coffee which had declined from 59.4 thousand tonnes during the fiscal year 1975-76 to 47.5 thousand tonnes in 1976-77, increased to 55.8 thousand tonnes in 1977-78. Export earnings, however showed a steady increase from Rs. 66.7 crores in 1975-76 to 114.0 crores in

1976-77 and further to Rs. 230.2 crores in 1977-78, due mainly to a sharp increase in the unit value of exports from Rs. 11,224 per tonne in 1975-76 to Rs. 23,999 per tonne in 1976-77 and further to Rs. 41,285 per tonne in 1977-78. To mop up a part of the profits realised from exports, on account of high unit value, export duty on coffee was raised gradually in three stages from Rs. 300 per quintal on February 12, 1976 to Rs. 2,200 by April 26, 1977. Subsequently, it was reduced in stages to reach Rs. 500 per quintal on March 16, 1978.@

TOBACCO

The production of tobacco during 1976-77 at 414.2 million kgs. is higher by 64.4 million kgs. or 18.4 per cent, than the production in 1975-76 of 349.8 million kgs. (Table III.7). A major part (48 million kgs.) of the increase was accounted for by Gujarat due to significant increases in acreage as well as yield per hectare. According to the first all-India estimate, the area under tobacco in 1977-78 placed at 436 thousand hectares, represented an increase of 19.0 per cent.

Domestic consumption of raw tobacco increased from 305.2 million kgs. in 1975-76 to 344.0 million kgs. in 1976-77. The quantum of exports of unmanufactured tobacco increased by 7.8 per cent from 74.3 million kgs. in 1975-76 to 80.1 million kgs. in 1976-77. However, owing to the lower average unit value realisation, the value of exports amounting to Rs. 96.6 crores (the highest so far) represented only a marginal increase of 3.7 per cent over the 1975-76 export value.

Official data on exports of unmanufactured tobacco during 1977-78 are not yet available. Available figures indicate that 66.1 million kgs. valued at Rs. 100.2 crores were exported during the period April-December 1977 as compared with 70.3 million kgs. valued at Rs. 83.8 crores

@With effect from 31st July, 1978, the duty was further reduced to Rs. 200 a quintal but was again raised to Rs. 400 from September 7, 1978.

Table III.7: Trends in Non-foodgrain Commodities

Commodity years as indicated	Oilseeds@ (November-October)		Tea (January-December)		Coffee			Sugarcane (Nov-Oct) Production (Million tonnes) + +	Tobacco (Mar-Feb) Production (Million kgs.)	
	Production (Million tonnes)	Yield per hectare (Kgs.)	Production (Million Kgs.)	Exports (Million Kgs.)	Production (‘000 tonnes)@@	Exports + (‘000 tonnes)	Internal Consumption (‘000 tonnes) @ @ @			
1	2	3	4	5	6	7	8	9	10	
1972-73	..	6.9	465	456.0	198.2	91.1	50.9	37.5	125	372
1973-74	..	8.9	573	472.0	188.2	86.4	52.7	39.4	141	462
1974-75	..	8.5	545	489.5	210.6	92.5	49.5	37.6	144	363
1975-76	..	9.9	658	487.1	218.1	84.0	59.4	36.9	141	350
1976-77	..	7.8	534	511.8	233.6	102.5	47.5	37.7	154	414
1977-78	..	9.4£	N.A.	559.8	224.0**	120.5*	55.8**	44.1	165**	N.A.

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

£ Trade estimate.

@@ Figures relate to October-September.

+ Figures relate to the fiscal year.

@@@ Figures relate to the calendar year.

* Estimated.

** Provisional.

++ In terms of cane. Gur from cane crushe is equal to 10 per cent.

N.A. Not available.

Sources: Ministry of Agriculture & Irrigation, Tea Board, Coffee Board and Directorate of Tobacco Development, Govt. of India.

during the corresponding period of the previous year.

With a view to ensuring prompt payment to growers, the Tobacco Board introduced in 1977-78, the Tobacco Leaf Purchase Voucher system (TLPV) whereby payment for the leaf purchase was to be made by cheque only, the first instalment covering not less than 50 per cent of the purchase value of the tobacco being payable immediately after sale, the balance within 150 days, in not more than two instalments.

Efforts to increase the production of exportable variety of tobacco in new light soil areas under the Centrally Sponsored Scheme were continued during 1977-78 and an additional area of 21.4 thousand hectares was covered with financial assistance of Rs. 133.9 lakhs.

Under the Tobacco Development Schemes (Non-Plan) administered by various research institutes but financed fully by the Government of India, about 26,750 kgs. of seed and 144.1 lakh seedlings of different improved varieties were distributed to tobacco growers during 1977-78. The Tobacco Extension Service Scheme for providing technical guidance to growers for adopting improved technique was continued in seven States* during 1977-78.

In view of the large carry-over stock from the 1976-77 crop and a bumper crop in 1977-78, a sizeable proportion of tobacco output lay unsold with the growers. The Government of India requested the State Trading Corporation to make purchases of V.F.C. tobacco from

*Andhra Pradesh, Karnataka, Gujarat, Tamil Nadu, Maharashtra, Bihar and Uttar Pradesh.

growers in Andhra Pradesh. To help the *bidi* tobacco growers, the National Co-operative Agricultural Marketing Federation was directed to purchase 25 million kgs. of *bidi* tobacco in Gujarat, Karnataka and Maharashtra direct from the growers.

3. Production Strategy and Measures undertaken

HIGH YIELDING VARIETIES PROGRAMME

The target for coverage under high yielding varieties in 1977-78 was fixed at 37 million hectares as against the anticipated achievement of 34 million hectares in 1976-77 (Table III.8). The crops to be covered by the scheme were rice, wheat, maize, jowar and bajra. A national campaign was launched for raising the productivity of rice, particularly in the major rice-growing States, by the implementation of the community nurseries programme. A new scheme for popularising the transplanting technique of bajra with a view to offsetting the adverse effects of late arrival of monsoon, was taken up on a pilot basis in Haryana. During the 1977-78 *rabi* season, a programme for replacement of rust susceptible varieties of wheat was taken up in hill areas.

QUALITY SEEDS

During the year, the National Seeds Corporation (NSC) built a reserve stock of 612

tonnes of foundation seeds and 8,022 tonnes of certified seeds as against 392 tonnes and 4,383 tonnes, respectively, during 1976-77. The overall availability of quality seeds for *kharif* and *rabi* season was good. The NSC established two packing-cum-storage centres, where seeds are stored under scientific conditions. The Corporation also entered into an agreement with a foreign firm for undertaking custom production of vegetable seeds. Under the National Seeds Programme, four State Seeds Corporations have been set up in Punjab, Haryana, Maharashtra and Andhra Pradesh.

IRRIGATION

The Fifth Plan aimed at bringing an additional 11 million hectares under irrigation. During the year 1977-78, 2.23 million hectares were brought under irrigation—the highest achieved so far for a single year—and out of this 1.13 million hectares would be under major and medium projects. The total area under irrigation at the end of March 1978 is estimated around 50 million hectares out of the total cropped area of 170 million hectares. To accelerate the pace of improving irrigation facilities, efforts would be made to raise the proportion of availability of irrigation facilities from about 30 per cent at present to 50 per cent of the total cropped area in the next five years. The objective is to add

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

Commodity	1973-74	1974-75	1975-76	1976-77	1977-78
	(Actuals)				(Target)
1	2	3	4	5	6
Wheat	11.02	11.29	13.45	14.69	15.00
Rice	9.98	10.83	12.74	13.73	15.00
Maize	0.87	1.09	1.13	1.20	1.30
Jowar	1.15	1.30	1.95	2.65	3.00
Bajra	3.00	2.50	2.89	2.21	2.70
Total	26.02	27.01	32.16	34.48	37.00

Source: Economic Survey, 1977-78, Government of India.

17 million hectares to the area under irrigation. Of this, approximately 8 million hectares would be under major and medium irrigation and 9 million hectares under minor irrigation. During the year, an additional area of 1.8 million hectares is estimated to have benefited through minor irrigation programme against the achievement of 1.5 million hectares in 1976-77. The amount of Rs. 197 crores allocated for minor irrigation programmes during the year 1977-78 is likely to be fully utilised. In addition, Rs. 9 crores were sanctioned to some States as advance Central assistance for completion of the spillover schemes over and above their plan outlays. The centrally sponsored scheme introduced during 1976-77 under which 50 per cent matching grant was made available for strengthening the State Ground Water and Surface Water Organisations in critical areas was continued.

During the first six months of the year 1977-78, the Central Ground Water Board conducted hydrogeological investigations covering an additional area of 24,854 sq. kms. During the same period, 96 boreholes and 14 deposit wells were drilled under the ground water exploration and deposit well programmes, respectively.

COMMAND AREA DEVELOPMENT PROGRAMME

Under the integrated Command Area Development Programme for water management introduced for maximising use of available

irrigation water, 37 Command Area Development Authorities covering 47 irrigation commands in 12 States are functioning. Progress achieved upto December 1977 includes planning and design in 14.26 lakh hectares, construction of field channels in 95,205 kms., construction of field drains in 17,634 kms. and land levelling/grading in 7.80 lakh hectares.

FERTILISERS AND MANURES

The actual consumption of fertilisers increased from 34.1 lakh tonnes in 1976-77 to 42.0 lakh tonnes in 1977-78 (Table III.9). The consumption of phosphatic fertilisers increased by 34.1 per cent as compared with a rise of 14.4 per cent in the use of nitrogenous fertilisers. The Government adopted a series of measures to encourage consumption of fertilisers. The retail prices of urea were reduced by Rs. 100 per tonne and the excise duty on triple superphosphate from 15 per cent to 7½ per cent. The Intensive Fertiliser Promotion Campaign was extended to 68 districts during *khari* 1977 and to 75 districts during *rabi* 1977-78. Certain road heads were declared as rail heads in order to smoothen the flow of fertilisers to the hilly and inaccessible areas. The scheme for payment of subsidy to the manufacturers of phosphatic fertilisers, introduced last year, was continued. Short term loans worth Rs. 100 crores were provided to State Governments for purchase and distribution of fertilisers. As on December 1, 1977

Table III.9: Consumption of Fertilisers

					(Million tonnes)				
Year (April-March)					Nitrogenous (N)	Phosphatic (P ₂ O ₅)	Potassic (K ₂ O)	Total	
1					2	3	4	5	
1973-74	..	..	..	1.83	0.65	0.36	2.84		
1974-75	..	..	..	1.77	0.48	0.33	2.58		
1975-76	..	..	..	2.15	0.47	0.27	2.89		
1976-77	..	..	..	2.46	0.63	0.32	3.41		
1977-78 (Target)	..	..		3.05	0.80	0.35	4.20		

Source: Economic Survey, 1977-78, Government of India.

the Government maintained a buffer stock of 14.76 lakh tonnes to ensure uninterrupted and timely supply of fertilisers.

The policy of encouraging greater use of organic manures was continued. During 1977-78, about 205 million tonnes of rural compost and 5.8 million tonnes of urban compost were expected to be made available. The mechanical compost plants at Ahmedabad and Baroda were commissioned and 18 more plants at other cities have been approved. Under the scheme for compost making by landless labourers, about 7,200 tonnes of additional compost was produced by 1,200 beneficiaries. During 1977-78, about 25,000 gobar gas plants were to be set up in hilly and tribal areas. In addition, 10 community gobar gas plants with 33 per cent central subsidy are to be set up on a pilot basis.

PLANT PROTECTION MEASURES

During 1977-78, a total area of 74.6 million hectares was likely to benefit from plant protection measures. Consumption of pesticides in terms of technical grade material during the year is estimated to have amounted to about 60 thousand tonnes. Under the pest and disease surveillance scheme, 7 new central surveillance stations were set up to conduct surveys on pests and diseases in selected areas. An *ad hoc* rice survey was conducted in 7 States for the eighth year in succession.

MACHINERY AND IMPLEMENTS

The programme for demonstration and popularisation of improved implements for paddy cultivation, taken up in four States, was extended to two more States viz., West Bengal and Uttar Pradesh. Special Training Programmes were organised for the introduction of water lifts and hydraulic rams on an increasing scale. During the year 1977-78, standards for 15 agricultural implements and machinery and their components were finalised with the assistance of Indian Standards Institution (ISI).

SCHEMES FOR SMALL FARMERS

By the beginning of 1977-78 all the 160

schemes for SFDA projects, sanctioned by the Government of India, had started functioning. Presently 169 agencies are functioning and the number of participants (identified) increased from 122.36 lakhs in 1976-77 to 130.56 lakhs in 1977-78 (upto September, 1977). Of the total participants, 54.52 lakhs were enrolled as members of co-operatives. The finance released upto end-September 1977 aggregated Rs. 134.3 crores, while the amount utilised was Rs. 123.6 crores. The number of beneficiaries under the minor irrigation programme increased to 5.29 lakhs at the end of September 1977. Against the budgetary provision of Rs. 44.96 crores during 1977-78 for this programme, the Government had released Rs. 21.52 crores by the end of September 1977 bringing the total releases since inception to Rs. 134.31 crores. With the assistance of commercial banks and co-operatives, about 53 thousand participants had taken up minor irrigation works, 27 thousands dairying, 675 poultry and about 15 thousands other animal husbandry programmes (Table III:10).

DESERT DEVELOPMENT PROGRAMME

A new programme of Desert Development covering both hot and cold regions was started during the year. The Programme aims at an integrated development of these areas by increasing the productivity, income level and employment opportunities for the inhabitants through optimal utilisation of physical, human, live stock and other biological resources. The programme is being administered through the existing DPAP/SFD Agencies. During the current year Rs. 6.10 crores have been allocated to State Governments as grant from the Central Government for this programme.

INTEGRATED RURAL DEVELOPMENT PROGRAMME

The Integrated Rural Development Programme initiated last year has been restructured to achieve the following objectives : (i) growth in production, (ii) benefits to the identified target groups in the "disadvantaged sections" of the rural community and (iii) full employment with a certain time frame. The target

groups comprise small and marginal farmers, tenants and share croppers, landless labourers and rural artisans. The strategy of the programme is to generate additional income and employment opportunities through optimum use of local resources through application of appropriate technology available. A budgetary provision of Rs. 8 crores has been made in the current financial year for this programme.

RURAL LINK ROADS

In order to strengthen the rural infrastructure and accelerate the development in economically backward areas, a centrally sponsored scheme for construction of rural link roads was taken up during 1977-78. The State Governments/ Union Territories receive central grants for construction of link roads to connect villages of a viable population of approximately 1500 having production potential. A sum of Rs. 9.25 crores forming 50% of the funds allocated for this programme has so far been released to the State Governments.

AGRO-INDUSTRIES CORPORATIONS

In 1977-78, the Agro-Industries Corporations continued to distribute tractors, power tillers, pump sets and other items of agricultural machinery to the farmers in their respective States. Some of the Corporations have diversified their activities in other fields like assembling of tractors, manufacture of agricultural implements, diesel sets and power sprayers, processing of fruit and vegetable products, fish products, setting up of cold storages and oil extraction plants, etc. By the end of November 1977, 2,832 Agro-Service Centres were set up.

FOOD-FOR-WORK PROGRAMME

Food-for-work programme was introduced in April 1977 by the Department of Rural Development of the Ministry of Agriculture and Irrigation, to augment the State Governments' non-plan funds for the maintenance of public works on which large investments had earlier been made. The purpose behind this programme is to generate additional pro-

ductive employment opportunities in the rural areas on better maintenance of public works so as to accelerate the pace of development and utilisation of foodgrains stocks with the Government for meeting the additional expenditure of this programme through payment of wages in kind and thereby creating employment opportunities. Payments of wages under this programme are made to the beneficiaries in terms of foodgrains provided to the States and Union Territories by the Union Government free of cost. Foodgrains provided by the Union Government amounted to 30 per cent of the expenditure, incurred by the respective States/Union Territories on the programme. During the first year of the programme i.e., in 1977-78, over 2 lakh tonnes of foodgrains were allocated among 15 States viz., Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Uttar Pradesh and West Bengal. This programme on which an expenditure of about Rs. 20 crores was to have been incurred during 1977-78 is reported to have generated about 32 million man-days of employment.

For the year 1978-79, a total investment of Rs. 200 crores is proposed to be made for the creation of permanent community assets and/or for the maintenance of public works in rural areas. The Centre would invest Rs. 125 crores in the form of over 10 lakh tonnes of wheat and the States contribute a matching investment of about Rs. 75 crores for the cash component. The total investment is expected to generate additional employment of about 400 million man-days on the basis of 2.5 kgs. of foodgrains per head per day.

II. Industrial Sector

Trends in Industrial Production 1977

Industrial production recorded a moderate growth rate of 5.3 per cent during 1977 as compared to an impressive increase of 9.8 per cent in 1976. Acute power shortage in a number of States, inadequate coal supplies, transport bottlenecks, absenteeism and labour unrest

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

Items	Progress upto		
	June 1976	June 1977	June 1978†
1. No. of Project Areas	161	169	169
2. No. of participants identified (in lakhs)	84.59	122.36	130.56
3. No. enrolled as members of Co-operative (in lakhs)	34.78	50.77	54.52
4. Finance released (since inception) to Agencies (Rs. in Crores)	82.29	112.79	134.30
5. Funds Utilised (Rs. in crores)	83.92	112.70	123.59
6. Physical results@			
(i) No. of beneficiaries under Minor irrigation* (lakhs)	3.38	4.76	5.29
(ii) Milch Cattle	1.73	2.70	2.97
(iii) Poultry	0.12	0.15	0.15
(iv) Other animal Husbandry**	0.96	1.41	1.55

Source: Annual Report, Department of Rural Development 1977-78, Government of India.

@ Relate to Co-operative year 1974-75.

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

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

† Data are provisional and relate to September 1977.

were mainly responsible for the deceleration in the growth rate. In certain industries, input shortages, capacity constraints and lack of domestic and/or foreign demand were the additional factors adversely affecting production growth. The monthly average level of the general index of industrial production (Base 1970 = 100) stood at 138.3 in 1977 as compared to 131.5 in 1976, recording a rise of 5.3 per cent over the year (Table III.11). During the first six months of 1978 also, the monthly average index of industrial production at 147.6 was higher by 5.7 per cent as compared to a growth rate of 6.7 per cent and 11.9 per cent in the corresponding periods of 1977 and 1976. Fall or nominal increases in the output of mining and power sectors were mainly responsible for the slowing down of the industrial growth rate during 1977 as also in 1978 (January-June), in comparison with 1976.

Broadly speaking, though industries accounting for a weight of 86.4 per cent in the index of industrial production recorded increases in output during 1977 as compared to industries with 84.9 per cent weight during 1976, industries having aggregate weight of only 11.8 per cent in the index showed increases

exceeding 10 per cent, as compared to industries with weight of 41.4 per cent during 1976 (Table III.12).

Industry Group-wise Analysis

During 1977, though all the four industry groups recorded increases in their output, in each case the growth rate was lower than in 1976. The 'Basic Industries Sector' recorded a growth of 4.5 per cent, which was substantially lower than in the previous year (14.3 per cent), largely due to smaller rise in the output of most of the basic industries. Within this group, while the output of heavy organic chemicals, fertilisers and salt maintained an impressive rising trend, output of finished steel, cement and electricity rose only moderately.

In the case of 'Capital Goods Industries Sector', the growth rate of 9.1 per cent was slightly lower than that of 10.5 per cent in 1976. In this group, industries producing earth moving machinery, boilers and steam generating plants, air conditioners, refrigerators, electrical machinery, transport equipment, power transformers and electric motors showed rise in production. Production of machine tools, agricultural machinery (tractors), electric cables

Table III.11: Trends in Industrial Production—Group-wise (Base 1970=100)

(Based on C.S.O.'s Index of Industrial Production)							(Variations during the year: per cent)			
Groups							Weights	1975	1976	1977*
1							2	3	4	5
General Index (Crude)							100.0	+ 4.7	+ 9.8	+ 5.3
Use-Based Classification										
1. Basic Industries	..	..	..	..	..	..	32.28	+13.4	+14.3	+ 4.5
2. Capital Goods Industries	..	..	..	..	..	..	15.25	+ 0.5	+10.5	+ 9.1
3. Intermediate Goods Industries	..	..	..	..	..	..	20.95	+ 1.2	+ 7.5	+ 4.3
4. Consumer Goods Industries	..	..	..	..	..	..	31.52	- 2.1	+10.2	+ 6.8
Input-Based Classification										
1. Agro-based Industries	..	..	..	..	..	..	33.68	+ 1.5	+ 5.7	+ 3.5
2. Metal-based Industries	..	..	..	..	..	..	21.93	- 2.4	+10.0	+10.0
3. Chemical-based Industries	..	..	..	..	..	..	12.86	+ 4.8	+17.1	+ 9.2
Sectoral Indicators										
1. Transport Equipment & Allied Industries	..	..	..	..	..	..	10.79	- 1.9	+14.2	+ 4.0
2. Electricity and Allied Industries	..	..	..	..	..	..	14.53	+ 3.2	+12.4	+ 7.2
3. Electricity output	..	..	..	..	..	..	18.51	+10.6	+11.1	+ 3.3

* Provisional.

Notes: (i) Figures under cols. 3-5 indicate percentage variation 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 take into account the latest revision 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)	
							1976	1977 *
A. Increase								
1. Moderate: Less than 5%	..	..	..	..	..	..	20.69	47.65
2. Marked: 5% and above	..	..	..	..	..	..	64.23	38.79
Of which: 10% and above	..	..	..	..	..	..	41.37	11.82
3. Total Weight (1+2)	..	..	..	..	..	..	84.92	86.44
B. Decline								
4. Moderate: Less than 5%	..	..	..	..	..	..	7.26	7.53
5. Marked: 5% and above	..	..	..	..	..	..	5.19	3.40
Of which: 10% and above	..	..	..	..	..	..	3.56	0.95
6. Total Weight (4+5)	..	..	..	..	..	..	12.45	10.93
Total Weight (A+B)	..	..	..	..	..	..	97.37	97.37

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

* Provisional.

and wires, ship-building and repairs, on the other hand, declined during 1977.

Production in the 'Intermediate Goods Industries Sector' increased by 4.3 per cent, as compared to a rise of 7.5 per cent in 1976. While the output of industries manufacturing synthetic rubber, synthetic resins and plastics, vegetable and animal oils/fats, fine chemicals, insecticides and insulators registered increases, the production of leather products (except footwear) and explosives declined over the year.

As regards the 'Consumer Goods Industries Sector', the increase in production was only 6.8 per cent, as compared to a sizeable rise of 10.2 per cent in 1976. Within this group, consumer durables showed an increase of 12.7 per cent as compared to a rise of 11.1 per cent in 1976. Unlike in the previous year, all the major components of this sub-sector showed increases during 1977, the rise being particularly marked in the case of electric fans, motor cars, hurricane lanterns, professional and scientific instruments, jewellery, etc. Consumer non-durables registered an increase of 5.7 per cent as compared to a rise of 9.6 per cent in 1976. While the performance of industries manufacturing beverages, soaps, glass and glass products, razor blades, rubber footwear and food manufacturing improved appreciably, the production of cotton textiles, cotton apparel and made-up textile goods, photographic and optical goods, pottery and electric lamps declined during 1977.

Capacity Utilisation

Information on the extent of capacity utilisation for various industries is fragmentary. But the available data for selected industries show that average capacity utilisation in 1977 was marginally higher than in the previous year. The trends in utilisation of capacity are discussed below with reference to utilisation ratios in respect of 30 selected industries, based on the installed capacity at the end of 1977 and average monthly production for the year 1977 (Table III.13 and 14).

Average of capacity utilisation in 1977 for the selected 30 industries was slightly higher

at 76.5 per cent as compared to 73.3 per cent in 1976. While in the case of 19 industries utilisation ratios improved marginally during the year, in the case of remaining 11 industries they were lower than in the preceding year. Group-wise, the average ratio of capacity utilisation improved in the case of 'Basic Industries,' 'Capital Goods' and 'Consumer Goods' Sectors from 66.4 per cent, 73.6 per cent and 76.9 per cent, respectively, in 1976 to 72.7 per cent, 78.0 per cent and 81.2 per cent in 1977, while the ratio for 'Intermediate Goods' group declined from 72.8 per cent to 71.8 per cent. However, the 19 industries showing an increase in the utilisation ratio were spread over all the four groups i.e., soda ash, cement, caustic soda, sulphuric acid and steel castings from 'Basic Industries', power transformers, motor vehicles and electric motors from 'Capital Goods', storage batteries, paints and varnishes and dry cells from 'Intermediate Goods' and soaps, cigarettes, electric fans, rubber footwear, bicycles, footwear (Western type), radio receivers and hurricane lanterns from 'Consumer Goods'. The increase in these cases ranged between 40.5 per cent (steel castings) and 0.4 per cent (cigarettes). The extent of decline in the case of 11 industries also showed a wide range between 20.7 per cent (matches) and 2.2 per cent (cycle tyres).

The frequency distribution of 30 selected industries, according to the range of capacity utilisation ratios, is given in Table III.14. The number of industries with more than 80 per cent capacity utilisation ratio declined from 11 in 1976 to 10 in 1977, capacity utilisation ratio of the matches industry having sharply dropped from 99.8 per cent to 79.1 per cent.

Capacity Enhancement in the Sixth Plan

The Draft Sixth Five Year Plan 1978-83 has listed about 105 industrial products for capacity enhancement and for additional output. In the mining sector, coal, lignite, petroleum and iron ore have been given priorities, while in the basic metal sector a substantial increase in capacity has been envisaged for steel ingots, saleable steel, alloy steel and aluminium.

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

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Group/Industry	Accounting Unit	1975			1976			1977*			Difference between 8 & 5	Difference between 11 & 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	1352.9	1760.0	76.9	1557.0	1789.0	87.0	1597.5	1806.0	88.5	+10.1	+ 1.5
2. Sulphuric Acid	..	111.4	211.4	52.7	140.0	232.0	60.3	169.0	264.7	63.8	+ 7.6	+ 3.5
3. Caustic Soda	..	36.9	47.4	77.8	41.9	57.5	72.9	43.2	58.0	74.5	+ 4.9	+ 1.6
4. Steel Castings	..	4.8	12.8	37.5	5.3	16.5	32.1	6.0	13.3	45.1	+ 5.4	+13.0
5. Aluminium Sheets & Circles	..	3.2	6.3	50.8	3.2	5.6	57.1	4.2	N.A.	—	+ 6.3	—
6. Soda Ash	..	45.1	52.8	85.4	47.1	52.8	89.2	47.3	51.5	91.8	+ 3.8	+ 2.6
II. Capital Goods Industries												
1. Motor Vehicles (Automobiles)	'000 Nos.	5.8	9.9	58.6	6.8	10.2	66.7	7.0	10.2	68.6	+ 8.1	+ 1.9
2. Power Transformers	'000 KVA	930.1	1846.8	50.4	1178.7	1680.2	70.2	1472.0	1849.0	79.6	+19.8	+ 9.4
3. Electric Motors	'000 HP	258.7	451.5	57.3	289.1	554.4	52.1	329.2	472.6	69.7	+ 5.2	+17.6
4. Machine Tools	Lakh Rs.	1010.4	1060.0	95.3	1063.8	1010.0	105.3	951.0	1010.0	94.2	+10.0	+11.1
III. Intermediate Goods Industries												
1. Storage Batteries	'000 Nos.	110.0	144.0	76.4	116.7	144.0	81.0	123.8	129.0	96.0	+ 4.6	+15.0
2. Dry Cells	Lakh Nos.	452.8	1076.0	42.1	499.5	1076.0	46.4	531.2	1011.0	52.5	+ 4.3	+ 6.1
3. Tyres—Automobiles	'000 Nos.	407.2	396.4	102.7	426.9	411.5	103.7	444.0	459.4	96.6	+ 1.0	+ 7.1
4. Tyres—Cycles	..	1996.1	2849.0	70.1	1947.5	2849.0	68.4	1930.0	2883.0	66.9	+ 1.7	+ 1.5
5. Tubes—Automobiles	..	375.2	388.5	96.6	383.5	388.5	98.7	400.7	431.8	92.8	+ 2.1	+ 5.9
6. Tubes—Cycles	..	1383.0	2480.0	55.8	1366.6	2480.0	55.1	1247.6	2709.0	46.1	+ 0.7	+ 9.0
7. Paints & Varnishes	'000 Tonnes	5.3	10.4	51.0	6.0	10.2	58.8	6.3	9.1	69.2	+ 7.8	+10.4
8. Ceramics (Refractories)	..	58.5	94.8	61.7	63.8	89.9	70.1	67.8	125.0	54.2	+ 8.4	+15.9

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IV. Consumer Goods Industries

1. Radio Receivers	..	..	'000 Nos.	128.4	243.9	52.6	139.7	238.8	58.5	149.9	239.0	62.7	+ 5.9	+ 4.2
2. Bicycles	..	..	..	184.1	335.0	55.0	220.4	335.0	65.8	256.7	335.0	76.6	+10.8	+10.8
3. Cigarettes	..	..	Lakh Nos.	50053.3	62920.0	79.6	55911.7	62920.0	88.9	56163.0	62920.0	89.3	+ 9.3	+ 0.4
4. Vanaspati	..	..	'000 Quintals	381.9	1068.0	35.8	443.4	1075.0	41.2	486.1	N.A.	—	+ 5.4	—
5. Soaps	..	..	'000 Tonnes	22.4	18.9	118.5	22.3	18.9	118.0	24.4	18.8	129.8	— 0.5	+11.8
6. Matches	..	..	Million Sticks	15526.4	16459.0	94.3	16421.7	16459.0	99.8	16444.0	20800.0	79.1	+ 5.5	—20.7
7. Footwear (Western Type) (Leather)	..	..	'000 Pairs	746.3	1154.0	64.7	679.7	1154.0	58.9	695.3	1130.0	61.5	— 5.8	+ 2.6
8. Footwear (Rubber)	..	..	Lakh Pairs	33.0	46.5	71.0	35.1	46.5	75.5	37.3	47.0	79.4	+ 4.5	+ 3.9
9. Hurricane Lanterns	..	..	'000 Nos.	139.8	390.0	35.8	186.4	320.0	58.3	201.0	319.0	63.0	+22.5	+ 4.7
10. Electric Lamps (Incandescent Filament)	..	..	'000 Nos.	10756.7	14200.0	75.8	13957.6	13700.0	101.9	13277.5	15300.0	86.8	+26.1	—15.1
11. Electric Fans	..	..	'000 Nos.	174.2	251.1	69.4	198.0	242.9	81.5	275.7	299.0	92.2	+12.1	+10.7
12. Glass & Glassware (Sheet Glass)	..	..	Lakh Sq. Metres	13.0	18.0	72.2	16.5	22.1	74.7	16.0	22.1	72.4	+ 2.5	— 2.3

*Provisional.

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

Range of Capacity Utilisation Ratio in 1977	Industry	Capacity Utilisation during (Ratios)			Percentage change	
		1977	1976	1975	1977 over 1976	1976 over 1975
1	2	3	4	5	6	7
A. Basic Industries						
Above 80	1. Soda Ash	91.8	89.2	85.4	+ 2.9	+ 4.4
	2. Cement	88.5	87.0	76.9	+ 1.7	+13.1
Between 70 to 80	3. Caustic Soda	74.5	72.9	77.8	+ 2.2	- 6.3
Between 60 to 70	4. Sulphuric Acid	63.8	60.3	52.7	+ 5.8	+14.4
Between 50 to 60	5. Aluminium Sheets and Circles	N.A.	57.1	50.8	N.A.	+12.4
Below 50	6. Steel Castings	45.1	32.1	37.5	+40.5	-14.4
B. Capital Goods Industries						
Above 80	1. Machine Tools	94.2	105.3	95.3	-10.5	+10.5
Between 70 to 80	2. Power Transformers	79.6	70.2	50.4	+13.4	+39.3
Between 60 to 70	3. Motor Vehicles (Automobiles)	68.6	66.7	58.6	+ 2.8	+13.8
	4. Electric Motors	69.7	52.1	57.3	+33.8	- 9.1
C. Intermediate Goods Industries						
Above 80	1. Tyres (Automobiles)	96.6	103.7	102.7	- 6.8	+ 1.0
	2. Tubes (Automobiles)	92.8	98.7	96.6	- 6.0	+ 2.2
	3. Storage Batteries	96.0	81.0	76.4	+18.5	+ 6.0
Between 60 to 70	4. Tyres—Cycles	66.9	68.4	70.1	- 2.2	- 2.4
	5. Paints & Varnishes	69.2	58.8	51.0	+17.7	+15.3
Between 50 to 60	6. Ceramics Refractories	54.2	70.1	61.7	-22.7	+13.6
	7. Dry Cells	52.5	46.4	42.1	+13.1	+10.2
Below 50	8. Tubes—Cycles	46.1	55.1	55.8	-16.3	- 1.3
D. Consumer Goods Industries						
Above 80	1. Soaps	129.8	118.0	118.5	+10.0	- 0.4
	2. Electric Lamps (Incandescent Filament)	86.8	101.9	75.8	-14.8	+34.4
	3. Cigarettes	89.3	88.9	79.6	+ 0.4	+11.7
	4. Electric Fans	92.2	81.5	69.4	+13.1	+17.4
Between 70 to 80	5. Matches	79.1	99.8	94.3	-20.7	+ 5.8
	6. Footwear (Rubber)	79.4	75.5	71.0	+ 5.2	+ 6.3
	7. Glass & Glassware (sheet glass)	72.4	74.7	72.2	- 3.1	+ 3.5
	8. Bicycles	76.6	65.8	55.0	+16.4	+19.6
Between 60 to 70	9. Footwear (Western type) (Leather)	61.5	58.9	64.7	+ 4.4	- 9.0
	10. Radio Receivers	62.7	58.5	52.6	+ 7.2	+11.2
	11. Hurricane Lanterns	63.0	58.3	35.8	+ 8.1	+62.8
Below 50	12. Vanaspati	N.A.	41.2	35.8	N.A.	+15.1

Among other industrial groups, a substantial addition to capacity is planned for sulphuric acid, industrial oxygen, fertiliser, polyethylene, polystyrene, staple fibres, paper, cement, machine tools, synthetic detergents, chemical and pharmaceutical machinery, transformers, ship-building, consumer electronics, computers, calculators, components and industrial electro-

tics. In the case of certain products, targeted capacity has been maintained at the 1977-78 level due to the existence of large unutilised capacity therein. These include copper, zinc, vanaspati, leather footwear, rubber footwear, mining machinery, road rollers, electric locomotives, railway coaches, cables, dry cells, etc.

Industrial Sickness

In spite of overall improvement in capacity utilisation during the year, the uneconomic operation of some industrial units resulting in the spread of industrial sickness continued to cause a serious concern to the authorities. Between December 1976 and December 1977, the number of units enjoying credit facilities from scheduled commercial banks in excess of Rs. one crore, which have been making cash losses even before providing for depreciation, increased from 241 to 289, and the level of outstanding bank credit to such units rose from Rs. 609 crores to Rs. 858 crores. Such units were predominantly concentrated in West Bengal, Maharashtra and Tamil Nadu. Industry-wise, the number of such sick units was the highest in the case of engineering and iron and steel (96 units), followed by textiles (73 units), jute (30 units), sugar (27 units), chemicals (17 units), rubber (5 units), cement (3 units) and miscellaneous (38 units). Besides these units, as many as 8,000 units in the small-scale industrial sector were reported to be similarly afflicted by sickness. While the causes of sickness differed from industry to industry and also within the same industry, the prominent among them were inefficient management, erratic or inadequate supplies of power, out-moded machinery, uncertain supplies of raw materials, inappropriate production control and pricing policies and lack of domestic/foreign demand for their products.

With a view to dealing with the problem of industrial sickness, the Government issued a policy statement relating to sick industries on May 15, 1978. In terms of this policy, the management of a sick unit taken over by the Government will not be handed back to the same management. After the take-over of the management, the Government will have four options viz., (i) to sell the unit as a running concern; (ii) reconstruction of the unit; (iii) merger of the unit with a public sector undertaking and (iv) nationalisation of the unit in appropriate cases. As per the policy statement, the Government will give special attention to sick units in small-scale sector.

Further, with a view to formulating a joint programme for dealing with the problem of industrial sickness, the Reserve Bank of India, in May 1978, asked the nationalised banks to set up cells for monitoring the information about the sick industrial units financed by them. It also asked the banks to have similar cells for small units as well.

Among the important developments in the industrial sector during the year under review were the announcement of new Industrial Policy, setting up of District Industries Centres, appointment of a study group to examine the working of the Industries (Development and Regulation) Act, 1951 and related policies and procedures. These and other developments and the trends in industrial production during the year are briefly reviewed below.

Industrial Policy 1977

For over two decades, the Government's industrial policies were governed by the Industrial Policy Resolution of 1956. Actual implementation of these policies had, however, resulted in certain anomalies. For instance, the growth of per capita national income has been inadequate, unemployment has increased, rural-urban disparities have widened, the rate of real investment has stagnated and the incidence of industrial sickness has become widespread. Therefore, with a view to removing the distortions in the industrial sector, the Union Government announced its new Industrial Policy on December 23, 1977.

The accent of new industrial policy is on effective promotion of cottage and small-scale industries. As a first step in this direction, the list of industries exclusively reserved for the small-scale sector was expanded to cover 504 items*, from the earlier 180 items. Within the small-scale sector, special attention would be given to units in the 'tiny sector' i.e., units with investment upto Rs. 1 lakh and situated in towns and villages with a population not exceeding 50,000. A new agency called 'District

*In May 1978, the list was further sizeably expanded to cover 807 items.

Industries Centre' (DIC), to be set up in each district, would serve as a focal point of development for small-scale and cottage industries.

Under the new Industrial Policy, the handloom sector would get priority in the supply of yarn and the organised mill and powerloom sectors would not be permitted to expand weaving capacity.

Henceforth, the role of the large scale industries would be related to the programme for meeting the basic minimum needs of the population through wider dispersal of small-scale and village industries and strengthening of the agricultural sector. Large units engaged in the manufacture of items reserved for the small-scale sector would not be allowed to expand their capacity.

Large business houses would be required to rely on their internal resources for financing new or expansion projects instead of on heavy borrowing from the public financial institutions and banks. Further, the expansion and diversification of large houses would be subject to the provisions of the Monopolies and Restrictive Trade Practices (MRTP) Act and it would be the policy of the Government to ensure that no unit or business group acquired a dominant position in the market.

The public sector will be used effectively as a stabilising force for maintaining essential supplies for the consumers and it will also be charged with the responsibility of encouraging the development of ancillary industries and contributing to the growth of decentralised production by making available its technological and managerial expertise to small and cottage industries. For balanced regional development, licences would not be issued to new industrial units within metropolitan cities and in urban areas with a population of more than 5 lakhs. On the other hand, assistance would be provided for shifting large industries from the congested metropolitan cities to backward areas.

The Government's policy in respect of foreign investment and foreign companies would be

strictly in accordance with Foreign Exchange Regulation Act (FERA). A revised list of industries has been issued where no foreign collaboration would be permitted. As regards imports, relaxations would be made in areas where quantitative restrictions were hurting the development of high priority industries. Similarly, the Government would favourably consider proposals for export-oriented manufacturing capacity and wholly export-based activities would be exempted from customs/excise duties, provided the manufacture of such products generated additional direct/indirect employment. Compulsory export obligation merely to get foreign exchange would no longer be insisted upon.

As regards the pricing policy for industrial products, the Government would not allow industries to make exorbitant profits by operating industrial units below their capacities. Prices would be fixed to provide an adequate return to the investor and leave funds for ploughing back into business.

Unlike in the past, when sick units were taken over mainly with a view to protecting employment, and large amounts were pumped into them, the Government would henceforth take over the management of sick units selectively.

In view of the slow progress of industries falling within the purview of the Khadi and Village Industries Commission, the Government decided to revamp the State and National level organisational structure of the Commission. Moreover, the list of industries under the purview of the Commission would be further expanded.

District Industries Centres

In order to bring about effective development of cottage and small-scale industries dispersed in rural areas and small towns, the Government of India has decided to set up 'District Industries Centre' (DIC) in each district of the country. This agency would provide under a single roof all the services

and support required by small and village entrepreneurs. All the State Governments have been asked to draw up proposals for setting up DICs in their respective States. For this purpose, the Union Government would provide them a non-recurring grant of Rs. 5 lakhs per DIC to meet expenses on construction/purchase of office building, furniture and fixtures, office equipment, vehicles, etc. In addition, the Union Government would provide annually a grant to the extent of 75 per cent of the recurring establishment charges of each DIC or a maximum of Rs. 3.75 lakhs, the balance to be contributed by the respective States/Union Territories. So far, the Government of India has approved the setting up of 215 DICs in different States and Union Territories nearly half of which have already started functioning.

Working of the Industries (Development and Regulation) Act, 1951

On October 31, 1977 the Government of India constituted a Study Group under the Chairmanship of Shri G. V. Ramakrishna to examine the working of the Industries (Development & Regulation) Act, 1951 and related policies and procedures, and to make recommendations for removing impediments, if any, to accelerate industrial growth, and for promoting the setting-up of industries in accordance with the policies of the Government. The Study Group submitted its final report to the Government in February 1978. The main recommendations of the Group, which have been accepted by the Government, are briefly mentioned below.

The Group has recommended a substantial revision of the Act against the background of the developments in the industrial field over the past 25 years and in order to reflect the new Industrial Policy announced by the Government. According to the Group, regulatory and developmental aspects of the Act should be made more effective so as to deal with the cases of unauthorised or excess production. The Group has recommended relaxation in the industrial licensing policy by (i) raising the exemption limit for industrial licensing from the present level of Rs. 1 crore

to Rs. 3 crores (since accepted/implemented) and (ii) deleting the stipulations regarding the overall limit of investment of Rs. 5 crores, though MRTP companies including dominant undertakings and companies with foreign shareholding of more than 40% should continue to be governed by existing policies and procedures with regard to the approvals for industrial licensing. Further, the Group has observed that there was a need for improvements in the functioning of all the Development Councils set up under the Act. Some of the other recommendations of the Group pertain to (i) the setting-up of a monitoring cell to review the progress made in fulfilling the conditions of the letters of intent and subsequently in implementing the industrial licences, (ii) greater delegation of powers to regional offices of the all-India public financial institutions, (iii) simplification of procedures and reduction in the number of clearances required from the State Governments and delegation of authority in this regard to the DIC, and (iv) drastic reduction in the number of channels for getting capital goods clearances.

Orientation to Small-Scale Sector

The importance of small-scale industries in a labour surplus economy like ours is well recognised. This has been reflected in the priorities accorded to small-scale industries in successive Five Year Plans. The Industrial Policy Statement of 1977 gives a concrete shape to the proposals for the development of this sector in the form of definite guidelines and a time-bound committed action programme. As mentioned earlier, the list of industries exclusively reserved for the small-scale sector has been considerably expanded. The District Industries Centres being set up will have separate wings to attend to the special needs of small-scale and cottage industries. Besides, a separate wing of the IDBI would exclusively deal with the credit requirements of small village and cottage industries, and it would co-ordinate, guide and monitor the entire range of credit facilities offered by other institutions to this sector. Recommendations of the Ramakrishna Study Group regarding small-

scale sector (referred to above) and those of the I. C. Puri Committee concerning the credit problems of small industries (discussed in Chapter VI) are major contributions in the direction of promotion and development of the small-scale sector.

Selected Industries : A Review

A review of the performance of certain selected industries is attempted in this sub-section. These industries are also broadly grouped into four categories: basic, capital goods, intermediate goods and consumer goods industries.

A. Basic Industries

(a) COAL

The production of coal (including lignite), at 103.9 million tonnes during 1977, registered a nominal decline of 1.0 million tonnes over the previous year (Table III.15). The slight setback in coal production during the year was mainly attributable to inadequate and erratic power supply, shortage of explosives, large-scale absenteeism and labour unrest in mines. Since the production of coal remained virtually stagnant during the year, the increased demand for coal was met by the mines through depletion of their pit-head stocks. As a result, the level of pit-head stocks came down from 14.6 million tonnes at the end of March 1977 to 12.3 million tonnes on March 31, 1978. Besides, shortage of railway wagons and bottlenecks at transshipment points also hampered the movement of coal in 1977. As coal shortage developed during first half of 1977, Coal India Ltd., (CIL) decided to postpone despatches of coal to other countries. Consequently, coal exports in 1977-78, at 5.04 lakh tonnes, were 1.28 lakh tonnes lower than in 1976-77.

With a view to meeting the growing demand, the target for coal production has been set at 113.5 million tonnes for 1978-79. Of this, the CIL is expected to produce 100.5 million tonnes. As a long-term measure, the Working

Group set up by the Planning Commission has recommended an investment outlay of Rs 2,094 crores in the coal sector during the period 1978-83. This includes investment in the proposed new mines, existing mines and expansion and reconstruction of old ones.

The Baveja Committee appointed by the Union Government has made several recommendations to bring down the cost of production of coal. The Committee has suggested that the coal companies should have direct power supply from the generating agencies. It has also recommended various technical improvements in transport of coal, partial mechanisation of work and proper deployment of surplus manpower in coal companies. The Government has accepted the major recommendations of the Committee.

(b) IRON ORE

The output of iron ore during 1977 was 42.5 million tonnes, indicating a marginal decline of 3.2 per cent over the previous year (Table III. 15).

Total iron ore production by the National Mineral Development Corporation (NMDC) in 1977 was 9.4 million tonnes compared to 8.2 million tonnes in 1976, registering an increase of 15.3 per cent over the year. The NMDC accounted for 23 per cent of the total iron ore production in 1977, as compared to 19 per cent in 1976. Mines in the public sector and private sector respectively contributed 48 per cent and 52 per cent of the total production in 1977. During the year, despatches of iron ore to steel plants in India declined from 17.3 million tonnes in 1976 to 16.5 million tonnes in 1977. Further, owing to the recession in major world markets, the demand for iron ore, particularly from Japan and EEC countries, declined and exports of iron ore came down from Rs. 238 crores in 1976-77 to Rs. 160 crores in 1977-78. Consequently, there was an accumulation of inventories of iron ore at mines, the mine-head stocks increasing to 5.3 million tonnes in 1977 as against 4.5 million tonnes in the previous year.

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

								(Million tonnes)		
Commodity								1975	1976	1977 @
1								2	3	4
A. Coal*										
Production								98.7 (+13.3)	104.9 (+6.1)	103.9 (-1.0)
<i>Of which:</i>										
Coking Coal								25.1 (+41.8)	29.6 (+17.9)	29.6 (—)
Despatches †								86.5 (+12.6)	91.6 (+5.9)	N.A.
Exports £								0.5	0.5	0.6
Year-end Stocks (at pit heads)								8.5	12.3	12.0
B. Iron Ore Production:										
(a) All India								41.8 (+17.7)	43.9 (+3.8)	42.5 (-3.2)
(b) Excluding Goa								28.1 (+22.7)	30.2 (+7.5)	N.A.
<i>Exports</i>										
Quantity								22.8	23.4	N.A.
Value (Rs. in crores)								206	232	N.A.
Year-end Stocks								3.4	4.5	5.3
C. Cement										
Production (Thousand tonnes)								16,235 (+13.8)	18,684 (+15.1)	19,171 (+2.6)
Installed Capacity								21,120 (+6.3)	21,468 (+1.6)	21,672 (+1.0)
Capacity utilisation (in per cent)								77	87	89
Year-end stocks								225	228	253

Note: Figures in brackets indicate percentage variation over the preceding year.

* Including lignite.

@ Provisional.

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

£ Includes coal and coke.

Source:

Coal: Office of the Coal Controller, Calcutta.

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

Cement: C.S.O.

(c) CEMENT

The index number of cement production at 137.4 in 1977 increased by 2.6 per cent as compared to a record rise of 14.9 per cent in 1976. In 1977, the output was higher at 19.2 million tonnes compared with 18.7 million tonnes in 1976. Severe shortages of power, coal and railway wagons had a significant impact on the extent of utilisation of capacity in the

industry, which improved only slightly from 87 per cent in 1976 to 89 per cent in 1977 (Table III.15).

Reflecting the increase in cement production and imports thereof, stocks at the end of 1977 were slightly higher at 253 thousand tonnes, as compared to 228 thousand tonnes at the end of 1976.

Due to increase in the internal demand following the revival of construction activity and shortage of cement for internal distribution, Government decided in July 1977 to restrict exports of cement to a bare minimum required to fulfil export commitments already made. Consequently, export of cement declined from 8.3 lakh tonnes in 1976-77 to only 5.0 lakh tonnes in 1977-78. Further, to meet the additional demand for cement arising from havoc caused by the cyclones in some of the Southern States and from the spurt in the construction activity, the Government decided to import 8.4 lakh tonnes of cement through the State Trading Corporation. In order to keep the cost down, the Government decided, as a special case, not to levy customs duty, auxiliary customs duty and countervailing duty on imported cement; and imported cement was made available at the same price as indigenous cement to all categories of consumers.

As the landed cost of the imported cement was higher than the cost of indigenous cement, the Union Government decided to pool the prices and increase the price of cement by Rs. 20 per tonne with effect from January 7, 1978.

The demand for cement is estimated to be about 22 million tonnes at present, and is expected to grow at the rate of about 8 per cent per annum. The present installed capacity in the cement industry is 21.87 million tonnes. The Government are implementing several measures aimed at increasing production, including installation of pre-calcinators, greater use of slag and pozzolanic material, setting-up of new cement plants at the location of steel plants to utilise local slag and limestone, establishment of mini cement plants to utilise smaller limestone deposits and also expediting the construction schedules of new units and expansions. The Government propose to give the public sector a major role in the cement production programme. However, participation of the private sector would be allowed in the expansion of existing capacities and building up of dispersed cement grinding facilities in the country. Additional capacity of about 15.6

million tonnes has been approved both in the private sector as well as in the public sector by way of industrial licences/letters of intent. These plants are at various stages of implementation.

The Union Government has appointed a high level committee to make a comprehensive study of the cement industry. The study would cover various aspects, including the cost structure, revision of retention price formula, rate of return, investment and distribution of cement. While the large cement plants would continue to play their traditional role, the Government propose to encourage the setting up of mini cement plants as also extra large plants of 2,000 tonnes capacity per day and to create urgently an additional capacity of 6.6 million tonnes, a substantial portion of which is expected to be in the public sector. Under the protocol signed between India and Czechoslovakia, the latter will assist the Heavy Engineering Corporation, Ranchi, in manufacturing 3 large cement plants machinery in the range of 1,200 to 3,000 tonnes production capacity per day.

(d) IRON & STEEL

During 1977-78, crude steel production in the country amounted to 9.9 million tonnes. While the production of steel ingots declined slightly from 8.66 million tonnes in 1976-77 to 8.62 million tonnes in 1977-78 and that of saleable steel from 7.06 million tonnes to 7.02 million tonnes, the output of finished steel at 5.58 million tonnes was only a shade higher than that of 5.48 million tonnes in 1976-77 (Table III.16). The production of saleable steel by integrated steel plants was 6.90 million tonnes as compared to 6.92 million tonnes in the previous year, and represented 98.3 per cent of the total production in 1977-78 compared to 98.0 per cent in 1976-77. The fall in production of saleable steel by integrated plants during the year was due to power restrictions faced by all of them as well as to the poor quality and short supply of coking coal. In view of the short supply of coking coal, the Government has decided to import the same and

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											
1974-75	2,001	819	1,066	109	1,722	532	6,249	141	—	749	7,139
1975-76	2,209	1,001	1,282	342	1,787	630	7,250	138	90	N.A.	7,478
1976-77	2,302	1,091	1,503	956	1,908	667	8,428	137	95	N.A.	8,660
1977-78*	2,371	1,092	1,409	933	1,968	651	8,424	103	97	N.A.	8,624
Production of Saleable Steel											
1974-75	1,707	514	694	1	1,463	407	4,786	92	—	662	5,540
1975-76	1,850	751	1,041	150	1,486	500	5,778	85	47	N.A.	5,910
1976-77	2,019	901	1,174	736	1,550	542	6,922	81	52	N.A.	7,055
1977-78*	1,930	865	1,178	815	1,601	506	6,895	73	49	N.A.	7,017
Production of Finished Steel											
1974-75	1,350	409	689	—	1,041	345	3,834	78	—	1,251	5,163
1975-76	1,468	474	1,036	62	1,033	362	4,435	85	47	N.A.	4,567
1976-77	1,673	502	1,146	660	1,001	363	5,345	81	52	N.A.	5,478
1977-78*	1,632	531	1,160	731	1,065	336	5,455	73	49	N.A.	5,577

† VISL (Visveswaraiya Iron and Steel Ltd.) is the former Mysore Iron and Steel Company Ltd.

* Provisional.

Source: Steel Authority of India Ltd., New Delhi.

exempted these imports from entire basic, auxiliary and additional duties of customs with effect from July 28, 1978.

Plant-wise details of steel production given in Table III.16 show that out of 7 steel plants in the public sector, Rourkela, Bokaro, IISCO and VISL recorded a decline in the production of steel ingots, while Durgapur, Bhilai and ASP recorded an increase. In the case of saleable steel also, all plants in the public sector, except Rourkela and Bokaro, showed a decline. In the private sector, the Tata Iron & Steel Company (TISCO), however, recorded a noticeable increase in the production of both steel ingots and saleable steel.

Reflecting stagnancy in steel production, capacity utilisation in the integrated steel plants during 1977-78 was marginally lower at 89.4 per cent compared to 91.4 per cent in 1976-77; capacity utilisation in TISCO, Bhilai and

Rourkela plants was, however, impressive, being 105.2, 98.1 and 94.4 per cent, respectively.

After a recessionary trend for almost three years, the domestic demand for steel revived considerably. During the first nine months of 1977-78 (April-December 1977), 4.6 million tonnes of steel was sold in the domestic market, which was 17 per cent higher than that in the corresponding period of the previous year (3.9 million tonnes). In the case of the Steel Authority of India Ltd. (SAIL) plants, the off-take was more significant (21 per cent). The increase in the off-take of steel was largely accounted for by wagon builders, structural fabricators, drums and barrel makers, wire-drawing units, electricity boards, automobile industry and oil refineries. With total sales of steel outstripping production, the main producers depleted their stocks by 560,000 tonnes. The public sector plants under SAIL depleted their stocks by 500,000 tonnes. The level of

saleable steel stocks, at 1.04 million tonnes on April 1, 1978 was 0.53 million tonnes less than the stocks on April 1, 1977.

Due to the rising domestic demand for steel, exports were restricted during the year under review. Total export of steel from the main plants declined from 1.04 million tonnes in 1976-77 to 0.94 million tonnes in 1977-78. Further, the Government decided to import about 1.2 million tonnes of steel and also to hold a buffer stock to maintain price stability.

Out of the 206 mini-steel plants originally licensed, only 120 units with installed capacity of 28.8 lakh tonnes were operative during the year under review and their performance continued to be poor because of the heavy backlog of losses. The main problems faced by these units included short supply of inputs and a sharp increase in prices of inputs like electrodes and scrap, inadequate power supply, constraint of working capital and poor management. In order to rehabilitate the mini-steel plants, the Government announced certain concessions in the 1978-79 budget viz., (a) exemption from excise duty on production and (b) removal of import duty on melting scrap and excise duty exemption on melting scrap procured from integrated plants. Besides, these units were permitted to diversify their production, to set up rolling facilities and they were made eligible for the Soft Loan Scheme of the IDBI. As a result of these steps and revival of demand for their products, there was an improvement in the average capacity utilisation in mini-steel plants.

Due to an increase in the prices of all critical inputs consumed by steel plants, there was an overall escalation in the cost of steel production. Hence, with effect from June 5, 1978, the price for billets and RC squares steel was raised from Rs. 1,707 to Rs. 1,730 per tonne, for bars and rods (8-10 mm) the stockyard price was raised from Rs. 2,050 to Rs. 2,130 and that for 16-22 gauge-GP sheets and coils was increased from Rs. 3,525 to Rs. 3,775. This was the first major price hike since October

1973 when the steel pricing policy was introduced.

The Government also announced a development fund to enable the industry to undertake research and keep pace with the rapidly changing technology. The fund is to be created by levying a surcharge at the rate of Rs. 100 per tonne on non-priority categories of steel. This amount will be collected by the Joint Plant Committee (JPC) through the producers' sales organisations.

An important development during the year was the passing of the Public Sector Iron and Steel Companies (Restructuring and Miscellaneous Provisions) Act, 1978, by which the elaborate structure under which SAIL was a holding company of several autonomous limited companies was dismantled. Following this, Bhilai Ispat Ltd., Bokaro Steel Ltd., Durgapur Mishra Ispat Ltd., Hindustan Steel Ltd., Rourkela Ispat Ltd., SAIL International Ltd. and Salem Steel Ltd., stood dissolved with effect from May 1, 1978 and each of the steel plants became a unit of the integral company "SAIL". The restructuring is expected to provide several taxation and administrative advantages to the steel plants and the integral company. Further, from June 1, 1978, certain structural changes have also been introduced, enhancing the power of the chief executives of steel plants.

Other important developments during the year included the completion of a metallurgical cycle for 1.7 million tonnes staged at Bokaro with the commissioning of the Cold Rolling Mill Complex in June 1977. A third blast furnace, the largest in the country, with a capacity of 2,640 tonnes per day was also commissioned at Bokaro plant. The year under review was also marked by the signing of a ten-year technical collaboration agreement between Salem Steel Ltd., and Peugeot Loire of France for the supply of know-how for stainless steel cold rolling and training for personnel.

(c) ELECTRICITY

Power generation increased during 1977-78 by only 3.3 per cent as compared to an increase

of 11.6 per cent in 1976-77 and 14.4 per cent in 1975-76. While hydel power generation increased over the year by 9.2 per cent, thermal power generation increased by only 1.5 per cent. Nuclear power generation, however, declined by 30.1 per cent during the year under review. The total generation of electricity during 1977-78 was 92.2 billion Kwh. as compared to 89.2 billion Kwh. in 1976-77.

The actual energy deficit as measured by the ratio of power generated to the requirement for the country as a whole was 15.2 per cent, but shortages differed from region to region. Actual deficit as per cent of requirement was 34.4 in Karnataka, 29.2 in Bihar, 25.7 in Uttar Pradesh, 17.2 in West Bengal, 16.2 in Maharashtra, 14.0 in Haryana, 8.0 in Tamil Nadu, 6.0 in Gujarat, 5.7 in Orissa, 4.4 in Delhi, 4.1 in Andhra Pradesh, 4.0 in Chandigarh and 2.0 in Kerala. Some of the State Governments imposed power cuts during the year 1977. The major power cuts enforced were of the magnitude of 10 to 25 per cent in Assam, 10 per cent in Delhi, 25 to 40 per cent on high tension industries in Goa, 3 to 16 per cent in Jammu & Kashmir, 10 to 55 per cent on industries in Karnataka, 10 to 15 per cent in Madhya Pradesh, 10 to 20 per cent on industries in Maharashtra, 10 to 30 per cent in Rajasthan, 25 to 50 per cent in Uttar Pradesh and 15 per cent on high tension industries together with staggering and reduction in working days in a week in West Bengal.

The power shortage was mainly attributed to (1) inadequate expansion of power generation capacity during recent years and (2) deterioration in the operational efficiency of installed capacity, especially in the thermal segment.

Despite increasing demand for electricity, the additional capacity created during 1977-78 was of the order of only 1960 MW, raising the total capacity in the country at the end of March 1978 to 23,524 MW. The plant load factor, which is the indicator of capacity utilisation, was about 51 per cent in 1977-78 as against 56 per cent in 1976-77.

The target for power generation during 1978-79 has been set at 105.6 billion Kwh. i.e. 15 per cent higher than 1977-78. The target for additional installed capacity has been tentatively fixed at 3,857 MW as against the actual achievement of 1960 MW during 1977-78.

The World Bank and its associate International Development Association (IDA) announced in April 1978 a total loan assistance of \$ 305 million to assist electric power generation in India. In order to offset the crippling effect of power shortages, the Union Government has decided to encourage and subsidise industrial units to install captive power plants, both thermal and diesel.

B. Capital Goods Industries

(a) ENGINEERING INDUSTRIES

In 1977, the performance of the engineering industry in general recorded only a marginal improvement. Acute power shortage in some of the States like Bihar, Tamil Nadu, Uttar Pradesh and Karnataka adversely affected the production of aluminium and copper. Strained industrial relations, particularly in Madras and Bombay, led to closure of several plants for varying periods. These factors resulted in shortages of raw materials and components required by some industries. In spite of these, the modest improvement in production noticed during the year under review, was mainly due to corrective measures taken by the Government, such as the liberalisation of imports, temporary decanalisation of certain items, duty reductions, etc. However, the engineering industry as a whole continued to face the problems of demand recession, under-utilisation of capacity and widespread sickness in certain units.

Export of engineering goods increased from Rs. 554 crores in 1976-77 to Rs. 625 crores in 1977-78; however, the growth rate of exports decelerated from 34 per cent in 1976-77 to 13 per cent in 1977-78. This was attributable, among others, to deepening of recession in the world economy, fluctuations in the dollar rupee rate and growing trend towards protectionism in developed countries.

(i) *Heavy Mechanical Engineering Industries*: In the heavy mechanical engineering sector, the output of passenger cars, jeeps, scooters, light, medium and heavy structurals,

diesel engines (stationary), railway wagons, road rollers and steel castings increased; the output of commercial vehicles and machine tools, however, declined (Table III.17).

Table III.17: Output of Heavy Mechanical Engineering Industries

Item	Unit	1975	1976	1977*
1	2	3	4	5
Automobiles (Total i+ii+iii)	'000 Nos.	69.7 (-8.3)	81.0 (+16.2)	84.1 (+3.8)
(i) Passenger Cars	"	23.5 (-36.5)	31.7 (+34.9)	38.1 (+20.2)
(ii) Commercial Vehicles	"	38.0 (+31.0)	42.4 (+11.6)	36.4 (-14.2)
(iii) Jeeps	"	8.2 (-18.0)	6.9 (-15.9)	9.6 (+39.1)
Scooters	"	101.6 (+18.6)	152.1 (+49.7)	155.8 (+2.4)
Light, Medium and Heavy Structurals	'000 Tonnes	122.4 (+17.2)	123.9 (+1.2)	130.0 (+4.9)
Steel Castings (including Alloy Steel Castings)	"	258 (+0.8)	324 (+25.6)	503 (+55.2)
Diesel Engines (Stationary)	'000 Nos.	140.3 (+26.9)	106.6 (-24.0)	130.4 (+22.3)
Railway Wagons+	"	12.2 (+9.9)	11.3 (-7.4)	12.7 (+12.4)
Road Rollers	Nos.	744 (-47.7)	228 (-69.4)	502 (+120.2)
Machine Tools	Rs. Crores	121.2 (+36.5)	128.0 (+5.6)	114.1 (-10.9)

* Provisional.

+ In terms of four 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 Ancilliary Industries Association.

There was a marginal rise of 3.8 per cent in the production of the automobile industry compared to a sizeable increase of 16.2 per cent in the previous year. The growth rate of passenger car output dropped from 34.9 per cent in 1976 to 20.2 per cent in 1977. However, there was a considerable increase in the production of jeeps by 39.1 per cent in 1977 in contrast to a sizeable decline of 15.9 per cent a year ago. The production of diesel engines at 130.4 thousand was much higher (by 22.3 per cent) as compared to 106.6 thousand in the previous year. The production of railway wagons and road rollers, which had declined in

1976 by 7.4 per cent and 69.4 per cent respectively, recovered the lost ground by recording an increase of 12.4 per cent and 120.2 per cent, respectively in 1977. Production of scooters also increased, though marginally, from 152.1 thousand in 1976 to 155.8 thousand in 1977 (or by 2.4 per cent). In contrast to these, the production of commercial vehicles declined by 14.2 per cent from 42.4 thousand in 1976 to 36.4 thousand in 1977. On account of demand recession, the value of machine tools production came down from Rs. 128.0 crores in 1976 to Rs. 114.1 crores in 1977, recording a decline of 10.9 per cent over the year.

(ii) *Light Mechanical Engineering Industries*: Among the industries in this group, production of bicycles, typewriters, hurricane lanterns and sewing machines increased by 16.5 per cent, 9.7 per cent, 7.8 per cent and 4.3 per cent, respectively (Table III.18). There was an appreciable increase in the production of razor blades by 7.8 per cent in contrast to a decline of 11.1 per cent in the previous year. Similarly, production of bolts, nuts, rivets and

dogpikes, which had declined in 1976 by 4.7 per cent, increased during the year by 3.1 per cent. Production of crown corks and ball and roller bearings also recorded an increase of 16.7 per cent and 2.2 per cent, respectively. However, the production of stoves (pressure type) which had recovered during 1976 after consecutive declines in the preceding three years, again suffered a sharp setback during 1977.

Table III.18: Output of Light Mechanical Engineering Industries

Item	Unit	1975	1976	1977*
1	2	3	4	5
Ball and Roller Bearings	Million Nos.	22.8 (- 3.8)	27.7 (+21.5)	28.3 (+ 2.2)
Typewriters	'000 Nos.	54.0 (+29.8)	60.0 (+11.1)	65.8 (+ 9.7)
Rubber Ply Transmission and Conveyor Beltings ..	Tonnes	7,097 (+ 4.0)	7,113 (+ 0.2)	5,977 (-16.0)
Bicycles	'000 Nos.	2,209 (-12.0)	2,644 (+19.7)	3,081 (+16.5)
Sewing Machines	'000 Nos.	260.4 (-21.8)	362.4 (+39.2)	378.0 (+ 4.3)
Hurricane Lanterns	'000 Nos.	1,677 (-72.7)	2,237 (+33.4)	2,412 (+ 7.8)
Razor Blades	Million Nos.	1,029 (+50.4)	915 (-11.1)	986 (+ 7.8)
Stoves (Pressure Type)	'000 Nos.	1.6 (-15.8)	3.8 (+137.5)	2.0 (-47.4)
Crown Corks	Million Nos.	559 (-39.8)	603 (+ 7.9)	704 (+16.7)
Bolts, Nuts, Rivets and Dogpikes	Tonnes	28,143 (-33.8)	26,827 (- 4.7)	27,660 (+ 3.1)

* Provisional.

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

Source: C.S.O.

(iii) *Electrical Engineering Industries*: Most of the industries in this group recorded increases in output. On the heavy electrical side, production of power transformers and electric motors recorded increases of 24.9 per cent and 13.9 per cent, respectively (Table III.19). In regard to light electrical engineering industries, the production of storage batteries improved marginally by 6.1 per cent over the previous year's performance (5.1 per cent).

Dry cells output, however, registered a smaller increase (of 6.4 per cent) than in 1976 (of 10.3 per cent). Output of domestic refrigerators, which had increased at a slow pace in the preceding two years, registered a sharp rise of 29.7 per cent during 1977. Output of electric fans and radio receivers increased by 13.9 per cent and 7.3 per cent respectively, or more or less at the same rate as in 1976. The increase in the production of domestic refrigerators and

radio receivers may be attributed to certain concessions in excise duties and a pick-up in demand consequent to their availability on easy instalment credit. The decrease in the production of GLS lamps and others by

4.8 per cent during 1977 was due to inadequate domestic demand. The output of fluorescent electric lamps, after stagnating during 1976, registered an increase of 4.1 per cent during 1977.

Table III.19: Output of Electrical Engineering Industries

Item	Unit	1975	1978	1977†
1	2	3	4	5
Light Electrical Engineering				
Electrical Lamps:				
(i) G.L.S. and Others	Million Nos.	129.0 (-10.9)	167.5 (+29.8)	159.3 (- 4.8)
(ii) Fluorescent	Million Nos.	16.9 (+ 7.6)	16.9 (-)	17.6 (+ 4.1)
Electric Fans	'000 Nos.	2,091 (-10.5)	2,376 (+13.6)	3,309 (+13.9)
Radio Receivers	'000 Nos.	1,541 (-26.4)	1,676 (+ 8.8)	1,799 (+ 7.3)
Storage Batteries	'000 Nos.	1,332 (+ 1.1)	1,400 (+ 5.1)	1,486 (+ 6.1)
Dry Cells	Million Nos.	543.4 (-14.5)	599.4 (+10.3)	637.5 (+ 6.4)
Domestic Refrigerators	'000 Nos.	106.3 (+ 3.8)	108.8 (+ 2.4)	141.1 (+29.7)
Heavy Electrical Engineering				
Power Transformers	'000 KVA	11,161 (+24.0)	14,144 (+26.7)	17,659 (+24.9)
Electric Motors	Thousand H.P.	3,104 (- 0.3)	3,469 (+11.8)	3,951 (+13.9)

† Provisional.

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

Source: C.S.O.

(b) METALLURGICAL INDUSTRIES (OTHER THAN IRON AND STEEL)

The details of output in respect of various metallurgical industries are given in (Table III.20). Among the major industries in this group, aluminium industry recorded a considerable fall in its production from 211.9 thousand tonnes to 183.8 thousand tonnes, showing a decline of 13.3 per cent in contrast to an increase of 26.6 per cent in 1976. Aluminium production by Hindalco in Rani-khet and Indalco at Belgaum was adversely affected due to power cuts. In order to meet

the demand, imports of aluminium were undertaken by the Government through the Bharat Aluminium Company for distribution to actual users.

The production of copper and lead, at 21.7 and 7.7 thousand tonnes, respectively, recorded an increase of 2.4 per cent and 42.6 per cent during 1977 as compared to an increase of 30.1 per cent and 12.5 per cent in 1976. The relatively poor performance of copper production was mainly due to the technical and operational problems at the Khetri smelter,

coupled with labour unrest at the Khetri and Ghatshila projects of Hindustan Copper Ltd.

Among the semi-manufactures, production of aluminium sheets and circles increased sharply by 30.0 per cent compared to a nominal rise of 0.3 per cent in 1976. Production of copper sheets and circles also increased by as much as 22.7 per cent compared to a marginal increase of 4.8 per cent in 1976. However, there was a sharp decline of 34.5 per cent in the production of aluminium wire rods for ACSR, in contrast to a steep rise of 48.0 per

cent in 1976. Acute power shortage and labour unrest in the manufacturing plants, adversely affected the production.

Data available for the first quarter of 1978 indicate considerable improvement in the production of lead and zinc due to the substantial expansion of the Tundoo (Bihar) smelter and commissioning of the Vishakhapatnam smelter of Hindustan Zinc Ltd. However, the production of aluminium in particular and also of copper continued to be at low level on account of power cuts and certain technical difficulties referred to earlier.

Table III.20 Output of Metallurgical Industries
(Other than Iron and Steel)

									(Thousand Tonnes)		
Item									1975	1976	1977*
1									2	3	4
Virgin Metals											
Aluminium	..	..	..	..	..	..	..	..	167.4 (+29.9)	211.9 (+26.6)	183.8 (-13.3)
Copper	..	..	..	..	..	..	..	..	16.3 (+38.1)	21.2 (+30.1)	21.7 (+ 2.4)
Lead	..	..	..	..	..	..	..	..	4.8 (+20.0)	5.4 (+12.5)	7.7 (+42.6)
Semi-manufactures											
Aluminium sheets and circles	..	..	..	..	..	..	..	..	37.9 (-16.5)	38.0 (+ 0.3)	49.4 (+30.0)
Aluminium Wire Rods for ACSR	..	..	..	..	..	..	..	..	40.8 (+31.6)	60.4 (+48.0)	39.6 (-34.5)
Copper Sheets and Circles@	..	..	..	..	..	..	..	..	2.1 (-34.4)	2.2 (+ 4.8)	2.7 (+22.7)
Brass sheets and Circles@	..	..	..	..	..	..	..	..	8.9 (-27.0)	11.4 (+28.1)	12.3 (+ 7.9)
Zinc Sheets and Strips	..	..	..	..	..	..	..	..	6.4 (+ 6.7)	7.1 (+10.9)	7.3 (+ 2.8)

* 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 in 1977, at 11.86 lakh tonnes, recorded a net decline of 0.4 per cent over the previous year. While the production of hessian increased from 3.17 lakh tonnes

in 1976 to 3.50 lakh tonnes in 1977 and that of carpet backing rose from 1.20 lakh tonnes to 1.43 lakh tonnes, the production of sacking declined sizeably from 6.29 lakh tonnes to 5.50 lakh tonnes (Table III.21).

Despatches of jute textiles for domestic consumption during 1977 were lower at 6.6 lakh

Table III.21: Jute Textiles

						(Thousand Tonnes)				
Item						Year	Hessian	Sacking	Carpet backing	Total@
1						2	3	4	5	6
Production	..	..	..	..	..	1975	283.0	526.3	113.3	990.0
						1976	317.0	629.0	120.0	1191.0
						1977*	349.5	549.5	143.2	1185.9
Exports	..	..	..	..	..	1975	230.7	81.9	110.7	459.3
						1976	222.5	55.3	116.6	426.2
						1977*	266.5	68.7	136.8	511.2
Domestic Consumption**	..	..	..	..	..	1975	68.1	428.0	2.8	546.9
						1976	93.0	572.0	—	763.0
						1977*	95.7	456.4	—	660.3
Stocks (as at end-December)	..	..	..	..	..	1975	42.3	58.5	18.3	137.3
						1976	41.1	52.1	14.7	122.7
						1977*	30.7	59.1	9.3	114.3

@ Inclusive of 'others'.

* Provisional.

** Figures represent despatches for internal consumption.

Source: C.S.O., Ministry of Industry and Office of the Jute Commissioner.

tonnes as against 7.6 lakh tonnes in 1976, mainly due to fall in demand for sacking by D.G.S. & D. However, despatches for domestic consumption of hessian rose marginally by 3 thousand tonnes to 96 thousand tonnes in 1977.

Foreign demand for jute goods, which had suffered a setback in 1976, revived during 1977. Exports increased from 4.3 lakh tonnes in 1976 to 5.1 lakh tonnes in 1977, the rise for different varieties ranging between 15 and 25 per cent. While the surge in exports of hessian could be ascribed to increased off-take by the U.S.S.R., that in carpet backing and other goods was mainly due to increased demand from the U.S.A. Sacking exports in particular rose on account of larger purchases by African countries.

During the period under review, the Government of India announced certain changes in the cash subsidy granted on the export of jute goods. Cash subsidy on carpet backing was retained at 10 per cent of its f.o.b. value, while the cash assistance of 10 per cent on hessian was withdrawn in view of the high prices thereof. The cash assistance on wool-pack shipment

was also reduced from 15 to 10 per cent. The existing uniform rate of 17.5 per cent for cotton bagging had been split up again on the basis of weightage. The light weight new 7 lb. bagging is given a cash assistance of 20 per cent, while 9 lb. and 12 lb. conventional bagging is given a uniform rate of 10 per cent.

Prices of raw jute ruled well above the support level right from the beginning of the season both at Calcutta and at up-country centres, mainly due to harvesting of a smaller crop than expected. Prices touched record high levels during the peak marketing period. In order to curb excessive speculation, maximum prices for purchase and sale of raw jute, both in Calcutta and the up-country markets, were fixed by the Government. With a view to assessing the quantity of raw jute in the country, the Jute Commissioner directed, in January 1978, all stockists, dealers etc. to disclose stocks of fibre already held by them and continue to submit every fortnight a return disclosing details of stocks of fibre held by them. The Union Industry Ministry also notified on January 23, 1978, a scheme of licensing jute traders.

Stocks of jute goods with the mills stood at 1.1 lakh tonnes at the end of December 1977 compared to 1.2 lakh tonnes at the end of 1976. Since there was a fall in the domestic consumption of jute goods, the decline in their stocks was entirely due to better foreign demand.

The present licensed capacity of the jute industry is 21 lakh tonnes per annum. In addition, the Government has recently approved the establishment of three new jute mills in Assam, Orissa and Tripura with a production capacity of 40,000 tonnes per annum.

(b) RUBBER MANUFACTURES

The annual average index number of production of rubber manufactures (Base: 1970=100) at 129.4 in 1977 showed an increase of 4.5 per cent over the 1976 level. Production of automobile tyres at 53.3 lakhs and tubes at 48.1 lakhs registered an increase of 4.0 per cent and 4.5 per cent, respectively, over 1976 levels (Table III.22). The relatively low order of growth of the automobile tyre industry may be attributed to stagnant demand.

The production of cycle tyres at 231.6 lakhs and tubes at 149.7 lakhs in 1977 showed a

Table III.22: Rubber Products

(Thousands)										
Year	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
1975	4,887 (+ 3.1)	263	4,502 (+ 7.2)	245	23,954 (- 1.7)	425	16,596 (- 9.5)	533	396 (+ 5.6)	54
1976	5,123 (+ 4.8)	N.A.	4,603 (+ 2.2)	N.A.	23,370 (- 2.4)	536	16,399 (- 1.2)	187	421 (+ 6.3)	49
1977*	5,329 (+ 4.0)	N.A.	4,808 (+ 4.5)	N.A.	23,157 (- 0.9)	468	14,971 (- 8.7)	638	448 (+ 6.4)	3
January-June 1977	2,822 (+23.0)	—	2,466 (+15.2)	—	11,062 (- 7.3)	—	7,301 (-14.3)	—	207 (+ 1.5)	—
1978*	2,761 (- 2.2)	—	2,423 (- 1.7)	—	13,441 (+21.5)	—	8300 (+13.7)	—	220 (+ 6.3)	—

† Figures in lakh pairs.

* Provisional.

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

Source: C.S.O.

decline of 0.9 per cent and 8.7 per cent, respectively, over the production in the preceding year. The production of rubber footwear at 448 lakh pairs in 1977 showed an increase of 6.4 per cent over 1976.

The output of natural rubber, the major raw material for the rubber manufactures industry, increased from 148 thousand tonnes in 1976 to

152 thousand tonnes in 1977, registering an increase of 2.6 per cent as compared to a rise of 8.6 per cent in 1976 (Table III.23). The production of synthetic rubber also increased from 23.3 thousand tonnes in 1976 to 27.3 thousand tonnes in 1977, showing a sizeable increase of 17.5 per cent as compared to only 1.3 per cent in 1976.

Table III.23: Rubber

				(Tonnes)		
Item				1975	1976	1977†
1				2	3	4
Production						
Natural	..	..	..	136,019 (+ 6.0)	147,758 (+ 8.6)	151,609 (+ 2.6)
Synthetic	..	..	..	22,961 (+28.1)	23,265 (+ 1.3)	27,328 (+17.5)
Reclaimed	..	..	..	17,655 (— 2.0)	20,157 (+14.2)	22,114 (+ 9.7)
Imports						
Natural	..	..	..	—	—	—
Synthetic	..	..	..	6,448 (— 2.1)	6,469 (+ 0.3)	8,800 (+36.0)
Reclaimed	..	..	..	—	—	—
Consumption						
Natural	..	..	..	129,138 (— 3.3)	133,494 (+ 3.4)	142,763 (+ 6.9)
Synthetic	..	..	..	31,796 (+ 48.0)	33,396 (+ 5.0)	34,543 (+ 3.4)
Reclaimed	..	..	..	18,808 (+ 2.5)	20,811 (+10.6)	21,325 (+ 2.5)
Stocks at the end of the period						
Natural	..	..	..	54,018 (+13.0)	60,172 (+11.4)	57,250 (— 4.9)
Synthetic	..	..	..	12,268 (—17.7)	8,538 (—30.4)	9,772 (+14.5)
Reclaimed	..	..	..	2,384 (—32.6)	1,730 (—27.4)	2,519 (+45.6)

† Provisional.

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

Source: Rubber Board, Kottayam.

During the first quarter of 1978, production of natural rubber at 28.0 thousand tonnes lagged behind the level of 32.6 thousand tonnes in the corresponding quarter of 1977. The fall in production could be attributed to adverse climatic conditions and to occasional strikes in several rubber estates. In the first quarter of 1978, production of synthetic rubber was also lower by 2 thousand tonnes than the level in the corresponding quarter of 1977.

Total consumption of natural and synthetic rubber during 1977-78 at 179.7 thousand tonnes was 4.5 per cent higher than that in the previous year. Reflecting this, stocks of natural rubber at the end of March 1978 declined to 44.0 thousand tonnes from 53.1 thousand tonnes a year ago. Synthetic rubber stocks also showed considerable depletion, while stocks of reclaimed rubber increased over the previous year's level.

With rubber production lagging behind consumption and at the same time exports of rubber at 11.1 thousand tonnes during 1977-78

being almost at the same level as in 1976-77 (12.3 thousand tonnes), the prices of natural rubber showed a steep increase during the year. On September 8, 1978, the Government announced its decision to import 15 thousand tonnes of rubber and to exempt it from import duty. These imports will be canalised through the STC, which will also be in charge of its distribution.

(c) CHEMICALS AND CHEMICAL PRODUCTS

During 1977, excepting Phosphatic fertilisers (P_2O_5) and Soap, the rate of growth in output of other items covered under this group, showed smaller increases than in the preceding year (Table III.24). The output of Nitrogenous fertilisers, at 19.7 lakh tonnes, was higher by 1.9 lakh tonnes, but its growth rate at 10.9 per cent was much lower than 26.2 per cent recorded in 1976. The production of Phosphatic fertilisers on the other hand, at 6.2 lakh tonnes, rose by 42.8 per cent as compared to a rise of only 7.2 per cent recorded a year ago.

Table III.24: Major Chemicals and Chemical Products

(Thousand tonnes)

Year	Sulphuric Acid		Caustic Soda		Paints & Varnishes		Nitrogenous Fertilizers (N content)	Phosphatic Fertilizers (P ₂ O ₅ content)	Soda Ash		Soap +	
	Production	Year-end Stocks	Production	Year-end Stocks	Production	Year-end Stocks			Production	Year-end Stocks	Production	Year-end Stocks
							Production	Production				
1	2	3	4	5	6	7	8	9	10	11	12	13
1975	1,337 (+4.0)	N.A.	442 (+3.3)	18	63 (+1.6)	8	1,410 (+28.1)	403 (+37.5)	541 (+6.1)	34	269 (+26.3)	N.A.
1976	1,682 (+25.8)	N.A.	503 (+13.8)	12	73 (+15.9)	9	1,779 (+26.2)	432 (+7.2)	565 (+4.4)	60	267 (-0.7)	N.A.
1977*	2,023 (+20.3)	N.A.	519 (+3.2)	21	76 (+4.1)	7	1,973 (+10.9)	617 (+42.8)	568 (+0.5)	31	293 (+9.7)	N.A.

* Provisional.

+ Figures relate to production in organised sector.

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

Source: C.S.O.

During 1977, 5.2 lakh tonnes of additional capacity for Nitrogenous fertilisers was installed. The capacity of Phosphatic fertilisers increased by only 0.8 lakh tonnes. Utilisation of capacity in the former declined from 70.9 per cent in 1976 to 65.2 per cent in 1977, while that of the latter increased sizeably from 61.0 per cent to 77.9 per cent.

The present installed capacity for Nitrogenous fertiliser units is 30.3 lakh tonnes and for Phosphatic fertiliser units 10.1 lakh tonnes. With the commissioning of 12 new projects, which are in various stages of completion, total installed capacity would rise to 51 lakh tonnes for Nitrogenous fertilisers and 13.1 lakh tonnes for Phosphatic fertilisers.

The year under review was marked by a sharp increase in the consumption of all the fertilisers mainly due to favourable weather, intensive fertiliser promotion campaign launched by the Government and the timely availability of fertilisers in all parts of the country. Since the domestic production fell short of demand, it was met by drawing down the stocks and through imports. According to the projection made by the Planning Commission, the demand for Nitrogenous fertilisers by 1982-83 is expected to be 52 lakh tonnes and that for Phosphatic fertilisers 16 lakh tonnes. As against this, the production is expected to be of the order of 40 lakh tonnes and 10 lakh tonnes, respectively.

During the year, the Government announced a number of measures to promote investment in the fertiliser industry. It was decided to guarantee a 12 per cent post-tax return on net worth basis, provided the unit achieved a capacity utilisation of 80 per cent and followed certain norms regarding consumption of raw materials, overheads, etc. It was also decided to set up a high level fertiliser co-ordination committee to fix retention prices for various units on the basis of the norms laid down by the Marathe Committee.

Among heavy inorganic chemicals, the production of sulphuric acid recorded an increase

of 20.3 per cent to 20.2 lakh tonnes during 1977. The improvement in production was attributable to both the addition to installed capacity by 3.9 lakh tonnes as well as to its better utilisation from 60.4 per cent in 1976 to 63.7 per cent.

Production of caustic soda at 5.2 lakh tonnes was higher by only 3.2 per cent, as compared to a substantial increase of 13.8 per cent recorded during 1976. The capacity utilisation ratio also improved marginally from 72.9 per cent in 1976 to 74.6 per cent.

The growth rate of soda ash production further slowed down during 1977 to only 0.5 per cent, as compared to 4.4 per cent in 1976 and 6.1 per cent in 1975. The capacity utilisation ratio, however, increased from 89.2 per cent in 1976 to 91.9 per cent in 1977. In order to meet the shortfall in production during the current year, the Government has announced its decision to import 20 thousand tonnes of soda ash through State Chemical and Pharmaceutical Corporation, a subsidiary of the State Trading Corporation.

With larger availability of raw materials, production of soap in the organised sector increased substantially (by 9.7 per cent) as against a decline of 0.7 per cent in 1976. The capacity utilisation ratio also improved from 118.0 per cent in 1976 to 129.8 per cent in 1977. There are at present 45 soap producing units in the large scale sector with an installed capacity of 2.26 lakh tonnes per annum, which account for 20 per cent of the laundry soap production and for one-third of the entire soap output in the country. Under the new industrial policy, all growth in laundry soap production is reserved for small-scale sector, comprising about 5,200 units.

The production of paints and varnishes registered a smaller increase of 4.1 per cent in 1977 as compared to a significant increase of 15.9 per cent in 1976.

The production of essential drugs and pharmaceuticals increased during 1977. The

monthly average index of production at 165.9 in 1977 was higher by 6.6 per cent as compared to 155.6 in 1976.

An important development in the field of drugs and pharmaceuticals was the announcement in March 1978, of the drug policy by the Government. Under the new policy, the drug manufacturing units with an annual turnover of over Rs. 50 lakhs are no longer exempted from the Drugs Control Order in respect of fixation of retail prices of their products. These units would be required to furnish details of calculations regarding retail prices even in respect of existing products and the Government would have the right to refix the retail prices of the drugs. Further, all multi-national drug companies in India will have to bring down their foreign equity holding substantially under the new equity dilution formula. Henceforth, no new foreign company will be given a licence or loan for operating in the drugs field. The small-scale sector will be a prohibited area for foreign companies. 25 drugs have been earmarked exclusively for production in the public sector, 23 in the Indian sector and 66 have been left open for all including foreign companies.

During the year, the Government decided to constitute an Advisory Committee on Chemicals and Fertilisers, headed by the Minister of Petroleum, Chemicals and Fertilisers, to periodically review the status and functioning of the chemical and fertiliser industries and suggest measures for their development, with special reference to the need for wider dispersal of the units, combating pollution and prevention of sickness in these industries.

D. Consumer Goods Industries

(a) COTTON TEXTILES

The output of cotton textiles at 7,793 million metres in 1977 registered a decline of 3.4 per cent, as compared to a fall of 0.1 per cent in 1976 (Table III.25). While the production in the mill sector increased marginally from 4,092 million metres in 1976

to 4,129 million metres (or by 0.9 per cent), that in the decentralised sector fell much more, from 3,979 million metres to 3,664 million metres (or by 7.9 per cent). The output of fine and superfine varieties, after declining by 110 million metres in 1976, fell further by 122 million metres in 1977. The marginal recovery in the output of mill sector during 1977 was mainly due to easier availability of raw materials and relative freedom from the problem of industrial unrest, except in a few centres in the North. However, power supply was inadequate in a number of textiles centres, especially in the first half of 1977. A redeeming feature for the industry in 1977 was the revival of consumer demand towards the close of the year, after the continuous recession experienced since July 1974. This was reflected in further increase in the production of cotton textiles (including blended/mixed fabrics) in the mill sector during January-March 1978 i.e., 1,036 million metres as compared to 998 million metres during the corresponding quarter of 1977.

With the revival of demand for cloth and yarn, the stocks of finished goods with mills were comparatively lower in 1977. Except during the monsoon months, when demand is slack, cloth stocks at the end of every month in 1977 were lower than in the corresponding months of 1975 and 1976. This was true of yarn stocks also. Thus, at the end of 1977 unsold stocks of cloth and cotton yarn of mill sector stood at 151 million metres and 9 million kgs., respectively as compared to 206 million metres and 11 million kgs., respectively a year ago.

Domestic production of raw cotton during the cotton year 1977-78 (September 1977-August 1978) is estimated at around 68 lakh bales of 170 kgs. each, as compared to 59 lakh bales in 1976-77 despite the damage caused to the crop by the cyclone in Andhra Pradesh and Tamil Nadu in November 1977. In addition to the higher production of raw cotton, the Government continued its policy of liberal imports of synthetic fibres. Both

viscose fibres and polynosic fibres were placed under Open General Licence and exempted from customs duty. The compulsory use of non-cotton fibres to the extent of at least 10

per cent by the cotton textile mills and the ban on exports of cotton (including Bengal Deshi) during 1977-78, improved the availability of cotton to meet domestic demand.

Table III.25: Cotton Textiles

								(Cloth in Million Metres) (Yarn in Million Kgs.)		
Sector								1975	1976	1977*
1								2	3	4
A. Mill Sector										
(i) Production								4,079 (- 5.5)	4,092 (+ 0.3)	4,129 (+ 0.9)
Of which, fine and super fine .. .								520	410	288
(ii) Exports .. .								332	581	N.A.
(iii) Domestic Consumption† .. .								3,661	3,341	3,050
(iv) Year-end Stocks (unsold) .. .								265	206	151
B. Decentralised Sector										
(i) Production .. .								4,001 (+ 0.8)	3,979 (- 0.5)	3,664 (- 7.9)
(ii) Exports .. .								55	94	N.A.
(iii) Domestic Consumption .. .								—	—	—
(iv) Year-end Stocks .. .								—	—	—
C. Cloth Total (A+B)										
(i) Production .. .								8,080 (- 2.5)	8,071 (- 0.1)	7,793 (- 3.4)
(ii) Exports .. .								387	675	N.A.
(iii) Domestic Consumption .. .								—	—	—
(iv) Year-end Stocks .. .								—	—	—
D. Cotton Yarn-Mill Sector										
(i) Production .. .								991 (- 1.6)	1,027 (+ 3.6)	1,103 (+ 7.4)
Of which, fine and super fine .. .								47	51	39
(ii) Exports .. .								4	15	31
(iii) Domestic Consumption .. .								438	449	405
(iv) Year-end Stocks (unsold) .. .								15	11	9

* Provisional.

† Represents 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.

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

Production of cotton yarn in the mill sector increased sizeably by 7.4 per cent during 1977, as compared to a rise of 3.6 per cent in 1976. During January-March 1978, cotton yarn output (including blended yarn) maintained its upward trend and, at 285 million Kgs., it was 14 million Kgs. higher than in the corresponding quarter of 1977.

During the year, the number of closed textile mills fell from 39 to 35. Two more spinning mills were set up, raising the number of textile units in the country to 704 and the spindles to 19.8 million. The capacity utilisation ratio in respect of spindles was 71.0 per cent during 1977, as compared to 70.7 per cent in 1976. The number of looms, however, declined marginally by 500 to 207.2 thousand, in 1977. Capacity utilisation ratio of weaving units increased nominally from 72.4 per cent in 1976 to 72.6 per cent in 1977.

Exports of Indian cotton textiles including cotton piece goods, yarn and ready-made garments (mill-made, powerloom and handloom) was relatively lower at Rs. 568 crores in 1977-78, as compared to Rs. 640 crores in 1976-77 but much higher than in 1975-76 (Rs. 429 crores). Variety-wise, the value of exports of cotton piece-goods (mill-made and powerloom) showed a decline of 31.4 per cent from Rs. 225.5 crores in 1976-77 to Rs. 154.7 crores. As against this, the exports of mill-made garments and powerloom cloth were higher at Rs. 141.2 crores in 1977-78 as compared to Rs. 89.1 crores in 1976-77, in spite of stiff competition in the world market. However, exports of garments of handloom sector recorded a sharp decline from Rs. 155.8 crores in 1976-77 to Rs. 92.6 crores in 1977-78. The rising cost of production, restrictions imposed by the developed countries on textile imports and upvaluation of the rupee in relation to sterling and U.S. dollar during the year had an adverse effect on export of textile goods.

The scheme of compulsory production of controlled cloth remained in force during the entire year 1977. The policy of exempting sick mills from the obligation of producing

controlled cloth was continued with a slight modification, by which quotas were reimposed on a small scale on those mills which had enjoyed the exemption for one year. Due to mounting cash losses, some more mills were forced to draw down their reserves during 1977 and thus they became eligible for exemption from the controlled cloth obligation. However, it was incumbent on the industry as a whole to ensure that the total supply of controlled cloth net of exemptions did not fall below 400 million square metres in a year.

During 1977, Government did not allow any further increase in ex-mill price of controlled cloth after the 35 per cent rise permitted with effect from 1st January 1977. As regards non-controlled varieties of cloth, the Union Government ordered the textile mills to stamp the ex-factory price and the excise duty separately on the face and plate as well as on every metre of such cloth so as to ensure reasonable prices to the consumers. This scheme came into effect from September 21, 1977.

Due to financial difficulties faced by many textile mills, the pace of modernisation and rehabilitation of industry continued to be slow. This was reflected in slow progress of the soft loan scheme for modernisation and rehabilitation introduced by the Industrial Development Bank of India for the benefit of weak textile mills.

The total number of sick mills taken over by the National Textile Corporation (NTC) remained at 105 at the end of 1977. Their capacity is about 2.88 million spindles and 43,849 looms which is 15 per cent of the spinning capacity and 20 per cent of the weaving capacity of the total cotton textile industry. NTC mills produced 55 million Kgs. of yarn and 853 million metres of cloth valued at Rs. 410 crores in 1977-78.

During the year, NTC took certain steps to improve the working of the mills under its control. These included a phased modernisation programme, bulk procurement of raw

Table III.26: Paper and Paper Boards

						(Thousand tonnes)			
Year						Installed Capacity	Production	Year-end Stocks	Capacity Utilisation Ratio
1						2	3	4	5
A. Paper and Paper Boards									
1975	..	..	..	..	..	1,040	813 (+1.1)	..	78
1976	..	..	..	..	..	1,068	880 (+8.2)	36	82
1977*	..	..	..	..	..	1,137	919 (+4.4)	35	81
B. Newsprint									
1975	..	..	..	..	..	75	52 (-5.5)	..	69
1976	..	..	..	..	..	75	57 (+9.6)	..	76
1977*	..	..	..	..	..	75	57 (-)	..	76

* Provisional.

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

Source: C.S.O.

materials on centralised basis, rationalisation of labour and management, diversification in the pattern of production, changes in the marketing strategy and optimum use of various inputs. With these measures, the losses came down to Rs. 28 crores in 1977-78, as compared to Rs. 36 crores in 1976-77 and Rs. 61 crores in 1975-76. Exports of NTC mills were of the order of Rs. 12.6 crores in 1977-78 as against Rs. 19 crores in 1976-77. With the acquisition of six more mills of the Swadeshi group in 1978, the number of mills under NTC has increased to 111.

In terms of the Industrial Policy Statement issued by the Government on December 23, 1977, referred to earlier, the Government has decided not to take over any more sick or closed mills. In addition, the Government will not permit any expansion in the weaving capacity in the organised mill and powerloom sector. Installation of new spindles will be allowed on condition that a prescribed quantum of yarn shall be produced in counts required by the handloom sector.

The new textile policy announced by the Government on August 7, 1978 lays down four main objectives, namely, (i) to increase the production and availability of adequate supplies of cloth of acceptable quality at low prices for the masses, (ii) to improve the arrangements for its distribution, (iii) to develop the decentralised sector rapidly and (iv) to ensure harmonious balance between the use of cotton and synthetic fibres. It has been decided to discontinue the present policy of imposing the obligation to produce controlled cloth with effect from October 1, 1978. It is proposed that the handloom sector should meet the requirements of cloth for the weaker sections of society. The production of controlled cloth in the organised sector will be phased out over a period of years. After earmarking the share of NTC mills for the production of controlled cloth, contracts for remaining quantity would be given to the private sector mills on the basis of competitive bids. The policy statement also stresses that the modernisation of the organised sector should be done at an accelerated pace within a definite time limit.

(b) PAPER AND PAPER BOARDS

The production of paper and paper board (excluding newsprint) increased from 8.8 lakh tonnes in 1976 to 9.2 lakh tonnes in 1977 (Table III.26). The growth rate declined from 8.2 per cent in 1976 to 4.4 per cent during the year mainly on account of power shortage and labour trouble in some mills. Variety wise, output of paper board increased from 1.4 lakh tonnes in 1976 to 1.6 lakh tonnes in 1977 and that of wrapping paper from 1.9 lakh tonnes to 2.1 lakh tonnes; production of special varieties, however, declined from 13 thousand tonnes to 3 thousand tonnes. The information available for the first quarter of 1978 indicates a sizeable increase in output i.e., 253 thousand tonnes as compared to 224 thousand tonnes in the corresponding quarter of 1977.

The industry's installed capacity increased during 1977 by 6.5 per cent from 10.7 lakh tonnes in 1976 to 11.4 lakh tonnes. Capacity utilisation, however, remained at 81 per cent. In the case of small-scale units, capacity utilisation was below 50 per cent.

In spite of larger production, an all round shortage has emerged. The Working Group on Paper Industry, appointed by the Planning Commission, has estimated that by the end of 1982-83 the internal demand for paper and paper boards would be around 12.6 lakh tonnes. This would necessitate the creation of an additional capacity of 548 thousand tonnes during the period 1978-79 to 1982-83, involving a total investment of Rs. 450 crores.

The Paper (Control and Production) Order 1974, subsequently replaced by Paper (Regulation of Production) Order, 1978, 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 Director General of Supplies and Disposals. Under this order, paper was supplied by the mills at a concessional price of Rs. 2,750 per tonne during 1977.

There are at present 3 units manufacturing rayon grade pulp with a total installed capacity

of 117,400 tonnes per year. Production from these units during 1976-77 was 117,600 tonnes and this is estimated to have gone upto 125,000 tonnes during 1977-78.

The Hindustan Paper Corporation, a wholly-owned Government of India undertaking, is setting up a project for the manufacture of 80,000 tonnes of newsprint per annum. The Corporation has made arrangements for the procurement of raw materials on a long term basis. The project is expected to be commissioned by the middle of 1979. The Corporation is also setting up (i) an integrated pulp and paper mill with a capacity of 33,000 tonnes per annum at Tuli in Nagaland and (ii) two integrated pulp and paper mills with a capacity of 100,000 tonnes per annum each in the Nowgong and Cachar districts of Assam. For this, a sum of Rs. 5 crores had been allocated in the Annual Plan 1977-78. Besides, it has been assisting the State Governments in examining the feasibility of setting up pulp/paper mills in a number of other areas like Himachal Pradesh, North Bengal and Bastar in M.P., and building up expertise to offer consultancy services in regard to paper and newsprint projects.

The exports of paper and paper board in April-September 1977 at Rs. 3.01 crores, were higher by Rs. 6 lakhs than in the corresponding period of 1976.

Newsprint : The output of newsprint at the National Newsprint and Paper Mills Ltd., (NEPA) remained constant at 57 thousand tonnes. Seven schemes to set up a total capacity of 3.4 lakh tonnes of newsprint have been approved by the Government.

(c) SUGAR

Sugar production has been projected to touch a new peak at 65 lakh tonnes during the 1977-78 season. At this level, it would register a substantial increase of 34.3 per cent over the production level of 48.40 lakh tonnes during 1976-77 (Table III.27).

Table III.27 : Sugar

(Lakh tonnes)

Year (October-September)	Opening Stock	Production	Export	Consumption
1973-74	8.64	39.48	4.15	35.19
1974-75	8.78	47.97	9.24	34.57
1975-76	12.94	42.62	10.21	36.90
1976-77*	8.45	48.40	3.12	37.94
1977-78*†	15.79	63.15	0.74	32.62

* : Provisional † : October-June.

Source: Sugar Situation, July 1978, Ministry of Agriculture and Irrigation, Government of India.

Total sugar production during the first nine months (October-June) of current sugar season (1977-78) is estimated at 63.15 lakh tonnes as against 47.54 lakh tonnes in the corresponding period of last year. At 15.79 lakh tonnes, the opening stock for 1977-78 season was nearly double the opening stock of 8.45 lakh tonnes for 1976-77. The total quantity available upto June 1978 was higher at 78.94 lakh tonnes during 1977-78 than 55.99 lakh tonnes available during the corresponding period of 1976-77. The total off-take for internal consumption upto June 1978 amounted to 32.62 lakh tonnes as against 27.46 lakh tonnes during the corresponding period of last year.

Under the International Sugar Agreement, which came into force on January 1, 1978, the effective export quota for India for 1978 works out to 6.5 lakh tonnes. Government have decided to export this quantity even by paying a subsidy. The State Trading Corporation is reported to have so far concluded deals for export of 5.0 lakh tonnes. During 1976-77, only 3.12 lakh tonnes of sugar was exported.

The policy of partial control on sale of sugar was continued during 1977-78 till August 15, 1978 and proportion of levy to free sale sugar was kept unchanged at 65:35. The policy of dual pricing was abolished by removing the control on the price and distribution of sugar with effect from August 16, 1978.

Earlier, restrictions on inter-State movement of sugar on trade account were removed from January 27, 1978 and State Governments were requested to ensure that the cane growers received at least the same price for cane as in the previous season. To help the sugar factories, a uniform rise of Rs. 18.03 per quintal in ex-factory price of levy sugar was announced for all the zones. The States were advised to enlarge the coverage of public distribution system and to ensure that there was no discrimination in the treatment between rural and urban areas. The retail price of levy sugar for consumers was also raised by 15 paise per kg. to Rs. 2.30 per kg.

Effective from November 16, 1977, the Union Government reduced the basic excise duty on free sale sugar from 45 per cent to 27.5 per cent *ad valorem* and that on levy sugar from 15 per cent to 12.5 per cent *ad valorem*. From March 1, 1978, following the imposition of a 5 per cent special duty on the basic duty in the Union budget for 1978-79, the rates of excise duty on free sale and levy sugar were raised to 28.5 per cent and 12.8 per cent, respectively. On March 15, 1978, the excise duty on levy sugar was reduced to 11.3 per cent.* In view of the large supply of sugarcane, a number of sugar mills would

*With effect from August 16, 1978, the excise duty has been fixed at 17.5 per cent *ad valorem* which is the weighed average of the excise duties on levy and free sale sugar. Simultaneously the tariff value was fixed at Rs. 215.00 per quintal.

be working beyond the normal season. The Government granted excise duty rebate of Rs. 54 per quintal for free sale sugar and Rs. 9.60 per quintal for levy sugar for production during May-September 1978 in excess of the average production during the corresponding period of the preceding three seasons.

The Union Government reduced excise duty on khandsari sugar under the compounded levy scheme** from February 5, 1978 by 50 per cent for sulphur sugar and 75 per cent for non-sulphur sugar. The basic duty leviable under normal procedure was also reduced from 15 per cent to 7.5 per cent.

A sum of Rs. 1.92 crores was credited to Statutory Levy Sugar Price Equalisation Fund, consisting of excess realisations made by sugar factories over the prices fixed under Essential Commodities Act. In addition, the Food Corporation of India too recovered a sum of Rs. 1.12 crores from the sugar factories.

**Khandsari units can pay excise duty either under normal procedure on actual produce or under "compounded levy scheme" on the basis of machinery, capacity of the unit, etc.

The tariff value for purpose of assessment of excise duty on free sale sugar was changed during the year in stages as indicated below :

Month	Tariff Value (Rs. per quintal)			
October/November 1977	..	..	..	270
December 1977	..	..	..	300
January/February 1978	..	..	..	285
March 1978	..	..	..	270
April 1978	..	..	..	250
May 1978	..	..	..	255
June 1978	..	..	..	260
July 1978	..	..	..	255

The Central Government continued to provide incentives to new sugar factories and expansion projects implemented at high cost, by way of higher levy free sugar quotas and excise duty concession so as to make the projects economically viable.

Chapter IV

Price Trends and Price Policy

The Overall Price Situation

During the period end-June 1977 to end-June 1978, the general price level moved downward, in contrast to the rise in the corresponding period of 1976-77. Prices of most of the sensitive commodities which generally exert pressure on the price level showed a welcome decline. The wholesale price index of 'all commodities' (Base: 1970-71 = 100) declined by 1.6 per cent from 188.8 at end-June 1977 to 185.8 at end-June 1978, as against the rise of 8.6 per cent between the two corresponding points of the preceding year. (Table IV: 1).

The general index hovered around the level of end-June 1977 till it reached the peak of 189.0 on September 17, 1977. Thereafter it started declining and, with intermittent fluctuations, reached the lowest of 181.0 on February 25, 1978, mainly because of post-*Kharif* harvest arrivals. The index thereafter started rising again and touched 185.8 at end-June 1978.

The fall of 1.6 per cent in the 'all commodities' index was mainly on account of the decline registered by the two main groups, 'primary articles' (2.1 per cent) and 'manu-

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

Main Groups/Groups/Sub-Groups/ Commodities	Weight	Index as on			Percent Variation	
		June 26, 1976	June 25, 1977	June 24, 1978	Col. (5) over Col. (4)	Col. (4) over Col. (3)
1	2	3	4	5	6	7
ALL COMMODITIES	1000	173.9	188.8	185.8	- 1.6	+ 8.6
I. Primary Articles	417	163.2	187.7	183.8	- 2.1	+ 15.0
1. Food Articles	298	154.0	176.0	176.6	+ 0.3	+ 14.3
(a) Foodgrains (A+B)	129	148.2	167.8	172.9	+ 3.0	+ 13.2
(A) Cereals	107	151.8	163.2	159.2	- 2.5	+ 7.5
(i) Rice	51	154.4	169.6	163.8	- 3.4	+ 9.8
(ii) Wheat	34	147.1	150.6	148.4	- 1.5	+ 2.4
(iii) Jowar	8	179.8	163.5	163.5	-	- 9.1
(iv) Bajra	6	148.2	167.6	156.7	- 6.5	+ 13.1
(B) Pulses	22	130.5	190.5	240.6	+ 26.3	+ 46.0
(b) Fruits and Vegetables	61	159.9	187.5	173.0	- 7.7	+ 17.3
(c) Milk and Milk Products	62	150.6	158.4	167.5	+ 5.7	+ 5.2
(d) Other Food Articles	16	175.1	253.6	201.1	- 20.7	+ 44.8
2. Non-Food Articles	106	156.3	186.8	168.8	- 9.6	+ 19.5
(a) Fibres	32	181.5	196.4	173.5	- 11.7	+ 8.2
(i) Raw Cotton	22	193.6	209.4	173.6	- 17.1	+ 8.2
(ii) Raw Jute	4	123.0	147.8	160.0	+ 8.3	+ 20.2
(b) Oilseeds	42	130.3	196.8	165.2	- 16.1	+ 51.0
Groundnuts	18	126.0	199.4	154.6	- 22.5	+ 58.3
(c) Other Non-Food Articles	32	165.2	164.5	168.7	+ 2.6	- 0.4
Raw Tobacco	8	-	137.6	140.2	+ 1.9	-
3. Minerals	13	442.9	473.1	485.1	+ 2.5	+ 6.8

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

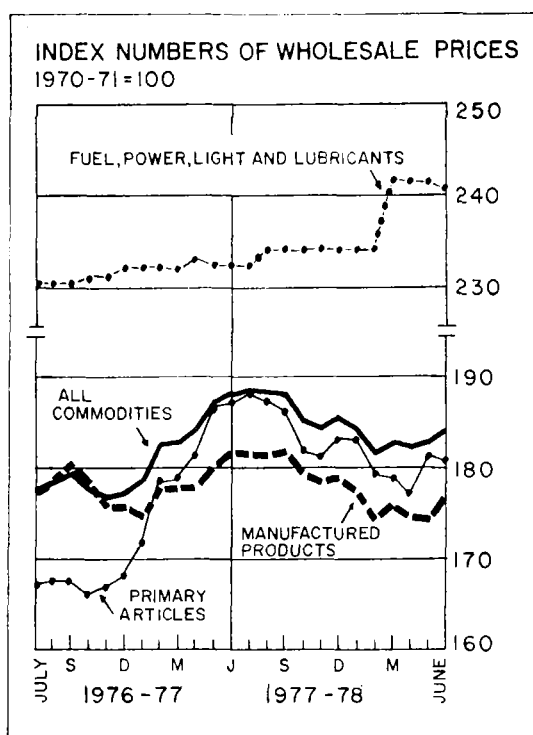
Main Groups/Groups/Sub-Groups/ Commodities	Weight	Index as on			Percent Variation	
		June 26, 1976	June 25, 1977	June 24, 1978	Col. (5) over Col. (4)	Col. (4) over Col. (3)
1	2	3	4	5	6	7
II. Fuel, Power, Light and Lubricants	84	229.7	232.4	241.6	+ 4.0	+ 1.2
Coal	10	—	197.6	212.2	+ 7.4	—
Mineral Oils	49	267.2	267.6	271.1	+ 1.3	+ 0.1
III. Manufactured Products	499	173.3	182.4	178.1	— 2.4	+ 5.3
1. Food Products	133	188.7	197.1	160.7	— 18.5	+ 4.5
(a) Sugar, Khandsari and Gur ..	72	231.1	203.0	150.9	— 25.7	— 12.2
(i) Sugar	22	173.6	161.9	153.2	— 5.4	— 6.7
(ii) Gur	46	258.4	223.4	149.5	— 33.1	— 13.5
(b) Miscellaneous Food Products ..	49	130.2	194.3	170.8	— 12.1	+ 49.2
Edible Oils	37	116.9	185.0	161.6	— 12.6	+ 58.3
Groundnut Oil	14	108.9	193.8	146.0	— 24.7	+ 78.0
2. Beverages, Tobacco and Tobacco Products	27	170.0	170.7	177.6	+ 4.0	+ 0.4
3. Textiles	110	147.5	169.8	174.9	+ 3.0	+ 15.1
Cotton Yarn	14	—	202.4	195.0	— 3.7	—
Cotton Cloth (Mills)	38	158.6	176.4	182.3	+ 3.3	+ 11.2
Jute, Hemp, & Mesta Textiles ..	12	112.9	122.6	147.2	— 20.1	+ 8.6
4. Paper & Paper Products	9	178.8	182.1	190.4	+ 4.6	+ 1.8
5. Leather and Leather Products ..	4	226.0	225.6	249.3	+ 10.5	— 0.2
6. Rubber and Rubber Products	12	157.9	156.7	169.8	+ 8.4	— 0.8
7. Chemicals and Chemical Products ..	56	170.5	172.6	175.6	+ 1.7	+ 1.2
Fertilisers	13	189.8	178.5	176.0	— 1.4	— 6.0
8. Non-metallic Mineral Products	14	190.9	192.0	206.9	+ 7.8	+ 0.6
9. Basic Metals, Alloys & Metal Products	60	188.8	194.0	211.0	+ 8.8	+ 2.8
Iron and Steel & Ferro Alloys ..	36	186.7	187.5	214.8	+ 14.6	+ 0.4
Aluminium	4	—	228.0	247.8	+ 8.7	—
10. Machinery and Transport Equipment ..	67	170.8	171.4	180.4	+ 5.3	+ 0.4
11. Miscellaneous Products	7	165.3	178.3	181.2	+ 1.6	+ 7.9

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

factured products' (2.4 per cent), which have large weights in the index. The third main group, 'fuel, power, light and lubricants' rose by 4.0 per cent, but due to its relatively low weight, its influence on the general price index was small. In 1976-77, all these three main groups had shown increases of 15.0 per cent, 5.3 per cent and 1.2 per cent respectively.

The major factors that contributed to the declines in the general price level and in the indices of 'primary articles' and 'manufactured products' were the record output of major cereals during 1977-78 backed by the comfortable stocks of foodgrains with the Government, relatively high outturn of other agricultural crops such as raw cotton, raw jute and sugar-

Graph 2



cane, improved distribution arrangements, timely imports of commodities in short supply and restrictions on exports of scarce mass consumption goods.

Primary Articles

Under the main group 'primary articles', the group 'non-food articles' contributed to the entire fall of 2.1 per cent in the main group, the two remaining groups 'food articles' and 'minerals' rising respectively by 0.3 per cent and 2.5 per cent. 'Food articles' went up by 0.3 per cent while 'non-food articles' declined by as much as 9.6 per cent. In 'food articles', the largest decline of 20.7 per cent, was shown by the sub-group 'other food articles'. In this sub-group, 'tea' declined by 22.4 per cent mainly due to better domestic availability brought about by a larger crop and lower exports as compared with the actual level in 1976-77 and levy of export duty (of Rs. 5/- per kg. in April 1977). The sub-group 'fruits and vegetables' recorded a fall of 7.7 per cent.

The other two sub-groups recorded increases. 'Milk and milk products' went up by 5.7 per cent and 'foodgrains' by 3.0 per cent.

In 'foodgrains', 'pulses' went up by 26.3 per cent as compared with the sharp increase of 46.0 per cent in 1976-77. The lower order of rise in 1977-78 may be attributed to the improvement (of about 11 per cent) in domestic crop. However, the basic imbalance between demand and supply in pulses has continued to persist. 'Cereals' registered a decline of 2.5 per cent, with rice, wheat and bajra making contributions of 3.4 per cent, 1.5 per cent and 6.5 per cent, respectively, essentially due to successive better outturn for the past three years, with the removal of restrictions on inter-regional movement aiding availability.

In the group 'non-food articles', 'fibres' went down by 11.7 per cent mainly because of the fall of 17.1 per cent recorded by 'raw cotton'. Timely and adequate imports of cotton and the expectations of a large crop during the 1977-78 season contributed to the fall in raw cotton prices. 'Raw jute' however rose by 8.3 per cent apparently on account of keen demand from mills and holding back of stocks by sellers in anticipation of better prices. The sub-group 'oilseeds' showed an even larger fall of 16.1 per cent, groundnuts going down by 22.5 per cent. All other major oilseeds showed major declines such as rape and mustard seed (10.0 per cent), linseed (24.5 per cent), soya-bean (34.9 per cent) and castor-seed (28.4 per cent). The Government's decision to remove all restrictions on the free movement of oils and oilseeds, larger imports of edible oils and larger output helped to bring down the prices of oilseeds.

Manufactured Products

In the main group 'manufactured products' which declined by 2.4 per cent, all the groups, barring the group 'food products', moved upward. The increases shown by the various groups were: 'beverages, tobacco and tobacco products' (4.0 per cent), 'textiles' (3.0 per cent), 'paper and paper products' (4.6 per cent),

'leather and leather products' (10.5 per cent), 'rubber and rubber products' (8.4 per cent), 'chemicals and chemical products' (1.7 per cent), 'non-metallic mineral products' (7.8 per cent), 'basic metals, alloys and metal products' (8.8 per cent), 'machinery and transport equipment' (5.3 per cent) and 'miscellaneous products' (1.6 per cent). On account of the relatively low weights of these groups, the increase in their indices did not make any significant difference to the decline in the index of the main group.

The fall of 18.5 per cent in the index of the group 'food products' was so steep that it more than compensated for the rise in the case of other groups. Under 'food products', the sub-group 'sugar, khandsari and gur' declined by 25.7 per cent. 'Sugar' showed a fall of 5.4 per cent due to the record sugar output and larger releases by the Government through public distribution system. Besides, the low absorption of sugar in the international markets owing to sugar glut in most sugar producing countries of the world had improved domestic availabilities. 'Gur' prices declined more sharply by 33.1 per cent due to subdued demand caused by easy availability of the complimentary product, sugar. The other sub-group 'miscellaneous food products' recorded a fall of 12.1 per cent. 'Edible oils' declined by 12.6 per cent owing to sizeable government imports and relatively high outturn of domestic oilseeds crop.

Weighted Contribution to the Change in the General Price Level

During the year under review, the weighted contribution of 'manufactured products' to the decline of the general price index was more at 71.5 per cent, than that of 'primary articles' (54.2 per cent). The group, 'fuel, power, light and lubricants' on the other hand, had an opposite effect to the extent of 25.9 per cent, because, despite its low weight, the rise in the price was high. In the previous year, all the groups showed increases, the weighted contributions of 'primary articles', and 'manufactured

products' being 68.4 per cent and 30.2 per cent respectively (Table IV : 2).

The group 'non-food articles' contributed 63.7 per cent to the decline in the index of primary articles during 1977-78, owing to the steep fall in the prices of oilseeds. The noticeable weighted contributions of 'fruits and vegetables' (29.6 per cent) and 'other food articles' (28.0 per cent), to the decline in food articles were offset by the price rises in 'food-grains', 'milk and milk products', 'eggs, fish and meat' and 'condiments and spices'. The weighted contribution of pulses to the rise in foodgrains' prices was high at 36.4 per cent and swamped the decline in cereals' prices. As a result, the group 'food articles' had an opposite effect on the decline in primary articles in terms of weighted contribution.

The decline in 'manufactured products' was, in terms of weighted contributions, entirely on account of the steep decline in the price index of the major group 'food products', (161.6 per cent), within which the fall in the prices of 'sugar, khandsari and gur' was particularly sharp (125.8 per cent). The 'miscellaneous products' contribution to the decline in the price index of 'food products' was less significant, at 38.5 per cent. The weighted shares of all the other groups in the decline in the main group, 'manufactured products' were negative, in the sense that they showed price rises.

Price Policies

During 1977-78, the Government of India took several steps aimed at removing imbalances in aggregate demand and supply and in keeping prices under control. In Chapter III of this Report, reference has been made to various price measures and policies in relation to the agricultural sector. With regard to industrial products, the main planks of action were—(a) import of commodities in short supply, (b) change in the basic excise duties and (c) restriction on exports with a view to sustaining domestic availability. Some of the important policy measures were :

Table IV. 2: Variations in Wholesale Prices and the Weighted Contribution to Price Variation by Groups/
Sub-Groups/Commodities

Items	Weight	Actual Variation		Percentage Variation		Weighted Contributions in percentages	
		1976-77	1977-78	1976-77	1977-78	1976-77	1977-78
All Commodities	1000.00	+14.9	- 3.0	+ 8.6	- 1.6	+100.0	-100.0
A. Primary Articles	416.67	+24.5	- 3.9	+15.0	- 2.1	+ 68.4	- 54.2
1. Food Articles	297.99	+22.0	+ 0.6	+14.3	+ 0.3	+ 44.2	+ 5.9
(a) Food grains	129.22	+19.6	+ 5.1	+13.2	+ 3.0	+ 17.0	+ 22.0
(i) Cereals	107.43	+11.4	- 4.0	+ 7.5	- 2.5	+ 8.2	- 14.3
Rice	51.31	+15.2	- 5.8	+ 9.8	- 3.4	+ 5.2	- 9.9
Wheat	34.17	+ 3.5	- 2.2	+ 2.4	- 1.5	+ 0.9	- 2.4
Jowar	8.39	-16.3	—	- 9.1	—	- 0.9	—
Bajra	5.64	+19.4	-10.9	+13.1	- 6.5	+ 0.7	- 2.1
(ii) Pulses	21.79	+60.0	+50.1	+46.0	+26.3	+ 8.8	+ 36.4
(b) Fruits and Vegetables	61.32	+27.6	-14.5	+17.3	- 7.7	+ 11.4	- 29.6
(c) Milk and Milk Products	61.50	+ 7.8	+ 9.1	+ 5.2	+ 5.7	+ 3.2	+ 18.7
(d) Eggs, fish and meat	18.97	+20.3	+28.3	+12.1	+15.1	+ 2.6	+ 18.0
(e) Condiments and spices	10.94	+21.0	+11.6	+13.6	+ 6.6	+ 1.5	+ 4.2
(f) Other food articles	16.04	+78.5	-52.5	+44.8	-20.7	+ 8.5	- 28.0
2. Non-food Articles	106.21	+30.5	-18.0	+19.5	- 9.6	+ 21.7	- 63.7
(a) Fibres	31.73	+14.9	-22.9	+ 8.2	-11.7	+ 3.2	- 24.2
(b) Oil seeds	42.01	+66.5	-31.6	+51.0	-16.1	+ 18.7	- 44.3
(c) Other non-food articles	32.47	- 0.7	+ 4.2	- 0.4	+ 2.6	- 0.2	+ 4.6
3. Minerals	12.47	+30.2	+12.0	+ 6.8	+ 2.5	+ 2.5	+ 5.0
B. Fuel, Power, Light & Lubricants	84.59	+ 2.7	+ 9.2	+ 1.2	+ 4.0	+ 1.4	+ 25.9
C. Manufactured Products	498.74	+ 9.1	- 4.3	+ 5.3	- 2.4	+ 30.2	- 71.5
1. Food Products	133.22	+ 8.4	-36.4	+ 4.5	-18.5	+ 7.5	-161.6
(a) Sugar, Khandsari & Gur	72.41	-28.1	-52.1	-12.2	-25.7	-13.7	-125.8
Sugar	21.91	-11.7	- 8.7	- 6.7	- 5.4	- 1.7	- 6.4
Gur	45.58	-35.0	-73.9	-13.5	-33.1	-10.7	-112.3
(b) Miscellaneous Products	49.16	+64.1	-23.5	+49.2	-12.1	+21.2	- 38.5
Edible Oils	37.16	+68.1	-23.4	+58.3	-12.6	+17.0	- 29.0
2. Beverages, Tobacco & Tobacco Products	27.08	+ 0.7	+ 6.9	+ 0.4	+ 4.0	+ 1.3	+ 6.2
3. Textiles	110.26	+22.3	+ 5.1	+15.1	+ 3.0	+ 16.5	+ 18.7
Cotton Cloth (Mills)	38.04	+17.8	+ 5.9	+11.2	+ 3.3	+ 4.5	+ 7.5
4. Paper and Paper Products	8.51	+ 3.3	+ 8.3	+ 1.8	+ 4.6	+ 1.8	+ 2.3
5. Leather and Leather Products	3.85	- 0.4	+23.7	- 0.2	+10.5	+ 1.0	+ 3.0
6. Rubber and Rubber Products	12.07	- 1.2	+13.1	- 0.8	+ 8.4	- 1.0	+ 5.3
7. Chemicals and Chemical Products	55.48	+ 2.1	+ 3.0	+ 1.2	+ 1.7	+ 0.8	+ 5.5
8. Non-metallic Mineral Products	14.15	+ 1.1	+14.9	+ 0.6	+ 7.8	+ 0.1	+ 7.0
9. Basic Metals, Alloys and Metal Products	59.74	+ 5.2	+17.0	+ 2.8	+ 8.8	+ 2.1	+ 33.8
10. Machinery & Transport Equipment	67.18	+ 0.6	+9.0	+ 0.4	+ 5.3	+ 0.2	+ 20.1
11. Miscellaneous Products	7.20	+12.8	+ 2.9	+ 7.9	+ 1.6	+ 0.6	+ 0.7

Note: Figures are all rounded off and may not therefore correspond to unity in each case.

In July 1977, the Government decided to raise the price of edible oils imported through the State Trading Corporation (STC) by Rs. 500/- per tonne. Any consequential increase in the costs of production of the industrial users of edible oils would be absorbed by the industry and not passed on to the final consumers.

In August 1977 the Government introduced a scheme of subsidising the price of refined imported rapeseed oil distributed through public distribution system by Re. 1.00 per kg. in order to give relief to consumers.

With effect from October 1, 1977, the ex-works price of cement was increased by Rs. 1.57 per tonne, thereby raising the retention price to Rs. 161.12 per tonne. The allowed upward revision in price was, however, proposed to be fully absorbed from the freight pool operated by the Cement Controller.

The Centre reduced the price of Urea by Rs. 100 per tonne from October 12, 1977. As a result, the maximum retail price of urea would be Rs. 1,550/- per tonne as against Rs. 1,650/- per tonne.

The Government also pegged the retail price of vanaspati at Rs. 140/- for a tin of 16 Kgs. effective November 1, 1977. To enable the industry to manufacture vanaspati at a lower cost, the Government reduced the price of imported oil supplied through the State Trading Corporation and at the same time raised the share of use of cottonseed oil in the manufacture of vanaspati from 10 per cent to 15 per cent.

The Government raised with effect from November 22, 1977 the stock limits of edible oils and pulses with retailers. This was aimed at keeping the prices of oils and pulses at reasonable levels.

In order to boost the consumption of fertilizers for increasing agricultural production, the Government reduced the duty on triple sulphur phosphates from 15 per cent to 7.5 per cent in December 1977.

The retention price of aluminium was reduced in December 1977 with a view to giving a boost to aluminium production.

With a view to bridging the gap between the prices of imported cement and indigenous cement, the Union Government increased in January 1978 the price of cement by Rs. 20/- a tonne. It was also decided to withdraw the scheme of reimbursement to domestic cement producers on their supplies to Government departments at concessional prices. The imported cement was also exempted from customs duty, auxiliary customs levies as well as countervailing duty in an effort to keep the price of imported cement at lower levels.

In February 1978, the customs duty on certain imported automobile components was lowered from 120 per cent to 40 per cent *ad valorem* to bring down their prices.

In March 1978, the STC fixed the price of imported filament yarn at Rs. 125 per kilogram as against Rs. 120 a kilogram following the substantial increase in the duty.

In April 1978, the Minerals and Metals Trading Corporation reduced selling prices of all non-ferrous metals except copper, keeping in view the international prices of these metals. At the same time, imports of about 17,000 tonnes of copper were arranged for by the Union Government to meet the domestic industrial demand to tide over the shortfall in indigenous production.

In order to encourage the cement industry to produce more cement, the Government decided to give a cash incentive of Rs. 30/- a tonne for every extra tonne that the industry produced over its best production in the last 3 years or over and above 85 per cent of the installed capacity, whichever is higher. The facility would be available upto March 31, 1979.

In May 1978, the Union Government granted an increase of Rs. 175/- a tonne on an average, in the price of saleable steel with a view to enabling the industry to absorb the rising costs

Table IV.3: Trends in Consumer Price Index Number—All India

Year/Item	Year-end (June)		
	1975-76	1976-77	1977-78
1	2	3	4
Industrial Workers (Base: 1960=100)			
Index	291	320	327
Per cent Variation	-11.3	+10.0	+ 2.2
Urban Non-manual Employees (Base: 1960=100)			
Index	270	291	303
Per cent Variation	- 4.6	+ 7.8	+ 4.1

and get a fair rate of return. A development surcharge of Rs. 100/- a tonne on non-priority items was also introduced for rehabilitation and modernisation of the industry.

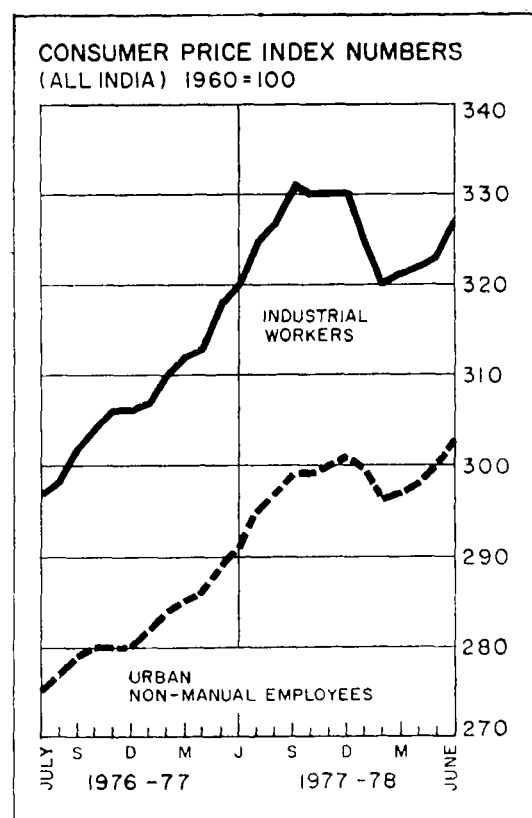
With a view to promoting the development of small-scale units, the Union Government in May 1978 freed all the small-scale units with an investment of less than Rs. 4 lakhs from payment of excise duty. Salt also was taken out of the list of excisable goods.

In June 1978, the dual pricing in steel was abolished giving benefit to small manufacturers who were taking delivery ex-stock yard. An informal price control was also introduced on all steel items requiring the plants to take approval before raising the price of any item. Further, it was decided to build buffer stock and allow imports of items in short supply to overcome any sudden shortages that might develop. A pool pricing system was also introduced by which the imported steel would be sold at the same prices as indigenous steel.

Consumer Price Index

The retail price level which is generally reflected in consumer price indices, registered an increase of a relatively low order during the year under review. The All India Consumer Price Index (Base: 1960 = 100) for Industrial Workers recorded, on a point to point basis, an increase of 2.2 per cent in 1977-78 as

Graph 3



against a substantial rise of 10.0 per cent last year (Table IV-3). But the average index for twelve months at 326 registered a larger increase of 5.8 per cent as compared with the increase of 1.3 per cent last year. This increase

was registered at all the important Centres. The highest rise was in the case of Ahmedabad (9.4 per cent) followed by Hyderabad (7.6 per cent), Delhi (6.8 per cent), Madras (6.5 per cent), Calcutta (6.3 per cent), Bombay and Nagpur (5.3 per cent), Coimbatore (2.6 per cent) and Bangalore (2.4 per cent).

There was a dissonance in the movements of consumer prices and wholesale prices during the year under review. This may be attributed mainly to the differences in the weights in the two indices and partly to the influence of the movement of prices of those commodities which do not figure in the composition of the consumer price index.

The consumer prices of Urban Non-Manual Employees Index (Base : 1960 = 100) also registered an increase of 4.1 per cent on a point to point basis as against 7.8 per cent in the last year. Taking the average of twelve months, it recorded an increase of 5.8 per cent against a rise of 3.1 per cent last year. This year's increase was shared by all the important centres. The highest increase was recorded in the case of Ahmedabad (9.7 per cent) and the lowest by Calcutta (4.9 per cent). In 1976-77 all the centres had registered increases except Madras. Ahmedabad which registered the highest increase during the year under review had witnessed a marginal rise of 1.2 per cent in 1976-77.

Monetary Developments

end-June 1977 and end-June 1978, surpassing the previous highest expansion rate of 17.3 per cent registered in 1972-73. In the previous year, M_1 showed a rise of 16.6 per cent. The rate of growth in broad money (M_3) was, however, relatively low at 18.5 per cent as against 21.2 per cent in 1976-77, which followed from the decline in the rate of growth of time deposits from 27.7 per cent in 1976-77 to 18.0 per cent in 1977-78. In absolute terms, the rise in M_3 was Rs. 5,390 crores compared with the increase of Rs. 5,093 crores in the preceding year (Table : V. 1).

The increase in money supply was reflected more in the deposit money component than in currency with the public. While demand deposits with banks increased by 25.3 per cent (Rs. 2,029 crores), currency went up by 12.3 per cent (Rs. 1,017 crores). Consequently, the share of demand deposits in money supply stood at 51.6 per cent at the end of 1977-78 against 49.0 per cent a year ago, while the ratio of currency to money supply declined

*In the Report, "Money Supply with the Public" refers to the new series introduced from April 1977.

(Rupees Crores)

				Outstandings as on last Friday of			Variations during	
				June 1976	June 1977	June 1978	1976-77	1977-78
				1	2	3	4	5
M ₁ (Money supply with the Public) (a + b + c)	..			14038	16371	19471	+2333 (+16.6)	+3100 (+18.9)
(a) Currency with the Public	..	..		7235	8298	9315	+1063 (+14.7)	+1017 (+12.3)
(b) Demand Deposits with Banks	..	..		6757	8020	10049	+1263 (+18.7)	+2029 (+25.3)
(c) Other Deposits with R.B.I.	..	..		46	53	107	+7 (+15.2)	+54 (+101.9)
M ₂ (M ₁ + Post Office Savings Bank Deposits)	..			15457	17860	21038	+2403 (+15.6)	+3178 (+17.8)
M ₃ (M ₁ + Time Deposits with Banks)	..	..		24016	29109	34499	+5093 (+21.2)	+5390 (+18.5)
M ₄ (M ₃ + Total Post Office Deposits)	..	..		27220	32750	38561	+5530 (+20.3)	+5811 (+17.7)

(2) Figures within brackets represent percentage variations.

to 47.8 per cent at the end of 1977-78 from 50.7 per cent a year ago.

Sources of Change in M_1

The rise in M_1 during the year took place in spite of a lower order of increase in net bank credit to Government, bank credit to commercial sector and net foreign exchange assets of the banking sector. This was because of a steep fall in the expansion of non-monetary liabilities of the banking sector (Table V:2). Net bank credit to Government went up by Rs. 1,455 crores (11.7 per cent), about 80 per cent of which was due to the rise of Rs. 1,155 crores in the credit to Government from banks other than the Reserve Bank. The increase in the net RBI credit to Government at Rs. 300

crores was lower than the last year's increase by Rs. 382 crores; while the Union Government's balances with the RBI rose and RBI's claims on State Governments declined, these were offset by a large increase in the RBI's claims on the Union Government.

The increase in bank credit to commercial sector at Rs. 3,040 crores in 1977-78 was higher by only Rs. 79 crores than in the previous year. In percentage terms, however, the increase was lower at 16.0 per cent against 18.5 per cent. The Reserve Bank's credit to commercial sector recorded a substantial increase of Rs. 227 crores (against an increase of Rs. 100 crores in the preceding year), which was brought about by a step-up in loans to

Table V.2: Sources of Change in Money Supply

						(Rupees Crores)	
						Outstandings as on last Friday of	
						Variations	
						June 1977 over June 1976	June 1978 over June 1977
						4	5
Sources of Change in M_1							
I.	Net Bank Credit to Government (A+B)	10841	12450	13905		+1609 (+14.8)	+1455 (+11.7)
A.	RBI's Net Credit to Government (a-b)	7247	7929	8229		+682	+300
(a)	Claims on Government (i+ii)	7316	8000	8624		+684	+624
(i)	Central Government	6996	7454	8499		+458	+1045
(ii)	State Governments (i.e. Loans & Advances to State Governments)	320	546	125		+226	-421
(b)	Government Deposits with RBI (i+ii)	69	71	395		+2	+324
(i)	Central Government	57	64	377		+7	+313
(ii)	State Governments	12	7	18		-5	+11
B.	Other Banks' Credit to Government	3594	4521	5676		+927	+1155
II.	Bank Credit to Commercial Sector (A+B)	16029	18990	22030		+2961 (+18.5)	+3040 (+16.0)
A.	RBI's Credit to Commercial Sector	740	840	1067		+100	+227
B.	Other Banks' Credit to Commercial Sector (i+ii+iii)	15289	18151	20963		+2862	+2812
(i)	Bank Credit by Commercial Banks	11492	13507	15504		+2015	+1997
(ii)	Bank Credit by Co-operative Banks	2106	2525	3072		+419	+547
(iii)	Investments by Commercial and Co-operative Banks in other Securities	1690	2119	2387		+429	+268
III.	Net Foreign Exchange Assets of Banking Sector (A+B)	1274	3306	4567		+2032 (+159.5)	+1261 (+38.1)
A.	Net Foreign Exchange Assets of RBI (a-b)	1280	3312	4572		+2032	+1260
(a)	RBI's Gross Foreign Assets	1969	3761	4732		+1792	+971
(b)	RBI's Non-Monetary Foreign Liabilities	689	449	160		-240	-289
B.	Net Foreign Exchange Assets of Banks (A.Ds' balances)	-6	-6	-6		-	-
IV.	Government's Currency Liabilities to Public	555	583	594		+28 (+5.0)	+11 (+1.9)
V.	Non-Monetary Liabilities of Banking Sector (A+B+C)	14661	18959	21625		+4298 (+29.3)	+2666 (+14.1)
A.	Time Deposits with Banks	9978	12738	15028		+2760 (+27.7)	+2290 (+18.0)
B.	Net Non-Monetary Liabilities of RBI	2458	3593	3056		+1135	-537
C.	Other Net Non-Monetary Liabilities of Commercial and Co-operative Banks	2226	2628	3541		+402	+913

Notes: (1) Data are provisional.

(2) Figures within brackets indicate percentage variations.

term-lending institutions. The RBI's loans to the IDBI, SFCs, the ARDC, etc. increased by Rs. 240 crores from Rs. 669 crores at end-June 1977 to Rs. 909 crores at end-June 1978. The increase in other banks' credit to the commercial sector was a shade lower at Rs. 2,812 crores, compared with the rise of Rs. 2,862 crores in 1976-77. The entire increase in other banks' credit to the commercial sector was utilised for purposes other than food procurement. Food procurement advances, in fact, declined nominally by Rs. 11 crores in 1977-78. Although the increase in other banks' credit to the commercial sector was lower during the year under review, its share in the overall increase in the total assets of the

banking sector was higher at 48.8 per cent than the shares of incremental net bank credit to the Government sector and net foreign exchange assets of the banking sector.

At Rs. 1,261 crores (38.1 per cent) the accretion to net foreign exchange assets was lower than that of Rs. 2,032 crores (159.5 per cent) in the preceding year.

The relatively low pace of growth of non-monetary liabilities of the banking sector, which offset the impact of changes in bank credit and foreign exchange assets, made a major contribution to the expansion of M_1 during the year. Sluggish growth in time deposits with banks, and a decline in the net non-monetary liabilities of the Reserve Bank of India combined to produce this effect. Time deposits grew at rate of only 18.0 per cent (against 27.7 per cent in 1976-77) which could be attributed to the reduction in deposit interest rates in mid-May 1977 and again from March 1, 1978 and partly, as a consequence thereof, to the availability of relatively attractive rates of return on alternative assets such as the deposits with non-banking companies and units of the Unit Trust of India.

Seasonality in Money Supply Expansion

The order of expansion in money supply in the conventional slack season of 1977 (May-October) was lower than in the slack season of 1976. The expansion during the conventional busy season of 1977-78 (November-April) was however higher than that of the busy season of 1976-77 (Table V : 3).

The slower pace of expansion in money supply during the slack season of 1977 is attributable to smaller increases in bank credit to the commercial sector (Rs. 990 crores), and net foreign exchange assets (Rs. 865 crores), offset only partly by nominal contraction in the net bank credit to the Government sector (Rs. 58 crores) and relatively low order of rise in non-monetary liabilities of the banking sector (Rs. 1,228 crores). Component-wise, currency with the public was reduced by Rs. 110 crores and deposit money increased by Rs. 683 crores.

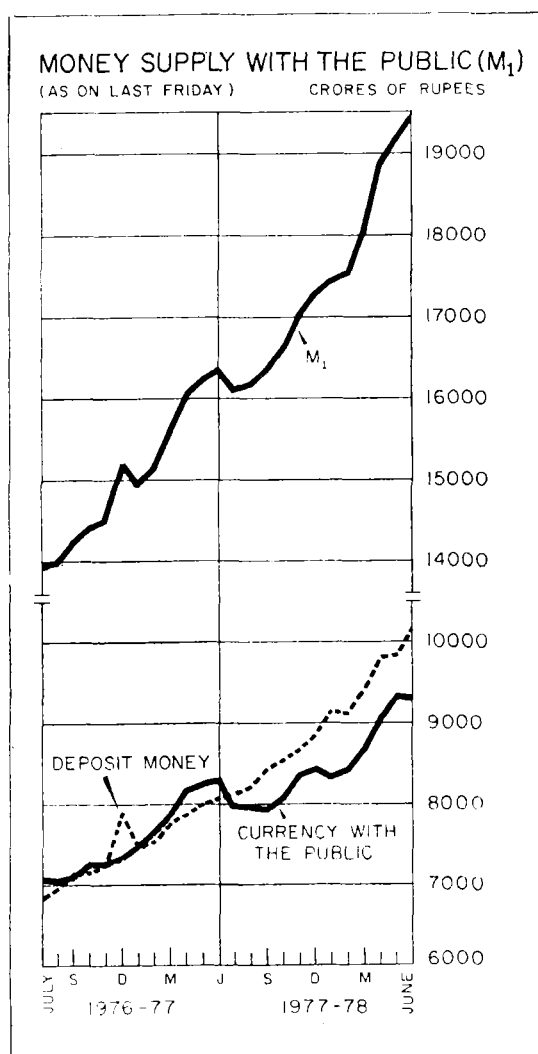


Table V.4: Average and Incremental Ratios Relating to Components of M_1 and M_3

(Rupees Crores)

Year (July-June)						1973-74		1974-75		1975-76		1976-77@		1977-78@	
						Out-standing	Variations	Out-standing	Variations	Out-standing	Variations	Out-standing	Variations	Out-standing	Variations
1.	Currency with the Public	..	..	..	..	6552	+ 763	6662	+ 110	7235	+ 573	8298	+1063	9315	+1017
2.	Demand Deposits with Banks	..	..	..	..	5172	+ 757	5815	+ 643	6757	+ 942	8020	+1263	10049	+2029
3.	M_1	..	..	..	..	11771	+1527	12543	+ 772	14038	+1495	16371	+2333	19471	+3100
4.	Time Deposits with Banks	..	..	..	..	6766	+1019	8030	+1264	9978	+1948	12738	+2760	15028	+2290
5.	M_3	..	..	..	..	18537	+2546	20573	+2036	24016	+3443	29109	+5093	34499	+5390
Ratios						Average	Marginal	Average	Marginal	Average	Marginal	Average	Marginal	Average	Marginal
1.	Currency/ M_1	..	..	..	..	55.7	50.0	53.1	14.2	51.5	38.3	50.7	45.6	47.8	32.8
2.	Currency/DD	..	..	..	..	126.7	100.8	114.6	17.1	107.1	60.8	103.5	84.2	92.7	50.1
3.	Currency/TD	..	..	..	..	96.8	74.9	83.0	8.7	72.5	29.4	65.1	38.5	62.0	44.4
4.	Currency/Aggregate Deposits	..	..	..	..	54.9	43.0	48.1	5.8	43.2	19.8	40.0	26.4	37.2	23.6
5.	Currency/ M_3	..	..	..	..	35.3	30.0	32.4	5.4	30.1	16.6	28.5	20.9	27.0	18.9
6.	DD/ M_1	..	..	..	..	43.9	49.6	46.4	83.3	48.1	63.0	49.0	54.1	51.6	65.5
7.	DD/TD	..	..	..	..	76.4	74.3	72.4	50.9	67.8	48.4	63.0	45.8	66.9	88.6
8.	DD/ M_3	..	..	..	..	27.9	29.7	28.3	31.6	28.1	27.4	27.6	24.8	29.1	37.6
9.	TD/ M_3	..	..	..	..	36.5	40.0	39.0	62.1	41.5	56.6	43.8	54.2	43.6	42.5

@ Provisional.

The busy season of 1977-78 saw a relatively high order of expansion in M_1 mainly on account of a steep increase in the net bank credit to the Government sector (Rs. 2,311 crores), which was facilitated by a sharp rise in other banks' credit to Government (Rs. 1,419 crores) and relatively perceptible increases in both the bank credit to commercial sector (Rs. 1,423 crores) and net foreign exchange assets (Rs. 880 crores). Neutralisation effected by the rise in non-monetary liabilities of the banking sector (Rs. 2,393 crores) was just enough to hold the expansion in money supply at 13.5 per cent.

The slack season of 1978 (upto end-June) witnessed a continuation of the busy season expansion in M_1 . But the major sources of expansion were the sharp increase in bank

credit to the commercial sector and decline in the non-monetary liability of the banking sector. The dampening impulses were provided by declines in net bank credit to Government sector and net foreign exchange assets. The main reasons for the rise in bank credit to the commercial sector were the substantial pick-up in credit for procurement of rabi grains, and the accumulated inventories of commodities like sugar on account of sluggish domestic and external demand.

Trends in Monetary Ratios

The relatively large increase in demand deposits had pushed up its share—in both average and incremental terms—in money supply as well as in M_3 during the year under review (Table V: 4).

Table V.3: Analysis of Money Supply Variations

(Rupees Crores)

		Variations during					
		Slack Season		April 1977	April 1978	Busy Season	
		1976	1977	to June 24, 1977	to June 30, 1978	1976-77	1977-78
		1	2	3	4	5	6
1. M_1 (Money Supply with the Public) (A+B) ..		+ 932 (+6.9)	+ 572 (+3.6)	+ 331 (+2.1)	+ 614 (+3.3)	+1616 (+11.2)	+2236 (+13.5)
A. Currency with the Public		+275 (+8.9)	-110 (-1.3)	+110 (+1.3)	+266 (+2.9)	+931 (+12.8)	+979 (+12.1)
B. Deposit Money		+657 (+10.1)	+683 (+8.7)	+221 (+2.8)	+348 (+3.5)	+685 (+10.9)	+1258 (+14.7)
2. Sources of change in M_1 ((1+2+3+4+5)							
I. Net Bank Credit to Government (A+B)		-148 (-1.4)	-58 (-0.5)	+347 (+2.9)	-447 (-3.1)	+1462 (+13.7)	+2311 (+19.2)
A. RBI's Net Credit to Government (a-b)		-562	-394	+425	+228	+857	+892
(a) Claims on Government ((i+ii)		-582	-678	+140	-3001	+1064	+4444
(i) Central Government ..		-397	-612	+110	-2420	+722	+4187
(ii) State Governments ..		-185	-68	+30	-582	+342	+257
(b) Government Deposits with RBI (i+ii)		-20	-284	-285	-3230	+207	+3552
(i) Central Government ..		-22	-283	-282	-3239	+210	+3552
(ii) State Governments ..		+2	-2	-3	+9	-3	-
B. Other Banks' Credit to Government ..		+414	+337	-78	-675	+605	+1419

Table V.3: Analysis of Money Supply Variations—Contd.

(Rupees Crores)

	Variation during					
	Slack Season		April 1977 to June 24, 1977	April 1978 to June 30, 1978	Busy Season	
	1976	1977			1976-77	1977-78
	1	2	3	4	5	6
II. Bank Credit to Commercial Sector (A+B)	+1606 (+10.3)	+990 (+5.3)	+361 (+1.9)	+1051 (+5.0)	+1406 (+8.2)	+1423 (+7.2)
A. RBI's Credit to Commercial Sector ..	+99	+30	-45	+167	+72	-15
B. Other Banks' Credit to Commercial Sector (i+ii+iii)	+1506	+959	+406	+885	+1334	+1438
(i) Bank Credit by Commercial Banks	+1068	+507	+205	+757	+1064	+938
(ii) Bank Credit by Co-operative Banks	+133	+198	-16	+64	+233	+330
(iii) Investments by Commercial and Co-operative Banks in other Securities.	+307	+256	+218	+63	+37	+169
III. Net Foreign Exchange Assets of Banking Sector (A+B)	+927 (+112.9)	+865 (+29.5)	+376 (+12.8)	-109 (-2.3)	1182 (+67.6)	+880 (+23.2)
A. RBI's Net Foreign Exchange Assets (i+ii)	+926	+865	+376	-109	+1182	+880
(i) Gross Foreign Assets	+689	+573	+373	-109	+1182	+880
(ii) Non-Monetary Foreign Liabilities	-237	-292	-3	—	—	—
B. Other Banks' Net Foreign Exchange Assets	+2	—	—	—	—	—
IV. Government's Currency Liabilities to the Public	+4 (+0.7)	+4 (+0.7)	+9 (+1.6)	+7 (+1.2)	+14 (+2.5)	+16 (+2.8)
V. Non-Monetary Liabilities of Banking Sector (i+ii+iii)	+1458 (+10.2)	+1228 (+6.9)	+762 (+4.2)	-111 (-0.5)	+2448 (+15.5)	+2393 (+12.3)
(i) Time Deposits with Banks ..	+1442 (+15.2)	+1258 (+10.3)	+566 (+4.7)	+433 (+3.0)	+1251 (11.5)	+1187 (+8.8)
(ii) Net Non-Monetary Liabilities of RBI	+137	-94	+435	-140	+700	+132
(iii) Other Net Non-Monetary Liabilities of Commercial and Co-operative Banks	-120	+65	-238	-404	+497	+1074
3. M₃ (M₁ + Time Deposits with Banks) ..	+2373 (+10.3)	+1829 (+6.5)	+896 (+3.2)	+1047 (+3.1)	+2867 (+11.3)	+3425 (+11.4)

Note: 1. Data are provisional.

2. Figures within brackets indicate percentage variations.

The deceleration in the growth of time deposits during the year brought down the average as well as marginal ratios of time deposits to M_3 . The marginal ratio of time deposits to M_3 recorded a steep decline from 54.2 per cent in 1976-77 to 42.5 per cent in 1977-78.

Reserve Money

The relatively low order of expansion in currency with the public did not, however, dampen the growth rate in reserve money or

'high powered' money. At Rs. 12,219 crores at end-June 1978, reserve money went up by Rs. 22.2 per cent during the year. This was mainly on account of a sharp increase in bankers' deposits with the Reserve Bank of India from Rs. 1,165 crores as at end-June 1977 to Rs. 2,214 crores as at end-June 1978, which followed from the continuance of the cash reserve ratio at 6 per cent as in the preceding year and from the impounding of the 10 per cent of the incremental deposits over the base date of January 14, 1977 (Table V : 5).

Table V. 5: Analysis of Sources of Change in Reserve Money

(Rupees Crores)								
		Out-standing as on the last Friday of June 1973	1973-74	1974-75	1975-76	1976-77	1977-78 @	Out-standing as on the last Friday of June 1978 @
I		2	3	4	5	6	7	8
Reserve Money (1+2+3+4)	.. ..	6743	+ 841	+ 82	+ 686	+1649	+2218	12219
1. Currency with the Public	.. ..	5789	+ 763	+ 110	+ 573	+1063	+1017	9315
2. Other Deposits with R.B.I.	.. ..	40	+ 7	+ 18	- 19	+ 7	+ 54	107
3. Cash with Banks	.. ..	349	+ 49	+ 34	- 18	+ 71	+ 98	583
4. Bankers' Deposits with RBI	.. ..	565	+ 22	- 80	+ 150	+ 508	+1049	2214
Sources of Change in Reserve Money								
Reserve Bank's claims on:								
1. Government (Net)	.. ..	6143	+ 421	+ 946	- 263	+ 682	+ 300	8229
2. Commercial and Co-operative Banks	.. ..	389	+ 268	- 24	+ 354	- 57	- 117	813
3. Commercial Sector	.. ..	290	+ 362	- 27	+ 115	+ 100	+ 227	1067
<i>Of which:</i>								
(a) Commercial bills rediscounted with RBI	.. ..	15	+ 259	- 142	+ 12	- 28	- 15	101
4. Net Foreign Exchange Assets of RBI	.. ..	588	+ 83	- 363	+ 972	+2032	+1260	4572
5. Government's Currency Liabilities to Public	.. ..	483	+ 38	+ 33	+ 1	+ 28	+ 11	594
6. Net Non-monetary Liabilities of RBI	.. ..	1150	+ 331	+ 483	+ 494	+1135	- 537	3056
Reserve Money (1+2+3+4+5-6)	.. ..	6743	+ 841	+ 82	+ 686	+1649	+2218	12219

@Provisional.

Among the sources of change in reserve money, the Reserve Bank's net claims on Government and the net foreign exchange assets of the Reserve Bank both recorded lower increases than in the previous year while the Reserve Bank's claims on co-operative and commercial banks declined more sharply. The impact of these factors on reserve money was however more than offset by the reduction, as against an increase last year, in net non-monetary liabilities of the Reserve Bank.

Money Multiplier

The faster growth in reserve money than in M_1 lowered both the average and incremental money multipliers; the former declined from 1.672 in 1976-77 to 1.634 in 1977-78 and the latter to 1.436 in 1977-78 from 1.587 in 1976-77 (Table V: 6). This picture holds good even if both reserve money and M_1 are taken as averages of month-end figures. The lower rate of growth in M_3 owing to the slackened pace of increase in time deposits had signified a larger order of decline in the average and marginal ratios of M_3 to reserve money. The fall in money multipliers resulted from the statutory pre-emptions by way of

cash reserve ratios including the impounding related to the incremental aggregate liabilities.

Income Velocity of Money

Reflecting the comparative price stability, the average income velocity of M_1 and M_3 stood lower respectively at 4.19 and 2.33 in the financial year 1977-78 against 4.44 and 2.55 in the preceding financial year. The average income velocity of currency too showed a decline from 8.82 in 1976-77 to 8.53 in 1977-78 (Table V: 7).

Currency and Coinage

Currency in circulation registered a lower order of increase during the fiscal year 1977-78; at Rs. 9,146 crores as on the last Friday of March 1978, it increased by Rs. 878 crores or 10.6 per cent against the phenomenal rise of Rs. 1,221 crores or 17.3 per cent in the fiscal year 1976-77. As in the preceding two years, notes in circulation accounted for the bulk of the increase (Rs. 859 crores or 11.1 per cent), 'rupee coins' and 'small coins'—the other two components—registering increases of Rs. 14 crores (4.2 per cent) and Rs. 5 crores

Table V. 6: Trends in Money Multiplier in India

Average of last Fridays of the Months (July-June)	Reserve Money	Money Supply	Aggre- gate Monetary Resources	Average Money Multiplier		Increases in (Rupees Crores)			Marginal Money Multiplier		
	(Rs. Crores)			Money Supply	Aggre- gate Monetary Re- sources	Reserve Money	Money Supply	Aggre- gate Monetary Re- sources	Money Supply	Aggre- gate Monetary Re- sources	
1	2	3	4	5	6	7	8	9	10	11	
1973-74	..	7029.4	10754.6	17120.3	1.530	2.435	+1255.1	+1595.0	+2727.7	1.271	2.173
1974-75	..	7265.3	11755.3	19196.0	1.618	2.642	+235.9	+1000.7	+2075.7	4.242	8.792
1975-76	..	7647.8	12902.1	21854.8	1.687	2.858	+382.5	+1146.8	+2658.8	2.999	6.955
1976-77@	..	9004.0	15054.2	26481.5	1.672	2.941	+1356.2	+2152.1	+4626.7	1.587	3.412
1977-78@	..	10713.5	17509.2	31462.0	1.634	2.937	+1709.5	+2455.0	+4980.5	1.436	2.913

Notes: 1. Reserve money comprises currency with public, bank reserves i.e., cash with banks and banks' balances with RBI and other deposits with RBI.

2. Money multiplier refers to ratio of money supply or aggregate monetary resources to reserve money.

@ Provisional.

Table V. 7: Income Velocity of Money Supply and Aggregate Monetary Resources

(Rs. Crores)

Financial Year	National Income to Current Prices £		Currency with the Public*		Money Supply with the Public *		Aggregate Monetary Resources*		Average Income Velocity of		
	Amount	Annual per-centage increase	Amount	Annual per-centage increase	Amount	Annual per-centage increase	Amount	Annual per-centage increase	Currency	Money Supply	Monetary Resources
1	2	3	4	5	6	7	8	9	10	11	12
1973-74	.. 50498	25.0	5821.5	17.7	10360.5	18.0	16469.8	19.8	8.67	4.87	3.06
1974-75	.. 59417	17.7	6291.6	8.1	11571.9	11.7	18710.2	13.6	9.44	5.13	3.17
1975-76	.. 60596	2.0	6520.8	3.6	12546.8	8.4	21036.4	12.4	9.29	4.82	2.88
1976-77@	.. 64279	6.1	7284.1	11.7	14450.4	15.2	25195.4	19.8	8.82	4.44	2.55
1977-78@	.. 70257	9.3	8238.3	13.1	16769.9	16.0	30129.0	19.6	8.53	4.19	2.33

£ 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).

@Provisional.

(2.1 per cent), respectively (Table V: 8). Unlike in the preceding two years, the increase in circulation of rupee coins during fiscal 1977-78, it is to be noted, outstripped that in small coins. The proportion of notes in circulation to total currency in circulation went up

fractionally by 0.5 per cent to 93.6 per cent during the year under review, while the share of rupee coins declined from 4.1 per cent in fiscal 1976-77 to 3.8 per cent in 1977-78 and that of small coins from 2.8 per cent to 2.6 per cent.

Table V. 8: Details of Currency in Circulation

(Rupees Crores)

Financial Year	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	Variation over the previous year	Out-standing	Variation over the previous year
1	2	3	4	5	6	7	8	9	10	11
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 (4.1)	+ 4	253 (2.8)	+ 9	8268 (100.0)	+1221	395	+52
1977-78*	.. 8559 (93.6)	+ 859	349 (3.8)	+14	238 (2.6)	+ 5	9146 (100.0)	+ 878	485	+90

Note: Figures in brackets represent proportion to total currency in circulation.

*Provisional.

Circulation of notes and coins

The pattern of fluctuations in notes in circulation during the course of the fiscal year 1977-78 was similar to that observed in fiscal 1976-77. From Rs. 7,700 crores as at end-March 1977, the notes in circulation moved up to Rs. 8,200 crores as at the end of June 1977, recording an increase of Rs. 500 crores as compared with an increase of Rs. 602 crores in the corresponding quarter of the preceding year. However, this expansion was neutralised partially by a contraction of Rs. 379 crores during the following quarter (July-September) as compared with the contraction of Rs. 194 crores in the comparable quarter of last year. As a result, the slack season of 1977 witnessed a reduction of notes in circulation of the order of Rs. 72 crores in comparison with a marked contra-seasonal expansion of Rs. 327 crores during the 1976 slack season. Thereafter, except for the month of January 1978, currency expanded continuously, with the notes in circulation reaching a level of Rs. 8,559 crores at the close of the fiscal year 1977-78.

Denomination-wise, two-thirds (66.5 per cent) of the currency in circulation consisted of notes of Rs. 10/- and Rs. 100/-, although their share has been declining over the years.¹ The circulation of hundred rupee notes increased by Rs. 576 crores during fiscal 1977-78 as compared with a rise of Rs. 304 crores in the preceding year. Its share in the total currency in circulation² correspondingly went up from 44.5 per cent in fiscal 1976-77 to 46.7 per cent in fiscal 1977-78 (Table V.9). The circulation of ten rupee notes, on the other hand, declined sharply by Rs. 142 crores and formed 19.8 per cent of currency in circulation, in contrast to an expansion of Rs. 87 crores or 23.5 per cent of currency in circulation in the previous year. Among the remaining denominations, notes of Rs. 2/-, Rs. 20/- and Rs. 50/- registered increases in both absolute and relative terms. The circula-

tion of Re. 1/- and Rs. 5/- notes also increased during the year, but their proportions in total currency in circulation declined marginally.

Table V.9: Percentage share of Rs. 10/- and Rs. 100/- notes in Total Currency in Circulation*

End of March	Percentage Share		Total (2)+(3)
	Rs. 10/-	Rs. 100/-	
1	2	3	4
1975	29.0	48.5	77.5
1976	26.3	47.9	74.2
1977	23.5	44.5	68.0
1978	19.8	46.7	66.5

* Inclusive of circulation of small coins.

As regards the high denomination notes, the President of India promulgated an Ordinance on January 16, 1978, demonetising currency notes of Rs. 1,000, Rs. 5,000 and Rs. 10,000. Such currency notes ceased to be legal tender in payment or on account at any place after January 16, 1978. The Ordinance also prescribed a procedure for the exchange of these notes within a stipulated time limit at specified offices of the R.B.I., the S.B.I. and other public sector banks as notified by the Reserve Bank. Demonetisation of high value notes was undertaken by the Government to eliminate the possible use of such notes for financing illegal transactions. At the time of demonetisation, total value of high denomination notes in circulation was Rs. 145.42 crores. Of this, Rs. 64.94 crores was held by Government treasuries and banks including the Reserve Bank.

Following the promulgation of the Ordinance, the high denomination notes tendered for conversion to the Reserve Bank upto June 30, 1978, amounted to Rs. 124.45 crores. Of the total tendered for conversion, the amount passed by the Bank for exchange in lower denomination notes was Rs. 116.31 crores, which includes Rs. 60.21 crores exchanged in respect of notes declared by banks and Government treasuries.

¹See Statement No. 110 in Vol. II of this Report.

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

Four coins with a development oriented design having a common theme "Save for Development" were issued with effect from August 15, 1977 in the denominations of 50 Rupees, 10 Rupees, 10 Paise and 5 Paise. 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' and 'proof' sets.

Circulation of Rupee Coins and Small Coins

During the fiscal year 1977-78, rupee coins in circulation, bulk of which (about 74 per cent) represents one rupee notes issued by the Government of India, increased by Rs. 14 crores or 4.2 per cent to Rs. 349 crores; in 1976-77, the increase recorded was only nominal, Rs. 4 crores or 1.2 per cent.

Mintage³

Decimal coins of various denominations (excluding the development oriented design—"Save for Development" 50 Rupee and 10 Rupee coins issued by the India Government Mint, Bombay) valued at Rs. 12.1 crores were minted in 1977-78. Since the introduction of decimal coinage in 1956-57, the mintage of decimal coins has totalled Rs. 275.5 crores till the end of March 1978.

Lost, Destroyed and Mutilated Notes⁴

The number of claims in respect of lost, destroyed and mutilated notes received during the fiscal year 1977-78 was higher at 1.90 lakh pieces as compared with 1.87 lakh pieces last year; however in terms of value, such claims were lower at Rs. 4.4 crores corresponding to Rs. 5.2 crores in fiscal 1976-77. During the year, claims approved for payment aggregated Rs. 3.96 crores and the payments against approved claims including those admitted during the earlier years amounted to Rs. 4.76

crores as against Rs. 4.46 crores in fiscal 1976-77.

Note Forgeries⁵

The total number of forged notes including one rupee notes received by the Bank sharply declined to 1,263 pieces from 9,357 pieces in fiscal 1976-77; correspondingly the value of such notes was considerably lower at Rs. 35,693 as compared with Rs. 1,77,462 last year.

Trends in Gold and Silver Prices

GOLD

The trends in the price of gold in Bombay during the year have to be viewed in the context of developments in the gold markets abroad discussed in Chapter X on Balance of Payments.

The price of gold in the London market increased almost steadily during the year July 77 to June 78 from \$142.95 per fine ounce as of end June 77 to \$184.90 per fine ounce as of end May 78 and \$183.20 per fine ounce as of end June 78, a rise of about 28.6 per cent over the year. The weakness of the dollar in the foreign exchange market played a significant role in the price movements. Uncertain conditions in regard to supplies of gold also accentuated the pressure on prices. For the first time since 1933, the insertion of a gold clause in commercial contracts was allowed in the U.S.

During 1977 and 1978, there was a considerable increase in the activity in the U.S. gold markets, mainly concentrated in the futures market in the New York Commodity Exchange and the International Monetary Market of the Mercantile Exchange in Chicago which reflect the growth in the speculative and investment demand for gold. The expectation of greater inflation added to this demand. There was also a substantial increase in the physical offtake of gold in the U.S., particularly for the manufacture of jewellery and industrial uses. The offtake of coins, especially the South African

³See Statement Nos. 119 and 120 of Vol. II of this Report.

⁴*Ibid*, Statement No. 117.

⁵*Ibid*, Statement No. 117.

Krugerrands, recorded a sizeable increase in 1977. In Europe also, there was a substantial increase in the demand for gold (the increase in France being associated with the elections). With these demand pressures, the price of gold registered a rise.

In 1978, as part of the U.S. Administration's efforts to counter the weakness of the dollar in the foreign exchange markets and to curb inflation, the U.S. Treasury revived in 1978, after a lapse of three years, its sales of gold through auctions. Two of the six, monthly auctions initially programmed between May 78 and October 78 were held in May 78 and June 78 at each of which 0.3 million ounces were sold with average prices of \$180.38 per ounce and \$186.91 respectively. The U.S. Government's sales, like the IMF sales appear to have been accepted as an integral part of the market situation.

Domestic Market : The price of gold in the Bombay bullion market displayed a firm up-trend during the year 1977-78 (July-June) in line with the trends in international markets. It recorded a net increase of 17.0 per cent as compared to that of about 28.6 per cent in the London market. The corresponding increases in the two markets in the preceding year were of the order of 13.5 per cent and 15.5 per cent respectively. The peak level for the year in Bombay at Rs. 724 was recorded on April 19, 1978 and that in London at \$188.80 per ounce on March 8, 1978, while the lowest price of Rs. 580.00 for Bombay was touched on July 5, 1977 and \$140.55, that of London on July 4, 1977.

The price which stood at Rs. 581.00 in Bombay on July 1, 1977 rose steadily to Rs. 599.00 on July 14 due to increased demand and reduced supplies of gold ornaments in the market. However, on the strength of rumours that the government was considering import of gold against export of gold jewellery, it came down to Rs. 588 by end July. However, this bearish trend did not last long and the price started rising steadily in tune with the trends in prices of gold in the international markets.

The sentiment was to some extent aided by reports about the prospective amendment to the Gold Control Act permitting goldsmiths to hold 1 kg. of gold, as against the then stipulated quantity of 100 grams. The price rose to Rs. 625 by August 20, 1977 and fluctuated thereafter within the range of Rs. 613-620 till it rose again to Rs. 638 on September 24 and further to Rs. 662 on October 20. Anticipating sales by Tirumalai-Tirupati Devasthanam (TTD) of about 70 kgs. of gold, the price came down slightly and moved within a narrow range of Rs. 653 to Rs. 655 until November 9. The price firmed up once again reaching a peak level for 1977 of Rs. 706 on November 28. Apart from the impact of the rise in the price of gold in foreign markets, some domestic factors also influenced the Bombay price such as the increased seasonal demand, good harvests, reduced floating stocks, smaller offers of old ornaments for sale and dwindling supplies from upcountry sources.

In the first fortnight of December, however, there was a pause in the upward trend, the price coming down to Rs. 660 on December 12, 1977. But when in mid-December, the Government indicated its intention not to release domestically acquired gold in the market, the price started rising again reaching Rs. 692 on December 21, 1977. The firm trend continued, accelerating with the demonetisation on January 16, 1978 of high denomination currency notes, the price of gold spurting to Rs. 710 on January 17. This is attributed to the tendency to switch over to gold fearing demonetisation of other currency notes like the one hundred rupee note. The price gradually eased thereafter, to Rs. 679 on February 6, 1978 as a reaction perhaps to the relaxation by the I.M.F. of the then prevailing restrictions in regard to the purchase and sale of gold by the Central Banks in the open market. After fluctuating in the range of Rs. 682 to Rs. 698 till February 17, the price once again tended to exceed Rs. 700 on the reported increase in seizures of smuggled gold at various places. In February 1978 relaxation of the Gold Control Act permitting goldsmiths to make and sell gold ornaments and also purchase upto 35

grams of ornament gold at a time,[@] and the removal of the restrictions on the issue of goldsmith's certificate to only members of the goldsmiths' families led to market expectations of an increase in demand for gold. But the announcement by the Finance Minister in his Budget speech of the Government's proposal to sell gold from its stocks, indicating also the possibility of imports of gold being allowed for purposes of export of jewellery had a sobering effect on the price of gold. A major objective of the Government in undertaking sales out of its stocks of gold was to reduce the gap between Indian and international prices and the scope such a spread provided for smuggling activities. As an immediate reaction to the announcement, the price dived to a low of Rs. 635. The price rose again soon thereafter to Rs. 681 on March 13 and further to Rs. 699 on April 15 due to uncertainty in the market about the availabilities from Government stocks until the details of the scheme were announced. With the seasonal uptrend in demand gathering momentum, the price rose to an all-time high of Rs. 724 on April 19. On the same day, the Government announced its acceptance of the plan for sale of government gold suggested by the High Powered Committee set up early in April to work out the details of the scheme. On April 22, 1978, the Reserve Bank of India announced that it would hold, on behalf of the Government, fortnightly auctions beginning from May 3 to sell gold from government stocks. As a reaction to this announcement, the price dipped to Rs. 645 on April 27 though it closed the month at Rs. 665. Despite the award of 4.93 lakh grams of gold by the Reserve Bank of India at the first auction, the price, however, resumed its uptrend which lasted till May 15. With the impending second RBI auction on May 16, the price tended to decline, reaching

a low of Rs. 666 towards the month-end. Simultaneously, with the decline in the domestic price of gold, the spread between the domestic and international prices narrowed substantially from 43.8 per cent in mid-May to 33.6 per cent by end-May. There was, however, an increase in the price of gold in the first week of June, presumably, because of the uncertainty among dealers following imposition of restrictions on *inter-se* sales of gold purchased at the auctions. Since June 9, there was a decline in the price of gold, the price moving down to Rs. 668 on June 24. Thereafter, it fluctuated around Rs. 675 before closing the month at a slightly higher level at Rs. 680*.

GOLD AUCTION

The gold auctions held by the Reserve Bank** on behalf of the Government are on the basis of sealed tenders invited from those holding licences to deal in gold under the Gold Control Act, 1968. Till the end of June 1978, the Reserve Bank held five gold auctions at which it sold an aggregate amount of 6.4 tonnes to successful bidders. The average prices realised rose from Rs. 632.75 per 10 grams in the first auction to Rs. 645.77 in the fifth auction. Details of the auctions are given in Table V-10.

The procedure and rules governing the auctions have been administered with flexibility. Suitable changes have been introduced from time to time in the light of experience gained. Thus, the minimum and maximum quantities admissible for a single bid which at the beginn-

[@]By an Order dated February 14, 1978 certified goldsmiths have been allowed to manufacture for sale new ornaments from out of 100 gms. of standard gold allowed to them against specific orders from the customers. They have also been allowed to make petty purchases of ornaments from any person (not exceeding 35 gms. at a time) for the purpose of executing orders from customers. Such of the goldsmiths who avail of these concessions will have to work in a fixed place which shall be specified in the certificate issued to them and also maintain detailed accounts in the prescribed form.

* The monthly averages of closing prices in Bombay for July and August were Rs. 680.69 and Rs. 735.08, respectively. The closing price for August 1978 was Rs. 764 which was only marginally lower than the all time high of Rs. 766 reached on August 23.

**By notification dated April 29, 1978, the Reserve Bank of India was authorised to sell, deliver, transfer or otherwise dispose of primary gold in the form of standard bars to licensed dealers. Licensed dealers have been authorised to buy, acquire, accept or otherwise receive gold so sold by the Reserve Bank of India. Dealers are prohibited from selling such gold to other dealers in the trade. They are however permitted to manufacture ornaments out of such gold for sale or sell such gold at the rate of (not exceeding) 100 gms. at a time to certified goldsmiths.

Table V-10 R. B. I.'s Gold Auctions in 1978

Sr. No.	Date of Auction	Bids		Quantity awarded Kgs.	Value in Rs. Lakhs	Price (Rs. per 10 grams)	
		Bids received	Bids accepted			Quoted by successful bidders (Range)	Minimum bid price accepted by RBI
1	2	3	4	5	6	7	8
1.	May 3	429	229	492.6	311.69	620-663	620
2.	May 16	1155	659	1559.4	990.67	630-675	630
3.	May 31	1501	603	1223.4	777.81	631-655	631
4.	June 14	1598	1004	1504.9	969.00	641-675	641
5.	June 28	1369	1193	1618.9	1045.43	641-661	641

In the two auctions held in July 1978, a total of 2.97 tonnes of gold was sold at prices ranging from Rs. 641 to Rs. 655 per 10 grams. None of the bids received at the eighth auction held on August 8 were accepted as they did not come upto the reserve price. In the ninth and tenth auctions a total 1.8 tonnes was sold at prices ranging between Rs. 711 and Rs. 721 in the ninth and between Rs. 731 and Rs. 751 in the tenth auction.

ing were 1,000 and 5,000 grams, respectively, were lowered (since the fourth auction) to 500 and 2,500 grams, respectively, to enable smaller dealers to participate in the auctions. At first, only licensed dealers or goldsmiths were allowed to participate in the bids, latterly, joint bids from groups* of dealers or goldsmiths have been allowed. In the case of goldsmiths, licensed co-operatives can also submit bids. *Inter-se* sales of gold purchased in the auctions among dealers were forbidden after the third auction.

Although, the auctions have all been held in Bombay, the geographic coverage has widened over time. In the first auction, the bids received were almost entirely from Maharashtra, Tamil Nadu and Gujarat, but the coverage widened by and by to include several other States.

(B) Spread between Indian & International prices

As referred to earlier, international prices of gold also rose during the year. The spread between the Bombay price and the London price, which was around Rs. 180 per 10 grams at the beginning of the year (in July 1977) rose to Rs. 200 in the following four months, reaching the peak (for the year) of Rs. 256.65

*Not exceeding five.

on November 25. After continuing around Rs. 225 to Rs. 230 till February end, it dipped to a low of Rs. 156 on March 10 due mainly to the fall in Bombay prices, to rise again to about Rs. 200 in April and May. The spread came down, noticeably to Rs. 175 in the first week of June after the first two RBI auctions and hovered around lower levels again in the last two weeks (Rs. 183—184). The monthly averages of the prices in the Bombay and London markets and the spread are indicated in, table V-11 which shows a substantial reduction in the spread in the last two months.

SILVER

The prices of silver in New York and London markets displayed a firm uptrend during the period 1977-78 (July to June). In the New York market, the price registered a rise of 80.00 cents per ounce (or 17.9 per cent), while in the London market, it was relatively subdued showing an increase of 21.70 pence (or only 8.3 per cent) per fine ounce, as against declines during 1976-77 of 37.00 cents (or 7.7 per cent) and 9.30 pence (or 3.4 per cent) respectively.

The price in the New York market which was 446.50 cents as of end-June 1977 came down initially to 439.00 cents by July 11, 1977.

Table V-11 Gold prices in London and Bombay during 1977-78
(Monthly averages)

								(Rupees per 10 grams)			
								London price (Morning fixing)	Bombay price (Closing)	Spread between Bombay and London prices	
										Absolute	Percentage
July 1977	..	..	..	..	..	..	..	407	588	181	44
August	..	..	..	..	..	..	..	407	609	202	50
September	..	..	..	..	..	..	..	419	626	207	49
October	..	..	..	..	..	..	..	438	647	209	48
November	..	..	..	..	..	..	..	452	678	226	50
December	..	..	..	..	..	..	..	438	678	240	55
January 1978	..	..	..	..	..	..	..	453	689	236	52
February	..	..	..	..	..	..	..	465	691	226	49
March	..	..	..	..	..	..	..	487	665	178	37
April	..	..	..	..	..	..	..	477	685	208	44
May ..	..	..	..	..	..	..	..	487	693	206	42
June ..	..	..	..	..	..	..	..	494	685	191	39

1977 and after fluctuating around that level it came down to 261.20 pence by November-end. In December, the price moved down further, reaching 249.70 pence by end-December, to recover partially in January and February 1978, the monthly averages hovering around 256 pence per ounce during these months. The uptrend continued thereafter and the price reached a peak level of 299.75 pence by the end of May. The prices drifted downwards again reaching 283.70 pence per ounce towards the end of June 1978. However, over the year, the monthly average price recorded an increase of 40.36 pence (or 11.6 per cent).

Domestic Market: The price of silver in the domestic market displayed firmness during the year, in tune with the trends in international markets. There was a sharp rise amounting to Rs. 165.00 per kg. (or 13.8 per cent) in 1977-78 in contrast to a fall of Rs. 140 per kg. (or 10.4 per cent) during 1976-77. The price which touched the lowest level of Rs. 1,093.00 per kg. in mid-June 1977 started rising in July 1977 reaching Rs. 1,223.00 by July 26, 1977 bolstered by encouraging overseas advices. The sentiment in the market was, to some extent, influenced by expectations of exports of silver being allowed by the State Trading Corporation of India without prescription of a ceiling. Towards the end of the month, however, the price declined to Rs. 1,175.00 due presumably to increased supplies as against weakening of internal and overseas demand.

In August, the price which opened at Rs. 1,175.00 moved in an erratic fashion though the closing price for the month did not register much of a change. Thereafter, due to brisk overseas demand, the price recorded a steady uptrend, taking the monthly average from

Rs. 1,200.43 in September 1977 to Rs. 1,290.50 in November 1977. The price displayed a subdued trend in late November, reaching Rs. 1,217.00 on December 22, though the closing price of Rs. 1,283.00 for December represented a modest recovery. The monthly average for December stood at Rs. 1,251.56 which was Rs. 38.94 lower than its November level. In line with the trends in international prices, the price of silver in Bombay also increased, the monthly averages moving up to Rs. 1,253.52 in January and Rs. 1,255.35, in February. With the revival of good export demand, the price registered an appreciable gain in March touching Rs. 1,383.00 on March 14. The trend continued unabated with the price rising to a high of Rs. 1,405.00 on April 1, due, mainly, to brisk overseas advices, uncertainty in the market caused by the delay in the announcement of the new export policy for the financial year 1978-79. However, the market turned somewhat bearish towards the middle of the month and the price moved down to Rs. 1,351.00 by the end of the month—a level substantially lower than the opening price (for the month) of Rs. 1,405. In May, the price ruled firm despite the announcement by the Government on May 8, of its intention to maintain buffer stocks of silver so as to curb the rise in prices and the revaluation of the rupee in terms of dollar on May 23. The price which was Rs. 1,350.00 on May 2, rose steadily thereafter touching the peak level for the year (1977-78) of Rs. 1,415.00 on May 31—only Rs. 10 lower than the previous all-time high reached on August 8, 1975. In June, the price displayed firmness and the monthly average of Rs. 1,381.88 was the highest recorded so far representing an increase of Rs. 238.13 or 20.8 per cent over its level at the end of June 1977.

Chapter VI

Banking Developments

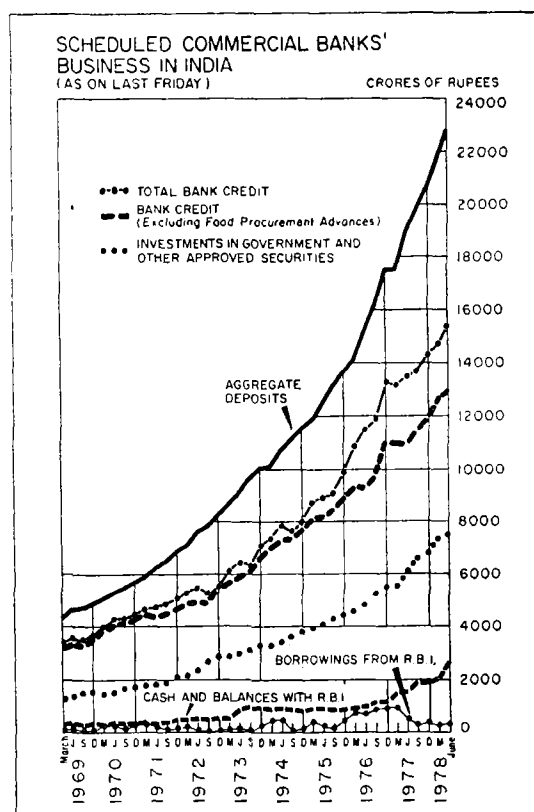
INTRODUCTION

Credit policy during 1977-78 continued to be on the whole one of restraint in the context of a large increase in money supply in the previous year. The policy was directed towards restraining monetary expansion while at the same time promoting investment and production, and augmenting the supply of essential consumer goods and industrial raw materials. The approach was thus flexible within the framework of a tight policy, in respect of both the general and selective credit controls. Measures were specifically aimed at encouraging capital investment and production in the priority sectors and strengthening the role of banks in promoting the interests of the weaker sections of the society.

The general policy frame-work in regard to statutory liquidity ratio, cash ratio and impounding of 10 per cent of incremental deposits was continued during the year. This was further buttressed by making the refinance and rediscount accommodation from the Reserve Bank more selective and discretionary. The food refinance formula was tightened and other refinance and rediscount facilities placed on a discretionary basis. A mention was made in the previous Report of the impact, the increase in the country's foreign exchange reserves had on monetary expansion. The expansionary impact of this inflow on money supply was sought to be neutralised by the Bank, at least partly, by impounding one-half of the net inflow of resources through non-resident rupee accounts and foreign currency accounts with commercial banks accrued since June 1978. On the other hand, in the context of the relative price stability achieved as the year progressed, and in tune with the 1978-79 fiscal policy, measures were taken by the Bank for a downward revision in the structure of lending rates while keeping the Bank Rate unchanged. The

lower lending rates were expected to improve the investment climate and stimulate production and growth in the economy. Simultaneously, some realignment in deposit rates of banks was also effected with a view to reducing the cost of deposits without unduly affecting the flow of savings to banks.

In the branch expansion policy of the Bank the stress was primarily in favour of consolidating the existing position rather than any large-scale expansion. Consequently, the number of new offices opened by commercial banks in 1977-78 was somewhat lower than that in the previous year. Emphasis was on opening new offices at unbanked centres in deficit/underbanked districts and states. RRBs showed a further expansion in the number of



new offices. Although the accretion to aggregate bank deposits was larger in absolute amount during the year, the rate of deposit growth was somewhat lower than the record rate achieved in the previous year. The rate of credit expansion was also lower. This resulted in enhancing liquidity of banks and reducing the reliance on Reserve Bank's refinance facilities.

Credit Policy: Slack Season, 1977

The credit policy announced by the Bank on May 27, 1977 was directed towards restraining expansion of credit but at the same time aimed at promoting investment, aiding production and exports and augmenting supplies of essential consumer goods and industrial raw materials through imports. The measures taken during the previous busy season to restrict the lendable resources of banks were continued in the slack season of 1977. Thus, the average cash reserve ratio was kept unchanged at 6 per cent as also the incremental cash reserve ratio of 10 per cent of demand and time liabilities accruing since January 14, 1977.

Measures were also taken to further restrict refinance and rediscount facilities offered by the Bank. The banks were permitted to use the basic refinance limit of one per cent of a bank's demand and time liabilities as on last Friday of March 1977, at the rate of interest of 10 per cent per annum. However, this was not to be regarded as an automatic entitlement for augmenting resources but to be used only for meeting the day to day operational requirements. Moreover, the automaticity of its availment was also affected as the limit was to be availed of only under Section 17(4)(a) of the RBI Act (i.e., against trustee securities). The availability of refinance relating to food procurement credit was curtailed raising the base level not eligible for refinance from Rs. 1,000 crores to Rs. 1,500 crores with effect from June 1, 1977. For outstanding food credits in excess of Rs. 1,500 crores, refinance was available upto 50 per cent of the increase, at a rate of interest of 10 per cent per annum. In

the case of export credit, refinance was available upto 50 per cent of the incremental performance in export credit of a bank over the annual average performance in 1976, at the rate of 10.5 per cent. Any refinance in excess of the entitlements mentioned above was strictly at the discretion of the RBI in regard to quantum, duration as well as the rate of interest. Similarly, for the bills rediscounting facility, the basic rediscount quota equal to 10 per cent of inland bills purchased and discounted was made entirely discretionary.

In view of the need to provide further stimulus to long-term capital investment, banks were advised to charge a rate of interest not exceeding 12.5 per cent (inclusive of interest tax) on term loans (of not less than three years' maturity) to industry for capital investment. Further, with the realignment of deposit rates and raising of the interest rate allowed on impounded deposits from 5.5 per cent to 6 per cent from June 1977, as mentioned in the previous Report, banks were advised to pass on the benefit of interest saving on deposits and higher interest earnings on impounded deposits to their borrowing constituents, particularly, in the priority sectors.

In order to support the Government programme of importing commodities in short supply (e.g. oils and oilseeds and cotton), some relaxations in selective credit control regulations were announced to ensure their release to the public for consumption without delay.

Credit Policy: Busy Season, 1977-78

The basic frame-work of monetary and credit policies remained unchanged during the 1977-78 busy season with the continuance of the statutory cash reserve requirements, impounding of incremental demand and time liabilities and restrictive refinance and rediscount facilities. At the same time an attempt was made to encourage the flow of credit to the socially desired channels. Thus, in order to encourage small loans to agriculture, a special refinance facility from the RBI was made.

available at the Bank Rate for all small direct agricultural loans individually not exceeding Rs. 2,500 granted by the commercial banks after January 1, 1978 upto 50 per cent of the total advance through the 'small farmers' window'. On such advances, banks were directed to charge interest of not more than 11 per cent irrespective of whether refinance is obtained from the RBI or not. Further, the Reserve Bank advised banks in December 1977 not to charge a rate of interest exceeding 11 per cent on term loans (of not less than three years' maturity) to certain specified categories of small-scale units and other small borrowers. Again, in order to promote private farm investment, banks were advised not to charge a rate of interest exceeding (a) 10.5

per cent on term loans to farmers for purposes of minor irrigation and land development and (b) 11 per cent on term loans under the category 'diversified purposes'.

The relative price stability witnessed during the year warranted some general reduction in banks' lending rates which were raised earlier in the context of rapidly rising prices. This was further facilitated by the abolition of tax on interest income of banks announced in the 1978-79 budget proposals. Accordingly, while the Bank Rate was kept unchanged under the overall policy of credit restraint, a general reduction in lending rates was effected from March 1, 1978 as indicated in Table VI.1.

TABLE VI.1: Lending Rates of Scheduled Commercial Banks with effect from March 1, 1978

										(Per cent per annum)			
Lending Rates										Old Rates	New Rates		
1. Maximum lending rates on short period advances*													
Banks with demand and time liabilities													
(a) Over Rs. 50 crores and banks incorporated outside India										16.5	15.0		
(b) Between Rs. 25 crores and Rs. 50 crores										17.5	15.0		
(c) Below Rs. 25 crores										No ceiling	16.0		
2. Food Credit												12.0	11.0
3. Term Loans													
(a) Term loans of not less than 3 years for capital investment in priority areas										12.5	12.5		
(b) Term loans of not less than 3 years for all other purposes:													
(i) Between 3-7 years										15.0	14.0		
(ii) Above 7 years										14.0			
4. Export Credit													
(a) Pre-shipment credit										11.5 13.5	11.0 13.0		
(b) Post-shipment credit										11.5	11.0		
(c) Deferred payment exports										8.0	8.0		

*The maximum lending rates specified above will also apply to advances against commodities subject to selective credit control.

The maximum rate of interest chargeable by banks on short period advances was reduced to 15 per cent, except the smaller size

banks in the case of which the ceiling rate was fixed at 16 per cent. Following the changes in the maximum lending rates prescribed above,

banks were also asked to reduce existing lending rates. Thus, in the case of the rates between 13.5 and 15 per cent, the reduction was to be on an average 1 per cent with reduction in upper ranges being more than average. The rates between 12.5 and 13.5 per cent were to be brought close to 12.5 per cent. Some reduction in rates of 12.5 per cent and below was also to be effected. Simultaneously, the rate of interest for refinance from the Reserve Bank was reduced from 10 to 9 per cent in respect of food refinance and from 10.5 to 10 per cent as regards export refinance.

Realignment of Rates on Deposits

In view of the general reduction in banks' lending rates and an improvement in interest rates in real terms consequent on price stability

some readjustment in rates offered by banks on deposits was also called for. The cost of funds to banks is a criterion which has to be necessarily borne in mind in this process of realignment. An important change was the reduction from 10 per cent to 9 per cent with effect from March 1, 1978 for deposits of five years and above. In respect of most other term deposit categories, a reduction in rates of half a percentage point was made (Table VI.2). In respect of savings deposits, the distinction drawn in June 1977 between deposits with and without cheque facilities, with separate rates of interest, was done away with because of the operational difficulties, and a single rate of 4.5 per cent on all saving deposits was introduced. The cheque facility on savings accounts was limited to 50 per half year.

Table VI.2: Rates of interest on deposits payable by Scheduled Commercial Banks effective March 1, 1978

										(Per cent per annum)	
										Old Rates	New Rates
I. Current Deposits										Nil	Nil
II. Savings Deposits										3% on savings deposits with cheque facility and 5% on savings deposits without cheque facility	4.5
III. Fixed Deposits											
(a)	15 days to 45 days	..	..	..	..	..	..	..	..	3.0	2.5
(b)	46 days to 90 days	..	..	..	..	..	..	..	..	3.5	3.0
(c)	91 days to less than 6 months	..	..	..	..	..	..	..	..	4.0	4.0
(d)	6 months to less than 9 months	..	..	..	..	..	..	..	..	4.5	4.5
(e)	9 months to less than 1 year	..	..	..	..	..	..	..	..	5.0	5.0
(f)	1 year to 3 years	..	..	..	..	..	..	..	..	6.0	6.0
(g)	Over 3 years and upto 5 years	..	..	..	..	..	..	..	..	8.0	7.5
(h)	Above 5 years	..	..	..	..	..	..	..	..	10.0	9.0

Note: Scheduled Commercial Banks with deposit liabilities below Rs. 25 crores will be allowed to pay 0.25 per cent more on savings deposits and on fixed deposits upto 5 years. Regional Rural Banks will be allowed to pay 0.5 per cent more on savings deposits and on fixed deposits upto 5 years.

Credit Trends: Slack Season, 1977

A marked deceleration in the pace of bank credit expansion, sizeable accretion to deposits, a spurt in banks' liquid assets and the consequent reduction in banks' reliance on

Reserve Bank's discount facilities were the main features of banking trends during the slack season of 1977 (last Friday of April to last Friday of October). The expansion in gross bank credit (including bills rediscounted with the RBI) of Rs. 466 crores (3.5 per cent) during

the period was less than one-half of Rs. 1,092 crores (9.7 per cent) recorded during the 1976 slack season. One reason for the deceleration in credit expansion was the fall in public food procurement credit (Rs. 10 crores) which had recorded a sharp rise of Rs. 489 crores in the previous slack season. Food credit reached a record level of Rs. 2,589 crores on July 8, 1977 but gradually declined thereafter to Rs. 2,271 crores at the close of the season. The increase in gross bank credit of Rs. 476 crores for purposes other than public food

procurement was also lower as compared to Rs. 603 crores in the previous slack season.

Though the accretion to deposits of Rs. 1,870 crores during the 1977 slack season was sizeable and marginally higher than the rise of Rs. 1,861 crores in the 1976 slack season, the rate of deposit accretion at 10.3 per cent was lower than in the previous slack season (12.9 per cent). A notable feature of deposit growth was that while time deposits continued to be preponderant in aggregate deposit accre-

Table VI.3: Variations in Scheduled Commercial Banks' Data

Items	(Seasonal and Annual)					(Rupees Crores)		
	Seasonal Variations					Annual Variations		
	Slack Season 1976	Busy Season 1976-77	Slack Season 1977*	Busy Season 1977-78*	Slack Season		1976-77	1977-78*
					1977 (till July 29, 1977)	1978 (till July 28, 1978)*		
1	2	3	4	5	6	7	8	9
1. Aggregate Deposits ..	+1861	+1803	+1870	+2276	+1081	+ 993	+3725	+4029
(a) Demand ..	+ 579	+ 629	+ 689	+1150	+ 299	+ 169	+1184	+1869
(b) Time ..	+1282	+1174	+1181	+1126	+ 782	+ 824	+2541	+2160
2. Borrowings from the RBI ..	+ 83	- 304	- 256	- 203	- 170	+ 52	- 197	- 228
3. Cash and Balances with the RBI ..	+ 178	+ 234	+ 577	+ 443	+ 175	- 165	+ 584	+1105
4. Money at Call and Short Notice ..	+ 54	- 38	+ 147	- 155	+ 52	- 21	- 37	+ 99
5. Investments in Government and Other Approved Securities ..	+ 663	+ 641	+ 563	+1539	+ 392	+ 169	+1301	+1363
(a) Government Securities ..	+ 398	+ 599	+ 328	+1411	+ 176	+ 67	+ 909	+1142
(b) Other Approved Securities ..	+ 265	+ 42	+ 235	+ 128	+ 216	+ 102	+ 392	+ 221
6. Bank Credit ..	+1070	+1064	+ 507	+ 938	+ 259	+ 662	+2015	+1997
(a) Food Procurement Advances ..	+ 489	+ 175	- 10	- 280	+ 233	+ 490	+ 351	- 11
(b) Other Advances ..	+ 581	+ 889	+ 517	+1218	+ 26	+ 172	+1664	+2008
7. Bills Rediscounted with the RBI ..	+ 22	+ 21	- 41	- 64	- 66	+ 26	- 28	- 15
8. Gross Bank Credit (6+7) ..	+1092	+1085	+ 466	+ 874	+ 193	+ 688	+1987	+1982

*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 seasonal variations are based on the last Friday of April and October and annual variations on the last Friday of June.

tion, their share in the total incremental deposits declined to 63.2 per cent from 68.9 per cent in the 1976 slack season. Reflecting these trends, the gross credit-deposit ratio at 69.6 per cent, as on October 28, 1977 was 6.2 percentage points below the level a year ago (75.8 per cent).

The scheduled commercial banks' cash in hand and balances with the RBI showed a sharp increase of Rs. 577 crores compared with Rs. 178 crores in the last slack season. Enhanced cash-reserve ratio and the impounding of the incremental deposits contributed to increase the balances with the RBI. As a result, the cash-deposit ratio at 10.0 per cent as on October 28, 1977 was higher by 2.8 percentage points than the level a year ago (7.2 per cent). Banks' investments in Government and other approved securities increased by Rs. 563 crores compared with Rs. 663 crores in the previous slack season. In view of the slackness in demand for credit and better liquidity position of banks, resort to Reserve Bank's facilities was minimal. Banks' borrowings from the RBI declined by Rs. 256 crores as against a rise of Rs. 83 crores in the 1976 slack season. Refinance for both food and non-food purposes showed a decline of Rs. 121 crores and Rs. 135 crores, respectively, in contrast to increases of Rs. 58 crores and Rs. 25 crores, respectively, in the previous slack season.

Credit Trends : Busy Season, 1977-78

A general slackness in demand for bank credit, large deposit accretion and easy liquidity continued to persist during the traditional busy season of 1977-78 as well.

Gross bank credit expansion (including bills rediscounted with the Reserve Bank) of Rs. 874 crores or 6.3 per cent in the 1977-78 busy season was significantly lower than that (Rs. 1,085 crores or 8.8 per cent) in the 1976-77 busy season. This was entirely due to a fall in food credit by Rs. 280 crores in contrast to a rise of Rs. 175 crores in the previous busy season. Non-food (gross) credit, how-

ever, recorded a larger expansion of Rs. 1,154 crores as compared with a rise of Rs. 910 crores in the last busy season. The accretion to aggregate deposits of Rs. 2,276 crores (11.4 per cent) was larger as compared to an increase of Rs. 1,803 crores (11.0 per cent) in the 1976-77 busy season. Both demand and time deposits shared the growth almost equally (50.5 per cent and 49.5 per cent, respectively) in contrast to the predominance of time deposits in deposit accretion (65.1 per cent) during 1976-77 busy season. The gross credit-deposit ratio at 66.4 per cent at the end of 1977-78 busy season was lower by 7.8 percentage points than that a year ago (74.2 per cent).

The slackness in credit demand and the improved resources position of banks was reflected in a considerable increase in the liquid assets during the season. Investments in Government and other approved securities increased by Rs. 1,539 crores as compared with a rise of Rs. 641 crores only in the previous busy season. The investment-deposit ratio at 36.6 per cent as on April 28, 1978 was higher by 3.4 percentage points over the year. Their cash in hand and balances with the RBI also rose by Rs. 443 crores as compared with an increase of Rs. 234 crores in the busy season of 1976-77 reflecting in the main, the impact of higher cash reserve requirements in operation throughout the period. In the result, cash-deposit ratio moved up to 10.9 per cent on April 28, 1978 from 7.8 per cent a year ago. Banks also reduced further their indebtedness to RBI to the extent of Rs. 203 crores during the 1977-78 busy season.

Annual Trends, 1977-78

During 1977-78 (July-June), the expansion in gross bank credit (including bills rediscounted with RBI) of Rs. 1,982 crores (14.6 per cent) was somewhat lower than that in 1976-77 (Rs. 1,987 crores or 17.1 per cent). This was entirely on account of a decline in public food procurement advances; non-food advances actually showed a larger rise in 1977-78. Advances for public food procurement, which had increased by Rs. 351 crores

during 1976-77, recorded a decline of Rs. 11 crores during 1977-78. On the other hand, non-food advances (gross) rose by Rs. 1,993 crores as compared with Rs. 1,636 crores in the previous year. Aggregate deposits showed a larger increase in absolute terms of Rs. 4,029 crores during 1977-78 as compared to Rs. 3,725 crores during 1976-77; but the rate of expansion at 21.3 per cent was lower than that in previous year (24.5 per cent). The rate of expansion in time deposits decelerated to 18.6 per cent in 1977-78 from 28.0 per cent while that in demand deposits increased to 25.6 per cent from 19.4 per cent in the previous year. In the result, the rise was shared more evenly by demand and time deposits in 1977-78 in the proportion of 46.4 per cent and 53.6 per cent, respectively, whereas during 1976-77, their respective shares in incremental deposits were 31.8 per cent and 68.2 per cent. In the context of a larger increase in aggregate deposits and lower expansion in gross credit, the gross credit-deposit ratio declined from 72.0 per cent on June 24, 1977 to 68.0 per cent on June 30, 1978.

In view of the improved availability of funds, banks were able to reduce their indebtedness to the RBI and increase their liquid assets viz., cash balances and investments. Borrowings from the Reserve Bank declined by Rs. 228 crores during 1977-78 as compared to Rs. 197 crores in 1976-77. While refinance for food advances declined by Rs. 321 crores, non-food refinance showed a rise of Rs. 93 crores during 1977-78. In the previous year, food refinance had shown a smaller decline of Rs. 242 crores and the rise in non-food refinance of Rs. 45 crores was also lower. At the same time, cash in hand and balances with RBI rose by Rs. 1,105 crores which was nearly double the increase during 1976-77 (Rs. 584 crores), partly reflecting the higher reserve requirements and impounding of 10 per cent of the incremental deposits. The banks' investments in Government and other approved securities also rose by Rs. 1,363 crores during 1977-78 which was somewhat larger than in the previous year (Rs. 1,301 crores). The investment-deposit ratio at 32.9 per cent was fractionally higher than that a year ago (32.7 per cent).

Credit Policy: Slack Season, 1978

The monetary and credit policy for the 1978 slack season, announced in May 1978, laid emphasis on restraint and also aimed at siphoning off the excess liquidity of the banking system. One way of achieving the latter objective was to restrict the magnitude of refinance available from RBI. In regard to food credit, the level at which the food refinance would be available was raised further from the then existing level of Rs. 1,500 crores to Rs. 2,000 crores with effect from June 1, 1978. Further, as banks hardly made any use of the "DTL refinance" under which they were entitled to obtain refinance to the extent of one per cent of demand and time liabilities as on the last Friday of March 1977, it was decided to do away with this facility with effect from June 1, 1978. Accommodation for meeting temporary clearing imbalances would be provided at the Bank Rate under discretionary or stand-by arrangements.

Another measure was the introduction of special deposits with the RBI in terms of rupees, equivalent to one-half of the net aggregate amount accruing after June 1, 1978 to each bank, under the Non-Resident (External) Rupee Accounts and Foreign Currency (Non-Resident) Accounts Scheme. This measure was introduced to ensure that at least the secondary impact on money supply due to influx of funds into these accounts from abroad was neutralised. These special deposits would carry an interest of 6.5 per cent per annum. It was also decided to enhance the interest on cash reserves of banks with the RBI above the statutory minimum (including the 10 per cent incremental reserve ratio) from 6.0 per cent to 6.5 per cent.

Mention may be made here about the new concessional refinance facility offered by the RBI towards the close of April 1978 under which banks would be entitled to obtain refinance at the Bank Rate in respect of term loans granted by them under the new scheme formulated by the Government of rupee finance to cover import of capital goods.

Credit Trends : Slack Season, 1978

During the slack season of 1978 so far (end-April to July 28), deposit accretion of banks slowed down while expansion in gross bank credit witnessed a more than three-fold increase compared to the corresponding period of 1977 slack season. Thus, aggregate deposits rose by Rs. 993 crores (4.5 per cent) during 1978 slack season as against a rise of Rs. 1,081 crores (6.0 per cent) in the corresponding period last season. Component-wise, the decline in deposit accretion was solely due to the slower growth in demand deposits. The increase of Rs. 824 crores in time deposits was higher than in the corresponding period of the previous slack season (Rs. 782 crores) and constituted 83.0 per cent of the total incremental deposits compared to 72.3 per cent in the corresponding period of the last slack season. There was a sharp increase in gross bank credit of Rs. 688 crores (4.6 per cent) compared with Rs. 193 crores (1.4 per cent) in the corresponding period of the previous slack season resulting from the increase in both food and non-food advances. There was a spurt of Rs. 490 crores in food procurement advances compared to Rs. 233 crores in the corresponding period of the last slack season. Non-food credit (gross) also showed an increase of Rs. 198 crores as against a decline of Rs. 40 crores in the corresponding period of the last slack season. Despite the sizeable increase in gross bank credit, the gross credit-deposit ratio at 66.6 per cent on July 28, 1978 was still lower by 4.5 percentage points than the level of 71.1 per cent a year ago.

There was an increase of Rs. 169 crores in banks' investments in Government and other approved securities during the slack season of 1978 (Rs. 392 crores in the same period last season). Cash in hand and balances with the RBI declined by Rs. 165 crores during the 1978 slack season as against an increase of Rs. 175 crores during the corresponding period of the last slack season. Their indebtedness to the RBI increased by Rs. 52 crores during the current slack season as against a reduction of Rs. 170 crores during the corresponding period

of last slack season. The level of borrowings from RBI at Rs. 207 crores outstanding as on July 28, 1978 was, however, less than half of that a year ago (Rs. 444 crores). Of these borrowings, refinance against food credit constituted 16.4 per cent only as against 83.1 per cent in the last slack season.

Selective Credit Control

The general framework of selective credit control was kept unchanged and banks were required to keep tight control on advances against commodities in short supply. At the same time attempts were made during the year to relax the regulations on advances against commodities, the supply position of which was comfortable, or, for maintaining production. No changes were made in the minimum lending rates of interest which varied between 14 and 15 per cent. However, the maximum lending rates (15% or 16% as the case may be) were made applicable to advances against commodities subject to selective credit control, effective March 1, 1978.

The main changes introduced during the year are briefly indicated in the following paragraphs.

(a) Foodgrains and Cotton

The exemption limit in respect of minimum margin and level of credit stipulations for advances covered by a 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 previous level of Rs. 25,000 effective August 20, 1977. A similar relaxation was provided in respect of advances against foodgrains covered by the Credit Guarantee Organisation and those granted to processing/manufacturing units covered under Rural Industries Projects. It was also decided that the relevant period for determining the permissible level of credit in respect of each party would be related to the peak level of advances against foodgrains and cotton and kapas outstanding per party during any

of the preceding three years (November-October) viz., 1975-76, 1974-75 and 1973-74 instead of the years 1974-75, 1973-74 and 1972-73.

(b) *Pulses and Edible Oils*

In November 1977 scheduled commercial banks were advised to ensure that the credit made available by them against stocks of pulses and edible oils (including vanaspati) was in consonance with the stock limits prescribed by the Government of India. The amount of credit outstanding against the security of any of the commodities to any individual party should not exceed the value of the maximum stocks thereof prescribed by Government or 100 per cent of the peak level of credit maintained by the party with the bank in any of the three preceding years, viz., 1975-76, 1974-75 and 1973-74 (November-October), whichever is lower.

(c) *Imported Vegetable Oils*

Vanaspati manufacturers were reported to be facing some difficulties on account of the restrictive stipulations relating to minimum margin requirements on advances against imported oils. On a review of the matter it was decided that advances to vanaspati manufacturers against the security of imported oils, used as raw materials in the manufacture of vanaspati, be exempted from the minimum margin requirement, effective March 15, 1978.

(d) *Gur and Khandsari*

In view of the decline in the prices of *gur* and *khandsari* the minimum margin on commercial bank advances against them was reduced from 60 per cent to 35 per cent for manufacturers of these commodities and from 75 per cent to 45 per cent for others, with effect from March 3, 1978. The minimum margin on advances against warehouse receipts covering these commodities was also reduced from 55 per cent to 30 per cent.

(e) *Sugar*

In the context of the removal of control on the prices, movement and distribution of sugar

with effect from August 16, 1978 and in view of the Government's decision that the basis for the valuation of stocks need not be changed during the transition period, the Reserve Bank advised banks on August 29, 1978, not to make any change in the valuation of stocks against which advances had been granted to parties *manufacturing sugar*. Further, banks were told that distinction maintained between levy stocks and free sale stocks—(a) not released for sale and (b) released for sale—would continue notionally, the respective margins for advances remaining unchanged. The valuation and margin stipulations governing advances against sugar to parties other than those manufacturing sugar also remained unchanged. It was emphasised that banks should avoid any undue expansion of credit to the sugar industry but, at the same time, there should be no forced withdrawal of funds already made available to it. Further, in marginal cases, banks may consider sympathetically and forward to the Reserve Bank requests from factories for additional credit to facilitate prompt payment of dues to cane growers.

Table VI.6 (at page 95) indicates the position of Selective Credit Controls as on August 29, 1978.

Advances against Sensitive Commodities

Scheduled commercial banks' outstanding advances against selected commodities at Rs. 762 crores at end-June 1978 showed an increase of Rs. 122 crores over the year (Table VI. 4). Excluding Rs. 29 crores outstanding against raw jute (which is not covered by selective credit control) the advances amounted to Rs. 733 crores indicating an increase of Rs. 131 crores over the year. Of the total amount of Rs. 733 crores, advances against cotton and kapas, and sugar accounted for Rs. 273 crores (37.2 per cent) and Rs. 329 crores (44.9 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 only marginally from 4.5 per cent to 4.7 per cent during the year.

Table VI.4: Scheduled Commercial Banks' Outstanding Advances against Selected Commodities

(Amount in Rupees Lakhs)

As on the last Friday of											
June 1973				June 1977*			June 1978*				
	Amount	Per- cent- age to total of 1 to 6	Per- cent- age to total bank credit	Amount	Per- cent- age to total of 1 to 6	Per- cent- age to total bank credit	Amount	Per- cent- age to total of 1 to 6	Per- cent- age to total bank credit		
1	2	3	4	5	6	7	8	9	10		
1. Foodgrains (Excluding procurement advances) ..	4184	10.0	0.7	7467	12.4	0.6	9425	12.8	0.6		
(a) Paddy & Rice ..	1208	2.9	0.2	3331	5.5	0.2	3160	4.3	0.2		
(b) Wheat ..	396	0.9	0.1	1205	2.0	0.2	1414	1.9	0.1		
(c) Other foodgrains ..	2580	6.2	0.4	2931	4.9	0.2	4851	6.6	0.3		
2. Sugar including Khandsari ..	12266	29.3	1.9	20409	33.9	1.5	32892	44.9	2.1		
3. Oilseeds ..	2151	5.1	0.4	759	1.4	0.1	1232	1.7	0.1		
(a) Groundnut ..	1611	3.8	0.3	285	0.5	—	651	0.9	—		
(b) Rapeseed/Mustardseed ..	467	1.2	0.1	397	0.7	—	463	0.6	—		
(c) Linseed ..	53	0.1	—	46	0.1	—	47	0.1	—		
(d) Castorseed ..	20	—	—	31	0.1	—	71	0.1	—		
4. Vegetable Oils ..	857	2.0	0.1	1939	3.3	0.1	1892	2.6	0.1		
(a) Groundnut Oil ..	478	1.1	0.1	1126	1.9	0.1	645	0.9	—		
(b) Rapeseed/Mustard Oil ..	193	0.5	—	340	0.6	—	500	0.7	—		
(c) Castor Oil ..	134	0.3	—	297	0.5	—	676	0.9	—		
(d) Linseed Oil ..	52	0.1	—	176	0.3	—	71	0.1	—		
5. Vanaspati ..	270	0.6	—	600	1.0	—	582	0.8	—		
6. Cotton and Kapas@ ..	22156	52.9	3.5	28989	48.2	2.1	27285	37.2	1.8		
(a) Indigenous ..	15013	35.8	2.3	18024	30.0	1.3	23836	32.5	1.5		
(b) Imported ..	7143	17.1	1.2	10965	18.2	0.8	3449	4.7	0.3		
7. Total of 1 to 6 ..	41884	100.0	6.5	60163	100.0	4.5	73308	100.0	4.7		
8. Raw Jute** £ ..	1412		0.2	3814		0.3	2886		0.2		
9. Total of 7 and 8 ..	43296		6.8	63977		4.7	76194		4.9		
Total Bank Credit † ..	641214		100.0	1349102		100.0	1548755		100.0		

* 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 the Reserve Bank of India Act, 1934.

Source: Data are estimates based on Basic Statistical Return—3 received from Head Offices of banks.

The major beneficiaries of advances against selected commodities include mills/factories and industrial users, which accounted for 78 per cent of total advances against these commodities at end-June 1978, as compared with 67 per cent a year ago (Table VI. 5). Commodity-wise, this proportion was considerably higher at end-June 1978 than at end-June 1977, in the case of castor oil, groundnut oil, paddy and rice and cotton and kapas, but was considerably lower for linseed oil, castorseed, rapeseed/mustard oil and groundnut. Ninetyeight per cent of advances against sugar was outstanding against mills/factories and industrial users, at the end of June 1977 and June 1978. The variations in the case of other commodities were of a smaller order as between the two dates under reference.

Table VI. 5: Security-wise Advances to Mills/Factories and Industrial Users

(As percentages of total credit against respective commodities)

Commodities	Last Friday of	
	June 1978	June 1977
1	2	3
1. Sugar	98	98
2. Castor Oil	97	90
3. Vanaspati	91	95
4. Linseed Oil	86	100
5. Castorseed	86	100
6. Groundnut Oil	79	28
7. Rapeseed/Mustard Oil	78	88
8. Paddy and Rice	71	38
9. Wheat	66	66
10. Cotton and Kapas	62	52
11. Linseed	60	60
12. Groundnut	57	72
13. Rapeseed/Mustard seed	52	51
14. Other Foodgrains	28	33
All Selected Commodities	78	67

Source: Basic Statistical Return—3.

Call Money Market

During 1977-78 (July-June), the inter-bank call money markets both at Bombay and Calcutta ruled generally firm in the first half of the year but ruled relatively easy in the major

part of the second half reflecting an improvement in the resources position of banks. The rates firmed up again towards the close of the year.

During the first two months of the year, the inter-bank call rate remained generally at the ceiling level of 10 per cent effective June 15, 1977, but fell to around 9 per cent towards the close of July. It again firmed up to 10 per cent in August. In September, the rate ruled between 8 and 9 per cent but firmed up again to 10 per cent in both the markets in October. It continued to rule at the ceiling level till the end of November. In the first fortnight of December 1977, however, the rate eased in both the markets to 7.5 per cent in Bombay and to 8.5 per cent in Calcutta but firmed up again in the second half of December. Conditions became relatively easy since February 1978. As a sequel to the revision of the structure of interest rates by the RBI, the Indian Banks' Association lowered the ceiling on inter-bank call money rate from 10.0 per cent to 8.5 per cent with effect from March 9, 1978. The rate ruled at the new ceiling level in March but tended to ease thereafter and ruled between 5 and 6 per cent in Bombay as well as in Calcutta in the last week of April 1978. The easiness continued during the first fortnight of May also. The rates, however, moved up subsequently owing to the withdrawal of funds from the market for subscription to the new Central loans in May and a keen demand for funds associated partly with quarterly tax payments in June 1978. Following the revision of interest rates on deposits, the Reserve Bank reviewed the practices prevailing in banks relevant to the regulation of the rates of interest payable on deposits. Banks were prohibited from paying brokerage on deposits, except in the case of individuals employed for door to door collection of deposits. This prohibition of brokerage, it was made clear, applied also to the operations in the inter-bank call money market.

Working of Different Schemes

In this section a brief review of the working of various schemes like Credit Authorisation

Scheme, Export Credit Schemes and Differential Interest Rates Scheme during the year is provided.

(a) *Credit Authorisation Scheme*

The Credit Authorisation Scheme continued to play a significant role in credit regulation, the basic objectives of the scheme being to ensure that large borrowers are subjected to financial discipline and that banks ensure the proper end-use of the funds borrowed by them.

The RBI effected in May 1978, some modifications in the working of the Scheme for streamlining the procedures, delegating more authority to the banks themselves, introducing greater flexibility and facilitating quicker decisions. Thus, when an application is made to RBI for authorisation for higher limits, banks can release, pending authorisation, an amount up to Rs. 25 lakhs. Further, if 10 per cent of the authorised working capital limit (i.e., excluding the categories of limits exempted from prior authorisation) exceeds Rs. 25 lakhs, banks can allow credit up to that amount (i.e., 10 per cent) subject to an overall ceiling of Rs. 50 lakhs, or banks can allow temporary excess drawings in the limits for short periods or allow temporary facilities for a maximum period of three months without prior authorisation up to 10 per cent of the authorised working capital limits or Rs. 50 lakhs, whichever is less. However, the total facilities under these two heads by the financing banks should not exceed Rs. 50 lakhs. Such facilities sanctioned by banks other than temporary excess drawings for short periods should be immediately reported to RBI. Term loans up to Rs. 50 lakhs from the entire banking system in a period of one year (July-June) to a borrower engaged in industries listed under high priority category for investment in capital assets will not require prior authorisation, irrespective of whether the party is covered under CAS or not. Term loans allowed on a *pari passu* basis with the IFCI and/or the ICICI have been exempted from the requirement of prior authorisation, besides those to be allowed on a *pari passu* basis with the IDBI and the ARDC.

All individual term loan proposals for amounts exceeding Rs. 50 lakhs should normally be made in consultation with, if not in association with, the IDBI or other concerned term lending institutions. If the IDBI or the IFCI or the ICICI participates in the term loans, prior authorisation will not be required but, if there is no participation of any of the afore-said term lending institutions, prior authorisation is required.

In the case of rupee term-loans allowed by banks for *ad hoc* import of certain specific items of machinery, which are not part of an overall project or expansion/modernisation scheme financed by the bank, Reserve Bank's prior authorisation is not needed. However, if the loan in question forms part of a larger loan for a project or an expansion/modernisation scheme, Reserve Bank's prior authorisation is required, unless otherwise specifically exempted. In cases where the share of the banking system in term loans and deferred payment guarantee facilities to be allowed for a project is more than Rs. 25 crores, prior authorisation will be required, though the term loans, etc., may be allowed in participation with the IDBI, the IFCI, the ICICI or the ARDC. All term loans allowed by banks in terms of the discretion vested in them as above are required to be reported to the Reserve Bank immediately.

COMMITTEE OF DIRECTION

A mention was made in last year's Report about the constitution of a Committee of Direction by the Reserve Bank in 1975 for an on-going review of the lending norms, examining the problems faced by the affected industries in complying with the discipline and by the banks in implementing the decisions taken, to frame guidelines for follow-up of bank credit (Tandon Committee) and advise the Reserve Bank from time to time in regard to the modifications required, to avoid hardships. During the year under review, the Committee held four meetings to examine and offer its suggestions on the issues raised by banks, industries and their representative associations

Table VI. 6: Selective Credit Controls: Position as on August 29, 1978 (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 on loans/advances/cash credits/overdrafts.	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 & rice and (ii) 'other foodgrains', i.e. wheat and foodgrains other than paddy and rice but including coarse grains and pulses) Note: 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. Additional Limit for New Branches— 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 up to Rs. 1 lakh per branch to <i>new parties</i>. Exemptions: (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./Credit Guarantee Organisation, subject to a maximum of Rs. 50,000/- for each such manufacturing unit/borrower provided it/he	The following categories of advances are <i>completely</i> exempted from control: States: (i) Advances in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. Public Procurement, Storage and Distribution Agencies: (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.

- undertakes to borrow against foodgrains from only one bank. @
- (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.

- security of foodgrains which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd.,/ Credit Guarantee Organisation, 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 food-grain 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, upto 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 whichever 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 thereagainst in respect of export of rice and other foodgrains.

† Usance bills arising out of sale of commodities covered under Selective Credit Controls should not be discounted by banks except in such cases and to such extent as may be specifically permitted by the Reserve Bank.

* 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.

@ Effective July 15, 1978, the Credit Guarantee Corporation of India Ltd., has been taken over by the Deposit Insurance Corporation and the latter is renamed as the Deposit Insurance and Credit Guarantee Corporation.

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</i> <i>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, 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, castorseed and linseed	15% per annum for all parties on loans/advances/cash/credits/over drafts against groundnut, cottonseed/mustard, castorseed and linseed.	In respect of each party, separate ceiling for each of (i) groundnut, (ii) cottonseed, and (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 Organisation 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. - Advances against warehouse receipts issued by the Central or State Warehousing Corporations, provided that the amount does not exceed Rs. 25,000/- per borrower.	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 Federations 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 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 by the export order even though 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

after a period of 8 weeks from the arrival of the goods in India.

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 Organisation 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.*

(f) Advances against imported oilseeds.

balance in the packing credit account shall be adjusted by the proceeds of the relative export bill.

- (g) Advances granted to processing/ manufacturing units covered under the Rural Industries Projects up to 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 Corporations	15% per annum to all parties on loans/advances/cash/credits/overdrafts 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 Organisation, 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.	The following categories of advances are <i>completely</i> 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.

covering stocks of vanaspati—75% in the States of Gujarat and Maharashtra, and 60% in all the other States and Union Territories.

5. *On advances to vanaspati manufacturers against controlled vegetable oils mentioned in 1 above:*

- (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 oils 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 material 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

(f) *Advances against all imported vegetable oils.*

(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:

(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.*

(h) *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 thereagainst in respect of export of linseed oil.*

Others:

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

(j) *Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.*

C: Vegetable Oils (Indigenous and imported Groundnut Oil, Cottonseed Oil, Rapeseed/Mustard Oil, Castor Oil, Linseed Oil, Vanaspati and other imported Edible Oils) (Concl'd.)

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
1	2	3	4	5
	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 receipts of Central or State Warehousing Corporations covering these commodities.			
	<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,			

1	2	3	4	5
	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 Organisation 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 <i>for a period not exceeding 4 weeks</i> after arrival of the goods in India.			
Ref. DBOD. No. Dir. BC. 73/C. 218(H)77 dated 15th June, 1977	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 credit on more than 45 days' 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 directive had he availed himself of advances against the commodity.			
Ref. DBOD No. Dir. BC. 42/C. 218 (H)78 dated 15th March, 1978	(f) Advances granted to vanaspati manufacturers against the security of imported oils used as raw material by them in the manufacture of vanaspati.			

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/C 218(F)-76 dated the 8th July, 1976 and DBOD. No. Dir. BC. 107/C. 218(F)-77 dated 20th August, 1977	A Mills under National Textile Corporation (i) 20% for stocks of 6 weeks' consumption (ii) 35% for stocks in excess of 6 weeks' consumption B Other Mills 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 C. For mills in Bombay and Ahmedabad (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 (i) 20% for stocks of 8 weeks' consumption (ii) 40% for stocks in excess of 8 weeks' consumption E. For mills solely engaged in spinning yarn (i) 20% for stocks of 6 weeks' consumption (ii) 35% for stocks in excess of 6 weeks' consumption	(a) 14% p.a. on loans/ advances/cash/credits/ overdrafts for cotton mills in respect of raw cotton stocks or <i>kapas</i> 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 authorized agencies for stocks of cotton and <i>kapas</i> equivalent to eight weeks' consumption and (c) 15% per annum for other stocks of raw cotton held by the mills as well as to parties other than cotton mills.	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. Exemptions: 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, 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-23), CBS-156 and Giza-7. 4. Advances against warehouse receipts issued by Central or State Warehousing Corporations, provided the amount does not exceed Rs. 25,000/- per borrower.	The following categories of advances are completely exempted from control: States: 1. Advances in Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. Exports: 2. Advances in respect of pre-shipment credit for cotton exports, provided the advances are made in respect of firm export order and are 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. 4. Advances against the security of, or by way of purchase or discount of export bills relating to export of cotton from India. Others: 5. Advances against the security of or by way of purchase of, demand documentary bills drawn in connection with the movement of cotton and <i>kapas</i>. 6. Advances granted to processing/ manufacturing units covered under the Rural Industries Projects, up to Rs. 25,000/- per unit.

- 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), 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, Badnavar-1, 320F, Bengal Deshi, J-34 and 205, H-14, Bikaneri-Narma, R.S. 89, Jawahar Kapa, 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 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 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.

E. Sugar, Gur and Khandsari

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. 34/C. 218(J)-78 dated the 3rd March, 1978.	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>To Manufacturers of Gur and Khandsari:</i> (i) 35% on advances against stocks of gur and khandsari. (ii) 30% on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of gur and khandsari. C. <i>To Others:</i> (i) 65% on advances against sugar and 45% on advances against gur and khandsari. (ii) 55% on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of sugar.	On loans/advances/cash/credits/overdrafts (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.

- (iii) 30% on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of gur and khandsari.

Exemption:

Advances to consumers' co-operatives in respect of stocks held under the Centrally-Sponsored Scheme for the distribution of essential consumer articles.

DBOD No. Dir. BC.
109/C. 218(J)-78 dated
29th August, 1978.

In the context of the removal of control on prices, movement and distribution of sugar, effective August 16, 1978, banks were advised not to make any change in the valuation of stocks against which advances had been granted to *parties manufacturing sugar*. Further, they were told that the distinction between levy stocks and free-sale stocks—(a) not released for sale and (b) released for sale—would be continued *notionally*, and the respective margins for advances be continued to be applied. The valuation of stocks and margin stipulations governing advances against sugar to *parties other than those manufacturing sugar* remained unchanged.

**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	For traders, dealers and agents: 30%	15% per annum for traders, dealers and agents on loans/advances/cash/credits/ overdrafts.	Exports (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. Others (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 garments, 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.

as also Chambers of Commerce and Industry in regard to application/modification of lending norms in general as well as with reference to particular industries. Based on the Committee's recommendations, the norms for inventory and receivables in respect of fertiliser and automotive tyre industries and cotton spinning industries were modified by RBI for temporary periods. In order to introduce more flexibility, the discretion allowed to the banks to permit deviations from inventory/receivables norms to individual units was relaxed further and banks could henceforth permit without prior reference to RBI necessary deviations in the case of borrowers enjoying aggregate credit limits from the banking system up to Rs. 2 crores instead of Rs 50 lakhs hitherto.

As mentioned in last year's Report, select banks were advised to conduct special studies in pursuance of the recommendations of the Study Group on one or two industries each depending on the extent of their involvement in financing the industries and the operational expertise that they had built up. So far, special studies on three industries have been completed by the banks. The views of the Committee were also sought during the year on matters such as the documentation problems vis-a-vis the new style of credit recommended by the Study Group, treatment of preference share capital redeemable within 12 years and long-term debentures and long-term incentive loans granted by State Governments for the purpose of debt-equity ratio and treatment of export credit vis-a-vis the new lending method.

FLOW OF CREDIT TO INDUSTRIES

The broad features of the policy measures in regard to certain important industries are outlined in the following paragraphs.

Sugar Industry—The policy in regard to bank finance for sugar mills continued during 1977-78 crushing season to be more or less the same as that of the previous season, and banks were allowed to sanction without prior authorisation from the Reserve Bank credit limits to individual sugar mills, on merits, to the extent of

maximum outstandings under the regular limits sanctioned to them for the last crushing season (i.e., 1976-77 season). Subsequently, in May 1978, this ceiling was further relaxed and banks were allowed to sanction temporary excess drawings in the limits/additional limits for a maximum period of three months without RBI's prior authorisation up to 10 per cent of the authorised working capital limits or Rs. 50 lakhs, whichever is less.

After considering the demand made by certain sugar mills for clean loans, the Reserve Bank permitted banks to grant temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 15 lakhs in each case without prior reference to it, provided that the basic viability of the mill was not in doubt, it had not diverted the funds for other purposes, it was observing financial discipline and the phenomenon of cash losses was of a temporary nature. These relaxations were valid till November 30, 1977 and the clean loans were to be repaid as soon as possible and in any case, not later than May 31, 1978.

National Textile Corporation (NTC) Mills—Provision of adequate credit to the National Textile Corporation (NTC) mills continued to receive the attention of the RBI. A reference was made in last year's Report regarding the arrangements with banks for grant of reasonable *ad hoc* limits to these mills, related to their production plans. The availability of adequate credit limits to NTC mills has a bearing on their dues to the Cotton Corporation of India (CCI) in respect of the cotton supplied. The guidelines issued to banks in June 1977 in the light of the discussions then held for computing the permissible bank finance were further modified in March 1978 on the NTC's representations, with a view to ensuring the necessary credit support to the NTC mills and to enable the mills to lift cotton from CCI against cash payment.

Jute Industry—In the light of the improvement in demand for the jute goods, the Reserve Bank advised scheduled commercial banks in August 1977, to consider reassessment of the

working capital limits of jute mills taking account of factors like the viability, genuine production requirements, etc. Banks were also advised that any additional credit provided should not lead to double financing (since normally, a substantial portion of their credit requirements is met through trade credits) and should be related to additional production and not just for financing the cash losses incurred by borrowers. In deserving cases, banks could consider reducing margin requirements consistent with normal banking prudence and also consider on merits the mills' requests for credit facilities against the export subsidy receivable from the Government.

With a view to curbing the likely hoarding of raw jute and regulating the trade in raw jute, the Reserve Bank advised all scheduled commercial banks in March 1978 to regulate their advances to jute mills strictly in accordance with the Jute Commissioner's directives regarding stock-holding by jute mills. In the case of advances to traders, banks were asked to undertake urgently a case-by-case review to ensure that bank credit was not used for speculative holdings of raw jute.

Automotive Tyre Industry—Certain relaxations in the inventory/receivables norms were allowed to the automotive tyre industry in January 1978, in view of the difficulties faced by them due to the accumulation of stocks of tyres. Hence, the industry was allowed to switch the limit as between raw materials, finished goods and receivables. Banks were also advised to allow further relaxation in the norm for finished goods and receivables in individual cases on merits after obtaining RBI's prior clearance.

Fertiliser Industry—The relaxation permitted in the operation of norms for inventory and receivables were reviewed in July 1977 and the norms for finished goods and receivables taken together were reduced from 3 months' to 2½ months' cost of sales/sales in the case of plants manufacturing nitrogenous fertilisers and from 4 months' to 3 months' cost of sales/sales in the case of plants manufacturing phosphatic and complex fertilisers. The norms which were

operative till end-December 1977, have been continued.

Working of the Credit Authorisation Scheme

During the year, the number of parties covered under the Scheme increased from 890 at the end of June 1977 to 979 as at the end of June 1978 inclusive of public sector undertakings numbering 178 as against 159 at end-June 1977. The total limits in force relating to the parties covered under the CAS at Rs. 10,641 crores at the end of June 1978 showed an increase of 8.2 per cent over the limits in force at the end of June 1977 (Rs. 9,839 crores). Of this, the limits sanctioned to the public sector undertakings amounted to Rs. 5,777 crores or 54.3 per cent showing an increase of 4.9 per cent over the limits as of end-June 1977 (Rs. 5,509 crores). The pattern of purpose-wise distribution of the total limits in force as at the end of June 1978 remained more or less unchanged; about 89.2 per cent were for working capital purposes (including packing credit bills), 7.5 per cent for term finance and 3.3 per cent for sale of machinery on deferred payment basis. Activity-wise, out of the total limits in force as at the end of June 1978 of Rs. 10,641 crores, trading accounted for about 37.5 per cent (of which food procurement operations alone claiming 25.8 per cent), engineering industry accounted for 15.8 per cent and cotton textile about 7.3 per cent. Of the credit limits in force against public sector viz., Rs. 5,777 crores, trading accounted for about 63.2 per cent (the share of food procurement being 47.5 per cent), engineering about 9.0 per cent, electricity undertakings about 4.7 per cent and basic metal and metal products 3.8 per cent (comprising almost entirely Iron and Steel which accounted for 3.7 per cent).

The number of applications received for Reserve Bank's authorisation during the year 1977-78 was 1029, inclusive of applications in respect of public sector units numbering 190 as compared with 982 applications received (out of which 156 were in respect of public sector) during the year 1976-77. The number

Table VI.7: Distribution of Credit Limits by Type of Credit

(Amount in Rupees Crores)						
Type of Credit	As on June 30, 1976		As on June 30, 1977		As on June 30, 1978	
	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
1. Working Capital*	7604	4157	8813	5157	9496	5401
of which:	(89.7)	(93.6)	(89.6)	(93.6)	(89.2)	(93.5)
(a) Bills purchased and discounted	725	1120	775	131	859	168
	(8.6)	(2.7)	(7.9)	(2.4)	(8.1)	(2.9)
(b) Export Finance	553	68	583	54	642	64
	(6.5)	(1.5)	(5.9)	(1.0)	(6.0)	(1.1)
2. Sales of machinery on deferred payments basis	263	34	328	58	346	61
	(3.1)	(0.8)	(3.3)	(1.1)	(3.3)	(1.1)
3. Term Finance	609	249	698	295	799	315
	(7.2)	(5.6)	(7.1)	(5.3)	(7.5)	(5.4)
Total Limits in force	8476	4440	9839	5509	10641	5777
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Number of Parties	851	154	890	159	979	178

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

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

of cases, where reduced limits were authorised, was 61 and the reduction in the amount was of the order of Rs. 77 crores; of these 12 public sector undertakings accounted for a reduction in limits of Rs. 29 crores. In certain cases, the limits were authorised for a reduced period as the financial position and/or credit requirement of the companies concerned necessitated a fresh assessment. In a few other cases, certain stipulations such as utilisation of the limits for the specific purposes or not to declare dividends without permission of the financing bank or prohibiting intercorporate investments etc., as considered necessary on the basis of the facts of the individual cases, were made while authorising the credit limits.

(b) Participation Certificates Scheme

Since July 1, 1977 the Participation Certificates Scheme was placed on a permanent footing and was made applicable to scheduled commercial banks. The total amount of certificates issued by 25 banks and outstanding as

at the end of May 1978 at Rs. 391 crores was higher by Rs. 157.9 crores than the amount of Rs. 233.1 crores outstanding as at the end of May 1977.

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

Claims for interest subsidy amounting to Rs. 10.10 crores received from 50 eligible banks were settled during the year 1977-78 (July—June). Of this, subsidy towards pre-shipment credit accounted for Rs. 5.58 crores, the balance being post-shipment credit. The total amount of subsidy disbursed since the inception of the Scheme up to June 30, 1978 aggregated Rs. 59.20 crores.

Interest subsidy at 1½% p.a. from the Market Development Fund of the Commerce Ministry and at 3% from the funds allotted by the Ministry of External Affairs, is being paid to the IDBI, United Commercial Bank and United Bank of India, on a special bank credit

Table VI.8: Occupation-wise Distribution of Total Limits in Force
(As on June 30, 1978)

		(Rupees Crores)	
Industry		Total limits in force	Of which public sector units
1	2	3	
I. Agriculture and Allied Activities	345 (3.2)	254 (4.4)	
A. Agriculture	239 (2.2)	206 (3.6)	
(i) Direct Finance	46 (0.4)	21 (0.4)	
(ii) Indirect Finance	193 (1.8)	185 (3.2)	
(a) Distribution of Fertilisers	181 (1.7)	173 (3.0)	
(b) Others	12 (0.1)	12 (0.2)	
B. Plantations	106 (1.0)	48 (0.8)	
(i) Tea	70 (0.7)	13 (0.2)	
(ii) Others	36 (0.3)	35 (0.6)	
II. Industry	5947 (55.9)	1669 (28.9)	
A. Mining and Quarrying	201 (1.9)	182 (3.2)	
(i) Coal Mining	127 (1.2)	127 (2.2)	
(ii) Iron Ore	6 (0.1)	4 (0.1)	
(iii) Others	67 (0.6)	51 (0.9)	
B. Manufacturing	5746 (54.0)	1487 (25.7)	
1. Sugar	420 (4.0)	38 (0.7)	
2. Edible Oil and Vanaspati	107 (1.0)	6 (0.1)	
3. Tobacco and Tobacco Products	103 (1.0)	5 (0.1)	
4. Cotton Textiles	780 (7.3)	91 (1.6)	
5. Jute Textiles	170 (1.6)	—	
6. Silk and Synthetic Fibres	159 (1.5)	20 (0.4)	
7. Wool and Woollen Textiles	25 (0.2)	—	
8. Other Textiles	5 (0.1)	—	
9. Paper and Paper Products	117 (1.1)	—	
10. Leather and Leather Products	24 (0.2)	—	
11. Rubber and Rubber Products	150 (1.4)	—	
12. Manufacture of Chemicals and Chemical Products	662 (6.2)	141 (2.4)	
(a) Heavy Industrial Chemicals	198 (1.9)	42 (0.7)	
(b) Fertilisers (Production)	236 (2.2)	86 (1.5)	
(c) Drugs and Pharmaceuticals	104 (1.0)	9 (0.2)	
(d) Plastic and Plastic Products	7 (0.1)	—	
(e) Others	117 (1.1)	4 (0.1)	
13. Petroleum	46 (0.4)	35 (0.6)	
14. Cement	75 (0.7)	—	
15. Basic Metal and Metal Products	418 (3.9)	220 (3.8)	
(i) Iron and Steel	340 (3.2)	211 (3.7)	
(ii) Others	78 (0.7)	9 (0.2)	
16. Engineering (except Transport Equipment)	1677 (15.8)	518 (9.0)	
(a) Heavy Engineering	1194 (11.2)	483 (8.4)	
(i) Machinery (except Electric Machinery)	701 (6.6)	219 (3.8)	
(ii) Electrical Machinery	493 (4.6)	264 (4.6)	
(b) Light Engineering (including Light Metal Products)	483 (4.5)	35 (0.6)	
17. Manufacture of Transport Equipment	381 (3.6)	120 (2.1)	
(i) Railway Equipment	161 (1.5)	70 (1.2)	
(ii) Others	220 (2.1)	50 (0.9)	
18. Others (Manufacture)	136 (1.3)	21 (0.4)	
19. Electricity Generation and Distribution	291 (2.7)	272 (4.7)	
III. Trade	3988 (37.5)	3651 (63.2)	
(a) Foodgrains	2744 (25.8)	2744 (47.5)	
(b) Fertilisers	439 (4.1)	439 (7.6)	
(c) Mineral Oils	95 (0.9)	65 (1.1)	
(d) Raw Cotton	233 (2.2)	193 (3.3)	
(e) Raw Jute	54 (0.5)	50 (0.9)	
(f) Others	423 (4.0)	160 (2.8)	
IV. All Others	361 (3.4)	203 (3.5)	
Total	10641 (100.0)	5777 (100.0)	

Note: Figures in brackets represent percentages to total limits.

Table VI.9: Particulars of Applications received, approved, rejected/withdrawn and cases reported under Credit Authorisation Scheme during the period between July 1977—June 1978

Particulars	Number					Amount involved (in Lakhs of Rupees)				
	July-September 1977	October-December 1977	January-March 1978	April-June 1978	Total	July-September 1977	October-December 1977	January-March 1978	April-June 1978	Total
1	2	3	4	5	6	7	8	9	10	11
1. Applications received ..	223 (33)	223 (79)	334 (35)	249 (43)	1029 (190)	535,20.00 (224,62.00)	209,52.00 (130,02.00)	278,65.00 (169,13.00)	690,73.39 (280,71.93)	1714,10.39 (804,48.93)
2. Applications approved ..	109 (23)	172 (23)	149 (22)	222 (45)	652 (113)	121,71.88 (47,27.68)	174,46.77 (55,28.33)	175,08.63 (81,33.52)	422,99.70 (276,56.22)	894,26.98 (460,45.75)
3. Applications rejected/ withdrawn	9 (2)	6 (1)	7 (2)	4 (—)	26 (5)	6,88.00 (3,25.00)	4,96.00 (3,00.00)	6,68.50 (2,78.50)	5,82.00 (—)	24,34.50 (9,03.50)
4. Reporting cases	167 (26)	211 (28)	240 (29)	296 (39)	914 (122)	—20,89.03 (—27,67.66)	—164,73.20 (—170,49.43)	—11,08.39 (—28,16.30)	104,49.60 (34,10.89)	—92,21.02 (—192,22.50)

Note: Figures in brackets relate to 'Public Sector'.

of Rs. 25 crores extended by them to certain financial institutions in Bangladesh for import of specified capital goods from India. The total subsidy disbursed to the three institutions during the period under review amounted to Rs. 1.01 crores (Rs. 22.00 lakhs at 1½% and Rs. 79.00 lakhs at 3%). Interest subsidy amounting to Rs. 9.01 lakhs at 1½% each from the Market Development Fund and the funds released by the Ministry of External Affairs, was paid on the commercial credit of Rs. 4 crores and Rs. 1 crore extended to Bangladesh by the IDBI and Punjab National Bank, respectively.

Recently, banks were advised that the normal transit period as fixed by Foreign Exchange Dealers' Association of India (FEDAI) in respect of each country for post-shipment credit in the form of negotiation, purchase or discounting of demand export bills would be deemed as the maximum period for the purpose of interest subsidy. As for the usance bills, interest subsidy would be available only upto the actual period for which usance has run plus the permitted transit period and the days of grace where applicable. In case where the bills are realised after the notional due date, banks would be entitled to claim interest subsidy only upto the notional due date and for this purpose, the date of realisation would mean the date on which the proceeds get credited to the bank's nostro account abroad. The ceiling of 90 days of usance, transit period with a maximum of 35 days and grace period of three days wherever permissible will continue to apply in the case of all usance export bills.

(d) *Differential Rates of Interest Scheme*

The differential interest rate scheme operative since 1972 is intended for the benefit of the weaker sections of the community. The pilot scheme was originally confined to 163 industrially backward districts. It was modified from time to time and is now applicable to the entire country with special emphasis on financial assistance to the people in rural areas and to scheduled castes and scheduled tribes in particular. It was implemented by all the public

sector banks and three non-nationalised banks with lead responsibilities (viz., Punjab and Sind Bank Ltd., Andhra Bank Ltd. and Bank of Rajasthan Ltd.). Under the revised guidelines, the remaining non-nationalised banks have also been permitted to operate the scheme on a voluntary basis since May 1977. In April 1978, all the Indian private sector commercial banks were advised to take up the implementation of the Scheme along with the public sector banks. Further, the loans in the case of members of scheduled castes and scheduled tribes could be routed through the States-sponsored corporations established for the welfare of scheduled castes and scheduled tribes on an agency basis subject to certain conditions.

The public sector banks made substantial progress in lending under the Scheme during the period April 1977 to March 1978. There was a net increase of 3.4 lakhs in the number of borrowal accounts from 11.1 lakhs to 14.5 lakhs (Table VI.10) while the loans outstanding recorded an increase of Rs. 19.14 crores (from Rs. 52.10 crores to Rs. 71.24 crores). The average amount of loan per account also increased from Rs. 468.10 at the end of March 1977 to Rs. 492.37 at the end of March 1978. The substantial increase in lending under the Scheme is attributable to the measures taken by public sector banks to step up their lendings under the economic programmes for the weaker sections.

Table VI 10: Progress of lending under the Scheme of Differential Interest Rates

	At the end of March	No. of accounts (Lakhs)	Balance outstanding (Rs. Crores)
1974		2.6	10.85
1975		3.3	14.23
1976		5.3	24.58
1977*		11.1	52.10
1978*		14.5	71.24

*Provisional.

(e) Lead Bank Scheme

The High Power Committee, appointed by the Reserve Bank of India, for monitoring the Lead Bank Scheme considered the question of adoption by lead banks of a common methodology for implementation of credit plans and decided that since the guidelines prepared by State Bank of India for its offices were comprehensive enough, those could be adopted by other lead banks to the extent feasible. Copies of these guidelines, with suitable modifications, have been circulated amongst the banks for adoption.

Banks have prepared the district credit plans in respect of 380 districts of which plans in respect of 363 districts have been launched by June 30, 1978. The work relating to the preparation of credit plans of the remaining two districts has been undertaken by the lead bank, these districts having been allotted to it recently. In order to bring about a systematic and intensified development, the Union Territory of Goa, Daman and Diu was also brought within the purview of the Lead Bank Scheme and accordingly, the lead responsibilities in respect of Goa and Daman were assigned to the State Bank of India and that of Diu to the State Bank of Saurashtra. The National Institute of Bank Management (NIBM) was entrusted with the task of arranging the three-tier training programmes for facilitating a better understanding and appreciation of the objectives of the Scheme by officials of State Governments and commercial banks. To start with, in the States of Uttar Pradesh and West Bengal, the NIBM conducted workshops in five districts of Uttar Pradesh, viz., Varanasi, Etawah, Sultanpur, Bulandshahar and Uttar Kashi.

As decided at the fourth meeting of the Regional Consultative Committee for the Central Area held on the 19th November, 1977, the Reserve Bank conducted random checks on how the district credit plans were being implemented by the Lead Banks and other participating institutions/agencies in three districts viz., Farukhabad, Seoni and Jaisalmer.

(f) Bills Rediscounting Scheme

With effect from July 1, 1977 the Reserve Bank's bill rediscounting facilities were put on a discretionary basis. The total amount sanctioned by way of bill rediscounting limits as at the end of June 1978 amounted to Rs. 187 crores as against Rs. 138 crores a year ago. The amount outstanding against these limits as at the end of June 1978 was Rs. 101 crores as against Rs. 116 crores at the end of June 1977. The rediscount accommodation to commercial banks was extended at rates of interest ranging between 9 per cent and 12 per cent. The ceiling rate of 12 per cent on the bills rediscounted by the banks with other commercial banks as well as certain approved institutions prescribed in June 1977 was reduced to 10 per cent with effect from March 1, 1978.

(g) Export Credit

Measures taken in regard to export finance during the year under review, are outlined in the following paragraphs:

(i) By stipulating a ceiling rate of interest for finance for specified periods both at the pre-shipment stage as well as post-shipment stage, export credit has been accorded a special treatment. To make good the loss incurred by banks on account of the concessional ceiling rate, an interest subsidy at 1½% p.a. is paid to them under the Export Credit (Interest Subsidy) Scheme, 1968 provided the subsidy claiming banks conformed to certain requirements. Consequent on the changes in the general structure of lending rates, effective from March 1, 1978, referred to earlier, the ceiling rates of interest on pre-shipment credits were correspondingly reduced from 11.5% and 13.5% to 11% and 13% p.a., respectively. The ceiling rate of interest on post-shipment credit (other than that given on deferred payment basis for a period exceeding one year) was also reduced from 11.5% to 11% p.a. The ceiling rate of interest on post-shipment credit given on deferred payment basis for a period exceeding one year for export of specified capital and producer goods remained unchanged at 8 per cent p.a.

(ii) FINANCE FOR EXPORT OF DIAMONDS

Problems relating to finance for export of diamonds were discussed in a meeting held in February 1978 between the representatives of the Gem and Jewellery Export Promotion Council, the financing banks and the RBI. In the expectation of a large increase in exports of diamonds and the credit needs thereof, banks have been advised to review the sanctioned limits for pre-shipment and post-shipment finance extended so far and sanction increases if necessary and genuine.

(iii) SETTING UP OF COUNSELLING CENTRES

Apart from extending timely and adequate credit to exporters, banks have been asked by RBI to provide guidance and furnish them with information on export opportunities and procedural formalities, particularly in the case of small exporters as also those venturing into the field of export of non-traditional items. With the increased diversification of India's exports in recent years, the need for counselling has assumed great importance and banks have, therefore, been called upon by the RBI to tone up their customer services in general and set up counselling centres in the important branch offices to assist in the expeditious handling of procedural formalities.

(iv) THE STANDING COMMITTEE ON EXPORT FINANCE

The Standing Committee on Export Finance, set up in RBI in 1975, under the Chairmanship of the Deputy Governor of the Bank met twice during the year to review the facilities available to exporters and to recommend further steps, if any, to improve the facilities for exporters.

(v) BID BONDS

The commission on bid bonds and export guarantees of banks, was reduced to 1/24th of 1 per cent per month for amounts up to Rs. 1 crore and 1/48th of 1 per cent for larger amounts in cases where the bank guarantees were backed by counter-guarantees of Export

Credit and Guarantee Corporation Ltd., (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 would be 0.05 per cent per month up to Rs. 1 crore and at 0.025 per cent per month for larger amounts. The banks were also advised to refund 75 per cent of the commission charged by them in respect of cancelled bid bonds.

(vi) EXPORT REFINANCE/REDISCOUNT FACILITIES

In the field of export refinance, the Reserve Bank made some changes in the refinance scheme. Under the policy announced in March 1978, the rate of interest on export refinance was reduced from 10.5 per cent to 10 per cent. In May 1978, it was announced that refinance would be provided up to 50 per cent of the increase in export credit over the annual average export credit during the calendar year 1977. Banks could avail of the limits either under Export Bill Credit Scheme or Pre-shipment Credit Scheme. These limits are valid upto March 31, 1979. The availment of the export refinance from the RBI by commercial banks at the end of June 1978 was Rs. 22 crores, as against the entitlement of Rs. 87 crores.

The Working Group for clearing proposals for export of engineering goods on deferred payment terms and turnkey projects considered 302 proposals relating to exports on deferred payment basis as also construction contracts and turnkey projects abroad.

(vii) DUTY DRAWBACK CREDIT SCHEME

The Scheme was introduced by the Reserve Bank in February 1976 for grant of interest-free advances upto 90 days by banks to exporters against their duty drawback entitlements, as provisionally certified by customs authorities. The banks, in turn, are eligible to obtain interest-free refinance from the Reserve Bank for the corresponding period. A meeting of the representatives of leading banks, Customs Department and Government of India was con-

vened by the Reserve Bank of India in October 1977 to review the working of the Scheme. In the meeting, a suggestion was made that the customs authorities may make the payment of the final duty-drawback direct to the banks concerned which, in turn, would repay to the Reserve Bank, the corresponding amount of refinance availed of by them. The Government representative indicated that the Government may consider taking the responsibility of making payment of final duty drawback direct to the banks provided the Scheme could be amended suitably. The Government has since accepted the suggestion.

During the period November 1, 1977 to June 29, 1978, limits aggregating Rs. 24.60 crores have been sanctioned under the Scheme, to 34 banks out of which 26 banks have availed themselves of refinance to the extent of Rs. 20.89 crores. The amount outstanding as on June 29, 1978 was Rs. 3.63 crores.

(h) *Sick Industrial Undertakings*

While identification of sick industrial units and taking the decision to nurse potentially viable units are the functions of the financing banks/term lending institutions, the main objective of a Special Cell, set up in the Reserve Bank, is to mould the institutional attitude towards industrial rehabilitation so that they adopt the right approach in their efforts, right from detecting incipient sickness till the implementation of the revival scheme. The steps taken by the Special Cell related mainly to (i) reorientation of the attitude and approach of the commercial banks in dealing with the problems of sick industries so that the larger social objectives were not lost sight of by them, (ii) suggest provision of the necessary organisational framework and expertise to pay specialised attention to sick industries, (iii) furnishing guidelines and equipping the banks with the necessary systems to identify the sickness at an early stage and initiate corrective action, and (iv) co-ordinating the efforts of the banks, financial institutions and Government agencies in rehabilitating sick industries and ensuring that their policies and approaches are in alignment.

To enable the Reserve Bank of India to have a broad idea of the overall trends in the working of the major industry groups and incipient sickness, if any, developing in them, banks were advised in February 1978 to furnish to the Reserve Bank of India quarterly reports indicating their performance separately in respect of engineering, textiles, jute, sugar, rubber, cement and others. These reports would be based on quarterly operational statements received from them and such other information as may be available with the banks. The reports are also expected to indicate the performance achieved vis-a-vis budgeted estimates, the reasons for good or bad performance, industrial relations, profitability etc. The banks have also been advised to indicate the problems faced by them in reviving the sick units.

In order to ensure that sick units in small-scale industrial sector received the required attention and timely support from commercial banks, banks were advised in May 1978 that they should examine the adequacy of organisational arrangements made by them with a view to strengthening their existing set up at their regional offices and at centres where the financing of small-scale industries was concentrated, e.g. places where industrial estates are located and to set up regional cells equipped with experienced and qualified staff to render monitoring and counselling assistance to small-scale units. Banks were also advised that it is essential not only to detect sickness at incipient stage but also to provide timely assistance in deserving cases, as delay in decision making can damage the prospect of revival.

In terms of the instructions issued by the Reserve Bank of India to banks in November 1976, they are submitting to the RBI quarterly statements giving brief particulars of all sick units enjoying aggregate bank credit of Rs. 1 crore and above. The information contained in quarterly statements as at the end of December 1977 revealed that the number of large sick units (i.e. those enjoying aggregate bank credit of Rs. 1 crore and above) identified by banks has increased to 289 involving

Table VI.11. State-wise and Industry-wise statement of sick industrial undertakings enjoying aggregate bank credit of Rs. 1 crore and above as at the end of December 1977

(In Crores of Rupees)

State	Industry									
	Engineering		Iron & Steel		Textiles*		Jute		Chemicals	
	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	2	3	4	5	6	7	8	9	10	11
West Bengal	18	92.41	3	10.05	3	4.90	28	76.58	4	9.47
Maharashtra	24	58.13	5	9.63	24	108.57	—	—	4	6.61
Karnataka	5	11.06	—	—	1	1.21	—	—	2	13.32
Gujarat	5	12.79	3	4.00	22	60.78	—	—	—	—
Tamil Nadu	7	11.77	2	4.28	11	44.11	—	—	5	58.64
Andhra Pradesh	2	2.68	1	5.03	—	—	1	1.64	1	5.11
Bihar	1	3.84	1	2.70	—	—	—	—	—	—
Haryana	4	7.62	—	—	—	—	—	—	—	—
Rajasthan	2	3.34	—	—	2	5.07	—	—	—	—
Madhya Pradesh	2	3.49	—	—	3	7.09	—	—	—	—
Orissa	2	6.13	—	—	1	7.35	—	—	—	—
Uttar Pradesh	2	6.86	4	4.34	6	21.32	1	1.63	—	—
Kerala	1	2.54	1	1.54	—	—	—	—	—	—
Punjab	—	—	—	—	—	—	—	—	—	—
Assam	—	—	—	—	—	—	—	—	—	—
New Delhi	1	3.12	—	—	—	—	—	—	—	—
Pondicherry	—	—	—	—	—	—	—	—	1	1.60
Goa	—	—	—	—	—	—	—	—	—	—
Total	76	225.78	20	41.57	73	260.40	30	79.85	17	94.75

State	Industry									
	Cement		Rubber		Sugar		Miscellaneous		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
	12	13	14	15	16	17	18	19	20	21
West Bengal	—	—	2	8.78	1	1.58	12	34.53	71	238.30
Maharashtra	—	—	1	4.81	—	—	5	11.79	63	199.54
Karnataka	—	—	—	—	2	11.59	1	0.27	11	37.45
Gujarat	—	—	—	—	—	—	2	4.99	32	82.56
Tamil Nadu	—	—	1	6.27	5	4.69	4	8.28	35	138.04
Andhra Pradesh	—	—	—	—	—	—	3	4.75	8	19.21
Bihar	2	3.40	—	—	1	3.34	3	3.75	8	17.03
Haryana	—	—	—	—	—	—	—	—	4	7.62
Rajasthan	1	7.50	—	—	1	1.47	—	—	6	17.38
Madhya Pradesh	—	—	—	—	—	—	—	—	5	10.58
Orissa	—	—	—	—	—	—	—	—	3	13.48
Uttar Pradesh	—	—	—	—	17	17.82	3	8.11	33	60.08
Kerala	—	—	1	1.36	—	—	2	3.62	5	9.06
Punjab	—	—	—	—	—	—	1	0.96	1	0.96
Assam	—	—	—	—	—	—	1	1.41	1	1.41
New Delhi	—	—	—	—	—	—	—	—	1	3.12
Pondicherry	—	—	—	—	—	—	—	—	1	1.60
Goa	—	—	—	—	—	—	1	1.03	1	1.03
Total	3	10.90	5	21.22	27	40.49	38	83.49	289	858.45

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

Table VI.12: Sectoral Deployment of Gross Bank Credit
(Including bills rediscounted with the R.B.I.)

(Rupees Crores)				
Item	June 1977	Variation over the year	June 1978	Variation over the year
	1	2	3	4
I. Public Food Procurement Credit.. ..	2,536 (18.6)	+ 351 (17.7)	2,525 (16.1)	- 11 (-0.5)
II. (a) Priority Sectors	3,486 (25.6)	+ 671 (33.7)	4,256 (27.0)	+ 770 (36.4)
(i) Agriculture	1,381 (10.1)	+ 289 (14.5)	1,694 (10.6)	+ 313 (14.8)
(ii) Small-Scale Industries	1,460 (10.7)	+ 238 (12.0)	1,740 (11.1)	+ 280 (13.2)
(iii) Other Priority Sectors	645 (4.8)	+ 144 (7.2)	822 (5.3)	+ 177 (8.4)
(b) Industry (medium and large) ..	5,372 (39.5)	+ 333 (16.8)	6,209 (39.5)	+ 837 (39.5)
(c) Wholesale Trade (other than food procurement)	1,053 (7.8)	+ 244 (12.3)	1,395 (8.9)	+ 342 (16.1)
(d) Other Sectors	1,160 (8.5)	+ 388 (19.5)	1,340 (8.5)	+ 180 (8.5)
III. Non-food Gross Bank Credit (a + b + c + d)	11,071 (81.4)	+ 1,636 (82.3)	13,200 (83.9)	+ 2,129 (100.5)
Export Credit (included under item III) ..	1,077 (7.9)	+ 100 (5.0)	1,204 (7.7)	+ 127 (6.0)
IV. Gross Bank Credit (I + III)	13,607 (100.0)	+ 1,987 (100.0)	15,725 (100.0)	+ 2,118 (100.0)

Note: (1) Data for June 1978 are provisional and relate to major banks which account for about 95 per cent of gross bank credit. These data besides taking into account the bills rediscounted with the RBI, also include bills rediscounted with the IDBI and other approved institutions and participation certificates and hence are not strictly comparable with the data given for the corresponding month of the previous year and with those in Table VI. 14.

(2) Figures in brackets are percentages to total gross bank credit.

Source: Credit Planning and Banking Development Cell, R.B.I.

total bank finance of Rs. 858 crores as at the end of December 1977 (Table VI. 11), as against 241 units involving bank finance of Rs. 609 crores as at the end of December 1976. These exclude sick textile mills taken over by NTC.

Qualitative Changes in Bank Credit Distribution

Sectoral Deployment of Credit

Data on sectoral deployment of commercial bank credit indicate that the share of bank

advances to the priority sectors (agriculture, small-scale industries and other priority sectors) increased to 27.0 per cent of total gross bank credit at the end of June 1978 from 25.6 per cent at the end of June 1977 (Table VI. 12). The proportion of advances for public food procurement declined to 16.1 per cent at the end of June 1978 from 18.6 per cent a year ago. In the non-food sector, the share of wholesale trade (other than public food procurement) increased to 8.9 per cent from 7.8 per cent. Advances to medium and large industries accounted for 39.5 per cent of total gross bank

Table VI.13: 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		June 25, 1976	
	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Per cent- 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	5095	56.5	5713	48.9
(a) Large and Medium Industries	1857	60.6	2414	45.5	2731	43.1	3550	44.4	3977	44.1	4462	38.2
(b) Small-Scale Industries	211	6.9	639	12.1	759	12.0	1005	12.5	1118	12.4	1251	10.7
II. AGRICULTURE AND ALLIED ACTIVITIES	67	2.2	360	6.8	572	9.0	709	8.9	969	10.8	1214	10.4
Of which:												
(a) Direct Finance	..	..	213	4.0	262	4.1	349	4.4	454	5.0	738	6.3
(b) Plantations	58	1.9	115	2.2	109	1.7	133	1.7	136	1.5	151	1.3
III. INTERNAL TRADE	588	19.2	924	17.4	1176	18.6	1396	17.5	1500	16.7	3115	26.7
(a) Wholesale Trade	541	17.7	766	14.4	1006	15.9	1180	14.8	1266	14.1	2822	24.2
Of which:												
Food Procurement	109	3.5	542	10.2	468	7.4	523	6.5	795	8.8	2122	18.2
(b) Retail Trade	47	1.5	158	3.0	170	2.7	216	2.7	234	2.6	293	2.5
IV. SERVICES	..	..	..	..	362	5.7	461	5.7	539	6.0	664	5.7
V. PERSONAL LOANS	..	..	..	..	204	3.2	289	3.6	319	3.5	356	3.0
VI. ALL OTHERS	341*	11.1	963*	18.2	529	8.4	589	7.4	589	6.5	616	5.3
VII. TOTAL	3064	100.0	5300	100.0	6333	100.0	7999	100.0	9011	100.0	11678	100.0

..Not available

*Includes 'Services and Personal Loans'.

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 June 25, 1976 are based on 'Basic Statistical Returns'.

credit both at the end of June 1977 and 1978. In the earlier years, viz. between March 31, 1968 and June 25, 1976 (Table VI. 13), the share of large and medium industries in total bank credit declined from 60.6 per cent to 38.2 per cent, while the share of food procurement advances had increased from hardly 3.5 per cent to 18.2 per cent.

Priority sector advances, in absolute amounts, recorded an increase of Rs. 770 crores during 1977-78 (July-June) as compared with Rs. 671 crores in the previous year, their share in total incremental bank credit rising from 33.7 per cent at the end of June 1977 to Rs. 36.4 per cent at the end of June 1978.

Among the non-food sectors, there was a substantial increase of Rs. 837 crores in advances to the large and medium industries, compared to the increase of Rs. 333 crores in the previous year, their share in total incremental credit rising to 39.5 per cent at the end of June 1978 as compared with 16.8 per cent in June 1977. The share of wholesale trade other than public food procurement, in total incremental credit also rose to 16.1 per cent from 12.3 per cent in the previous year.

Industry-wise Deployment of Credit

A further break-up of gross bank credit, industry-wise, indicates that a large increase in credit was recorded in case of engineering

Table VI. 14: Industry-wise Deployment of Gross Bank Credit
(Public and Private Sectors)

										(Rupees Crores)			
Industry										June 1977 (Outstandings)	Variation over the previous year	June 1978@ (Outstandings)	Variation over the previous year
1										2	3	4	5
1. Coal	..	..	..	..	..	..	..	..	..	68 (0.5)	+ 6	80 (0.5)	+ 12
2. Iron and Steel	..	..	..	..	..	..	..	..	..	470 (3.4)	+ 1	418 (2.7)	- 52
3. Other Metals and Metal Products	..	..	..	..	..	..	..	..	..	203 (1.5)	- 9	254 (1.6)	+ 51
4. All Engineering	..	..	..	..	..	..	..	..	..	1793 (13.2)	+ 117	2043 (13.0)	+ 250
5. Electricity (Generation and Transmission)	..	..	..	..	..	..	..	..	..	85 (0.6)	- 27	74 (0.5)	- 11
6. Cotton Textiles	..	..	..	..	..	..	..	..	..	826 (6.0)	+ 142	912 (5.8)	+ 86
7. Jute Textiles..	..	..	..	..	..	..	..	..	..	112 (0.8)	+ 6	106 (0.7)	- 6
8. Other Textiles	..	..	..	..	..	..	..	..	..	312 (2.3)	+ 55	412 (2.6)	+ 100
9. Sugar	..	..	..	..	..	..	..	..	..	277 (2.0)	+ 108	399 (2.5)	+ 122
10. Tea	..	..	..	..	..	..	..	..	..	100 (0.7)	- 10	114 (0.7)	+ 14
11. Vegetable Oils (Incl. Vanaspati)	..	..	..	..	..	..	..	..	..	85 (0.6)	+ 5	104 (0.7)	+ 19
12. Tobacco and Tobacco Products	..	..	..	..	..	..	..	..	..	92 (0.6)	+ 22	111 (0.7)	+ 19
13. Paper and Paper Products	..	..	..	..	..	..	..	..	..	137 (1.0)	+ 2	167 (1.1)	+ 30
14. Rubber and Rubber Products	..	..	..	..	..	..	..	..	..	144 (1.1)	+ 28	159 (1.0)	+ 15
15. Chemicals, Dyes, Paints, Drugs and Pharmaceuticals	..	..	..	..	..	..	..	..	..	733 (5.4)	+ 82	865 (5.5)	+ 132
Of which: Fertiliser	..	..	..	..	..	..	..	..	..	157 (0.3)	- 13	156 (1.0)	- 1
16. Cement	..	..	..	..	..	..	..	..	..	45 (0.3)	- 11	45 (0.3)	-
17. Leather and Leather Products	..	..	..	..	..	..	..	..	..	80 (0.6)	- 10	122 (0.8)	+ 42
18. Construction	..	..	..	..	..	..	..	..	..	71 (0.5)	+ 10	76 (0.4)	+ 5
19. Other Industries	..	..	..	..	..	..	..	..	..	1199 (8.8)	+ 54	1488 (9.5)	+ 289
TOTAL CREDIT TO INDUSTRY	..	..	..	..	..	..	..	..	..	6832 (50.2)	+ 571	7949 (50.6)	+1117
Total Gross Bank Credit	..	..	..	..	..	..	..	..	..	13607 (100.0)	+1987	15725 (100.0)	+2118

@ Provisional.

Note: Figures in brackets are percentages to total gross bank credit.

Source: Credit Planning and Banking Development Cell, RBI.

and chemical industries which showed a rise of Rs. 250 crores and Rs. 132 crores in 1977-78 as compared to Rs. 117 crores and Rs. 82 crores, respectively, in the previous year (Table VI. 14). Advances to sugar industry also recorded a larger rise of Rs. 122 crores compared to Rs. 108 crores in the previous

year. On the other hand, expansion of Rs. 86 crores in credit to cotton textile industry was lower than that in the previous year viz. Rs. 142 crores. Credit to the iron and steel industry declined by Rs. 52 crores and to jute textiles by Rs. 6 crores in 1977-78. The percentage share of the iron and steel industry

Table VI.15: 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	June 25, 1976
	2	3	4	5	6	7
1. Basic Metals & Metal Products	n.a.	4.3	6.6	6.5	7.2	6.3
Of which:						
Iron & Steel	3.7	2.8	3.7	3.7	4.4	4.0
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	5.7
Of which:						
(a) Heavy Industrial Chemicals	n.a.	n.a.	0.7	0.7	0.6	0.5
(b) Drugs and Pharmaceuticals	n.a.	1.4	1.3	1.3	1.3	1.1
(c) Fertilisers	n.a.	0.6	0.7	0.9	1.3	1.5
5. Coal	0.8	@	0.4	0.6	0.4	0.4
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	10.6
(a) Heavy Engineering	8.9	n.a.	6.8	7.3	7.8	7.1
(b) Light Engineering	6.8	n.a.	3.1	3.5	3.4	3.5
8. Leather and Leather Products	n.a.	0.6	1.0	0.8	0.7	0.7
9. Manufacture of Basic Minerals	n.a.	n.a.	0.5	1.0	0.8	0.4
10. Paper, Paper Products and Printing	1.6	@	1.8	1.7	1.7	1.6
11. Rice Mills, Flour and Dal Mills	n.a.	n.a.	0.5	0.6	0.5	0.6
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	1.7
14. Textiles	15.5	10.0	12.0	12.2	11.0	9.8
Of which:						
(a) Cotton Textiles	10.3	7.5	7.3	7.3	6.5	6.1
(b) Jute Textiles	3.1	1.5	1.5	1.7	1.3	0.7
15. Vehicles, Vehicle Parts and Transport Equipment	n.a.	2.9	2.5	2.7	2.9	2.3
16. Other Industries	17.6	16.6	8.7	8.6	8.2	5.7
TOTAL CREDIT TO INDUSTRY	67.5	57.6	55.1	56.9	56.5	48.9
Total Bank Credit	100.0	100.0	100.0	100.0	100.0	100.0

n.a.: Not available.

@ Included under 'Other Industries'.

Note: The data in this table are not comparable with those in Table VI.14.

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 June 25, 1976 are based on 'Basic Statistical Returns'.

in total gross bank credit declined from 3.4 per cent at the end of June 1977 to 2.7 per cent at the end of June 1978. The percentage shares of engineering and chemical industries at 13.0 per cent and 5.5 per cent were more or less the same as in last year; the share of engineering industry in the total continued to be the highest. The percentage share of total bank credit to industry which was 50.6 per cent at the end of June 1978 showed a marginal increase over that at the end of the previous year. The percentage share of each major industry in total bank credit in the previous five years is presented in Table VI. 15.

Another aspect of qualitative change in bank credit relates to the financing of inventories held by the private sector industries. Available data pertaining to 1650 medium and large public limited companies showed that the pro-

portion of short-term bank credit to inventories which had declined from 56.7 per cent in 1970-71 to 44.4 per cent in 1974-75, rose to 49.5 per cent in 1975-76 (Table VI. 16). Data available for 404 large public limited companies showed a continuation of this trend in 1976-77. Thus, short-term bank borrowings as percentage of inventories rose from 47.8 per cent in 1975-76 to 50.3 per cent in 1976-77. It may be noted that inventories as percentage of sales (column 2) showed a decline in 1975-76 and 1976-77.

Advances to Priority Sectors

Bank credit to the priority sectors, viz., agriculture, small-scale sector and other priority sectors (excluding exports) increased from Rs. 3,395 crores at the end of December 1976 to Rs. 4,134 crores at the end of December 1977 showing a rise of Rs. 739 crores in 1977 as

Table VI. 16: Inventories-Sales and Bank borrowings—Inventories Ratios
(Public Ltd. Companies in the Private Sector)

		Total inventories as percentage of sales @	Inventories in the form of raw materials, components etc., as percentage of total inventories	Short-term bank borrowings as percentage of total inventories	Total bank borrowings as percentage of total inventories	
		1	2	3	4	5
1650 Medium and Large Public Ltd. Companies*	1970-71 ..	31.9	32.0	56.7	62.5	
	1971-72 ..	32.2	32.9	53.1	58.4	
	1972-73 ..	30.6	34.6	48.4	53.3	
	1973-74 ..	32.6	34.7	46.4	51.0	
	1974-75 ..	33.2	33.4	44.4	48.0	
	1975-76 ..	31.1	29.2	49.5	52.4	
Large Public Ltd. Companies**						
385 Companies	1970-71 ..	31.0	34.1	55.8	69.9	
	1971-72 ..	31.7	34.7	50.9	55.6	
	1972-73 ..	30.6	35.8	45.6	50.1	
	1973-74 ..	32.1	35.4	42.8	46.5	
	1974-75 ..	33.1	34.8	41.2	44.1	
	1975-76 ..	31.1	30.7	45.3	47.5	
404 Companies	1975-76 ..	30.5	30.9	47.8	50.3	
	1976-77 ..	27.1	30.4	50.3	53.7	

@ Net of rebates and discounts and excise duty and cess.

* Each with a paid-up capital of Rs. 5 lakhs and above.

** Each with a paid-up capital of Rs. 1 crore and above.

Source: Reserve Bank of India Studies on Company Finances.

Table VI.17: Scheduled Commercial Banks' Advances to Priority Sectors

(No. of Accounts in Thousands)
(Amount in Rupees Crores)

Sector	As on last Friday of		Public Sector Banks		All Scheduled Commercial Banks	
			No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
1. Agriculture	June 1969		165	162	268	188
	December 1976		4401	1229	4919	1335
	December 1977		5182	1519	5869	1651
Of which:						
(i) Direct Finance	June 1969		160	40	257	54
	December 1976		3908	916	4413	1003
	December 1977		4562	1151	5226	1260
(ii) Indirect Finance	June 1969		5	122	11	134
	December 1976		493	313	506	332
	December 1977		620	368	643	391
2. Small-Scale Sector@	June 1969		53	257	60	294
	December 1976		528	1529	553	1719
	December 1977		641	1829	673	2064
Of which:						
(i) Road and Water Transport Operators@	June 1969		2	6	3	8
	December 1976		144	237	156	278
	December 1977		181	289	196	339
(ii) Small-Scale Industries@	June 1969		51	251	57	286
	December 1976		384	1274	397	1421
	December 1977		460	1520	477	1703
(iii) Setting-up of Industrial Estates	June 1969		Neg.	Neg.	Neg.	Neg.
	December 1976		Neg.	18	Neg.	20
	December 1977		Neg.	20	Neg.	22
3. Other Priority Sectors	June 1969		42	22	N.A.	N.A.
	December 1976		1291	297	1359	341
	December 1977		1573	364	1672	419
Of which:						
(i) Retail Trade and Small Business	June 1969		33	19	N.A.	N.A.
	December 1976		805	222	854	257
	December 1977		999	277	1071	321
(ii) Professional and Self-Employed Persons	June 1969		8	2	N.A.	N.A.
	December 1976		460	69	476	78
	December 1977		542	81	567	91
(iii) Education	June 1969		1	1	N.A.	N.A.
	December 1976		26	6	29	6
	December 1977		32	6	34	7
Total Priority Sector Advances (1+2+3)	June 1969		260	441	328	482
	December 1976		6220	3055	6831	3395
	December 1977		7396	3712	8214	4134
4. Exports	June 1969		—	204	—	270
	December 1976		—	813	—	977
	December 1977		—	967	—	1166
Total Bank Credit	June 1969			3016		3599
	December 1976			11340		13212
	December 1977			12183		14333
Total Bank Credit Excluding Food Advances	June 1969			2783		3366
	December 1976			9300		11046
	December 1977			10033		11977
Percentage of Priority Sector Advances to Total Bank Credit	June 1969			14.6		13.4
	December 1976			26.9		25.7
	December 1977			30.5		28.8
Percentage of Priority Sector Advances to Total Bank Credit Excluding Food Advances	June 1969			15.9		14.3
	December 1976			32.9		30.7
	December 1977			37.0		34.5

@ The total is based on number of units and not on number of accounts in respect of Small-Scale Sector.

Note: Figures for December 1977 are provisional.

Neg.— Negligible.

N.A.— Not Available.

compared with Rs. 786 crores in the previous year. The proportion of priority sector advances to total bank credit (net) also rose from 25.7 per cent at the end of December 1976 to 28.8 per cent at the end of December 1977. If food credit is excluded from total bank credit, the proportions were 30.7 per cent at the end of December 1976 and 34.5 per cent at the end of December 1977, respectively.

Small-scale Sector

Of the total advances of Rs. 2,064 crores to the small-scale sector at the end of December 1977, small-scale industries accounted for Rs. 1,703 crores or 82.5 per cent. Component-wise, advances to the small-scale industries showed a rise of Rs. 282 crores (19.8 per cent) over the year and those to road and water transport operators Rs. 61 crores (21.9 per cent). The share of credit to small-scale industries in total priority sector advances (excluding exports) was more or less maintained at 41.2 as at the end of December 1977. While its proportion to total bank credit (net) rose to an all-time high of 11.9 per cent at the end of December 1977, excluding food credit, the share was still higher at 14.2 per cent. The credit utilisation ratio (i.e., ratio of outstandings to sanctions) in respect of small-scale industries also reached a record level of 74.9 per cent in December 1977 as against 71.2 per cent in December 1976 and 66.9 per cent in December 1975.

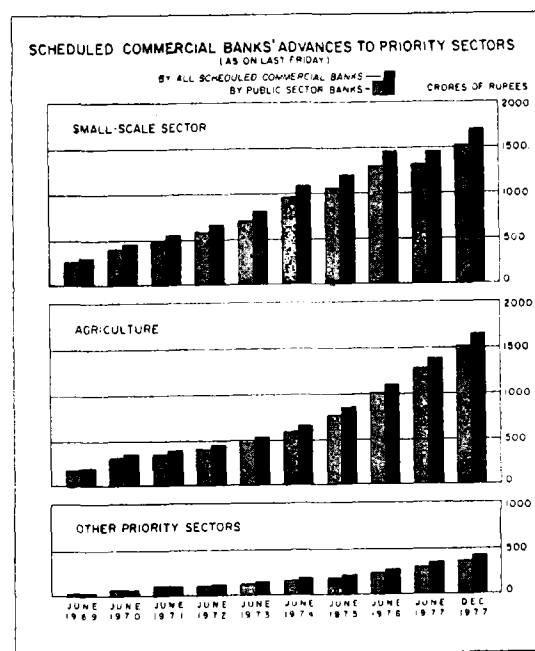
Other Priority Sectors

Among the other priority sectors, advances to retail trade and small business rose by Rs. 64 crores to Rs. 321 crores, and to self-employed persons by Rs. 13 crores to Rs. 91 crores as at the end of December 1977.

Exports

Bank credit for exports increased by Rs. 189 crores (19.3 per cent) over the year to Rs. 1,166 crores as against the increase of Rs. 115 crores (13.4 per cent) recorded in the previous year. The share of export credit in total bank credit (net) rose to 8.1 per cent at the end of

December 1977 from 7.4 per cent at the end of December 1976.



Distribution of credit according to interest range

The data relating to classification of bank credit according to interest ranges available upto June 1976 are presented in Table VI. 18. These data reflect broadly the impact of dear money policy on the proportion of credit granted under various interest ranges. Of the total credit outstanding at the end of June 1976, a major portion i.e., about 61 per cent was granted at the interest rate ranges above 14 per cent up to 18 per cent. About one-fourth of the credit (27.3 per cent) was given at the interest rate of 12 per cent and below. In contrast, nearly 97 per cent of bank credit was given at interest rates of 12 per cent and below in 1973. Though a definite shift to higher interest rate ranges is noticed in the past few years, there was some shift to lower interest rate ranges during 1976, probably with the imposition by the RBI of a ceiling on lending rates charged by commercial banks effective March 15, 1976 and also a considerable increase in food procurement credit granted at a concessional rate of interest. Thus, the proportion of credit granted at the

Table VI.18: Distribution of Loans and Advances † of Scheduled Commercial Banks According to Interest Range

(Amount in Crores of Rupees)

Interest Range	As on the last Friday of							
	June 1973		June 1974		June 1975		June 1976	
	No. of Accounts	Amount Out- standing	No. of Accounts	Amount Out- standing	No. of Accounts	Amount Out- standing	No. of Accounts	Amount Out- standing
1	2	3	4	5	6	7	8	9
6 per cent and less ..	16,838 (4.4)	152.1 (3.2)	19,235 (4.2)	141.5 (2.4)	23,673 (4.8)	147.6 (2.2)	29,512 (5.2)	173.6 (2.2)
Above 6 per cent and upto 8 per cent	35,984 (9.4)	431.5 (9.2)	34,588 (7.6)	546.2 (9.5)	5,816 (1.2)	113.1 (1.7)	4,555 (0.8)	69.0 (0.9)
Above 8 per cent and upto 9 per cent	20,240 (5.3)	554.2 (11.8)	22,588 (5.0)	368.3 (6.4)				
Above 9 per cent and upto 10 per cent	56,329 (14.8)	935.4 (19.8)	43,437 (9.5)	228.5 (4.0)				
Above 10 per cent and upto 11 per cent	135,321 (35.4)	1770.4 (37.6)	98,860 (21.6)	1500.2 (26.0)	24,908 (5.0)	110.4 (1.7)	27,602 (4.9)	118.2 (1.5)
Above 11 per cent and upto 12 per cent	90,281 (23.6)	721.8 (15.3)	72,637 (15.9)	1032.2 (17.9)	49,402 (9.9)	769.9 (11.7)	61,322 (10.9)	1684.4 (21.0)
Above 12 per cent and upto 13 per cent	27,147 (7.1)	147.5 (3.1)	155,105 (34.0)	1875.2 (32.5)	50,519 (10.2)	322.5 (4.9)	58,883 (10.4)	320.2 (4.0)
Above 13 per cent and upto 14 per cent					60,190 (12.1)	583.3 (8.9)	67,785 (12.0)	584.8 (7.3)
Above 14 per cent and upto 15 per cent					64,935 (13.1)	1700.0 (25.8)	76,991 (13.6)	1942.1 (24.3)
Above 15 per cent and upto 16 per cent	89 (*)	0.3 (*)	10,252 (2.2)	74.6 (1.3)	65,624 (13.2)	1465.8 (22.2)	68,479 (12.1)	1636.6 (20.5)
Above 16 per cent and upto 17 per cent					56,698 (11.4)	716.0 (10.9)	109,823 (19.5)	1119.4 (14.0)
Above 17 per cent and upto 18 per cent					51,394 (10.4)	406.3 (6.2)	21,348 (3.8)	152.6 (1.9)
Above 18 per cent					13,102 (2.6)	123.8 (1.9)	8,013 (1.4)	67.3 (0.8)
Total	382,229 (100.0)	4713.2 (100.0)	456,702 (100.0)	5766.7 (100.0)	496,408 (100.0)	6580.4 (100.0)	564,656 (100.0)	8001.9 (100.0)

†Relates to accounts with credit limits over Rs. 10,000; excludes inland and foreign bills purchased and discounted.

*Negligible

Note: Figures in brackets indicate percentages to total.

Source: Basic Statistical Returns.

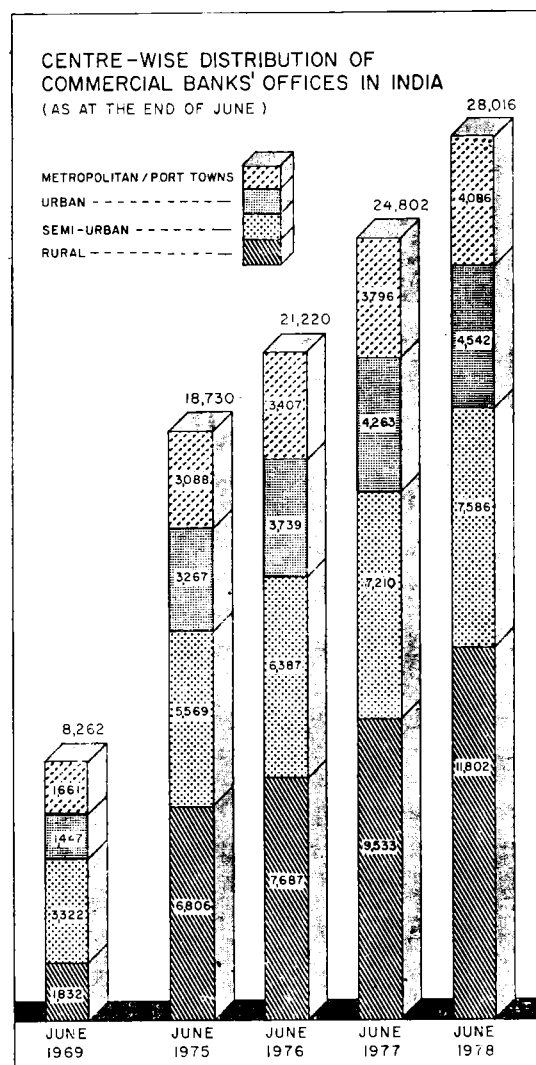
rate of interest of 12 per cent and below went up from 19.2 per cent at the end of June 1975 to 27.3 per cent at the end of June 1976 (due to shift in 11 to 12 per cent range), while the proportion of credit granted at the rate of interest above 16 per cent declined from 19.0 per cent to 16.7 per cent, respectively. It may be noted, however, that since the data do not cover accounts with credit limits of Rs. 10,000 and below, a greater portion of priority sector credit consisting of small loans granted at concessional rates of interest are not covered here. Moreover, the downward adjustment in the interest rates structure brought about in March 1978 could be only reflected in the data relating to June 1978 which are not yet available.

Geographical and Functional Coverage of Banks

Branch Expansion

In the context of the vast branch expansion which had already taken place, process of consolidation came to be viewed as an important aspect of policy. While the long-term policy in this regard had to be evolved on the basis of the recommendations of various committees appointed earlier by the Bank, with a view to facilitating branch expansion in the short-run, it was decided, in January 1978, to call for plans from banks only for the year 1978. Banks were advised that, in order to enable them to consolidate their existing position, they were not expected to undertake any unduly large expansion during 1978 and that the issue of licences for new branches by the Bank would also be limited. In preparing the plans for the year, banks were further advised to select unbanked centres from "deficit districts" (i.e., where population per bank office in the district was higher than the national average), priority being given to such districts in states where the average population coverage per bank office for the state as a whole was also higher than the national average. In regard to urban centres too, banks were advised to confine their selec-

tion of centres for opening of branches to "deficit districts" only. The allotment of urban and metropolitan centres was to be severely restricted and made purely at the discretion of the Bank.



During 1977-78 (July-June), 3222 offices were opened by commercial banks as against 3596 offices opened in the previous year. However, the thrust into unbanked areas continued with 2249 offices (or 69.8 per cent of the total new offices) opened in such areas; in 1976-77, 1690 offices opened in unbanked centres formed 47.0% of total new offices opened. The number of offices opened in rural areas during the year viz., 2269, formed over

70 per cent of the total offices opened during the year as against only around 35 per cent in 1975-76 and around 51 per cent in 1976-77 (Table VI.19).

Table VI.19: Share of new rural offices in total new offices*

Period (July-June)	Total offices opened during the year	Of which those opened in rural areas	(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
1977-78	.. 3214	2269	70.6

* Adjusted for offices closed.

The number of commercial bank offices in the country as of end-June 1978, at 28,016, represented an increase of 19,695 since July 1969 (Table VI.20). The number of offices opened in unbanked centres was 9,967 or 50.6 per cent of the increase during the period. The average population per bank office (based on estimated mid-year population) came down progressively from around 64,000 at the end of June 1969 to 25,000 at end-June 1977 and further to 23,000 at end-June 1978.

In pursuance of the decision taken by the Government of India that each unbanked Community Development Block in the country be provided with at least one bank office by June 30, 1978, at the latest, priority was accorded during the year to the coverage of such blocks. Of the 697 unbanked Community Development Blocks identified in the country, upto the end of June 1978, commercial bank offices had been opened in 619 blocks and licences issued to them for opening offices in another 62 blocks. The question of opening offices in these blocks as also in the remaining 16 blocks was being pursued with the concerned banks.

The New Branch Licensing Policy

In the light of the recommendations made by the Committee on the Functioning of Public Sector Banks, the Committee on Regional Rural Banks and the Working Group on adoption of multi-agency approach in agricultural financing, the Reserve Bank formulated in September 1978 a comprehensive commercial banks branch expansion policy for the next three years (1979-81). The policy seeks to ensure (a) opening of more bank offices in the rural areas of underbanked regions, (b) larger involvement of banks in district development activities and (c) an increasing flow of credit to weaker sections. At least 4,500 new bank offices will be opened over the next three years in the rural and semi-urban areas of districts where the average population per bank office is higher than the national average in order to bring these districts on par with the national average. It is proposed to draw up a time-bound programme to ensure that every unbanked community development block headquarters in the country is provided with a bank office before the end of June 1979. Expansion in the urban/metropolitan/port town centres will be allowed only on a highly selective basis.

In the matter of branch expansion in rural areas, the RRBs will be accorded priority in the districts where they function or are to be established hereafter. In cases where there are special schemes of financing agriculture and where RRBs are not in a position to expand immediately, the concerned Lead Bank of the district will be generally allowed to open branches. Commercial banks which have a regional character will not be allowed to open branches in distant areas but will be asked to concentrate on opening their branches in their own areas of operation or in the adjoining deficit areas on a selective basis. It is expected that the needs of the rural sector including the small-scale and cottage industries to be set up in these areas under the new Industrial Policy of the Government will be adequately taken care of by the spread of bank branches.

Table VI.20: Centre-wise Distribution of Commercial Bank Offices in India

Bank Group	No. of offices as on														
	19-7-1969					30-6-1977					30-6-1978				
	Rural	Semi-urban	Urban	Metropolitan/Port Town	Total	Rural	Semi-urban	Urban	Metropolitan/Port Town	Total	Rural	Semi-urban	Urban	Metropolitan/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)	1869 (42.8)	1417 (32.5)	604 (13.9)	469 (10.8)	4359 (100.0)	2179 (45.3)	1479 (30.7)	647 (13.4)	508 (10.6)	4813 (100.0)
Associate Banks of State Bank of India ..	358 (40.0)	375 (42.0)	86 (9.6)	75 (8.4)	894 (100.0)	847 (42.4)	670 (33.5)	275 (13.7)	208 (10.4)	2000 (100.0)	933 (42.6)	735 (33.5)	296 (13.5)	228 (10.4)	2192 (100.0)
14 Nationalised Banks ..	703 (16.9)	1465 (35.1)	928 (22.3)	1072 (25.7)	4168 (100.0)	4481 (35.7)	3392 (27.0)	2405 (19.2)	2265 (18.1)	12543 (100.0)	5294 (38.5)	3531 (25.7)	2516 (18.3)	2404 (17.5)	13745 (100.0)
Regional Rural Banks ..	—	—	—	—	—	688 (88.2)	75 (9.6)	17 (2.2)	—	780 (100.0)	1275 (90.7)	110 (7.9)	20 (1.4)	—	1405 (100.0)
Other Commercial Banks ..	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1688 (100.0)	1648 (32.2)	1656 (32.3)	962 (18.8)	854 (16.7)	5120 (100.0)	2121 (36.2)	1731 (29.6)	1063 (18.1)	946 (16.1)	5861 (100.0)
Grand Total ..	1860 (22.3)	3344 (40.2)	1456 (17.5)	1661 (20.0)	8321 (100.0)	9533 (38.4)	7210 (29.1)	4263 (17.2)	3796 (15.3)	24802 (100.0)	11802 (42.1)	7586 (27.1)	4542 (16.2)	4086 (14.6)	28016 (100.0)

Notes: 1. 8 offices were closed during the period July 1977 to June 1978.

2. 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, Port Blair, Pondicherry, Kandla, Visakhapatnam, Tuticorin and Murmugao.

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

(Source: Returns submitted by banks.)

Regional Rural Banks

The number of Regional Rural Banks functioning at end-June 1978 remained unchanged at 48; their total number of offices, however, increased significantly over the year by 625 to 1405. The total deposits with RRBs amounted to Rs. 45.26 crores at end-June 1978 compared to Rs. 15.66 crores at end-June 1977 and their outstanding advances aggregated Rs. 65.97 crores as against Rs. 19.58 crores a year earlier.

Deposits and Credit of Scheduled Commercial Banks

The impact on the regional distribution of deposits and credit of the geographical expansion of scheduled commercial banks' branches since June 1969 may be seen from the data presented in Table VI.21.

During the period June 1969 to December 1977, there was a substantial increase both in deposit mobilisation and credit disbursement of scheduled commercial banks. Over the period, the increase in their total deposits was

of the order of Rs. 16,549 crores and in their credit outstanding Rs. 11,707 crores. An outstanding feature of this increase was the marked improvement in both deposit mobilisation and credit disbursement by rural and semi-urban offices of banks. As at end-December 1977, deposits of rural branches formed 9.7 per cent of the total deposits and their advances accounted for 7.4 per cent of the total advances; in June 1969, their respective shares were just 3.1 per cent and 1.5 per cent, in total deposits and advances. Deposits of semi-urban branches rose by Rs. 3,644 crores and their advances by Rs. 1,797 crores. The shares of semi-urban branches in total deposits and advances as at end-December 1977 worked out to 22.0 per cent and 14.4 per cent, the respective shares at end-June 1969 being 22.0 per cent and 11.3 per cent. Deposits with urban offices went up by Rs. 4,029 crores during the period while their advances increased by Rs. 2,562 crores. These offices accounted for 24.3 per cent of the total deposit expansion and 21.9 per cent of the total increase in bank credit during the period. Additional deposits mobilised by the

Table VI.21: Distribution of Deposits and Advances of Scheduled Commercial Banks According to Population Groups
(June 1969—December 1977)

Population Group*	(Rupees Crores)							
	As on last Friday of						Increase	
	June 1969		December 1976		December 1977		(June 1969 to December 1977)	
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
1	2	3	4	5	6	7	8	9
1. Rural	145	54	1569	878	2049	1140	1904	1086
Percentage to total ..	3.1	1.5	8.9	6.5	9.7	7.4	11.5	9.3
Average amount per office ..	0.10	0.04	0.18	0.10	0.19	0.10		
2. Semi-Urban	1024	407	3935	1876	4668	2204	3644	1797
Percentage to total ..	22.0	11.3	22.4	13.8	22.0	14.4	22.0	15.3
Average amount per office ..	0.31	0.12	0.55	0.26	0.62	0.29		
3. Urban	1209	722	4370	2803	5238	3284	4029	2562
Percentage to total ..	25.9	20.0	24.8	20.7	24.7	21.4	24.3	21.9
Average amount per office ..	0.63	0.38	0.99	0.64	1.09	0.68		
4. Metropolitan/Port Towns	2287	2426	7733	7995	9259	8688	6972	6262
Percentage to total ..	49.0	67.2	43.9	59.0	43.6	56.7	42.1	53.5
Average amount per office ..	1.53	1.62	2.32	2.40	2.59	2.43		
Total (1 to 4)	4665	3609	17607	13552	21214	15316	16549	11707
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)		
Average amount per office ..	0.57	0.44	0.75	0.58	0.79	0.57		

* Based on 1971 Census.

Source: Basic Statistical Returns.

Note: Data for December 1976 and 1977 are provisional.

metropolitan offices of scheduled commercial banks were of the order of Rs. 6,972 crores (42.1 per cent of the total) while the increase in their credit extension was Rs. 6,262 crores (53.5 per cent) during the period. In the case of metropolitan offices, the proportionate share in business declined during the period from 49.0 per cent to 43.6 per cent in deposits and from 67.2 per cent to 56.7 per cent in bank credit. Even so, their share both in total deposits and credit outstanding as at end of December 1977 was much larger than the combined share of rural and semi-urban offices which accounted for 31.7 per cent of total deposits and 21.8 per cent of total bank credit.

The credit-deposit ratio of the metropolitan offices declined from 106.1 per cent in June 1969 to 93.8 per cent in December 1977. On the other hand, credit-deposit ratio of rural offices rose from 37.2 per cent in June 1969 to 55.6 per cent in December 1977 and that of semi-urban branches from 39.7 per cent to 47.2 per cent, respectively. However, considerable step-up in such advances is necessary to achieve the credit-deposit ratio target level of 60 per cent set by the Bank in respect of rural and semi-urban branches to be achieved by March 1979.

Data on State-wise distribution of deposits according to different population groups reveal that between end-June 1969 and end-December 1977, the largest increase in deposits among the rural offices was in Uttar Pradesh (Rs. 280 crores) followed by those in Punjab (Rs. 215 crores), Gujarat (Rs. 194 crores) and Karnataka (Rs. 145 crores). The rural offices in these four States together accounted for 43.8 per cent of the total increase in rural bank deposits during the period. Among the States which recorded sizeable increases in deposits in semi-urban centres, the highest, viz., Rs. 393 crores, was also in Uttar Pradesh, followed by Gujarat (Rs. 360 crores), Bihar (Rs. 353 crores) and Punjab (Rs. 296 crores); the increase in deposits of semi-urban offices in these four states together accounted for 38.5 per cent of the total increase during the period among the

bank offices in semi-urban centres. As regards urban and metropolitan centres, the offices in Maharashtra showed the highest deposit expansion (Rs. 2,894 crores). Other States/Union territories which showed sizeable increase in deposits were Delhi (Rs. 1,671 crores), West Bengal (Rs. 1,497 crores) and Uttar Pradesh (Rs. 854 crores). The urban and metropolitan offices of these four states together accounted for 62.9 per cent of the total increase in deposits of all the offices at the urban and metropolitan centres. The share of Maharashtra in total deposit mobilisation (all population groups) was the highest, (19.9 per cent) followed by West Bengal (11.4 per cent).

An analysis of State-wise distribution of bank credit in respect of the three population groups, during the period June 1969 to December 1977, shows that rural offices in Andhra Pradesh recorded the largest increase (Rs. 132 crores), followed by those in Karnataka (Rs. 131 crores), Uttar Pradesh (Rs. 129 crores) and Tamil Nadu (Rs. 101 crores) which together accounted for 45.4 per cent of the rise in bank credit of all the rural offices. As regards semi-urban centres, credit extended by bank offices in Tamil Nadu showed the largest increase (Rs. 180 crores) followed by those in Uttar Pradesh (Rs. 164 crores), Maharashtra (Rs. 163 crores) and Andhra Pradesh (Rs. 160 crores). The share of these offices in the total bank credit rise in all the semi-urban areas worked out to 37.1 per cent. Among urban and metropolitan bank offices, Delhi recorded the largest credit expansion (Rs. 2,331 crores) accounting for 26.4 per cent of the rise in total credit in respect of bank offices at all urban and metropolitan centres. Bank offices in urban and metropolitan centres in Maharashtra showed a rise in credit of Rs. 2,039 crores, in West Bengal Rs. 948 crores and in Tamil Nadu Rs. 718 crores. The urban/metropolitan offices of these four States together accounted for 68.4 per cent of the total rise in bank credit recorded by all the urban and metropolitan offices during the period. As regards the total expansion in bank credit (all population groups) during the period, Delhi's share was the largest (20.0 per cent).

Table VI.22: Distribution of Deposits of Scheduled Commercial Banks according to Population Group and Type of Deposits
(As on last Friday of December 1976)

(Amount in Lakhs of Rupees)
(No. of Accounts in Thousands)

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	6,04	157,66	2610	92,82	607,63	655	33,17	802,02	2418	11	2,03	1845	132,14	1569,34	1188
Percent to total deposit category ..	(12.5)	(5.0)		(19.9)	(13.8)		(15.8)	(8.0)		(13.3)	(4.0)		(18.2)	(8.9)	
Percent to total deposits	4.6	10.1		70.2	38.7		25.1	51.1		0.1	0.1		100.0	100.0	
SEMI-URBAN ..	13,74	567,02	4127	144,36	1168,85	810	65,47	2193,30	3350	20	5,57	2785	223,77	3934,74	1758
Percent to total deposit category ..	(28.4)	(17.9)		(30.9)	(26.6)		(31.2)	(21.9)		(24.1)	(11.1)		(30.8)	(22.3)	
Percent to total deposits	6.2	14.4		64.5	29.7		29.3	55.7		0.1	0.2		100.0	100.0	
URBAN	13,65	753,87	5523	115,41	1105,97	958	56,84	2491,14	4383	39	19,39	4972	186,29	4370,37	2346
Percent to total deposit category ..	(28.2)	(23.8)		(24.7)	(25.2)		(27.0)	(24.9)		(47.0)	(38.7)		(25.7)	(24.8)	
Percent to total deposits	7.3	17.3		62.0	25.3		30.5	57.0		0.2	0.4		100.0	100.0	
METROPOLITAN ..	15,01	1690,01	11259	114,16	1512,62	1325	54,65	4507,15	8247	13	23,15	17808	183,95	7732,93	4204
Percent to total deposit category ..	(31.0)	(53.3)		(24.5)	(34.4)		(26.0)	(45.1)		(15.7)	(46.2)		(25.3)	(43.9)	
Percent to total deposits	8.2	21.8		62.0	19.6		29.7	58.3		0.1	0.3		100.0	100.0	
TOTAL	48,44	3168,56	6541	466,75	4395,07	942	210,13	9993,61	4756	83	50,14	6041	726,15	17607,38	2425
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	6.7	18.0		64.3	25.0		28.9	56.7		0.1	0.3		100.0	100.0	

Note: Data are provisional.

Source: Basic Statistical Returns.

Distribution of deposits according to type, in various population groups as on the last Friday of December 1976, up to which data are available, is given in Table VI.22. Fixed deposits continued to account for the largest proportion in total deposits outstanding in all the population groups, their share being 56.7 per cent. Savings deposits formed 25.0 per cent of total deposits. The number of savings deposit accounts at 466.75 thousands formed the highest proportion (64.3 per cent) of the total number of all deposit accounts. In rural centres also while more than half of the total deposits were in the fixed category (51.1 per cent), savings deposits accounted for 38.7 per cent and the number of savings deposit accounts formed 70.2 per cent of the total number of all deposit accounts. Current deposits, usually associated with trade and industry, were concentrated in urban and metropolitan centres. Nonetheless, bank offices in rural and semi-urban centres had 40.9 per cent of the total number of accounts in this deposit category and the amount outstanding in respect of these accounts was 22.9 per cent of the total current deposits (in all population groups). The data also reveal a substantial difference in the average size per account among the different types of deposits and the difference continued to be more pronounced between the rural and metropolitan centres.

Indian Banks' Offices Abroad

During 1977-78, Indian commercial banks opened 19 offices abroad as against 11 offices opened in the previous year. Out of these, 9 were opened in the United Kingdom, 3 in the United Arab Emirates, 2 in U.S.A. and one each in Singapore, Kwai Chung (Hong Kong), Seoul (South Korea), Ruwi, Muscat (Oman) and Seychelles. State Bank of India opened a representative office each in Vancouver (Canada) and Tokyo (Japan). A zonal office and a regional office, respectively, were opened by Bank of Baroda at Abu Dhabi and Dubai (U.A.E.). At Hong Kong a regional office was opened by Indian Overseas Bank (Table VI.23).

As at end of June 1978, there were 11 Indian commercial banks having 113 offices functioning in 22 foreign countries. Besides, there was one subsidiary of an Indian commercial bank (viz., Bank of Baroda) with 3 offices operating in one foreign country.

Working of Different Institutions

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

The working of the Export Credit and Guarantee Corporation (ECGC) during 1977-78 showed a further increase in the number of policies, guarantees in force as well as the

Table VI.23: Statement showing the number of offices opened or closed in foreign countries by Indian banks during July 1977 to June 1978.

A. No. of Offices opened:	1. 9 in the U.K. [2 in Birmingham and one each at Preston (Lancashire), Bolton, Manchester, White Chapel—London and East Ham—London, Croydon (Surrey) and Wolverhampton], 3 in U.A.E. (one each at Ras-Al-Kaimah, Fujairah and Umm-Al-Quwain), 2 in U.S.A. [one each at Los Angeles and San Francisco (California)] and one each in Singapore, Kwai Chung (Hong Kong), Seoul (South Korea) and Ruwi, Muscat (Oman) and Seychelles. 2. (a) 2 Representative Offices opened by State Bank of India—one each in Vancouver (Canada) and Tokyo. (b) A Zonal and a Regional Office opened by Bank of Baroda in Abu Dhabi and Dubai (U.A.E.), respectively. (c) A Regional Office opened by Indian Overseas Bank in Hong Kong.
B. No. of Offices closed:	NIL

premium income. The number of policies and guarantees in force increased from 8517 at the end of June 1977 to 8,941 at the end of June 1978 (Table VI.24). The value of risk covered during the year increased from Rs. 3327.05 crores to Rs. 3595.57 crores, out of which, the value of shipments covered under policies amounted to Rs. 795.85 crores as compared to Rs. 624.68 crores in the previous year and the financial guarantees accounted for Rs. 2799.72 crores, as against Rs. 2702.37 crores in 1976-77. The income from premium during the year amounted Rs. 6.73 crores, as compared to Rs. 6.30 crores during 1976-77.

With a view to providing relief to exporters, the Corporation decided to refund 75% of the guarantee fees paid in all cases of infructuous bid bonds. It also agreed to make payments up to the agreed percentage under its performance guarantees to banks without any waiting period, soon after payments were made by them to overseas beneficiaries on invocation of performance guarantee and the exporter was called upon to make good the amount.

During the year two new schemes were under the Corporation's active consideration. These related to offering insurance cover for export of projects and civil construction contracts jointly with another country to third countries and the investment insurance

guarantee to protect the Indian entrepreneurs willing to invest abroad against political risks viz., risk of war, expropriation, restriction on remittances and other risks. These schemes were introduced with effect from September 2, 1978.

A scheme of whole turnover post-shipment export credit guarantee to cover all post-shipment advances granted by banks under one guarantee was under the Corporation's consideration.

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

ENLARGEMENT OF SCOPE AND
BENEFITS OF GUARANTEE

The Corporation, with the objective of facilitating small borrowers to have easy access to institutional credit, amended the provisions of its guarantee schemes by enlarging its scope and benefits. Thus, the cover under Small Loans Guarantee Scheme was extended to persons holding minor salary positions but mainly engaged in any of the activities already covered by the Scheme. The stipulation regarding the maximum period of repayment of term loans for agriculture was relaxed so as to extend the period to 15 years instead of 10 years, as hitherto. Similarly, the period of repayment of

Table VI.24: 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		1976-77	1977-78
	1976-77	1977-78	1976-77	1977-78		
Standard Policies	3371	3804	5099	5593	—	—
Packing Credit Guarantee	1614	918	1440	998	2353.75	2452.18
Post-Shipments Guarantee	774	904	599	747	132.74	185.12
Export Finance Guarantee	385	348	357	402	16.47	23.53
Export Production Finance Guarantee	42	37	58	62	133.65	31.95
Export Performance Guarantee	1113	1059	938	1106	38.31	77.42
Transfer Guarantee	52	115	21	27	7.29	7.13
Line of Credit	1	—	1	1	2.02	22.39
Buyer's Credit	4	1	4	5	18.14	—
TOTAL ..	7356	7186	8517	8941	2702.37	2799.72

Source: Export Credit and Guarantee Corporation Ltd.

crop loans for pineapple cultivation was enhanced from 15 months to four years taking into account the peculiarities of pineapple cultivation. Repairs to farm assets in the case of agricultural advances and repairs to or reconstruction of houses or tenements in regard to housing loans were included among the eligible purposes to encourage banks to grant advances to rehabilitate small borrowers affected by floods in several parts of the country. General consumption as such was included among the eligible purposes for consumption credit, with a ceiling of Rs. 75/- per year.

In the case of retail traders, professional and self-employed persons and business enterprises, advances granted to more than one individual jointly, which were not covered, were brought within the purview of the Small Loans Guarantee Scheme. To enable banks to marginally increase the credit facilities under the Differential Interest Rates Scheme, in exceptional circumstances the stipulation of the ceiling of Rs. 1,500 and Rs. 5,000 for working capital finance and term loans, respectively, was modified to permit advances for slightly higher amounts, provided the aggregate credit did not exceed Rs. 6,500.

A Working Group constituted by the Corporation to examine the question of extending its guarantee to credit facilities granted by co-operative credit institutions had, in its report submitted in 1975, suggested that credit facilities granted by these institutions to specified non-agricultural sectors could be covered. Pursuant to this, the co-operative banks at the State, Central and Primary levels operating in the States where the Deposit Insurance Scheme had been extended, were requested to indicate their willingness to join a scheme that may be formulated on lines similar to the Small Loans Guarantee Scheme but excluding cover for advances to agriculture. The response, however, was not very encouraging.

NUMBER OF PARTICIPATING CREDIT INSTITUTIONS

With 27 Regional Rural Banks joining the Small Loans Guarantee Scheme during the

year, the total number of scheduled commercial banks participating in the Scheme increased to 121. Three co-operative banks were excluded from the list of banks participating in the Service Co-operative Societies Guarantee Scheme, as they did not execute the necessary agreement. However, with 4 more co-operative banks and 13 Regional Rural Banks joining the Scheme, the total number of banks participating in the Scheme stood at 115. The number of Financial Corporations participating in the Financial Corporations Guarantee Scheme remained unchanged at 18.

WORKING OF THE SCHEME

The total advances covered by the three guarantee schemes of the Corporation increased from Rs. 1294.38 crores as at the end of December 1976 to Rs. 1517.12 crores as at the close of December 1977, or by 17.2 per cent (Table VI.25). During the five years upto end-December 1977, the total advances covered by the guarantee increased from Rs. 265.30 crores to Rs. 1517.12 crores, indicating a move towards fulfilment of the objective of the Corporation, namely, facilitating an increased flow of institutional credit to the weaker sections of the community. Advances to farmers and agriculturists continue to constitute about two-thirds of the total guaranteed advances.

The rising trend in the inflow of claims noticed in the earlier years became much more pronounced in 1977-78, the claims received during the year exceeding, both in number and amount, the total claims lodged in all the previous years. During the year ended June 1978, as many as 21,182 claims for a total amount of Rs. 6.39 crores were lodged as against a total of 12,001 claims for Rs. 3.82 crores received during all the preceding years. The administrative machinery was, therefore, strengthened and the scrutiny procedures and contents further simplified to cope with this very large volume of claims with the result that 11,482 claims for Rs. 3.02 crores were disposed of during 1977-78 (July-June) as against 6,229 claims for Rs. 1.79 crores settled during all the preceding years.

Table VI.25: Credit Facilities Guaranteed by the Credit Guarantee Corporation

(Rupees Crores)

					As on last Friday of			
					June 1976	December 1976*	June 1977	December 1977
A. Small Loans Guarantee Scheme								
1.	Transport Operators	..	..	..	149.93	192.13	202.25	234.18
2.	Retail Traders in goods other than fertilisers or mineral oils	..	..	..	86.48	116.71	124.07	146.81
3.	Retail Traders in fertilisers or mineral oils	..			13.10	13.13	13.93	15.64
4.	Professional & Self employed persons	..			52.27	66.53	69.72	78.12
5.	Business Enterprises	..	..	..	31.87	42.38	46.83	54.46
6.	Farmers & Agriculturists	..	..	..	645.65	837.90	845.64	953.00
7.	Residual category of borrowers under Differential Interest Rates Scheme	..	..	..	10.46	18.97	20.36	26.34
	Total	..	..	..	989.76	1287.75	1322.80	1508.55
B. Financial Corporations Guarantee Scheme								
1.	Transport Operators	..	..	..	4.98	5.94	6.95	7.64
2.	Business Enterprises	..	..	..	0.24	0.43	0.62	0.65
	Total	..	..	..	5.22	6.37	7.57	8.29
C. Service Co-operative Societies Guarantee Scheme								
	Service Co-operative Societies	..	..	..	0.28	0.26	0.34	0.28
	TOTAL (A+B+C)	..	..	..	995.26	1294.38	1330.71	1517.12

* Revised

In cases where the Corporation has made payments in respect of claims, it becomes subrogated to the rights of the credit institutions to the extent of such payments. Accordingly, amounts aggregating Rs. 9.50 lakhs towards repayments on account of claims paid were received by the Corporation during 1977 and Rs. 13.88 lakhs during January-June 1978, compared with Rs. 2.23 lakhs in all the previous year.

(c) *Deposit Insurance Corporation*

During the year, the number of insured commercial banks and Regional Rural Banks remained unchanged at 78 and 48, respectively. In the States of Andhra Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tripura, West Bengal

and the Union Territories of Delhi, Goa, Daman & Diu and Pondicherry to which the Deposit Insurance Scheme had been extended, the number of insured co-operative banks increased from 848 as at the end of June 1977, to 859 as at the end of June 1978. The Deposit Insurance Scheme has been extended to the State of Orissa with effect from July 1, 1978 covering 27 co-operative banks. The question of extending the Scheme to the remaining States was under active consideration. Thus, as on June 30, 1978, the total number of insured banks stood at 985, as against 974 a year earlier. The limit of insurance cover and the rate of insurance premium remained unchanged at Rs. 20,000/- per depositor and 4 paise per hundred rupees per annum, respectively. The total amount of assessable deposits as on the last Friday of September 1977, aggregated

Rs. 19,982.46 crores, out of which commercial banks accounted for Rs. 18,855.76 crores (including Rs. 15.51 crores of Regional Rural Banks) and co-operative banks Rs. 1,037 crores. The percentage of insured deposits to total deposits assessable to premium on that date worked out to 71.3 per cent in case of commercial banks, 82.5 per cent in case of Regional Rural Banks and 68.5 per cent in case of co-operative banks.

The total claims paid or provided for by the Corporation since its inception up to June 1978 amounted to Rs. 113.03 lakhs, in respect of 14 insured commercial banks, and Rs. 21.87 lakhs, in respect of 5 co-operative banks. The total repayments received in respect of the subrogated claims relating to the commercial banks amounted to Rs. 72.73 lakhs, including a sum of Rs. 2.28 lakhs received during the year. No repayments have been received so far in respect of co-operative banks.

TRANSFER OF THE CREDIT GUARANTEE CORPORATION TO THE DEPOSIT INSURANCE CORPORATION

Since the objectives of DIC and CGCI are identical in that both seek to protect banks and depositors, it was considered advantageous to transfer the undertaking of CGCI to DIC. The Deposit Insurance Corporation (Amendment and Miscellaneous Provisions) Bill, 1978, seeking to provide for the acquisition of CGCI by DIC was passed by Lok Sabha on April 29, 1978 and became an Act on receipt of the assent of the President on May 27, 1978. The provisions of the Act, except Section 9, came into effect from July 15, 1978.

With the merger of the two institutions, the name of the Corporation has been changed to Deposit Insurance and Credit Guarantee Corporation. For the purpose of administering the functions of Credit Guarantee Corporation of India and Deposit Insurance Corporation, the Act provides for the increase in the authorised capital of the Corporation from Rs. 5 crores to Rs. 15 crores. The new provision provides for the Chairman being either the

Governor or a Deputy Governor of the Reserve Bank of India. The Act seeks to insert a new section for cancellation of registration of an insured bank in the event of continuous default for three consecutive quarters in payment of premium. The Corporation may restore the registration of a bank on payment of the overdue premium with interest thereon. The Corporation would be empowered to guarantee credit facilities given by any credit institution and also to indemnify credit institutions in respect of credit facilities granted by them. The Act also provides for the Corporation to act as an agent for the Central Government in guaranteeing credit facilities granted to small-scale industrial concerns by credit institutions—a function which at present is being carried on by the Industrial Finance Department of the Reserve Bank.

Committees/Working Groups Relating to Banking

In this section the main recommendations of the Committees, particularly those appointed by the Bank and which submitted their reports during the year are summarised. The follow-up action taken by the Bank on the recommendations of these Committees is also indicated in brief.

(a) *Committee on Transfer of Loan Accounts*

In the light of the recommendations of the Committee on Transfer of Loan Accounts, guidelines were issued by the Bank in June 1977, regarding the procedure to be followed by banks for transfer of borrowal accounts having credit limits of Rs. 25 lakhs and above. Accounts with limits less than Rs. 25 lakhs were not subject to any restrictions on transfer of their borrowal accounts from one bank to another except that they were required to obtain a credit report from the existing banker to ensure that the transfer was not sought with a view to avoiding financial discipline. The cut-off point for the purpose of restrictions on transfer of loan accounts was raised by the Bank to Rs. 50 lakhs from Rs. 25 lakhs on May 30, 1978.

(b) *Working Group on Multi-agency Approach in Agricultural Financing*

The Working Group on Multi-agency Approach in Agricultural Financing constituted in August 1976, submitted its report* in April 1978. According to the Group, geographical demarcation rather than functional jurisdiction for each of the credit agencies is more appropriate. In providing credit for agriculture and allied activities, the prime role would have to be that of the co-operatives in view of the fact that only the co-operatives possess the organisational potential to reach out to the millions of small and scattered farmers. Commercial banks and RRBs have, therefore, to play a supplementary role. Until the co-operatives at the field level are well established and placed on a viable footing, commercial banks and RRBs will have to supplement the credit disbursal of the weak co-operatives and also finance such other rural development activities as were not normally being undertaken by them. According to the Group, commercial banks and RRBs may lend directly to farmers, wherever necessary, in the areas served by primary co-operative credit societies without entering into competition *inter se*. In areas covered by societies which were totally mismanaged or moribund, commercial banks and RRBs should lend directly to farmers. However, efforts should also be made to organise new societies in such areas. As regards areas where more than one commercial bank and RRB operate, they should mutually allocate villages between themselves to avoid competition.

In defining the respective roles of RRBs and commercial banks, the Group has emphasised that the former are to be preferred because they are better suited to direct financing of farmers owing to their low cost structure and rural ethos. Commercial banks would continue to extend refinancing facility to RRBs. As regards farmers belonging to large and medium groups which are at present not eligible to

get credit from RRBs, the Group recommended that RRBs may be allowed to allocate a part of their resources for making advances to such categories also. In areas where RRBs/commercial banks finance directly and land development banks also provide term loans, the former will extend term loans on the same conditions as prescribed for short-term loans.

As commercial banks are to play a supplemental/supporting role in relation to co-operatives in providing agricultural credit, the future branch expansion of commercial banks and RRBs, should, according to the Working Group, be strictly regulated in such a way as to prevent unnecessary proliferation/multiplication of branches in rural/semi-urban areas where the network of co-operatives was fairly adequate. Since the activities and operations of commercial banks in the field of agricultural credit would be mainly to strengthen the co-operatives, further expansion of commercial bank offices, particularly in rural/semi-urban areas, will have to be viewed in the context of the overall objective of the multi-agency approach, placing co-operatives as the primary channel of credit and commercial banks/RRBs as mere supplementary agencies.

(c) *Committee on Regional Rural Banks*

The Committee set up by the Bank in June 1977 to review the working of the Regional Rural Banks (RRBs) and make recommendations in regard to scope, methods and procedures, submitted its report† in February 1978. The main conclusion of the Committee was that with some modifications in their organisation and functions, the RRBs could become a very useful component in the totality of the rural credit structure. The Committee was convinced that within a short span of two years, the RRBs had demonstrated their ability to achieve the purpose for which they were established. The programme for the

*Report of the Working Group to Study Problems Arising Out of The Adoption of Multi-agency Approach in Agricultural Financing, R.B.I., 1978.

†Report of the Review Committee on Regional Rural Banks, R.B.I., 1978.

establishment of more RRBs, therefore, deserves to be accelerated.

In the Committee's scheme, the co-operative credit structure would not be disturbed at the base level. It is assumed that the reorganised Farmers' Service Societies (FSS), wherever they could be effectively organised, would constitute the base of that structure. The RRBs should function at the intermediate level. The RRBs should be extended to such areas where the District Central Co-operative Banks (DCCBs) were not able to adequately serve the Primary Agricultural Credit Societies (PACS) within their jurisdiction. Where the co-operative structure at the intermediate level was fairly strong, the question arose whether the RRB pattern and the co-operative pattern could co-exist. The Committee felt that the credit gap was so large that with a spirit of understanding both the RRBs and DCCBs could function side by side without clash of interests. According to the Committee, commercial banks operating in the "command area" of a RRB should be persuaded to progressively entrust their rural credit business to the RRBs and their branches.

The Bank has accepted the view that the RRBs have a significant role to play in the financing of the rural sector. In its comprehensive new branch licensing policy announced in September 1978, the Bank indicated that RRBs should be encouraged in areas where co-operatives are rather weak and where the need for such agencies was felt. In order to identify the areas, where new RRBs could be established, a district-wise study would be made, priority being given to districts having weak commercial and co-operative banking structures. With a view to developing a closer linkage between apex co-operative banks and RRBs, wherever possible, joint sponsorship of RRBs by apex co-operative banks and commercial banks would be encouraged. In appropriate cases, sponsorship of RRBs by apex co-operative banks singly could also be considered. As regards the area of operations of RRBs, no rigid norms are proposed and a flexible approach would be adopted.

(d) *Expert Group on State Enactments Having a Bearing on Commercial Banks' Lending to Agriculture*

With a view to facilitating the smooth flow of agricultural credit from commercial banks, the Expert Group on State Enactments having a Bearing on Commercial Banks' Lending to Agriculture (Talwar Committee) recommended (in 1970) the enactment of legislation by all States on the lines of a model bill prepared by it, together with the initiation of certain administrative measures. Fifteen States, viz., Assam, Bihar, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Tripura, Uttar Pradesh and West Bengal have so far enacted legislation to give effect to the Group's recommendations.

As regards the administrative measures, in addition to the States listed, three more States have also exempted farmers from stamp duty for loans granted by commercial banks upto levels prescribed by each State. The States of Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Rajasthan, Tamil Nadu and West Bengal have exempted loans granted by commercial banks to farmers from payment of registration fees. The States of Gujarat, Haryana, Himachal Pradesh, Karnataka, Rajasthan, Uttar Pradesh, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu and Pondicherry have introduced pass books which can serve as *prima facie* evidence to the rights in land of an agriculturist and as a starting point to banks to verify such rights and details pertaining to encumbrances thereon, as recommended by the Committee.

(e) *Committee on the Functioning of Public Sector Banks*

The Committee, which was appointed by the Bank in June 1977, in its report,* submitted in mid-1978, on the functioning of

*Report of the Committee on the Functioning of Public Sector Banks, R.B.I., 1978.

Public Sector Banks, has made several recommendations bearing on the tempo and direction of branch expansion, the role of Regional Rural Banks (RRBs), structure of the State Bank of India (SBI) and its subsidiaries, and setting up of three new banks in the North-Eastern, Eastern and Central regions. The major recommendations and the RBI's views thereon are outlined in the following paragraphs :

Regarding branch expansion, the Committee held that rapid growth of branch offices had resulted in dilution of supervisory controls affecting also profitability due to impact on the cost structure. Banks having a large number of branches, therefore, should not be allowed to expand beyond specified limits. The RBI, however, did not consider it feasible to put such a ceiling on the growth of banks in view of the need for a substantial increase in the number of bank offices in the next few years.

In the case of RRBs, the Committee held that they should open not only more branches in the rural areas but also gradually take over the existing rural branches of commercial banks, whose branches are to be restricted to district headquarters/mandies/block level places. In places where co-operatives are weak, RRBs/commercial banks may adopt primary co-operative societies. The RBI, accepted the suggestion of granting priority to RRBs in matters of branch expansion in rural areas.

An important recommendation of the Committee related to the reorganisation of the State Bank of India into five zonal subsidiaries, with SBI as holding company. This was made with the object of making its operations more manageable and increasing the efficiency of its customer service. Since a detailed organisational study of SBI has been already entrusted to management consultants, the RBI decided in consultation with the SBI and the Government of India not to bifurcate the SBI into zonal banks at present. The Committee also recommended delinking of four out of seven subsidiaries of SBI and giving them an independent status. The question of relationship

between SBI and its subsidiaries has been studied independently by another Committee, appointed by SBI, which has suggested legal, regulatory and attitudinal changes. The RBI is examining the findings of this Committee.

The Committee recommended the setting up of three new public sector banks to cater to the North-Eastern, Eastern and Central regions for removing regional imbalances in banking. The other recommendations of the Committee relate mainly to the simplification of procedures for lending to priority sectors, terms and conditions of such lending, and improvement in efficiency of banks. These are being examined by the Bank.

(f) *Working Group on Housing Finance*

The Working Group on Housing Finance, constituted by the Reserve Bank in January 1977 to examine the role of the banking system in providing finance for housing schemes submitted its report* to the Bank in January 1978. Presently, the involvement of commercial banks in housing finance is largely confined to their investment in bonds/debentures of HUDCO and State Housing Boards, and direct loans mainly to their employees. The Working Group suggested commercial banks' additional involvement in housing finance to the tune of Rs. 75 crores per annum which may rise gradually by Rs. 5 crores per annum during the next five years, after which the arrangement could be reviewed. The share of each bank in providing housing finance may be fixed on the basis of the size of its deposits.

According to the Working Group, banks should not finance the construction of infrastructure facilities and buildings meant purely for private commercial, government/semi-government offices unless such loans were for activities which are eligible for refinance from institutions like ARDC and REC and given to companies or individuals who contract to undertake infra-structural constructions. Housing finance may, however, be extended by

*Report of the Working Group on Role of Banking System in Providing Finance for Housing Schemes, R.B.I., 1978.

banks for construction of (i) residential houses to be built by public housing agencies like Housing and Urban Development Corporation (HUDCO), Housing Boards, local bodies, individuals, co-operative societies or employers, priority being accorded for financing construction of houses meant for economically weaker sections, low income group and middle income group, (ii) educational and other institutions as well as shopping complexes, etc. which are part of the housing project and (iii) construction meant for improving the conditions in slum areas. Banks may also extend credit for repairs and reconstruction.

According to the Group, banks should get an average return of 11.5 per cent on their funds lent for housing purposes. The maximum period of repayment should ordinarily be 15 years and the level of margin between 20-40 per cent. For specific housing projects involving large amounts, consortium approach covering commercial banks, Life Insurance Corporation (LIC), HUDCO, Housing Boards, etc., may be adopted. The Group recommended a two-tier housing finance system with Apex Central Housing Finance Corporation at the top and local housing finance institutions at regional or district level. It also recommended that the LIC, in collaboration with the General Insurance Corporation, should evolve a scheme of mortgage insurance and thus contribute effectively to the creation of a secondary mortgage market in the country. The recommendations are under the Bank's consideration.

(g) *Working Group on Planned Participation of Commercial Banks in Rural Electrification Schemes*

It was mentioned in last year's Report that a Working Group was set up to examine, among others, the question of more effective co-ordination between commercial banks, Agricultural Refinance and Development Corporation (ARDC) and Rural Electrification Corporation (REC) with a view to facilitating their planned participation in schemes of rural electrification aimed at area development and/or energisation of pumpsets. The Working Group

submitted its report in May 1978. It has recommended a programme of energisation of 6 lakh pumpsets involving financial assistance to the State Electricity Boards of the order of Rs. 360 crores during the five-year period of the Sixth Plan to be financed from the combined resources of the commercial banks, ARDC and REC. According to its recommendation, ARDC will provide funds through commercial banks in the form of refinance to the extent of 50 per cent of the loans given by the commercial banks.

A relatively modest programme has been formulated for 1978-79 involving an outlay of Rs. 60 crores, each of the participating agencies taking a share of Rs. 20 crores. The programme for the remaining years of the Plan will be considered in the light of the performance during 1978-79. The commercial banks were advised by the Bank to make adequate provision in their annual credit budgets for the proposed pumpset energisation programme and also make arrangements for the delegation of powers to state level officers for sanctioning schemes under this programme, entering into agreement with the State Electricity Boards (and REC where necessary) financing the schemes and making disbursements as and when required.

(h) *High Powered Committee for Examining Bank Credit Problems of Small-Scale Industries*

The Government of India constituted a High Powered Committee under the chairmanship of the Development Commissioner (SSI) to (a) examine the possibility of introducing a measure of uniformity in the terms and conditions of finance, (b) determine the problems and difficulties being faced by the small-scale industries with regard to bank credit, especially from the point of view of the cost of credit and (c) suggest measures to be taken by the small-scale units to facilitate the flow of institutional finance. In its report* submitted

*Report of the High-Powered Committee for Examining Bank Credit Problems of Small-Scale Industries.

to the Government of India, the Committee has made certain recommendations, relating to simplification/uniformity in application-cum-appraisal forms, relaxations in margins/collateral and repayment programmes, delegation of powers to branch managers and streamlining the practices regarding rate of interest and other service charges. The Committee emphasised that banks should endeavour to lend more to small-scale industrial units, utilise more often Small Industries Service Institutes for project evaluation, rehabilitation of sick units, recovery of dues and marketing assistance. As most small-scale industries have limited resources of their own and do not have easy access to the capital market, the Committee recommended the setting up of a National Equity Fund or similar institutional support through government agencies.

In the light of the recommendations made by the Committee, the RBI has advised commercial banks to adopt a flexible approach towards margin requirements, particularly in regard to the smaller of the small-scale industries and the technically qualified and other entrepreneurs sponsored under the special employment schemes of Central and State Governments. No viable scheme should be turned down merely for want of margins, if the proposal was otherwise in order. In deserving cases, the entrepreneurs may be permitted to introduce equity contribution in stages, as and when required, without insisting that the entire equity should be brought in at the initial stage of the project itself. Banks have also been advised to be guided basically by the viability of projects while entertaining credit proposals and no worthwhile proposal should be turned down merely for want of collateral security/guarantee. Where collateral security was obtained, the creation of the charge may be, as far as possible, by way of equitable mortgage instead of registered mortgage to save stamp/registration costs to the borrowers. Banks should fix repayment programmes in respect of term loans after careful consideration of factors like surplus generating capacity of the unit financed, the break-even point, etc., and not in an *ad hoc*

fashion. Besides, the repayment schedules may be reviewed and revised if found necessary. With a view to facilitating the timely sanction of credit facilities, the branch managers, it is suggested, should be vested with adequate discretionary powers for ensuring that most of the credit decisions are taken at the branch level itself.

(i) *Study Group to Review Financing of Handloom Weavers by Nationalised Banks*

A Study Group to review the financing of handloom weavers outside the fold of co-operatives and state handloom development corporations by nationalised banks, was constituted by the Union Government in August 1978. It has been asked to estimate the credit requirements of the state handloom development corporations in the next five years and suggest measures and institutional procedures to help them in securing smooth flow of bank finance. It has also been asked to study the present role of nationalised banks in financing handloom weavers/handloom development corporations and suggest methods by which working relationships between the nationalised banks and development corporations could be increasingly established. It would recommend measures to increase the flow of commercial bank credit for weavers outside co-operative fold/state development corporations and assess the comparative advantages and disadvantages of co-operative channels of credit and commercial bank financing to the handloom sector.

(j) *One-Man Committee on Selective Credit Controls*

With a view to preventing speculative holding of stocks of commodities with the help of bank credit, the RBI has been exercising control on bank advances against selected commodities since 1956. The controls take the form of prescription of the level of such advances by banks, the margins and the rates of interest. More recently, the manner of operation of these controls has undergone some modifications in the context of the rationalisation of the general credit policy. In a few cases like raw cotton, physical controls on the holding

of stocks by mills introduced by Government have been taken into account in the formulation of credit control policy. In the light of these developments, a One-Man Committee was constituted by the Bank in March 1978 to go into the working of Selective Credit Controls. The terms of reference of the Committee were :

- (i) to evaluate the effectiveness of the existing system of selective credit control including the process of implementation by commercial banks with particular reference to its influence on : (a) the stocks held with the help of bank finance, and (b) the prices of respective commodities;
- (ii) to suggest changes in the system in the light of such evaluation, and the process of implementation, both at the level of the RBI and of the commercial banks, as may be necessary to improve effectiveness of selective credit controls and to bring them in line with the recent changes in the Bank's approach to credit planning and control;
- (iii) to suggest an early warning system for the Bank to enable it to initiate action on its own in respect of selective credit controls before prices of sensitive commodities get out of hand, and
- (iv) to make recommendation on any other matter considered germane to the subject of investigation.

The Committee submitted its report* on September 15, 1978 and its recommendations are under consideration of the RBI.

(k) *Working Group on Customer Service in Banks*

As mentioned in the last year's Report, a number of recommendations were made by the Working Group to improve customer service in banks. The task force appointed by the Government, consisting of the representatives

of the Ministry of Finance, Reserve Bank of India and the Indian Banks' Association (IBA) examined the recommendations of the Working Group on Customer Service in Banks and made certain suggestions. Such of the recommendations as have been accepted by the Government can be implemented by banks forthwith. The Reserve Bank has advised all the scheduled commercial banks to take early steps at various levels for the expeditious implementation of these recommendations which would help remove customers' dissatisfaction to the maximum extent possible.

Banks have also been advised to submit quarterly progress reports in this regard, commencing from the quarter ended March 1978. Reports received from the banks/IBA indicate that efforts to implement the recommendations are being made by banks individually, and collectively through IBA. These are also being monitored by Cells and Special Committees within banks, as well as by a small group appointed by the Government for the purpose. Such of the recommendations which involve discussions with the trade unions and require consultation with or action by the Reserve Bank of India/Indian Banks' Association/Government of India are under consideration of the respective establishments.

(1) *Expert Group on Agricultural Credit Schemes of Commercial Banks*

The Expert Group on Agricultural Credit Schemes of commercial banks constituted by the Reserve Bank in August 1977 has underlined in its report* submitted in April 1978, the need for effectively dovetailing the agricultural credit schemes of commercial banks with developmental efforts and also with credit schemes for other supporting activities which would enhance the benefits of loans given to cultivators. Unless this is done, the Group has pointed out, it will not be possible to ensure that increasing amounts of credit generated incremental incomes for all categories of agricultural borrowers.

*Report on Selective Credit Control System.

*Report of the Expert Group on Agricultural Credit Scheme of Commercial Banks, R.B.I., 1978.

The Group has made a series of recommendations designed to achieve the desired objectives and emphasised that many of them would be valid irrespective of whether the commercial banks themselves disbursed loans directly to agriculturists or did so through intermediaries such as Primary Agricultural Credit Societies (PACS) and Farmers Service Societies (FSS). The Expert Group has commended "area approach" in the formulation of credit schemes, taking into account the functional linkages between activities financed, the infrastructural support and other complementary activities which had a bearing on the viability of the schemes. For this purpose, it has urged greater involvement of State Governments, Lead Banks and District Consultative Committees in the formulation and implementation of credit schemes, strengthening of banks' technical and other staff at the rural branches as well as at the regional and head office levels, and compilation of adequate and reliable district-wise data on loan operations of credit institutions. It has also emphasised the importance of diversifying the purposes for which credit schemes are being formulated by extending the range of activities covered and developing credit schemes for unconventional purposes.

The Group has made a number of suggestions designed to minimise the difficulties in sanctioning loans to individual borrowers. They include the passing of legislation on the lines recommended by the Talwar Committee, introduction of agricultural pass-book with legal status, increasing the powers of branch managers, and simplification of forms and procedures. Further, the terms and conditions of loans to the same category of borrowers for the same purpose should be uniform in the credit schemes of all banks operating in a district/group of districts. Some of the other important recommendations included proper supervision, continuous monitoring and evaluation of credit schemes by commercial banks with a view to taking appropriate and timely corrective action. A Task Force, consisting of the District Collector, a representative of the Lead Bank and a senior officer of the Collectorate, should

be created to facilitate the implementation of credit schemes at the district level.

The Group recommended that commercial banks should make concerted efforts to implement the Village Adoption Scheme which should ideally aim at an integrated development of the village economy in all its aspects, meeting the credit needs of all members of the weaker sections in the adopted villages within three to five years, particularly by developing credit schemes exclusively meant for different categories of low income groups such as small and marginal farmers, landless labourers, tenant-cultivators and share-croppers. The recommendations of the Group are under consideration of the Bank.

Other Banking Developments

Regulations of Bank Finance

Project Financing by Commercial Banks

In pursuance of the guidelines issued by the Government of India to financial institutions for the year 1977-78 regarding the industrial priorities to be followed by them, banks were advised by the RBI to keep these guidelines in view while considering the proposals for project financing.

Advances Against Fixed Deposit Receipts

From April 1969, banks were allowed to extend credit limits against fixed deposits with them to those parties who did not require prior authorisation from Reserve Bank, though subject to such limits being reported to the Bank subsequently. This exemption from prior authorisation was withdrawn in October 1977, in order to ensure that the total credit to a borrower was related to his production requirements.

Advances Against Gold and Gold Ornaments

Since gold was being sold through auctions by the Reserve Bank, the policy in regard to the grant of advances by banks against gold and gold ornaments had to be reviewed. Since

there was a likelihood of buyers of the auctioned gold approaching the banks for additional accommodation against the security of such bullion, banks were asked to ensure that no advances were granted against gold bullion. Outstanding advances, if any, against gold bullion were to be recovered as early as possible before September 30, 1978. In respect of gold ornaments, they were to ensure that such advances were not for speculative purposes.

Bank Finance for Payment of Bonus

Consequent on the Government of India's decision to restore the minimum bonus of 8.33% to the workmen staff in all industrial units and on receipt of representations from Associations/Federations of different industries, requesting the Reserve Bank to make bank finance available to industries for making payment of such statutory bonus to their employees, the Reserve Bank advised the commercial banks to examine cases of individual borrowers on merits and take expeditious decisions in this regard. In cases where the Reserve Bank's prior authorisation under CAS was necessary, banks were advised to approach the Reserve Bank by furnishing at least minimum data in support thereof for authorisation under the CAS. Sixty three applications received from banks up to December 1977 in this regard were cleared by the Reserve Bank.

Financing Deferred Receivables in Domestic Sales

Banks extend credit to machinery manufacturers for sale of indigenous machinery *outside* the IDBI bills rediscounting scheme by way of term loans/cash credit limits, etc. against their deferred receivables. In order to align such credit with credit provided by way of discount of bills under the IDBI bills rediscounting scheme, banks have been advised that while extending credit for the sale of indigenous machinery to machinery manufacturers *outside* the IDBI bills rediscounting scheme, they should ensure that credit was extended only by way of discount of bills and not by way of loans or cash credit limits against deferred receivables and that the terms

of credit should be the same as under the IDBI scheme. Bills discounting limits outside the IDBI scheme but subject to the same terms and conditions, will not require Reserve Bank's prior authorisation. The banks have also been advised that while accepting bills for purchase of machinery on deferred payment basis, whether under or outside the IDBI bills rediscounting scheme, the purchaser's bank should ensure that the purchase-wise ceiling of Rs. 100 lakhs (face value of bills) for rediscounting of bills/promissory notes pertaining to a single *purchaser* (limits for public sector organisations such as State Electricity Boards, State Road Transport Corporations being higher) over a limit year is adhered to for all purchase of indigenous machinery.

Amendment to State Bank of India General Regulations, 1955

Following the recommendation of the Reserve Bank of India, the Central Government issued an order amending Regulation 8(1) of the State Bank of India General Regulations, 1955, so as to bring Sikkim and Lakshadweep under the jurisdiction of the Local Head Offices of the State Bank at Calcutta and Madras, respectively.

Control over Non-Banking Companies

Implementation of the Recommendations of the Study Group on Non-Banking Companies

A reference was made in last year's Report about giving effect to such of the recommendations of the Study Group on Non-Banking Companies as could be implemented within the existing framework of Chapter III B of the Reserve Bank of India Act, 1934. Accordingly, fresh sets of directions were issued to non-banking financial companies and miscellaneous non-banking companies, which came into force with effect from July 1, 1977. The salient features of these new directions were also outlined in last year's Report.

While administering the directions, it was observed that there were certain companies

which, while satisfying the definition of a 'financial institution' could not be classified under any of the categories of companies specified in the directions as they were found to be pursuing more than one type of business. The directions issued to financial companies were, therefore, amended with effect from March 30, 1978, so as to make them comprehensive enough to cover all categories of companies which satisfied the definition of a 'financial institution' as defined in the Reserve Bank of India Act, 1934.

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

As regards the non-financial companies, whose deposit acceptance activities were regulated by the provisions of section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975, it was stated in last year's Report that the amendments to the Rules for implementation of the recommendations of the Study Group on Non-Banking Companies were deferred by the Government pending amendment to the Act to enable the Government to grant exemption or extension of time in cases of hardship. The Act was amended in December 1977 in consultation with the Bank, to confer powers on the Government to grant exemption to a company or class of companies from the provisions of section 58A of the Companies Act, 1956; Government would consult the Reserve Bank of India while exercising these powers. Subsequently, the Companies (Acceptance of Deposits) Rules were amended with effect from April 1, 1978. In terms of these amendments, the ceiling in respect of deposits received by public companies from shareholders/deposits guaranteed by the directors in their personal capacity as also those against unsecured debentures, will stand reduced from 15 per cent to 10 per cent of their net owned funds with effect from April 1, 1979 and completely withdrawn from April 1, 1980. Thus, from that date, non-financial companies will be permitted to accept deposits of any kind up to only 25 per cent of their net owned funds as against the present overall limit of 40 per cent.

Besides, the companies will be under an obligation to maintain liquid assets upto 10 per cent of the deposits which mature for repayment within a year (April-March) in the form of current or other deposits with a scheduled commercial bank free from any charge or lien or investment in any unencumbered securities of Central or State Governments or any other trustee securities. They will also be required to furnish additional particulars/information/declaration in any advertisement issued by them so as to enable the prospective depositors to have a clearer picture of the financial position and management of the companies as also to comprehend the implications of keeping the deposits with such companies.

Follow-up action on the Other Recommendations of the Study Group on Non-Banking Companies

The Bill for the banning of prize chits and money circulation schemes was finalised and introduced in Parliament during the last Budget session. Further, the Bill to regulate the conduct of conventional chit fund business throughout the country on a uniform basis, as recommended by the Banking Commission and examined later by the above mentioned Study Group, was drafted having regard to the recommendations/suggestions received from various State Governments and other concerned institutions/agencies. The Bill is being examined further in the light of the comments of the Ministry of Law.

Acceptance of Deposits by Unincorporated Bodies

The proposal for prohibiting the acceptance of deposits by unincorporated bodies from more than a specified number of depositors, which was rejected in November 1977 by the Government of India on grounds of legal impediments regarding the constitutionality of the proposed amendment, was revived in November 1977. Accordingly, a comprehensive set of amendments to the Reserve Bank of India Act, 1934 for giving effect to these proposals has been forwarded by the Bank to the Government of India.

Growth of Deposits with Non-Banking Companies 1974-75

The survey of deposits with non-banking companies for the year ended March 31, 1975 reveals that the total number of reporting companies increased during the year by 376 to 4612. The aggregate amount of deposits (including deposits/loans under categories exempted from the ceiling restrictions) recorded a rise of Rs. 168.1 crores from Rs. 1,028.6 crores at the end of March 1974 to Rs. 1,196.7 crores at the end of March 1975. Of these, the deposits falling within the purview of the ceiling restrictions amounted to Rs. 498.3 crores and exempted deposits/loans amounted to Rs. 698.4 crores at the end of March 1975.

The aggregate deposits including exempted deposits/loans of 2959 reporting non-financial companies stood at Rs. 754.3 crores as on March 31, 1975 as against Rs. 724.6 crores in respect of 3048 reporting companies as at the end of the previous year. The deposits falling within the purview of the ceiling restrictions under the directions amounted to Rs. 393.6 crores. As regards financial companies, the aggregate deposits including exempted deposits/loans of 1653 reporting companies amounted to Rs. 442.4 crores as on March 31, 1975 as against Rs. 304.0 crores in respect of 1188 companies as at the end of the previous year. The deposits other than those under exempted categories amounted to Rs. 104.7 crores.

X Trends in Rural Credit

1. INSTITUTIONAL FINANCE FOR AGRICULTURE

Total direct institutional credit disbursed for agriculture during the year ended June 1978, at Rs. 2,755.7 crores, recorded an increase of Rs. 601.8 crores (27.9 per cent) over Rs. 2,153.9 crores disbursed in 1976-77 which was already higher by 28.6 per cent than during 1975-76. The rise of 35.8 per cent in the aggregate loan disbursements (including short-term) of the commercial banks was lower than the rise of 39.5 per cent recorded during 1976-77. Similarly, for co-operatives also, the rise of 22.4 per cent in loan disbursements during 1977-78 was lower than that of 25.4 per cent during 1976-77.

Term wise, short-term loans at Rs. 1,832.0 crores in 1977-78 showed a rise of 24.0 per cent as against 25.6 per cent during 1976-77. Total term-loans, at Rs. 923.7 crores, recorded a higher rate of 36.6 per cent increase in 1977-78 as compared with 35.9 per cent in 1976-77. The shares of short and term (medium and long-term) loans in the aggregate credit extended to agriculture continued to be around 70 per cent and 30 per cent, respectively.

Out of the total direct institutional finance of Rs. 2,755.7 crores disbursed in 1977-78, co-operatives continued to account for the major share (Rs. 1,821.6 crores or 66.1 per cent) and were followed by scheduled commercial banks (Rs. 767.0 crores or 27.8 per cent). The share of co-operatives was, however, lower by 3 percentage points than during 1976-77, while that of scheduled commercial banks increased marginally by 1.6 per cent. Medium and long-term loans extended by commercial banks registered a steep rise of 50.8 per cent in 1977-78 as compared with 29.9 per cent in 1976-77. State Governments and regional rural banks provided loan assistance of Rs. 109.1 crores and Rs. 58.0 crores, respectively. (Table VI-26).

Apart from direct loans for agriculture, co-operatives as well as scheduled commercial banks continued to assist agriculture by extending indirect institutional credit as shown in Table VI-27. The estimated indirect institutional credit granted by co-operatives and Rural Electrification Corporation (REC) increased by 12.5 per cent from Rs. 695.6 crores in 1976-77 to Rs. 782.5 crores in 1977-78; of these Rs. 674.4 crores represented short-term credit by co-operatives for procurement of food grains, marketing of agricultural commodities, distribution of fertilisers, etc., as compared to Rs. 607.4 crores for 1976-77. Term loans granted by the Rural Electrification Corporation also rose by Rs. 19.9 crores to Rs. 108.1 crores in 1977-78. The actual quantum of indirect loans disbursed by scheduled commercial banks during the year is not available. The aggregate level of such outstandings at

Table VI. 26: Direct Institutional Finance for Agriculture

(Rupees crores)

Source	Loans and Advances Issued during the year ended June 30				
	1974	1975	1976	1977	1978
I. Co-operatives	876.7	1039.2	1186.7	1488.6	1821.6 ^E
Of which:					
(a) Short-term ¹	663.1	750.0	881.4	1062.4	1274.9 ^E
(b) Term Loans ²	213.6	289.2	305.3	426.2	546.7 ^E
II. Government ³ (Short-term)	90.8	77.5	81.5	82.2	109.1 ^E
III. Scheduled Commercial Banks ⁴	219.2	274.3	404.9	565.0 ^E	767.0 ^E
Of which:					
(a) Short-term	105.4	146.1	212.5	315.0 ^E	390.0 ^E
(b) Term Loans	113.8	128.2	192.4	250.0 ^E	377.0
IV. Regional Rural Banks (Short-term)	—	—	1.5	18.1 ^E	58.0 ^E
V. Total of I to IV	1186.7	1391.0	1674.6	2153.9 ^E	2755.7 ^E
Of which:					
(a) Short-term	859.3	973.6	1176.9	1477.7 ^E	1832.0 ^E
(b) Term loans	327.4	417.4	497.7	676.2 ^E	923.7 ^E

E = Estimates.

1 = Relates to primary agricultural credit societies.

2 = Relates to primary agricultural credit societies and land development banks.

3 = Financial year data based on State Budgets.

4 = Relates to financial year.

the end of June 1978 is estimated at Rs. 405.8 crores as against Rs. 349.7 crores a year ago.

2. RESERVE BANK'S POLICY TOWARDS CO-OPERATIVE CREDIT

A significant development in the field of co-operative credit in 1977-78 was the changes introduced by the Reserve Bank of India in interest rates on the RBI's refinance facilities to co-operatives to reduce the cost of credit to ultimate borrowers. Further, measures were also taken to strengthen the co-operative credit structure and to reduce regional imbalances with a view to ensuring increased flow of credit, particularly to the weaker sections of the rural population.

Short-term Credit

Changes in the Interest Rates on Refinance from the RBI and in Deposit Rates

The RBI's policy regarding interest rates underwent important changes in March and June 1978 (vide Table VI-28). Interest rates payable by co-operatives on deposits of different maturities were reduced by 0.5 to 1 per cent. Interest tax payable by scheduled State Co-operative Banks was abolished by the Government of India. The benefits accruing as a result of these changes were expected to be passed on to ultimate borrowers, particularly to small farmers and other weaker sections, through reduction in the rates of interest on loans advanced to them.

Table VI. 27: Institutional Finance for Agriculture

(Rupees Crores)

	Loans issued during the year ended June 30					Loans outstanding as on June 30				
	1974	1975	1976	1977 ¹	1978 ¹	1974	1975	1976	1977 ¹	1978 ¹
1	2	3	4	5	6	7	8	9	10	11
A. DIRECT FINANCE										
1. Short-term (i to iv)	859.3	973.6	1176.9	1477.7	1832.0 ²	985.2	1150.0	1377.4	1686.4	2089.7 ²
(i) Primary Agricultural Credit Societies** ..	663.1	750.0 ^R	881.4	1062.4 ^R	1274.9 ²	806.6	903.8 ^R	1012.1	1215.8 ^R	1458.9 ²
(ii) Government Department Loans ³ ..	90.8	77.5	81.5	82.2 ^R	109.1 ²	N.A.	N.A.	N.A.	N.A.	N.A.
(iii) Scheduled Commercial Banks ⁴ ..	105.4	146.1	212.5	315.0 ²	390.0 ²	178.6	246.2	363.8	451.0	559.2
(iv) Regional Rural Banks ⁵ ..	—	—	1.5	18.1 ^R	58.0 ²	—	—	1.5	19.6 ²	71.6 ²
2. Medium-term/Long term (i to iii)	327.4	417.4	497.7	676.2	923.7 ²	1419.8	1573.8	1771.5	2156.3	2443.1 ²
(i) Primary Agricultural Credit Societies** ..	55.5	108.4	89.9	148.1 ^R	185.2 ²	248.4	272.9	287.1	382.9 ^R	405.1 ²
(ii) Land Development Banks ⁶ ..	158.1	180.8 ^R	215.4	278.1	361.5 ²	914.5	983.5	1057.9	1193.4	1249.0 ²
(iii) Scheduled Commercial Banks ⁴ ..	113.8	128.2	192.4	250.0 ²	377.0 ²	256.9	317.4	426.5	580.0	789.0
Of which:										
Loans routed through schemes financed by:										
(a) A R D C	17.4	27.9	70.8	93.0	120.3	27.1	51.5	112.0	185.7	273.1
(b) A F C Ltd.	16.9	3.6	12.1	2.0	1.6	N.A.	N.A.	N.A.	N.A.	1.2
Total Direct Finance (1+2)	1186.7	1391.0	1674.6	2153.9	2755.7 ²	2405.0	2723.8	3148.9	3842.7	4532.8 ²
B. INDIRECT FINANCE:										
1. Short-term (i to iii)	430.5	512.0	556.8	607.4	674.4 ²	254.1	393.6	337.0	357.6	389.5 ²
(i) State Co-operative Banks ⁷ ..	234.5	263.3	280.9 ^R	299.5 ^R	329.5 ²	102.9	176.8	150.5	162.4 ^R	178.7 ²
(ii) Central Co-operative Banks ⁷ ..	196.0	248.7	275.9	307.9 ^R	344.9 ²	94.8	118.4	86.8	89.7 ^R	100.5 ²
(iii) Scheduled Commercial Banks ⁴ @ ..	N.A.	N.A.	N.A.	N.A.	N.A.	56.4	98.4	99.7	105.5	110.3
2. Medium-term/Long term (i+ii)	50.9	77.9	76.0	88.2	108.1	318.2	421.9	517.3	644.2	800.5 ²
(i) Scheduled Commercial Banks ⁴ ..	N.A.	N.A.	N.A.	N.A.	N.A.	155.1	181.2	201.8	244.2	295.5
(ii) Rural Electrification Corporation Ltd. ⁸ ..	50.9	77.9	76.0	88.2	108.1 ^{aa}	163.1	240.7	315.5	400.0	505.0 ²
Total Indirect Finance	481.4	589.9	632.8	695.6	782.5 ²	572.3	815.5	854.3	1001.8	1190.0 ²

1. All data for years ended June 30, 1977 and 1978 are provisional.

2. Estimates.

3. Data are based on State Budgets and relate to financial year. Data for the year 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. 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.

8. Excluding Harijan Basti loans but inclusive of loans to co-operative societies and S. E. Boards for the years ended June 1974 to 1978.

** Direct Loans issued by PACSs from 1976-1977 are exclusive of 'non-agricultural purposes, i.e. industrial purposes, consumption purposes and other non-agricultural purposes under short-term and for 'other purposes' under medium-term loans although these are included in outstanding figures.

aa Up to March 1978.

@ Relates to advances for distribution of fertilizers and taken to be for short-term.

R Revised.

Table VI. 28: Rates of Interest on Refinance Facilities from RBI

Section of RBI Act, 1934	Purpose	Duration	Rate of interest on refinance	
			Old Rate	New Rate
17(2)(b) read with 17(4)(c)/Section 17(4)(c)	Financing of seasonal agricultural operations	Short-term	2% below Bank Rate	3% below Bank Rate @
17(2)(b) read with Section 17(4)(c) or 17(4)(c)	Financing of marketing of crops	Short-term	3% above Bank Rate	At Bank Rate*
17(4)(c)	Distribution of fertilizers	Short-term	3% above Bank Rate	1% above Bank Rate*
17(2)(bb) read with 17(4)(c)	Financing production and marketing activities of handlooms, powerloom (cotton, silk, and woollen) weavers societies, and industrial co-operative societies other than weavers and units outside the co-operative fold engaged in any one of the approved 22 broad groups of cottage and small-scale industries.	Short-term	1½% below Bank Rate**	2½% below Bank Rate@
17(2)(bb) read with Section 17(4)(c)	Financing of weavers and other rural artisans engaged in activities covered under 22 broad groups of approved cottage and small-scale industries through PACS/FSS/LAMPS	Short-term	2% below Bank Rate	3% below Bank Rate@
17(4AA) read with 46A(2)(b)	Agricultural purposes	Medium-term	1½% below Bank Rate	2½% below Bank Rate@
17(4AA) read with 46B(2)	Assistance to SCBs to enable them to pay arrears in respect of short-term accommodation obtained for financing seasonal agricultural operations which they are not able to repay owing to drought, famine and other natural calamities.	Medium-term	1½% below Bank Rate	2½% below Bank Rate@

@Effective March 1, 1978.

*Effective June 1, 1978.

**Rate was reduced from Bank Rate to 1½% below Bank Rate with effect from July 1, 1977 in respect of 22 broad groups of cottage and small-scale industries.

Contribution to Share Capital

Subscription by small/marginal and economically weak farmers to the share capital of co-operative credit society was lowered from 10 per cent to 5 per cent of their short-term borrowings for agricultural purposes. The resultant shortfall in the share accretion at the level of primary credit societies, if necessary, might be made good through additional share capital contribution, by State Governments, necessary loans for which would be provided to them from National Agricultural

Credit (LTO) Fund. Similar concessions were also extended to agricultural labourers and non-agriculturists, in respect of their medium-term borrowings for animal husbandry, dairying, poultry-farming, etc. For this purpose, a non-agriculturist member will be deemed to belong to the weaker section, if his annual household income does not exceed Rs. 2,400.

Industrial Finance for Rural Artisans

During the year, it was decided to extend the concessional refinance facility to loans

granted to rural artisans engaged in any of the 22 approved groups of cottage and small-scale industries. The SCBs will now receive refinance at 3 per cent@ below the Bank Rate on behalf of CCBs for advances granted to PACS/FSS/LAMPS for financing working capital requirements of weavers and other rural artisans.

Working Capital to Consumers' Stores

With a view to enabling consumers' co-operatives to undertake distribution of essential commodities, the RBI advised in August 1977 Registrars of Co-operative Societies that SCBs and CCBs may provide cash credits/overdraft facilities to consumer co-operatives under the Central Government Guarantee Scheme at a rate of interest not exceeding 12.5 per cent per annum, irrespective of the source of funds. Later in December 1977, the rate of interest at 12.5 per cent was extended to all consumers' societies as well as to reorganised PACS engaged in the distribution of consumer goods.

Seasonality Discipline

The existing stipulations regarding seasonality discipline requiring DCCBs to recover and remit to SCBs a stipulated proportion of their loans for kharif and rabi operations were continued. The Bank had relaxed in May 1977 the minimum recovery percentage from 60 per cent to 55 per cent and to 50 per cent in certain deserving cases. In March 1978, SCBs were advised by the Bank not to permit from April 1, 1978, drawals by CCBs unless they recovered from societies and remitted to the apex bank at least 40 per cent of the advances of the preceding kharif season, including overdues, as on June 30, 1977. For 1978-79, drawals by CCBs will be permitted only after CCBs had recovered by June 30, 1978, 50 per cent of the total demand for recovery of short-term agricultural advances for the whole year.

Linking Borrowings from the RBI with Deposit Mobilisation by CCBs

The scheme of linking borrowings from the RBI with efforts at deposit mobilisation by

CCBs for fixing the base and aggregate levels for obtaining from the RBI concessional finance was introduced in July 1973. During 1977-78, 44 more CCBs and 3 SCBs operating as CCBs were brought within the purview of the scheme, since their loaning business exceeded Rs. 1 crore each. The borrowings of the SCBs from the RBI on behalf of CCBs over and above the aggregate level so fixed are charged additional interest at 1.5 per cent per annum. The scheme covered 6 SCBs and 290 CCBs at the end of June 1978.

Medium-term Credit

The formula for sharing the financial burden of conversion of short-term loans into medium-term loans effected by central co-operative banks was modified by the RBI in July 1977, on the lines indicated by the Agricultural Credit Board. The modification became necessary to reduce reliance on the National Agricultural Credit (Stabilisation) Fund as also to ensure more effective participation of State Governments and Apex/central co-operative banks in the stabilisation arrangements. Under the new formula, operative from 1977-78, SCBs, CCBs and State Governments have to meet at their level 10 per cent, 15 per cent and 15 per cent, respectively, of the conversions granted by CCBs, the refinance from the RBI being limited to 60 per cent. It was, however, decided not to insist on the State's share of 15 per cent during the Fifth Plan period but to correspondingly increase the RBI's share to 75 per cent of conversion loans in 1977-78 as the State Governments had already committed their funds for the Fifth Plan.

The RBI's policy in regard to medium-term loans to SCBs for approved agricultural purposes envisaged increased assistance to small farmers; accordingly, changes were made to facilitate implementation of various schemes introduced by the Central and State Governments. From February 1978, the Bank permitted co-operative banks to grant medium-term loans for purchase of bullocks and bullock carts simultaneously, to small and marginal farmers

@Effective March 1, 1978. Earlier, from August 1977, it was 2 per cent below the Bank Rate.

who were eligible for subsidy on these loans from SFDA or any other agency, provided the repayment period of loans did not exceed five years; earlier, loans for bullock carts were granted only to those who already had bullocks and no loans taken for the purchase of bullocks were outstanding.

Further, from July 1977, advances for rearing of cross-bred calf (heifer) granted to small/marginal farmers and agricultural labourers covered under the Centrally Sponsored Cross-bred Calf-Subsidy Programme were treated as advances for approved purpose for medium-term loans.

RBI Refinance under Section 17(4)(C)

In November 1976, the RBI had announced that advances to fishermen for diesel oil, spare parts, servicing facilities and fisheries requisites were eligible for refinance under Section 17(4)(C) of the RBI Act provided these fishermen had not been financed by term financing agencies under the integrated project refinanced by ARDC. On reconsideration and after consultations with ARDC, the RBI advised all Registrars of Co-operative Societies to treat the restrictive clause as deleted and include short-term advances for the purposes cited above to these fishermen also as eligible for refinance from June 22, 1978.

Credit Guarantee Scheme for Small-scale Industry

By end-March 1978, 10 State Co-operative Banks, 86 Central Co-operative Banks and 72 Primary (Urban) Co-operative Banks satisfying the norms laid down by Government of India, had joined the scheme by executing the necessary agreements.

Credit Authorisation Scheme

The scheme requiring the SCBs and CCBs to obtain RBI's prior authorisation for granting advances of over Rs. 25 lakhs for meeting the block capital requirement for manufacturing/processing units was continued during the year. For granting working capital finance, RBI's

prior authorisation is required for an advance above Rs. 2 crores by SCBs and of Rs. 1 crore by CCBs to co-operative marketing/processing societies and consumers' societies. During the year ended June 1978, authorisation was granted for Rs. 73.1 crores for block capital requirement and Rs. 515.4 crores for working capital requirement. The number of proposals for which authorisation was granted were 61 for block capital requirements and 306 for working capital requirements. During 1976-77, authorisation was granted for working capital advances of Rs. 136 crores and Rs. 26 crores for block capital requirements.

Handloom Finance

On July 8, 1978, the RBI extended the scope of refinance facilities in respect of working capital finance disbursed by SCBs and CCBs to primary handloom weavers co-operative societies. The refinance facility at $2\frac{1}{2}$ per cent below the Bank Rate was now made available for producing polyester cloth on handlooms on an experimental basis for the year 1978-79. The scale of finance was limited to $33\frac{1}{3}$ per cent of the estimated production or Rs. 5,000/- per loom, whichever is less.

Agricultural Credit Intensive Development Scheme

A reference was made in the last year's Report to the ACID scheme formulated by the RBI. During the year, credit plans were prepared for 9@ districts and similar programmes for 13 districts were under preparation. A Committee was set up in July 1977 under the Chairmanship of Prof. M. L. Dantwala to guide the RBI in matters of policy and implementation of the scheme. The Committee suggested that the action programmes prepared or to be prepared for the selected districts should contain a specific action programme for a period of 1 or 2 years for strengthening the co-operative credit structure in the district. This action programme should cover (a) steps for reduction of overdues and implementation

@ Dhule, Aurangabad, Mehsana, Rae Bareilly, Quilon, Madurai, Raipur, Jhabua and Purnea.

of the recommendations of the study team on overdues of co-operative credit institutions, (b) increasing the number of borrowing members of the societies and ascertaining specific reasons for a large percentage of non-borrowing members, (c) ensuring full coverage of cultivators, particularly the small and marginal farmers, by membership as well as by financial assistance, (d) ascertaining the reasons for a wide gap between credit limits sanctioned by CCBs to societies and the amounts disbursed and (e) initiating steps for completing the programme of re-organisation and revitalisation of PACS on the basis of time-bound programme. For this purpose, the committee has also given detailed suggestions for undertaking indepth studies of selected societies spread over in two or three blocks representing different agro-economic conditions. A.C.D. has issued guidelines for the study to its regional offices.

Revision of Rates of Interest on Deposits

The interest rates on deposits by co-operative banks were brought under the regulatory control of the RBI with effect from October 1, 1977. The directive issued in this respect was modified in March 1978. Under the modified directive, co-operative banks have been permitted to pay (at their discretion) higher@@ interest on deposits, than the minimum rates prescribed for commercial banks. From June 1978, co-operative banks have also been allowed to pay interest on fixed deposits on a monthly basis provided the amount payable did not exceed discounted value of interest for one month.

Long-term Agricultural Credit

The Central Land Development Banks (CLDBs) were permitted to provide long-term loans for the installation of gobar gas plants for 2 cubic metres and above, treated as easily identifiable purpose. The RBI also permitted CLDBs to advance loans for non-identifiable

non-productive purposes to the extent of 10 per cent of total loans issued during a year and also agreed to consider marginal relaxations in case of loans to tenant-cultivators for acquiring ownership rights.

As regards resources, from 1978-79, CLDBs were permitted to float ordinary debentures in 4 series provided two series are floated by them before December 31. Similar concession was given for 1977-78 also to those banks which had already floated 2 series on or before January 31, 1977.

Regulation of Advances

The following changes were made during the year in regulation of advances by CLDBs to primaries/branches :

(i) A primary land development bank whose recovery performance improved by at least 5 percentage points of demand as compared to the previous year but not sufficiently to move to the next higher slab, has been allowed to be provided with the normal lending programme as per the slab system plus 5 per cent of the amount on the basis of which such lending programme has been fixed.

(ii) The practice of working out eligibility of PLDBs/branches on co-operative year basis for special schemes (i.e. those under ARDC refinance) was discontinued in favour of financial year basis as in the case of normal schemes.

(iii) The facility granted to CLDBs of segregating overdues of 5 years and above in a separate blocked account, with a view to tackling the hard core of overdues, has now been restricted to loans issued upto the year 1971-72 only and on a "once and for all" basis.

(iv) SLDBs in States where Annewari of 6 annas or less has been declared, were permitted to reschedule tractor loans given to non-income-tax payers affected by drought for two or more years successively. Loans given to borrowers without assured water supply from canals or any other irrigation facility including

@@ Not exceeding 0.50% by SCBs in specified States and Union Territories. 0.25% by SCBs in other States, 0.50% by CCBs and 1.00% by PCBs.

other perennial sources, too, were allowed to be rescheduled.

(v) In order to bring lending rates in the co-operative structure in alignment with the revised rates prescribed for scheduled commercial banks from December 12, 1977, the RBI also advised all state land development banks in July 1978 that the rate of interest charged to ultimate borrowers should not exceed 10.5 per cent on advances for minor irrigation and land development, and 11 per cent on advances for all other purposes.

National Agricultural Credit (Long-term Operations) Fund

The policy of sanctioning loans to State Governments for contributing to share capital of co-operative credit institutions was continued during the year. Loans amounting to Rs. 21.1 crores were sanctioned in 1977-78 of which Rs. 20.8 crores were drawn by State Governments for contribution to the share capital of 6 SCBs, 110 CCBs, 3 CLDBs, 85 PLDBs, 35 UCBs, 7042 PACS, 192 FSS and 218 LAMPS. The Bank also sanctioned to ARDC a long-term loan of Rs. 65 crores from the Fund during 1977-78 which was fully drawn. Repayments during the year were Rs. 20.8 crores.

Conditions governing grant of loans from NAC (LTO) fund to State Governments for making contributions to the share capital of co-operative credit institutions have been modified permitting larger assistance from the fund to CCBs. Accordingly, the borrowings of CCBs on all accounts taken together are now assumed at six times their owned funds as against four and half times assumed earlier.

Amounts Transferred to the NAC(LTO) Fund and to the NAC (Stabilization) Fund

During the year ended June 1978, the RBI transferred out of its profits a sum of Rs. 115 crores to NAC(LTO) Fund and Rs. 30 crores to NAC (Stabilization) Fund, raising the amounts transferred to these funds to Rs. 610 crores and Rs. 195 crores, respectively.

3. RESERVE BANK'S CREDIT TO CO-OPERATIVE BANKS

Short-term credit limits sanctioned by the RBI to SCBs at Rs. 845.4 crores, registered a rise of 4.0 per cent over 1976-77; drawals at Rs. 1,227.9 crores were higher by Rs. 323.1 crores (35.7 per cent). As such, despite a rise of about 40.6 per cent in repayments at Rs. 1,163.1 crores during the year, the outstandings of Rs. 324.7 crores as on June 30, 1978 were higher by 24.9 per cent over end-June 1977 position. As usual, the short-term refinance assistance was mainly in respect of seasonal agricultural operations which accounted for 88.5 per cent of the limits sanctioned, 81.0 per cent of drawals and 89.1 per cent of amounts outstanding against total short-term credit. Credit limits sanctioned by the Bank for purposes other than seasonal agricultural operations aggregated Rs. 96.6 crores. Limits sanctioned for marketing of handloom products at Rs. 43.8 crores, were higher by Rs. 17.4 crores than during 1976-77. Drawals against these limits also witnessed a sizeable increase over Rs. 35.8 crores in 1976-77 to Rs. 167.3 crores, due probably to the liberalised financing of handloom weavers' societies, and expansion in the scale of finance for marketing of handloom cloth announced last year. Limits sanctioned to cottage and small-scale industries and purchase and sale of yarn, also showed a modest rise over the year. Limits sanctioned for marketing of cotton and kapas, and other crops and for distribution of fertilisers declined by Rs. 8.8 crores, Rs. 8.7 crores, and Rs. 20.7 crores, to Rs. 13.5 crores, Rs. 0.5 crore, and Rs. 12.6 crores, respectively. Despite a decline in the limits for distribution of fertilisers the drawals increased marginally by Rs. 2.4 crores over the year to Rs. 23.6 crores. Drawals for other purposes were negligible (Table VI-29).

Medium-term Credit

Limits sanctioned for medium-term credit, at Rs. 117.7 crores, registered a decline of Rs. 29.3 crores over 1976-77. The decline was under limits sanctioned for conversion of short-term loans into medium-term, which at Rs. 95.4 crores, were lower by Rs. 35 crores

Table VI. 29: Reserve Bank Credit to Cooperatives during 1976-77 and 1977-78
(July-June)

(Rupees Crores)

Purpose of Finance	1976-77				1977-78			
	Limits sanctioned	Drawals	Repayments	Out-standings	Limits sanctioned	Drawals	Repayments	Out-standings
	1	2	3	4	5	6	7	8
I. Short-term	812.6	904.8	827.2	259.9	845.4	1227.9	1163.1	324.7
(i) Seasonal agricultural operations (at 2% below Bank Rate) ¹	696.3	818.8	736.2	229.2	748.8	994.2	934.1	289.3
(ii) Marketing of crops other than cotton and Kapas (at 3% above Bank Rate) [@]	9.2	4.6	4.4	0.3	0.5	0.5	0.3	0.5
(iii) Marketing of cotton and Kapas (at 3% above Bank Rate) ^{@*}	22.3	—	0.2	—	13.5	1.1	1.1	—
(iv) Purchase and distribution of fertilizers (at 3% above Bank Rate) ^{**}	33.3	21.2	31.2	9.9	12.6	23.6	30.5	3.0
(v) Production and marketing of handloom products (at 1½% Below Bank Rate) ^{**}	26.4	35.8	32.2	15.0	43.8	167.3	158.6	23.7
(vi) Financing other cottage and Small-Scale Industries. ⁴	6.7	3.9	2.4	3.9	7.1	4.7	3.9	4.7
(vii) Purchase and Sale of yarn (at Bank Rate) [*]	0.6	0.3	0.1	0.2	1.6	0.9	0.6	0.5
(viii) Loans to ARDC (at Bank Rate)	10.0	—	1.7	—	10.0	—	—	—
(ix) Against pledge of Sugar (3% above Bank rate)	7.8	20.2	18.8	1.4	7.5	35.6	34.0	3.0
II. Medium-term	147.0	87.6	47.6	134.3	117.7	115.2	88.7	161.3
(i) Agricultural purposes (at 1½% below Bank Rate) ^{3*}	14.9	9.3	7.7	17.0	21.3	12.2	7.0	22.2
(ii) Conversion of Short-term Loans into Medium-term loans in scarcity affected areas (at 1½% below Bank Rate) ^{5*}	130.4 ⁵	77.8 ⁵	39.6 ⁵	117.0 ⁵	95.4	102.9	81.4	138.5
(iii) Purchase of shares in Co-operative Sugar factories/processing societies (at Bank Rate) [*]	1.7	0.5	0.3	0.8	1.0	0.1	0.3	0.6
III. Long-term	81.3	80.5	23.7	270.9	86.1	85.8	29.1	327.6
(i) Loans to State Governments for contributions to Share Capital of Co-operative Credit Institutions ⁴	31.3	30.5	7.9	98.3	21.1	20.8	8.3	110.8
(ii) Loans to ARDC (at 6 per cent per annum)	50.0	50.0	15.8	172.6	65.0	65.0	20.8	216.8
Total Credit: (I+II+III)	1040.9	1072.9	898.5	665.6	1049.2	1428.9	1280.9	813.6

1. At 2% below the Bank Rate 1975-76 (at 3% below the Bank Rate from 1-3-78)
 2. Including monopoly procurement of cotton.
 3. Data relate to calendar year 1976 and 1977.
 4. Data relate to financial years.
 5. Including rephasing and rescheduling.
 - * At 2½% below Bank Rate from 1-3-1978.
 - @ At Bank Rate from 1-6-1978.
 - ** At 1% above Bank Rate from 1-6-1978.
- { Subject to recovery of an additional interest of 1½% as per linking scheme.

as compared with limits sanctioned during last year. During 1977-78, conversion loans accounted for 81.0 per cent of the limits sanctioned and 89.3 per cent of the withdrawals under medium-term credit. Drawals at Rs. 102.9 crores for the purpose of conversion of loans were higher by Rs. 7.5 crores as against a decline of Rs. 52.6 crores last year. Total drawals against medium-term loans, at Rs. 115.2 crores, showed a rise of Rs. 27.6 crores over that of last year. Limits sanctioned and withdrawals for agricultural purposes during 1977-78 at Rs. 21.3 crores and Rs. 12.2 crores were higher than the respective figures for 1976-77 at Rs. 14.9 crores and Rs. 9.3 crores.

Long-term Credit

Under long-term finance, both limits sanctioned and drawals at Rs. 86.1 crores and Rs. 85.8 crores during 1977-78 were marginally higher than the respective figures of Rs. 81.3 crores and Rs. 80.5 crores during 1976-77. Assistance to State Governments for contribution to the share capital of co-operative credit institutions recorded declines of Rs. 10.2 crores in limits sanctioned to Rs. 21.1 crores and of Rs. 9.7 crores in drawals to Rs. 20.8 crores, while outstandings as on June 1978 rose by Rs. 12.5 crores to Rs. 110.8 crores. The Bank sanctioned a limit of Rs. 65.0 crores to ARDC as against Rs. 50 crores in the previous year. ARDC's repayments of Rs. 20.8 crores during the year were higher than those of Rs. 15.8 crores during 1976-77. However, outstandings of Rs. 216.8 crores at the end of June 1978 indicated a rise of Rs. 44.2 crores over the year.

The aggregate limits for short, medium-term and long-term credit limits sanctioned by the Bank during 1977-78 at Rs. 1049.2 crores showed a rise of only Rs. 8 crores. Drawals rose by Rs. 356 crores to Rs. 1,428.9 crores. Repayments at Rs. 1,280.9 crores, too, were higher by Rs. 382.4 crores and outstandings as at the end of June 1978 at Rs. 813.6 crores were higher by Rs. 148.0 crores as compared with Rs. 665.6 crores outstanding as of end-June 1977.

4. CO-OPERATIVE CREDIT: PRIMARY LEVEL

Primary Agricultural Credit Societies

Total loans advanced by Primary Agricultural Credit Societies (PACS) during 1977-78 are estimated to have increased to Rs. 1,460.1@ crores from Rs. 1,210.5@ crores in 1976-77. The outstandings as at the end of June 1978 are also estimated higher at Rs. 1,864.0@@ crores than Rs. 1,598.7 crores outstanding a year ago.

Land Development Banks

Loans advanced by LDBs during 1977-78 are estimated at Rs. 361.5 crores, representing a rise of Rs. 83.4 crores over loans disbursed during 1976-77. Outstandings at the end of June 1978 are also estimated higher at Rs. 1,249.0 crores as compared with Rs. 1,193.4 crores in 1976-77.

The total lending programme of Central Land Development Banks (CLDBs) for the financial year 1977-78 at Rs. 328.1 crores was higher by Rs. 43.6 crores than during the previous year and comprised Rs. 190 crores under schemes refinanced by ARDC and Rs. 138.1 crores under normal lending programmes of which Rs. 120 crores were to be financed by issue of ordinary debentures and the balance from their internal resources.

Subscriptions to debentures floated during 1977-78, at Rs. 92.8 crores, fell short of the approved programme by Rs. 27.2 crores; the shortfall was mainly under mutual support (Rs. 24.1 crores) and self-help (Rs. 5.8 crores), partly compensated by excess subscription by Governments (Rs. 2.9 crores). State-wise, the biggest shortfall against approvals under mutual support was in Bihar (Rs. 6.3 crores), followed by Gujarat (Rs. 4.4 crores), Uttar Pradesh (Rs. 4.3 crores), Madhya Pradesh (Rs. 4.0 crores), Karnataka (Rs. 2.4 crores) and Orissa (Rs. 1.6 crores).

The ordinary debenture programme for 1978-79 has been fixed at Rs. 125.0 crores.

@ Revised figures of loans disbursed are Rs. 1152.2 crores for 1976-77 and Rs. 1389.4 crores (E) for 1977-78.

@@ Revised to Rs. 1824.2 crores.

Ordinary Debenture/s Programme of Central Land Development Banks

(Rupees Crores)

Agencies	1976-77		1977-78		1978-79 Approved Programme
	Approved programme	Subscriptions received	Approved programme	Subscriptions received	
(i) Central & State Govts.	12.0	12.6	12.0	14.9	12.0
(ii) Life Insurance Corporation	15.0	15.0	22.5	22.5	32.5
(iii) Commercial Banks (through IBA)	10.0	9.2	10.0	9.8	10.0
(iv) State Bank of India Group	5.0	4.7	5.0	5.0	5.0
(v) Mutual Support	40.0	30.6	60.5	36.4	65.5
(vi) Self-help	6.0	8.2	10.0	4.2	—
Total	88.0	80.3	120.0	92.8	125.0

5. COMMERCIAL BANKS AND RURAL CREDIT

In December 1977, the Reserve Bank advised commercial banks to charge, from January 1, 1978, a rate of interest not exceeding 10.5 per cent on term loans with maturity of not less than 3 years, granted to farmers for purposes of minor irrigation and land development, and not exceeding 11 per cent for 'diversified purposes' such as dairy farming, poultry, fisheries, horticulture, etc. As an inducement to banks for granting advances to small farmers, direct individual loans granted to small farmers after January 1, 1978, not exceeding Rs. 2,500 each, were made eligible for refinance from the Bank at the Bank Rate i.e. at 9 per cent. At the same time, banks were expected not to charge more than 11 per cent on such loans irrespective of whether refinance was obtained from the Bank or not. The extent of refinance was limited to 50 per cent of total advances under this category disbursed by commercial banks after January 1, 1978.

Financing of Societies by Commercial Banks

The scheme of financing primary agricultural credit societies by commercial banks was operative in 12 States@ at the end of December 1977. In these States, 588 branches of 24 commercial banks in 116 districts had taken up 3036 societies. During kharif 1977 and rabi 1977-78 (till the end of December 1977) commercial banks had financed 2066 societies forming 68 per cent of societies adopted by them as compared with 48 per cent at the end of December 1976. Total loans disbursed through these societies during 1977-78 are estimated at Rs. 50.7 crores, with outstandings

of Rs. 72.4 crores as at the end of June 1978, against Rs. 30.9 crores of loans disbursed during 1976-77 and Rs. 45.7 crores outstanding as at end-June 1977.

Farmers' Service Societies

Farmers' Service Societies which are multi-purpose in character are organised to function as a single contact point for providing credit, other services and technical guidance needed by small farmers for increasing production. By June 30, 1978, 213 FSS were set up in 13 States and the Union Territory of Delhi by 18 public sector banks and two private sector banks.

SBI Village Adoption Scheme

During 1977, the State Bank of India group adopted 2,755 more villages under the Village Adoption Scheme taking the total number of adopted villages as on December 31, 1977, to 19,376 (excluding areas covered by Agricultural Development branches), serving about 6.7 lakh farmers under the Scheme. The outstanding level of credit advanced, at Rs. 132.1 crores, showed a rise of Rs. 17.9 crores over the year.

Progress of Agricultural Development Branches

The State Bank Group continued to extend assistance for agricultural development through its special branches (ADB) opened for the purpose in consultation with the concerned States and the ARDC. To avoid overlapping and duplication of efforts, the areas of operation of Regional Rural Banks were excluded while

@ Haryana, Madhya Pradesh, Uttar Pradesh, Karnataka, Orissa, Jammu & Kashmir, West Bengal, Bihar, Maharashtra, Assam, Tripura and Andhra Pradesh.

opening new ADBs. The aim is to finance agricultural development of the area rather than merely undertake the financing of agriculture.

By the end of December 1977, there were 314 ADBs (of which 195 were in the relatively backward districts). These branches had granted agricultural advances to more than 8 lakh farmers and the amount outstanding was Rs. 191.8 crores at the end of December 1977. In addition, these branches had granted indirect agricultural advances to the extent of Rs. 15.3 crores. The "area development" approach was further pursued by the SBI group which submitted to the ARDC 1,691 area development schemes involving an outlay of Rs. 473.5 crores; of these, 1,258 schemes with a total outlay of Rs. 346.2 crores were approved by the ARDC during the year.

Extension of Credit to Weaker Sections

During 1977, the SBI introduced a number of schemes to meet the credit needs of the weaker sections of the community. For instance, the SBI extended credit within the range of Rs. 500/- to Rs. 1,000/- at a reasonable rate of interest, through employers, to sweepers and scavengers to enable them to liquidate their debts carrying usurious rates of interest. Loans were also granted to poor parents of school-going children for purchase of books, uniforms, etc.

Integrated Rural Development Programme

During the year, the SBI along with its 7 associated banks, launched on a pilot basis an integrated rural development programme. The objective of the programme is to meet not only the economic needs of villages but social and cultural needs as well. Under the pilot project, 250 villages throughout the country have been selected. Economic needs would be attended to during the first stage of implementation of the comprehensive development plan being prepared for each village. Social and cultural advancement of adopted villages would be taken up during the second stage.

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) during 1977-78 and its commitments thereof at 1836 and Rs. 330.1 crores recorded increases of 11.1 per cent and 7.5 per cent, respectively, over 1976-77. Disbursements at Rs. 234.3 crores also registered a rise of Rs. 13.5 crores over that of last year and were the highest ever recorded in a single year, but fell short of the revised expectations of Rs. 260 crores. Against the Fifth Five Year Plan target of Rs. 1025 crores, total disbursements during the first four years aggregated Rs. 732 crores. A significant feature of the ARDC's assistance was diversification of investment. Thus, schemes other than those for minor irrigation numbered 1314 with commitments of Rs. 153.4 crores as against 996 schemes with commitments of Rs. 130 crores in 1976-77 (Table VI-30). The number of minor irrigation schemes declined from 657 to 522. At the end of June 1978, 357 schemes involving ARDC's commitments of Rs. 71.7 crores have been sanctioned to SFDA and similar agencies. The disbursement of funds to small farmers under the first ARDC credit project sanctioned by IDA aggregated Rs. 66 crores or nearly 54 per cent of total disbursements under the first ARDC credit project. The decision of the Government of India on June 8, 1978 to provide capital subsidy to small farmers for minor irrigation works undertaken under ARDC-refinanced schemes even when they are not covered by specific programmes such as SFDA, DPAP, CAD, etc., are likely to motivate and enable large number of small and marginal farmers to participate in the ARDC supported programmes.

The number of schemes sanctioned by the ARDC since inception upto end-June 1978 was 6221 with Corporation's commitments aggregating Rs. 1770.4 crores, of which Rs. 1049.3 crores (59.3 per cent) were disbursed.

Table VI. 30: Purpose-wise sanctions and disbursements during 1976-77 and 1977-78

(Rupees crores)

Purpose	During 1976-77			During 1977-78			Cumulative position as on 30-6-1978		
	No. of schemes sanctioned	ARDC commitments	Disbursements	No. of schemes sanctioned	ARDC commitments	Disbursements	No. of schemes sanctioned	ARDC commitments	Disbursements
	1	2	3	4	5	6	7	8	9
Minor Irrigation	657	177.5	142.1	522	176.7	143.3	2680	1179.4	731.6
Land Development/CAD ..	193	27.1	5.9	98	9.8	4.1	395	118.2	44.7
Farm Mechanisation ..	227	37.1	51.8	246	31.7	28.7	954	197.2	145.4
Plantation/Horticulture ..	103	13.0	5.1	112	26.3	7.9	491	81.8	29.5
Poultry/Sheep breeding/ Piggery	53	3.2	0.7	79	4.4	2.1	199	10.9	4.4
Fisheries	48	3.4	1.9	125	12.0	5.4	291	30.3	14.4
Dairy Development	157	12.2	3.5	185	25.0	3.9	494	54.1	13.5
Storage/Market Yards ..	190	25.2	9.5	434	36.2	37.8	663	86.6	64.3
Agricultural Aviation ..	1	0.2	—	—	—	—	3	0.4	0.2
ICDP	14	5.8	0.1	15	5.8	0.6	17	5.9	0.6
Forestry	9	2.5	0.2	1	0.7	0.5	14	4.1	0.7
Gobar Gas	1	—	—	19	1.5	—	20	1.5	—
Total	1653	307.2	220.8	1836	330.1	234.3	6221	1770.4	1049.3

Reduction in Regional Imbalances

The ARDC continued its efforts at reducing the regional and intra-State imbalances in agricultural development and sanctioned 917 schemes with commitments of Rs. 141 crores to the less developed States/territories as against 725 schemes with commitments of Rs. 128 crores last year. At the end of June 1978, 2674 schemes have been sanctioned in less developed/under-banked regions involving Corporation's commitment of funds of the order of Rs. 769.8 crores. The financial institutions have so far drawn Rs. 400.4 crores. State-wise, the highest rise of Rs. 17.3 crores in disbursements over last year was noticed in Andhra Pradesh which was followed by Gujarat (Rs. 9.2 crores), Uttar Pradesh (Rs. 6.0 crores), Rajasthan (Rs. 5.3 crores) and West Bengal (Rs. 4.1 crores).

Agency-wise Sanctions/Disbursements

The schemes routed through commercial banks as also Corporation's commitments in-

creased during the year substantially over 1976-77 (Table VI-31). An amount of Rs. 120.3 crores (51.3 per cent) of the total disbursements of Rs 234.3 crores was routed through commercial banks as against 42.1 per cent in 1976-77, surpassing the performance of SLDBs in this respect. SLDBs lending declined by Rs. 14.8 crores to Rs. 111.9 crores. LDBs could not avail of more refinance assistance from the ARDC on account of financial difficulties faced by some LDBs due to (1) drought situation during the earlier years, (2) inability of some State Governments to make matching contributions to the special debentures floated under ARDC financed schemes and (3) availability to dairy development corporations of alternate sources of funds on more favourable terms.

Changes in Policy

As a sequel to the operational changes in Reserve Bank's policy in regard to SLDBs, the ARDC introduced some changes in the

Table VI. 31: Agency-wise Sanctions during 1976-77 and 1977-78

Agency	(Rupees Crores)							
	No. of Schemes		Financial Assistance		ARDC Commitments		Commitments of State Governments/Banks	
	1976-77	1977-78	1976-77	1977-78	1976-77	1977-78	1976-77	1977-78
	1	2	3	4	5	6	7	8
1. State Land Development Banks	528 (31.9)	330 (18.0)	161.3 (43.8)	147.6 (37.6)	140.9 (45.9)	128.9 (39.1)	20.4 (33.6)	18.6 (29.7)
2. Scheduled Commercial Banks	1105 (66.8)	1465 (79.8)	194.2 (52.8)	230.9 (58.8)	156.1 (50.8)	191.6 (58.0)	38.1 (62.7)	39.4 (62.9)
3. State Co-operative Banks	20 (1.3)	41 (2.2)	12.4 (3.4)	14.2 (3.6)	10.2 (3.3)	9.6 (2.9)	2.3 (3.7)	4.6 (7.4)
Total	1653	1836	367.9	392.7	307.2	330.1	60.8	62.6

Figures in brackets indicate percentage shares of each agency to the total.

procedure of loan disbursement by LDBs, important among which are the following :

- (i) The slab system for regulating the lending programme was extended upto September 30, 1978,
- (ii) The ARDC agreed to a mid-year review of the lending programme at the end of December and provision of funds for completion of the second and subsequent instalments and
- (iii) In the previous two years banks having overdues in excess of 60 per cent of the demand were normally not eligible for any lending programme; these banks would now be allowed 50 per cent of the programme during the preceding year, subject to some conditions for completing the investments already made, provided the State Government contributed to equity upto 20 per cent of demand.

Other important measures announced by the ARDC were its decisions to finance the second phase of FCI (Food Corporation of India) proposal for construction of godowns with 2 million tonne capacity and to assist banks in construction of jute godowns under the schemes of the Jute Corporation of India. The ARDC

also agreed to provide refinance for schemes of financing conventional carts with wheels of steel rims as also improved carts fitted with pneumatic tyres.

IDA/IBRD Credit

During 1977-78, the ARDC alongwith Government of India and the concerned State Governments, participated in successful negotiation of six IDA assisted projects.* With the assistance of World Bank/IDA, 35 projects are now being implemented by ARDC. The disbursements made by ARDC upto June 1978 against these projects were Rs. 610 crores entitling inflow of about \$ 470 million. The total commitments on projects approved by the World Bank were around \$ 1000 million upto March 1978.@

Disbursal under ARDC Credit Project

The ARDC credit project No. 1 involving total cost of \$ 168.5 million was completed in June 1977 and Rs. 123 crores were disbursed under this project. ARDC credit project No. 2 (cost \$ 532 million and IDA assistance of \$ 200 million) was initiated in August 1977

*Orissa Irrigation Project, Karnataka Irrigation Project, Jammu & Kashmir Horticulture Project, Andhra Pradesh Fisheries Project, National Seed Project (Phase II) and Haryana Irrigation Project.

@ \$ 1560 million upto June 1978.

and is to be completed within two years. Rs. 105 crores were disbursed by ARDC till June 1978, making it eligible to draw \$ 68 million against this project.

Prospects during the Sixth Plan

A growth rate of 25 per cent per annum is proposed to be achieved in disbursements during the next five year plan ending 1983 which would mean an aggregate disbursement of the order of Rs. 3070 crores. Of these, at least 50 per cent would benefit the small farmers and other vulnerable sections of the rural population.

Evaluation

During the year, the ARDC undertook 5 schemes for evaluation, selecting for the purpose schemes involving diversified investments. Two of these schemes related to dairy development, one each in Punjab and Haryana, the third related to the development of citrus gardens in Andhra Pradesh, the fourth was in respect of lift irrigations in Maharashtra and the fifth pertained to development of fisheries scheme in Karnataka. Of these, two study reports were completed during the year.

Sources of Finance

During the year 1977-78, additional resources were available to the Corporation through (i) borrowings from the Government of India (Rs. 99.6 crores), (ii) limits under the National Agricultural Credit (LTO) Fund, fully drawn (Rs. 65.0 crores), (iii) a short-term credit limit of Rs. 10 crores from RBI (not drawn), (iv) addition to paid-up share capital (Rs. 12.5 crores), (v) floatation of XIII series of Bonds of 10 years maturity (Rs. 20.6 crores) and (vi) repayments by member banks (Rs. 82.9 crores). As on June 30, 1978, the total resources raised by way of market borrowings stood at Rs. 202.3 crores.

2. Rural Electrification

Corporation Limited*

The number of schemes sanctioned by the Rural Electrification Corporation (REC)

increased from 325 during 1976-77 to 354 and loan disbursements rose from Rs. 83.5 crores to Rs. 108.1 crores. During the year, one more rural electric co-operative project was sanctioned at Manasa in Mandasaur district of Madhya Pradesh bringing the total number of rural electric co-operatives to 13 and the amount of loans disbursed to them to Rs. 17.3 crores upto end March 1978.

The REC introduced four new categories of loans during the year, viz., System Improvement (SI) Loan, LT (LT capacitors) Loan, Special Project (Agriculture) or SP (A) loan and Special Project (Industries) or SP (I) loan. The SI loan assistance is available for schemes of System Improvement in rural areas aiming at the reduction of line losses and conservation of electricity. LT loans are available for procurement and installation of LT capacitors for the existing as well as new connections. The SP(A) and SP(I) loans are intended for meeting the increased power demand for energisation of pumpsets for small industries and other domestic needs in rural areas. In view of these new schemes, the REC decided to discontinue three old schemes viz., Mini Farm production (MF), Mini Farm and Lift Irrigation (MFLI) and Mini Industrial Estates (ME).

The resources of the REC were supplemented by increased loan assistance of Rs. 107.5 crores from the Government of India taking the total of such loans to Rs. 303.6 crores and the total of resources to Rs. 519.0 crores at the end of March 1978 as indicated below :

(Rupees in crores)			
Sources	1978	1977*	Rise during the year
Government of India			
(a) Equities	67.00	67.00	—
(b) Loans	303.61	196.12	107.49
U.S. Grants	105.00	105.00	—
Borrowings	30.42	30.42	—
Internal Resources	13.00**	13.04	—0.04
Total	519.03	411.58	107.45

*References to years 1977-78 and 1976-77 relate to July-March data unless otherwise stated.

* Figures refer to July-June

**Approximate.

The following policy changes were announced by the Corporation during the year under review :

(i) In addition to the existing maximum limits applicable to first year instalments of loans, the REC fixed minimum limits for first year instalments at not less than 30 per cent of the loan amount for schemes under the Minimum Needs Programme (MNP) and of not less than 25 per cent in case of all regular area schemes other than MNP schemes such as OA, OB and SU Schemes@.

(ii) Under advice from the Bank, the REC raised, from May 1977, interest rates on rural debentures floated by State Electricity Boards (SEBs) from 10½ per cent to 12 per cent on debentures issued to public without Government guarantee and from 7.5 per cent to 9 per cent for others to be subscribed by the REC.

(iii) The REC agreed to increase assistance to SEBs by contributing in the proportion of 1 : 2 to fixed deposits collected under rural debenture scheme, in addition to its present direct financial assistance to them—upto 60 per cent of their project costs.

3. National Co-operative Development Corporation

The National Co-operative Development Corporation (NCDC) continued to provide financial assistance to promote planned development of marketing, processing and storage of agricultural produce and distribution of essential requirements of farmers through co-operatives and State Governments. The assistance provided by NCDC through State Governments and State Co-operatives aggregated Rs. 31.4 crores in 1977-78, almost the same as in the previous year. Assistance of Rs. 15.4 crores provided to schemes sponsored by the Corporation was higher than Rs. 11.0 crores during 1976-77, while that for Central Government schemes, at Rs. 16.0 crores was lower by Rs. 4.0 crores.

Out of Rs. 15.4 crores of assistance for schemes sponsored by NCDC, schemes for storage (including cold storage) accounted for Rs. 4.5 crores (29.2 per cent) followed by assistance to weaker sections Rs. 2.9 crores (18.8 per cent), crop processing Rs. 2.3 crores (14.9 per cent) and agricultural marketing and processing Rs. 2.1 crores (13.6 per cent). In Central Sector, a number of other schemes such as dairy and poultry, fisheries, tribal development and distribution of consumer goods also received larger assistance during the year. As against these, assistance provided for stocking and distribution of fertilisers and other agricultural inputs declined sharply to Rs. 0.8 crore from Rs. 4.3 crores during 1976-77; assistance provided to spinning mills too declined from Rs. 2.4 crores in 1976-77 to Rs. 0.7 crore. However, assistance of Rs. 4.6 crores and Rs. 2.2 crores in respect of development of co-operative marketing, processing and storage programme in underdeveloped States and to weavers' spinning mills recorded a moderate rise of Rs. 0.6 crore and Rs. 0.7 crore, respectively, over the year.

Total financial assistance provided by the NCDC since its inception in 1963 aggregated Rs. 232.3 crores of which Rs. 133.0 crores were outstanding at the end of March 1978.

4. Agricultural Finance Corporation

During the year under review, the Agricultural Finance Corporation (AFC) continued to make efforts at increasing the absorptive capacity for credit in backward areas and weaker sections, as also increasing the productivity of agriculture and other allied activities. To achieve these objectives, the AFC assisted member banks, State Governments and State-owned corporations by formulating suitable projects based on the concept of total development. Attention was mainly focussed on Integrated Tribal Development, Command Area Development and Composite Area Developments, forestry, horticulture, processing, etc.

During the year ended June 1978, the AFC sanctioned two schemes involving commitment

@ OA = Ordinary Advanced Areas.
OB = Ordinary Backward Areas.
SU = Special Underdeveloped Areas.

of Rs. 3.4 crores by member banks as against a single scheme with commitment of Rs. 3.3 crores by member banks sanctioned during 1976-77. The total number of schemes approved by the AFC upto end-June 1978 was 64, involving commitments of Rs. 207.8 crores and disbursements of Rs. 93.9 crores of which Rs. 3.8 crores were by AFC out of its own resources.

5. Warehousing Corporations

During the year ended June 1978, the number of godowns with Central Warehousing Corporation (CWC) increased from 181 to 203. The rise in total capacity (including hired and plinth capacity), however, was only 1.6 lakh metric tonnes to 28.6 lakh metric tonnes as compared to the rise of 5.5 lakh metric tonnes in 1976-77. Of the total capacity, 8.4 lakh metric tonnes related to the godowns hired by the Corporation as against 7.2 lakh metric tonnes last year.

The construction of warehouse at Palam Airport was completed during the year and the construction of a multi-storeyed bonded warehouse was undertaken in Bombay. The Corporation also made suitable arrangements for storage of jaggery in Uttar Pradesh and other States where the commodity was in glut. Assistance for industrial warehouses at various centres in the country was also continued.

The total number of godowns with State Warehousing Corporations in twelve* States (for which data are available) rose from 743 at the end of March 1977 to 758 at the end of March 1978, their total capacity registering a rise of 2.4 per cent over 33.8 lakh metric tonnes (including a hired capacity of 25.7 lakh metric tonnes) in 1976-77 to 34.6 lakh metric tonnes (including a hired capacity of 22.4 lakh metric tonnes).

6. Other Developments

Integration of Co-operative Credit Institutions (Hazari Committee)

In view of the divergent views of the concerned institutions regarding the main recom-

mendations of the Committee, it was decided in July 1977, to defer the consideration of the recommendation relating to the integration of the two co-operative credit structures. Some of its other recommendations were, however, accepted and communicated to State Governments for implementation. Accordingly, (i) primary agricultural credit societies were allowed to act as agents of LDBs in disbursing long-term credit and (ii) Union Territories and States, where there are no LDBs, were advised not to organise such banks.

Rehabilitation of Co-operative Banks

As on March 31, 1978, the programme of rehabilitation of co-operative banks covered 5 SCBs (in States having two-tier structure) and 182 CCBs as against 3 SCBs and 120 CCBs covered till June 30, 1977. An assistance of Rs. 6.1 crores was released by the Government of India under the New Central Sector Plan Scheme to 3 SCBs and 136 CCBs as against Rs. 5.0 crores during 1976-77.

Committee on Regional Rural Banks

A committee under the Chairmanship of Prof. M. L. Dantwala 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 of their functioning. The Committee submitted its report on February 16, 1978.

The Committee has recommended that RRBs should be made an integral part of the rural credit structure so as to enable them to make a substantial contribution towards improving the quality and quantity of credit flows to the rural areas and fill up the gap in remaining 127 districts where the co-operative credit structure is weak. The Committee envisaged establishment of RRBs as substitutes for rural branches of commercial banks over a period of time.

*Andhra Pradesh, Assam, Bihar, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

Study Team on Marketing, Credit and Co-operation in Tribal areas

A Study Team on Marketing, Credit and Co-operation in tribal areas constituted by the Government of India has in its interim report suggested various measures for prevention of exploitation of tribals in marketing of agricultural and forest produce. The Team has further recommended that reorganisation of the primary level integrated credit-cum-marketing co-operative societies in the Tribal Sub-Plan Areas should be positively completed by September 1978 and that a Special Cell in Agricultural Credit Department of RBI be created for tribal areas.

Working Group on Planned Participation of Commercial Banks in Rural Electrification

The Working Group on planned participation of commercial banks in rural electrification constituted by the Bank in August 1977 submitted its final report in May 1978. The Group has recommended a massive programme of energisation of 6 lakh pumpsets during the Sixth Plan period involving financial assistance to State Electricity Boards (SEBs) of about Rs. 360 crores to be provided jointly by commercial banks, ARDC and REC. The Group has emphasised adoption of a systematic project approach on the basis of a contiguous geographical area as the unit to derive optimum results. The Group has suggested certain viability criteria applicable in appraising the schemes submitted by SEBs. The recommendations of the Working Group have been accepted by the Bank which has issued necessary instructions to commercial banks in this regard. For 1978-79, programme involving an outlay of approximately Rs. 60 crores has been finalised.

Study Team for Jammu and Kashmir and Himachal Pradesh

In August 1977, the RBI constituted two Study Teams one each for Jammu and Kashmir and Himachal Pradesh for undertaking an in-

depth study of the institutional arrangements for agricultural credit. The work of these Teams is in progress.

Study Group on Handloom Finance

The Study Group set up by the Government of India in October 1977 reviewed the working of the RBI's Scheme for Handloom Finance. After discussions with State Governments, handloom sector and co-operatives, the Group submitted its report to Government of India in June 1978.

Study Group on Interest Rates in the Co-operative Credit Structure

At the instance of the Government of India, the Bank appointed a Study Group in October 1977 to review the structure of interest rates obtaining in the co-operative banks dealing with short-term and medium-term credit at all levels, and to suggest appropriate margins which may be retained at various levels of the short-term and medium-term credit and the rates of interest to be charged to the ultimate borrowers. The Group was also asked to determine whether a differential rate could be charged in favour of small farmers. The Group submitted its report in June 1978.

Committee to study Interest Rates Spreads in Agricultural Lending Sector

In April 1978, the RBI appointed a committee to study the adequacy of interest rates spreads for term lending in the agricultural sector in India with particular reference to the needs of the Land Development Banks. The terms of reference of the Committee are (i) to identify the factors which are taken into account in determining the cost of credit to Land Development Banks both in raising resources and granting of term loans for agricultural investments (ii) to recommend suitable interest margins to be fixed for various categories of loans issued by LDB and (iii) to determine whether a differential rate can be charged in favour of small farmers.

Progress in the implementation of the Talwar Committee's Recommendations

During the year under review, two more States enacted the necessary legislation on the lines of the model bill recommended by the Talwar Committee to ensure greater flow of commercial bank finance, bringing the total number of such States to 15. The Expert Group had also recommended certain administrative measures such as relief in stamp duty and registration fees to farmers and agriculturists, up-dating of land records, etc. These are being examined in collaboration with the State Governments.

Advances to individual parties by Industrial Co-operative Banks

Industrial co-operative banks were advised to regulate from September 1977 their advances to individual parties including partnership

firms, directors as a group, as well as total unsecured advances to individual members so as to conform broadly with the directives issued to primary co-operative banks in this regard.

Legislation

During the year 1977-78, the number of co-operative banks coming under the purview of the Banking Regulation Act, 1949 (as applicable to co-operative societies) increased from 1544 to 1569 and comprised 29 SCBs, 353 CCBs, and 1187 primary co-operative banks.

The concessional treatment accorded to co-operative banks in regard to changes in liquidity and cash reserve requirements applicable to commercial banks (as per provision of RBI Act) were continued for a further period of two years from June 24, 1978.

Chapter VII

Fiscal Developments*

The first two sections of this Chapter review the budgetary position of the Central and State Governments. Finances of the Railways and of Posts and Telegraphs Departments are discussed in sections three and four, respectively. Growth in public debt is analysed in the last section.

Combined Position of Central and State Governments

The strategy embodied in the budget for 1977-78 emphasised the primacy of development of agriculture, small scale industries and rural areas while recognising the useful role that large and medium industries play in the development of the economy. This strategy was sought to be implemented by recasting the sectoral plan outlays and granting new concessions. The total public sector Annual Plan outlay of the Centre, States and Union Territories for 1977-78 which was placed at Rs. 9960 crores was higher by Rs. 1890 crores (or 23.6 per cent) than the anticipated outlay in 1976-77. In keeping with the new strategy of development, the plan outlay for agriculture and allied services, major, medium and minor irrigation projects and fertilisers together with provision for co-operatives and power sectors attributable to rural areas was raised. Changes in direct taxes were designed to raise additional resources together with their redistributive effects, increase corporate savings, channelise more funds into investments and accelerate the pace of industrial growth in rural areas. In the sphere of indirect taxation, further progress was made

towards simplification and rationalisation of the tariff structure, keeping in view the need to improve the competitiveness of indigenous industry and to bring about a better alignment between supply and demand.

According to the revised estimates for 1977-78, the combined budgetary deficit¹ of the Central and State Governments which amounted to Rs. 1265 crores² was substantially higher than Rs. 81 crores recorded in 1976-77. Net Reserve Bank credit to these Governments, however, recorded a decline of Rs. 118 crores as compared with a substantial rise of Rs. 838 crores in 1976-77 (Table VII-1). While the bulk of the increase in the net Reserve Bank credit to Government during 1976-77 was accounted for by net credit to Central Government (Rs. 816 crores), in 1977-78 there was a significant decline in net credit to Central Government (Rs. 260 crores) which was to some extent offset by the rise in the net credit to State Governments (Rs. 142 crores).

According to the revised estimates for 1977-78, the combined aggregate receipts of the Central and State Governments increased by Rs. 1794 crores (or by 8.1 per cent) to Rs. 24011 crores over the preceding year (Table VII-2). Such receipts formed about 34.2 per cent of the national income at current prices in 1977-78. The rate of growth in revenue receipts at 8.7 per cent was higher than the rate of growth of 6.4 per cent in capital receipts.

*Figures in this Chapter relate to fiscal years (April-March).

¹Budgetary 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.

²According to the books of the Reserve Bank of India, the combined deficit for 1977-78 amounts to Rs. 884 crores—Rs. 801 crores on Centre's account (i.e. net variation in outstanding treasury bills and cash balances) and Rs. 83 crores on account of the States (i.e. variations in cash balances, holdings of treasury bills and ways and means advances from the Reserve Bank). Corresponding details of receipts and expenditure are, however, not available.

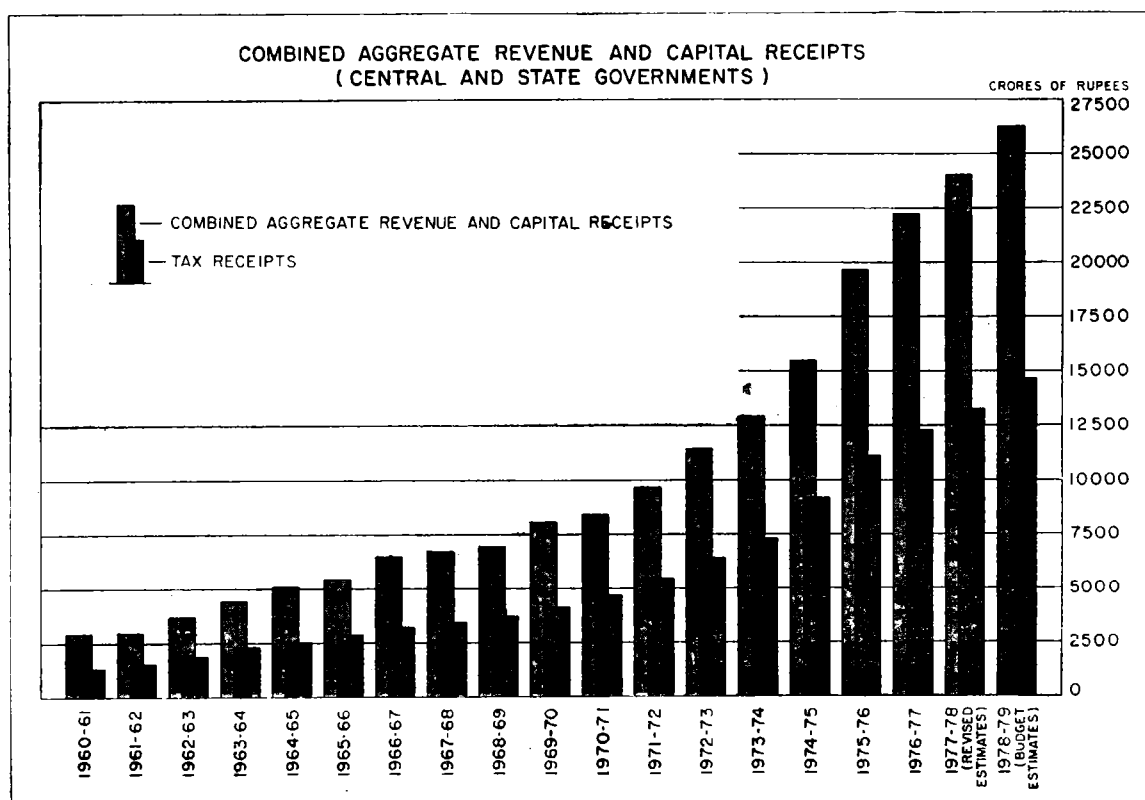
Table VII.1: Trends in Budgetary Deficits and Net RBI Credit to Government

(Rupees Crores)

Year	Budgetary Surplus (+) or Deficit (-) ^a			Net RBI Credit to Government ^b		
	Centre	States	Total	Centre	States	Total
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	- 131	+ 50	- 81	816	22	838
1977-78 (Revised Estimates) ..	- 975	- 290	- 1265	- 260	142	- 118

^a For definition see footnote No. 1 of this chapter.^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.

Source: Central and State budget documents for budgetary data.



Although aggregate tax receipts increased by 7.7 per cent in 1977-78, their proportion to national income at current prices at 18.8 per cent was almost the same as in the preceding year. Receipts from taxes on commodities and services showed a higher growth rate of 7.9 per cent than the rate of growth of 6.7 per cent in the receipts from taxes on income and property. Higher receipts of Rs. 333 crores under market borrowings net of repayments accounted for the major proportion of the increase of Rs. 407 crores in capital receipts. According to the budget estimates, the combined aggregate receipts during 1978-79 are estimated to increase by Rs. 2216 crores (or 9.2 per cent) over the revised estimates of 1977-78. Revenue receipts are anticipated to rise at a faster rate (9.6 per cent) than capital receipts (8.4 per cent) as observed in the previous year. Reflecting partly the larger

resource mobilisation efforts in the budget for 1978-79, tax receipts are estimated to increase by 11 per cent as compared with an increase of 7.7 per cent in 1977-78.

Aggregate combined disbursements of the Centre and States were stepped up by Rs. 2978 crores (or 13.4 per cent) in 1977-78. Such disbursements as a proportion of national income at current prices are estimated to increase from 34.7 per cent in 1976-77 to 36 per cent in 1977-78. According to budget estimates, combined disbursements during 1978-79 are anticipated to increase by Rs. 2412 crores (or 9.5 per cent) over the revised estimates of 1977-78. A major part of the increase (64.4 per cent) is accounted for by developmental expenditure. (Table VII-2).

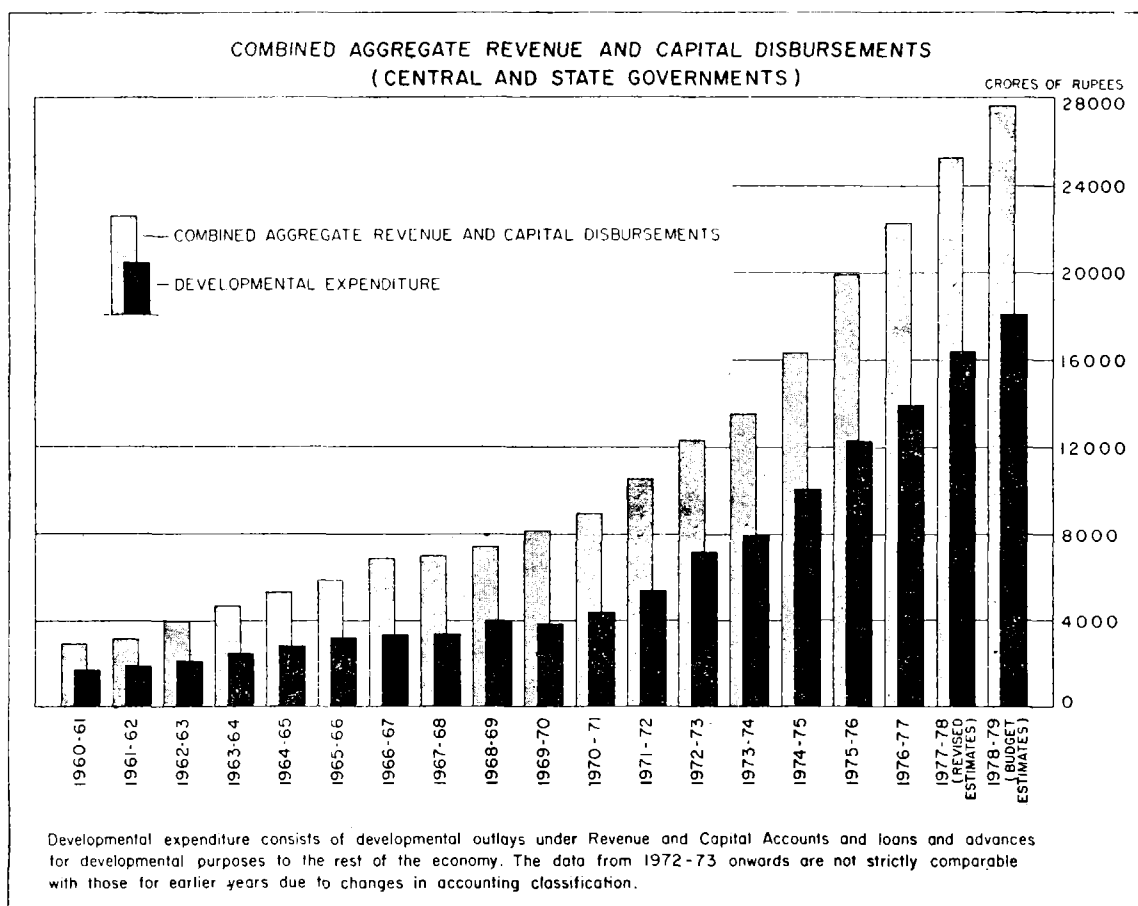


Table VII.2: Combined Receipts and Disbursements of Central and State Governments

												(Rupees Crores)				
Items												1976-77 (Accounts) Amount	1977-78 (R.E.)		1978-79 (B.E.)@	
													Amount	Per cent Variation over the previous year	Amount	Per cent Variation over the previous year
(1)												(2)	(3)	(4)	(5)	(6)
I. Total Disbursements												22298	25276	+13.4	27688	+ 9.5
<i>Of which:</i>																
1. Developmental (a+b)												10672	12798	+19.9	14352	+12.1
(a) Revenue												7501	8898	+18.6	9803	+10.2
(b) Capital												3171	3900	+23.0	4549	+16.6
2. Non-Developmental Outlay (a+b)												7189	7847	+ 9.2	8888	+13.3
(a) Revenue												6855	7526	+ 9.8	8279	+10.0
(b) Capital												334	321	— 3.9	609@@	+89.7
II. Total Receipts (A+B)												22217	24011	+ 8.1	26227**	+ 9.2
(A) Revenue Receipts												15858	17245	+ 8.7	18895	+ 9.6
<i>Of which:</i>																
Tax Receipts (a+b)												12294	13236	+ 7.7	14689	+11.0
(a) Taxes on commodities and services												9463	10214	+ 7.9	11488	+12.5
(b) Taxes on income and property												2831	3022	+ 6.7	3201	+ 5.9
(B) Capital Receipts												6359	6766	+ 6.4	7332	+ 8.4
<i>Of which:</i>																
(i) Market borrowings (Gross)												1407	1596	+13.4	2126	+33.2
Market borrowings (Net)												1026	1359	+32.5	1847	+35.9
(ii) Small savings (Net)												413	440	+ 6.5	460	+ 4.5
(iii) State provident funds (Net)												360	398	+10.6	456	+14.6

FISCAL DEVELOPMENTS

III. Overall surplus (+) or Deficit(—) (II—I)	..	..	..	— 81	—1265	—1461*
<i>Financing of surplus (+) or Deficit (—)</i>						
(i) Increase (+) or decrease (—) in cash balances of Centre and States	..	..	..	— 515	— 439	— 311
(ii) Increase (—) or decrease (+) in Treasury bills of Centre	..	..	..	+ 342	— 702	—1049
(iii) Withdrawals from (—) or additions to (+) cash balance investment accounts and revenue reserve funds of States	..	..	..	+ 9	— 131	— 46
(iv) Increase (—) or decrease (+) in ways and means advances and overdrafts from the Reserve Bank of India to States	..	..	..	+ 83	+ 7	— 14
(v) Uncovered	..	..	..			41

@ Includes effects of the budget proposals and tax concessions (Rs. 25 crores) announced on April 27, 1978 by the Central Government and supplementary demands for grants for additional expenditure presented to the Lok Sabha on August 1, 1978.

@@ Includes a provision for payment to the IMF of Rs. 245 crores on account of the increase in India's quota at the I.M.F. and by way of currency valuation adjustment.

* This deficit would go up by Rs. 121 crores if Supplementary Demands for grants of Rs. 48 crores of Punjab and unbudgeted outlays in respect of Assam, Haryana, Jammu and Kashmir, Rajasthan, Maharashtra, Madhya Pradesh and Tamil Nadu are taken into account.

** Includes sale proceeds of gold from first six auctions conducted by the Reserve Bank.

- Notes:**
1. Data do not cover Union Territories with legislatures.
 2. Figures are based on Central and State Governments' budget documents and are adjusted for inter-governmental transfers on the basis of data available in Central Budget. The combined overall budgetary deficit of Central and State Governments, however, remains unchanged.
 3. Figures for 1978-79 (Budget Estimates) would differ from those given in Bank's Annual Report for 1977-78 due to revisions in data.

I. Budgetary Operations of the Central Government

The overall budgetary deficit of the Central Government, according to the revised estimates for 1977-78, is placed at Rs. 975 crores* as compared with Rs. 131 crores in 1976-77.

Aggregate disbursements during 1977-78 amounted to Rs. 16912 crores and were higher by Rs. 2456 crores than in the previous year. Expenditure on revenue account rose by Rs. 1303 crores while that on capital account was stepped up by Rs. 1153 crores.

Growth in expenditure on agriculture and allied services (Rs. 70 crores), industry and minerals (Rs. 150 crores), grants-in-aid to States and Union Territories for developmental purposes (Rs. 326 crores), interest payments (Rs. 222 crores) and foreign trade and export promotion (Rs. 75 crores) has largely contributed to the increase in expenditure on revenue account. Increases in expenditure on industry and minerals (Rs. 443 crores) and loans and advances to States and Union Territories (Rs. 540 crores) have largely accounted for the rise in capital expenditure.

Aggregate receipts recorded a rise of Rs. 1612 crores in 1977-78 over their level in the preceding year. A large proportion of the increase in aggregate receipts is accounted for by revenue receipts (Rs. 1026 crores). Rise in revenue receipts was mainly due to increases in (a) taxes on commodities and services (Rs. 388 crores), (b) taxes on income (Rs. 142 crores), (c) interest receipts (Rs. 223 crores) and (d) receipts from

General Services (Rs. 109 crores). Among the taxes on commodities and services the major part of the rise in the revenue was accounted for by customs (Rs. 226 crores) and union excise duties (Rs. 147 crores). As regards taxes on income, while the revenue from taxes on income other than corporation tax actually declined by Rs. 207 crores, that from corporation tax moved up substantially by Rs. 306 crores. Proceeds from interest tax also recorded a rise of Rs. 44 crores. Under capital receipts, the receipts on account of recoveries of loans and advances increased by a substantial amount of Rs. 983 crores. Receipts from internal market loans (gross) also moved up by Rs. 189 crores. The impact of these two items, however, was partially offset by a decline in the receipts of external loans by Rs. 458 crores.

Economic and Functional Classification of the Central Government Budget

According to the Economic and Functional Classification of the Budget, the total expenditure@ of the Central Government in 1977-78 (revised estimates) amounted to Rs. 15376 crores showing an increase of Rs. 2226 crores (or 16.9 per cent) over the preceding year (Table VII-3).

Economic Classification

About 85 per cent of the increase in the total expenditure was accounted for by financial resources provided to the rest of the economy which were stepped up from Rs. 8432 crores in 1976-77 to Rs. 10315 crores in 1977-78 (or by 22.3 per cent). The share

*The overall budgetary deficit of the Central Government in 1977-78, according to the Reserve Bank's books, amounted to Rs. 801 crores, Rs. 174 crores less than the revised estimates. Details of receipts and expenditure corresponding to this figure are not yet available.

@The figure of total expenditure as given in Economic and Functional Classification is lower than the budgetary expenditure figure given in earlier paragraphs mainly because the former does not

include (a) discharge of debt, (b) current expenditure of departmental commercial undertakings, their interest payments and net transfer of funds and (c) supplementary demands for grants for additional expenditure presented to the Lok Sabha on August 1, 1978. The budgetary expenditure figures given in earlier paragraphs exclude only the current expenditure of Railways and Posts and Telegraphs and their interest payments but include discharge of debt, current expenditure of other departmental commercial undertakings and supplementary demands for grants.

Table VII.3: Economic Classification of Total Budgetary Expenditure of the Central Government

(Rupees Crores)								
Items	1976-77 (Accounts)	Per cent Variation over the previous year	1977-78 (Budget Estimates)	Per cent Variation over the previous year	1977-78 (Revised Estimates)	Per cent Variation over the previous year	1978-79 (Budget Estimates)	Per cent Variation over the previous year
1	2	3	4	5	6	7	8	9
I. Total Expenditure	13150 (100.0)	+ 9.2	14826 (100.0)	+12.7	15376 (100.0)	+16.9	17517 (100.0)	+13.9
A. Final Outlays	4718 (35.9)	+ 1.4	4998 (33.7)	+ 5.9	5061 (32.9)	+ 7.3	5769 (32.9)	+14.0
(a) Consumption expenditure	3606 (27.4)	+ 4.6	3860 (26.0)	+ 7.0	3819 (24.8)	+ 5.9	4140 (23.6)	+ 8.4
(b) Capital Expenditure	1112 (8.5)	- 7.7	1138 (7.7)	+ 2.3	1242 (8.1)	+11.7	1629 (9.3)	+31.2
B. Financial Resources Provided to the Rest of the Economy	8432 (64.1)	+14.2	9828 (66.3)	+16.6	10315 (67.1)	+22.3	11748 (67.1)	+13.9
(a) For Capital Formation	3879 (29.5)	+12.1	4571 (30.8)	+17.8	4657 (30.3)	+20.1	5418 (30.9)	+16.3
(i) To States and Union Territories ..	1524 (11.6)	+ 6.4	1925 (13.0)	+26.3	2258 (14.7)	+48.2	2830 (16.1)	+25.3
(ii) To others*	2355 (17.9)	+16.2	2646 (17.8)	+12.4	2399 (15.6)	+ 1.9	2588 (14.8)	+ 7.9
(b) For purposes other than Capital Formation	4553 (34.6)	+16.0	5257 (35.5)	+15.5	5658 (36.8)	+24.3	6330 (36.2)	+11.9
(i) To States and Union Territories ..	1399 (10.6)	+12.8	1430 (9.7)	+ 2.2	1602 (10.4)	+14.5	1895 (10.8)	+18.3
(ii) To others*	3154 (24.0)	+17.5	3827 (25.8)	+21.3	4056 (26.4)	+28.6	4435 (25.4)	+ 9.3
II. Total Capital Formation Expenditure	4991 (38.0)	+ 7.0	5709 (38.5)	+14.4	5899 (38.4)	+18.2	7047 (40.2)	+19.5
III. Total Expenditure for purposes other than Capital Formation	8159 (62.0)	+10.7	9117 (61.5)	+11.7	9477 (61.6)	+16.2	10470 (59.8)	+10.5

* 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.

of expenditure under this head in the total expenditure increased from 64.1 per cent in 1976-77 to 67.1 per cent in 1977-78. Of the financial resources provided to the rest of the economy, those provided for capital formation increased by Rs. 778 crores over the year while those provided for purposes other than capital formation went up by a larger magnitude of Rs. 1105 crores. Consequently, while the share of the former in the total expenditure showed a marginal rise from 29.5 per cent in 1976-77 to 30.3 per cent in 1977-78, that of the latter rose from 34.6 per cent to 36.8 per cent.

As a result of the rise in the share of financial resources provided to the rest of the economy in the total expenditure, there was a decline in the share of final outlays (representing Government's direct expenditure on consumption and capital formation) in the total expenditure from 35.9 per cent to 32.9 per cent over the year. In absolute terms, the expenditure on final outlays increased by Rs. 343 crores in 1977-78; of this, as much as Rs. 213 crores (or 62 per cent) was accounted for by the rise in consumption expenditure (i.e. Government's direct demand for goods and services for consumption). Expenditure on capital formation under final outlays rose by Rs. 130 crores over the year. Thus expenditure on capital formation arising from direct outlays and transfer of financial resources to the rest of the economy increased by Rs. 908 crores from Rs. 4991 crores in 1976-77 to Rs. 5899 crores in 1977-78 (or by 18.2 per cent) and its proportion in total expenditure rose marginally from 38.0 per cent to 38.4 per cent.

Functional Classification

The Central Government's developmental expenditure comprising disbursements on account of social and economic services has been raised over the year by Rs. 1462 crores (or 20.4 per cent) to Rs. 8636 crores. The share of developmental expenditure in total expenditure was higher at 56.2 per cent in 1977-78 than 54.6 per cent in the previous year. Of the total increase in developmental

expenditure, as much as Rs. 1334 crores (or about 91 per cent) was accounted for by the rise in expenditure on economic services (such as investment in Government companies, loans to non-departmental non-financial companies and subsidies to industries) (Table VII-4).

Non-developmental expenditure of the Central Government comprising disbursements on account of general services and unallocable items rose over the year by Rs. 764 crores from Rs. 5976 crores in 1976-77 to Rs. 6740 crores in 1977-78. However, its growth rate over the year was smaller than that of the developmental expenditure. Consequently, its share in total expenditure declined from 45.4 per cent in 1976-77 to 43.8 per cent in 1977-78. The major proportion of the rise in non-developmental expenditure (about 85 per cent) was accounted for by unallocable items such as consumption subsidies, interest payments, pensions, statutory grants-in-aid and special loans to State Governments.

Pattern of Expenditure for 1978-79 : Budget Estimates

The Budget of the Central Government for 1978-79 was presented to the Lok Sabha on February 28, 1978 against the background of the favourable economic scene characterised by relative price stability in the context of a rapidly expanding economy. The budget for 1978-79 aims to set in motion a process of sustained increase in output and employment, particularly in the rural areas. A beginning was made last year by allocating more resources to agriculture and ancillary services, irrigation and rural infrastructure to tackle the basic problems of unemployment and poverty. Continuous channelisation of funds to these activities is necessary in order to bring about sustained increase in agricultural output and rural employment over time.

In pursuance of these socio-economic objectives, the Annual Plan outlay of the Centre, States and Union Territories for 1978-79 has been stepped up by 17 per cent to Rs. 11649 crores. While the Centre's Plan outlay

Table VII.4: Functional Classification of Central Government's Total Expenditure

		(Rupees Crores)							
		1976-77 (Accounts)		1977-78 (Budget Estimates)		1977-78 (Revised Estimates)		1978-79 (Budget Estimates)	
Items		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)	.. ..	13150 (100.0)	9.2	14826 (100.0)	12.7	15376 (100.0)	16.9	17517 (100.0)	13.9
A. Developmental Expenditure (i+ii)		7174 (54.6)	10.8	8092 (54.6)	12.8	8636 (56.2)	20.4	9973 (56.9)	15.5
(i) Social Services	.. ..	900 (6.9)	14.8	1012 (6.8)	12.4	1028 (6.7)	14.2	1273 (7.3)	23.8
(ii) Economic Services*	.. ..	6274 (47.7)	10.3	7080 (47.8)	12.8	7608 (49.5)	21.3	8700 (49.6)	14.4
B. Non-Developmental Expenditure (i+ii)	.. ..	5976 (45.4)	7.4	6734 (45.4)	12.7	6740 (43.8)	12.8	7544 (43.1)	11.9
(i) General Services	.. ..	3301 (25.1)	-1.3	3667 (24.7)	11.1	3417 (22.2)	3.5	3891 (22.2)	13.9
(ii) Unallocable	.. ..	2675 (20.3)	20.4	3067 (20.7)	14.7	3323 (21.6)	24.2	3653 (20.9)	9.9

*Include block grants and loans.

Note: Figures in brackets are percentages to total expenditure.

Source: Economic and Functional Classification of the Central Government Budget.

has been increased by Rs. 725 crores to Rs. 5664 crores, the outlay of the States and Union Territories has been stepped up by a larger magnitude of Rs. 964 crores to Rs. 5985 crores. In keeping with the emphasis on agriculture and rural development, the Plan outlay for agriculture has been raised by Rs. 490 crores to Rs. 1754 crores for 1978-79. The outlay on major and medium irrigation projects for 1978-79 is placed at Rs. 1166 crores as against Rs. 1032 crores in 1977-78 while that on minor irrigation has been raised to Rs. 235 crores from Rs. 206 crores in 1977-78. In order to improve the opportunities for gainful employment in rural areas through the development of rural and small scale industries, a larger provision of Rs. 219 crores has been made for 1978-79 as against Rs. 145 crores in 1977-78. The Plan provision in 1978-79 for the power sector is placed higher at Rs. 2197 crores than Rs. 1890 crores in 1977-78. The

outlays on transport and communications and industry and mining have been increased by Rs. 183 crores (or 11.5 per cent) to Rs. 1781 crores and by Rs. 50 crores (or 2.1 per cent) to Rs. 2414 crores, respectively.

Aggregate disbursements (including supplementary demands for grants for additional expenditure) in 1978-79 are budgeted at Rs. 19548 crores, showing a rise of Rs. 2636 crores (or 15.6 per cent) over the revised estimates for 1977-78. Aggregate receipts (adjusted for post Budget tax concessions and receipts from first six gold auctions) in 1978-79 estimated at Rs. 18011 crores would show a rise of Rs. 2074 crores (or 13.0 per cent) over the revised estimates for 1977-78. The budget thus leaves an uncovered gap of Rs. 1537 crores in 1978-79 on top of a budgetary deficit of Rs. 975 crores in the preceding year.

Economic Classification

According to the economic classification, the total expenditure of the Central Government during 1978-79 estimated at Rs. 17517 crores would show a lower rate of growth of 13.9 per cent than that of 16.9 per cent in the preceding year (Table VII-3). This is mainly due to the decline in the rate of growth of financial resources provided to the rest of the economy which constitute about two-thirds of the total expenditure of the Central Government. Thus, expenditure on account of financial resources provided to the rest of the economy is estimated to increase by Rs. 1433 crores or by 13.9 per cent to Rs. 11748 crores in 1978-79, as compared with the higher rise of Rs. 1883 crores (or by 22.3 per cent) to Rs. 10315 crores in the preceding year. Further, while financial resources provided to States and Union Territories for purposes other than capital formation are estimated to rise by 18.3 per cent in 1978-79 as against a lower rate of growth of 14.5 per cent in the previous year, those transferred to 'others' (e.g. non-departmental commercial undertakings, local authorities, foreign governments, etc.) are likely to be marked up only by 9.3 per cent as against the substantial rise of 28.6 per cent in the preceding year.

Provision for 'final outlays' which accounts for roughly one-third of the total expenditure has been enhanced by Rs. 708 crores or by 14 per cent compared with a smaller rate of growth of 7.3 per cent in the previous year. The provision for direct gross capital formation expenditure has been stepped up substantially by Rs. 387 crores or by 31.2 per cent compared with 11.7 per cent in the previous year. Its share in the total expenditure is also estimated to be higher at 9.3 per cent than that of 8.1 per cent in the previous year. Capital expenditure is expected to increase at a faster rate (31.2 per cent) than consumption expenditure (8.4 per cent) during 1978-79. As a result the proportion of consumption expenditure (which is the major component of final outlays) to total expendi-

ture is estimated to decline marginally from 24.8 per cent in 1977-78 to 23.6 per cent in 1978-79. The proportions of final outlays and financial resources provided to the rest of the economy to total expenditure in 1978-79 are likely to remain unchanged at the preceding year's level of 32.9 per cent and 67.1 per cent, respectively.

Total expenditure on gross capital formation is estimated to rise by Rs. 1148 crores (or by 19.5 per cent) marginally higher than the rate of growth of 18.2 per cent in the preceding year. Consequently, its share in the total expenditure is anticipated to rise from 38.4 per cent in 1977-78 to 40.2 per cent in 1978-79 (Table VII-5).

Functional Classification

Developmental expenditure of the Central Government is anticipated to increase at a lower rate of 15.5 per cent in 1978-79 as against the rate of 20.4 per cent in the preceding year. Its proportion to total expenditure, however, is expected to improve from 56.2 per cent in 1977-78 to 56.9 per cent in 1978-79. Expenditure on economic services, which constitutes roughly about one-half of the total expenditure, is anticipated to increase by a lower rate of 14.4 per cent than that of 21.3 per cent in the preceding year. Provision for social services, on the other hand, has been stepped up by 23.8 per cent compared with 14.2 per cent in 1977-78. Non-developmental expenditure is expected to grow at a lower rate of 11.9 per cent in 1978-79 than that of 12.8 per cent in the previous year (Table VII-4).

Major Tax Proposals

Tax proposals made in the budget for 1978-79 are expected to yield a revenue of Rs. 416 crores of which the share of the Central Government would be Rs. 321 crores. Subsequently, on April 27, 1978 certain tax concessions were announced involving a revenue loss of Rs. 25 crores of which the Centre's share is estimated at Rs. 21 crores.

Table VII.5: Provision for Capital Formation

Items	(Rupees Crores)					
	1976-77 (Accounts)	1977-78 (Budget Estimates)	1977-78 (Revised Estimates)	1978-79 (Budget Estimates)	Per cent variation of	
					Column 4 over 2	Column 5 over 4
1	2	3	4	5	6	7
1. Total Provision for Capital Formation (A+B) ..	4991	5709	5899	7047	18.2	19.5
A. Developmental (1 to 3)	4954	5652	5844	6981	18.0	19.5
1. Social Services	127	252	215	264	69.3	22.8
2. Economic Services (a to d)	3769	4144	4027	4660	6.8	15.7
(a) Agriculture	332	189	331	734	-0.3	121.8
(b) Industry	2163	2369	2197	2291	1.6	4.3
(c) Transport and Communications	970	1219	1171	1285	20.7	9.7
(d) Other Economic Services ..	304	367	328	350	7.9	6.7
3. Block Grants and Loans	1059	1256	1602	2057	51.3	28.4
B. Non-developmental (1+2)	37	57	55	66	48.6	20.0
1. General Services	37	57	55	66	48.6	20.0
2. Unallocable	—	—	—	—	—	—
II. Total Developmental Expenditure	7174	8092	8636	9973	20.4	15.5
III. IA as per cent of II	69.1	69.8	67.7	70.0		

Source: Economic and Functional Classification of the Central Government Budget.

In view of the narrow base for direct taxes, major reliance has been placed on indirect taxation for mobilising resources for development.

Direct Taxes

The proposals for mobilising additional resources in the field of direct taxes are designed to promote larger savings, to curb extravagant and wasteful expenditure in business and professions and to channelise funds for stimulating growth and production. In order to mobilise additional resources in the form of savings, the rates of compulsory deposits in the case of income tax payers were raised. Tax payers having current income of upto Rs. 15,000 will continue to enjoy immunity from the requirement of making compulsory deposit. In the case of incomes exceeding Rs. 15,000 and upto Rs. 25,000 the rate of deposit has been raised from 4 per cent to 4½ per cent. The income slab of

Rs. 25,001 to Rs. 70,000 where the rate of deposit was previously fixed at 10 per cent has been split into two brackets. The rate of deposit on the slab of Rs. 25,001 to Rs. 35,000 has been fixed at 11 per cent and that on the slab of Rs. 35,001 to Rs. 70,000 at 12½ per cent. On the income slab above Rs. 70,000, the rate has been raised from 12 per cent to 15 per cent.

The magnitude of long term savings through life insurance, provident fund contributions and other approved forms of savings which qualify for 100 per cent deduction has been raised from Rs. 4,000 to Rs. 5,000. The quantum of deduction in respect of the next Rs. 5,000 (as against Rs. 6,000 earlier) will continue at the rate of 50 per cent and the balance at the rate of 40 per cent. The monetary limit for the savings qualifying for deductions under this provision has been raised from Rs. 20,000 to Rs. 30,000.

The budget provided for a deduction of tax at source at the rate of 34.5 per cent from winnings from horse racing in excess of Rs. 2,500.

In respect of estate duty, the exemption limit has been raised from Rs. 50,000 to Rs. 1 lakh.

In order to stimulate investment in new companies, it has been decided to give a deduction in the computation of taxable income of 50 per cent of the amount invested in equity shares of new industrial companies. The maximum investment in a year qualifying for this deduction will be limited to Rs. 10,000. With a view to providing a stimulus to house building activity, this concession was extended subsequently to investment in new equity shares of approved companies established for providing long-term finance for construction or purchase of residential houses in the country.

In the previous budget, a provision was made to exempt capital gains in cases where the sale proceeds arising from the transfer of an asset are re-invested within six months in units of the Unit Trust of India, shares of Indian companies, bank deposits and other specified assets. In order that this concession leads to the flow of investible funds into fresh ventures, it has been provided that investment in shares of Indian companies will be taken into account for the purpose of exemption from capital gains tax only where the investment is made in equity shares of new industrial companies. The Finance bill originally provided that fixed deposits with banks made after February 28, 1978 could not be regarded as an eligible mode of investment for the purpose of exemption of long-term capital gains. However, subsequently on April 27, 1978 it was decided that fixed deposits with banks would continue to be an eligible mode of investment, subject to the fulfilment of certain conditions which are intended to ensure that no loan or advance is taken by tax-payers against the security of such deposits for a period of three years.

The annual letting value of a newly constructed house was earlier reduced for tax purposes by an amount upto Rs. 1,200 in respect of each residential unit for a period of five years. With a view to providing a stimulus for construction of houses, particularly for persons in low and middle income brackets, the monetary limit of Rs. 1,200 has been raised to Rs. 2,400. Similarly, the rate of initial depreciation allowance on the cost of new buildings erected by employers for their low paid employees has been increased from 20 per cent to 40 per cent.

A provision has been made for the disallowance of a part of the expenditure on advertisement, publicity and sales promotion in the computation of taxable profits of business and professions, in excess of Rs. 40,000. The rates of disallowance are determined with reference to the percentage which such expenditure bears to the total turnover or gross receipts of the business or profession. The expenditure on advertisement in newspapers with a circulation below 15,000 would be totally exempted from tax. As there was little scope of any extravagance or wastefulness in statutory advertisements or advertisement for recruitment of staff, no disallowance would be made in respect of expenditure on advertisements which fall in these categories. Further, no disallowance would be made in respect of certain items of expenditure, including expenditure on sales conferences, press conferences and trade conventions, participation in trade fairs and exhibitions, establishment charges including salaries of staff and catalogues and price lists.

A weighted deduction of expenditure incurred by domestic companies and non-corporate tax payers resident in India on development of export markets was previously allowed in the computation of taxable profits. With some modification of this arrangement it has been decided that the scheme of export markets development allowance would be available only to export houses recognised by the Ministry of Commerce, small scale

exporters and consultancy firms. The export market development allowance which was provided at the rate of 150 per cent of the actual expenditure on development of export market in the case of widely held domestic companies has been reduced from 150 per cent to 133 per cent. The rate is applicable also to other tax payers.

The Government imposed a tax in 1974 on interest income on loans and advances of banks at 7 per cent in order to use high interest rates as instrument of monetary restraint. The incidence of the tax was, however, on the borrowers from banks as it added to the cost of credit. The tax has been withdrawn in order to encourage productive investment.

The Direct Tax Laws Committee, under the Chairmanship of Shri C. C. Chokshi, which submitted its interim report last December made a number of valuable suggestions for simplification and rationalisation of tax laws, streamlining assessment procedures, reducing the area of litigation and accelerating the disposal of appeals and references. The Finance Minister expressed his intention to introduce separate legislation as early as possible to give effect to the main recommendations of the Committee which are acceptable to the Government. A few changes recommended by the Committee such as deduction of tax at source from race winnings and voluntary payment of advance tax which could easily be incorporated in the tax laws were introduced in the Finance Bill.

Indirect Taxation

Indirect Taxation Enquiry Committee (Chairman—L. K. Jha) which was appointed to review the structure of the indirect tax system recommended restructuring of the pattern of central excise and customs duties, measures to assist the small scale sector, the general reorientation of the tariff to make it income-elastic and the desirability of introducing a value added tax so as to avoid the cascading effect of taxes on raw materials and

components of finished products. The Committee has also made some recommendations regarding indirect taxes levied by the State Governments and local authorities. Some of the recommendations made in the final report are incorporated in the budget proposals.

The revenue from octroi duty, the magnitude of which is currently placed at Rs. 250 crores, is an important source of revenue to local authorities. However, studies have shown that the cost of collection of the octroi is unduly high. All committees which have gone into the subject have unanimously proposed its abolition. Its abolition will assist the orderly and healthy growth of the transport system in the country and will considerably reduce freight costs. Since local authorities seek reimbursement from State Governments for the loss of revenue arising from abolition of octroi, the Finance Minister announced in his budget speech that discussions will be held with State Governments for finding a satisfactory solution.

Excise Duties

A duty of 2 paise per kilowatt hour on electricity generated was originally imposed in the Budget for 1978-79. Electricity generated for captive consumption as well as that used in the auxiliary plants in the generating stations for the generation of electricity has been exempted. A rebate has been given to the producer in respect of electricity used for agricultural purposes. As a part of tax concessions announced subsequently, a uniform reduction of 10 per cent of the duty payable on the electricity generated after deducting the auxiliary consumption was granted.

As regards coal, an excise duty at rates varying from Rs. 5 to Rs. 10 per tonne was imposed in the budget. But as in the case of electricity some tax concession has been given subsequently in respect of this item also. Thus, one per cent of the coal produced in the mines has been exempted from duty. Similarly, hard coke has been exempted from payment of duty. As a result, the actual levy will be limited to coking coal at Rs. 7 per tonne and other coal at Rs. 5 per tonne.

In view of the paramount need for mobilising resources for development without creating fresh distortions in the tax structure, a special duty at the rate of 1/20th of the basic excise duty presently collected on each item in the central excise tariff has also been imposed. Exemption has, however, been given to coal, electricity and goods which are assessed under item 68 of the tariff (i.e. "All articles not elsewhere specified").

Consistent with the policy of the Government to encourage the small manufacturers and to widen the entrepreneurial base in the country, certain duty exemptions are proposed to enable them to compete successfully with larger units. All small scale units manufacturing specified goods, whose clearances in the preceding year did not exceed Rs. 15 lakhs are exempted from the duty payable on the first clearance of Rs. 5 lakhs. While proposing such an exemption, the Finance Minister was guided by the recommendations of the Jha Committee and also the need for rationalising the pattern of relief to small industries. The exemption will cover 69 items such as medicines, soap and detergents, paints and varnishes, household electrical goods, steel furniture, metal containers, aerated water, vegetable non-essential oils, ceramics and other notified items and is expected to benefit about 24,000 units which were under excise control.

Exemption has been given to power-driven pumps mainly used in agriculture from the whole of the excise duty leviable thereon. The duty on three-wheeler autorickshaws solely used for hire for transport of persons has been reduced from 12½ per cent *ad valorem* to 10 per cent *ad valorem*. The rate of duty leviable on small refrigerators of a capacity of 100 litres and less has been reduced from 40 per cent *ad valorem* to 30 per cent *ad valorem*.

In pursuance of the decision of the Government on the Report of Oil Prices Committee, the tariff structure relating to lubricating oils and greases has been rationalised.

Customs Duties

Considering the suggestions in regard to customs duties made by the Jha Committee, the customs duties on specified items of capital equipment not produced indigenously have been reduced from the level of 40 per cent to 25 per cent, in order to provide relief as well as to bring down the capital costs.

Export of Gold Jewellery

Since there is a large demand for Indian gold jewellery abroad, the Government decided to introduce a simplified scheme for the encouragement of the export of gold jewellery either by allowing importation of gold or by the sale of Government gold stocks at international prices. This policy would not only enable the country to earn a substantial amount of foreign exchange but would also gainfully employ the craftsmanship of the Indian jewellers. The Government subsequently announced a scheme for replenishment of gold against export of gold jewellery of 14 carats or higher purity. The import of gold and sales from Government's stocks are also expected to act as a brake on gold smuggling and dampen the expansionary effect of the budgetary transactions.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS

Revised Estimates 1977-78

According to revised estimates for 1977-78, the overall budgetary position of States shows an aggregate deficit of Rs. 290 crores in contrast to a surplus of Rs. 50 crores in the preceding year. Such a marked deterioration was the result of larger increase in aggregate disbursements than in receipts. While aggregate receipts amounting to Rs. 13,365 crores in 1977-78 went up by Rs. 1,443 crores (or 12.1 per cent) over that of 1976-77, aggregate disbursements at Rs. 13,655 crores recorded a rise of Rs. 1,783 crores (or 15 per cent) over the preceding year (Table VII-6).

Table VII.6: Overall Budgetary Position of State Governments

(Rupees Crores)

Items	1	1976-77	1977-78		1978-79	
		(Accounts)	(Revised Estimates)		(Budget Estimates)	
		Amount**	Amount	Percentage Variation over the previous year (Col. 3 over Col. 2)	Amount	Percentage Variation over the previous year (Col. 5 over Col. 3)
		2	3	4	5	6
I. Aggregate Receipts (A+B)		11922	13365	+ 12.1	14663 (14513)	+ 9.7 (+ 8.6)
A. Revenue Receipts (1+2)		9037	9931	+ 9.9	11049 (10899)	+ 11.3 (+ 9.7)
(1) Tax Receipts (a+b)		5713	6129	+ 7.3	6682 (6532)	+ 9.0 (+ 6.6)
(a) States' Taxes		4033	4309	+ 6.8	4665 (4606)	+ 8.3 (+ 6.9)
(b) Share in Central Taxes		1680	1820	+ 8.3	2017 (1926)	+ 10.8 (+ 5.8)
(2) Non-Tax Receipts (c+d)		3324	3802	+ 14.4	4367	+ 14.9
(c) Grants from the Centre		1505	1880	+ 24.9	2270	+ 20.7
(d) Other non-tax receipts		1819	1922	+ 5.7	2097	+ 9.1
B. Capital Receipts (1+2)		2885	3434	+ 19.0	3614	+ 5.2
(1) States' Capital Receipts		1439	1444	+ 0.3	1361	- 5.7
Of which:						
(a) Market Borrowings (Gross)		286	284	- 0.7	296	+ 4.2
(b) Recovery of Loans and Advances		360	378	+ 5.0	350	- 7.4
(2) Loans from the Centre (Gross)		1446	1990	+ 37.6	2253	+ 13.2
II. Aggregate Disbursements (A to E)		11872	13655	+ 15.0	15033	+ 10.1
(A) Developmental Expenditure* (1+2)		8234	9558	+ 16.1	10808	+ 13.1
(1) Social and Community Services		3506	4026	+ 14.8	4302	+ 6.9
Of which:						
Expenditure on Natural Calamities		85	137		62	
(2) Economic Services		4728	5532	+ 17.0	6506	+ 17.6
(B) Non-Developmental Expenditure*		2585	2946	+ 14.0	3236	+ 9.8
(C) Repayment of Loans to the Centre		719	807	+ 12.2	748	- 7.3
(D) Discharge of Internal Debt		136	171	+ 25.7	140	- 18.1
Of which:						
Market Loans		104	108		98	
(E) Other†		198	173	- 12.6	101	- 41.6
III. Overall Surplus (+)/Deficit (-) (I-II)		+50	-290		-370@ (-520)	

Notes: 1. Budget estimates for 1978-79 include estimated yield from the States' Budget proposals (Rs. 59 crores) and the States' share in the Centre's additional taxation (Rs. 91 crores). Figures in brackets are at 1977-78 rates of taxation.

2. Data given here are inclusive of revised/final/supplementary budgets presented by Andhra Pradesh, Karnataka, Kerala and Maharashtra States.

3. Figures given here differ from those given in the Bank's Annual Report 1977-78 due to revision in data.

** Figures taken here for Jammu and Kashmir relate to revised estimates for 1976-77, because accounts data are not available.

* Comprises States' expenditure on revenue and capital accounts and loans and advances extended by States.

† Comprise compensation and assignments to local bodies, appropriation to contingency fund and remittances (net).

@ If the unbudgeted outlays of Assam, Haryana, Jammu and Kashmir, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu aggregating Rs. 73 crores and the Supplementary Demands for Grants of Punjab of Rs. 48.4 crores are taken into account this deficit would increase to Rs. 491.2 crores. Subsequently on August 1, 1978, the Central Government has made a special loan of Rs. 430 crores towards the clearance of the States' deficit as on March 31, 1978. Besides additional grants of Rs. 14.5 crores and another loan of Rs. 2 crores are also sanctioned to States. Inclusive of these loans and grants to States their overall budgetary position is likely to show a deficit of Rs. 44.7 crores in 1978-79.

Receipts

The increase in aggregate receipts in 1977-78 is attributable to both revenue and capital accounts; the former were higher by Rs. 894 crores and the latter by Rs. 549 crores over their respective levels in the preceding year. In respect of revenue receipts amounting to Rs. 9,931 crores, both tax and non-tax receipts were higher by Rs. 416 crores and Rs. 478 crores, respectively. Total tax revenue aggregated Rs. 6,129 crores in 1977-78 as against Rs. 5,713 crores in 1976-77. The States' own taxes and their share in Central taxes contributed Rs. 276 crores and Rs. 140 crores, respectively, to the rise in tax revenue. The revenue from States' own taxes amounted to Rs. 4,309 crores in 1977-78 as compared to Rs. 4,033 crores in 1976-77. Most of the increase in the States' own tax revenue (Rs. 276 crores) was from taxes on commodities and services. Among these taxes, the major contribution was from sales tax which recorded an increase of Rs. 175 crores, followed by State excise duties (Rs. 45 crores), taxes on goods and passengers (Rs. 21 crores) and taxes on vehicles (Rs. 20 crores). Regarding other taxes, while receipts from land revenue declined by Rs. 25 crores, those from stamps and registration fees increased by Rs. 20 crores. Receipts from agricultural income-tax were higher by Rs. 4 crores and those from profession tax just by Rs. 1 crore. The States' revenue from share in Central taxes increased to Rs. 1,820 crores in 1977-78 from Rs. 1,680 crores in 1976-77. Of this increase, Rs. 88 crores were from share in union excise duties and Rs. 51 crores from share in income-tax.

Among the non-tax revenue of States, grants from the Centre at Rs. 1,880 crores were higher by Rs. 375 crores in 1977-78 than in 1976-77. Other non-tax revenue increased by Rs. 103 crores to Rs. 1,922 crores as a result of rise of receipts from economic services (Rs. 113 crores) and social and community services (Rs. 19 crores) which was partly offset by a decline in interest receipts (Rs. 16 crores) and revenue from general services (Rs. 13 crores). The increase in receipts from economic services

was on account of dairies, forests, cooperation and royalty on minerals.

Capital receipts moved up to Rs. 3,434 crores in 1977-78 from Rs. 2,885 crores in 1976-77. The major part of the increase was on account of Central loans which spurted by Rs. 544 crores to Rs. 1,990 crores. States' receipts from market borrowings did not undergo much change from the level of Rs. 286 crores in 1976-77. Net receipts from small savings, provident funds, etc., showed an increase of Rs. 44 crores to Rs. 245 crores in 1977-78. However, capital receipts on account of deposits and advances declined by Rs. 35 crores to Rs. 97 crores.

Transfer of Resources from the Centre

Transfer of resources from the Central Government to States including their share in Central taxes, but after deducting their loan repayments (Rs. 807 crores) and interest payments (Rs. 515 crores) to the Centre, amounted to Rs. 4,368 crores in 1977-78 which showed a rise of Rs. 942 crores (or 27.5 per cent) over the level of 1976-77. The proportion of these transfers to the net aggregate receipts of States was higher at 34.8 per cent in 1977-78 than 30.6 per cent in the preceding year. Excluding States' share in Central taxes, increase in the transfers amounted to Rs. 802 crores (or 45.9 per cent) as compared to a rise of Rs. 441 crores (or 33.8 per cent) in 1976-77 and their proportion to States' net aggregate receipts rose to 20.3 per cent from 15.6 per cent. Larger transfer of resources from the Centre to States during 1977-78 was mainly on account of Central Plan loans and Plan grants. In respect of Central grants to States there was an increase of Rs. 375 crores including Rs. 207 crores for State Plan schemes and Rs. 147 crores for Central and Centrally sponsored Plan schemes. While statutory non-Plan grants-in-aid were higher by Rs. 37 crores, other non-Plan non-statutory grants declined by Rs. 16 crores. In the case of Central loans to States, there was a rise of Rs. 544 crores during the year of which Rs. 501 crores were in respect of Plan

loans. Of the Plan loans, Rs. 444 crores were for State Plan schemes. Non-Plan loans increased by Rs. 43 crores during the year.

Disbursements

Aggregate disbursements showed a larger increase of Rs. 1,783 crores (or 15 per cent) to Rs. 13,655 crores in 1977-78 than the rise of Rs. 1,415 crores (or 13.5 per cent) to Rs. 11,872 crores in 1976-77. Developmental expenditure which increased by Rs. 1,324 crores (or 16.1 per cent) to Rs. 9,558 crores accounted for 74.3 per cent of the rise in aggregate disbursements in 1977-78. Of the increase in developmental expenditure, economic services accounted for Rs. 804 crores and social and community services for Rs. 520 crores. As a result, the proportion of developmental expenditure to aggregate disbursements was 70.0 per cent in 1977-78 as against 69.4 per cent in 1976-77. Non-developmental expenditure increased by Rs. 361 crores (or 14.0 per cent) in 1977-78. Repayment of Central loans at Rs. 807 crores was Rs. 88 crores more than in 1976-77 but repayment of market loans at Rs. 108 crores was higher by Rs. 4 crores only. Compensation and assignments to local bodies, appropriation to contingency fund and remittances (net) together declined by Rs. 25 crores to Rs. 173 crores in 1977-78.

BUDGET ESTIMATES 1978-79

The Budget estimates of the State Governments for 1978-79, after including additional financial resources mobilised by them, show for second year in succession a larger overall deficit of Rs. 370 crores* as against Rs. 290 crores in 1977-78 (revised estimates). While aggregate disbursements are expected to rise at 10.1 per cent, aggregate receipts are expected to increase at a lower rate of 9.7 per cent during 1978-79, as against increases of 15 per cent and 12.1 per cent, respectively, in 1977-78. In 1978-79, 10 out of 22 States have announced measures for mobilisation of additional resources of Rs. 69 crores and 2 States have given tax concessions resulting in revenue loss of Rs. 10 crores. The net

additional revenue mobilisation during the year has been estimated lower at Rs. 59 crores as compared to Rs. 65 crores mobilised during the preceding year (Table VII-6).

Receipts

The aggregate receipts of the State Governments are estimated to rise by Rs. 1,298 crores (or 9.7 per cent) to Rs. 14,663 crores* in 1978-79 as against a rise of Rs. 1,443 crores (or 12.1 per cent) to Rs. 13,365 crores in the preceding year. The lower growth during 1978-79 is the result of deceleration in capital receipts which are estimated to rise by Rs. 180 crores (or 5.2 per cent) to Rs. 3,614 crores as against a rise of Rs. 549 crores (or 19 per cent) in 1977-78. Revenue receipts, on the other hand, are estimated to increase by Rs. 1,118 crores (or 11.3 per cent) to Rs. 11,049 crores, thus showing a higher rate of growth than 9.9 per cent in 1977-78. Both tax receipts and not-tax receipts are anticipated to show larger increases of Rs. 553 crores and Rs. 565 crores, respectively, in 1978-79 than those of Rs. 416 crores and Rs. 478 crores, respectively, in the preceding year. This increase in tax receipts is the result of estimated rise in States' own tax revenues (Rs. 356 crores) and their share in Central taxes (Rs. 197 crores). The major part of the increase in States' tax revenue is expected from taxes on commodities and services (Rs. 337 crores). Of this, revenue from sales tax would account for Rs. 229 crores. Larger grants from the Centre (Rs. 390 crores) and growth of other non-tax revenue (Rs. 175 crores) are expected to raise the level of non-tax receipts. In respect of other non-tax revenue, contributions from interest

*Exclusive of special loans of Rs. 430 crores announced by the Centre to certain States towards clearance of their deficits as on March 31, 1978 because those States were having frequent overdrafts with the Reserve Bank of India. The Central Government announced these special loans in their Supplementary Demands for grants presented to Parliament on August 1, 1978. Besides, additional grants of Rs. 14.5 crores and another loan of Rs. 2 crores sanctioned to States are also excluded. However, inclusive of these loans and grants from the Centre and unbudgeted outlay/supplementary demands for grants of Rs. 121.4 crores of certain States, the overall budgetary position of States is likely to show a deficit of Rs. 44.7 crores.

receipts and from economic services are placed higher by Rs. 96 crores and Rs. 66 crores, respectively, in 1978-79 than their levels of the preceding year.

Loans from the Central Government at Rs. 2,253 crores are placed Rs. 263 crores higher in capital receipts of States in 1978-79 than in 1977-78. Gross market borrowings are estimated Rs. 12 crores more at Rs. 296 crores and receipts from small savings, provident funds, etc., and deposits and advances are expected to rise by Rs. 28 crores during 1978-79. However, these improvements would be partly offset by anticipated declines of Rs. 95 crores in reserve and contingency funds and of Rs. 28 crores in recovery of loans and advances.

As all the constituent receipts of transfer from Centre, viz., share in Central taxes, grants and loans from the Centre are expected to increase at a relatively faster rate than States' own receipts, the net transfer of resources as a proportion of net aggregate receipts would be higher at 37.4 per cent in the current year than 34.8 per cent in 1977-78, but in absolute terms, the budgeted increase of Rs. 839 crores in transfer of resources is less than that of Rs. 942 crores in the last year.

Disbursements

Aggregate disbursements are estimated to increase by Rs. 1,378 crores (or 10.1 per cent) to Rs. 15,033 crores as compared to a rise of Rs. 1,783 crores (or 15 per cent) during 1977-78. This deceleration is observed both in developmental and non-developmental expenditures and their growth rates are estimated to decline to 13.1 per cent and 9.8 per cent in 1978-79 from 16.1 per cent and 14 per cent, respectively, in 1977-78. States' developmental expenditure would increase by Rs. 1,250 crores to Rs. 10,808 crores during the current year as compared with the rise of Rs. 1,324 crores during 1977-78.

The deceleration in developmental expenditure reflects lower growth in provisions for

social and community services which are estimated to rise by smaller amount of Rs. 275 crores (or 6.8 per cent) to Rs. 4,302 crores in 1978-79, as against an increase of Rs. 521 crores (or 14.9 per cent) recorded in 1977-78. The lower growth in provisions for social and community services is due to reduction in expenditure on natural calamities and deceleration in expenditure in respect of education, art and culture, information and publicity and urban development. The expenditure on economic services would increase by Rs. 975 crores (or 17.6 per cent) to Rs. 6,506 crores as compared to a rise of Rs. 804 crores (or 17.0 per cent) in the preceding year. Agriculture and allied services and water and power development account for the major part of the increase in provisions made for economic services during the current year as in the previous year.

Non-developmental expenditure is budgeted to rise by Rs. 290 crores (or 9.8 per cent) as compared to the increase of Rs. 361 crores in 1977-78. Interest payments (Rs. 94 crores) and expenditure on administrative services (Rs. 130 crores) together would account for nearly four-fifth of the increase in the non-developmental expenditure.

States' Plan Outlay

The Plan outlay of Rs. 5,612 crores for 1978-79 represents an increase of Rs. 1,007 crores (or 21.9 per cent) over 1977-78 (Tables VII-7 and 8). According to the Plan priorities, larger outlay has been provided for power, irrigation and development of rural infrastructure. The Plan outlay for power at Rs. 1,917 crores forming 34.1 per cent of the total outlay would be higher by Rs. 286 crores (or 17.5 per cent) than in 1977-78. The outlays on irrigation and flood control and on agriculture and allied services have been raised by Rs. 225 crores and Rs. 178 crores to Rs. 1,129 crores and Rs. 853 crores, respectively.

Proposals to raise additional resources

Of the 22 States, measures for additional revenue mobilisation to the extent of Rs. 69

Table VII.7: Plan Outlay of States and Union Territories

(Rupees Crores)

State/Union Territories					Total proposed Plan Outlay (1969-70 to 1973-74)	Target for IVth Plan	As proposed in				
							1974-75	1975-76	1976-77	1977-78	1978-79
1					2	3	4	5	6	7	8
Andhra Pradesh					421	421	127	158	262	366	449
Assam					245* (28)	262	54	59	73	116	155
Bihar					480	531	169	189	242	300	384
Gujarat					485	455	143	173	193	281	335
Haryana					277	225	82	92	111	148	210
Himachal Pradesh					79	—	31	32	37	56	73
Jammu and Kashmir					164	158	48	54	79	90	108
Karnataka					340	350	111	139	200	230	309
Kerala					274	258	74	90	111	137	176
Madhya Pradesh					461	383	152	215	272	345	413
Maharashtra					906	898	276	350	460	647	735
Manipur					17	—	12	14	17	23	28
Meghalaya					—	—	14	15	20	24	28
Nagaland					42	40	14	15	18	19	25
Orissa					245	223	71	89	125	150	191
Punjab					360	294	108	163	219	258	260
Rajasthan					300	302	80	105	135	168	235
Sikkim					—	—	—	6@	12	12	16
Tamil Nadu					467	519	112	143	201	260	305
Tripura					20	—	11	12	15	16	23
Uttar Pradesh					1023	965	255	388	518	648	755
West Bengal					321	322	148	170	232	311	371
Hill and Tribal Areas					—	—	25	40	76	99	159**
A. States' Plan Outlay (Total)					6927	6606	2117	2711	3628	4704†	5743††
B. Union Territories					365	425	88	96	117	168	214
C. North Eastern Council								10	17	29	
Total (A to C)					7292	7031	2205	2817	3762	4901	5957

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.

** Includes Outlay for North Eastern Council also.

†† The total of States' Plan Outlay given here slightly differs from that given in Table VII. 8, the figures for which are taken from Central Government Budget documents.

Source: Planning Commission.

Table VII.8: States' Plan Outlay by Heads of Development

(Rupees Crores)			
	As proposed in		Increase over the previous year
	1977-78	1978-79	
1	2	3	4
1. Agriculture and Allied Programmes including A.R.C. ..	675 (14.7)	853 (15.2)	178 (26.4)
2. Irrigation and Flood Control	904 (19.6)	1129 (20.1)	225 (24.9)
3. Power	1631 (35.4)	1917 (34.1)	286 (17.5)
4. Village and Small Industries	52 (1.1)	72 (1.3)	20 (38.5)
5. Industry and Minerals	144 (3.1)	145 (2.6)	1 (0.7)
6. Transport and Communications ..	335 (7.3)	424 (7.6)	89 (26.6)
7. Others	864 (18.8)	1072 (19.1)	208 (24.1)
Total (1 to 7) ..	4605@ (100.0)	5612@ (100.0)	1007 (21.9)

Notes: 1. Figures in brackets under col. Nos. 2 and 3 are percentages to total.

2. Figures in brackets under col. No. 4 indicate percentage variation over the previous year.

@ Excluding Hill and Tribal areas.

Source: Central Government Budget.

crores have been announced by 10 States, viz., Haryana, Himachal Pradesh, Jammu and Kashmir, Kerala, Madhya Pradesh, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. Assam and Gujarat have given concessions in the existing taxation to the extent of Rs. 4.6 crores and Rs. 5 crores, respectively. Thus, aggregate additional revenue mobilisation proposed by States would amount to Rs. 59 crores during 1978-79 (Table VII-9).

Table VII. 9: Estimated Yield from Budget Proposals 1978-79

					Additional Yield (Rupees Crores)
1					2
<i>By States</i>					
1. Assam	..	..	..	..	-4.66*
2. Gujarat	..	..	..	..	-5.00*
3. Haryana	..	..	..	..	2.20
4. Himachal Pradesh ..	..	..	..	..	1.49
5. Jammu and Kashmir ..	..	..	..	..	2.00
6. Kerala	..	..	..	..	12.00
7. Madhya Pradesh ..	..	..	..	..	6.73
8. Punjab	..	..	..	..	6.70
9. Rajasthan	..	..	..	..	6.00
10. Tamil Nadu	..	..	..	..	7.30
11. Uttar Pradesh ..	..	..	..	..	12.62
12. West Bengal	..	..	..	..	11.50
Total					58.88
<i>By Major Heads</i>					
1. Sales Tax	..	..	..	..	25.58@
2. State Excise Duties ..	..	..	..	..	6.35
3. Stamps and Registration Fees ..	..	..	..	..	2.42**
4. Entertainment Tax ..	..	..	..	..	4.15
5. Motor Vehicles Tax	..	..	..	..	12.67
6. Taxes on Goods and Passengers ..	..	..	..	..	8.64@@
7. Land Revenue	..	..	..	..	-3.57†
8. Others	..	..	..	..	2.35††
9. Non-Tax Receipts	..	..	..	..	0.29§
Total					58.88

* Represents concessions.

@ After adjusting for the concession in case of Haryana and M.P. (Rs. 1.82 and Rs. 2.40 crores, respectively).

** After adjusting for concession in case of M.P. (0.12 crores).

@@ After adjusting for concession in case of Rajasthan (Rs. 0.30 crores).

† After adjusting for concession in case of Assam (Rs. 3.61 crores).

†† After adjusting for concession in case of Gujarat and Rajasthan (Rs. 5.00 crores, and Rs. 0.15 crore, respectively).

§ After adjusting for the concession in the case of Assam (Rs. 1.05 crores).

West Bengal has proposed measures to raise Rs. 11.5 crores during 1978-79. Its tax proposals include (1) increase in rural employment cess on coal mines, (2) rise in the rates of goods and passengers tax, (3) inclusion of more commodities in the sales tax and (4) adjustment of excise duty on alcohol and beer. Uttar Pradesh has proposed to raise the rates of sales tax, entertainment tax and motor vehicles tax to mobilise Rs. 12.6 crores. Kerala has relied on sales tax alone to raise Rs. 12 crores. Madhya Pradesh has tapped motor vehicles tax and goods and passengers tax to raise Rs. 8.5 crores but has granted concessions in sales tax and stamps and registration fees. Punjab has proposed to realise nearly Rs. 6.7 crores through higher rates of various taxes like state excise duties, stamps and registration fees, motor vehicles tax, entertainment tax and tax on goods and passengers.

Almost all the additional resources of Rs. 59 crores are proposed to be raised through commodity taxes and among them sales tax

alone accounts for Rs. 25.6 crores. The upward revision of motor vehicles tax proposed by West Bengal, Uttar Pradesh, Punjab, Madhya Pradesh, Haryana and Tamil Nadu would yield Rs. 12.7 crores followed by the revision of goods and passengers tax (Rs. 8.6 crores), entertainment tax (Rs. 4.2 crores) and stamps and registration fees (Rs. 2.4 crores). In 1977-78, additional resources of Rs. 26.9 crores were proposed to be raised through fresh measures relating to state excise duties. In contrast, according to 1978-79 tax proposals, only Rs. 6.4 crores more would be raised through additional tax effort in respect of state excise duties.

III. RAILWAY FINANCES

According to the Railway Budget for 1978-79, presented to the Lok Sabha in February 1978, the railway finances would show a surplus for the third consecutive year. The surplus in 1978-79 would be lower at Rs. 65.4 crores as against Rs. 89.3 crores in the revised estimates of 1977-78 (Table VII-10). This was proposed

Table VII. 10: Financial Results of Railways

(Rupees Crores)

Items	1974-75 (Actuals)	1975-76 (Actuals)	1976-77 (Actuals)	1977-78 (Revised Estimates)	1978-79 (Budget Estimates)
1	2	3	4	5	6
I. Total Receipts	1415.2	1775.5	2045.7	2141.8	2230.3
II. Total Expenditure	1341.5	1638.5	1749.4	1825.4	1932.1
III. Ratio of Total Expenditure to Total Receipts	94.8	92.3	85.5	85.2	86.6
IV. Net Revenue (I-II)	73.7	137.0	296.3	316.4	298.2
V. Capital-at-charge*	4105.6	4354.8	4533.7	4823.8	5156.7
VI. Net Revenue as Percentage of Capital-at-charge	1.8	3.1	6.5	6.6	5.8
VII. Dividend to General Revenues	203.3†	198.1	209.1	227.1	232.8
VIII. Net Surplus(+)/Deficit(—) (IV-VII)	—129.6	—61.1	+87.2	+89.3	+65.4
IX. Appropriation to (+) or Withdrawals from (—) Funds or Loans from (—) General Revenues to finance deficit:					
(a) Development Fund	—	—	+25.8	+34.2	+31.8
(b) Revenue Reserve Fund	—	—	+61.4	+55.1	+33.6
(c) General Revenues	—129.6	—61.1	—	—	—

* Excluding outlay on Metropolitan Transport Projects.

† Including Rs. 15.8 crores dividend liability pertaining to the year 1973-74.

to be achieved without any revision in fare or freight rates and after extending new amenities to second class passengers and giving a better deal to its employees and appropriating larger sums to Depreciation and Pension Funds.

Revised Estimates : 1977-78

According to the revised estimates for 1977-78, total receipts at Rs. 2,141.8 crores were higher by Rs. 96.1 crores or 4.7 per cent over the previous year, as against the rise of Rs. 270.2 crores (or 15.2 per cent) in 1976-77 (Table VII-10). A large part of the increase in 1976-77 was due to the increase in freight rates. Earnings from passenger traffic in 1977-78 exceeded the budget estimates, as a result of the increase in the volume of traffic, introduction of new services and improvement in passenger train operations. These earnings went up by Rs. 58.7 crores (or 10.3 per cent) to Rs. 628 crores in 1977-78 as against a rise of Rs. 55.2 crores (or 10.7 per cent) in 1976-77. Consequent to the serious set-back to the traffic caused by the natural calamities in November 1977 for about two months, originating revenue earning traffic was short of budget forecast of 220 million tonnes, by 6 million tonnes, but the average lead of traffic improved from 671 Kilometres during April-December 1976 to 711 Kilometres in April-December 1977. Revised estimates, therefore, place 'goods' earnings higher over the year by Rs. 53.1 crores (or 4 per cent) to Rs. 1,379 crores, as against a rise of Rs. 175.6 crores (or 15.3 per cent) in 1976-77. Receipts from 'other coaching' were slightly higher by Rs. 2.1 crores at Rs. 89 crores. Other earnings (including suspense) declined by Rs. 18.4 crores to Rs. 35.6 crores.

Total expenditure of the railways increased by Rs. 76 crores (or 4.3 per cent) to Rs. 1,825.4 crores in 1977-78 as against a rise of Rs. 110.9 crores (or 6.8 per cent) in 1976-77. Expenditure under repairs and maintenance, fuel and administration and operating staff accounted for over four-fifths of the increase in expenditure. Category-wise,

the largest expenditure of Rs. 629.9 crores was on account of repairs and maintenance, followed by operating staff at Rs. 324.2 crores and fuel at Rs. 302.6 crores. Expenditure on administration amounted to Rs. 156.8 crores. Appropriations to Depreciation Reserve Fund and Pension Fund were stepped up by Rs. 5 crores each to Rs. 140 crores and Rs. 40 crores respectively. The revised estimate of total expenditure is less by Rs. 36.6 crores than the budget estimate. Better operating efficiency and tighter budgetary control have contributed to the containment of expenditure. The ratio of total expenditure to total receipts came down marginally from 85.5 per cent in 1976-77 to 85.2 per cent in 1977-78. Despite an addition of Rs. 290.1 crores to the capital-at-charge, the ratio of net revenue to capital-at-charge was a shade higher at 6.6 per cent. Dividend to General Revenues was stepped up from Rs. 209.1 crores to Rs. 227.1 crores. The net surplus of the Railways was higher by Rs. 2.1 crores at Rs. 89.3 crores. Appropriations have been made to the Development Fund (Rs. 34.2 crores) and the Revenue Reserve Fund (Rs. 55.1 crores) from the net surplus. The indebtedness of the Railways to the General Revenues would come down by Rs. 93.3 crores to Rs. 368.7 crores by end-March 1978.

Development Expenditure : 1977-78

Developmental expenditure of the Railways during 1977-78 was Rs. 488.5 crores as compared to Rs. 342.7 crores in 1976-77 (Table VII-11). The outlay of Rs. 233.4 crores on rolling stock accounted for nearly one-half of the total outlay. The outlay in respect of track facilities and track renewals were Rs. 69.4 crores and Rs. 65.8 crores respectively. Other outlays were on new lines: Rs. 32.2 crores, electrification: Rs. 20 crores, signalling and interlocking works etc.: Rs. 14.7 crores, metropolitan transport projects: Rs. 10 crores and staff quarters: Rs. 8 crores.

Social Obligations

The financial cost of social obligations of the railways is estimated at Rs. 148.8 crores

Table VII. 11: Development Expenditure of Railways

						(Rupees Crores)				
Items						1974-75 (Actuals)	1975-76 (Actuals)	1976-77 (Actuals)	1977-78 (Revised Estimates)	1978-79 (Budget Estimates)
1						2	3	4	5	6
1.	Rolling Stock	..	..	..	..	174.2	200.6	202.0	233.4	237.2
2.	Traffic Facilities	..	..	..	..	56.5	52.4	63.1	69.4	83.0
3.	Track Renewals	..	..	..	..	31.1	54.0	60.2	65.8	70.9
4.	Electrification	..	..	..	..	22.0	20.2	16.6	20.0	23.0
5.	New Lines	..	..	..	..	18.8	16.7	18.7	23.2	28.7
6.	Signalling and Interlocking works etc.	..	..	..	..	13.2	14.8	13.8	14.7	20.2
7.	Staff Quarters	..	..	..	..	4.2	4.2	6.6	8.0	7.7
8.	Plant and Machinery	..	..	..	..	6.9	10.3	8.8	7.2	8.0
9.	Others	..	..	..	..	26.9	26.5	-47.1	46.8	61.6
<i>Of which:</i>										
	Metropolitan Transport Projects	..	..	..	..	7.1	6.9	9.2	10.0	15.0
Total	..	..	..	..	..	353.8	399.7	342.7†	488.5	540.3@

† Includes an amount of Rs. 1.80 crores for financing export orders.

@ Includes an amount of Rs. 5 crores for financing export orders.

during 1977-78 as compared with Rs. 183.4 crores in the preceding year*.

Budget Estimates : 1978-79

The budget estimates for 1978-79 anticipate higher receipt as well as expenditure. Total receipts would rise over the year by Rs. 88.5 crores (or 4.1 per cent) to Rs. 2,230.3 crores. A major part of the increase (Rs. 51.6 crores) would be on account of goods traffic. The originating revenue earning freight traffic would rise over the year by 8 million tonnes (or 3.7 per cent) to 222 million tonnes as against a rise of 1.4 million tonnes (or 0.7 per cent) to 214 million tonnes in 1977-78 and 15.8 million tonnes (or 8 per cent)

to 212.6 million tonnes in 1976-77. Passenger traffic both in volume and earnings is expected to increase by 5 per cent in 1978-79. The structure of freight rates and passenger fares remains almost unchanged except in the case of some sleeper and reservation charges for second class passengers, pending the recommendations of the Rail Tariff Enquiry Committee, 1977. 'Goods' earnings are expected to go up to Rs. 1,430.6 crores (or by 3.7 per cent) 'passenger' earnings to Rs. 658 crores (or by 4.8 per cent) and 'other coaching' earnings to Rs. 92.6 crores (or by 4.0 per cent) in 1978-79.

Total expenditure in 1978-79 is budgeted to increase by Rs. 106.7 crores (or 5.8 per cent) to Rs. 1,932.1 crores. Expenditure on repairs and maintenance at Rs. 671.6 crores would be higher by Rs. 41.7 crores thus accounting for nearly two-fifths of the total increase in expenditure. Expenditure on operating staff would increase by Rs. 24.3 crores to Rs. 348.5 crores, mainly on account of annual increments,

*The Railway Minister in his Budget speech has placed the cost of social obligations at Rs. 170 crores. These social obligations include: coaching services (suburban and non-suburban passenger traffic, parcels, luggage, etc.), transport of low rated commodities (foodgrains, salt, vegetables, fruits, etc.) and freight concessions and relief measures.

implementation of 10 hour duty schedule, additional running staff, payment of night allowance, upward revision in dearness allowance etc. In view of the anticipated growth in passenger and goods traffic, fuel costs are expected to go up by Rs. 9.9 crores. As recommended by the Railway Convention Committee 1977, appropriation to the Depreciation Reserve Fund has been increased by Rs. 5 crores to Rs. 145 crores in 1978-79. Appropriation to Pension Funds has been raised by Rs. 10 crores to Rs. 50 crores.

Net revenue at Rs. 298.2 crores in 1978-79 would amount to 5.8 per cent of capital-at-charge as against 6.6 per cent in 1977-78. The net surplus of Rs. 65.4 crores arrived at after providing for Rs. 232.8 crores for payment of dividend to General Revenues would be allocated to the Development Fund (Rs. 31.8 crores) and Revenue Reserve Fund (Rs. 33.6 crores). The railways' indebtedness to the General Revenues is expected to decline by Rs. 23.3 crores to Rs. 345.4 crores by end-March 1979, on top of a decline of Rs. 93.3 crores in 1977-78.

Development Expenditure : 1978-79

The railway development plan for 1978-79 provides for an outlay of Rs. 540.3 crores (including Rs. 5 crores for financing export orders), which is higher by Rs. 51.8 crores (or 10.6 per cent) than the outlay in 1977-78 (Table VII-11). Of the construction of 28 new railway lines in hand in 1977-78, seven projects were completed and three new lines were partially commissioned in 1977-78. Four more projects are expected to be completed in 1978-79. The budget provides for 3 new railway lines—the first phase of West Coast Konkan Railway, Kalyani—Kalyani township and Nadiad—Modasa broad-gauge line via Kapadvanj and for various surveys for 6 more lines.

Category-wise, the outlay on rolling stock which is the largest component is expected to go up by Rs. 3.8 crores to Rs. 237.2 crores as against a rise of Rs. 31.4 crores in 1977-78. The largest increase in outlay provided under

traffic facilities (Rs. 13.6 crores) followed by signalling and interlocking (Rs. 5.5 crores), reflect the new amenities and increased safety in travel. The outlay on Metropolitan Transport projects is expected to go up over the year by Rs. 5 crores to Rs. 15 crores. The outlay on track renewals, electrification and new lines would increase by Rs. 5.1 crores, Rs. 3 crores and Rs. 5.5 crores respectively.

New Amenities

According to the policy announced last year, a few new classless Janata trains including 'Gitanjali Express' were introduced in 1977-78. The railways propose to introduce a number of new facilities and amenities to the second class passengers including cushioned berths, back-rests, tinted window glass, additional racks for keeping meal trays, space for keeping drinking water containers, and supply of linen and bedding to passengers on demand. All second class general coaches on fast inter-city services will be provided with cushioned seats. Twelve broad-gauge double-decker coaches are proposed to be put into service on specified routes in 1978-79. The number of coaches to be hauled by each train will be increased.

Concessions

The existing sleeper coach charges of Rs. 5/- per night for two-tier accommodation and Rs. 5/- for the first night and Rs. 3/- for every subsequent night for three-tier accommodation have now been fixed uniformly at Rs. 5/- for the entire journey irrespective of the number of nights involved. Surcharge on super fast express trains has been reduced from Rs. 1.50 to Re. 1, with a provision for its abolition when the trains cease to be superfast. Reservation charges for second class sitting and sleeping accommodation have been cut to half from 50 paise to 25 paise. Hill concession for specified stations available prior to 1975 has been restored. For certain hill stations, hill concession now available for nine months would be available throughout the year. Railways have now decided to supply 'Janata

Khana' on all major long distance trains at Re. 1/- per packet.

Safety in Rail Travel

In order to eliminate accidents, the process of modernising the equipment for signalling and interlocking including introduction of automatic warning system, track-circuiting, better maintenance of track and rolling stock, ultrasonic flaw detectors for wheels, axles, and rails and vigilance control devices—is being speeded up. Intensive safety oriented training is imparted to the train operational staff. It has been decided to implement 10 hour duty rule in as short a time as possible on all trains. The existing 22,000 unmanned level crossings will be converted into manned level crossings in a phased manner, entirely at the cost of the railways.

IV. FINANCES OF THE INDIAN POSTS & TELEGRAPHS DEPARTMENT

Revised Estimates for 1977-78

The financial results of the working of the Posts and Telegraphs Department continued

to show improvement. The surplus on revenue account before making contribution towards capital expenditure and paying dividend to General Revenues at Rs. 194.5 crores in 1977-78 (revised estimates) was higher by Rs. 29 crores (17.5 per cent) as against the surpluses of Rs. 165.5 crores in 1976-77 (accounts) and Rs. 52.0 crores in 1975-76 (accounts). Revenue receipts went up by Rs. 71.1 crores (11.5 per cent) to Rs. 690.4 crores, mainly due to growth in traffic. No revisions were made in tariffs during the year 1977-78. Telecommunications services accounted for 85 per cent of the increase in gross receipts and the postal services for the remainder. Net working expenses at Rs. 495.9 crores rose by Rs. 42.1 crores (9.3 per cent) (Table VII. 12). Provision for depreciation on historical costs was raised by Rs. 7.7 crores (20.3 per cent) to Rs. 45.7 crores while the contributions towards capital expenditure at Rs. 44.6 crores were higher by Rs. 7.3 crores (19.6 per cent). The dividend payment to General Revenues at Rs. 30.2 crores was slightly higher by Rs. 1.6 crores. The surplus after making contributions towards capital expenditure and paying dividend to General Revenues amounted to Rs. 119.7 crores as

Table VII. 12: Financial Working of Posts and Telegraphs Department

(Rupees Crores)

Items	1975-76	1976-77	1977-78		1978-79
	(Actuals)	(Actuals)	(B.E.)	(R.E.)	(B.E.)
1	2	3	4	5	6
1. Revenue Receipts	483.6	619.3	717.4	690.4	778.7
2. Working Expenses (net)	431.6	453.8	508.9	495.9	537.8
3. Dividend to General Revenues	25.4	28.6	30.2	30.2	31.9
4. Surplus (+)/Deficit (—) before making contributions towards capital expenditure (1—(2+3))	+26.6*	+136.9	+178.3	+164.3	+209.0
<i>Of which: On account of:</i>					
(i) Postal Services	—45.8	—29.9	—46.5	—20.7	—15.3
(ii) Telecommunications Services	+72.4	+166.8	+224.8	+185.0	+224.3
5. Contributions towards Capital Expenditure	31.0	37.3	44.8	44.6	54.3
6. Surplus (+)/Deficit (—) after making contributions towards capital expenditure (4—5)	—4.4*	+99.6	+133.5	+119.7	+154.7
7. Appropriations to (+) or Withdrawals from (—)					
(a) Revenue Reserve Fund	—4.4	+2.2	+3.3	+1.5	+1.7
(b) Capital Reserve Fund	—	+97.4	+130.2	+118.2	+153.0

* This does not take into account rebate on fund balances (Rs. 34 lakhs).

Sources: (1) Explanatory Memoranda on the Budgets of the Central Government.

(2) Annual Reports of Indian Posts and Telegraphs Department.

against a surplus of Rs. 99.6 crores in 1976-77. Of this, Rs. 118.2 crores were appropriated towards Capital Reserve Fund and Rs. 1.5 crores towards Revenue Reserve Fund.

The capital outlay of P and T Department was stepped up by Rs. 80.9 crores (35.7 per cent) over the level of 1976-77 to reach Rs. 307.3 crores in 1977-78 (Table VII-13). Of this increase, telecommunications accounted for a major share—Rs. 64.1 crores, stores and manufacture suspense accounting for Rs. 11.3 crores and postal services for a mere Rs. 5.5 crores. A large portion of the capital outlay, as much as Rs. 166.3 crores (54.1 per cent), was financed out of the Capital Reserve Fund and receipts and recoveries on capital account. At Rs. 25.7 crores, capital advanced out of General Reserves in 1977-78 was around the same level of 1976-77.

Budget Estimates for 1978-79

The Central Budget for 1978-79 envisages that in 1978-79 the revenue account of the P & T Department would show a surplus of Rs. 240.9 crores, before making contributions towards capital expenditure and paying dividend

to General Revenues. This would mean an improvement of the order of Rs. 46.4 crores (23.9 per cent) over the revised estimates of 1977-78. Revenue receipts are expected to rise further over the year by Rs. 88.3 crores (12.8 per cent). The increase would be brought about partly by revisions in tariffs of various postal services effected from June 1, 1978, the estimated additional revenue from these revisions being Rs. 11.4 crores in 1978-79 and Rs. 13.7 crores in a full year. Net working expenses would also rise over the year but at a lower rate than that of the receipts. They are budgeted to rise by Rs. 41.9 crores (8.4 per cent) to Rs. 537.8 crores mainly due to operational costs, larger expenditure on engineering and increased provision of depreciation on historical costs. During 1978-79 the capital outlay would rise by Rs. 40.1 crores (13.0 per cent) largely due to the outlay on telecommunications services. The capital outlay on telecommunications services and stores and manufacture suspense has been stepped up from Rs. 265.6 crores to Rs. 305.9 crores and from Rs. 29.6 crores to Rs. 32.2 crores respectively. On the other hand, capital outlay on postal services has been reduced from Rs. 12.1

Table VII. 13: Capital Outlay of Posts and Telegraphs Department

Items	(Rupees Crores)				
	1975-76	1976-77	1977-78		1978-79
	(Actuals)	(Actuals)	(B.E.)	(R.E.)	(B.E.)
1	2	3	4	5	6
I. Expenditure:					
(a) Postal	5.1	6.6	9.9	12.1	9.3
(b) Telecommunications	174.8	201.5	307.1	265.6	305.9
(c) Stores and Manufacture Suspense	7.8	18.3	29.6	29.6	32.2
Total Expenditure (a to c)	187.7	226.4	346.6	307.3	347.4
II. Financed from:					
(i) Receipts and Recoveries on Capital Account	—	3.6	25.8	29.4	32.5
(ii) Advance Rentals Received under O.Y.T. and Other Schemes	45.6	24.6	21.0	25.0	25.0
(iii) Capital Reserve Fund	0.5	97.5	166.9	136.9	151.7
(iv) Depreciation on Historical Costs Transferred from Revenue	31.2	38.0	45.8	45.7	55.8
(v) Contribution towards Capital Expenditure from Revenue	31.0	37.3	44.8	44.6	54.3
(vi) Capital Advanced from the General Revenues	79.4	25.4	42.3	25.7	28.1
Total (i to vi)	187.7	226.4	346.6	307.3	347.4

Sources: (1) Explanatory Memoranda on the Budgets of the Central Government.
(2) Annual Reports of Indian Posts and Telegraphs Department.

crores to Rs. 9.3 crores. As much as Rs. 319.3 crores (91.9 per cent) of the total capital outlay would be financed from the P & T Department's internal resources and the remaining Rs. 28.1 crores by advances from General Revenues. During the years 1974-75 to 1977-78 which are the first four years of the Fifth Plan (terminated one year earlier) the capital outlay would amount to Rs. 868.4 crores accounting for 75.3 per cent of the P & T Department's total Fifth Plan outlay of Rs. 1153.8 crores.

V. PUBLIC DEBT AND OTHER LIABILITIES

The outstanding aggregate debt liabilities@ of the Government of India increased by Rs. 3,890 crores (11.5 per cent) and stood at Rs. 37,632 crores at the end of March 1978 as compared to a rise of Rs. 3,592 crores (11.9 per cent) during the fiscal year 1976-77. The public debt formed a major part of these liabilities although its share declined slightly from 68.0 per cent at end-March 1977 to 67.2 per cent at end-March 1978 (Table VII-14).

Table VII. 14: Public Debt and Other Liabilities of the Government of India

		(Rupees Crores)							
		As at the end of March							
Items		1973	1974	1975	1976	1977*	1978 (Revised Estimates)	1979 (Budget Estimates)	
1		2	3	4	5	6	7	8	
A. Public Debt (1+2)	.. .. .	17,319	16,973	18,789	21,387	22,935	25,302	29,419	
		(42.9)	(33.6)	(31.6)	(35.3)	(35.8)	(36.0)		
1. Internal Debt (i to iv)	.. .. .	10,195	11,104	12,368	13,898	14,440	16,326	19,610	
(i) Current Market Loans†	.. .. .	5,427	5,990	6,415	6,972	7,936	9,217	1,867	
(ii) Others@	.. .. .	—	—	156	155	175	175	175	
(iii) Treasury Bills	.. .. .	4,044	4,384	5,064	5,810	5,372	5,974	7,369	
(iv) Special Floating Loans‡	.. .. .	724	730	733	961	957	960	1,199	
2. External Debt	.. .. .	7,124	5,869	6,421	7,489	8,495	8,976	9,809	
B. Other Liabilities (1 to 3)	.. .. .	6,622	7,297	8,047	8,763	10,807	12,330	13,828	
		(16.4)	(14.5)	(13.5)	(14.5)	(16.8)			
1. Oil Credits	.. .. .	—	—	—	—	495	609	612	
2. Unfunded Debt (a to d)	.. .. .	4,673	4,595	5,043	6,006	7,488	8,669	9,166	
(a) Small Savings	.. .. .	2,802	3,276	3,554	3,946	4,359	4,799	5,259	
(b) State Provident Funds	.. .. .	1,204	1,115	1,292	1,504	1,687	1,876	2,108	
(c) PL 480 Deposits	.. .. .	627	—	—	—	—	—	—	
(d) Other Unfunded Debt§	.. .. .	220	204	197	556	1,442	1,994	2,549	
3. Reserve Funds and Deposits††	.. .. .	1,949	2,702	3,004	2,757	2,824	3,052	3,300	
C. Aggregate Liabilities (A+B)	.. .. .	23,941	24,270	26,836	30,150	33,742	37,632	43,247	
		(59.3)	(48.1)	(45.2)	(49.8)	(52.5)			
D. Amount due from Pakistan on account of pre-partition debt	.. .. .	300	300	300	300	300	300	300	
E. Net Liabilities (C-D)	.. .. .	23,641	23,970	26,536	29,850	33,442	37,332	42,947	

* 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 the IMF, IBRD, IDA and ADB.

§ Includes mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against Compulsory Deposit, Income-tax, Annuity Deposits etc.

†† Includes 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 Currency Reports prior to 1974-75. For explanation please refer to note on Statement No. 81 in Volume II of the Report.

2. Figures in brackets represent percentage to the C.S.O. estimates of national income at current prices.

Source: Finance Accounts of the Union Government for end-March 1973 to 1976, Ministry of Finance for end-March 1977 and Explanatory Memorandum on the Budget of the Central Government 1978-79 for end-March 1978 and 1979.

@Including amount due from Pakistan on account of pre-partition debt.

Public Debt

The outstanding public debt of the Government of India stood at Rs. 25,302 crores at the end of March 1978, the increase during 1977-78 being Rs. 2,367 crores (10.3 per cent) as against Rs. 1,548 crores (7.2 per cent) in the previous year (Table VII. 14). As a proportion of national income at current prices, public debt is estimated to have improved marginally from 35.7 per cent in 1976-77 to 36.0£ per cent in 1977-78. During 1976-77, the

major part of increase (65 per cent) was on account of the increase in external debt. This trend was reversed in 1977-78 when the increase in internal debt accounted for a substantial portion (79.7 per cent) of the total increase in public debt.

External Debt

The external debt of the Government of India recorded a rise of Rs. 481 crores (5.7 per cent) over the year and stood at Rs. 8,976

Table VII-15: Market Borrowings of Government of India during 1977-78

(Rupees Crores)

Date	Loans floated	Issue price (Rupees per cent)	Offered	Amount			Repay- ment in cash for uncon- verted matur- ing securities	Net Market Borrow- ings (Col. 5—8)
				Subscribed				
				Cash	Conver- sion	Total (Col. 5 + 6)		
1	2	3	4	5	6	7	8	9
May 25, 1977*	6½ per cent Loan 1997 6½ per cent Loan 2003	99.95 } 100.15 }	100	75	—	75		
				25	—	25		
				100	—	100	—	100
June 20, 1977*	5½ per cent Loan 1985 (Second issue) 6 per cent Loan 1994 (Second issue) 6½ per cent Loan 2004	99.50 } 99.00 } 100.00 }	400	41	—	41		
				63	—	63		
				337	—	337		
				441	—	441	—	441
August 1, 1977*	6 per cent Loan 1994 6½ per cent Loan 2004	99.15 } 100.25 }	100	25	—	25		
				75	—	75		
				100	—	100	—	100
October 1, 1977†	6 per cent Loan 1993 (Fourth issue) 6½ per cent Loan 1998 6½ per cent Loan 2005	99.50 } 100.00 } 100.00 }	450	68	5	73		
				79	4	83		
				310	30	340		
				457	39	496	82	375
December 7, 1977*	6 per cent Loan 1994 6½ per cent Loan 1998 6½ per cent Loan 2005	99.10 } 100.25 } 100.50 }	175	40	—	40		
				35	—	35		
				100	—	100		
				175	—	175	—	175
Total during 1977-78			1225	1273	39	1312	90**	1183**

* Offered for cash subscription only.

** Includes cash repayments of Rs. 8 crores on account of maturing of 7 per cent Gold Bonds 1977.

† Offered on cash-cum-conversion basis.

Source: Reserve Bank of India Records.

£ Based on provisional national income estimates.

crores at the end of March 1978. The gross receipts under external loans during 1978-79 are estimated to be Rs. 1,233 crores as compared to Rs. 919 crores in 1977-78.

Internal Debt

The internal debt of the Government of India registered an increase of Rs. 1,886 crores (13.1 per cent) over the year and stood at Rs. 16,326 crores at the end of March 1978 (Table VII. 14). A major portion of the increase was accounted for by current market loans (Rs. 1,281 crores) and treasury bills (Rs. 602 crores) while special floating loans rose slightly by Rs. 3 crores. *Ad hoc* treasury bills worth Rs. 100 crores held by the Reserve Bank of India were funded into dated Government securities during 1977-78 bringing the total of funded treasury bills since 1958-59 to Rs. 1,825 crores. The internal debt is estimated to rise further by Rs. 3,284 crores (20.1 per cent) to Rs. 19,610 crores during 1978-79.

*Market Borrowings 1977-78**

During 1977-78, the net receipts of the Central Government from market loans of Rs. 1,183 crores were higher by Rs. 338 crores over the previous year. The Centre entered the market on five occasions during the year—twice directly and thrice indirectly through sales to the Reserve Bank to be released for sale to investors subsequently—raising the gross amount of Rs. 1,312 crores (Table VII-15). In May 1977 the Government of India issued further tranches of two outstanding loans viz., 6½ per cent loan 1997 for Rs. 75 crores and 6½ per cent loan 2003 for Rs. 25 crores. This was followed by the issue in August 1977 of further tranches of two loans—6 per cent loan 1994 for Rs. 25 crores and 6½ per cent loan 2004 for Rs. 75 crores, and in December 1977 by the issue of further tranches of three loans viz., 6 per cent loan 1994 for Rs. 40 crores, 6¼ per cent loan 1998 for Rs. 35 crores and 6½ per cent loan 2005 for Rs. 100 crores. All these loans were initially taken up by the Reserve Bank which placed them on sale to investors

subsequently. The Centre made first direct approach to the market on June 20, 1977 when it floated three loans—5½ per cent loan 1985 (second issue), 6 per cent loan 1994 (second issue) and 6½ per cent loan 2004—on a cash basis. A total amount of Rs. 441 crores was raised through this floatation. The Centre approached the market again on October 1, 1977 and issued three loans—6 per cent 1993 (fourth issue), 6¼ per cent loan 1998 and 6½ per cent loan 2005—on a cash-cum-conversion basis thereby raising an aggregate of Rs. 496 crores, of which Rs. 457 crores were in cash. The market loans had the same features as in the previous year viz., longer maturities and higher rates of interest. The monthly average of gross redemption yield on Government of India securities was higher at 5.82 per cent during 1977-78 as compared to 5.73 per cent during 1976-77.

1978-79

During 1978-79, the Government of India has so far raised Rs. 1,192 crores (gross) as against the budget provision of Rs. 1,830 crores (gross). The net borrowing by Government has so far been Rs. 1,059.2 crores against the budget amount of Rs. 1,649.8 crores. On May 15, 1978 the Centre made first approach to the market with the issue of three loans—6 per cent loan 1988 (third issue), 6¼ per cent loan 1995 and 6¼ per cent loan 2006 for an aggregate sum of Rs. 552 crores on a cash basis. The rate of interest on the last loan was raised slightly by ¼ per cent as compared to the previous year. Further, tranches of three loans—6 per cent loan 1988 for Rs. 40 crores, 6¼ per cent loan 1995 for Rs. 40 crores and 6¼ per cent loan 2006 for Rs. 120 crores—were issued to the Reserve Bank of India on May 25, 1978 for placement on the market subsequently. The Centre entered the market again on July 1, 1978 when three loans—6¼ per cent loan, 1993, 6½ per cent loan, 2001 and 6¼ per cent loan, 2006 (second issue) were issued for an aggregate amount of Rs. 440 crores on a cash-cum-conversion basis.

*Subscription figures are drawn from Reserve Bank of India records.

Maturity Pattern of Rupee Debt

The maturity pattern of the Government of India rupee loans did not show any significant change in 1977-78 as compared to the position in 1976-77 (vide Statement No. 89 in Volume II of the Report). During 1977-78 while the proportion of long-dated securities (maturing after 10 years and undated) improved moderately from 64.6 per cent as at the end of March 1977 to 67.9 per cent as at the end of March 1978, that of short-dated ones (maturing within 5 years) registered a slight increase from 14.6 per cent as at the end of March 1977 to 15.1 per cent as at the end of March 1978. However, the proportion of medium-dated securities (maturity between 5 and 10 years) showed a decline of 3.8 per cent during the year.

Treasury Bills

The Government of India's outstanding treasury bills increased substantially by Rs. 3,247 crores (60.4 per cent) to Rs. 8,619 crores during 1977-78 (vide Statement No. 79 in Volume II of the Report). Of the total outstandings, the Reserve Bank of India accounted for Rs. 3,451 crores or 40.0 per cent, other banks for Rs. 4,267 crores or 49.5 per cent and State Governments for Rs. 746 crores or 8.7 per cent.

Special Floating Loans

Special floating loans representing India's contributions towards share capital of international financial institutions at Rs. 960 crores were higher slightly by Rs. 3 crores, at the end of March 1978, as against a decline of Rs. 4 crores during the previous year.

*Other Liabilities**

The non-marketable debt liabilities of the Government of India stood at Rs. 12,330 crores at the end of March 1978. These showed a rise of Rs. 1,523 crores (14.1 per cent)

during 1977-78 as against that of Rs. 2,044 crores (23.3 per cent) in the previous year.

Small Savings

Small savings collections were comparatively higher in 1977-78 at Rs. 461 crores as against Rs. 418 crores in the previous year (vide Statement No. 91 in Volume II of the Report). During 1977-78 all the small savings media registered increases over the previous year.

Promotional Measures

With a view to promoting small savings, the following important measures were taken during 1977-78.

(1) National Development Bonds in denominations of Rs. 10/-, Rs. 100/- and Rs. 500/- were introduced from August 31, 1977 for mobilising the savings for development purposes. After maturity at the end of 5 years, a bond of Rs. 100/- fetches Rs. 165/-, thus yielding simple interest at the rate of 13 per cent per annum. (2) The Post Office Time Deposits Rules were amended to provide for payment of post maturity interest upto a maximum period of 24 months at the rate of 5 per cent per annum. (3) The Extra-Departmental Branch Post Masters have been granted an incentive commission from December 1, 1977 at the rate of 2 per cent on investments in 7-year National Savings Certificates, National Savings Annuity Certificates and the National Development Bonds, in addition to the commission already admissible to them on investments in Post Office Time Deposits and net accretions in savings deposits. The Savings Bank facilities for Defence Services Personnel through Army Post Office were introduced from January 2, 1978.

During 1977-78, 76 more post office savings banks were enrolled as sub-members of local clearing houses thereby raising the total number

*These liabilities include unfunded debt, oil credits (from 1977) and Reserve Funds and Deposits of departmental undertakings.

of Post Office Savings Banks admitted to Clearing Houses to 239.

State Governments' Debt Position

The outstanding debt liabilities of State Governments stood at Rs. 16,334 crores at the end of March 1978 showing an increase of Rs. 1,635 crores (11.1 per cent) during 1977-78 as against an increase of Rs. 1,118 crores (8.2 per cent) during the previous year (Statement No. 84 in Volume II of the Report). At Rs. 16,334 crores in March 1978, they formed 23.2% per cent of national income during 1977-78 as against 22.9 per cent in 1976-77. States' debt liabilities are expected to rise further by Rs. 2,048 crores (12.6 per cent) to Rs. 18,382 crores at the end of March 1979.@

Loans and advances from the Central Government

The greater part 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. These loans and advances increased by Rs. 1,183 (11.4 per cent) during 1977-78 as against only Rs. 727 crores (7.5 per cent) in the previous year while their share in States' debt remained nearly constant at 71.1 per cent at the end of March 1978 as compared to 70.9 per cent at the end of March 1977. The States' indebtedness to the Centre is expected to rise further by Rs. 1,505 crores (13.0 per cent) during 1978-79 to Rs. 13,096 crores at the end of March 1979.

Market loans and bonds

Market loans and bonds comprising loans floated in the market (current as well as expired) and bonds issued by the State Governments such as Zamindari/Jagirdari abolition bonds, housing bonds, etc. rose by Rs. 173 crores (7.5 per cent) during 1977-78

(Rs. 181 crores or 8.6 per cent during 1976-77) to Rs. 2,466 crores at the end of March 1978. During 1978-79 they are expected to show a further rise of Rs. 207 crores (8.4 per cent) to Rs. 2,673 crores at the end of March 1979.

Market Borrowings 1977-78*

The State Governments entered the market only once during 1977-78 in contrast to the position in 1976-77 when they had gone to the market on two occasions. On August 23, 1977, 20 State Governments issued 6 per cent 1987, 10 year loans at a discount of $\frac{1}{2}$ per cent as against a discount of 1 per cent in the previous year. These loans were oversubscribed. As against the notified amount of Rs. 257 crores, the total subscription amounted to Rs. 283.96 crores of which Rs. 234.07 crores (82.4 per cent) represented cash subscription and the balance conversion of maturing securities. After repayment of maturing loans amounting to Rs. 104.64 crores, the net loans raised aggregated Rs. 179.32 crores.

The loan floatations of the States had some distinctive features during 1977-78. The loans were issued at a discount of $\frac{1}{2}$ per cent in contrast to the discount of 1 per cent during the preceding year. Consequently, the yield at the issue price in 1977-78 was lower at 6.07 per cent as against 6.14 per cent in 1976-77. The monthly average of gross redemption yields on the State Government securities was also slightly lower at 5.85 per cent during 1977-78 as against 6.02 per cent during the previous year.

1978-79

Twenty State Governments entered the market on September 12, 1978 for raising loans for Rs. 278.85 crores (gross). The total subscription received for the state loans amounted to Rs. 299.51 crores of which cash

£Based on provisional national income estimates.

@For State-wise break-up, please refer to Statement No. 88 of the Report.

*Subscription figures are drawn from the Reserve Bank of India records.

subscriptions were Rs. 255.35 crores (85.3 per cent) approximately. All these loan floatations were on cash-cum-conversion basis, having a maturity period of 10 years, bearing 6.25 per cent interest and were issued at par as against a discount of $\frac{1}{2}$ per cent in the previous year. The rate of interest has been raised by a quarter per cent during the year. The net amount raised by the States after meeting repayment liabilities of Rs. 96.04 crores on account of maturing loans and taking into account partial allotments made in respect of five states was Rs. 186.62 crores approximately.

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 a smaller amount of Rs. 6 crores (8.8 per cent) during 1977-78 and stood at Rs. 62 crores as compared to a substantial decline of Rs. 83 crores (55.0 per cent) during 1976-77. However, these advances are expected to rise by Rs. 13 crores (21.0 per cent) during 1978-79 to Rs. 75 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. These loans to the State Governments rose by Rs. 41 crores (7.0 per cent) during 1977-78 (Rs. 92 crores or 18.6 per cent during 1976-77) to Rs. 628 crores at the end of March 1978. A further rise of Rs. 59 crores (9.4 per cent) is anticipated during 1978-79 thereby raising these loans to Rs. 687 crores at the end of March 1979.

Provident Funds, etc.

The item 'Provident Funds' mainly represents balances in the state provident funds, trusts and endowments. These funds showed a rise of Rs. 244 crores (18.2 per cent) during 1977-78 (Rs. 201 crores or 17.6 per cent during 1976-77) to reach Rs. 1,587 crores at the end of March 1978. During 1978-79 a further rise of Rs. 264 crores or 16.6 per cent is expected in these funds thereby raising their level to Rs. 1,851 crores at the end of March 1979.

Chapter VIII

Industrial Finance

Total assistance sanctioned and disbursed by all term-lending institutions increased from Rs. 889 crores and Rs. 552 crores, respectively, in 1976-77 to Rs. 1,133 crores and Rs. 645 crores in 1977-78 (April-March) (Table VIII-1). However, the growth rates in sanctions and disbursements of 27.5 per cent and 16.7 per cent during the year were smaller as compared to 53.2 per cent and 37.2 per cent, respectively, in 1976-77. The amount consented/acknowledged by the Controller of Capital Issues to non-Government public limited companies which indicate investment intentions of the corporate sector, rose from Rs. 359 crores in 1976 to Rs. 384 crores in 1977. New issue activity by these companies (other than term-lending institutions) showed signs of picking up during 1977. The amount issued at Rs. 83.0 crores was higher by Rs. 28.1 crores over the previous year. This increase, however, reflected partly the dilution of non-resident equity hold-

ings by foreign controlled companies to comply with the provisions of the Foreign Exchange Regulation Act. Capital raised by non-Government public and private limited companies in 1977 at Rs. 229.4 crores was higher by Rs. 20.7 crores over the previous year. The industrial securities market after showing bearish trend, revived during the latter half of the year under review with the index of equity prices recording a rise of 12.5 per cent during 1977-78 (July-June) as against a rise of 10.5 per cent in 1976-77.

I. Capital Market

(i) Industrial Securities Market

The performance of the major stock markets in India during the year 1977-78 (July-June) was characterised by two distinct phases. During the first phase which began with the

Table VIII.1: Trends in Financial Assistance Sanctioned and Disbursed by Term Lending Institutions(a)
(Rupees Crores)

Year (April-March)	Sanctions		Disbursements	
	Direct Loans(b)	Total Assistance(c)	Direct Loans(b)	Total Assistance(c)
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	851.5 (+65.5)	888.8 (+53.2)	521.6 (+46.0)	552.3 (+37.2)
1977-78*	1087.1 (+27.7)	1133.0 (+27.5)	624.3 (+19.7)	644.5 (+16.7)

* Provisional.

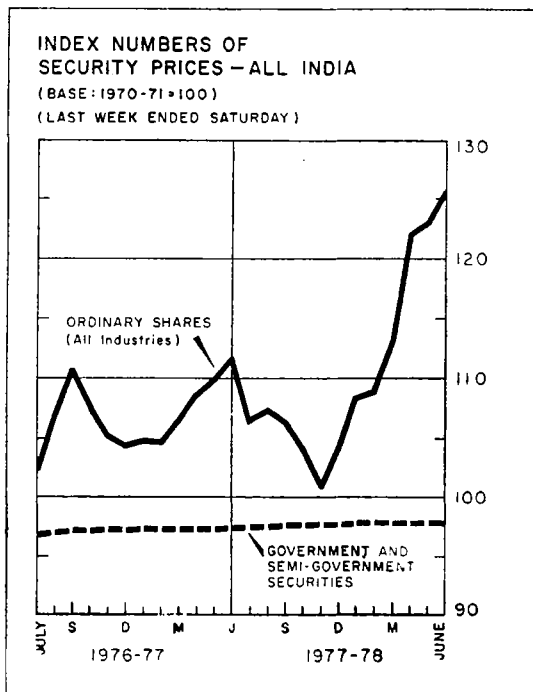
(a) Covers IDBI, IFCI, ICICI, IRCI, SFCs and SIDCs.

(b) Direct loans comprise total assistance as at (c) minus IDBI's export assistance and underwriting of and direct subscriptions to shares and debentures by all the institutions.

(c) Total assistance comprises (i) in respect of IDBI, all types of assistance with exception only of subscription to shares and bonds of financial institutions; refinances of SFCs industrial loans are excluded to avoid double counting and (ii) all types of assistance of other institutions.

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

presentation of the Union Budget for 1977-78 on June 17, and lasted till December 3, 1977, industrial security prices steadily declined. The all-India Index Number for Ordinary Shares (1970-71 = 100), which had risen to a high of 113.0 for the week ended June 18, 1977, declined by as much as 11.1 per cent to 100.5 for the week ended December 3, 1977. The fall was a sequel to the market disappointment with the budget proposals which fell short of expectations. The other depressing factors were the Government's decision on the payment of minimum bonus to employees regardless of the quantum of profits or losses made by the companies, continued labour unrest, sickness in a number of industries, and the economic policy statement of the Janata Party which, *inter alia*, advocated imposition of a ceiling on incomes, restrictions of dividends and curbs on monopoly houses. Favourable developments such as a good agricultural crop, comfortable food stocks and swelling foreign exchange reserves by and large failed to impart confidence to the marketmen. The lack of enthusiasm was evident in the tame Moorat Session on the major stock exchanges.



During the second phase, which commenced from the middle of December and lasted till the end of June, equity prices staged, barring a minor setback in February, a significant and wide recovery. The primary thrust came mainly from the re-emergence of all-round sizeable institutional buying, and the expectation of liberalisation of monetary and credit policies to help industrial revival. The downward adjustment of lending rates by banks, coupled with the reduction in interest rates on fixed deposits with banks, the withdrawal of the tax on banks' interest earnings, and the grant of tax relief for investment in equity shares of new industrial companies announced in the Union Budget for 1978-79, imparted a bullish fervour to industrial securities. The announcement of liberal import policy for 1978-79, and the Government's decision to raise the exemption limit for industrial licensing from Rs. 1 crore to Rs. 3 crores, provided additional encouragement to the market. The modification made in the 1977-78 Budget in respect of exemption from the capital gains tax, and amendments to the Companies (Acceptance of Deposits) Rules, 1975 reducing the scope for investment in company deposits and the resultant expectations of diversion of funds to equity shares also aided the bullish sentiment. As a result, the all-India Index Number for Ordinary Shares moved up to 127.0 for the week ended June 17, 1978 showing a rise of 26.4 per cent over that for the week ended December 3, 1977. The index, however, closed slightly lower at 125.5 for the week ended June 24, 1978. At this level it recorded a rise of 12.5 per cent over the year, as compared to the rise of 10.5 per cent in the preceding year (Table VIII-2).

The annual average index for ordinary shares (1970-71 = 100) at 110.6 for 1977-78 was higher by 5.5 per cent as compared with the gain of 6.7 per cent to 104.8 during the previous year. The annual index for preference shares on the other hand, rose by 1.1 per cent, in contrast to the fall of 5.1 per cent in 1976-77. The average index of debentures recorded much smaller increase of 1.2 per cent than the rise of 6.5 per cent in 1976-77.

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
1976-77										
June 26, 1976	..	..	..	..	..	..	..	90.2 (- 0.4)	81.2 (- 2.3)	101.0 (+ 5.2)
December 25, 1976	..	..	..	..	..	..	..	90.7 (+ 0.6)	80.4 (- 1.0)	104.3 (+ 3.5)
June 25, 1977	..	..	..	..	..	..	..	90.8 (+ 0.1)	79.5 (- 1.1)	111.6 (+ 7.0)
% Variation over the year	..	..	..	..	..	..	..	+ 0.7	- 2.1	+10.5
1977-78										
December 24, 1977	..	..	..	..	..	..	..	90.5 (- 0.3)	79.4 (- 0.1)	104.4 (- 6.5)
June 24, 1978	..	..	..	..	..	..	..	89.2 (- 1.4)	81.2 (+ 2.3)	125.5 (+20.2)
% Variation over the year	..	..	..	..	..	..	..	- 1.8	+ 2.1	+12.5
Annual Average										
1975-76	..	..	..	..	..	..	..	83.5 (-12.3)	83.0 (- 7.0)	98.2 (- 3.5)
1976-77	..	..	..	..	..	..	..	88.9 (+ 6.5)	78.8 (- 5.1)	104.8 (+ 6.7)
1977-78	..	..	..	..	..	..	..	90.0 (+ 1.2)	79.7 (+ 1.1)	110.6 (+ 5.5)

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

Yield on Industrial Securities

The average gross yield on industrial securities on ordinary and preference shares and running yield on debentures were higher during the year under review than in 1976-77. The redemption yield on debentures was however, lower at 12.5 per cent than that of 14.7 per cent in 1976-77. There was no change in the ceiling rate of dividend on preference shares and debentures as prescribed by the Controller of Capital Issues during the year. The actual rate of dividend offered on different issues of preference shares also remained unchanged at 11 per cent (Table VIII-3).

(ii) Open Market Operations

The Reserve Bank's open market operations during the year under review resulted in net sales of securities of the order of Rs. 662 crores as compared with net sales of Rs. 519 crores in the previous year. Table below shows that there

was a steady increase over the past few years in sales of securities. This may be attributed to the marked growth in the deposits of scheduled banks, combined with the increase in the statutory liquidity requirements applicable to banks. Purchases and sales of securities during the year amounted to Rs. 926.5 crores and Rs. 1,588.7 crores which were higher than those of the previous year by Rs. 194 crores and Rs. 338 crores respectively.

Bank's Open Market Operations

(Rs. crores)

Year	Purchases	Sales	Net Sales
1973-74	358.8	414.9	56.1
1974-75	514.7	756.4	241.7
1975-76	867.7	1373.2	505.5
1976-77	732.2	1250.9	518.7
1977-78	926.5	1588.7	662.2

Table VIII.3: Return on Securities Issued by Non-Government Public Limited Companies

(Per cent per annum)

	1974-75						1975-76			1976-77			1977-78		
A. Average Gross Yield															
(i) Ordinary Shares	..	..	..	..	..	..	3.8°	5.7	6.2	6.5					
(ii) Preference Shares	..	..	..	..	..	..	11.1	12.1	12.4	12.7					
(iii) (a) Debentures (Redemption Yield)	..	..	..	..	..	..	9.8	11.6	14.7	12.5					
(b) Debentures (Running Yield)	..	..	..	..	..	..	8.1	8.4	8.6	8.9					
B. Ceiling Dividend/Interest Rates fixed by the Controller of Capital Issues on															
(i) Preference Shares	..	..	..	..	..	..	11.0*	11.0*	11.0*	11.0*					
(ii) Debentures	..	..	..	..	..	..	10.5*£	10.5*£	10.5*£	10.5*£					
							10.0*\$	10.0*\$	10.0*\$	10.0*\$					
	1974-75			1975-76			1976-77			1977-78					
	Lowest	High- est	Modal	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	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0		
(ii) Debentures (at par)	..	10.0	10.0	10.0	9.0	10.5	10.5	10.5	10.5	10.5	—	—	—		

° Average for 11 months from August 1974 to June 1975.

* Effective from September 12, 1974.

£ For a term exceeding seven years.

\$ For a term upto seven years.

Gilt-edged Market

The gilt-edged market showed buoyancy during 1977-78 (July to June), though it was somewhat subdued towards the end of the year. The All-India (combined) Index for Government and semi-Government Securities (New Series with base: 1970-71=100) rose steadily from 97.4 as at end-June 1977 to 97.5 in the first week of July to 97.6 during late August and to 97.7 by the first week of December before reaching 97.8 on January 21, 1978. It came down to 97.7 on June 10, 1978 and remained at that level till end-June 1978 recording an increase of 0.3 point during the year under review as compared with a rise of 0.7 point in the preceding year. The increase during the year was mainly accounted for by Central Government Securities, the index for which registered an increase of 0.5 point, with

the index for State Government Securities recording an increase of 0.1 point and there being no net gain in respect of semi-Government securities.

Among Central Government Securities most of short-dated recorded increases in prices while most of the medium-dated and the long-dated ones registered declines, the only exceptions being the 5½ per cent 1999 (Bk. Com. Bonds) and 5½ per cent 2002 loan the price of which rose by Rs. 1.05 and Re. 0.40, respectively. Among the short-dated securities that suffered declines in prices was the 5½ per cent 1978 loan (Re. 0.25), while among those that showed notable increases in prices were (a) 4 per cent Loan 1979 (Rs. 1.70) (b) 4 per cent Loan of 1980 (Rs. 1.30) and (c) 4½ per cent 1979 (Bk. Com. Bonds) and 4 per cent Loan of

Table VIII.4: Prices and Yields of Selected Central Government Securities

Loans	As on				Variations	
	June 29, 1977		June 29, 1978		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	99.60	5.16	---	---	---	---
5½% 1978	100.40	4.95	100.15	4.83	-0.25	-0.12
4% 1979	97.10	5.55	98.80	5.24	-1.70	-0.31
4½% 1979	99.30	5.11	99.80	4.95	-0.50	-0.16
5% 1979	99.75	5.12	100.20	4.80	-0.45	-0.32
4½% 1979 (Bk. Com. Bonds)	98.10	5.49	99.15	5.34	-1.05	-0.15
7% 1980 (Gold Bonds) ..	106.00	4.59	106.00	3.29	---	-1.30
4½% 1980	98.60	5.28	99.10	5.26	-0.50	-0.02
4% 1980	96.05	5.42	97.35	5.38	-1.30	-0.04
4½% 1981	97.85	5.34	98.60	5.25	-0.75	-0.09
4% 1981	94.70	5.46	95.75	5.53	-1.05	-0.07
5% 1981 (N.D.L.)	98.70	5.33	99.05	5.30	-0.35	-0.03
5% 1982	98.40	5.36	98.45	5.43	-0.05	-0.07
5½% 1982	100.65	5.35	100.85	5.26	-0.20	-0.09
5 to 10 years						
5% 1983	97.65	5.46	97.75	5.51	+0.10	+0.05
5% 1984	97.00	5.53	97.60	5.48	-0.60	-0.05
5½% 1984	100.00	5.50	100.05	5.49	-0.05	-0.01
4½% 1985	92.60	5.66	93.60	5.62	-1.00	-0.04
5½% 1985	99.60	5.56	99.00	5.67	-0.60	-0.11
4½% 1986	91.95	5.67	92.50	5.70	-0.55	-0.03
5½% 1986	97.15	5.66	97.30	5.67	-0.15	-0.01
5½% 1986 (N.D.L.)	97.05	5.66	97.20	5.67	-0.15	-0.01
5½% 1987	96.65	5.69	96.70	5.72	-0.05	-0.03
10 to 15 years						
5½% 1988	95.80	5.77	95.90	5.80	+0.10	+0.03
6% 1988	102.10	5.75	100.10	5.99	-2.00	+0.24
4½% 1989	90.70	5.85	90.00	6.02	-0.70	-0.17
5½% 1990	97.00	5.83	96.70	5.89	-0.30	-0.06
5½% 1991	95.75	5.95	96.10	5.93	-0.35	-0.02
5½% 1992	95.70	5.93	95.35	5.99	-0.35	+0.06
15 years and over						
6% 1993	99.70	6.03	98.35	6.17	-1.35	-0.14
6% 1994	99.15	6.08	99.00	6.10	-0.15	-0.02
6½% 1995	---	---	100.15	6.23	---	---
5½% 1995	94.00	6.05	93.60	6.11	-0.40	-0.06
6½% 1996	100.75	6.18	100.30	6.22	-0.45	-0.04
6½% 1997	100.50	6.21	100.10	6.24	-0.40	-0.03
6% 1998	98.10	6.16	97.00	6.27	-1.10	-0.11
6½% 1998	---	---	100.00	6.25	---	---
5½% 1999	90.05	6.35	90.00	6.37	-0.05	-0.02
5½% 1999 (Bk. Com. Bonds)	90.00	6.35	91.05	6.27	+1.05	-0.08
5½% 2000	90.00	6.33	89.00	6.45	-1.00	-0.12
6½% 2000	101.75	6.35	100.65	6.44	-1.10	-0.09
5½% 2001	92.50	6.36	91.00	6.51	-1.50	-0.15
5½% 2001 (N.D.L.)	91.90	6.41	90.75	6.52	-1.15	-0.11
5½% 2002	91.60	6.43	92.00	6.41	+0.40	-0.02
6½% 2002	100.90	6.43	100.50	6.46	-0.40	-0.03
5½% 2003	91.70	6.41	90.50	6.53	-1.20	-0.12
6½% 2003	100.50	6.46	100.00	6.50	-0.50	-0.04
6½% 2004	100.15	6.49	99.75	6.52	-0.40	-0.03
6½% 2005	---	---	99.40	6.55	---	---
6½% 2006	---	---	100.20	6.73	---	---
Non-Terminable						
3% 1986 or later	60.00	5.00F	60.00	5.00F	---	---
3% (Govt. Rupee Paper) ..	59.60	5.03F	59.50	5.04F	-0.10	+0.01F

F=Flat yield.

1981 (both Rs. 1.05). In respect of medium and long-dated securities, there were notable declines in the case of (a) 6 per cent 1986 loan (Rs. 2.00) (b) $5\frac{3}{4}$ per cent 2003 Loan (Rs. 1.20) (c) $5\frac{3}{4}$ per cent 2001 Loan (Rs. 1.50) and (d) 6 per cent Loan of 1993 (Rs. 1.35) (e) $5\frac{3}{4}$ per cent 2001 (N.D.L.) (Rs. 1.15) and (f) 6 per cent 1998 and $6\frac{1}{2}$ per cent 2000 Loans (each Rs. 1.10). In line with the increases in prices, the yields in respect of the short-dated securities declined in the range of 0.02 to 1.30 percentage points. In respect of most of the long-dated securities on the other hand, the yields showed increases.

Prices and yields of most of the State Government securities showed only nominal variations. While the increases in prices ranged from Re. 0.05 to Rs. 1.10, the decline in prices varied from Re. 0.05 to Re. 0.95 in respect of most of the securities. Notable increases in prices were recorded by (a) $5\frac{3}{4}$ per cent 1981 Loan of Assam (Re. 0.85), (b) 6 per cent 1984 Loan of Gujarat (Re. 0.90), (c) $5\frac{1}{2}$ per cent 1978 Loan of Punjab (Re. 1.00) and (d) $5\frac{3}{4}$ per cent 1983 Loan of Gujarat (Rs. 1.10). On the other hand, prices of a few loans declined substantially: (a) $5\frac{3}{4}$ per cent 1984 loan of Gujarat (Re. 0.95) (b) $5\frac{3}{4}$ per cent 1983 loan of M.P. and $5\frac{3}{4}$ per cent 1982 loan of Haryana (Re. 0.80) (c) 6 per cent 1985 Loan of Gujarat and 6 per cent 1986 Loan of Maharashtra (Re. 0.70 each). Notable declines in yields were recorded by the $5\frac{3}{4}$ per cent 1981 loan of Gujarat (0.22 percentage point) and $5\frac{3}{4}$ per cent 1979 Loans of Andhra Pradesh and Tamil Nadu (0.26 and 0.30 percentage points respectively), while significant increases in yields were recorded by (a) $5\frac{3}{4}$ per cent 1980 Loan of Bihar and Karnataka (0.32 percentage point) and (b) $5\frac{3}{4}$ per cent 1979 loan of Uttar Pradesh (0.35 percentage point).

During the year under review, besides, floating cash-cum-conversion loans of (i) 6 per cent Loan 1993 (fourth issue) (ii) $6\frac{1}{4}$ per cent Loan 1998 and (iii) $6\frac{1}{2}$ per cent Loan 2005 for an aggregate amount of Rs. 450 crores on October 1, 1977, the Reserve Bank of India created on December 7, 1977 for an amount of Rs. 175 crores further tranches of existing

long-dated securities viz. 6 per cent Loan 1994, $6\frac{1}{4}$ per cent Loan 1998 and $6\frac{1}{2}$ per cent loan 2005, to cater to the demand from institutional investors. Further as part of the borrowing programme for 1978-79, three loans viz. 6 per cent loan 1988 (Third issue), $6\frac{1}{4}$ per cent loan 1995 and $6\frac{3}{4}$ per cent loan 2006 for a notified amount of Rs. 500 crores were issued on May 15, 1978. The Government also announced on June 15, 1978 the intention to issue on July 1, 1978 three other loans viz. $6\frac{1}{4}$ per cent 1993, $6\frac{1}{2}$ per cent 2001 and $6\frac{3}{4}$ per cent 2006 (second issue) for an aggregate amount of Rs. 400 crores.

The increased absorption of Government Securities was reflected in the growth of investment in Government securities of scheduled commercial banks to the tune of Rs. 1,141.61 crores over the year, as against the net rise of Rs. 908.58 crores in the previous year. The outstanding investment as on June 30, 1978 stood at Rs. 5,493.73 crores, as against Rs. 4,352.12 crores a year ago.

An important development that influenced the gilt-edged market was the lowering of overall structure of interest rates of commercial banks in March 1978. Simultaneously, the Government also raised the coupon rate in respect of the loans issued in May 1978 to a maximum of 6.75 per cent. Consequently, the prices of existing loans came down marginally in June 1978. Besides, the Reserve Bank on June 30, 1978 issued a circular discontinuing the practice of charging differential rates of interest for the purchase and sale of Central Government securities to enable the banks to approach the Reserve Bank directly instead of through brokers.

(iii) New Issue Activity

The new issue activity picked up during 1977 and the capital issued by non-Government public limited companies (excluding term-lending institutions) was higher at Rs. 83.0 crores by 128 issues as compared to Rs. 54.9 crores by 120 issues in 1976 (Table VIII-5). A number of foreign controlled companies diluted their equity holdings as required under the Foreign Exchange Regulation Act.

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		Distribution Between			
	No. of Issues	Equity shares	Prefer- ence shares	Deben- tures		No. of Issues	Equity shares	Prefer- ence shares	Deben- tures		No. of Issues	Amount	Issues of New Com- panies	Amount	Issues of Existing Com- panies	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
January-December																
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 ..	96	39.9 (87.5)	4.7 (10.3)	1.0 (2.2)	45.6 (100.0)	24	6.6 (71.0)	0.4 (4.3)	2.3 (24.7)	9.3 (100.0)	120	54.9 (100.0)	65	33.8 (61.6)	55	21.1 (38.4)
1977* ..	88	60.5 (97.3)	1.7 (2.7)	—	62.2 (100.0)	40	20.2 (97.1)	0.6 (2.9)	—	20.8 (100.0)	128	83.0 (100.0)	46	36.4 (43.9)	82	46.6 (56.1)
January-June																
1977* ..	42	19.8 (96.6)	0.7 (3.4)	—	20.5 (100.0)	21	9.0 (97.8)	0.2 (2.2)	—	9.2 (100.0)	63	29.7 (100.0)	24	11.3 (38.0)	39	18.4 (62.0)
1978* ..	49	30.3 (90.2)	3.3 (9.8)	—	33.6 (100.0)	17	4.3 (100.0)	—	—	4.3 (100.0)	66	37.9 (100.0)	N.A.	N.A.	N.A.	N.A.

*Provisional.

Notes: 1. Data exclude capital issued by term-lending institutions.

2. Figures in brackets indicate percentages to totals.

Source: Prospectus/Circulars and replies to our questionnaires received from the companies.

While in case of new issues through prospectuses the number of issues declined from 96 in 1976 to 88 in 1977, the amount issued increased from Rs. 45.6 crores to Rs. 62.2 crores. In case of issues through rights, both the number and the amount increased to 40 and Rs. 20.8 crores from 24 and Rs. 9.3 crores, respectively, in 1976. As in the past, issues through prospectuses continued to account for a major portion of the capital issued, but their percentage share in the total declined to 74.9 from 83.1 in 1976.

Security-wise, while equity issues at Rs. 80.7 crores recorded an increase of 73.5 per cent over the year, the issue of preference shares declined from Rs. 5.1 crores in 1976 to Rs. 2.3 crores during the year under review.

The average amount of capital issued through prospectuses worked out much higher at Rs. 70.7 lakhs in 1977 than that of Rs. 47.5 lakhs in 1976. The average amount per equity and preference issues (through prospectuses) stood at Rs. 81 lakhs and Rs. 13 lakhs, as against Rs. 54 lakhs and Rs. 22 lakhs respectively in 1976.

There was a rise in the proportion of the amount offered for public subscription out of the total amount issued during 1977. As against 65 per cent or Rs. 29.7 crores out of the total of Rs. 45.5 crores offered for public subscription in 1976, the amount offered in 1977 was 69.6 per cent or Rs. 43.3 crores out of the total of Rs. 62.2 crores issued through prospectuses.

The percentage share of issues of new companies in the total amount issued which had increased marginally in 1976 (61.6) over 1975 (59.2) declined to 43.9 in 1977.

During the first half of 1978, new issue activity further improved. The number of issues at 66 for Rs. 37.9 crores were higher than 63 issues for Rs. 29.7 crores during the first half of 1977. While the amount issued through prospectuses showed an increase of Rs. 13.1 crores during January-June 1978 over

the corresponding period last year, there was over the same period a decline of Rs. 4.9 crores in the amount issued through rights.

New Issues by FERA Companies

During 1977 there were 23 public issues (other than offer for sale) for Rs. 17.9 crores by companies diluting their non-resident equity holdings as required under the Foreign Exchange Regulation Act. Major part of these issues, i.e., Rs. 15.8 crores, was through prospectuses and the balance of Rs. 2.1 crores through the issue of rights. The share of FERA companies in the total amount of new capital issued in 1977 was about 21.6 per cent. Out of the total issue of Rs. 17.9 crores by these companies, Rs. 15.8 crores were offered for public subscription which in turn formed about 24.2 per cent of the total amount offered to public by all companies.

(iv) **Consents/Acknowledgements of Proposals**

The steady uptrend since 1974 in the total amount of capital consents/acknowledgements of proposals granted by the Controller of Capital Issues continued during the year 1977. The amount consented/acknowledged for issue of shares (including bonus shares), debentures and other miscellaneous issues by non-Government public limited companies aggregated Rs. 383.9 crores in 1977 as against Rs. 359.4 crores during 1976 (Table VIII-6).

While there was considerable decline in 1977 in the value of consents granted for preference shares (Rs. 2.6 crores), debentures (Rs. 20.9 crores), bonus shares (Rs. 5.9 crores), and miscellaneous loans (Rs. 15.9 crores), the consents granted for equity shares recorded an impressive increase of Rs. 69.8 crores. Equity shares accounted for 38.4 per cent of the total amount consented during 1977 as against just 21.6 per cent in the preceding year. The increase in consents to equity shares in 1977 reflected the impact of fiscal concessions granted to promote corporate investment, as well as the new issues of the foreign controlled companies diluting their non-resident holdings

Table VIII.6: Consents/Acknowledgements 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									
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 (40.5)	93.3 (59.5)	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
1977@@	147.5 (79.3)	4.6 (2.5)	33.9 (18.2)	186.0 (100.0)	76.8 (41.3)	109.2 (59.3)	112.3	85.6	383.9
January-June									
1977@@	78.3 (74.8)	1.5 (1.4)	24.9 (23.8)	104.7 (100.0)	41.7 (39.8)	63.0 (60.2)	65.7	50.4	220.8
1978@@	37.0 (50.8)	2.1 (2.9)	33.7 (46.3)	72.8 (100.0)	19.9 (27.3)	52.9 (72.7)	32.6	5.2	110.6

@@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 in brackets are percentages to totals.

Source: Controller of Capital Issues, Government of India.

in compliance of the Foreign Exchange Regulation Act. There was a decline over the year in bonus shares and miscellaneous loans in 1977 because of changes in the requirements for issues of bonus shares and raising of loans.

Amount consented to new companies more than doubled over the year from Rs. 36.1 crores to Rs. 76.8 crores, while consents to existing companies also rose, but modestly from Rs. 103.6 crores to Rs. 109.2 crores. Thus the proportion of amount consented to new companies in the total amount consented, which had declined to 25.8 per cent in 1976 from 40.5 per cent in 1975, increased to 41.3 per cent in 1977.

During the first six months of 1978 (January-June) total consents for capital issues granted by the CCI at Rs. 110.6 crores were just half of that consented during the corresponding six months period of 1977. Security-wise, consents granted to equity shares were lower by Rs. 41.3 crores and to bonus shares by Rs. 33.1 crores, while consents to preference shares were slightly higher by Rs. 0.6 crore and to debentures by Rs. 8.8 crores. Consents to miscellaneous issues (loans etc.) at Rs. 5.2 crores showed a sharp decline of Rs. 45.2 crores.

(v) Capital Raised

Capital raised by Government and non-Government companies during 1977 under consents/acknowledgements of proposals showed a decline of Rs. 8.3 crores over the previous year. The total amount of capital subscribed and paid-up aggregated Rs. 270.4 crores and Rs. 268.8 crores respectively in 1977 as compared with Rs. 282.0 crores and Rs. 277.1 crores, respectively in 1976 (Table VIII-7). The capital raised by non-Government companies at Rs. 229.4 crores during 1977 recorded an increase of Rs. 20.7 crores over the previous year, whereas the capital raised by Government companies was, at Rs. 39.4 crores, lower by Rs. 29.0 crores. While the increase in the capital raised by non-Government companies was due mainly to

capitalisation of reserves (bonus issues) which rose from Rs. 92.4 crores in 1976 to Rs. 114.5 crores in 1977, the increase in equity capital being only Rs. 21.1 crores, the decline in the capital raised by Government companies reflected the fall in their debenture and bonus issues which were lower by Rs. 16.2 crores and Rs. 13.1 crores, respectively over the preceding year.

The decline in the capital raised by the Government and non-Government companies other than by bonus issues and loans was wholly on account of the fall of Rs. 34.0 crores in capital raised through preference shares and debentures. This was partly offset by an increase of Rs. 21.2 crores in the capital raised through equity shares.

During the period January-June 1978 capital raised by Government and non-Government companies totalled Rs. 73.8 crores; of which bonus and debenture issues accounted for Rs. 42.4 crores and Rs. 20.9 crores, respectively. The capital raised by non-Government companies at Rs. 59.4 crores formed 80.5 per cent of the total capital raised.

(vi) Developments in Policy

With a view to stimulating investment in equity shares of new industrial companies, the Union Budget for 1978-79 provided for a deduction, in computation of taxable income, of an amount equal to 50 per cent of the cost of such shares, subject to a maximum investment of Rs. 10,000/- in a year. In order to channelise the flow of investible funds in risk capital, the Budget withdrew the earlier exemption from capital gains tax given for investments in equity shares of existing companies and restricted it to investments only in equity shares of new industrial companies. Further, similar exemption for investment in bank deposits withdrawn earlier, was restored on April 27, 1978.

On March 30, 1978, the Government imposed certain curbs on company deposits. As per the Companies (Acceptance of

Table VIII.7: Capital Raised under Consents/Acknowledgement of Proposals

(Rupees Crores)

GOVERNMENT COMPANIES													
1	1976				1977				1978 (Upto June 30, 1978)				
	Public		Private		Public		Private		Public		Private		
	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	Subscribed	Paid-up	
	2	3	4	5	6	7	8	9	10	11	12	13	
(a) Initial													
(i) Equity	6.5	6.5	—	—	2.4	3.2	—	—	2.0	0.8	—	—	
(ii) Preference.. .. .	0.3	0.3	—	—	—	—	—	—	—	—	—	—	
(b) Further													
(i) Equity	2.7	2.0	—	—	5.0	5.4	—	—	0.6	0.6	—	—	
(ii) Preference.. .. .	—	—	—	—	—	—	—	—	—	—	—	—	
(c) Debentures	40.1	40.1	1.0	1.0	24.9	24.9	—	—	11.0	11.0	—	—	
Total (a+b+c)	49.6	48.9	1.0	1.0	32.3	33.5	—	—	13.6	12.4	—	—	
(d) Bonus	13.9	13.9	—	—	0.8	0.8	—	—	2.0	2.0	—	—	
(e) Loans etc.	4.6	4.6	—	—	5.1	5.1	—	—	—	—	—	—	
Total (a+b+c+d+e)	68.1	67.4	1.0	1.0	38.2	39.4	—	—	15.6	14.4	—	—	

(Continued)

Table VIII.7: (Contd.)

(Rupees Crores)

NON-GOVERNMENT COMPANIES															

(Continued)

Table VIII.7: (Concl.d.)

(Rupees Crores)

TOTAL GOVERNMENT AND NON-GOVERNMENT COMPANIES													
1976				1977				1978 (Upto June 30, 1978)					
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
26	27	28	29	30	31	32	33	34	35	36	37		
(a) Initial													
(i) Equity	35.0	32.6	—	—	48.8	50.0	1.9	1.9	9.5	3.8	—	—	
(ii) Preference	1.3	1.5	—	—	0.7	0.7	—	—	—	—	—	—	
(b) Further													
(i) Equity	34.4	31.1	0.1	0.1	33.5	31.2	2.3	1.9	7.2	6.6	—	—	
(ii) Preference	5.9	6.5	—	—	1.1	1.0	—	—	—	0.1	—	—	
(c) Debentures	80.7	80.7	1.0	1.0	54.0	54.0	—	—	20.9	20.9	—	—	
Total (a+b+c)	157.3	152.4	1.1	1.1	138.1	136.9	4.2	3.8	37.6	31.4	—	—	
(b) Bonus	102.2	102.2	4.1	4.1	109.2	109.2	6.1	6.1	41.0	41.0	1.4	1.4	
(e) Loans, etc.	17.3	17.3	—	—	12.8	12.8	—	—	—	—	—	—	
Total (a+b+c+d+e)	276.8	271.9	5.2	5.2	260.1	258.9	10.3	9.9	78.6	72.4	1.4	1.4	

Source: Office of the Controller of Capital Issues, Government of India:

Deposits) Amendment Rules 1978, the limit of the acceptance of loans guaranteed by Directors from shareholders and deposits from shareholders has been reduced from 15 per cent to 10 per cent of the net worth with effect from April 1, 1979 and the overall limit for aggregate deposits of all categories from 40 per cent to 25 per cent of the net worth with effect from April 1, 1980. The maximum period for which companies can accept deposit was reduced to 36 months. This amendment also brought within its purview all inter-company deposits except any deposit received from another company by a company which has not gone into commercial production and has not accepted any deposits from the public. But subsequently, from July 17, 1978 inter-company deposits were excluded from the purview of the Companies (Acceptance of Deposit) Rules for a period of two years.

On the recommendations of the Study Group on Industrial Regulations and Procedures, the exemption limit for industrial licensing has been raised from Rs. 1 crore to Rs. 3 crores and the stipulation regarding the overall limit of investment of Rs. 5 crores has also been removed in respect of companies other than MRTP and foreign companies.

To bring about a wider dispersal of shareholding, particularly in the event of over-subscription to public issues, the Government issued on July 26, 1978 the following guidelines to the Stock Exchanges in respect of allotment of shares: (i) Allotment of shares should be predominantly in favour of those applying for a small number of shares, 50 to 200 shares of the face value of Rs. 10 each. The allotment, by drawal of lots wherever necessary, should begin with 25 shares and should be increased progressively in the multiples thereof. It should be the endeavour to have about 200 shareholders for every Rs. 1 lakh of share capital issued/offered for sale, especially in the case of issues over-subscribed by more than ten times, and (ii) the allotment per applicant should not in any event exceed 500 shares of the face value

of Rs. 10 each; in cases of excessively heavy over-subscription, say issues over-subscribed by more than 20 times, the ceiling should even be reduced to 250 shares per applicant.

II. Term-Lending Institutions

During the year 1977-78 (April-March), the term-lending institutions (i.e., the IDBI, IFCI, ICICI, IRCI, SFCs and SIDCs/SIICs) continued to play a dominant role in providing financial assistance to the corporate sector. Total assistance from these institutions reached a new peak during the year. The total assistance sanctioned amounted to Rs. 1,133.0 crores and the assistance disbursed to Rs. 644.5 crores. But the rate of growth sharply declined over the year in both cases: from 53.2 per cent in 1976-77 to 27.5 per cent in 1977-78 in case of sanctions, and from 37.2 per cent in 1976-77 to 16.7 per cent in 1977-78 in case of disbursements. The bulk of the increase in sanctions and disbursements was accounted by rupee loans which were higher by Rs. 238.2 crores and Rs. 76.9 crores, respectively. In case of foreign currency loans while sanctions declined from Rs. 47.4 crores during 1976-77 to Rs. 37.7 crores during the year under review, disbursements increased from Rs. 47.3 crores to Rs. 52.9 crores. As the apex term-lending institution, the IDBI increased its sanctions and disbursements (excluding refinance facilities to SFCs, SIDCs/SIICs) by 33.4 per cent to Rs. 654.0 crores and by 19.9 per cent to Rs. 334.9 crores, respectively, during 1977-78 (April-March). The IDBI's sanctions and disbursements constituted 57.7 per cent and 52.0 per cent, respectively, of the total sanctions and disbursements by all term-lending institutions. While the assistance sanctioned by the IFCI increased to Rs. 119.7 crores from Rs. 76.6 crores, disbursements were only marginally higher at Rs. 57.5 crores as against Rs. 54.9 crores during the preceding year. The total book-value of the investments of the LIC in stock exchange securities and loans increased by Rs. 547.9 crores to Rs. 4,012.4 crores as at the end of March 1978 from Rs. 3,464.5 crores a year ago. The sale of units of the Unit Trust of India showed

a remarkable growth during the year 1977-78 (July-June) with the total sales of units under all the schemes aggregating Rs. 73.3 crores which is more than double the preceding year's sales of Rs. 34.6 crores. The financial assistance sanctioned and disbursed by the SFCs, at Rs. 166.1 crores and Rs. 107.4 crores, respectively, showed marginal increases of around 2 per cent over the previous year.

The direct financial assistance sanctioned and disbursed by the IDBI, the IFCI and the ICICI amounted to Rs. 550.9 crores and Rs. 284.0 crores in 1977-78 showing increases of Rs. 188.4 crores and Rs. 88.3 crores, respectively, over the amount sanctioned and disbursed in the preceding year (Table VIII-8).

The outstanding credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled commercial banks to small-scale industries increased by Rs. 299.5 crores during the period April-December 1977 to Rs. 1,702.8 crores at the end of December 1977, as against the rise of Rs. 267.9 crores in the corresponding period of 1976. The guarantees outstanding under the Credit Guarantee Scheme for Small-Scale Industries increased from Rs. 2,147.1 crores as at end-March 1977 to Rs. 2,439.9 crores as at end-March 1978.

Financial assistance sanctioned and disbursed by 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 is set out in Table VIII-9, VIII-10 and VIII-11, respectively. While the assistance sanctioned by the SFCs to the small-scale industries sector at Rs. 126.1 crores showed an increase of Rs. 12.4 crores during 1977-78 (April-March), the refinance assistance from the IDBI showed a marked decline from Rs. 161.5 crores to Rs. 101.0 crores (Table VIII-9). The amount sanctioned by term-lending institutions to industries located in backward districts/areas during 1977-78 was lower

at Rs. 399.0 crores than that of Rs. 422.5 crores last year, while disbursements of Rs. 252.8 crores were higher by Rs. 48.8 crores. Similarly, the amount sanctioned and disbursed by these institutions excluding SIDCs/SIICs to new/small entrepreneurs amounted to Rs. 40.0 crores and Rs. 30.4 crores as compared to Rs. 55.9 crores and Rs. 21.6 crores, respectively, during the preceding year (Table VIII-10). While the financial assistance sanctioned to industrial companies in the co-operative and public sectors declined in absolute terms, disbursements of assistance were higher. Sanctioned assistance declined from Rs. 73.1 crores to Rs. 52.7 crores in case of companies in the co-operative sector, and from Rs. 170.3 crores to Rs. 146.2 crores in respect of public sector companies, disbursed assistance increased from Rs. 41.9 crores to Rs. 42.2 crores and from Rs. 88.1 crores to Rs. 99.1 crores for co-operative and public sectors, respectively, during 1977-78 (Table VIII-11).

(i) The Industrial Development Bank of India

The total assistance sanctioned by the Industrial Development Bank of India (IDBI) registered a marginal increase of Rs. 40.2 crores (5.7 per cent) with the total effective sanctions (excluding guarantees) going up from Rs. 701.5 crores (14,299 applications) in 1976-77 (July-June) to Rs. 741.7 crores (15,108 applications) in 1977-78 (Table VIII-12). Total disbursements also went up by Rs. 81.4 crores (20.7 per cent) to Rs. 474.5 crores from Rs. 393.1 crores in 1976-77. Whereas the direct assistance sanctioned i.e., direct loans (other than for exports) and underwriting of and direct subscriptions to shares and debentures of industrial undertakings, was marginally higher at Rs. 283.9 crores (242 applications) than Rs. 269.4 crores (260 applications) during the previous year, the disbursements rose over the year by 87.7 per cent from Rs. 96.8 crores to Rs. 181.7 crores. Sanction of direct loans (other than for exports) at Rs. 263.7 crores increased by Rs. 22.7 crores, and disbursements at Rs. 169.2 crores showed a marked increase of Rs. 80.5 crores. While the amount sanctioned towards underwriting

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
1975-76	94.8	44.2	77.5	216.5	63.4	15.2	60.1	138.7
	(43.8)	(20.4)	(35.8)	(100.0)	(45.7)	(11.0)	(43.3)	(100.0)
1976-77	224.3	31.1	107.1	362.5	110.3	10.9	74.5	195.7
	(61.9)	(8.6)	(29.5)	(100.0)	(56.4)	(5.6)	(38.0)	(100.0)
1977-78*	257.0	42.3	251.6	550.9	179.8	22.9	81.3	284.0
	(46.6)	(7.7)	(45.7)	(100.0)	(63.3)	(8.1)	(28.6)	(100.0)

*Provisional

£Include foreign currency loans and loans to small scale industries.

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)			
		1976-77		1977-78*	
Institutions		Sanc- tioned	Dis- bursed	Sanc- tioned	Dis- bursed
1		2	3	4	5
IDBI ^a	.. ..	161.5	85.0	101.0	58.4
IFCI	.. ..	—	—	—	—
ICICI	.. ..	0.1	0.1	—	—
IRCI	.. ..	0.3	0.4	0.2	0.3
SFCs*	.. ..	113.7	63.1	126.1	71.0
SIDCs ^b	.. ..	—	—	—	—

* Provisional

^a Includes assistance to small road transport operators under refinance of industrial loans and assistance under IDA line of Credit.

— Nil or negligible.

of and subscriptions to shares at Rs. 20.2 crores decreased by Rs. 8.2 crores, the amount disbursed under this head increased by Rs. 4.4 crores. Assistance sanctioned by way of refinancing of industrial loans during the year amounted to Rs. 244.4 crores to 13,910 appli-

cants, as compared to Rs. 235.6 crores to 12,996 applicants during the previous year showing a rise over the year of 3.7 per cent, and disbursements increased from Rs. 141.4 crores in 1976-77, to Rs. 145.5 crores in 1977-78.

Out of the total refinance of industrial loans sanctioned and disbursed, small-scale industries and small road transport operators together accounted for Rs. 151.0 crores and Rs. 77.9 crores, respectively, as compared to Rs. 152.6 crores and Rs. 88.0 crores last year, showing marginal declines both in sanctions as well as in disbursements. Assistance sanctioned under the bills rediscounting scheme declined by Rs. 17.9 crores or 11.8 per cent from Rs. 151.3 crores to Rs. 133.4 crores. Disbursements were also lower by Rs. 13.7 crores from Rs. 113.3 crores to Rs. 99.6 crores. Both sanctions and disbursements by way of subscriptions to shares and bonds of financial institutions more than doubled during 1977-78. While the sanctions in respect of export finance were higher at Rs. 47.3 crores than those of Rs. 34.6 crores in 1976-77, the disbursements declined from Rs. 28.8 crores to Rs. 19.3 crores.

Table VIII.10: Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions for Backward Areas and New/Small Entrepreneurs

(Year: April-March)		(Rupees Crores)											
		Backward Districts/Areas						New/Small Entrepreneurs					
		1975-76		1976-77		1977-78*		1975-76		1976-77		1977-78*	
Institutions		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. IDBI (a)	.. ..	57.4	35.5	198.1	84.3	170.4	120.6	2.5	0.1	11.5	4.1	8.6	2.1
2. IFCI	.. ..	26.5	16.8	45.2	27.7	58.0	33.7	5.0	4.2	8.6	4.4	4.4	6.5
3. ICICI	.. ..	29.1	23.0	44.5	25.7	33.2	28.2	3.9	1.7	16.8	5.1	11.8	13.8
4. IRCI	.. ..	1.0	1.4	4.7	2.6	1.0	1.2	—	—	—	—	—	—
5. SFCs*	.. ..	74.7	44.3	86.3	43.7£	86.7	46.2£	8.2	N.A.	19.0£	8.0£	15.2£	8.0£
6. SIDCs*	.. ..	0.2÷	0.2÷	43.7@	20.0	49.7@	22.9	10.0\$	9.2\$	15.2\$	9.5\$	N.A.	N.A.
Total	.. ..	188.9	121.2	422.5	204.0	399.0	252.8	29.6	15.2	71.1	31.1	40.0	30.4
7. LIC	.. ..	15.4	9.4	19.4	11.1	18.3	16.5	—	—	35.2	15.2	40.5	23.1

* Provisional

£ Include 16 SFCs

@ Include 20 SIDCs/SIICs.

÷ Figures cover 6 SIDCs/SIICs.

— Nil or negligible.

\$ Figures cover 14 SIDCs/SIICs.

(a) Data on assistance to backward districts/areas relate to concessional finances and those to new small entrepreneurs cover assistance to technician entrepreneurs only.

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					
	1975-76		1976-77		1977-78*		1975-76		1976-77		1977-78*	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5	6	7	8	9	10	11	12	13
1. IDBI (a) ..	14.0	4.8	41.8	18.4	29.3	21.8	40.0	22.9	126.8	62.1	85.7	61.6
2. IFCI ..	11.6	8.9	17.0	18.3	13.5	13.8	11.7	1.3	11.5	9.5	23.8	10.9
3. ICICI ..	3.4	1.1	11.5	2.8	8.3	5.2	6.2	0.4	20.7@	8.5@	14.5@	11.7@
4. IRCI (b) ..	..	..	..	..	..	..	1.0	2.4	2.6	3.6	8.8	6.2
5. SFCs* ..	2.2	1.3	2.8+	2.4+	1.6+	1.4+	6.8	2.2	3.1+	1.4+	2.3+	1.8+
6. SIDCs* ..	0.6	0.4	..	..	N.A.	N.A.	5.1	6.2	5.6	3.0	11.1	6.9
Total ..	31.8	16.5	73.1	41.9	52.7	42.2	70.8	35.4	170.3	88.1	146.2	99.1
7. LIC ..	7.7	4.5	14.5	8.0	3.4	6.4	13.6	3.7	13.8	7.5	6.0	9.8

* Provisional

(a) Total assistance under all schemes of IDBI (excluding guarantees and assistance to financial institutions).

(b) 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.

@ Figures relate to Joint Sector.

.. Nil or negligible.

+ Include 16 SFCs.

Assistance to Backward Areas and to the Small-Scale Sector

The amount of direct project assistance sanctioned on concessional terms to units located in specified backward areas declined from Rs. 104.7 crores in 1976-77 to Rs. 60.7 crores in 1977-78, but disbursements increased from Rs. 46.6 crores to Rs. 74.3 crores. The total assistance sanctioned by way of both direct finance and refinance of industrial loans amounted to Rs. 158.5 crores during 1977-78 as compared to Rs. 198.3 crores last year and disbursements increased by Rs. 28.8 crores to Rs. 127.5 crores (Table VIII-13). Under the scheme of refinance of industrial loans, assistance sanctioned and disbursed to small-scale industries and small road transport operators showed marginal declines during 1977-78 over 1976-77. While the number of applications at 12,956 were larger by 899,

the amount sanctioned at Rs. 151.0 crores was lower by Rs. 1.6 crores; disbursements at Rs. 77.9 crores were much lower by about Rs. 10.1 crores (Table VIII-14).

Soft Loan Scheme

Under the Soft Loan Scheme administered by the IDBI in participation with the ICICI and the IFCI, which came into operation in November 1976 for assisting units in sugar, cement, cotton textiles, engineering and jute industries, a total assistance of Rs. 175.3 crores was sanctioned to 132 units by the end of June 1978. However, in spite of the withdrawal of the convertibility clause in October 1977 and the relaxations in the norms for promoters' contribution, the pace of disbursement has been rather slow and only Rs. 19.6 crores were disbursed to 33 companies upto June 30, 1978. The amount of assistance

Table VIII.12: Summary of Operations of IDBI

(Year: July-June)

(Rupees Crores)

Type of Assistance	Sanctions						Disbursals			
	1976-77		1977-78		Cumulative sanctions since inception upto end of June 1978		1976-77	1977-78	Cumulative disbursement since inception upto end of June 1978	Amount outstanding as on 30th June 1978
	No. of applications	Amount	No. of applications	Amount			Amount	Amount		
1	2	3	4	5	6	7	8	9	10	11
1. Direct loans to industrial concerns (other than for exports)	184	241.0	205	263.7	755	920.5	88.7	169.2	518.3	438.1
2. Underwriting of and direct subscriptions to shares and debentures of industrial concerns	76	28.4	37	20.2	370	122.5	8.1	12.5	60.7	54.7
3. Refinance of industrial loans ..	12996	235.6	13910	244.4	49307	939.6	141.4	145.5	636.6	352.8
4. Rediscounting of bills	995	151.3	920	133.4	3394	781.2	113.3	99.6	617.7	338.7
5. Subscriptions to shares and bonds of financial institutions	23	10.6	18	32.7	31	115.4	12.8	28.4	110.0	96.5
Total Project Assistance (1 to 5) ..	14274	666.9	15090	694.4	53857	2879.2	364.3	455.2	1943.3	1280.8
6. Direct loans for export	8	8.7	8	18.1	88	119.5	17.9	11.0	83.0	49.9
7. Refinance of export credits	12	5.9	7	6.6	114	59.0	3.0	4.0	50.1	18.1
8. Overseas buyer's credit	2	7.6	1	3.1	8	22.1	5.1	3.6	9.0	8.7
9. Foreign lines of credit	3	12.4	2	19.5	11	52.4	2.8	0.7	11.8	11.8
Total (1 to 9)	14299	701.5	15108	741.7	54078	3132.2	393.1	474.5	2097.2	1369.3
10. Guarantees for loans and deferred payments	—	—	—	—	15	26.7	—	—	19.5	—
11. Export guarantees	12	41.9	42	50.0	67	96.6	25.1*	51.5*	81.3*	—

* Guarantees executed.

Notes: (1) The No. of applications in respect of item 4 relates to the No. of purchasers/users and in respect of item 5 to the No. of financial institutions.

(2) In case of Bills Rediscounting Scheme, amount sanctioned represents face value of bills rediscounted, while amount utilised indicated the net disbursals after deduction charges from the face value of bill.

Table VIII.13: IDBI's Assistance to Backward Areas on Concessional Terms

(Year: July-June)		(Rupees Crores)							
Type of Assistance		1975-76		1976-77		1977-78		Since inception of the scheme in July 1970 to June 1978	
		No. of applications	Amount	No. of applications	Amount	No. of applications	Amount		
1. Direct Assistance:	Sanctions	70	54.1	118	104.7	59	60.7	325	286.1
	Disbursements		20.0		46.6		74.3		165.2
2. Refinance of industrial loans:	Sanctions	2397	63.6	3227	93.6	2848	97.8	11674	315.2
	Disbursements		33.2		52.1		53.2		168.3
Total:	Sanctions	2467	117.7	3345	198.3	2907	158.5	11999	601.3
	Disbursements		53.2		98.7		127.5		333.5

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 (effective)		Disbursed		
	No.	Amount	No.	Amount	Amount
1975-76	..	..	7332	98.69	69.61
1976-77	..	..	12057	152.59	88.00
1977-78	..	..	12956	150.97	77.90

Note: Data include assistance sanctioned under IDA line of credit.

sanctioned and disbursed in case of each of these 5 industries upto June 30, 1978 is indicated below.

Industry	Sanctions		Disbursements	
	No. of applications	Amount (Rs. crores)	No. of applications	Amount (Rs. crores)
Cotton Textiles	76	70.9	13	5.8
Cement	6	27.3	5	4.4
Sugar	17	26.7	8	6.1
Jute	13	27.2	1	0.6
Engineering	20	23.2	6	2.7
	132	175.3	33	19.6

The interest rate structure of the IDBI is set in Table VIII-15.

(ii) The Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) sanctioned, including assistance sanctioned under the Soft Loan Scheme, financial assistance of Rs. 119.7 crores to 231 projects during the year 1977-78 (April-March), as compared to that of Rs. 76.6 crores to 153 projects during the previous year, recording an increase of 56.0 per cent. The total sanction during 1977-78 comprises rupee loans of Rs. 105.8 crores, foreign currency loans of Rs. 6.8 crores, and underwriting of and direct subscription to shares and debentures of Rs. 7.1 crores, as compared to Rs. 65.9 crores, Rs. 4.5 crores and Rs. 6.2 crores, respectively, during the preceding year. Disbursed assistance, however, increased only marginally from Rs. 54.9 crores in 1976-77 to Rs. 57.5 crores in 1977-78. Of the total disbursements, rupee loans claimed the major share at Rs. 50.7 crores, followed by underwriting and direct subscription at Rs. 3.6 crores, and foreign currency loans at Rs. 3.2 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 specified backward districts ..	9.50	
(c) Soft loan	7.50	
(d) Technical Development Fund		
(i) Normal	11.00	
(ii) Concessions to backward area units	10.00	
2. Refinance of Industrial Loans		
(a) Normal	9.00	12.50
(b) Special rate		
(i) Units in specified backward districts	6.00	9.50
(ii) Small-scale industries (SSI) covered under the Credit Guarantee Scheme (CGS) and Technician—Entrepreneur Schemes (TES) and loans upto Rs. 5 lakhs to fishing units	7.50	11.00
(iii) Single track operators covered by the guarantee of Credit Guarantee Corporation of India Ltd.	8.00	11.50
(c) Under World Bank Credit		
(i) Loans to SSI covered under the CGS/TES and to projects in specified backward areas	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 credit scheme	}	The rate on IDBI's portion of the credit is such that after taking into account the participation bank's rate, the average rate payable by the exporter/importer on the entire credit is generally 7.50 per cent.
(c) Buyers' credit scheme		
4. Rediscounting of machinery bills		
Unexpired usance of bills/promissory notes		
A. Normal		
(a) 6 months to 36 months	9.50	10.50
(b) Over 36 months and upto 84 months	9.00	10.00
B. Small-scale sector (seller and/or purchaser)		
(a) 6 months to 36 months	8.75	10.00
(b) Over 36 months and upto 84 months	8.25	9.50
C. SEBs and SRTCs in Himalayan Hill Regions*		
(a) 6 months to 36 months	7.25	8.25
(b) Over 36 months and upto 84 months	6.75	7.75

* Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu and Kashmir, Sikkim and Himachal Pradesh and Union Territories of Arunachal Pradesh and Mizoram. These rates will also apply to the Uttar Pradesh SRTC in respect of purchases of chassis/machinery for the operation in the districts of Almora, Chamoli, Dehradun, Nainital, Pithoragarh, Pauri, Garhwal, Tehri Garhwal and Uttar Kashi.

During the year 1977-78, the Corporation sanctioned direct loans (including foreign currency loans) of Rs. 112.6 crores, compared to Rs. 70.5 crores during the last year. Of these, loans to newly established companies amounted to only Rs. 39.3 crores as against Rs. 48.3 crores in the preceding year. While the direct loans sanctioned to existing companies for their new projects increased from Rs. 9.0 crores in 1976-77 to Rs. 15.3 crores during 1977-78, those for expansion of existing capacity, modernisation etc., increased from Rs. 13.2 crores to Rs. 58.1 crores. The total disbursements of direct loans at Rs. 53.9 crores was higher by about Rs. 1 crore during the year under review. Newly established companies accounted for Rs. 33.3 crores, and existing companies for the balance consisting of Rs. 10.8 crores for new projects and Rs. 9.8 crores for expansion of existing capacity, modernisation, etc.

During the year, the Corporation assisted 98 projects in specified backward districts involving assistance of Rs. 58.0 crores and 67 new projects for an aggregate amount of Rs. 56.6 crores. The financial assistance sanctioned for projects in specified backward districts formed 48.5 per cent of the total assistance sanctioned for all projects.

The cumulative net financial assistance sanctioned and disbursed by the Corporation since its inception in July 1948 aggregated Rs. 732.8 crores and Rs. 578.1 crores, respectively, as at end-March 1978 in respect of 1,004 projects. There was no change in the lending rates charged by the Corporation.

In the Soft Loan Scheme being administered by the IDBI, the IFCI has been designated as the 'lead institution' for processing applications from sugar and jute industries. Up to March 31, 1978, the IFCI had sanctioned a total assistance of Rs. 28.4 crores to 84 projects under the Scheme.

The Risk Capital Foundation (RCF), sponsored by the IFCI to provide seed capital for new/technician entrepreneurs,

sanctioned assistance to the extent of Rs. 44.2 lakhs to 12 promoters of 6 projects during the year ended March 1978. The assistance sanctioned by the RCF since the commencement of the scheme in June 1976 totalled Rs. 70.1 lakhs to 11 projects, of which an amount of Rs. 28.3 lakhs stood disbursed as at the end of March 1978.

The Corporation raised funds by issue of bonds in two tranches of Rs. 19.9 crores and Rs. 25.4 crores in May and December 1977 respectively. The total outstanding bonds as on March 31, 1978 amounted to Rs. 211.1 crores.

(iii) **The Industrial Credit and Investment Corporation of India Ltd.**

The total net financial assistance sanctioned by the Industrial Credit and Investment Corporation of India Ltd. (ICICI) during 1977-78 (April-March) amounted to Rs. 108.3 crores and disbursements to Rs. 91.6 crores, as against Rs. 98.7 crores and Rs. 67.0 crores, respectively, during the preceding year. Rupee loans (including guarantees) sanctioned went up from Rs. 56.1 crores to Rs. 77.7 crores, whereas foreign currency loans sanctioned declined further from Rs. 33.8 crores to Rs. 22.5 crores, and underwriting of and direct subscription to shares and debentures lowered marginally to Rs. 8.1 crores from Rs. 8.7 crores. The total amount disbursed by the Corporation showed a significant rise to Rs. 91.6 crores from Rs. 67.0 crores during 1976-77. Rupee loan disbursements increased from Rs. 21.7 crores to Rs. 38.9 crores, while foreign currency loan disbursements rose from Rs. 38.9 crores to Rs. 46.3 crores. Disbursals on account of underwriting and direct subscription showed a marginal fall of Rs. 0.1 crore from Rs. 6.5 crores to Rs. 6.4 crores.

During the quarter April-June 1978, sanctions of Rs. 42.2 crores showed a rise of 33.5 per cent and disbursements of Rs. 27.7 crores registered an increase of 32.5 per cent over the April-June 1977 quarter. As at the end of March 1978, the ICICI's total sanctioned assistance amounted to Rs. 924.0 crores, while

the total disbursements amounted to Rs. 675.8 crores.

Under the Soft Loan Scheme, the ICICI sanctioned Rs. 25.1 crores and disbursed Rs. 1.8 crores during 1977-78. With sanctions of Rs. 2.6 crores and nil disbursement in 1976-77, the total sanctions and disbursements of the ICICI under the Soft Loan Scheme aggregated Rs. 27.7 crores and Rs. 1.8 crores, respectively, as at the end of March 1978.

The Corporation sanctioned Rs. 33.2 crores during 1977-78 to projects located in backward areas as compared to Rs. 44.5 crores in 1976-77. However, disbursements during the year amounted to Rs. 28.3 crores as against Rs. 25.7 crores during the preceding year. Assistance sanctioned and disbursed for projects located in backward areas till the end of March 1978, totalled Rs. 220.4 crores and Rs. 137.2 crores, respectively; these included sanctions and disbursements on concessional terms amounting, respectively, to Rs. 89.1 crores and Rs. 54.8 crores.

In order to strengthen its equity base, the ICICI made a rights issue for Rs. 7.5 crores in 1977, and to augment its rupee resources, during 1977-78 raised Rs. 31.9 crores through two debenture issues. The ICICI also received in 1977-78 a loan of Rs. 5 crores from the IDBI for disbursing assistance under the Soft Loan Scheme. The Corporation signed the 12th loan agreement with the IBRD for \$ 80 million, and received an allocation of £ 6 million from the U.K. Government. A new source of foreign currency funds has become available to the ICICI from Kreditanstalt fur Wiederaufbau in the form of revolving funds. The total resources (net of cancellations and repayments) available to the Corporation at the end of March 1978 amounted to Rs. 517.0 crores.

The rate of interest charged by the ICICI on rupee and foreign currency loans remained unchanged at 11 per cent. The concessional rates 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.

(iv) **The Life Insurance Corporation of India**

The financial assistance sanctioned by the Life Insurance Corporation to Joint Stock Companies, Industrial Cooperatives and Sugar Cooperatives during 1977-78 (April-March) amounted to Rs. 52.7 crores, Rs. 4.5 crores lower than in 1976-77. Disbursed assistance, however, showed an increase over the year of Rs. 3.9 crores to Rs. 42.8 crores.@

Loans sanctioned declined to Rs. 41.4 crores from Rs. 50.7 crores in 1976-77. There was a substantial increase in underwriting of and direct subscription to equity and preference shares (including rights issue) at Rs. 8.5 crores as against Rs. 4.4 crores in 1976-77. The amount underwritten/directly subscribed to debentures which had declined from Rs. 26.2 crores in 1975-76 to Rs. 2.7 crores in 1976-77 remained at Rs. 2.7 crores during 1977-78. The disbursements on this account declined from Rs. 8.5 crores to Rs. 5.7 crores. On the other hand, disbursements of loans increased from Rs. 27.4 crores to Rs. 32.7 crores in 1977-78. Loans constituted 78.6 per cent and 75.4 per cent of aggregate sanctioned and disbursed assistance, respectively, in 1977-78.

While sanctioned assistance to projects in specified backward areas at Rs. 18.3 crores was marginally lower over the year by Rs. 1.1 crores, it constituted 34.7 per cent of the total sanctioned assistance compared to 34.0 per cent in 1976-77. On the other hand, disbursed assistance to projects in these areas increased from Rs. 11.1 crores to Rs. 16.5 crores with the proportion to total disbursed assistance rising from 28.6 per cent to 38.5 per cent. The lending rate for various classes of companies and industrial co-operatives remained unchanged at 11 per cent.

@Sanctions and disbursements relate to loans to companies/industrial cooperatives/sugar cooperative societies and underwriting of and direct subscriptions to shares and debentures of companies (inclusive of subscription to rights shares).

The total investment in stock exchange securities and loans by the Life Insurance Corporation increased in 1977-78 by Rs. 547.9 crores to Rs. 4,012.4 crores as at the end of March 1978 as against Rs. 3,464.5 crores at the end of March 1977. The Life Insurance Corporation's investments in the public sector rose from Rs. 2,652.9 crores to Rs. 3,033.9 crores as at the end of March 1978, when it accounted for 75.6 per cent of its total investments, while investments in the co-operative sector at Rs. 467.6 crores formed 11.7 per cent, and investments in the private sector at Rs. 489.2 crores accounted for 12.2 per cent. Investments in the private sector rose sharply by Rs. 106.8 crores during 1977-78, as against an increase of Rs. 32.2 crores in 1976-77, and investments in joint sector companies increased marginally by Rs. 2.3 crores to Rs. 22.4 crores.

(v) Unit Trust of India

The operations of the Unit Trust of India showed a remarkable growth during the year 1977-78 (July-June). The total sales of units under all the schemes aggregated to Rs. 73.3 crores—an increase of 112 per cent over the preceding year's sales of Rs. 34.6 crores (Table VIII-16.). Sales of the units (including those under Reinvestment Plan and Children's Gift Plan) under Unit Scheme of 1964 totalled Rs. 70.9 crores and those under the Unit-Linked

Insurance Plan 1971 amounted to Rs. 2.4 crores. The progress made by the Trust in respect of Unit-Linked Insurance Plan of 1971—a plan which provides for a regular investment in Units for a period of 10 years—was spectacular as the business received in 1977-78 far exceeded the total amount of business received during the previous six years of the operation of the Plan. The Trust received 16,802 applications for a target amount (i.e., amounts to be received over the 10 year period of the Plan) of Rs. 15.9 crores as against 12,728 applications for a target amount of Rs. 10.9 crores during the entire period of 1971-72 to 1976-77. The sales of the Capital Units under the Unit Scheme 1976 continued to remain suspended during the year.

Repurchases of Units of Rs. 11.2 crores by the Trust were higher compared to Rs. 8 crores during 1976-77; repurchases formed 4.4 per cent of the Unit Capital against 4.2 per cent in the preceding year. Net sales of the units under all the Schemes and Plans amounted to Rs. 62.1 crores, registering an increase of 134 per cent over net sales of Rs. 26.6 crores during 1976-77. As on June 30, 1978, Units sold and outstanding with the public under all the Schemes aggregated to Rs. 255.4 crores.

A number of factors contributed to the remarkable growth in Trust's business during

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 the Reinvestment Plan	Investible fund 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	
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	
1977-78	..	..	..	73.3	11.2	..	288.2	9.00	

@ Covers Unit Schemes 1964, 1971 and 1976.

the year. Firstly, the two successive downward revisions in the interest rates on bank deposits, first in June 1977 and again in March 1978, added to the competitive edge of the units over deposits with the banks. Secondly, the Finance Act, 1978, withdrew the exemptions from capital gains tax in respect of investments of sales proceeds in shares of the existing companies and bank deposits from the list of eligible assets from March 1, 1978 (the exemption in regard to bank deposits was, however, restored in April 1978) which reduced the scope for investments of these funds in alternative forms of financial assets thereby improving the attractiveness of units as an instrument of investment. Thirdly, units were included in the list of approved securities in which 10 per cent of the maturing deposits of the non-banking companies could be invested under the Companies (Acceptance of Deposits) Amendment Rules, 1978. Finally, the 1978 budget provided for liberal concession in respect of long-term savings qualifying for deductions in computation of income tax. Annual contribution to the Unit-Linked Insurance Plan 1971 is one of the forms of long-term savings qualifying for such deductions. The limits for 100 per cent deductions in respect of these savings was raised from Rs. 4000 to Rs. 5000 from April 1, 1978. This concession was mainly responsible for boosting the sales of units under this Scheme. The raising of distribution rate from 8.75 per cent for 1975-76 to 9 per cent for 1976-77 in case of the Unit Scheme 1964 and from 7 per cent to 8 per cent in case of the Unit Scheme 1971 made the investments in the units attractive.

During the year 1977-78 the distribution rates under the Unit Scheme 1964 was maintained at 9 per cent and for Unit Schemes 1971 and 1976 at 8 per cent and 3 per cent, respectively. The total investible funds of the Trust as on June 30, 1978, amounted to Rs. 288.2 crores, of these, ordinary shares accounted for Rs. 112.3 crores (39 per cent), preference shares for Rs. 14.4 crores (5 per cent), debentures for Rs. 66.3 crores (23 per cent) and the balance of Rs. 95.2 crores (33 per cent) mainly represented money at call and short notice,

advance deposits against commitments and other deposits.

(vi) **The Industrial Reconstruction Corporation of India Ltd.**

Gross sanctions by the Industrial Reconstruction Corporation of India (IRCI) increased during the year 1977-78 (April-March) by Rs. 1.9 crores or by 18.4 per cent to Rs. 12.2 crores from Rs. 10.3 crores in 1976-77. Disbursements, however, were lower over the year from Rs. 10.8 crores to Rs. 9.4 crores. The cumulative sanctions and disbursements of the IRCI since its inception in 1971 stood at Rs. 56.9 crores and Rs. 44.5 crores, respectively, at the end of March 1978 (Table VIII-17).

The Corporation's net assistance sanctioned and disbursed during 1977-78 to the projects in the specified backward areas was substantially lower than in the preceding year. The net amount sanctioned was less than Rs. 1.0 crore in 1977-78 as compared to Rs. 4.7 crores in 1976-77, while disbursements declined from Rs. 2.6 crores to Rs. 1.2 crores. Loans sanctioned to projects in the public sector increased from Rs. 2.6 crores to Rs. 8.8 crores, and disbursements from Rs. 3.6 crores to Rs. 6.2 crores. In all, 21 units in the public sector group received reconstruction assistance, the management of which were taken over by the Union Government under Industries (Development and Regulation) Act, 1951 and 3 units since nationalised. There was no change in the lending rates of the IRCI during the year 1977-78.

(vii) **State Financial Corporations**

The operations of the State Financial Corporations (SFCs) showed a marginal improvement during 1977-78 (April-March). The total loans sanctioned by the 18 SFCs, including the Tamil Nadu Industrial Investment Corporation Ltd. (TIIC), aggregated Rs. 166.1 crores which were marginally higher by Rs. 2.8 crores over the sanctions in 1976-77 (Rs. 163.3 crores). The rate of growth in sanctions improved from 0.2 per cent in 1976-77 to 1.7 per cent in 1977-78, but still remained

Table VIII. 17: Details of Financial Assistance£ Sanctioned and Disbursed by Industrial Reconstruction Corporation of India Ltd.

(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
1976-77	35	9.49	0.83	10.32	10.77	4.84	6408
1977-78	41	11.68	0.54	12.22	9.43	8.49	6228
Cumulative position as at the end of—							
March 1977	103*	43.31	1.40	44.71**	35.09	66.70	85164
March 1978	108*	54.99	1.94	56.93***	44.52	75.19	83820††

£ 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.

* Includes three units since nationalised.

** Includes cancelled reconstruction assistance of Rs. 193.54 lakhs sanctioned earlier to 15 cases.

*** Includes cancelled reconstruction assistance of Rs. 269.59 lakhs sanctioned earlier to 19 cases.

†† Labour/Employment figures have been revised this year on the basis of present intake/rationalisation of labour force as per production programme.

considerably lower than that of 14.9 per cent in 1975-76. The disbursements of assistance increased slightly in absolute terms from Rs. 105.2 crores to Rs. 107.4 crores, but the rate of growth at 2 per cent was less than half of that of 5.2 per cent in 1976-77.

The bulk of the assistance granted by the SFCs was to small-scale industries including road transport operators. Sanctions during 1977-78 amounted to Rs. 126.1 crores (75.9 per cent), 10.9 per cent higher than the previous year's sanctions. During the eight year period from 1970-71 to 1977-78, the assistance provided to the small-scale sector aggregated Rs. 622.4 crores or 65.2 per cent of the total SFCs assistance of Rs. 954.4 crores, during the same period.

State Financial Corporations continued to extend liberal financial assistance on concessional terms to industrial units in the specified backward areas. Assistance sanctioned to 4057 units located in specified backward areas amounted to Rs. 86.7 crores representing 52.2 per cent of the total sanctioned assistance in 1977-78. This year's performance was marginally better in respect of amount as compared to the assistance of Rs. 86.3 crores to 4,160 units last year.

The assistance sanctioned under the special schemes for granting liberal assistance to technician entrepreneurs amounted to Rs. 10.2 crores in respect of 434 units, as against Rs. 11.6 crores for 537 units in 1976-77.

Capital and Resources

During the year, the total paid-up capital of the SFCs increased by Rs. 10.1 crores to Rs. 62.5 crores as on March 31, 1978, as compared to Rs. 52.4 crores as at the end of March 1977. 17 SFCs (except Haryana SFC) raised special capital to the extent of Rs. 5.7 crores by the end of March 1978. Outstandings of bonds issued by SFCs also increased over the year from Rs. 191.0 crores to Rs. 230.6 crores. Refinance assistance* from the IDBI during 1977-78 was lower at Rs. 72.6 crores, than that of Rs. 80.9 crores in the preceding year.

Overdues

The total overdues of the SFCs increased from Rs. 60.0 crores as on March 31, 1977 to Rs. 86.3 crores (excluding the figures for TIIC which are not available) as on March 31, 1978. The overdues as percentage of total outstandings declined in case of Madhya Pradesh and Kerala SFCs, and increased in respect of all other SFCs. The overdues as on March 31, 1978 amounted to as much as 45 per cent of the total outstandings in respect of Assam SFC and 43 per cent, 36 per cent and 30 per cent in respect of Orissa, Gujarat and Haryana SFCs, respectively. The growing overdues of SFCs have been a matter of great concern to the IDBI. Accordingly, a Working Group was constituted to study the problem in depth. The Group has already submitted its report and the follow-up action has been initiated by the IDBI.

Lending Rates

The effective lending rates of the SFCs (i.e. normal less the rebates, if any) in respect of loans and advances to small-scale industries ranged between 10.5 per cent and 11.5 per cent where the refinance from IDBI was available, and between 10.5 per cent and 13.5 per cent where refinance was not available. In respect of loans and advances to other sectors, the rates ranged between 12 per cent and 12.5 per cent with refinance, and between 12 per cent and 13.5 per cent without refinance. The special rates in respect of certain industries/schemes ranged between 8 per cent and 14.5 per cent.

(viii) The National Small Industries Corporation Ltd.

The National Small Industries Corporation Ltd. (NSIC) received during the year 1977-78 (April-March) 275 applications under its Hire Purchase Scheme for supply of machinery valued at Rs. 2.4 crores, as against 324 applications for 2.8 crores received in the preceding

*Under the new Automatic Refinance Scheme which replaces Liberalised Refinance Scheme, the eligible institutions receive sanctions and disbursements of refinance in respect of their loans to small-scale industrial units upto Rs. 5 lakhs on an automatic basis.

year. Of these, 238 applications for machinery worth Rs. 1.9 crores were accepted. During 1977-78, the Corporation assisted 116 units by way of supply of machines of the aggregate value of Rs. 2.4 crores, including the machines worth Rs. 0.5 crore to 59 units in the backward areas. This was lower as compared to the assistance of Rs. 2.9 crores to 161 units, including Rs. 0.6 crore to 48 units in backward areas, given by the Corporation during 1976-77. The total amount due from the hirers who have availed of the assistance under the scheme stood at Rs. 12.7 crores as at the end of March 1978, which was higher by Rs. 3.1 crores over the outstanding amount at the end of the preceding year.

The overall performance of the Marketing Division of the Corporation during the year 1977-78 (April-March) was encouraging. Sales of brass scrap at Rs. 12.1 crores, exceeded the target by Rs. 4.9 crores. In addition to its normal marketing activities, the Corporation started during the year a new activity of internal marketing of cotton hosiery.

Acting as a liaison between small-scale units and the Central Government purchasing agencies, the Corporation assisted during 1977-78 (April-March) small-scale units to secure 4,066 contracts worth Rs. 57.7 crores, as compared to 4,547 contracts worth Rs. 47.0 crores during the preceding year. Under the new registration scheme introduced by the Corporation in May 1976, small-scale units enlisted with the NSIC are treated on par with those registered with the DGS&D. Under this scheme, 274 units were registered during 1977-78 bringing the total number of units so registered to 21,807. The Corporation issued 1,251 competency certificates to the DGS&D and Government Departments in favour of small-scale units during the period under review.

Under its training programme, the Corporation imparted training to 598 persons, and about 700 persons were undergoing training during the year ended March 31, 1978.

The fourth Prototype Development and Training Centre of the Corporation to develop prototype and produce leather machinery started functioning at Madras. Similar centres at (i) Hyderabad for electronics, (ii) Bangalore for packaging machinery and (iii) Pune for plastics and plastic machinery are awaiting financial clearance from the Union Government.

III Financing of Small-Scale Industries by Scheduled Commercial Banks

The outstanding credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled commercial banks to small-scale industries increased to Rs. 1,702.8 crores at the end of December 1977, showing a net increase of Rs. 299.5 crores during April-December 1977, as against the rise of Rs. 267.9 crores in the corresponding period of 1976 (Table VIII-18).

Advances to Small-Scale Industries

The share of small-scale industries in the total outstanding bank credit (excluding food procurement advances) improved from 12.9 per cent in December 1976 to 14.2 per cent in December 1977. Limits sanctioned by the banks to the small-scale sector during the period April-December 1977 also increased by Rs. 233.9 crores as compared to Rs. 256.3 crores in the corresponding period of the previous year. The number of units financed rose to 4.77 lakhs as at end-December 1977 from 3.97 lakhs a year ago, whereas the average amount of credit sanctioned per unit decreased from Rs. 50,000 in December 1976 to Rs. 48,000 in December 1977 indicating a wider coverage of smaller units.

The outstanding credit extended by the State Bank Group to small-scale industries during the period April-December 1977 showed a net rise of Rs. 103.9 crores, as against the rise of Rs. 84.7 crores during the corresponding period of 1976. The credit extended by the 14 nationalised banks during the same period moderately rose by Rs. 156.5 crores as

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 1977	December 1977	Increase (3-2)	Increase between March 1976 and December 1976*	March 1977	December 1977	Increase (7-6)	Increase between March 1976 and December 1976*	March 1977	December 1977	Increase (11-10)	Increase between March 1976 and December 1976*
1	2	3	4	5	6	7	8	9	10	11	12	13
1. State Bank of India and its Subsidiaries	206658	237697	31039	63830	647.0	726.3	79.3	76.1	479.8	583.7	103.9	84.7
2. 14 Nationalised Banks ..	204100	222223	18123	53634	1173.2	1294.4	121.2	147.0	779.8	936.3	156.5	149.1
3. Other Scheduled Commercial Banks	14945	16915	1970	1370	219.3	252.7	33.4	33.2	143.7	182.8	39.1	34.1
Total	425703	476835	51132	118834	2039.5	2273.4	233.9	256.3	1403.3	1702.8	299.5	267.9
Term Loans for Small-Scale Industries												
All Scheduled Commercial Banks	85179	93391	8212	19760	297.1	343.2	46.1	30.3	250.5	291.7	41.2	29.5

* Data are revised.

Note: 1 Data for December 1977 are provisional.

2 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.

compared to the rise of Rs. 149.1 crores in the previous year. The share of public sector banks in the total outstanding bank credit to small-scale industries declined marginally from 89.6 per cent to 89.3 per cent as at end-December 1977. While the share of the State Bank Group moved up from 33.5 per cent to 34.3 per cent, that of the 14 nationalised banks declined from 56.1 per cent to 55.0 per cent.

The credit limits sanctioned by scheduled commercial banks to craftsmen and other qualified entrepreneurs in the small-scale sector at the end of December 1977 amounted to Rs. 94.4 crores covering 79,024 units, as against Rs. 82.1 crores to 62,722 units at end-December 1976. The outstanding credit rose by Rs. 17.3 crores to Rs. 75.9 crores during April-December 1977 with the share of State Bank Group and 14 nationalised banks rising to Rs. 73.8 crores or to 97.2 per cent. During April-December 1977, scheduled commercial banks sanctioned loans and advances to small road and water transport operators to the extent of Rs. 420.5 crores to 196,293 units and the balance outstanding stood at Rs. 338.9 crores as at the end of December 1977.

Term Loans

Term loans (including instalment credits) sanctioned by scheduled commercial banks to small-scale industries recorded a rise of Rs. 46.1 crores to Rs. 343.2 crores during the period April-December 1977, as against the increase of Rs. 30.3 crores during the corresponding period of the preceding year. The outstanding term loans increased substantially from Rs. 250.5 crores in March 1977 to Rs. 291.7 crores in December 1977 covering 93,391 units; but the share of outstanding term loans in total outstanding bank credit to small-scale industries declined from 17.4 per cent in December 1976 to 17.1 per cent in December 1977.

Term loans (including instalment credits) sanctioned by the State Bank Group went up by Rs. 14.2 crores during the nine-month period ended December 1977 to Rs. 92.8 crores, as

against the decline of Rs. 9.7 crores during the corresponding period of the preceding year. The amount of term loans sanctioned by the 14 nationalised banks to this sector aggregated Rs. 213.6 crores, as against Rs. 183.8 crores at end-December 1976.

Advances for Setting up of Industrial Estates

During the nine-month period ended December 1977, credit limits sanctioned by 21 scheduled commercial banks, including 14 public sector banks, increased by Rs. 1.1 crores to Rs. 26.1 crores in respect of 130 units for setting up of industrial estates. The amount outstanding increased by Rs. 1.5 crores during the same period and stood at Rs. 22.5 crores at end-December 1977.

IV (i) Credit Guarantee Scheme for Small-Scale Industries

By the end of March 1978, the number of credit institutions joining the scheme increased to 280 from 259 as at the end of March 1977. During the period 1977-78 (April-March) 1 State Co-operative Bank, 4 Central Co-operative Banks, 3 un-licensed (primary) Urban Co-operative Banks and 13 Regional Rural Banks joined the Scheme by executing necessary agreements, and 2 scheduled commercial banks, 1 non-scheduled bank, 1 Central Co-operative Bank and 1 un-licensed (primary) Urban Co-operative Bank were included in the list of approved credit institutions under clause 2(c) of the Scheme.

The Guarantees outstanding increased from Rs. 2,147.1 crores as at end-March 1977 to Rs. 2,439.9 crores as at the end of March 1978. Since the inception of the Scheme, claims amounting to Rs. 3.2 crores were paid in respect of 3,045 accounts involving 2,608 units, of which an amount of Rs. 53.8 lakhs has been recovered from the defaulting units. The number of accounts in default as at the end of March 1978 stood at 26,794 in respect of 18,926 units involving Rs. 117.0 crores, as against 21,455 accounts in respect of 15,175 units involving Rs. 85.7 crores a year ago.

(ii) The Credit Guarantee Corporation of India Limited*

The Credit Guarantee Corporation of India Ltd., (CGCI) amended the provisions of its guarantee schemes during 1977 to enlarge their scope and relax the stipulations regarding credit ceiling and repayment period. To help weaker sections of society, the cover under the Small Loans Guarantee Scheme was extended to advances to persons holding minor salary positions but are mainly engaged in any of the activities already covered by the Scheme. With a view to encouraging banks to grant advances for rehabilitation of the agriculturists affected by floods, the Corporation's Guarantee Scheme was extended to agricultural and housing loans given to small borrowers for repairs to farm assets, and repairs to and reconstruction of houses in flood affected areas. Besides, advances granted to more than one individual jointly among the retail traders, professionals and self-employed persons, and business enterprises, which were hitherto not covered, were brought within the fold of the Scheme.

During the year, 27 Regional Rural Banks joined the Small Loans Guarantee Scheme, raising the total number of scheduled commercial banks participating in the Scheme to 121. The number of participating institutions in the Service Co-operative Societies Guarantee Scheme went up to 113 with the inclusion of 3 Co-operative Banks and 12 Regional Rural Banks during the year. The number of financial corporations participating in the Financial Corporations Guarantee Scheme remained unchanged at 18.

The total advances covered by the three guarantee schemes of the Corporation increased from Rs. 1,294.4 crores as at the end of December 1976 to Rs. 1,648.1 crores as at the end of December 1977, showing a rise of

27.3 per cent. Advances to farmers and agriculturists continued to constitute a major portion of the total advances. There was during 1977 an unprecedented increase in claims lodged in terms of both number and amount. Claims received by the Corporation totalled 14,832 for an aggregate amount of Rs. 441.5 lakhs, as against the total of 6,806 claims for Rs. 227.8 lakhs received during all the preceding years. During the first four months of 1978 (January-April), the Corporation received as many as 6,799 claims for Rs. 201.6 lakhs. The Corporation took several measures to cope with the unprecedented increase in the volume of claims. For expeditious settlement of claims, besides strengthening the administrative machinery and simplifying the scrutiny procedures, bank officers were imparted training in processing the claims applications. During the year, the Corporation paid a total amount of Rs. 236.1 lakhs in respect of 9,469 claims, as against the settlement of 1,927 claims for an aggregate amount of Rs. 52.2 lakhs in 1976.

V Investment in the Private Corporate Sector

Data on the quantum of investment in organised manufacturing industry in the private sector during 1977-78 are not available. Letters of intent and industrial licences issued by the Government, the value of import licences for capital goods given to the private sector and the approvals for foreign collaborations, which together may be taken broadly to reflect investment intentions of the private corporate sector, however, moved somewhat divergently.

Letters of intent and industrial licences issued by the Government have been continuously declining since 1974, and were in 1977 just half of those given in 1974. The fall from 1976 to 1977 was nearly 20 per cent in case of industrial licences issued, but was much more modest in case of letters of intent issued. At 267 the number of foreign collaboration approvals in 1977 was also slightly lower than in 1976. During the first six months of 1978 (January-June) the letters of intent and industrial licences issued have declined further

*With effect from July 15, 1978, the CGCI has been merged with the Deposit Insurance Corporation (DIC), and the latter has been renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC).

(Table VIII-19). On the other hand, the value of import licences for capital goods/heavy electrical plants issued to the private sector increased from Rs. 139 crores in 1976-77 to

Rs. 170 crores in 1977-78, though a part of the increase could be attributed to escalation in prices of capital goods in world markets (Table VIII-20).

Table VIII.19: Trends in Issue of Letters of Intent, Industrial Licences and Foreign Collaboration Approvals

					(In Numbers)		
Year					Letters of Intent	Indus- trial Licences	Foreign Collabo- ration Appro- vals
1974	..	..	..	..	1,181	1,099	359
1975	..	..	..	..	962	1,027	271
1976	..	..	..	..	547	662	277
1977	..	..	..	..	533	518	267
January-June							
1977	..	..	..	..	228	311	55*
1978	..	..	..	..	165	176	56*

*Relates to January-March only.

Source: Quarterly Bulletin of Industrial Statistics, Ministry of Industry, Government of India.

Table VIII.20: Trends in Import Licences for Capital Goods/Heavy Electrical Plants

(Rupees Crores)				
Year (April-March)	Value of Import Licences			Total (2+3)
	Government	Private		
1	2	3		4
1974-75	133	136		269
1975-76	415 (+212.0)	151 (+11.0)		566 (+110.4)
1976-77	371 (-10.7)	139 (-8.0)		510 (-9.9)
1977-78	352 (-5.1)	170 (+22.3)		522 (+2.4)

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

Source: Chief Controller of Imports and Exports.

Chapter IX

Developments In Foreign Trade

Trends in India's Foreign Trade : 1977-78

Overall Trends

India's external trade during the financial year 1977-78 was characterised by a marked slowdown in the growth of exports, and by a sharp growth in imports reversing the down-trend in the previous year. According to the data released by the DGCI&S for 1977-78 (April-March), exports including re-exports amounted to Rs. 5,375 crores—Rs. 229 crores higher than in 1976-77, yielding a growth rate of 4.5 per cent as against 27.3 per cent achieved last year. On the other hand, aggregate imports of Rs. 6,069 crores in 1977-78 showed a sharp rise of Rs. 995 crores or 19.6 per cent over 1976-77. The result was the year closed with a re-emergence of a sizeable trade deficit of the order of Rs. 694 crores, in the place of a modest surplus of Rs. 72 crores in 1976-77.

Exports

Particularly in the three years, 1974-75 through 1976-77, the efforts at export promotion combined with the favourable demand and price trends in world trade brought about impressive increases in the value and volume of India's exports. The annual compound growth rate in exports during these three years works out to 26.7 per cent. But, for 1977-78 even the modest expectations of growth of 8 per cent were not fulfilled. However, viewed against the restrictive international trade environment, low growth of industrial economies, and the depressed level of world trade (barely 4 per cent in terms of volume), the export outturn for 1977-78 could be regarded as not all that unsatisfactory.

The deceleration in the export growth rate, pronounced to 4.5 per cent in 1977-78, was

mainly the combined result of the slower growth of developed economies, and the protectionist policies increasingly followed by them in the context of their high levels of unemployment.

Rates of growth in economic activity in most industrial countries in 1977 were below earlier expectations. For the industrial countries as a group, the rate of growth of GNP (in real terms) declined from nearly 5½ per cent in 1976 to 3½ per cent in 1977, and the rate of increase in industrial production dropped from 9 per cent to 4½ per cent. The faltering expansion in industrial countries during 1977 underlay the continued drift towards protectionism in a number of industrial countries. The protectionist measures entailed the use of a wide variety of devices like price floors on imports as in the case of steel and agricultural products, new import quotas, new voluntary export restraints, countervailing duties, control of market shares, administrative obstacles to imports, subsidies to domestic industries to sustain their levels of production, etc. In the result, there was a marked deceleration of growth in world trade. According to GATT, the growth of volume of world trade declined from 11 per cent in 1976 to barely 4 per cent in 1977.

The protectionist measures adopted by industrial countries had a particularly adverse effect on the exports of intermediate goods and manufactured items from the developing countries. In the case of India, export items affected by these developments were principally cotton textiles including garments, and leather manufactures.

The data on the commodity/country composition of India's foreign trade during 1977-78 are not yet available, but other related sources

of information suggest that the main impetus for the overall growth in export earnings in 1977-78 came from higher unit values realised for tea, coffee, spices, cashew kernels and tobacco, the primary commodities—important in India's foreign trade. Escalation in international prices contributed to record export earnings for these items. After a decade of stagnation, there was a spectacular rise in tea prices, triggered by the severe impairment of the Brazilian and Colombian coffee crops by frost. The dizzy heights to which coffee prices rose in 1976-77 shifted a good part of the demand from coffee to tea, even in a traditionally coffee drinking country like the USA. This, together with the relatively low level of stocks in the pipeline and the shortfall in production of Sri Lankan and Ugandan tea, led to the soaring up of tea prices in 1977. At the London auction, Indian teas fetched on an average 163.30 pence per kg. in 1977, 93 per cent over the realisations in 1976. In fact, the price went up as high as 266 pence per kg. on March 25, 1977. Exports of progressively larger quantities of packaged teas also contributed to the increase in the realisations from tea. Despite the imposition of an export ceiling of 225 million kgs. in 1977-78, as against the actual exports of 242 million kgs. in 1976-77, and the levy of an export duty of Rs. 5 per kg. on April 9, 1977[@], earnings from tea are thus expected to have nearly doubled to a high of Rs. 560 crores during the year under review. The spurt in international coffee prices to an average price of £ 2,601 per tonne during April-December 1977 from that of £ 1,704 per tonne during April-December 1976, not only helped to boost tea earnings but also brought about a near doubling of India's earnings from coffee exports themselves. The average unit value realisations improved from Rs. 21 per kg. in 1976 to Rs. 35 per kg. in 1977. Crop setbacks in Malaysia and Indonesia coupled with brisk international demand, particularly from West Asian countries and the USA, helped exports of spices notably cardamom, chillies, black pepper and ginger

to realise much higher unit values. Although the quantum of cashewnuts exported was distinctly lower, prices realised were significantly higher, with unit values up from Rs. 20 per kg. in 1976 to Rs. 37 per kg. in 1977, resulting in an appreciable improvement in the earnings over the 1976-77 level of Rs. 106 crores. Another primary commodity to fare better during the year under review was tobacco, larger quantum accounting for the improvement as prices do not appear to have significantly increased. The primary commodity that provided a sharp contrast was sugar. Abundant world supplies, large carry-over stocks in importing countries, and development of and penetration by substitutes resulted in the near extinction in 1977-78 of sugar exports which in 1975-76 and 1976-77 had netted as much as Rs. 472 crores and Rs. 148 crores, respectively.

The performance in respect of exports of non-traditional manufactured items was a mixed one. Efforts made to diversify the composition of exports played an important role in the growth in manufactured exports during 1975-76 and 1976-77. Some encouraging export growth had occurred in several non-traditional value-added items like iron and steel, leather and leather manufactures, clothing, chemicals, fish and fish preparations, electronics and machinery. This trend was, however, arrested during the year under review as the sluggishness in industrial economies and additional protectionist measures engendered by it led to a contraction of world trade, and earnings from most of these items were lower during 1977-78 than in 1976-77. Exports of iron and steel were affected by the slack demand abroad. Exports of leather products and clothing in particular, were impeded by new quantitative restrictions imposed by the EEC countries, the USA, Australia, Canada and Japan. In the case of textiles and garments, the delay in the negotiation of the Multi-Fibre Agreement also affected the movement of exports of these items.

In the case of engineering goods there was some decline in the growth rate; however, on

[@]The duty was reduced to Rs. 2 per kg. on September 7, 1978.

the other hand, engineering exports were, by and large, able to hold their own owing to higher civil construction contracts secured from West Asian countries and the sustained growth in demand for Indian engineering products, including software, from the Middle East and Asian regions. As a good proportion of engineering exports are invoiced in US dollars, the steady depreciation in the value of the dollar in the second half of 1977-78 adversely affected rupee realisations from this category of exports.

The one non-traditional item that reacted very favourably to buoyant external demand and in the case of which advantage was taken of the Government's timely incentive measures was gems and jewellery. There was a brisk and sustained demand from Belgium, the USA, Japan and the Netherlands. Earnings are estimated to have doubled over the year.

In the case of commodities like marine products and chemicals, it was not the protectionist measures adopted by the importing countries but the slack demand conditions prevailing in the principal importing economies that resulted in reduced offtake and lower earnings. Japan, the principal customer of Indian shrimps, reduced its purchases following the conclusion of a production collaboration arrangement between Japan and Mexico, under which Mexico would meet the major part of the requirements of the Japanese market for shrimps. The ban on the import of Indian froglegs imposed by the USA on health grounds was another factor that adversely affected marine product exports.

Export items adversely affected by internal domestic supply constraints were oil cakes and vegetable oils. Low international prices ruling for silver forced the Government to restrict the volume of silver exports during 1977-78; silver exports which had earned Rs. 174 crores and Rs. 151 crores, respectively in 1975-76 and 1976-77, dropped precipitously to about half that level in 1977-78.

Imports

At Rs. 6,069 crores, aggregate imports in 1977-78 have turned out to be 19.6 per cent higher in value than in 1976-77. This is in contrast to the decline over the year of Rs. 191 crores or 3.6 per cent recorded during 1976-77. The second half of the year accounted for the entire increase, the level of imports in the first half remaining stagnant, at Rs. 2,416 crores. The increase in the second half of the year reflects the impact of the 1977-78 liberalisation of import policy which was aimed at enlarging the production base, strengthening the export effort and augmenting domestic availabilities of essential wage goods. The total value of import licences issued during April to October 1977 almost doubled to Rs. 4,195 crores from Rs. 2,240 crores in the corresponding period of 1976 reflecting the intention of the Government to permit a rapid growth in imports made possible by the availability of foreign exchange. Commodity-wise (as also direction-wise), details of imports in 1977-78 are not yet available, but it is known that large imports of items such as edible oils, raw cotton, polyester yarn, pulses and cement were responsible for a sizeable part of the increase in aggregate imports during the year. Imports of these items were programmed for on a crash basis to relieve acute domestic shortages and thus help hold the price line. Total cost of these imports during 1977-78 has been placed in the region of Rs. 850 to Rs. 900 crores—edible oils alone accounting for more than 50 per cent of the outlay.

The impact of liberal import policy was also evident in items required by export oriented industries—particularly those with growth potential. As mentioned earlier, the industry that displayed impressive export growth during 1977-78 was gems and jewellery; its imports of uncut diamonds and precious stones doubled over the year. Leather machinery and accessories, synthetic fibres and garment machinery and accessories were some of the newer items of import that were indented to enlarge and strengthen the production base of the potential export growth

industries. Large import orders were placed during the year for power generation and transmission equipment, in an effort to augment energy supplies, inadequacy of which has been operating as a significant constraint on industrial activity particularly in certain areas.

The composition of Indian imports has undergone a radical change in the last three years from the pattern of the sixties and the early part of the seventies, during which period critical domestic shortages made large outlays inevitable on imports of food and fertilisers, while with the quadrupling of oil prices at the end of 1973, the outlay on mineral oil imports soared up. Since 1976-77, the food-grains shortage has disappeared and the quantum of POL and fertilizer imports has been contained with the development of domestic production facilities. The most dramatic turn around was in the case of food-grains, the import bill for which averaged around Rs. 865 crores per annum in the period 1973-74 through 1976-77 accounting for nearly a fifth of the total import payments. With a record agricultural crop during the year under review and stocks amounting to 18 million tonnes in the pipeline, imports of foodgrains on commercial account were suspended—in fact, India emerged as an exporter of food-grains with sales of wheat to Vietnam and on-going repayment in kind of the 1975 Soviet Wheat Loan. Likewise, with increased domestic production of fertilisers, the import outlay on fertilisers has been running in the last two years at almost half the annual average of Rs. 450 crores in the two years 1974-75 and 1975-76. In addition to various measures referred to in earlier Reports to restrain domestic consumption of oil, the coming on stream of the Bombay High offshore oilfield helped to hold down the quantum of imports of crude around the previous year's level of 14 million tonnes, though the cost of crude imports was higher over the year principally due to the OPEC countries raising the crude prices in mid-1977. The savings on account of food and fertilisers were more than offset by increased imports of items like raw cotton and vegetable oils, in addition to modest

increases in imports of a wide array of industrial inputs such as paper and newsprint, raw wool and non-ferrous metals.

Imports of capital goods did not register any appreciable increase during the year under review. This is to be attributed not only to the substantial capital goods production capacity built up in the country over the years, but also to the level of investment in the economy. Private investment activity in most of the manufacturing sector remained subdued owing to reduced profitability, slack domestic demand and uncertain business environment.

Foreign Trade Policy 1977-78

During the financial year 1977-78, the thrust of the country's foreign trade policy was directed towards strengthening the production base of the domestic industry, augmenting domestic availabilities of essential items of mass consumption and promoting optimum export growth. In the export policy, greater emphasis was accorded to the development of growth exports and exports of higher value added items, while exports of a few essential commodities were regulated to assist the maintenance of the domestic price level. Import policy was further liberalised.

Exports

The export policy placed greater emphasis on the development of exports which present a favourable growth potential in the context of our resource endowment and of exports in which processing and fabrication add significantly to the value. Examples of such exports are engineering goods, marine products, ready made garments, leather manufactures, gems and jewellery, chemicals and handicrafts. Measures of direct Government support to exports such as cash compensatory support, duty drawback and duty drawback credit and duty free imports were continued. At the same time, with a view to protecting domestic availabilities, exports of some commodities of essential consumption

such as pulses, salt, fresh vegetables other than onions and potatoes and groundnut oil were banned, while quantitative controls were imposed on exports of tea, mustard seed, mustard seed oil, hydrogenated oil and certain varieties of marine products.

Imports

The liberalisation of imports undertaken in 1976-77 in the context of the comfortable foreign exchange position was carried further during 1977-78. The import policy for 1977-78 which was announced on April 27, 1977 was designed to boost industrial production, strengthening the production base for a vigorous export effort as well as augmenting domestic availability of essential commodities and to increase the assistance to production in the small scale sector. Accordingly, the policy contained the following changes: (a) considerable simplification of procedures all round; (b) inclusion of a wide range of machinery and raw materials, not indigenously available, on the OGL and free licensing lists—in all, some 600 groups of commodities were placed under the OGL; (c) making the Actual User licensing system more flexible to enable Actual Users to import, under the automatic licensing scheme, their industrial raw material requirements related to the actual consumption in the base period; (d) provision for the issue of a supplementary licence to an Actual User, if the need for imported raw materials was greater than what could be obtained through the automatic licence; (e) abolition of the constraint of an import shopping list associated with an import replenishment licence (REP), making future imports subject to the Actual User condition—thereby permitting exporters to obtain their inputs at international prices; (f) protection of the interests of indigenous industry through a list of banned items and a list of export-linked import items; (g) widening of the scope of the scheme for duty free imports of raw materials and components to the drug, dyestuff and plastic industries; and (h) raising of the quota for Established Importers in respect of a large number of items. The import policy for the small scale

sector was also considerably liberalised, and licences against free foreign exchange* were provided for small scale industries in backward areas as well as certain categories of entrepreneurs, e.g. technical graduates and ex-servicemen.

Further modifications were made later in the year in the import policy (for details see Appendix II). The more important of these were as under:

(1) To ensure expeditious imports of edible oils and oilseeds, it was decided in May 1977 to issue import licences under the free licensing system, against firm commitments, for the import of oils and oilseeds from overseas suppliers, subject to the condition that imports would take place within three months from the date of issue of the licence. In February 1978, imports of sunflower (kardi) seed and oils were allowed for refining, blending and for direct human consumption.

(2) With a view to ensuring regular supplies of viscose filament yarn at international prices to the textile units producing art silk fabrics, it was decided in July 1977 to allow import of viscose filament yarn on a free licensing basis, by Actual Users. In December 1977, nylon filament yarn, imports of which were hitherto canalised through the STC, was allowed to be imported by Actual Users for use in their own textile units.

(3) In order to minimise the disruption caused to production as a result of the power cuts, it was decided in November 1977 to extend the facility of import of diesel generating sets of more than 625 KVA to Actual Users, subject to the proven non-availability of indigenously-made sets of similar ratings.

On the tariff front, subsequent to the changes effected in the Union Budget for 1977-78, the Government reduced/abolished a few import duties either to encourage exports of some products or to increase domestic availability

*For details see Report on Currency and Finance, 1976-77, Vol. I pp. 220-222.

of some others. In order to exploit better the export growth potential of gems and jewellery, the 5 per cent import duty on rough diamonds and semi-precious stones was abolished. To augment domestic supplies of cement, imports of cement upto March 1979 were exempted from the import duty. Likewise, to encourage domestic production of pesticides, the *ad valorem* import duty on phosalon—a chemical used by the pesticides industry—was reduced from 75 per cent to 45 per cent. Other tariff changes related to the reduction of *ad valorem* import duties on automobile components from 120 per cent to 40 per cent and the halving of the effective duty on rhodium electroplating salt, rhodium electroplating replenished salt and infra-red absorbing glass tube-items used in the production of electronic components.

Alexander Panel

Recognising the need and urgency for a thorough overhaul in import-export policies and procedures in keeping with the structural changes that had taken place in the economy, the Government appointed on November 1, 1977, an expert committee under the Chairmanship of Dr. P. C. Alexander, with the following terms of reference: (a) to review the present structure of import and export policies and their formulation with special reference to the role of policy instruments such as licensing, quotas, tariffs, taxes, duty drawbacks and cash assistance; (b) to suggest improvements in the structure and use of the instruments of policy, and rationalisation and simplification of procedures; and (c) to suggest appropriate changes in the organisation of the office of the Chief Controller of Imports and Exports and other related agencies. After comprehensive discussions with representatives of trade and industry, export promotion organisations, financial institutions and State Governments, the Committee submitted its report to the Government on January 31, 1978.

The recommendations aim at providing a new foreign trade policy framework with a shift in emphasis from 'controls' to 'development'. The broad thrust of the recommendations

is to relieve the economy from the shackles of excessive controls through the process of simplification of the import licensing system. Thus, the Committee suggested streamlining the licensing system by a suitable reclassification of commodities under three broad heads: (1) raw materials/components, consumables and stores and spares, (2) capital goods and equipment and (3) consumer goods. Import policy in respect of each of these categories was spelt out separately. In order to introduce stability, one of the recommendations of the Committee was that instead of the present system of announcing import-export policy annually, the policy should be formulated on a three-year basis and too frequent changes avoided. It recommended a gradual transition from the licensing system to a tariff mechanism for purposes of protection to Indian industry. It also advocated that the tariff mechanism should be made an administratively more simple and economically more explicit instrument of protection. A ceiling of 40 per cent customs duty on all capital goods and a ceiling of 100 per cent on all other items was suggested as a norm which could be considered in the restructuring of the tariff rates. The Committee recommended an integrated export strategy emphasising the need for identifying and developing areas of export activity with long term comparative advantage. With the liberalisation of import policy, it recommended that the role of REP licences should be narrowed to cover mainly import of banned or canalised items. Further, it suggested rationalisation of the criteria for cash assistance and recommended that new cash rates should be put into effect from 1979-80. Recognising as useful the institution of Export Houses, the Committee has recommended that the FIEO develop a model charter of functions of Export Houses with a view to making them viable units. It has also recommended special incentives which are designed to reorient the Export Houses as canalising agencies for products of the small scale sector. With respect to the canalisation of foreign trade, the Committee has recommended that canalisation be restricted only to those items which

offer advantages of bulking, better service to consumers, assurance of long-term supply and prevention of unfair trade practices. It identified 59 items out of 200 products for decanalising. In keeping with the Plan priorities to treat the small sector as a preferred one, the Committee offered precise recommendations for assisting the small scale sector in the areas of supplies of imported inputs, information gap and development of SSI consortia. It has also made comprehensive recommendations on the restructuring of the organisation of the Office of the Chief Controller of Imports and Exports, by uprooting the outmoded institutional set-up and in its place suggesting a new institutional framework which would perform a more constructive role in administering the country's foreign trade policy.

Foreign Trade Policy — 1978-79

The foreign trade policy for 1978-79 was announced by the Union Commerce Minister on April 3, 1978. It was framed in the context of the recommendations of the Alexander Panel and it further extended the liberal approach embodied in the policies of the previous two years. It adumbrated a new framework for a more development oriented foreign trade policy machinery. Rationalisation of the licensing system, decentralisation of several licensing functions and restructuring of the CCI & E organisation to enable it to play the promotional and development role in the country's foreign trade policy more effectively, are among the prominent facets of the 1978-79 policy. The policy provides a number of incentives for the growth of small scale and tiny sectors. At the same time, it provides greater opportunity for the Indian industry to improve efficiency by opening up the economy to international competition in appropriately measured manner, about half the capital goods industries are in the process thrown open to international competition.

Exports

The thrust of the policy towards promotion of exports was maintained. Only the exports

of items essentially needed within the country were regulated in the interest of domestic price stability. All other items continue to be exported on the OGL without a licence. The existing scheme of cash compensatory support was continued during 1978-79 to help exporters establish markets for non-traditional items. Exports of over two hundred items were decanalised, principal among which were leather, footwear and knitwear. In the case of footwear, minimum export prices were stipulated. In the 1978-79 policy, the number of items of exports that were allowed only through canalising agencies was reduced to cover 28 items, which in the main included onions, potatoes, cardamoms, HPS groundnuts, castor oil, sugar, ferrous scrap and ferro alloys. Where the export of a commodity is regulated within a set ceiling, or where there is no established pattern of trade, exports would be allowed on a 'first come first served' basis. Where exports are subject to quotas, licences would be issued only to Registered Exporters on the basis of their export performance in the prescribed base period.

Export control is exercised in respect of a limited number of items whose supply position warrants that they be regulated. Some of the commodities that fell into the regulatory net and were banned on account of domestic shortages were oilseeds, certain vegetable oils and salt. Export items where regulation took the form of quantitative ceilings were tea, pulses, fresh fruits and vegetables, certain marine products, cement, clinker and certain mineral ores like bauxite, kyanite and mica, etc.

Imports

Procedural streamlining has been an important element of the liberalisation of the import policy. The number of licensing categories has been reduced. The category of Established Importers which was the main channel of imports for stock and sale for the last 30 years, has been eliminated. The free licensing category has been merged into the OGL, expanding the scope of the open general licensing category. The compass of the Actual Users category has been enlarged to include local

bodies, charitable and educational institutions, hospitals, etc. The distinction between the public and private sector undertakings in respect of Actual User licences, and that between the merchant exporter and the manufacturer exporter in respect of the quantum and nature of REP licences have been abolished. The need for separate licences for iron and steel items has been dispensed with. For the purpose of licensing, commodity groups have been more precisely defined and a clear distinction has been made between 'spares' and 'components'.

The area of licensing control has been minimized by providing separate lists of 'banned' and 'restricted' items and by stipulating that imports of only 'restricted' items would require licences. Imports of all items outside the banned and restricted lists would be allowed freely. The banned list comprises items which the country produces or consumer luxury items which the country can do without. The list of OGL items has been substantially expanded; capital goods placed under OGL number 253 items which include, among others, leather machinery, garment and hosiery machinery and a wide range of machine tools. Further, the policy provides for imports, on a global basis, of capital goods/machinery for 100 per cent export-oriented units and for thirteen industries, viz., (1) fertiliser, (2) paper and newsprint, (3) basic drugs, (4) power generation, (5) mineral exploration and production, (6) petrochemicals, (7) cement, (8) sugar, (9) waste disposal, recycling and effluent treatment projects, (10) material handling projects of ports, (11) petroleum exploration and production, (12) petrochemicals upto the stage of polymers and (13) manufacture of professional grade electronic components. This would enable basic industries to obtain the quality items of capital goods required by them, Indian capital goods retaining only the 40 per cent tariff protection.

A major liberalisation in the new policy relates to the reduction in the number of items, imports of which were canalised; 56 items have been removed from the canalised list including diamonds and cement. Among the items

decanalised figure milk powder, nylon moulding powder and PVC resins, which items were decanalised at the instance of small scale industries.

The policy has also simplified and streamlined administrative arrangements in several ways. Application forms have been simplified and the number of forms to be filled in by the importer has been reduced. Some of the obligations for obtaining an import licence have been dispensed with, such as separate letter of authority needed to operate on the import licence and endorsement of the port registration on the import licence. Licences are not required to be obtained to replace goods damaged or lost in transit, nor is the DGTD scrutiny required for sending machinery and equipment abroad for repairs and their return. In case of canalised items release orders are dispensed with. Restrictions on the transferability of REP licences from person to person have also been removed, permitting their transfers by a simple endorsement.

A three-tier system of licensing has been evolved to facilitate decentralisation in order to expedite disposal of import licence applications without undue delay as also to reorient the CCI & E organisation to take on promotional activities. Powers of regional licensing authorities have been enlarged to include issuance of licences to Actual Users for emergency spares for any value. The four existing offices at Bangalore, Ahmedabad, Hyderabad and Kanpur have been upgraded to the level of Joint Chief Controller and six additional regional offices are to be opened as a measure of further decentralisation. To improve the public relations of the licensing organization 'assistance counters' have been set up at licensing offices to help applicants to clear speedily the formalities entailed in obtaining licences. The joint weekly meetings between the customs and licensing wings have been given a formal status with authority to take relevant decisions; this would bring about better coordination between the two wings leading to expeditious disposal of cases.

The designation of the Chief Controller of Imports and Exports has been changed to Director General of Foreign Trade and the functions enlarged to cover import management, analysis of data on trade and prices, coordination between import licensing and customs procedures, and providing a focal point for coordinated assistance to exporters where a number of public agencies are involved.

In terms of the major licensing categories, the 1978-79 import policies are as follows :

Actual Users: The new policy enables Industrial Actual Users to obtain imports of all their requirements of raw materials, components, consumables and spares except for the items imports of which are banned, either through OGL, automatic and supplementary licences or through allotments from canalising agencies. For their additional requirements of raw materials and components, consumables and non-permissible spares, they would require a supplementary licence through the sponsoring authority. Import of permissible spares would be allowed under OGL, with emergency spares being allowed without limit but subject to closer monitoring **ex-post facto**. Imports of non-permissible spares would be allowed on the basis of certified values of capital goods installed or in use as on April 1, 1978. Imports of items on the restricted list would be allowed to Industrial Actual Users under the automatic licensing system which operates on the basis of past consumption standards with a growth factor of 10 per cent over actual consumption in the previous year. Industrial Actual Users would be eligible to import a large number of capital goods under OGL. Applications for import of electronic items of value of Rs. 5 lakhs or more have, however, to be routed through the Department of Electronics.

Non-Industrial Actual Users such as research and development laboratories, scientific institutions, universities, etc. have been allowed to import their requirements of technical and professional equipment, raw materials, components and spares—both permissible and non-permissible—under OGL, subject to the Actual User condition.

Small Scale Units

To ensure wider markets for their products, imports of items manufactured by the small scale sector, tiny sector and cottage industries have been banned. The import of their capital goods requirements would be permitted wholly against free foreign exchange, the earlier limitation on the use of free foreign exchange for them having been withdrawn. Further, provision has been made for these units to obtain from the canalising agencies at concessional prices the imported raw materials required by them. Small scale units set up in backward areas would be entitled to get and hold larger inventories of canalised imports to overcome the transport problems faced by entrepreneurs in the interior areas. All entrepreneurs setting up small units in backward areas would be entitled to get licences up to Rs. 5 lakhs while other small-scale entrepreneurs would get licences upto Rs. 3 lakhs.

Registered Exporters

The policy for Registered Exporters has been revamped with a view to promote larger exports. The distinction between merchant exporters and manufacturer exporters in utilising the replenishment licences has been removed. Imports of some of the banned or canalised items by Registered Exporters are permitted under the REP licences. Within the value of their replenishment licences, Registered Exporters have been permitted to import three more items viz., raw films, stainless steel and raw silk, even though these commodities remain canalised for Actual Users. In order not to hold up production for export, Registered Exporters have also been given the advance licence facility. The obligation to purchase 20 per cent of rough diamonds through the MMTC has been withdrawn and Registered Exporters are allowed to import rough diamonds at international prices directly from abroad, with a view to encouraging the exports of cut and polished diamonds and gem and jewellery.

Export Houses

The role and functions of Export Houses as instruments of export promotion has been

strengthened. In granting Export House certificates, emphasis will be placed on the measure of assistance Export Houses provide to manufacturer exporters, as also the extent of assistance they render to export products of the small scale, tiny and cottage sectors. In addition to the replenishment licences which would be granted to them, licences would be granted to Export Houses on the basis of 5 per cent of their exports in 1977-78 of specified products manufactured by large units plus 33.3 per cent of specified products manufactured by small scale units. In the 1978-79 policy, liberal norms have been stipulated to enable small scale units to form their own consortia and such consortia would be eligible for the grant of an Export House certificate, if they undertook to increase their exports by Rs. 5 lakhs each year over and above the base figure of Rs. 10 lakhs.

To introduce stability into the foreign trade policy framework, the Alexander Panel had recommended that the import policy should be stable for a period of three years. The new policy was made operative for one year, leaving open the question of extending it; however, at the time of its announcement, it was stated that the policy would be further reviewed. Further liberalisation in respect of Actual Users and Registered Exporters was effected in July 1978 on the basis of recommendations of an official Review Committee headed by the Secretary of the Ministry of Industrial Development. These liberalizations, by and large, enlarge the scope of imports by the two importer categories and are as follows:

(1) A number of items required by the electronics industry were placed on the OGL.

(2) A wide range of items used in the manufacture of chemicals and drugs, which were earlier banned or canalised, were brought under the import replenishment scheme.

(3) The definition of spares and components has been enlarged to include accessories and attachments.

(4) As import of consumables were not on the OGL in the new policy, Industrial Actual Users were allowed to import consumables against their automatic licences, the value of which having been enhanced by 10 per cent.

(5) Imports of small tools and precision measuring instruments would also be allowed within the automatic licences, even if these were on the banned list.

Trends in Import Licences 1977-78

The slant of the 1977-78 import policy was towards further liberalization and the total value of import licences issued during the year aggregated Rs. 7,406 crores, Rs. 1,485 crores or 25.1 per cent larger than in 1976-77. But the order of increase over the year was distinctly smaller than the increase of Rs. 2,605 crores or 78.6 per cent in 1976-77 over the preceding year. The marked deceleration in the growth rate of licences issued occurred even as sizeable accretions to foreign exchange reserves continued and the import policy was further liberalised. What is more, a rapid increase in imports seems unlikely in the short run, because of the import substitution that had already taken place in items like petroleum, fertilisers, steel, and a wide range of machinery and equipment, as also in the case of food-grains, large public sector stocks of which have been built-up.

Sector-wise, the value of licences issued to the Government sector increased by 16.8 per cent from Rs. 4,000 crores to Rs. 4,673 crores; and the licences issued to the private sector increased in value from Rs. 1,921 crores to Rs. 2,733 crores (Table IX.1). As a result, the share of the private sector in the value of total licences issued moved up from 32.4 per cent in 1976-77 to 36.9 per cent in 1977-78, while the share of the Government sector declined from 67.6 per cent to 63.1 per cent.

Category-wise, the residual category 'others' accounted for the bulk of the increase in the value of licences issued during 1977-78. The licences issued to the category 'others' showed a phenomenal rise of Rs. 1,537 crores to a

Table IX.1: Issue of Import Licences—Sector-wise
(1975-76 to 1977-78)

(Rs. crores)

Category	Year	Total	Of which			
			Government Sector	% to total licences issued during the year	Private Sector	% to total licences issued during the year
Established Importers	1975-76	46	1	—	45	1.4
	1976-77	52	—	—	52	0.9
	1977-78	43	—	—	43	0.6
Actual Users (Non DGTD Non SSI)	1975-76	633	563	17.0	70	2.1
	1976-77	1404	499	8.4	905	15.3
	1977-78	802	762	10.3	40	0.5
Raw Materials for scheduled industries (DGTD units)	1975-76	619	288	8.7	331	10.0
	1976-77	547	267	4.5	280	4.7
	1977-78	671	326	4.4	345	4.7
Small Scale Industries	1975-76	88	—	—	88	2.6
	1976-77	107	—	—	107	1.8
	1977-78	108	—	—	108	1.5
Registered Exporters/Export Promotion Schemes	1975-76	237	18	0.5	219	6.6
	1976-77	417	27	0.4	390	6.6
	1977-78	741	25	0.3	716	9.7
Capital goods/heavy electrical plants	1975-76	566	415	12.5	151	4.6
	1976-77	510	371	6.3	139	2.3
	1977-78	521	351	4.7	170	2.3
State Trading Agencies	1975-76	762	762	23.0	—	—
	1976-77	1571	1571	26.5	—	—
	1977-78	1670	1670	22.5	—	—
Others@	1975-76	364	314	9.5	50	1.5
	1976-77	1313	1265	21.4	48	0.8
	1977-78	2850	1539	20.8	1311	17.7
Total	1975-76	3316	2361	71.2	955	28.8
	1976-77	5921	4000	67.6	1921	32.4
	1977-78	7406	4673	63.1	2733	36.9

@ Includes the categories 'Ad hoc Licences', 'Customs Clearance Permits', 'Director General of Supplies & Disposals', 'Railway Contracts', 'Government or against Government Contracts', 'Replacement Licences', 'Blanket Licences', 'New Comers', 'Sole Agents' and 'Co-operative Societies'.

Source: Chief Controller of Imports & Exports.

high of Rs. 2,850 crores during the year under review. This was due to the programming of liberal imports of such wage good items like vegetable oils and raw cotton under the free licensing system to tide over the acute domestic shortages in these commodities. The value of licences issued to Registered Exporters also rose from Rs. 417 crores in 1976-77 to Rs. 741 crores during the year under review. The emphasis of export promotion on value

added export items resulted in the sharp step-up in the licences issued to Registered Exporters to meet their additional raw material requirements. Licences issued to exporters of ready-made garments, gems and jewellery, and engineering goods accounted for as much as Rs. 541 crores out of Rs. 741 crores worth of licences issued to this category. In contrast, the value of licences issued to Actual Users dropped sharply from Rs. 1,404 crores in

1976-77 to a low of Rs. 802 crores in 1977-78; the precipitous drop reflected the sluggish demand for industrial products. In the capital and heavy electrical goods sector too, there was little evidence of a pick-up in demand; the value of import licences for capital goods showed a nominal rise of Rs. 11 crores to Rs. 521 crores in the context of the recessionary phase experienced by the Indian capital goods industry and the existence of considerable unused capacity in the domestic capital goods industry. Despite the orientation in recent years of the licensing policy towards providing added incentives to the small scale sector, particularly from the point of view of adequate supply of inputs, licences issued to the small scale industries sector have shown little or no change in the last three years. The value of licences issued to this preferred sector has hovered in the region of Rs. 80 to Rs. 100 crores and the share of small scale industries in total licensing has slipped from 2.6 per cent in 1975-76 to 1.5 per cent in 1977-78. This suggests that either the demand from this sector for imported inputs continues to be low, or that simply the industries in this sector are not fully aware of the available concessions and are deterred by the procedural and administrative formalities involved in arranging for themselves the imports required by them.

Other Developments

Among the other developments during the year under review, mention may be made of (i) changes in export duties, (ii) revision of rates of interest charged on export credit and (iii) the introduction of the scheme for the blanket release of foreign exchange to Export Houses for undertaking promotional activities.

As a result of the tight supply position in regard to Brazilian coffee, international prices of coffee had soared. The export duty on coffee was therefore, raised from Rs. 13 per kg. in November 1976 to Rs. 22 per kg. in April 1977. Thereafter, as the international prices eased with the prospects of improved supply, the duty was gradually scaled down and in March

1978 was reduced to Rs. 5 per kg*. Consequent on the sharp escalation in the prices of tea in markets abroad, export duty of Rs. 5 per kg.** was imposed in April 1977 to discourage the rise in the prices charged to domestic consumers. Another commodity that attracted export duty in 1977-78 was high grade chromite. In order to encourage exports of low grade ore, a duty was levied in May 1977 on exports of high grade chromite ores, and its rates ranged from Rs. 50 per tonne to Rs. 200 per tonne depending on the degree of concentrates, while the exports of low grade ores remained exempt from duty.

As a part of the exercise realigning the interest rates structure consistent with the overall demands of the economy, the concessional rate of interest on pre-shipment and post-shipment export credits was reduced on February 28, 1978 from 11.5 per cent to 11 per cent; the rate of interest on pre-shipment credit for the extended period was lowered from 13.5 per cent to 13 per cent, while the ceiling rate on post-shipment credit for deferred exports of capital and producer goods was kept unchanged at 8 per cent. The export refinance rate was reduced from 10.5 per cent to 10 per cent.

A new scheme was introduced in October 1977, for the blanket release of foreign exchange to Export Houses for undertaking abroad promotional activities such as deputation of sales-cum-study teams, brand publicity projects and participation in international exhibitions. Under this scheme, Export Houses holding Export House certificates were eligible for release of blanket foreign exchange by the Reserve Bank to the extent of 2.5 per cent of the f.o.b. value of their exports during the previous year, subject to a maximum of Rs. 1 lakh. Export Houses could also avail against the surrender of their REP entitlements for equal amount, foreign exchange release in

*The rate was further reduced to Rs. 2 per kg. effective from July 31, 1978, but again raised to Rs. 4 per kg. on September 7, 1978.

**The rate was reduced to Rs. 2 per kg. effective from September 7, 1978.

excess of Rs. 1 lakh* but not exceeding their overall entitlement on the basis of 2.5 per cent of f.o.b. value of exports. The blanket release of foreign exchange under this scheme was additional to the blanket permits issued to Export Houses for conducting their regular business. With a view to making the blanket releases more effective to operate, the norms for the grant of Export House certificates were revised so that the certificates are made available only to Export Houses with minimum exports of Rs. 1 crore (instead of Rs. 50 lakhs earlier) for specified products and of Rs. 5 crores instead of Rs. 3 crores earlier for other products.

Specialised Foreign Trade Agencies

The State Trading Corporation

During the year under review, the STC continued to play an important role in effectuating the objectives of the new foreign trade policy. The total trade turnover (exports, imports and inland trade) handled by the STC amounted to Rs. 1,059 crores in 1977-78 (April-March) as compared with Rs. 976 crores in 1976-77. Imports accounted for almost the whole of the increase. Exports routed through the STC, in fact, showed a sharp drop of Rs. 111 crores over the year, from Rs. 666 crores in the preceding year to Rs. 555 crores in 1977-78. The decline was mainly due to reduced exports of sugar, consequent on the very low international prices ruling throughout 1977-78 for this commodity. Exports of sugar through the STC accounted for barely Rs. 16 crores in 1977-78 as against Rs. 152 crores in 1976-77 and a high of Rs. 468 crores touched in 1975-76. Among other items, exports of semi-processed leather were lower by Rs. 38 crores to Rs. 117 crores while exports of mass consumption items like cement, rice and fresh vegetables were curtailed to ensure domestic availability.

On the other hand, exports of several items showed an increase, prominent among them being coffee and jute goods, exports of which

rose by Rs. 59 crores and Rs. 38 crores to Rs. 115 crores and Rs. 45 crores, respectively. The Corporation was also successful in introducing several new export items to Europe such as instant coffee, packaged tea, tapioca chips and dried mushrooms. Several products were also introduced in new markets such as coffee in Japan, shellac in China, gramophone records in the USSR and high value leather shoes in Canada.

The STC entered into direct trading activity to assist the primary/small scale producer and made a beginning in trading in castor oil by purchasing directly from several suppliers, holding the material in storage and selling the oil to overseas buyers at the appropriate time. The Corporation also encouraged the formation of consortia of exporters in the small scale sector with a view to enlarging exports of non-canalised items such as leather products, ready-made garments, fruit juices and footwear by providing them with financial, marketing and technical assistance.

The value of imports handled by the STC aggregated Rs. 493 crores—Rs. 192 crores or 60 per cent higher than in the previous year. This was because the Corporation was entrusted with arranging sizeable imports of edible oils to supplement domestic production and to maintain the internal price level. As against 1.5 lakh tonnes imported in the previous year, imports of edible oils through the STC totalled 5 lakh tonnes costing Rs. 317 crores during the year under review. In this way the requirements of the vanaspati industry were met in full. The Corporation also supplied through State Governments edible oils like rapeseed for direct consumption. The total storage capacity of the Corporation was increased to enable the Corporation to hold sizeable stocks at different distribution centres. In this way the Corporation met three-fourths of the requirements of the vanaspati industry in the country. Likewise, to tide over the acute shortage in cement and newsprint, the STC contracted for the import of 8.4 metric tons of cement and sizeable quantities of newsprint.

*The limit was subsequently raised to Rs. 2 lakhs on July 28, 1978.

The Corporation's buffer stock policy in respect of seedlac and price support operations for natural rubber were instrumental in imparting stability to domestic prices and also aiding exports.

Trade Development Authority (TDA)

The TDA, it will be recalled, was set up primarily to induce and organise medium and small scale entrepreneurs to develop their individual export potentialities by offering package assistance to individual exporters to enable them execute export orders from the stage of intention to the actual export, which entails collection and collation of information, product development, market research, export finance and assistance in securing and implementing export orders. During 1977-78 (April-March) the activities of the TDA gained further momentum in several directions. In the wake of the encouraging response received for the Buyer-Seller Meets organised by the TDA in the U.S.A. during the preceding two years, similar Meets were arranged during 1977-78 at Chicago and Los Angeles. The total value of orders booked at the Meets aggregated US \$ 18.64 million (Rs. 16 crores), and the total number of buyers registered 6,866. These Meets have proved instrumental in generating foreign demand for new items like scooters, mopeds, water pumps, oil pumps, sprockets, universal joint crossings, axle shafts, truck parts, shackle pins, dog chains, etc.

To advise Indian industry on product development and adaptation, the TDA was able to secure assistance for exports of such items as electronics, leather garments and casings under the bilateral export development project between the Swedish International Development Authority (SIDA) and the TDA. The projected assistance for 1977-78 was in the region of S.Kr. 0.6 million as against S.Kr. 0.5 million provided during the preceding year. Five more products, namely auto ancillaries, scientific instruments, industrial fasteners, builders' hardware and small tools and hand tools were selected for such intensive export promotion. The TDA enrolled 172 new clients

during the year, while 169 units were de-enrolled. The total number of clients as at the end of March 1978 stood at 625, of which about 67 per cent belonged to the small scale sector.

A special assignment recently handled by the TDA as 'Management Consultants' appointed by the Commonwealth Secretariat, London, was the organisation of a buyer-seller meet for Kenya in May 1978 in New York. Under the terms of the contract, the TDA was required to assist and advise the Kenya External Trade Authority in the planning, organisation and execution of this Meet called 'Kenya Trade Forum' and would include, *inter alia*, identification of the manufacturers and the range of their products for display, assistance in test marketing of the exhibits, preparation of quick market surveys, selection of the publicity media and promotion of buyer contacts, etc.

Electronic Export Processing Zone (EEPZ)

The export performance of the Electronic Export Processing Zone recorded a substantial increase during the calendar year 1977, the total value of exports during the year being Rs. 4.1 crores as against Rs. 2.6 crores in the earlier 28 months (from September 1, 1974 to December 31, 1976). Apart from entertainment and consumer electronic items such as radio and TV sets, sophisticated technological items such as integrated circuits including ion-implantation processes and hybrid micro-circuit, the whole range of semi-conductors, remote control X-ray equipment, etc. were also manufactured for export.

As at the end of December 1977, 79 applications were approved for setting up units in the Zone, of which 43 applications have been withdrawn/cancelled leaving the number of net approved applications at 36. By the end of December 1977, the total number of units in production stood at 22, while 11 more units were in various stages of progress.

Kandla Free Trade Zone

The Kandla Free Trade Zone showed significant progress during the calendar year

1977. The total value of exports from the Zone during 1977 amounted to Rs. 4.4 crores as against Rs. 2.8 crores during 1976. The total value of exports from the Zone since its inception upto December 1977 amounted to about Rs. 16.3 crores. The number of units functioning in the Zone increased from 28 at the end of 1976 to 35 by the end of 1977. The number of industrial sheds in the Zone also rose from 48 to 64 during 1977. More incentives and facilities were extended to the units during 1977, the most important of which was the introduction of OGL for import of machinery. In the meanwhile, infrastructural improvements such as telex facilities and air services are under way in the area with a view to enlarge the activities of this free trade Zone in the coming years.

Trade Agreements and Trade and Payments Arrangements

While trade agreements and trade and payments arrangements continued to be an important element of India's foreign trade policy during 1977-78 (April-March), ways and means of increasing and diversifying India's foreign trade were also sought through enlarging the scope of production collaboration arrangements and third country collaboration. India concluded in 1977-78 fresh trade agreements with nine countries, signed protocols of annual trade plans with six East European countries and moved in the direction of normalising trade relations with China.

The year under review saw the conclusion of fresh agreements with the Arab Republic of Egypt (ARE), Democratic Peoples Republic of Korea (DPRK), Hungary, Chile, Mongolia, Nepal, Poland, Portugal and Vietnam. Under the agreements the partner countries agreed to provide MFN treatment to each other. The agreements also seek to enlarge the commodity coverage of India's exports, particularly of non-traditional items. A significant feature of the agreements with Egypt, North Korea and Hungary was the provision for the switch over from inconvertible currency arrangement to convertible payments settlement. As a result,

the number of countries with whom India continued to have restricted payment arrangements in non-convertible Indian rupees was reduced during the year from 10 to 7*.

A fresh agreement with the Arab Republic of Egypt was signed in October 1977 to replace the earlier Trade Agreement of 1953. The agreement would remain valid for 5 years** and provides that all payments between the two countries arising out of trade transactions envisaged under it, would be settled in convertible currencies. In view of the change in the payments arrangement, the two countries also finalised an agreed scheme for the settlement of balances arising out of transactions under the earlier agreement.

On the expiry of the bilateral Trade and Payments Agreement of 1974, a fresh trade agreement with North Korea (DPRK) was signed in February 1978, which came into force on March 1, 1978. This agreement would remain valid for a period of two years. The two countries agreed to switch over from rupee financing to convertible currency financing in respect of all trade and payments transactions. However, all payments arising from export/import contracts between the two countries entered into prior to the commencement of this agreement would continue to be governed by the provisions of the Trade and Payments Agreement of 1974 and would be settled as early as possible through export of goods to be decided upon by mutual agreement between the two countries. The agreement also provides for exploration of ways and means for economical transportation of commodities between the two countries. India's two-way trade with DPRK which was of the order of Rs. 3.3 crores prior to the conclusion of the 1974 Agreement improved to Rs. 10.6 crores in 1977—the trade turnover representing 34 per cent of the trade plan provision for that year. Imports into India from DPRK have consisted mainly of magnesias,

*Afghanistan, Bulgaria, Czechoslovakia, GDR, Poland, Rumania and the USSR.

**The Agreement is yet to be ratified by Egypt. It will come into force from the date of ratification.

clinker, refractories, sulphur and zinc, while India's exports to DPRK have been mainly of mica, pig iron, cotton and jute manufactures.

An agreement with Hungary was concluded on December 15, 1977 for a period of 3 years beginning January 1, 1978 replacing the earlier long-term Trade and Payments Agreement of 1971 which expired on December 31, 1977. This agreement provides that all trade and payments transactions between the two countries will be settled in freely convertible currency, instead of in non-convertible Indian rupees as was provided for under the earlier agreement. Thus, Hungary became the second East European country with whom India will have multilateral payment arrangements, the first East European country being Yugoslavia*.

The agreement also provides that the industrial and trading enterprises in both the countries will collaborate with each other for the purpose of pooling together their resources and expertise for joint marketing in third countries and for meeting the needs of industrial development programmes in third countries on the basis of mutual co-operation.

The two countries also signed a second agreement on December 15, 1977, setting out the modalities for the liquidation of rupee balances and rupee payment obligations, consequent on the termination of the bilateral payments arrangements. This agreement provides, inter alia, that all payments falling due after December 31, 1977 in respect of all export/import contracts concluded prior to December 31, 1977 will be settled in non-convertible Indian rupees. All repayments of principal and payment of interest on credits extended by Hungary under the agreement on Economic Co-operation of June 15, 1966 will also be made in non-convertible Indian rupees on the due dates and will be credited to the Indo-Hungarian Credit Repayment Account maintained with the RBI upto December 31, 1979. All non-convertible rupee

accounts of Hungary with the RBI and with the commercial banks in India will be closed on December 31, 1979 and any balance outstanding to the credit of Hungary would be transferred to a new account to be opened from January 1, 1980 with the Reserve Bank of India styled the New Central Account. The balances in the New Central Account will be utilised for the repayment of the technical credit, if any, outstanding as on December 31, 1979, and for the payments for Hungary's imports from India contracted on or after January 1, 1978. Any balance left thereafter, would be invested in 91 days Government of India Treasury Bills. Technical credit outstanding as on December 31, 1977 would be fully liquidated, latest by December 31, 1980 progressively and automatically by utilising the funds in the existing Central Account and the new account as stated above.

On the expiry of the earlier trade agreement of 1972, another trade agreement with Chile was signed in October 1977 for a period of 3 years. Under the agreement, India's imports from Chile would include copper and other metals and minerals, wood pulp, newsprint and fertilisers, while its exports to that country would include engineering goods, railway equipment, chemicals and pharmaceuticals and cotton textiles, etc.

The Trade Agreement between India and Mongolia became operative from February 15, 1978. The Agreement which replaced the earlier Trade and Payments accord concluded between the two countries in February 1968 would be valid for a period of five years. It was also agreed that all payments between the two countries would be effected in freely convertible currency.

The Indo-Nepal Treaty of Trade and Transit was signed in 1971 to regulate trade relations between India and Nepal. The treaty was effective for a period of five years from August 15, 1971. By mutual exchange of letters between the two countries, this treaty was allowed to continue to be valid beyond August 1976 until a new agreement was

*Payments arrangement with Yugoslavia was changed to multilateral system from January 1, 1973.

arrived at. Exports to Nepal during April-December 1977 aggregated Rs. 37.62 crores, while imports during the same period totalled Rs. 11.60 crores. On March 17, 1978 India and Nepal signed a Treaty of Trade, Treaty of Transit and an Agreement of Co-operation to control unauthorised trade between the two countries. The new *Treaty of Trade* would remain valid for a period of 5 years. Some of the important provisions of this Treaty are :

- (1) India would endeavour to assist and promote the industrial development of Nepal by enlarging the scope of preference for Nepalese manufactured products in the Indian market on a non-reciprocal basis, provided such manufactured articles did not contain less than 80% of Nepalese or Nepalese and Indian raw materials;
- (2) in keeping with the efforts of the two countries to promote mutual trade, preferential treatment would be accorded to the primary products of each other on a reciprocal basis, and the two Governments would make necessary arrangements to maintain supplies of essential commodities needed by each other;
- (3) India would make payments to the Government of Nepal of excise duties and other charges collected on items of exports from India to Nepal, subject to the conditions
 - (a) that such payments should not exceed the import duties and like charges levied by Nepal on similar goods imported from any other country, and
 - (b) that Nepal shall not collect from the importer of the said Indian goods so much of the import duty and like charges as is equal to the payment allowed by India;
- (4) the two countries (a) may introduce such restrictions as are needed for safeguarding the implementation of laws relating to the import and export of gold and silver bullion, and safeguarding of other interests as may be mutually agreed upon, and (b) would be free to take any measures to prevent any malpractices such as false marks, false indications of origin or any other methods of unfair competition. The Treaty also provides for the setting up of an Inter-Governmental Committee consisting of senior representatives of the two Governments for smooth functioning of the treaties and control of unauthorised trade between the two countries.

Alongwith the Treaty of Trade, a Treaty of Transit was negotiated between India and Nepal. The *Treaty of Transit* came into force on March 25, 1978 and would remain in force for a period of seven years. Under this Treaty, both the countries would allow freely 'traffic-in-transit' across their respective territories through agreed routes. Such 'traffic-in-transit' would be exempted from customs duties and from all transit duties or other charges except reasonable charges for transportation and other services. The two countries agreed to provide warehouses or sheds for storage of 'traffic-in-transit' awaiting customs clearance. India would allow transit facilities to Nepalese cargo in respect of its trade with third countries, not only through Indian ports but also through ports of Bangladesh with whom Nepal had concluded similar agreement in 1976.

The *Agreement on Co-operation* signed on March 17, 1978 and which would be valid for 5 years, envisages that both countries would co-operate with each other to check all unauthorised trade transactions over the border areas so that their economic interests might not be adversely affected by such transactions.

On the expiry of the earlier Indo-Polish Trade and Payments Agreement of 1974, a fresh Trade and Payments Agreement was signed with Poland on February 16, 1978, which came into force with retrospective effect from January 1, 1978. It was agreed that the Trade and Payments Arrangement between India and Poland would continue on the non-convertible rupee basis for a further period of three years (that is upto December 1980), after which the payments between the two countries would become multilateral and settlements would thereafter be effected in convertible currencies. The Agreement has also laid down the manner and procedure to be followed for the liquidation of balances in the rupee accounts in India from January 1, 1981, according to which any outstanding balances as on that date, would be utilised for purchase of Indian goods or Polish goods as the case may be. In respect of contracts concluded

under the agreement, payments falling due after the expiry of this Agreement would be settled in non-convertible Indian rupees during the following 12 months, and any balance outstanding at the end of this period would be settled in a manner as may be mutually agreed upon, keeping in view the interest of the creditor.

This agreement also envisages that the Indo-Polish Joint Commission for Economic Trade, Technical and Scientific Co-operation would continue to play an important role in furthering economic co-operation between the two countries.

The period of validity of the existing agreement with Vietnam which was extended from time to time, was due to expire on March 22, 1978. As both Vietnam and India were keen on concluding a fresh agreement, particularly, in view of the reunification of Vietnam, a new Trade and Economic Co-operation Agreement was signed on February 26, 1978 for a period of 3 years. The Agreement incorporates two indicative lists of commodities for export from the two countries. The Indian export basket figures items such as locomotives, coaches and bogies, agricultural machinery, pharmaceutical products, electrical appliances, electric wires and cables, pig iron, steel and steel products. The list of exports from Vietnam includes rice, vegetable oils and oilseeds. This agreement not only reaffirmed the Most Favoured Nation treatment but also added a new dimension to the economic relations of the two countries through the signing of three more specific but related agreements. (For details see section on Economic and Technical Co-operation).

Protocols on annual trade plans were signed during 1977-78 with the U.S.S.R., Bulgaria, Rumania, the G.D.R. and Czechoslovakia in terms of the existing long-term trade and payments arrangements concluded with these countries. An annual trade plan was also finalised with Poland for 1978, while concluding the Agreement with that country on February 16, 1978. The trade plans for 1978 with all these countries envisage increases in

trade turnover between the partner countries. The trade plans also seek to lay greater emphasis on Indian exports of non-traditional items such as automobile ancillaries, steel structurals, electric appliances, computer software, etc.

In September 1977 an agreement was concluded in Moscow providing for repayment by India in the shape of wheat of the Soviet Wheat Loan of 1973-74. The 1973-74 Agreement provided for repayment in the form of goods, and accordingly in 1976-77, the value equivalent to monthly instalments of the repayment was credited to the Soviet Account to enable the USSR to make the purchases of goods from India. The improvement in the food situation in India and the heavy build-up of public sector stocks of wheat prompted the Indian Government to explore the possibility of repayment of the outstanding loan of 1.5 million tons in the shape of wheat. By the Agreement of 1977, the USSR accepted the amortisation arrangement.

The validity period of trade agreement of 1975 with Pakistan was extended on January 23, 1978 upto the end of June 1978.

A significant aspect of India's trade policy during the year under review related to the further moves towards normalisation of the trade relations with China which had been disrupted since 1962. A beginning was made in this direction in April 1977 when representatives of the Indian Trade Organisation and, later in the year, when representatives of four public sector organisations attended the Canton Fair and concluded contracts for the export of steel tubes, pig iron and shellac to China and for import of zinc, antimony and mercury from China. The Indian visit was followed by a visit of a 15-member Chinese trade delegation to India in February 1978 which visited industrial centres and units to identify possibilities of enlarging trade exchanges between the two countries.

Economic and Technical Co-operation

To impart vigour and dynamism to the growth in India's foreign trade and to

strengthen the process of economic and technical co-operation, efforts were continued during the year under review to expand the frontiers of trade, not only through traditional commodity exchanges, but also through the new avenues of economic co-operation. Production co-operation, joint marketing, and transfer of technical know-how through joint ventures were some of the instruments employed to further more sophisticated forms of economic collaboration between India and her trading partners. This mode of co-operation was noteworthy in India's economic and commercial relations with the East European countries, and was also extended to a few LDCs.

German Democratic Republic (GDR)

New areas of co-operation between the two countries in respect of textiles, printing machinery, machine tools, and milk processing equipment were identified at the Second Session of the Indo-GDR Joint Commission meeting in September 1977. The Commission also identified the priority projects to be set up in India which included the manufacture of ophthalmic blanks, setting-up of export-oriented food processing projects, mica, paper and mica plants.

Hungary

A protocol was signed with Hungary in November 1977 which envisages the establishment of joint ventures in India for the production of garments and agricultural implements for export to Hungary. Under the Second Protocol signed in December 1977, Hungary agreed to co-ordinate with India in the planning, designing, construction and maintenance of flood protection work, and also to assist in providing equipment for that purpose.

Poland

At the Fifth Session of the Indo-Polish Joint Commission held in Warsaw in October 1977, agreements were concluded between the two countries for production co-operation and joint deliveries to third country markets of industrial machinery such as complete chemical plants

and beet and cane sugar plants. The possibility for the manufacture of fodder pelletisation plants and the proposal for the manufacture of combined harvesters were also considered.

Rumania

The Protocol signed in March 1978 with this country identified machine building, steel metallurgy, petroleum and chemicals as new areas of production co-operation between India and Rumania.

U.S.S.R.

At its Second Session in Moscow in 1974, the Indo-Soviet Joint Commission set up a Joint Working Group to study the modalities of production co-operation and to identify areas in which such co-operation would be feasible. This Group identified joint manufacture, joint development, and division of manufacturing range as different forms of production co-operation arrangements between the two countries. A beginning in this direction was made in 1976 and continued during the year under review with India signing two agreements with the USSR in April 1977, one on economic and technical co-operation and the other on the establishment of 'troposeater' communication link between the two countries. Further, a Protocol for strengthening collaboration between the two countries in the fields of ferrous metallurgy and allied technology was signed in September 1977 providing for the assistance to India by Soviet organisations in developing and improving India's steel production through the use of more up-to-date technology.

Afghanistan

At its Fifth Session held in December 1977, the Indo-Afghan Joint Commission identified a number of areas of assistance by India to Afghanistan. These include: setting up of three industrial estates at Kandahar, Herat and Mazare-Sharif; establishment of a specialised medical institute in Kabul; and installation of a chain of micro-hydel stations in Afghanistan with Indian financial assistance and technical know-how.

The Arab Republic of Egypt (ARE)

According to a Protocol on energy signed with the ARE in January 1978, India would extend scientific, technical and industrial assistance for rural electrification projects in Egypt. The collaboration arrangement also provides for the supply by India of equipment like transformers, cables, pumps and electric motors.

Republic of Korea (South Korea)

At the Second meeting of the Joint Trade Committee, held in March 1978, India and the Republic of Korea decided that both countries would take steps to encourage trade and economic co-operation in the areas of construction and deep sea fishing.

Iran

New areas of economic co-operation between India and Iran were identified during 1977-78 in the fields of rural electrification, generation of power, development of railways and ship-building. India would help in the setting-up of a power plant in Iran worth \$ 10 million, while Iran would co-operate in exploring jointly the bauxite reserves in Orissa and Andhra Pradesh.

Iraq

A Protocol was signed with Iraq in November 1977 providing Indian assistance to Iraq in the manufacture of machine tools and synthetic fibres, and in the establishment of an engineering institute.

Libya

India and Libya signed in October 1977 an economic co-operation pact to strengthen the economic co-operation between the two countries in the areas of rail transport, building materials, and technical and feasibility studies relating to industrial projects.

Syria

A Protocol was signed in October 1977 between India and Syria on economic co-operation in the spheres of oil exploration, mining, development of steel industry using

Syrian iron ore, and the setting-up of industrial estates. In terms of this Protocol, India would assist Syria in the development of textile, machine tools and cement industries, in rural electrification, and in the development of railways.

Vietnam

Besides the Trade and Economic Co-operation Agreement referred to earlier, India signed in March 1978 three agreements with Vietnam to promote mutual co-operation. The *first* agreement relates to co-operation in the areas of science and technology and envisages exchange of scientists, specialists and scientific information between the two countries. The *second* agreement provides for co-operation in the field of agricultural research, education, training and production techniques, through exchange of scientists, literature and equipment on the basis of work plans to be drawn up by the two countries. In terms of the *third* agreement, India would grant Vietnam a credit of Rs. 100 million for the purchase from India of railway equipment and such other goods as may mutually be agreed upon. The credit would carry interest at the rate of 5 per cent per annum, and is repayable in 10 years commencing from 1982.

Yemen Arab Republic (YAR)

A technical and economic co-operation agreement was signed with the Yemen Arab Republic in December 1977, covering co-operation in the setting-up of a wide range of industries such as cast iron pipes, pipe fittings, glass products, ceramics, packaging, stationery products, and for the manufacture of shoes. The formation of a joint construction company and loaning of technical experts to the YAR were the other aspects of this agreement. The YAR is undertaking a five year development plan with an outlay of \$ 4 billion, and India has offered to assist the country in this developmental effort.

Yugoslavia

At the three-day meeting of the Indo-Yugoslav Joint Committee held in May 1977,

it was agreed that India would supply to Yugoslavia 1,200 wagons, equipment for waste water treatment plant and wire drawing machinery.

Australia

At the Second Meeting of the Indo-Australian Joint Trade Committee held in November 1977, it was recognised that there was considerable scope for co-operation between the two countries in areas of mining and agriculture in view of the many areas of complementarity between their economies. Australia offered at the meeting, to assist India to build bulk storage facilities for foodgrains in the context of India's sizeable foodgrain reserves.

United Kingdom

At a four-day meeting of the Indo-British Economic Committee held in March 1978, a wide spectrum of issues of common interest to both countries were intensively discussed to pinpoint the precise areas and mechanisms needed to promote commercial and industrial co-operation between the two countries. The topics ranged from trade to shipping and collaboration for projects in third countries like Libya and Malaysia.

United States

At the Third meeting of the Indo-US Joint Commission held in January 1978, a decision was taken to set up an Industrial Working Group comprising representatives of both countries. The Group would undertake joint studies and research in industrial technology pertaining to small scale as also the technologically-intensive sectors.

Multilateral Co-operation

During the year under review, despite the mounting protective tendencies, there were some significant developments at multilateral co-operation in the sphere of international trade. These developments were the outcome of a continued process of collective bargaining between the group of developed countries and the LDCs aimed at enlarging trade through

the gradual disarmament of tariff structures by the developed countries, and through the conclusion of international commodity agreements. The developments during 1977-78 in this field that were of direct interest to India were the Coir and Jute Agreements with the EEC, the extension of the Multi-Fibre Textile Agreement and the International Sugar Agreement, and the concessions gained through the GSP.

Coir and Jute Agreements

In December 1977, India signed two Agreements with the EEC—one on coir and the other on jute products. Both these sectoral agreements, derived from the existing larger commercial co-operation agreements between India and the EEC, were aimed at according special tariff treatment to the imports of these two commodities from India. Under the new Coir Agreement, the imports of coir products into the Community would be duty free with effect from January 1978. There would also be no quantitative restrictions on coir imports into the Community. The Agreement further provides for a Joint Co-operation Committee to explore possibilities of improved production research in and development of new techniques of manufacturing coir and coir products. Since Europe takes over 70 per cent of Indian exports of coir, the Agreement should hopefully go some way in arresting the declining trend in Indian coir exports and reviving this stagnant cottage industry.

The new Jute Agreement stipulates that imports of jute products into the EEC will not be made subject to fresh quantitative restrictions, and provides for a phased dismantling, over time, of existing quantitative restrictions. Under the new Agreement, built-in growth provisions are made in the import quotas for various categories of jute products. Flexibility has been imparted into the working of the Agreement by inserting provisions for carry over and anticipated utilisation of quotas. The tariffs on jute yarn have been suspended from January 1, 1977; on other categories of jute products the tariff levels would be reduced

by 80 per cent on January 1, 1977 and would be completely eliminated on July 1, 1978, which date has now been advanced to January 1, 1978. The Agreement also provides for a Joint Co-operation Committee to examine ways and means of increasing and diversifying end-uses of jute products and for promoting research.

Multi-Fibre Textile Agreement

Trade in textiles has been governed since 1962 by the internationally agreed rules and procedures of the Multi-Fibre Arrangement (MFA). The MFA was originally negotiated in 1973 and, after hard bilateral bargaining between the exporting and importing countries, was recently extended through 1981. In the face of slow growth of their economies and the consequent unemployment threatening their industries, several of the textile importing countries adopted a protectionist attitude in the negotiations. The provisions of the MFA, which were originally designed to protect exporters, were thus weakened in the case of a number of exporting countries with the imposition of restrictive quotas. For many of the developing countries like Hongkong and Republic of Korea, the new restrictive quotas not only limit growth but actually reduce export levels in several product categories. Although the renewal of the Agreement in its amended form restricts severely the scope for expanding exports (the growth norm in the new arrangement varies between 0.5 per cent and 4 per cent a year as against the previous norm of 6 per cent), it also establishes low 'trigger levels' for further quotas. In acceding to the renewed MFA as a compromise arrangement, the developing countries averted a complete breakdown of the trade in textiles which would have followed had the negotiations failed.

In the event, India came out of the negotiations less unfavourably than many other developing countries, in that the MFA did not, in her case, dilute the principles relating to base levels and the treatment to be accorded to handlooms. With the USA, India was able

to secure a rate of growth higher than that assured in the MFA, though in the case of the EEC, the rate of growth was lower for certain sensitive items. Further, all products properly certified as handloom-based products are assured quota-free entry into the EEC. Similar bilateral agreements on textiles were concluded with Finland, Norway and Sweden.

International Sugar Agreement

The new International Sugar Agreement entered into between 72 sugar exporting and importing countries became operative from January 1, 1978. The Agreement aims at raising the level of the international trade in sugar with a view to increasing the export earnings of developing exporting countries. It also seeks to avoid excessive price fluctuations, thereby helping to provide adequate supplies of sugar to the developed importing countries at prices which would be remunerative and just to producers and equitable to consumers.

Under the Agreement, a quantity of 15.9 million tonnes of free sugar will be subjected to quota restrictions, and this quantum is allocated among 29 sugar exporting countries. The Agreement also stipulates that exporting member countries should build up a world buffer stock of 2.5 million tonnes over the first 3 years of the Agreement period. India gets the eighth largest share of 8.3 lakh tonnes which stands reduced to 6.5 lakh tonnes for the calendar year 1978 under the latest quota adjustment.

The main objective of the Agreement is to stabilise sugar prices in world markets at between 11 cents per lb. (approximately Rs. 2,110 per tonne) and 21 cents per lb. (around Rs. 4,030 per tonne) through the dual mechanism of export quotas and nationally held reserve stocks.

Generalised System of Preferences

Recognising that trade is as crucial to economic growth of the developing countries as aid is, the developed countries agreed to accord favourable tariff treatment to imports from the developing countries through a

Generalised System of Preferences (GSP). Between July 1971 and January 1978, developed countries initiated their national schemes to put this system into effect, and with the introduction of the GSP scheme by the USA on January 1, 1976, all developed countries had implemented the GSP. The basic objective of the GSP was to provide improved access to markets of developed countries for products emanating from developing countries. India has, over the years, been a beneficiary of this arrangement, emerging as one of the main users, along with countries like Brazil, Yugoslavia and Korea, of the tariff preferences offered under the GSP. Among the new Indian products to gain preferential entry during the year under review in the markets of some of the developed countries were tobacco-unmanufactured, preserved pineapples, coir products and certain jute products. However, in the face of recessionary tendencies, some of the developed countries invoked safeguard provisions on the basis of 'competitive need' limiting imports of more sensitive manufactured products in the textile and

footwear sectors. In the last two years new quantitative restrictions on imports of footwear were imposed by Australia, Canada, France, Sweden, the United States and the United Kingdom. This was a retrograde development which could nullify the benefits of the GSP for a number of developing countries. Recently, an examination of the GSP schemes as they affect Indian exports was undertaken by the Government; on the basis of this examination, efforts are underway to seek improvements in the existing schemes, by pressing preference giving countries to include under the GSP, export products of interest to India, which have not been included in the GSP schemes or which had been allowed superficial tariff cuts, not deep enough to enable those products to compete effectively in developed markets or products with continued tariff quotas. At the same time, the developing countries are pushing hard in the various international fora to improve the scope and coverage of the schemes, reduce their complexity and introduce an element of stability into this preferential trading arrangement.

Chapter X

Balance of Payments and International Monetary Developments

I. Balance of Payments and Trends in Reserves

As in the preceding two years, the country's external transactions during 1977-78 resulted in a substantial addition to the foreign exchange reserves. At end-March 1978, the country's foreign exchange reserves consisted of SDR 162 million in SDR holdings, Rs. 193 crores in gold and Rs. 4,500 crores in foreign currency assets, as compared with SDR 187 million in SDR holdings, Rs. 188 crores in gold and Rs. 2,863 crores in foreign currency assets at the end of March 1977. While the changes in gold and SDR holdings were marginal, the foreign currency assets rose over the year impressively by Rs. 1,637 crores, on top of the rise of Rs. 1,371 crores in 1976-77 and of Rs. 881 crores in 1975-76. The accretion to foreign currency assets during the fiscal year under review took place after making payments of Rs. 293 crores to the International Monetary Fund (Rs. 249 crores towards repurchases of gold tranche and credit tranche drawings, Rs. 7 crores on account of gold restitution and Rs. 37 crores against SDRs accepted under designations). In 1976-77, the transactions with the Fund comprised repurchases of Rs. 303 crores (representing drawals under the Compensatory Financing Scheme, 1974 Oil Facility and a part of the first credit tranche), Rs. 21 crores for designation of SDRs and Rs. 7 crores towards gold restitution. Excluding the transactions with the Fund, and ignoring the appreciation booked in the rupee value of foreign currency holdings on account of changes in exchange rates of foreign currencies during the year as against a depreciation booked in the preceding year, the additions to the reserves would have been of the order of Rs. 1,861 crores in 1977-78, Rs. 118 crores larger than in 1976-77.

The balance of payments data on external payments transactions which brought about the

large accumulation to the reserves are not yet available. But according to the D.G.C.I. & S. data, merchandise trade transactions resulted in a deficit of Rs. 694 crores during the year, with imports placed at Rs. 6,069 crores and exports at Rs. 5,375 crores, in sharp contrast to the merchandise trade transactions in 1976-77 which yielded a modest surplus of Rs. 72 crores. The deterioration in merchandise transactions over the year reflected the increase in imports following the liberalisation of import policy, alongside the slowing down of export growth. At the same time, there was a further reduction in the net inflow of external assistance for the second year in succession, notwithstanding an appreciable increase in aid authorisations. Thus, the larger reserve accumulation during the year stemmed wholly from a further significant broadening of the net surplus on current invisible transactions, which was primarily contributed by growing travel receipts, higher earnings from technical, consulting and contracting services and increased remittances by Indians resident abroad.

During June 1978, the Reserve Bank purchased 25 million grammes of gold from the IMF worth Rs. 123 crores through a non-competitive bid at the gold auction held by the Fund on June 7*, at the Reserve Bank's statutory holding price this gold is worth

*In August 1975 the IMF decided to reconstitute one-sixth of its gold holdings to member countries and to sell another one-sixth through regular auctions for the benefit of the developing countries. A portion of the profits arising out of the gold sales for the benefit of the developing countries is distributed directly to each eligible country in proportion to its share of IMF quotas on August 31, 1975. Each developing country eligible to participate in the direct transfer of profits was given the option of either receiving its share of the profit distribution in cash or of purchasing gold through non-competitive bids at any of the auctions held after the coming into force of the Second Amendment to the Articles of the IMF. In purchasing the gold through a non-competitive bid at the auction held

Rs. 21 crores. At the end of June 1978, the country's foreign exchange reserves stood at SDRs 177 million in holdings of Special Drawing Rights, Rs. 214 crores in gold and Rs. 4,518 crores in foreign currency assets. During April-June 1978, the foreign currency assets rose by only Rs. 19 crores, as against the increase of Rs. 501 crores during the preceding quarter (January-March 1978) and of Rs. 719 crores during the corresponding quarter a year ago (April-June 1977). Even after adjusting for the gold transaction which represented only a shift in the composition of reserves, there was a distinct slowing down in the pace of growth of reserves during the quarter. According to the partial indicators that are currently available, the deficit on merchandise trade transactions, arising from an increase in import payments and continued slack in export growth, would appear to have been largely responsible for the reversal of the trend in reserves growth. The net surplus on current invisible transactions also probably contracted, albeit modestly, with gross receipts remaining more or less stationary at the higher level touched in the January-March 1978 quarter, while gross payments increased.

Balance of Payments 1976

Balance of payments data being at present available for the period upto December 1976, India's external payments transactions during the calendar year 1976 are reviewed below.

During 1976 as a whole, India's foreign exchange reserves recorded a remarkable improvement. Foreign currency assets rose by Rs. 1,544 crores, after making payments to the IMF of Rs. 303 crores by way of repurchases under the 1974 Oil Facility and part of drawing under the credit tranche. The SDR holdings declined by SDR 23 million, while monetary gold holdings remained unchanged. During 1975 foreign currency assets rose by Rs. 167 crores, while SDR holdings declined by SDR 28 million, with gold holdings remaining unchanged. The

by the Fund in June 1978, the Reserve Bank exercised the option to receive in gold the country's share in the direct transfer of profits from the Fund's sales of its gold for the benefit of the developing member countries.

addition to the foreign currency assets during 1975 came essentially from the drawing of Rs. 207 crores under the IMF 1975 Oil Facility, but for which the foreign currency assets would have shown a net decline of Rs. 40 crores in 1975. During 1976, additions to reserves took place all throughout the year, reflecting the combined impact of a sizeable favourable balance on merchandise trade, a significantly larger net surplus on current invisibles and a higher order of net inflow of foreign aid, including official transfers.

Overall Trends

A notable feature of the external transactions during 1976 was the large favourable swing in the merchandise trade account, from the deficit of Rs. 675 crores in 1975 to a surplus of Rs. 249 crores. This was brought about by an impressive growth of 24 per cent in exports, with imports remaining stationary. The net surplus on invisibles, other than official transfers, increased sharply from Rs. 520 crores to Rs. 930 crores, and the official transfers nearly quadrupled from Rs. 61 crores to Rs. 239 crores. In the result, the balance on current account swung from a deficit of Rs. 94 crores in 1975 to the sizeable surplus of Rs. 1,418 crores. As in 1975, there was a large outgo during the year by way of unidentified transactions clubbed together under the head 'errors and omissions'. Even after allowing for this outgo, the overall current account showed a substantial surplus of Rs. 1,156 crores during 1976, as against a deficit of Rs. 483 crores in 1975. Capital transactions resulted in a smaller net inflow of Rs. 377 crores, as against Rs. 602 crores in 1975; the drop in the net inflow over the year reflected mainly the repurchases from the IMF, referred to earlier, and partly the higher amortisation payments in respect of official foreign indebtedness. The current and capital transactions taken together contributed to the improvement of Rs. 1,533 crores in the reserves during 1976 (Table X.1).

Imports

The aggregate import bill which had risen by Rs. 1,177 crores in 1974 and by Rs. 765

Table X.1: India's Balance of Payments:
Overall Trends

(Preliminary)

(Rupees Crores)

Items	1976	1975
A. Current Account		
Total Imports* (cif)	.. 4,601.7	4,598.7
(a) Private	.. 1,290.4	1,143.7
(b) Government	.. 3,311.3	3,455.0
Exports* (fob)	.. 4,850.8	3,923.5
Trade Balance	.. + 249.1	- 675.2
Non-monetary Gold Movement	.. —	—
Official Transfer Payments (Net)	.. + 238.8	+ 61.5
Other Invisibles (Net)	.. + 930.2	+ 519.5
Current Account (Net)	.. +1,418.1	- 94.2
B. Errors & Omissions	.. - 261.7	- 389.1
C. Capital Account		
Private Capital (Net)	.. - 29.5	- 51.9
(a) Long-term	.. - 26.8	- 51.3
(b) Short-term	.. - 2.7	- 0.6
Banking Capital (Net)	.. + 70.1	- 2.2
Official Capital (Net)	.. + 336.1	+ 656.0
(a) Loans	.. +1,274.4	+1,127.6
(b) IMF	.. - 302.8	+ 207.1
(c) Amortisation	.. - 322.3	- 289.8
(d) Miscellaneous	.. - 313.2	- 388.9
Capital Account (Net)	.. + 376.7	+ 601.9
D. Movement in Foreign Exchange Reserves@		
(A+B+C): Increase (+)/Decrease (-)	.. +1,533.1	+ 118.6

* Data are based on exchange control records and other sources. These are, therefore, not comparable with those published by the DGCI&S.

@ Excludes changes in the rupee value of foreign exchange reserves arising solely from changes in exchange rates.

crores in 1975, recorded an insignificant rise of Rs. 3 crores only to Rs. 4,602 crores in 1976. There was, however, a noteworthy shift over the year in the commodity composition of imports. Food, fertilizers and iron and steel imports declined substantially following improved domestic supplies. Food imports declined from Rs. 891 crores in 1975 to Rs. 746 crores in 1976, with the sharp increase in domestic output from 89.8 million tonnes during 1974-75 to 107.7 million tonnes in 1975-76. Fertilizer imports were cut down from Rs. 419 crores in 1975 to Rs. 81 crores in 1976 against the backdrop of the continuing increase in domestic production of nitrogenous and phosphatic fertilizers from 13.9 lakh

tonnes in 1974 to 22.2 lakh tonnes in 1976. Iron and steel imports were marked down from Rs. 216 crores in 1975 to Rs. 180 crores in 1976 due to an increase in the output of finished steel from 48.7 lakh tonnes in 1974 to 63.6 lakh tonnes in 1976 and a weakening of the demand for steel domestically. These declines were offset by larger imports of mineral oil, capital equipment, non-ferrous metals, chemicals and a variety of other industrial inputs, in keeping with the rising tempo of industrial activity. Government imports, placed at Rs. 3,311 crores in 1976, declined over the year by Rs. 144 crores chiefly because of lower imports of food, fertilizers, and iron and steel partially offset by larger imports of mineral oils, capital equipment, non-ferrous metals and railway stores (Table X.2). The decline in Government imports was made good through larger private imports (Table X.3).

Table X.2: Imports (C.I.F.) of Selected Commodities on Government Account
(Preliminary)

(Rupees Crores)

Commodities	1976	1975
Food	.. 664.4	799.6
Capital equipment	.. 570.9	506.6
Iron and Steel	.. 119.2	154.8
Railway stores	.. 42.1	23.7
Communication stores	.. 231.8	235.4
Mineral Oils	.. 1,000.0	723.5
Fertilizers	.. 79.0	415.4
Non-ferrous metals	.. 123.5	95.0
Others	.. 480.3	501.0
Total	.. 3,311.2	3,455.0

Exports

Exports (f.o.b.) improved over the year by 24 per cent, from Rs. 3,924 crores to Rs. 4,851 crores, on top of the growth of 33 per cent in 1975 and of 32 per cent in 1974. The significant performance of Indian exports which was also in line with expansion in world trade by 12 per cent over the year, was aided by several factors. The supply shortages and price boom in world commodity markets contributed to both a mark-up in the unit values and an increase in the quantum of exports of several of India's

traditional and non-traditional commodities. In addition to the various export incentives and facilities, domestic price stability as also the general stability in the exchange rate of the rupee secured through the adoption in September 1975 of a basket system of valuation played an important role in improving the general competitiveness of Indian exports in world markets.

Table X.3: Imports (C.I.F.) of Selected Commodities on Private Account (Preliminary)

(Rupees Crores)				
Commodities	1976	1975		
Foodgrains	81.2	91.9		
Wool, raw and waste	14.0	7.7		
Cotton, raw and waste	19.8	12.8		
Mineral oils	161.5	270.6		
Vegetable oils	27.4	3.9		
Dyes and colours	13.3	10.0		
Drugs and medicines	13.8	8.7		
Fertilizers	1.6	3.2		
Other chemicals	128.1	105.9		
Paper, paper board and stationery	10.0	9.1		
Wool yarn and manufactures ..	3.0	1.4		
Rayon textiles	5.6	6.4		
Iron and steel and manufactures thereof	61.3	61.4		
Other metals and manufactures thereof	58.6	26.6		
Cutlery and hardware	0.3	0.3		
Machinery	306.6	287.9		
Electrical goods	36.6	18.9		
Ships/aircraft and parts	47.3	28.8		
Vehicles (including locomotives)	14.3	19.1		
Others	286.2	169.1		
Total	1,290.5	1,143.7		

Commodity-wise, export performance was particularly noteworthy in respect of iron and steel products (+ Rs. 209 crores or 254 per cent), engineering goods (+ Rs. 121 crores or 24 per cent), cotton yarn and manufactures (+ Rs. 133 crores or 58 per cent), precious stones (+ Rs. 95 crores or 70 per cent), oil cakes (+ Rs. 90 crores or 98 per cent), leather manufactures (+ Rs. 85 crores or 47 per cent), marine products (+ Rs. 58 crores or 47 per cent), coffee (+ Rs. 52 crores or 82 per cent), oilseeds (+ Rs. 42 crores or 103 per cent), and raw and waste cotton (+ Rs. 35 crores or 146 per cent). Coffee and leather exports went up largely because of the mark-up in

international prices of the commodities following the fall in world supplies. But, sugar exports, which had benefited in the preceding year from lower world supplies, fell sharply by Rs. 234 crores to Rs. 271 crores following the improvement in world supplies and the slump in international sugar price. Jute exports also fell over the year by Rs. 70 crores to Rs. 214 crores; both quantity exported and unit values declined as a result of increased competition from overseas suppliers as also from synthetic substitutes (Table X.4).

Table X.4: Exports (C.I.F.) of Selected Commodities (Preliminary)

(Rupees Crores)			
Commodities	1976	1975	
Fish and fish preparations	182.0	123.7	
Cashew kernels	114.4	111.8	
Fruits and vegetables	57.4	37.5	
Sugar	271.5	505.5	
Coffee	114.2	62.7	
Tea	284.8	280.6	
Spices (including pepper)	71.8	68.1	
Oilcakes	180.7	91.1	
Tobacco	101.8	107.6	
Hides and skins, raw	15.5	14.7	
Oilseeds	82.6	40.8	
Wool, raw and waste	8.0	6.4	
Cotton, raw and waste	58.8	23.9	
Mica	23.9	24.6	
Manganese ore	26.3	18.9	
Iron ore	211.9	182.2	
Other ores (including metal scrap)	36.2	28.7	
Vegetable oils	61.3	38.9	
Leather manufactures	265.4	180.8	
Cotton yarn and manufactures ..	361.1	228.6	
Jute yarn and manufactures	214.4	283.9	
Wool yarn and manufactures	82.1	68.1	
Iron and steels (metals)	290.8	82.2	
Engineering goods	628.5	507.4	
Precious stones	229.7	135.1	
Silver	195.9	175.3	
Others	833.6	669.1	
Total	5,004.6	4,098.2	

Destination-wise, the increase in exports was fairly widely spread among the countries which are India's major trading partners. In particular, exports to the U.K., the U.S.A., Japan, the other O.E.C.D. countries and East European rupee payment countries rose over the year by 33 per cent, 26 per cent, 32 per cent, 72 per cent and 10 per cent, respectively.

Exports to the Persian Gulf ports more than doubled over the year to Rs. 342 crores in 1976.

Invisibles

Current invisible transactions, other than official transfers, yielded a substantially larger net surplus of Rs. 930 crores in 1976 than that of Rs. 520 crores in 1975. Both receipts and payments went up, the former by 42 per cent and the latter by 17 per cent.

Private transfers—covering mainly repatriation of savings of Indian nationals resident abroad, remittances for family maintenance, migrants' transfers, donations to charitable and religious organisations and personal gifts—was the largest single individual constituent that contributed to the enlargement of the net surplus on invisibles. Receipts under this head jumped up over the year by Rs. 233 crores to Rs. 696 crores, while payments continued to remain nominal, being under Rs. 10 crores.

Travel was the other major contributor to the improvement of the surplus on invisibles. Travel receipts improved over the year from Rs. 165 crores to Rs. 256 crores due both to a significant increase in the number of foreign tourists visiting India and higher per capita tourist expenditure in India. According to the Department of Tourism, foreign tourist arrivals in India rose by about 15 per cent in 1976, as against a rise of 10 per cent in 1975, and the per capita foreign tourist expenditure in India went up from Rs. 2,240 in 1975 to Rs. 4,214 in 1976. Travel payments also went up over the year by Rs. 14 crores to Rs. 34 crores largely because of the liberalisation of travel regulations.

Transportation receipts increased broadly in line with the growth of merchandise trade and travel. Payments by way of surplus freight and passage earnings of foreign shipping and airline companies also rose, but not as much. As a result, the net surplus under this account improved over the year by Rs. 31 crores to Rs. 78 crores.

Investment income account has always been in deficit because of the large outgo by way of interest, profits and dividends. During the year, investment income receipts went up by Rs. 66 crores to Rs. 175 crores; the large additions to the foreign currency component of the country's foreign exchange reserves contributed to this rise. At the same time, investment income payments fell by Rs. 11 crores, from Rs. 321 crores in 1975 to Rs. 310 crores in 1976, the decline being almost evenly distributed under remittances of profits, dividends and interest charges. The combined result was a significant reduction in the net deficit under this head, from Rs. 213 crores in 1975 to Rs. 135 crores in 1976.

Under miscellaneous service transactions, the increase in receipts was more or less equally matched by a rise in payments. Official transfer receipts which represent the utilisation of commodity and cash grants, shot up from Rs. 70 crores in 1975 to nearly Rs. 246 crores in 1976. Most of these contributions came from the U.K., Sweden, Australia, Canada and the EEC. In 1975, the grants were received mainly from the United Nations' Emergency Operations Fund, the EEC and the U.K. Official transfer payments—mainly representing contributions to international organisations—were lower over the year by Rs. 1 crore to Rs. 7 crores (Table X.5).

Capital transactions

The net inflow of capital during 1976 at Rs. 377 crores was Rs. 225 crores lower than in 1975. The contraction in the capital inflow in the official sector was mainly brought about by the repurchase from the IMF and partly by higher amortisation payments. Official loan receipts, on the other hand, were higher. Private capital receipts also rose during the year, reducing the net outflow on private account. In the banking sector, the small net outflow in 1975 gave way to a sizeable net inflow of Rs. 70 crores during 1976 (Table X.6).

Table X.5: Invisibles on Current Account
(Preliminary)

(Rupees Crores)				
Items	1976	1975		
1. Travel				
Receipts@	256.0	165.1		
Payments	34.0	20.4		
Net	222.0	144.7	+	
2. Transportation				
Receipts	299.2	247.5		
Payments	221.4	200.3		
Net	77.8	47.2	+	
3. Insurance				
Receipts	47.2	35.1		
Payments	28.3	24.3		
Net	18.9	10.8	+	
4. Investment Income				
Receipts	174.6	108.8		
Payments	309.8	321.3		
Net	135.2	212.5	-	
5. GNIE				
Receipts	90.9	102.3		
Payments	46.7	35.8		
Net	44.2	66.5	+	
6. Miscellaneous				
Receipts	253.3	155.3		
Payments	239.4	142.6		
Net	13.9	12.7	+	
7. Private Transfers				
Receipts	695.7	463.0		
Payments	7.1	12.9		
Net	688.6	450.1	+	
8. Total (1 to 7)				
Receipts	1,816.9	1,277.1		
Payments	886.7	757.6		
Net	930.2	519.5	+	
9. Official Transfers				
Receipts	245.7	69.6		
Payments	6.9	8.1		
Net	238.8	61.5	+	
10. Total Invisibles				
Receipts	2,062.6	1,346.7		
Payments	893.6	765.7		
Net	1,169.0	581.0	+	

@ Provisional estimates.

II. External Assistance*

Aid authorisations during the fiscal year 1977-78 almost doubled from the low level touched in the preceding year. But the net in-

*The rupee values of authorisations, utilisation and undisbursed balance are given in this review at pre-December 1971 IMF par rates. In Tables X-7 to X-9, however, figures are also given at the rupee's relevant annual average rates of exchange for the years 1972-73 through 1977-78.

Table X.6: Capital Transactions
(Preliminary)

(Rupees Crores)				
Items	1976	1975		
1. Private Capital				
(a) Long-term				
Receipts	91.3	42.7		
Payments	118.1	94.0		
Net	26.8	51.3	-	
(b) Short-term				
Receipts	1.5	0.8		
Payments	4.2	1.4		
Net	2.7	0.6	-	
2. Banking Capital				
Receipts	186.3	112.1		
Payments	116.2	114.3		
Net	70.1	2.2	+	
3. Official Capital				
(a) Loans				
Receipts	1,277.6	1,336.9		
Payments	306.0	2.2		
Net	971.6	1,334.7	+	
(b) Amortisation				
Receipts	—	—		
Payments	322.3	289.8		
Net	322.3	289.8	-	
(c) Miscellaneous				
Receipts	422.4	501.7		
Payments	735.6	890.6		
Net	313.2	388.9	-	
4. Total				
Receipts	1,979.1	1,994.2		
Payments	1,602.4	1,392.3		
Net	376.7	601.9	+	

Note: Figures within brackets indicate drawing/repurchase transactions with the International Monetary Fund.

flow of aid shrunk for the second consecutive year largely because of the lower magnitude of authorisations in the preceding year, a major portion of which took the form of project assistance where the utilisation is linked with the execution of specific projects. Gross aid receipts at Rs. 1,073 crores during fiscal year 1977-78 were lower over the year by Rs. 183 crores. Additionally, debt service payments were higher over the year by Rs. 97 crores; consequently, the net receipts of assistance fell substantially by Rs. 280 crores to Rs. 406 crores, at which level these were only 43 per cent of the net aid receipts in fiscal year 1975-76.

Authorisations

Authorisations of external assistance—loans and grants taken together—amounted to Rs. 1,832 crores during the fiscal year 1977-78, nearly twice the amount of Rs. 955 crores authorised in the fiscal year 1976-77 (Table X-7). Loan authorisations accounted for the bulk of the increase in aid, rising from Rs. 647 crores in 1976-77 to Rs. 1,463 crores in 1977-78, while authorisations of grants went up by Rs. 61 crores to Rs. 369 crores. The substantial increase in loan authorisations came mainly from commitments made by the IDA, the USSR, Japan, Canada and the OPEC group of countries. The IDA, in particular, which did not make any fresh commitments in 1976-77, authorised loans of the order of Rs. 618 crores during the year. Likewise, the USSR, which had not made any commitment during the preceding two years—that is, since the wheat loan granted in 1974-75—authorised credits aggregating Rs. 208 crores during the year. Among other countries, Canada increased its loan authorisations from Rs. 7 crores in 1976-77 to Rs. 30 crores in 1977-78, Japan from Rs. 21 crores in 1976-77 to Rs. 81 crores in 1977-78 and Iran from Rs. 53 crores to Rs. 94 crores. Saudi Arabia (the Saudi Fund for Development) granted for the first time loan assistance of the order of Rs. 75 crores. Fresh loan authorisations by France, the USA and the IBRD were visibly lower than in the preceding year, while West Germany maintained its loan authorisations at the previous year's level (Table X-8). Most of the loans authorised during the year were tied to projects. All the loans authorised by the IDA/IBRD and the USSR, the major contributors during the year, were for specific projects. The share of project loans in the overall loan authorisations thus increased markedly from 46 per cent in 1976-77 to 82 per cent in 1977-78.

A country-wise break-down of grants authorised during the year shows that U.K.'s contribution increased by Rs. 57 crores to Rs. 265 crores because of higher order of authorisations for sectoral grants, maintenance imports and mixed projects. The other import-

ant contributors were EEC as a group—Rs. 48 crores, Sweden—Rs. 29 crores, Canada—Rs. 15 crores and Netherlands—Rs. 10 crores (Table X-9).

Aid-terms

There was a further softening of aid-terms by some countries in regard to the repayment period and interest charges on the loans provided. In respect of loans authorised by West Germany in 1977-78, the maturity period was extended to 40 years from that of 30 years for loans authorised earlier, and the rate of interest (inclusive of commitment charge of $\frac{3}{4}$ per cent) was sharply marked down from $3\frac{1}{2}$ per cent to 1 per cent. The repayment period of Japanese loans was raised from 25 years to 30 years and that of Treasury assistance from France from 25 years to 28 years. The assistance from the U.K. continued to be entirely in the form of grants.

Debt Relief

Servicing of foreign debt has been a heavy burden on the developing countries and accordingly the question of providing debt relief particularly to the least developed countries, has attracted considerable attention at discussions in the international forums, including the UNCTAD. In the case of India, debt service payments have, in recent years, been rising at a much faster rate than fresh credit authorisations, thus leading to a decline in the net aid inflow. Viewed in this context and the steadily growing import requirements of the development programmes, India has continuously been urging the donor countries for substantial debt relief assistance. Debt relief authorised during the year amounted to only Rs. 26 crores, as against Rs. 102 crores in 1976-77 and Rs. 94 crores the year before (Table X-10). Most of the industrial countries reduced the quantum of relief. West Germany which provided debt refinancing credit of Rs. 29 crores in 1976-77, authorised only Rs. 6 crores in 1977-78; Belgium and France also provided debt refinancing credits on reduced scale compared

Table X-7: 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	108	1,808
2.	Amount undisbursed as at the end of March 1969							1,642	25	123	1,790
3.	Authorisations during 1969-72							2,004	128	32	2,164
4.	Authorisations during 1972-74							1,875 (2,035)	69 (81)	—	1,944 (2,116)
5.	Authorisations during										
(a)	1974-75							1,153 (1,290)	128 (146)	—	1,281 (1,436)
(b)	1975-76							1,762 (2,125)	373 (418)	—	2,135 (2,543)
(c)	1976-77							647 (860)	308 (320)	—	955 (1,180)
(d)	1977-78							1,463 (1,749)	369 (350)	—	1,832 (2,099)
	Total							5,025 (6,024)	1,178 (1,234)	—	6,203 (7,258)
6.	Utilisation during 1969-72							2,152	131	155	2,438
7.	Utilisation during 1972-74							1,386 (1,517)	27 (32)	—	1,413 (1,549)
8.	Utilisation during										
(a)	1974-75							922 (1,039)	72 (80)	—	994 (1,119)
(b)	1975-76							1,192 (1,454)	265 (316)	—	1,457 (1,770)
(c)	1976-77							1,010 (1,283)	246 (260)	—	1,256 (1,543)
(d)	1977-78							810 (988)	263 (259)	—	1,073 (1,247)
	Total							3,934 (4,764)	846 (915)	—	4,780 (5,679)
9.	Amount undisbursed as at the end of March 1978							3,074 (3,567)	396 (380)	—	3,470 (3,947)

Notes: (1) Loans include P.L. 480 Title I convertible currency credits. 'Loans' and 'Grants' include refinance credits and grants under debt relief. But they exclude rupee loans and grants out of P.L. 480/P.L. 665 rupee counter-part 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 1978 have been arrived at on the basis of pre-December 1971 IMF par values. Figures in brackets shown under each of the years 1972-73 to 1977-78 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 1978' item 9 represent rupee values calculated at rates prevalent at end-March 1978.

Table X-8: Loans Authorised and Utilised during 1976-77 and 1977-78
(Fiscal Years)

(Rupees Crores)

Country/ Institution	Authorisations								Utilisation							
	1976-77				1977-78				1976-77				1977-78			
	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. ..	236 (282)	—	—	236 (282)	820 (939)	—	—	820 (939)	314 (375)	144 (173)	—	458 (548)	360 (413)	5 (6)	—	365 (419)
2. Canada	—	7 (9)	—	7 (9)	1 (1)	29 (33)	—	30 (34)	5 (7)	8 (10)	—	13 (17)	1 (1)	24 (28)	—	25 (29)
3. France	28 (38)	18 (25)	8 (11)	54 (74)	—	—	4 (5)	4 (5)	21 (29)	8 (11)	8 (11)	37 (51)	12 (16)	16 (21)	4 (5)	32 (42)
4. West Germany ..	19 (34)	26 (46)	29 (51)	74 (131)	48 (90)	20 (38)	6 (11)	74 (139)	13 (23)	31 (55)	29 (51)	73 (129)	26 (49)	8 (15)	6 (11)	40 (75)
5. Italy	—	—	6 (5)	6 (5)	—	—	—	—	—	4 (3)	4 (3)	8 (6)	—	1 (1)	19 (16)	20 (17)
6. Japan	—	21 (30)	—	21 (30)	39 (56)	42 (60)	—	81 (116)	48 (69)	14 (20)	—	62 (89)	7 (10)	35 (51)	—	42 (61)
7. Netherlands ..	—	47 (79)	2 (3)	49 (82)	—	36 (63)	3 (5)	39 (68)	—	25 (42)	2 (3)	27 (45)	—	26 (46)	3 (5)	29 (51)
8. Sweden	—	—	—	—	—	—	—	—	4 (6)	—	—	4 (6)	2 (3)	—	—	2 (3)
9. U.K.	—	—	—	—	—	—	—	—	18 (16)	—	—	18 (16)	16 (14)	—	—	16 (14)
10. U.S.A.	—	74 (89)	—	74 (89)	—	20 (23)	—	20 (23)	1 (1)	56 (67)	—	57 (68)	—	18 (21)	—	18 (21)
11. Switzerland ..	—	—	—	—	—	—	—	—	4 (8)	—	—	4 (8)	2 (4)	—	—	2 (4)
12. O.P.E.C.*	13 (16)	98 (118)	—	111 (134)	85 (97)	96 (110)	—	181 (207)	14 (21)	190 (228)	—	204 (249)	65 (77)	112 (128)	—	177 (205)
13. U.S.S.R.	—	—	—	—	208 (208)	—	—	208 (208)	26 (26)	—	—	26 (26)	24 (24)	—	—	24 (24)
14. Czechoslovakia ..	—	—	—	—	—	—	—	—	3 (3)	5 (5)	—	8 (8)	4 (4)	1 (1)	—	5 (5)
15. Hungary	—	—	—	—	—	—	—	—	3 (3)	—	—	3 (3)	5 (5)	—	—	5 (5)
16. Others	—	11 (17)	4 (7)	15 (24)	—	4 (7)	2 (3)	6 (10)	—	4 (7)	4 (7)	8 (14)	—	6 (10)	2 (3)	8 (13)
Total	296 (370)	302 (413)	49 (77)	647 (860)	1,201 (1,391)	247 (334)	15 (24)	1,463 (1,749)	474 (587)	489 (621)	47 (75)	1,010 (1,283)	524 (620)	252 (328)	34 (40)	810 (988)

Note: Figures in brackets indicate the rupee values at the current rates of exchange during respective years.

*Comprises Iran, Iraq, Kuwait Fund for Arab Economic Development, Abu Dhabi Fund for Arab Economic Development, Saudi Fund for Development and OPEC Special Fund.

Table X-9: Grants @ Authorised and Utilised during 1976-77 and 1977-78
(Fiscal Years)

Country/Institution	(Rupees Crores)			
	Authorisations		Utilisation	
	1976-77	1977-78	1976-77	1977-78
1	2	3	4	5
1. Australia	7 (10)	—	7 (10)	—
2. Belgium	—	1 (1)	—	1 (1)
3. Canada	47 (61)	15 (17)	47 (61)	15 (17)
4. Denmark	1 (2)	1 (1)	1 (2)	1 (1)
5. France	4 (5)	—	4 (5)	—
6. Netherlands	13 (22)	10 (18)	10 (17)	9 (16)
7. Sweden	28 (40)	29 (38)	21 (30)	37 (48)
8. U.K.	208 (180)	265 (227)	154 (133)	170 (146)
9. E.E.C. (Under U.N. Emergency Operations Scheme) ..	— (—)	48 (48)	2 (2)	30 (30)
Total	308 (320)	369 (350)	246 (260)	263 (259)

@ Including Debt Relief.

with the preceding year. Japan, which used to provide relief by way of rescheduling of payments, did not authorise any relief during the year.

Trends in Utilisation

Total aid available for utilisation—aid in the pipeline amounting to Rs. 2,711 crores, and fresh authorisations during the year—aggregated Rs. 4,543 crores, of which Rs. 3,333 crores or 73 per cent represented project assistance. Aid utilised during the year amounted to Rs. 1,073 crores and was Rs. 183 crores or 15 per cent lower than in 1976-77. Component-wise, utilisation of non-project loans came down sharply by Rs. 250 crores to Rs. 286 crores. A major reason for this decline is that assistance made available by the IBRD/IDA since 1976-77 has been tied to a package of projects or a programme; in the result, non-project aid available in the pipeline has been relatively small. On the other hand, the utilisation of project loans rose over the year by Rs. 50 crores to Rs. 524 crores and of grants by Rs. 17 crores

to Rs. 263 crores, thus partially counterbalancing the fall in utilisation of non-project loans.

Debt Servicing

During the year, there was a further significant increase in the outgo by way of debt service payments (payments on account of amortisation and interest charges), which rose by Rs. 97 crores to Rs. 667 crores (Table X-11). Debt service payments syphoned off as much as 62 per cent of gross aid receipts during 1977-78. Again, expressed as a percentage of exports these payments stood higher at 15.3 per cent, as against 13.9 per cent in 1976-77, even though exports rose over the year by 4.5 per cent.

Cumulative Assistance

Total external assistance authorised to India from August 15, 1947 to the end of March 1978 amounted to Rs. 21,456 crores, of which Rs. 17,132 crores or 80 per cent was in the

Table X-10: Debt Relief Assistance
(Fiscal Years)

(Rupees Lakhs)

Country/Institution	Authorisations							Utilisation							
	1966-69	1969-72	1972-74	1974-75	1975-76	1976-77	1977-78	1966-69	1969-72	1972-74	1974-75	1975-76	1976-77	1977-78	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
A. By way of refinancing cash credits															
1. Austria	1,72	2,62	3,40	1,54	1,59	1,35	—	1,66	2,62	3,40	75	1,54	1,44	75	
2. Belgium	83	2,78	2,26	1,50	2,25	3,00	1,35	83	2,78	2,26	1,50	2,25	3,00	1,35	
3. France	3,75	11,25	10,85	9,35	8,24	8,24	4,12	2,77	12,23	10,85	9,35	8,24	8,24	4,12	
4. West Germany	16,35	41,78	40,16	26,64	28,69	28,69	6,15	16,35	42,37	40,16	26,64	28,69	28,69	6,15	
5. Italy	4,13	5,55	22,31	—	—	6,30	—	—	4,13	11,02	—	—	4,20	18,90	
6. U.K.	55,50	40,50	28,80	16,92	—	—	—	55,12	40,50	28,80	16,92	—	—	—	
7. U.S.A.	—	—	43,87	33,75	—	—	—	—	—	43,87	33,75	—	—	—	
8. Netherlands	—	—	—	—	—	1,62	2,96	—	—	—	—	—	1,62	2,96	
Total-A	82,28	104,48	151,65	89,70	40,77	49,20	14,58	76,73	104,63	140,36	88,91	40,72	47,19	34,23	
B. By way of postponement of payments															
1. I.B.R.D.	22,50	22,50	—	—	—	—	—	22,50	22,50	—	—	—	—	—	
2. U.S.A.	6,53	19,59	—	—	—	—	—	6,53	19,59	—	—	—	—	—	
3. Canada	1,13	1,28	2,76	—	—	—	—	1,13	1,27	2,76	—	—	—	—	
Total-B	30,16	43,37	2,76	—	—	—	—	30,16	43,36	2,76	—	—	—	—	
C. By way of rescheduling of payments															
Japan	19,13	49,20	55,73	25,30	25,53	25,50	—	19,13	49,20	55,73	25,30	25,53	25,50	—	
Total-C	19,13	49,20	55,73	25,30	25,53	25,50	—	19,13	49,20	55,73	25,30	25,53	25,50	—	
D. By way of grants															
1. Austria	37	75	—	—	—	—	—	37	75	—	—	—	—	—	
2. Canada	7,80	—	60	—	59	—	—	7,80	—	60	—	59	—	—	
3. West Germany	3,60	11,03	9,48	—	—	—	—	3,60	11,18	9,48	—	—	—	—	
4. Netherlands	45	1,51	97	—	5,37	3,68	2,81	45	1,51	97	—	5,37	3,68	2,81	
5. Sweden	—	—	77	51	70	82	93	—	—	77	47	70	82	93	
6. Denmark	—	—	10	20	57	76	76	—	—	10	20	57	76	76	
7. Norway	—	—	17	—	—	—	—	—	—	17	—	—	—	—	
8. U.K.	—	—	—	—	20,16	21,78	720	—	—	—	—	20,16	21,78	7,20	
Total-D	12,22	13,29	12,09	71	27,39	27,04	11,70	12,22	13,44	12,09	67	27,39	27,64	11,70	
Grand Total	143,79	210,34	222,23	115,71	93,69	101,74	26,28	138,24	210,63	210,94	114,88	93,64	99,73	45,93	

(Rupees Crores)

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:

form of loans. Assistance utilised upto end-March 1978 aggregated to Rs. 18,098 crores or 84 per cent of the total authorised (Table X-12).

Aid authorisations by the IBRD/IDA rose from Rs. 4,413 crores at end-March 1977 to Rs. 5,233 crores at end-March 1978; this pushed up their share in the total cumulative aid authorisations by nearly two percentage points to 25 per cent at end-March 1978 from

23 per cent a year earlier. Utilisation of aid from these institutions amounted to Rs. 365 crores during 1977-78 taking the cumulative utilisation of aid extended by them to Rs. 3,638 crores at the end of March 1978; the share of these institutions in the total aid utilisation went up over the year by one percentage point to a little over one-fifth of the total.

Although the share of the U.S.A. in the aggregate assistance has steadily been declining

because of the virtual absence of aid authorisations during the past five years, the USA remained at end-March 1978 at the top of the list of countries giving bilateral aid in terms of the cumulative aid authorisations and utilisation, with its share in the cumulative aid authorisations at 29 per cent and in cumulative utilisation at 34 per cent. In the last three years, the OPEC group of countries has emerged as significant contributor of external assistance to India; aid authorised by this group in this short period totalled as much as Rs. 1,264 crores or about 6 per cent of the cumulative assistance authorised to India

since August 15, 1947, of which the amount utilised represents 5 per cent of the overall aid utilisation. Other countries more or less maintained their relative shares both in respect of authorisations and utilisation, around the preceding year's levels.

Total assistance, comprising loans and grants, available for utilisation—i.e. aid in the pipeline—amounted to Rs. 3,470 crores, at the end of March 1978, higher by Rs. 759 crores than at the commencement of the year. Of this, Rs. 2,809 crores or 81 per cent represented project assistance.

Table X-12: 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.	Upto March 1972	..	..	..	10,232	912	2,165	13,309
4.	Upto March 1974	..	..	..	12,107	981	2,165	15,253
5.	Authorisations during							
(a)	1974-75	..	..	..	1,153	128	—	1,281
(b)	1975-76	..	..	..	1,762	373	—	2,135
(c)	1976-77	..	..	..	647	308	—	955
(d)	1977-78	..	..	..	1,463	369	—	1,832
Total (Upto March 1978)					17,132	2,159	2,165@	21,456
Utilisation:								
1.	Upto March 1966	..	..	..	4,346	531	1,403	6,280
2.	Upto March 1969	..	..	..	6,586	759	2,122	9,467
3.	Upto March 1972	..	..	..	8,738	890	2,277	11,905
4.	Upto March 1974	..	..	..	10,124	917	2,277	13,318
5.	Utilisation during							
(a)	1974-75	..	..	..	922	72	—	994
(b)	1975-76	..	..	..	1,192	265	—	1,457
(c)	1976-77	..	..	..	1,010	246	—	1,256
(d)	1977-78	..	..	..	810	263	—	1,073
Total (Upto March 1978)					14,058	1,763	2,277@	18,098

Note: Refer to Notes to Table X-7.

@ P.L. 480 aid authorisations were fully utilised by the end of 1971-72. The differences between rupee values of the total authorisations and total utilisation is attributable to the devaluation of rupee on June 6, 1966.

Table X-13: Aggregate External Assistance— Source-wise
(Fiscal Years)

(Rupees Crores)

Country/Institution	Authorisations upto March 1978				Utilisation upto March 1978			
	Loans	Grants	PL 480/665 Aid and Third Country Currency Assistance	Total	Loans	Grants	PL 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.	5,233	—	—	5,233 (24.4)	3,638	—	—	3,638 (20.1)
U.S.A.	3,659	286	2,165	6,110 (28.5)	3,637	277	2,277	6,191 (34.2)
U.S.S.R.	1,431	12	—	1,443 (6.7)	1,000	11	—	1,011 (5.6)
U.K.	1,422	718	—	2,140 (10.0)	1,385	414	—	1,799 (9.9)
West Germany	1,402	42	—	1,444 (6.7)	1,283	39	—	1,322 (7.3)
Japan	692	1	—	693 (3.2)	612	1	—	613 (3.4)
O.P.E.C.*	1,264	—	—	1,264 (5.9)	816	—	—	816 (4.5)
Others	2,029	1,100	—	3,129 (14.6)	1,687	1,021	—	2,708 (15.0)
Total	17,132	2,159	2,165	21,456 (100.0)	14,058	1,763	2,277	18,098 (100.0)

Notes: 1. Please refer to notes to Table X-7.

2. Figures in brackets represent percentage to the total.

* Comprises Iran, Iraq, Kuwait Fund for Arab Economic Development, Abu Dhabi Fund for Arab Economic Development, Saudi Fund for Development and OPEC Special Fund.

Aid Prospects for 1978-79

At its meeting in June 1978, the Aid India Consortium, took special note of the good performance by the Indian economy and the increased emphasis accorded in the Plan to rural development. The Consortium held that despite the foreign exchange position ceasing to be a constraint for Indian economy, the country needed continued external assistance to meet its growing planned developmental requirements. Accordingly, it pledged aid totalling US \$ 2.4 billion for the fiscal year 1978-79, US \$ 300 million more than in the fiscal year 1977-78. Of this, the share of the IBRD/IDA would be about US \$ 1.2 billion; an increase of US \$ 100 million over 1977-78.

III. India's External Assistance to Other Countries*Authorisations*

India continued to extend assistance to other developing countries; the assistance extended during the fiscal year 1977-78 amounted to Rs. 67 crores, one-third higher than in 1976-77. Assistance granted to Bhutan was somewhat higher; Mauritius, which was not granted any assistance in 1976-77, was granted a loan of Rs. 10 crores. For the first time, Vietnam was offered a loan of Rs. 10 crores, in addition to a wheat loan of 1 lakh tonnes. Sri Lanka was extended a credit of Rs. 10 crores, a little higher

than in 1976-77. Assistance to Nepal which was in the form of grants, however, amounted to Rs. 10 crores—about half of the assistance

given to that country in 1976-77. No fresh assistance commitments to Bangladesh have been made in the last two years.

Table X-14: Assistance Extended by India to Other Countries
(Fiscal Years)

(Rupees Crores)

Country	Authorisations						Utilisation					
	1976-77			1977-78			1976-77			1977-78		
	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
1. Bangladesh	—	—	—	—	—	—	6.9	1.0	7.9	2.1	1.4	3.5
2. Bhutan	1.5	21.2	22.7	2.9	24.8	27.7	1.5	21.2	22.7	2.9	24.5	27.4
3. Burma	—	—	—	—	—	—	—	—	—	—	—	—
4. Indonesia	—	—	—	—	—	—	—	—	—	—	—	—
5. Mauritius	—	—	—	10.0	—	10.0	0.2	—	0.2	0.7	—	0.7
6. Nepal	10.0	10.4	20.4	—	9.6	9.6	0.1	9.9	10.0	0.1	8.2	8.3
7. Sri Lanka	7.1	—	7.1	10.0	—	10.0	5.9	—	5.9	5.4	—	5.4
8. Tanzania	—	—	—	—	—	—	—	—	—	—	—	—
9. Vietnam	—	—	—	10.0	—	10.0	—	—	—	—	—	—
Total	18.6	31.6	50.2	32.9	34.4	67.3	14.6	32.1	46.7	11.2	34.1	45.3

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-15: Aggregate Assistance Extended by India to Other Countries
(Fiscal Years)

(Rupees Crores)

Country	Authorisations upto March 1978			Utilisation upto March 1978			Amount Undisbursed as at the end of March 1978		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7	8	9	10
1. Bangladesh	87.0	145.4	232.4	62.4	130.4	192.8	24.6	15.0	39.6
2. Bhutan	8.0	135.7	143.7	8.0	135.4	143.4	—	0.3	0.3
3. Burma	20.0	—	20.0	20.0	—	20.0	—	—	—
4. Indonesia	10.0	—	10.0	10.0	—	10.0	—	—	—
5. Mauritius	15.0	—	15.0	0.9	—	0.9	14.1	—	14.1
6. Nepal	31.5	147.8	179.3	21.4	137.4	158.8	10.1	10.4	20.5
7. Sri Lanka	54.5	—	54.5	31.1	—	31.1	23.4	—	23.4
8. Tanzania	5.0	—	5.0	—	—	—	5.0	—	5.0
9. Vietnam	10.0	—	10.0	—	—	—	10.0	—	10.0
Total	241.0	428.9	669.9	153.8	403.2	557.0	87.2	25.7	112.9

Note: Refer to notes to Table X-14.

Utilisation

Assistance utilised by beneficiary countries amounted to Rs. 45 crores, which was about the same as in 1976-77. Except Mauritius whose utilisation of aid was rather slow, and Vietnam which has yet to draw on the credit extended to it, the utilisation of aid by other countries was more or less of the same order as in the previous year.

Upto the end of March 1978, the total aid authorisations amounted to Rs. 670 crores. Nearly two-thirds of this are in grants, mainly to Bangladesh, Bhutan and Nepal. Though there have been no fresh authorisations of aid to it in the last two years, Bangladesh remains the major beneficiary of Indian assistance (35 per cent), followed by Nepal (27 per cent) and Bhutan (21 per cent). By end-March 1978, Rs. 557 crores or 83 per cent of the total aid authorised by India has been utilised by the recipient countries.

IV. Foreign Investment Policy

A reference was made in last year's Report to the substantial liberalisations made in October 1976 in the scheme for attracting investment in priority industries in India from non-resident Indians and persons of Indian origin abroad. A statement on Industrial Policy was presented by the Government to Parliament on December 23, 1977. Under this statement, foreign investment and acquisition of technology necessary for India's industrial development would be allowed where they are in the national interest and on terms determined by the Government of India. As a rule, majority interest in ownership and effective control should be in Indian hands; but exceptions could be made in highly export-oriented and/or sophisticated technology areas, and the Government may consider even a full foreign ownership in hundred per cent export-oriented cases. Where foreign investment has been approved, there would be complete freedom of remittance of profits, royalties, dividends as well as repatriation of capital subject to the usual regulations. The Government has made

it clear that while it would strictly enforce the provisions of the FERA, the companies which dilute their non-resident holdings to less than 40 per cent would be treated on par with Indian companies, except in cases specifically notified, and their future expansion would be guided by the same principles as those applicable to Indian companies.

The total value of consents granted by the Controller of Capital Issues to joint stock companies for non-resident participation, which had risen sharply from Rs. 48.3 crores in 1975-76 to Rs. 145.5 crores in 1976-77, declined to Rs. 88.9 crores in 1977-78 (all fiscal years). The decline mainly accounted for loans, consents for which, after rising from Rs. 24.6 crores in 1975-76 to Rs. 104.1 crores in 1976-77, came down to Rs. 41.4 crores in 1977-78. Consents for bonus issues and initial issues stood higher at Rs. 37.8 crores and Rs. 7.6 crores, respectively, than Rs. 32.7 crores and Rs. 4.6 crores in 1976-77; the consents for further issues were, however, lower at Rs. 2 crores, as compared with Rs. 4 crores in 1976-77.

Data in regard to approvals granted for financial/technical collaboration arrangements are available upto December 1977; such approvals granted during the three quarters of the financial year 1977-78 are placed at 212, as compared with 224 approvals during the first three quarters of fiscal 1976-77 and 279 during the full year 1976-77.

V. Developments in Exchange Control

This section briefly enumerates the more important developments in the sphere of exchange control during the period July 1977 to August 1978.

Exchange Rate for Rupee

The external value of the rupee continued to be determined on the basis of the basket of currencies of the countries which are India's major trading partners, with the pound sterling as the intervention currency. With continuing fluctuations in the exchange rates of major

international currencies, the exchange rate of the rupee in terms of the pound sterling was, therefore, revised twice during the year—on

November 1, 1977 and on May 24, 1978—and twice thereafter on July 31 and August 16, 1978, as indicated below.

RBI's Spot Rates for Purchase and Sale of Pound Sterling

Date	Buying Rate	Selling Rate	Middle Rate
1-11-1977	£ 6.3694 per Rs. 100 (corresponding to Rs. 15.70 per £ 1)	£ 6.3291 per Rs. 100 (corresponding to Rs. 15.80 per £ 1)	Rs. 15.75 per £ 1
24- 5-1978	£ 6.5359 per Rs. 100 (corresponding to Rs. 15.30 per £ 1)	£ 6.4935 per Rs. 100 (corresponding to Rs. 15.40 per £ 1)	Rs. 15.35 per £ 1
31- 7-1978	£ 6.4516 per Rs. 100 (corresponding to Rs. 15.50 per £ 1)	£ 6.4103 per Rs. 100 (corresponding to Rs. 15.60 per £ 1)	Rs. 15.55 per £ 1
16- 8-1978	£ 6.3694 per Rs. 100 (corresponding to Rs. 15.70 per £ 1)	£ 6.3291 per Rs. 100 (corresponding to Rs. 15.80 per £ 1)	Rs. 15.75 per £ 1

Provision of Forward Cover by the RBI—Monthly Option Basis

The Reserve Bank continued to buy forward selected foreign currencies, but the procedure for purchase of foreign currencies was revised, effective August 16, 1977, from quarterly options to monthly options. The Bank now purchases pound sterling, U.S. dollars, Deutsche marks and Japanese yen for forward delivery on any day during the month. The forward cover for the pound sterling is available for a period upto nine months, while in respect of the other three currencies such cover is available for a period upto six months. For buying pound sterling forward, a margin of £ 0.0050 per Rs. 100/- per month is added to its spot buying rate. One or more extensions of forward contracts in sterling are allowed on payment of a charge of £ 0.0075 per Rs. 100 per month over the contracted rate, provided the delivery date does not extend beyond 12 months from the date of original contract. The facility of extension of contracts is restricted to sterling.

Extension of Exchange Control to Sikkim

The Foreign Exchange Regulation Act 1973 was extended to the State of Sikkim with effect from September 1, 1977. Persons resident in Sikkim (other than foreign nationals tempo-

rarily resident there) who owned any foreign exchange or foreign securities or immovable property outside India were required to declare to the Reserve Bank of India particulars of all such holdings before November 1, 1977. Further, the holders of foreign currency balances, barring certain exempted categories, were required to surrender such balances to authorised dealers on or before December 1, 1977.

Trade Transactions with China

With the resumption of trade between India and China (excluding the Tibet Region), the Reserve Bank withdrew, effective April 15, 1978, the ban on trade transactions with China. Exports to China are allowed, subject to compliance with the normal GR/PP form procedure. Authorised dealers can open letters of credit, make remittances for imports and in respect of charges directly connected with exports to China, viz. commission on exports, controlling charges, export claims, cost of tender documents and legal/sundry expenses on export bills, and issue of guarantees on account of trade with that country in conformity with the regulations. All other remittances to China and other transactions with persons, firms and banks resident in China or nationals of China continue to be prohibited.

Rupee Drawings by Overseas Banks

The practice of overseas correspondents of issuing rupee drafts/payment orders on Indian offices/branches of authorised dealers other than the office where the non-resident rupee account is maintained and the subsequent time-lag involved in making claims and receiving reimbursements lends, in the context of the large volume of inward remittance, scope to the overseas bank to delay the remittance, avail a rupee overdraft facility in a concealed manner and resort to other unhealthy practices. To curb such tendencies, the Reserve Bank directed the authorised dealers on May 5, 1978 to institute any of the following measures: (1) Overseas correspondents should be asked to issue drawing advices as and when rupee drafts/payment orders are issued on offices/branches other than the one at which the non-resident rupee account of the drawing bank is maintained, and the account maintaining office should promptly set apart funds to meet the reimbursement claims of the outlying offices. (2) Authorised dealers should adopt 'value-dating' as a system of accounting for such payments or introduce other internal monitoring or communication system to ensure that payments are reimbursed from central accounts on the dates on which drawings are actually paid to the beneficiaries. (3) Where either of these arrangements is not feasible, authorised dealers should charge the overseas drawing bank a payment commission for the funds outlay at not less than 0.15 per cent of the amount of drawings, with a minimum of 50 paise per drawing. These directions also apply to rupee drawings by overseas branches of Indian banks and overseas head offices/branches of foreign banks.

Assets of Emigrants

As of September 29, 1977, assets in India of Indian nationals and of persons of non-Indian nationality permanently resident in India who had emigrated to a foreign country, which were hitherto treated as blocked, are allowed to be kept in ordinary non-resident

accounts irrespective of whether the emigrant has been granted exchange facilities or not.

Release of Foreign Exchange for Students Going Abroad for Higher Studies

Effective July 30, 1977, the eligibility criterion for release of exchange to students going abroad for higher studies was liberalised by lowering the maximum marks required from 60 per cent to 55 per cent. In the case of students belonging to scheduled castes and tribes this requirement is fixed lower at 49.5 per cent. The quantum of exchange released to students was also raised as under:

	U.S.A./ Canada (U.S. \$)	U.K. (U.S. \$)	Other countries (U.S. \$)
Maintenance allowance	4,000	3,000	3,000
Initial equipment allowance	300	250	250
Pre-session allowance	165	120	120

In addition, exchange for tuition fees is allowed on the basis of actuals as certified by the overseas institution.

Release of Foreign Exchange to Export Houses

Export houses, holding export house certificates from the Ministry of Commerce and which propose to develop their promotional activities, are allowed blanket foreign exchange with effect from October 1977, to the extent of 2.5 per cent of f.o.b. value of their exports during the previous year, subject to a maximum of Rs. 1 lakh. Exchange in excess of Rs. 1 lakh but not exceeding 2.5 per cent of the f.o.b. value of exports is also made available against the surrender of Replenishment Export Promotion (R.E.P.) entitlements equivalent to the excess amount. The blanket release can be utilised for a variety of activities, such as deputation of sales and sales-cum-study teams abroad, publication of journals, brochures, pamphlets, etc. for use abroad, brand publicity projects through adver-

tisements, expenditure in connection with participation in exhibitions, etc. The exchange thus obtained is in addition to the blanket permits available in the normal course.

Blanket Exchange Permits to Exporters/Construction Companies

With a view to extending the facility of blanket exchange permits to small exporters, the Reserve Bank reduced on April 5, 1978 the level of annual export turnover required for such permits from Rs. 15 lakhs to Rs. 10 lakhs in the case of 'select list' (non-traditional items) of exports, and from Rs. 75 lakhs to Rs. 50 lakhs for all other products. Likewise, construction companies are also allowed the facility of blanket exchange permits, if their net annual foreign exchange repatriation amounted to Rs. 10 lakhs, as against the earlier requirement of Rs. 15 lakhs. The minimum allotment of exchange under this scheme was raised from Rs. 40,000 to Rs. 75,000.

Foreign Exchange Entitlement Scheme for Returning Indians

With a view to providing an incentive to non-resident Indians and persons of Indian origin to repatriate their foreign currency balances on their return to India for permanent settlement, a scheme entitled 'Returning Indians—Foreign Exchange Entitlement Scheme' (RIFEES) has been introduced effective November 1, 1977. Under the scheme, exchange will be released to such persons for certain specified purposes for which exchange is not otherwise freely available, subject to a ceiling of 25 per cent of the foreign exchange remitted or brought in by such persons on transfer of residence through normal banking channels. Balances in their rupee non-resident (external) accounts and foreign currencies (non-resident) accounts are taken into account for the purpose. The exchange entitlement, valid for a period of 10 years, can be utilised for travel abroad for personal reasons and for medical treatment by the person, his or her spouse and dependent children, foreign education of dependent children or wards, gift

remittances to close relatives permanently resident abroad and import of special appliances for professional use.

Foreign Travel Scheme

Effective November 1, 1977, residents of India who have not visited any place outside India for a period of two years prior to the date of journey—as against three years hitherto—are allowed to undertake foreign trips under the Foreign Travel Scheme, 1970. For this purpose, all visits to Nepal, and visits to Sri Lanka, Bangladesh, Maldives, Mauritius and Seychelles—other than under the F.T.S., will not be counted as foreign visits. The quantum of foreign exchange allowed under the Scheme has been raised from US \$ 100 to US \$ 500. With effect from January 1, 1978, an Indian can undertake foreign trips in alternate years and all foreign trips other than under the F.T.S. would be ignored for determining the traveller's eligibility thus enabling Government officials and company executives who travel abroad frequently on official and business grounds to avail of the F.T.S. The date of departure from India on an earlier foreign trip, and not date of return to India, would be the base date for determining the eligibility under the Scheme. The procedure for availing of the Scheme was further simplified enabling an intending traveller to obtain confirmation of his eligibility to undertake the journey abroad from any of the notified branches of designated authorised dealers. Accordingly, effective May 1, 1978, certain branches of all nationalised banks (including the State Bank of India but excluding its subsidiaries) have been authorised to issue eligibility certificates for travel under the Scheme.

'P' Forms for Travel Abroad

On April 11, 1978 some of the requirements for obtaining 'P' form for travel abroad were liberalised by enlarging the categories of relatives whose hospitality could be considered as sufficient ground for granting approval. Subsequently, as of August 7, 1978, the 'P' form

formality has been dispensed with in the case of residents of India going abroad to any destination. Only a modified 'P' form is required to be completed for the purpose of record; and even this record is not required if the passage fare is not paid in rupee, i.e. when the travel is undertaken on free tickets, Prepaid Ticket Advices (P.T.As) and tickets issued outside India.

Foreign Currency (Non-Resident) Accounts Scheme (FCNRA)

Consequent on the lowering of the interest rates on deposits held in rupees, the rate of interest on fixed deposits under FCNRA Scheme were revised from March 1, 1978 and brought on par with the rates applicable to rupee deposits. Also, effective March 1, 1978 fixed deposits under the Scheme are required to be lodged for a minimum period of one year and a maximum period of five years. The new rates are as under :

<i>Period</i>	<i>Rate of interest</i>
Deposits for period of 1 to 3 years	6 per cent
Deposits over 3 years but upto 5 years	7½ per cent

Other Developments

From January 1, 1978 trade between India and Hungary, and from March 1, 1978 trade between India and North Korea, are conducted in convertible currency. Accordingly, these two countries are placed in the External Group, instead of the Bilateral Group.

Under the new trade and payment agreement concluded between India and Poland, both commercial and non-commercial transactions continue to be settled in non-convertible rupees for a further period of three years from January 1, 1978.

Effective December 31, 1977, authorised dealers can make remittance to Pakistan towards private imports as in the case of imports from other countries.

As of June 1, 1978, authorised dealers have been delegated powers to effect the under-mentioned types of remittances without reference to the Reserve Bank : (1) Payment of commission to selling agents abroad on exports from India by deduction from the bill proceeds, or from the invoice, upto 5 per cent, if the irrevocable letter of credit provided for such payment; (ii) remittances on account of advertisements abroad by established exporters upto US \$ 1,000 or its equivalent in any calendar year; (iii) remittances on account of cost of tender documents/registration fees, irrespective of the value involved, provided it is made in favour of the tender-inviting body or its authorised agent abroad or the Embassy, Consulate or any other diplomatic mission maintained by the Government of India in the country concerned; (iv) remittances of charges for translation of tender document upto US \$ 100 or its equivalent, at any one time on behalf of exporters, provided the beneficiary of the remittance is an Embassy, Consulate, or any other diplomatic or trade mission maintained by the Government of India; (v) cost of supply of export information upto US \$ 50 or its equivalent at any one time on behalf of exporters to overseas trade associations, chambers of commerce, government departments or government owned organisations; and (vi) remittances against private imports by post or otherwise, by any individual, institution or hospital for his/its own use of any goods other than certain banned categories.

Authorised dealers are also permitted to (i) issue certificates in respect of export of gift parcels by post or air-freight for value not exceeding Rs. 500; and (ii) open letters of credit and make remittances on behalf of registered manufacturer-exporters for imports of samples, by post parcel or by air-freight for value not exceeding Rs. 500.

VI International Monetary Developments World Economic Outlook

Since about the middle of 1976, the pace of economic recovery in industrial countries has been sluggish, largely owing to a slack in

private capital investment due to rising costs and structural changes impairing profit margins—weak consumer spending, and general reluctance to adopt strong reflationary measures because of fears of renewed inflation. Overall, real output in industrial countries is estimated to have risen by 3.7 per cent during 1977 as against 5.4 per cent in 1976. The rate of growth of real output in the U.S. and Japan is placed around 5 per cent, and in other OECD countries at 3 per cent. The short-term prospects for a faster expansion in economic activity are not bright, unless, the major industrial countries, particularly those with large balance of payments surpluses, pursue strong reflationary policies, and rapidly move towards dismantling protectionist measures.

The U.S. economy, which was the growth leader in the industrial world during 1976 and 1977, advanced in the first half of 1977 at an annual rate of about 6 per cent, despite the severe winter, but the pace of expansion decelerated thereafter with consumer spending turning less buoyant. For 1977 as a whole, the growth in real output is placed at 4.9 per cent. The U.S. forecast in January 1978 the growth of real output of 4.6 per cent in 1978 and of 4.8 per cent in 1979, but the mid-year forecast scaled down the rates by about $\frac{1}{2}$ percentage point for both 1978 and 1979. In *West Germany*, the real GNP, which had risen by 5.7 per cent in 1976, was forecast to grow at 5 per cent during 1977. The actual out-turn for the year was only 2.5 per cent, attributed to investment activity turning slack following wage and cost increases and sluggish growth in consumption expenditure. In *Japan*, the real GNP expanded during the first half of 1977 at an annual rate of 7 per cent, largely induced by the continuing enormous trade surplus and increased Government spending. The growth rate came down to 3.6 per cent in the second half, yielding a growth of 5.1 per cent for 1977 as a whole. This is attributed to a dampening of business confidence following the continuing sharp appreciation of the yen. Activity picked up some strength early in 1978, and the present forecast is that output would grow at best by 5.7 per cent in 1978. In the *United Kingdom*,

despite increased flow of North Sea Oil and consequent improvement in the balance of payments, the economy continued to remain weak. The real GDP declined by one per cent during the first half of 1977 and rose by 2.2 per cent in the second half; for the year as a whole the growth thus worked out to less than one per cent. Since the turn of the year, there has been a further improvement. The real GDP is expected to grow at around 3 per cent in 1978. For the member countries of the OECD other than the U.S., the forecast for 1978 is that real output will probably grow about $3\frac{1}{2}$ per cent, three quarters of one per cent higher than in 1977; with the anticipated decline in the U.S., this will narrow down the disparity of growth rates in the OECD countries, leading to a favourable impact on international payments.

Developing countries as a group recorded in 1977 a higher rate of growth than the industrial world. The growth of output in oil exporting countries among the developing countries was around 7 per cent in 1977; it is expected to come down in 1978, due to the projected fall in oil production. Non-oil developing countries are expected to add to their growth rate by perhaps one-half of one per cent over 1977, and thus grow at the rate of 5 per cent in 1978.

Expressed as a percentage of the total labour force, unemployment in the industrial world remained in 1977 close to its recession peak of 5.2 per cent. The situation deteriorated further in Canada, U.K. and France, but showed improvement in the USA where the unemployment rate declining by one and half percentage points from the peak of 8.5 per cent touched in 1975.

Price inflation in the industrial world was generally held down during 1977. Consumer prices rose during the first half of the year largely because of a rise in food prices. The trend was reversed to some extent in the second half of the year. Over the year ended December 1977, the annual average consumer price index went up by 4.8 per cent in Japan, 3.5

per cent in West Germany, 9 per cent in France and 12.1 per cent in the U.K. as against the annual average increases of 13.7 per cent, 5.0 per cent, 11.6 per cent and 19.7 per cent for the respective countries over the three year's period 1974 to 1976. In the USA, the cut-back in the price rise was relatively modest, with the average consumer price index advancing over the year by 6.8 per cent, as against the annual average increase of 8.0 per cent during the preceding three years. Whereas in Canada, the rate of price rise in 1977 was 9.5 per cent—marginally higher than the annual average rise of 9.3 per cent in the preceding three years.

Indications are that the rates of inflation in the industrial countries may not come down materially during 1978; indeed, there are apprehensions of renewed inflation in the USA, the UK and Japan.

World Trade and Balance of Payments

The general slowing down of the rate of economic expansion in the industrial world led to the world trade growing at a much subdued pace during 1977. In terms of volume, world trade expanded by only 4 per cent in 1977, or at just about a third of the rate of growth in 1976. Reflecting the inflationary mark-up in value and the weakness of the dollar, however, the world trade rose, in value terms, by \$ 130 billion or 13 per cent to \$ 1,140 billion in 1977, as against the rise of 11.5 per cent in 1976.

Sluggish import demand, especially from the developed areas of the world, was the principal factor holding down the growth of world trade in real terms. Basically following the deceleration of output growth, imports of developed countries as a group increased in volume by a meagre 3.5 per cent, as against the rise of 13.5 per cent in 1976. Among the developed countries, the slowing down of the import growth was noticed not only in the countries experiencing balance of payments pressures, but also in the surplus countries like Japan and West Germany where no such constraints existed; imports of Japan and West

Germany rose in volume by only 3.5 per cent and 4.5 per cent, respectively, down from 10.5 per cent and 16.5 per cent in 1976. With its imports growing in volume by 13 per cent in 1977, the U.S. alone, among the leading industrial countries, provided a stimulus to international trade during 1977. Imports of the oil exporting countries rose by 17 per cent in volume during 1977, as against a 23 per cent rise in 1976. The growth of import demand of other countries was highly subdued; imports of non-oil developing countries as a group increased in volume by under 1 per cent. In 1976 they had grown by 2.5 per cent.

Exports of developed countries rose by only 4.4 per cent in 1977, sharply down from the growth rate of 11 per cent in 1976. There was no growth—rather a small decline—in exports of the OPEC group during 1977, in contrast to the rise of 14 per cent in 1976; and for the non-oil developing countries, the rate of growth in the volume of exports slumped from 12 per cent to 5 per cent.

The aggregate trade balance of industrial countries which switched from a surplus of US \$ 20.4 billion in 1975 to a deficit of US \$ 4.2 billion in 1976, deteriorated further in 1977, the deficit widening to US \$ 9.6 billion. The U.S., whose trade deficit shot up over the year from \$ 9.3 billion, to \$ 31.2 billion, largely accounted for the further deterioration of the trade balance of the industrial world. Japan and West Germany, on the other hand, improved their trade surpluses over the year; by as much as US \$ 7.6 billion from US \$ 9.9 billion in 1976 to US \$ 17.5 billion in 1977 in case of Japan, and by US \$ 3 billion from US \$ 16.7 billion to US \$ 19.7 billion in case of West Germany. The rest of the industrial countries as a group contracted their trade deficit from US \$ 19.7 billion in 1976 to US \$ 14.8 billion in 1977.

For the industrial countries as a group, the overall deficit on current account (excluding official transfers) more than trebled during 1977 to US \$ 7.5 billion. As in the case of

trade transactions, the U.S. was the principal contributor to this deterioration. It recorded a sizeable deficit of US \$ 17.4 billion in 1977, in the place of its nominal surplus of US \$ 1.7 billion in 1976. The current account surplus of Switzerland, remained stationary over the year around US \$ 3.7 billion, and that of West Germany improved modestly from US \$ 7.1 billion in 1976 to US \$ 7.6 billion in 1977. But Japan nearly trebled its current account surplus from US \$ 3.9 billion to a new peak of US \$ 11.2 billion. In the developing world, the current account surplus of the oil exporting countries declined over the year by US \$ 6 billion to US \$ 35 billion in 1977. On the other hand, the non-oil exporting developing countries succeeded in contracting their combined current account deficit for the second year in succession, from US \$ 25.6 billion in 1976 to US \$ 22.1 billion in 1977.

As for the world balance of payments outlook for the year 1978, the industrial countries, as a group, are expected to posit a surplus of US \$ 4.1 billion in 1978—a sharp swing from the deficit of US \$ 7.5 billion in 1977. The current account surplus (exclusive of official transfers) of the major oil exporting countries is expected to come down sharply from U.S. \$ 34.9 billion in 1977 to U.S. \$ 23.0 billion in 1978. On the other hand, the current account deficit of the non-oil developing countries as a group is expected to rise from US \$ 22 billion in 1977 to US \$ 30 billion in 1978. While the deficits of the U.S., Canada and France are expected to contract, larger surpluses would accrue to West Germany, the U.K. and Switzerland. Absence of faster reflation of their economies by Germany and Japan and increased protectionism in the major industrial economies would inhibit expansion of world output and trade in 1978.

World Reserves

During 1977-78 (July-June) aggregate world reserves expanded by SDR 27.4 billion or 11 per cent to SDR 266.4 billion, as against a larger increase of SDR 31.6 billion or 15 per cent in the preceding year. The slow-down in

1977-78 was largely brought about by a decline in the reserve holdings of the oil exporting countries as a group, from SDR 60.9 billion at end-June 1977 to SDR 56.6 billion at end-June 1978; in the preceding year the reserves of this group had risen by SDR 9.7 billion. Even within this group, the reserves of some countries i.e. Iran, Kuwait and Libya recorded some rise over the year 1977-78. The reserves of the industrial countries, on the other hand, went up over the year by a larger magnitude of SDR 19.9 billion, to SDR 143.2 billion, than of SDR 13.3 billion in 1976-77. The other developed countries, i.e. Australia, New Zealand and South Africa and other European countries not covered under the group of industrial countries improved their reserves over the year by SDR 3.4 billion, in contrast to the decline of SDR 1.3 billion in the previous year.

Non-oil developing countries recorded a smaller growth in reserves of SDR 8.4 billion than that of SDR 9.9 billion in the preceding year. The smaller rise in reserves over the year was distributed unevenly among these countries. Region-wise, the developing countries of the Latin America added to their reserves SDR 5.1 billion in 1977-78, which was higher than that of SDR 4.4 billion in 1976-77, while the developing countries of Asia added to their reserves SDR 2.2 billion which was only half of the increase recorded in the preceding year. Fresh addition to the reserves of the developing countries in the middle east at SDR 1.0 billion was very nearly the same as in the preceding year while the reserves of the developing countries in Africa remained unchanged at SDR 3.1 billion.

Component-wise, foreign exchange holdings increased during July 1977-June 1978 by SDR 30.1 billion, a shade higher than the rise of SDR 29.1 billion in the preceding year, to SDR 206.1 billion at the end of June 1978, and their share in the total international reserves advancing over the year by 3 percentage points to 77 per cent. The gold component of international reserves remained virtually unchanged at SDR 35.5 billion valued at SDR 35 per

fine ounce, but, with increase in total international reserves, its share in the total moved down by 2 percentage points to 13 per cent. Holdings of Special Drawing Rights amounted to SDR 8.0 billion in June 1978 and its share also declined by less than one percentage point to 3 per cent, following the rise of such holdings with the IMF in its General Resources Account by SDR 0.6 billion and largely by the growth in the total international reserves. Members' reserve positions in the Fund declined from SDR 19.0 billion or 8 per cent of the total at end-June 1977, to SDR 16.8 billion or 6 per cent of the total at end-June 1978.

Second Amendment to the Articles of Agreement of the IMF

The Second Amendment to the Articles of Agreement of the IMF, to which a reference was made in the last Report, came into force on April 1, 1978, following the acceptance of the amended Articles of Agreement by 97 members (including India) representing three-fifths of the membership of the Fund commanding four-fifths of the total voting power. The amended Articles have abolished the system of fixed par values determined in terms of the gold and the new exchange rate provisions give members wide latitude in the choice of exchange rate practices best suited to their needs. Each member however undertakes a general obligation to direct its policies towards orderly growth with reasonable price stability, and a specific obligation to avoid manipulation of exchange rates to prevent balance of payments adjustment or gain unfair competitive advantage.

The new system assigns to the IMF the responsibility for conducting a continuing surveillance over the operation of the international monetary system and the members' compliance with their obligations regarding exchange rate policies, thus providing for a more active and effective role for the Fund in the operations of the balance of payments adjustment process. The amended Articles also authorise the Board of Governors to establish a permanent machinery for exercising general supervision over the

international monetary system, including the continuing operation of the adjustment process, and developments in global liquidity. An Interim Committee of the Board of Governors, constituted in June 1974 has already been in operation for this purpose.

With the abolition of the role of gold which was central and all pervasive under the old arrangement, efforts are being made to make the Special Drawing Right (SDR) as the principal reserve assets. To this end, the Executive Board of the Fund under the guidance and directions of the Interim Committee has been exploring ways and means of broadening the general acceptance of SDRs among members and non-members through allocations of SDRs and designations of SDRs, as also by enlarging the characteristics and uses of this instrument.

Review of Members' Quotas at the IMF

Consequent upon the coming into force on April 1, 1978 of the Second Amendment to the Articles of Agreement of the IMF, the enhanced quotas of the members of the Fund, in terms of the provisions of the Sixth General Review of Quotas, became effective, raising the total of the quotas from SDR 29.2 billion to SDR 39.0 billion. Accordingly, India's quota went up from SDR 940 million to SDR 1,145 million. The Board of Governors' resolution of March 1976 which approved the Sixth General Quota increase, also provided for the Seventh General Review of Quotas to be completed by February 9, 1978. Since this Review was not completed within the stipulated time, the Interim Committee of the Board of Governors urged at its Tenth Meeting held in Mexico City in April 1978 that the exercise should be completed immediately, adding that the quota increase to be adopted should be adequate to meet the needs for conditional liquidity over the next five years.

At its Eleventh Meeting held in Washington in September 1978, the Interim Committee agreed on the basis of a report of the Executive Board, that issues relating to SDR allocations and the Seventh General Review of Quotas

are interrelated, and as such considered them together. The Committee recommended the allocation of SDR 4 billion in each of the next three years 1979-81. The Committee also expressed its approval for a general increase in quotas of 50 per cent and selective quota increases for 11 developing countries, which would raise the aggregate quotas to SDR 58.6 billion. The Committee also agreed that members participating in the Special Drawing Department should pay 25 per cent of the quota increase in SDRs and that non-participants should pay the equivalent of 25 per cent of the increase in foreign exchange. The Committee agreed that a final decision and vote by the Board of Governors should be taken before the end of the year 1978 in order to help meet the long-term global need to supplement existing reserve assets in a desirable manner.

Supplementary Financing Facility

The Supplementary Financing Facility (SFF) was established by the IMF in August 1977 with the object of extending financial assistance to those member countries which would in the coming years face large payments imbalances in relation to their economies and their quotas in the Fund. Thirteen member countries and the Swiss National Bank expressed willingness to provide resources to the extent of SDR 8.6 billion for the Facility. It was decided that members could draw on the Facility either under a stand-by arrangement or under an extended arrangement, and that the resources would normally be made available for a period of more than one year and up to three years under the extended arrangement. It was also decided to make the Facility operative when agreements were concluded for an aggregate commitment of not less than SDR 7.75 billion, including at least six agreements individually for an amount of not less than SDR 500 million. The Facility is also referred to as the Witteveen Facility after Mr. Witteveen, the Facility being among his last major initiatives as the Managing Director of the IMF.

The Facility has not become operative so far, because some of the countries, who have

agreed to provide resources for it, have yet to get approvals of their respective legislatures. India has stressed the need for a subsidy account be established in relation to the Facility to assist poorer members having recourse to it, as in the case of the 1975 Oil Facility.

Compensatory Financing Facility

Under the Compensatory Financing Facility in operation since February 1963, the IMF provides financial assistance to members, particularly primary exporting countries, experiencing balance of payments pressures arising from fluctuations in their export earnings. During the Fund's accounting year ended April 1978, members' drawings under this Facility amounted to SDR 322 million. Following repurchases on earlier drawings, however, the outstanding purchases under this facility went up over the year by only SDR 2 million to SDR 2,669 million.

Trust Fund

Mention was made in last year's Report about the Trust Fund established by the IMF in May 1976 with the object of providing additional balance of payments assistance on concessional terms to eligible developing countries during two periods, the first period ending with June 30, 1978 and the second period on June 30, 1980. The resources of the Trust Fund, comprising mainly the profit from the sale of a portion of the Fund's own gold and income from investments of funds held by the Trust pending disbursements, amounted to SDR 1,061 million at end-June 1978.

During the first two-year period ended June 30, 1978, loans disbursed from the Trust Fund in four instalments aggregated to SDR 841 million. India, though included in the list of eligible countries, has not made use of this facility in view of its comfortable balance of payments position during the last two years.

Subsidy Account

A Subsidy Account was established by the IMF in August 1975 to assist member countries

most seriously affected (MSA) by the quadrupling of prices of crude oil at the end of 1973, and to provide subsidy to such members in meeting the cost of using the resources made available to them through the 1975 Oil Facility. Contributions to the Subsidy Account were expected from 24 members, including oil exporting and industrial countries, as also from Switzerland, for a sum of SDR 160.5 million over the life of the account. Contributions in fact received upto end-June 1978 totalled SDR 101.3 million. Eighteen MSA members made use of the 1975 Oil Facility to the extent of SDR 551 million, including an amount of SDR 201.3 million availed of by India. The rate of subsidy for the Fund's fiscal year ended April 30, 1978 was fixed at 5 per cent, the same as in the preceding two years, thus reducing the effective cost to the MSA countries of using the 1975 Oil Facility from 7.71 per cent to 2.71 per cent; subsidy aggregating SDR 25.0 million was disbursed by the IMF to 18 MSA member countries as compared with SDR 27.5 million in 1977 and SDR 13.8 million in 1976, of which, India's share was SDR 7.5 million, SDR 10.1 million and SDR 7.2 million in the respective years. During the year ended April 30, 1978, the list of countries eligible to receive the subsidy was expanded by adding seven countries viz. Grenada, Malawi, Morocco, Papua New Guinea, Philippines, Zaire and Zambia.

Development Assistance

Aggregate net flows of capital from members of the Development Assistance Committee (DAC) of the OECD to developing countries, composed of official development assistance, other official flows, private grants and non-concessional flows by way of direct investment amounted to US \$ 43.7 billion in 1977, as compared with US \$ 40.7 billion in 1976. Assistance on concessional terms accounted for one-third of the total during 1977. Private direct investment moved up over the year from US \$ 7.8 billion to US \$ 10.0 billion, net private export credit from US \$ 5.4 billion to US \$ 7.1 billion and grants from private voluntary agencies from US \$ 1.4 billion to

US \$ 1.5 billion in 1977. Most of this increase was neutralised by a drop in bilateral and multilateral portfolio investment from US \$ 9.2 billion in 1976 to US \$ 7.3 billion in 1977. The total net flows of financial resources from DAC to developing countries, expressed as a percentage of their combined GNP, declined from the target of 1 per cent achieved during 1975 to 0.98 per cent in 1976 and further to 0.93 per cent in 1977.

The quantum of official development assistance (ODA) provided to developing countries and multilateral agencies by the members of the DAC, which had remained virtually stagnant during 1976 at the 1975 level of US \$ 13.6 billion, is estimated to have gone up by 8 per cent to US \$ 14.8 billion in 1977. But, adjusted for inflation and exchange rate changes, the rise over the year was only marginal, and expressed as a percentage of the combined GNP of DAC countries, the ODA in fact declined from 0.33 per cent in 1976 to 0.31 per cent in 1977, thus moving further away from the target of 0.7 per cent set for the Development Decade and accepted by members of the DAC. Only three countries—the same as last year—namely, Netherlands, Norway and Sweden provided assistance in excess of the target of 0.7 per cent of GNP, their respective contributions, being 0.85 per cent, 0.82 per cent and 0.99 per cent.

The total flows of resources to developing countries from DAC countries, the members of the organisation of Petroleum Exporting countries (OPEC) and the centrally planned economies, but excluding loans raised in the Eurocurrency markets, are estimated at US \$ 64.4 billion in 1977—an increase of US \$ 5.4 billion over the year. Of this, the DAC countries accounted for a little over two-thirds. The contribution of the OPEC group is placed at US \$ 9 billion in 1977—an increase of US \$ 0.9 billion over the year; as much as two-thirds of this total took the form of concessional assistance. The flows of resources from the OPEC constituted 3 per cent of their combined GNP in 1977.

Exchange Rates

Reflecting continuing wide disparities in the performance among major industrial countries in terms of growth of output, rates of inflation and external payments imbalances, uncertainty and wide movements in rates marked the international currency markets, during the year July 1977—June 1978. Despite large-scale official intervention, polarisation of major currencies into weak and strong extended further during the year. The Deutsche mark, the Swiss franc and the Japanese yen gained substantially at the expense of the U.S. dollar, the French franc and the Italian lira. In the context of the sizeable depreciation of the U.S. dollar in terms of almost all other major world currencies, the pound sterling staged a good recovery against the dollar, French franc and the Italian lira, though it continued to weaken against the Deutsche mark, the Swiss franc and the yen.

Following the large widening of the U.S. trade deficit to US \$ 5.9 billion during the first quarter of 1977, which was almost two-thirds of the trade deficit in the entire calendar year 1976, the US dollar depreciated in the range of 2-3½ per cent against the Deutsche mark, the Swiss franc and the Japanese yen over the quarter April-June 1977. In an effort to reduce the uncertainty and instability in the exchange markets, the OECD finance ministers urged on June 24, 1977 that the strong payments surplus countries like West Germany and Japan, allow their currencies to appreciate in response to underlying market forces. This prompted large scale selling of the dollar in the next four weeks. As the US Administration, which favoured an appreciation of the stronger currencies as part of the adjustment process, refrained from intervening in the exchange market, the dollar slumped heavily during July 1977. Thereupon, the Federal Reserve System of the United States intervened actively in the market and also marked up the domestic short-term interest rates. These actions had a sobering effect on the market sentiment, and the dollar looked up modestly vis-a-vis most leading currencies till about September 15. The

release of the US trade statistics for August 1977 which showed a trade deficit of \$ 4.6 billion—the largest for any single month in 1977—prompted renewed selling pressures forcing the dollar to drift downwards. Over the quarter July-September 1977, the US dollar depreciated against the Deutsche mark, the yen, the pound sterling and the Swiss franc by 1.4 per cent, 1.5 per cent, 1.6 per cent and 4.9 per cent, respectively. The pressure on the dollar intensified during the last quarter of 1977, as the monthly trade deficit stubbornly persisted at uncomfortably high levels and the overall current account payments balance for 1977 posted an alarming deficit of some \$ 17 billion to 18 billion. Notwithstanding the large scale intervention by European central banks and the Bank of Japan, the dollar recorded a depreciation over the quarter October-December 1977 of 9.1 per cent, 9.2 per cent, 9.0 per cent and 15.1 per cent against the yen, the Deutsche mark, the pound sterling and the Swiss franc, respectively.

During the quarter January-March 1978 the dollar moved rather irregularly on the exchanges, though the undercurrent remained downward. During January 1978 the dollar firmed up in line with the favourable market reaction to the package of policy measures announced by the US Administration and the Federal Reserve. On December 21, 1977 the US President issued a policy statement expressing concern over the trade and payments situation and the Government's determination to intervene to the extent necessary for counteracting disorderly conditions in exchange markets. This was followed by the official statement on January 4, 1978 which reaffirmed the Administration's determination to actively support the dollar and indicated the resources at its command to this end; these included the Exchange Stabilisation Fund, the existing \$ 20 billion swap arrangements with major central banks and the Bank for International Settlements as also the new special swap line with the Bundesbank. On January 9, 1978, the Federal Reserve raised the discount rate by ½ per cent to 6½ per cent. The markets reacted favourably to these measures and the dollar firmed up during

January 1978 from \$ 2.1 billion in December pressures were renewed because of the widening of the US trade deficit to \$ 2.3 billion in January 1978 from \$ 2.1 billion in December 1977. On March 13, the US Administration once again reiterated its determination to support the dollar through massive intervention, if necessary, and arranged for the purpose (i) a \$ 2 billion increase in the Federal Reserve's swap line with the Bundesbank, and (ii) the sale of US holdings of SDR 600 million to purchase Deutsche marks, and also declared (iii) its willingness to draw on its reserve position in the IMF to acquire additional foreign exchange. These reassurances provided a temporary respite to the dollar, and it resumed its downward slide from about the middle of March. At end-June 1978 the US dollar stood at £ 0.5376, DM 2.0720, SF 1.8503 and Japanese yen 203.63 per US dollar, as against £0.5814, DM 2.3395, SF 2.4637 and Japanese yen 267.69 per US dollar at end-June 1977, recording a depreciation over the year of 24.9 per cent, 23.9 per cent, 11.4 per cent and 7.5 per cent against the Swiss franc, the Japanese yen, the Deutsche mark and the pound sterling respectively.

The *Pound Sterling* which had staged a gradual but continuous recovery from the low of \$ 1.57 towards end-October 1976 to \$ 1.72 by end-April 1977, remained generally listless around this level till about the end of June 1977. Although the UK's monthly trade deficit during April to June 1977 showed an increase, the near-term outlook for the UK payments position remained encouraging, on expectations of larger flow of the North Sea oil and further growth in exports.

An exchange rate for the pound around \$ 1.72 was officially desired for in order to maintain export competitiveness, and the Bank of England intervened repeatedly in the exchange market to arrest the rise in the US dollar value of the pound sterling. But with the erosion in the dollar's value in terms of other leading currencies the trade-weighted exchange rate of sterling also fell. To cover

the ground lost by sterling on the trade-weighted basis the U.K. allowed the pound-dollar rate to rise above \$ 1.72 effective from July 27. The sterling was promptly marked up to U.S. \$ 1.74 on July 29, 1977 and the Bank of England intervened to prevent the rate from hardening further. During August and September, the pound remained close to \$ 1.74. By mid-September several factors had emerged in sterling's favour. As anticipated earlier, the trade balance moved sharply into surplus during August, raising hopes that this north sea oil induced surplus would improve further in ensuing months. There was also a sudden and dramatic swing in the current account payments position from a seasonably adjusted cumulative deficit of £ 796 million in the first half of 1977 to a surplus of £ 399 million in the third quarter of 1977—the first quarterly surplus for five years. With the continuing rise in the U.K.'s official foreign exchange reserves—the increase during October 1977 alone amounted to \$ 3.1 billion—the pound firmed swiftly to \$ 1.8408 by October 31, 1977. The Bank of England then abandoned the policy of stabilising the exchange rate on the trade weighted basis, and allowed the sterling to move more freely. During the first week of November 1977 the pound softened a little, and hovered around \$ 1.82 till the month-end, only to rise sharply in the context of rising pressures on the dollar to \$ 1.9175 on December 30, 1977.

During January and February 1978, the pound held on to the peak level, but drifted down during March to June 1978, following the downward revision of the estimate for North Sea Oil production and the less optimistic trade prospects in the wake of the slow growth in world trade. It declined gradually to US \$ 1.8080 on May 19, but stood slightly higher at US \$ 1.8600 at end-June 1978. Thus over the year ended June 1978 the pound sterling appreciated against the US dollar by 8.2 per cent, but depreciated against the Deutsche mark, the yen and the Swiss franc by 4.2 per cent, 17.7 per cent and 18.8 per cent, respectively.

Supported by the growing trade surplus and in the face of the sinking dollar, the Deutsche mark continued to surge forward till about the end of July 1977 despite periodic heavy intervention by the Bundesbank. The appeal made by the OECD finance ministers late in June 1977 to surplus countries to allow their currencies to appreciate acted as an additional impulse to the firmness of the Deutsche mark during July. During August 1977 the Deutsche mark softened a little, especially against the U.S. dollar, and remained listless during September consequent upon the dip in the trade surplus from DM 2.89 billion in June 1977 to DM 1.76 billion in July 1977. During October to mid-December, the Deutsche mark gained considerably as a result of the large inflow of short-term funds into the Deutsche mark following the renewed weakness of the dollar. On December 14 the Deutsche mark was quoted at \$ 0.4654. In mid-December 1977 the German authorities lowered the discount rate from 3.5 per cent to 3 per cent and reduced the Lombard rate to 3.5 per cent from 4 per cent. Other measures taken by the German authorities at this time were (i) the raising from two to four years of the minimum maturity of domestic securities eligible for purchase by non-residents and (ii) the increase in the reserve ratios of non-resident bank deposits, along with the imposition of an 80 per cent reserve ratio on any increase in such deposits after the end of 1977. The impact of these measures was short-lived and the Deutsche mark moved up again. During the last quarter of 1977, it appreciated by as much as 9.3 per cent against the U.S. dollar and by 0.4 per cent and 0.2 per cent vis-a-vis the pound sterling and the Japanese yen respectively. Of all the measures taken by the German authorities in 1977, the most striking has been the scale of their intervention in the exchange market which included a substantial purchases of the U.S. dollars. The dollar purchases were the main factor in the rise of \$ 5.2 billion in the Bundesbank's reserves during the last quarter of 1977. With the turn of the year, the Deutsche mark continued its upsurge and over the quarter ended-March 1978, it stood appreciated by 6.8 per

cent and 4 per cent against the pound sterling and the U.S. dollar, but was depreciated by 4.2 per cent in terms of the Japanese Yen.

After April 1978, however, there was a reversal of the trend; this was largely due to the narrowing down of the surplus to DM 3.25 billion in April from DM 4.18 billion in March. The unwinding of speculative capital positions taken earlier also affected the Deutsche mark along with a few other currencies in the European snake, but in the case of the Deutsche mark the easing of the currency was aided by the increased outflows of other capital. The currency which reached at D.M. 2.0084 in end-March, came down to D.M. 2.0720 by end-June 1978.

Between end-June 1977 and end-June 1978, the Deutsche mark appreciated by 11.4 per cent against the U.S. dollar and by 4.2 per cent against pound sterling, and depreciated by 17.9 per cent against the Swiss franc and by 14.1 per cent against the Japanese yen.

The *Japanese yen* remained in heavy demand on the foreign exchange markets and made significant gains against all major currencies. The steady advance was the outcome of a sustained stream of impressive trade returns. Under the pressure from the U.S. and other industrialised countries to reduce its staggering current account surplus, Japan allowed the market to decide more or less the true level of its currency until September 1977, the Bank of Japan intervening only to iron out day to day fluctuations. However, when the second and more intense phase of the weakness of the U.S. dollar began towards the end of September 1977, the Japanese authorities stepped up their foreign exchange market interventions and introduced in November 1977, a number of exchange control measures on short-term capital movements aimed at reducing the upward pressures on the yen. The rise of international reserves by \$ 5.0 billion during the quarter October-December 1977 reflects largely the outcome of these interventions. Notwithstanding these measures, the yen continued to move upwards. At end-June 1978, the yen was

quoted at ¥203.63 per U.S. dollar, ¥378.75 per pound sterling and ¥98.28 per Deutschemark as against ¥267.69 per U.S. dollar, ¥460.38 per pound sterling and ¥114.42 per Deutsche mark at end-June 1977 thus recording an appreciation over the year of 23.9 per cent, 17.7 per cent and 14.1 per cent against the U.S. dollar, the pound sterling and the Deutsche mark, respectively. In terms of the Swiss franc, however, the yen depreciated by 1.3 per cent, over the year; at end-June 1978 the yen was quoted at ¥110.07 per Swiss franc.

Gold in International Markets

During the year ended June 1978, gold ruled distinctly buoyant on international markets and the price in the London market advanced with only occasional downward movements, to a new peak of US \$ 190.00 (p.f.o.) on March 8, 1978. The London final fixing for gold at end-June 1978 was at U.S. \$ 183.05 higher by US \$ 40.05 over that of US \$143.00 at end-June 1977. Gold prices in the other international markets moved in tune with those in the London market.

From about the end of March 1977 to end-June 1977, the London gold market turned easy sentiment; the price of gold at the daily final fixing moved down almost uninterruptedly from \$ 153.60 (p.f.o.) on March 25, to \$ 137.10 on June 14, and the monthly average price slipped down from \$ 149.18 in April 1977, to U.S. \$ 140.80 in June 1977. South Africa, the principal supplier to the market, increased its gold sales by 0.55 million ounces or 11 per cent to 5.68 million ounces during this period. The easy sentiment was also aided by the announcement of the U.S. administration that it would reduce the role of gold in the international monetary system which was interpreted to mean that the U. S. administration would resume the sale of gold, and this in turn prompted some liquidation of speculative holdings.

From the middle of June 1977 onwards, the gold price moved continuously upward, with

the monthly average advancing to U.S. \$ 149.43 in September and to \$ 158.86 in October. The final fixing in the London market was \$ 168.15 on November 11. After temporarily coming down to \$ 156.65 on November 22, 1977, the London gold price steadily rose to a new peak of \$ 190.00 on March 8, 1978 and the average price for March touched \$ 183.71. Though there was some increase in industrial demand, it was mainly the broadening of speculative demand that was responsible for the price upsurge. The continued weakness of the U.S. dollar in international currency markets resulted in increased preference of investors for gold in portfolio substitution. This, was a major factor contributing to the bullish tone of the market. Between end-December 1977 to end-March 1978 the U.S. dollar depreciated by 8.1 per cent against Swiss franc, by 4 per cent against D. M., 2.9 per cent against pound sterling and 8.1 per cent against the Japanese yen.

On March 19, 1978, the U.S. Administration reiterated its determination to support the dollar indicating further that it has secured an enhancement by \$ 2 billion of the swap line with Bundesbank and that it would be prepared to draw on its reserve position at the IMF. On April 13, 1978 the U.S. Treasury announced the resumption of gold sales—after a lapse of about three-years—in monthly auctions initially from May 1978 through October 1978. These assurances somewhat eased the pressure on the dollar which tended to look up. In sympathy, the price of gold in the London market was gradually marked down to \$ 168.00 on April 25, and the monthly average price for April to \$ 175.30. Thereafter, with the re-emergence of pressures on the dollar, the price of gold rebounded to \$ 186.35 on June 20, and the monthly average price for June 1978 rose to \$ 183.76 despite the sales by the U.S. treasury and the IMF. The U.S. Government sold about 0.3 million ounces each at the two auctions held in May and June 1978; the average sale price worked out to \$ 180.38 in May and \$ 186.91 in June.

APPENDIX—I

IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS APRIL 1977-MARCH 1978

A. CHANGES IN EXPORT CONTROL

Sr. No.	Item	Month of Announcement	Details
1		2	3
1.	Aluminium wrought and circles	June, August, September, November 1977	Export of aluminium semis and aluminium alloy semis in the form of rolled products (sheets, plates etc. other than circles), extrusions (tubes, pipes, sections, rods other than EC grade wire rods/alloy rods) and foils would be allowed freely. Export of aluminium circles other than the banned category <i>i.e.</i> 18 to 24 gauges (0.56 mm. to 1.22 mm. thickness) used for manufacture of utensils would be allowed freely.
2.	Barley malt	May 1977	During April 1977-March 1978, export of barley malt would be allowed within a limited ceiling.
3.	Bauxite	April 1977	For the licensing year 1977-78, the policy for the export of bauxite by all categories of exporters (other than MMTC) would be as follows: Export of bauxite (i) with alumina content less than 40% and (ii) 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 5 years from the date of announcement. Export of bauxite with alumina content above 50% and 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.
4.	Beef and meat	August, September 1977	Export of beef (meat of Indian buffaloes) would be subject to a minimum export price of Rs. 7.50 per kg. f.o.b. and would be allowed on production of a certificate from the Director of Veterinary Service of the State to the effect that the consignment export is of buffalo meat only. Export of meat of sheep and goat would be subject to a price of Rs. 12.50 per kg. f.o.b. The contracts registered already, would be allowed without insisting on minimum price.
5.	Bones and bone grist	April, July, October 1977, January 1978	In October 1977, export of crushed bones was brought under control which was until then freely allowed. Export would be permitted within a limited ceiling on first-come, first-served basis by all categories of exporters against firm sale contracts. Export of bone grist continues to be outside the purview of Export Control Order.
6.	Buffaloes	April, September, December 1977, March 1978	During the licensing year 1977-78, export of live buffaloes would be allowed within a limited ceiling on first-come, first-served basis and would be subject to a minimum export price of Rs. 3.50 f.o.b. per kg. of live-weight. The export would be permitted on production of veterinary health certificate from the Director of Animal Husbandry of the State concerned to the effect that the buffaloes tendered for export were either female buffaloes (only culls) or male buffaloes not used for breeding and draught. All categories of exporters including public sector undertakings etc. would be allowed to export buffaloes.
7.	Calcium carbide	March 1978	With effect from March 1978, export of calcium carbide will be allowed "on merit". However, commitments entered into prior to the date of issue of Notification will be allowed on production of (i) shipping bills, (ii) irrevocable letters of credit, and (iii) telegraphic offer and acceptance bearing postal stamp of a date prior to the date of Notification.

Sr. No.	Item	Month of Announcement	Details
1		2	3
8.	Castor oil	May 1977	The ban on export of castor oil was withdrawn in May 1977 and exports allowed through the State Trading Corporation.
9.	Cedar wood oil	August 1977	The ban on export of cedar wood oil of Non-ISI specification was removed in August 1977.
10.	Chemicals	May, December 1977, January, February, March 1978	The export of P.V.C. resin was banned in May 1977, while that of benzene, phenol, toluene was banned in December 1977. In January 1978, curb on export of the following 8 items was withdrawn: butyl alcohol, butyl acetate, trichloro ethylene, perchloro ethylene, tetrachloro ethane, rubber chemicals, acetic acid and soda ash. Export of monochloro acetic acid and pyrophyllite would be allowed within a limited ceiling on first-come, first-served basis.
11.	Chicory roots	May 1977	In May 1977 export of chicory roots was decontrolled.
12.	Clinker	December 1977, January 1978	Export of clinker (semi-finished form of cement) was brought under control. Export will be allowed on production of a no objection certificate issued by the Cement Controller, for the quantity specified therein.
13.	Coal and coke	July 1977	It was decided that allocations for export of non-coking coal and coke would be made by Coal India Ltd., while that of coking coal would continue to be made at Calcutta by the Coal Commissioner, and at Shillong by the Regional Coal Commissioner.
14.	Cotton, wool and man-made fibre textiles— Exports to USA and EEC member states	February, March 1978	The Scheme for export of textiles made from cotton, wool and man-made fibre (excluding jute, silk and flax) to USA and EEC Member States (viz. West Germany, France, Italy, Benelux, U.K., Irish Republic and Denmark) was announced in February 1978. For the purpose of quota allotment, the shipment period would be divided into 2 six-monthly periods, i.e. from January to June and July to December. 60% of the quota will be allocated during the first six months and 40% of the quota during the next six months. For fabrics and made-up articles, 75% of the quota would be allocated on high price basis and 25% on first-come, first-served basis. For knitwear, hosiery and readymade garments, the quota allotment would be in equal proportions. Quota allotting authority would be TEXPROCIL and would be allotted to the shippers registered with TEXPROCIL, Handloom Export Promotion Council, Silk and Rayon Export Promotion Council, Wool and Woollen Export Promotion Council and Readymade Garments Panel of the TEXPROCIL. Exports to EEC and USA would be subject to quantitative restraints under Indo-EEC Textile Agreement and Indo-US Textile Agreement respectively. In respect of items which are Indian traditional folklore textile products, certificate from All India Handicrafts Board or the Textile Committee would be necessary. The USA Textile Licensing Advisory Committee and the EEC including UK Licensing Advisory Committee would be responsible for the administration and supervision of the Scheme.
15.	Cotton waste and yellow pickings	August 1977	The ban on export of soft cotton waste and yellow pickings would be continued.
16.	Cotton yarn	August, September, October, November, December 1977, January, 1978.	Export of cotton yarn of all types and counts of 6s and above as well as tyre cord yarn would be allowed to all destinations up to 31st December, 1978 within a limited ceiling. However, exports of cotton yarn of all types in counts of 5s and below excluding tyre cord yarn would not be allowed. It was decided in December 1977 that cotton sewing thread of 2-ply and over with 'Z' or 'S' twist and packed in tubes, spools (reels), card balls and skeins upto 1000 mts. and packed in cones upto 12000 mts. in length net weight not exceeding 400 gms. per cone irrespective of count and embroidery thread of 2-ply and over with 'Z' or 'S' twist and packed in tubes, spools (reels), card balls and skeins, net weight of each of these not exceeding 50 gms. irrespective of count would be allowed to be exported.

Sr. No.	Item	Month of Announcement	Details
1		2	3
17.	De-oiled groundnut cake (extractions)	June, December 1977	During 1977, export of de-oiled groundnut cake (extractions) was allowed within a limited ceiling through the Groundnut Extractions Export Development Association and the same policy would be continued during 1978.
18.	De-oiled rice bran	April 1977	During April 1977-March 1978, export of de-oiled rice bran would continue to be canalised through the Solvent Extractors Association of India.
19.	Eggs	August 1977	With effect from August 20, 1977 export of eggs was brought under control allowing for exports at a minimum export price of Rs. 40 f.o.b. per 100.
20.	Ethyl alcohol	February 1978	Export of ethyl alcohol or rectified spirit of any proof or degree, whether denatured or not would be banned till November 30, 1978.
21.	Fertilisers	May, July 1977 February, March 1978	Export of bone meal, fish meal with more than 60% protein content and cattle dung would be allowed within a limited ceiling on first-come, first-served basis. Export of cattle dung would be subject to a minimum export price of Rs. 500 f.o.b. per tonne.
22.	Ginger	August 1977	Export of ginger would be allowed freely to all destinations against irrevocable letter of credit covering 100% f.o.b. value or against advance payment.
23.	Guar meal	July, December 1977, January 1978	Export of guar meal would be allowed only by manufacturer-exporters of guar gum.
24.	Gur	February, March 1978	In February 1978, the condition of minimum export price was withdrawn and gur was allowed to be exported within a limited ceiling against 100% irrevocable letter of credit or advance payment in full. In March 1978, quantitative restrictions and condition of 100% confirmed letter of credit/advance payment in full were removed. During the period ending March 31, 1978, export of gur would be allowed freely on presentation of shipping bills.
25.	Handkerchiefs	October, November 1977	Export of real Madras handkerchiefs to Cotonou, Lome and Accra (Ghana) would be allowed under irrevocable letter of credit terms. This restriction would not apply to contracts entered into before November 1977 and registered with Handloom Export Promotion Council.
26.	Hides and skins—raw	March 1978	The ban on export of raw hides and skins of all types (except lamb fur skins, raw and pickled and stray dog skins as certified by a Municipal Committee) was continued.
27.	Hides and skins—semi-processed	April 1977	For the licensing period 1977-78, quotas for export of semi-processed hides and skins including crust leather and ready-to-finish leather, would be released in accordance with the following conditions:—(i) the quotas allotted to each of the exporters of semi-tanned goat and sheep skins of both E1 and wet blue varieties during 1976-77 would be reduced by 15%, (ii) quotas to exporters of buffalo hide, buffalo calf skins, cow hide and cow calf skin of E1 and wet blue varieties during 1976-77 would be reduced by 10%. These reductions would not apply to small tanners whose exports did not exceed the following prescribed limits: 7,500 buffalo calf skins, 7,500 cow calf skins, 5,000 cow hides, 5,000 buffalo hides, 25,000 sheep skin, and 25,000 goat skins. There would be no reduction in the quota with the STC in respect of non-exporting tanners and job-tanners.
28.	Human skeletons	May, July 1977	Export of human skeletons would be allowed "on merits" subject to production of certificates from the foreign buyers that they are required for biological and medical purposes only.

Sr. No.	Item	Month of Announcement	Details
1		2	3
29.	Iron and steel	June, August, October, November, December 1977, March 1978	Export of all fabricated engineering steel items such as steel pipes and tubes, wire ropes, ferrous castings, forgings, wire products (like bolts, nuts), stranded wire, stainless steel castings, bright steel bars and shaftings and bead wires (other than tyre bead wires) would be outside the purview of the Export (Control) Order 1977 and would be exported without any licensing formalities. Export of tyre bead wires would be canalised through SAIL International Ltd. In August 1977, it was decided to decanalise the export of tyre bead wire along with MS Wires (coated/uncoated), wires of medium/high carbon (excluding spring steel wire) and ERW Pipes (API and commercial qualities in sizes 8.58" to 16" O.D.) and exports would be allowed freely. From November 1977, rails, pressed steel sleepers, fish plates, rolled bearing plate bars, railway wheels, axles, tyres and complete wheel sets would be exported through SAIL International Ltd. For 1977-78, the export policy for other items of iron and steel, ferro alloys and ferrous scrap would be as stated in Annexure to Public Notice No. 15.
30.	Kardi seed and kardi oil	May, June 1977	In May 1977 Export of Kardi seed and Kardi oil was banned.
31.	Kyanite	May 1977	The policy for export of Kyanite (including calcined kyanite) announced in May 1977 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 within a limited ceiling on the basis of certificates from Indian Bureau of Mines.
32.	Lametta, silver zari and silver zari goods	August 1977	Export of lametta (alias badla), silver zari and silver zari goods containing more than 50% silver content was brought under control. The price should be adequate to cover basic price of silver bullion, manufacturing charges and reasonable profit so as to prevent the export of silver bullion in the guise of silver zari or lametta. Export on consignment basis would not be allowed.
33.	Marine products	July, August, September, October, December 1977, January 1978	With effect from July 15, 1977, export of frozen lobstertails, crabs, frogs and frog legs which are processed for export in units which are engaged essentially for processing marine products for the purposes of exports and other marine products would be allowed on the basis of firm orders/contracts with pre-fixed prices and on outright sale basis. It was announced in September 1977 that export of (i) dried, salted and unsalted Bombay duck (excluding filleted and processed) and (ii) fresh and frozen pomfret would be allowed within a limited ceiling on first-come, first-served basis. Export of fresh and frozen prawns and filleted and processed Bombay duck would be allowed on following terms: (i) first-come, first-served basis, (ii) firm orders/contracts, (iii) pre-fixed prices, and (iv) out-right sale basis.
34.	Milk	November 1977	Export of milk, powder milk (skimmed or full cream), baby milk and sterilised liquid milk was banned with effect from November 3, 1977.
35.	Mushrooms	December 1977	Export of fresh mushrooms would be permitted against 100% irrevocable letter of credit or advance payment in full. Export of dry mushrooms would be allowed to all permissible destinations except to countries having common land frontiers with India.
36.	Mustard seed/rape seed/mustard oil	February 1978	During the licensing year 1977-78, mustard seed/rape seed and mustard oil would be released within a limited ceiling for personal consumption and not for commercial sale. Export should be genuine and for small quantity.

Sr. No.	Item	Month of Announcement	Details
1	2	3	
37.	Mules and camels	November 1977	Export of camels would be allowed "on merits", while export of mules would continue to be allowed "on merits".
38.	Niger seed and niger seed oil	May, June 1977	With effect from May 13, 1977, a ban was imposed on export of niger seed and niger seed oil. However, it would not affect pre-ban commitments.
39.	Nux vomica seeds and bark	April 1977	During 1977-78, the policy of the earlier year was continued for export of nux vomica seeds and bark. Exports 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) a 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.
40.	Onions	April 1977	Export of onions would continue to be canalised through the National Agricultural Co-operative Marketing Federation of India Ltd.
41.	Pearl barley	June, August 1977	Export of pearl barley would be allowed within a limited ceiling on first-come, first-served basis by all categories of exporters to all permissible destinations on production of a firm sale contract/cable offer and acceptance.
42.	Potato/Potato seeds	April, May 1977, January 1978	Export of potatoes would continue to be canalised through the National Agricultural Co-operative Marketing Federation of India Ltd. For the licensing period ending March 1978, export of potato seeds of 'kufri sindhuri', '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 for each consignment. It has also been decided to permit export of 'kufri chandramukhi' and 'kufri jyoti' variety of potato seeds to Nepal. Export of other varieties of potato seeds would not be allowed.
43.	Pulses	August 1977	A ban on export of processed pulses was imposed with effect from August 18, 1977.
44.	Pure milk ghee	April, May 1977 February 1978	Export of pure milk ghee would be allowed within a limited ceiling. In February 1978, it was decided to release a limited ceiling for export per month regularly. This ceiling will be regulated on 'first-come, first served' basis. The export would be permitted on production of (i) cable offer/acceptance, (ii) shipping bill and (iii) 100% irrevocable letter of credit or advance payment in full.
45.	Quinine, quinine products and cinchona alkaloids	August 1977	It was announced that export of quinine, quinine products and cinchona alkaloids would be allowed on production of a no objection certificate from the Director, Cinchona Dept., West Bengal/Tamil Nadu and of quinidine sulphate from the Drug Controller of India.
46.	Rice	February 1978	Export of basmati rice would be allowed in the following forms:— (i) polished rice, (ii) dehusked unpolished rice, and (iii) paddy rice.
47.	Rosewood	December 1977	Export of rosewood in log and sawn form is to be reduced in phased manner and by 1980-81 no export would be allowed.

Sr. No.	Item	Month of Announcement	Details
1	2	3	
48.	Salt	October, December 1977	With effect from September 29, 1977, export of salt (all sorts) was banned. However, a limited quantity of salt would be permitted against outstanding contracts to be exported to Bangladesh, Nepal and Bhutan, provided, (i) the contracts were registered and approved by S.T.C. on or before September 2, 1977, (ii) the chartering of the vessels was done on or before September 2, 1977, and (iii) the vessels so chartered should arrive at Indian Ports on or before December 31, 1977.
49.	Samo seeds and kodari seeds	April 1977	During the licensing period April 1977-March 1978, export of samo seeds and kodari seeds would be allowed within a limited ceiling on first-come, first-served basis.
50.	Sesame seeds oil	April 1977	A ban was imposed on export of sesame seeds/oil with effect from April 21, 1977.
51.	Sheep and goats	April 1977	Export of live sheep and goat would be allowed within a limited ceiling on first-come, first-served basis by all categories of exporters to all permissible destinations. In case of sheep only wethers (i.e. castrated male) and culled female stock would be permitted. Sheep procured from temperate zone of J & K/H.P./Hill areas of U.P./Arunachal Pradesh/Bannur and Madhya of Karnataka would not be allowed for export. In case of goats, 3 milch breeds, viz., Jamnapari, Beetal and Barbari and one mutton type, viz., Black Bengal would not be permitted for exports. A minimum export price was fixed at Rs. 6/- per kg. f.o.b. of live weight.
52.	Silk waste	April 1977	Non-mulberry silk waste (tasar, eri and muga) and mulberry pierced cocoons would not be allowed for export. Export of throwster silk waste would be linked with supplies to the registered indigenous manufacturers of throwster waste yarn in the ratio of 1:1 and certificate in respect of such supplies would be issued by the Central Silk Board, Bombay. Under the linking arrangement of supplies of mulberry silk waste of South Indian origin to the three Government spun silk mills at Assam, Bihar and Mysore the following ratios would be adopted for the year 1977-78:—(a) 1:1 in respect of mulberry silk waste other than processed silk waste, (b) 100:15 in respect of processed silk waste. Export would be allowed only from Madras port. Export of hand silk waste of South Indian origin would be allowed on production of (i) a certificate from Government spun silk mills that material intended for export is hand silk waste, and (ii) pre-shipment inspection certificate by the Central Silk Board. The following varieties would be permitted for export on pre-shipment inspection certificate by the Central Silk Board: boiled cocoons, basin refuse, fluff/floss, flimsy cocoons, noils and noil droppings.
53.	Sillimanite	May 1977	Export of sillimanite in granular form would be allowed within a limited ceiling by M/s. Indian Rare Earths Ltd., and M/s. Kerala Minerals and Metals Ltd., on the recommendations of the Department of Atomic Energy. However, export of khasi sillimanite would be banned.
54.	Spices	January, February 1978	It was decided to allow export of cardamoms, small and large and ban export of cummin seed and turmeric. Pre-ban commitments backed by irrevocable letter of credit or advance payment would be honoured. Export of 'alleppey finger' turmeric would be allowed within a limited ceiling.
55.	Tent/tent cloth	June 1977	Export of tent/tent cloth would be permitted "on merits" to all permissible destinations except to countries having a common land frontier with India.

Sr. No.	Item	Month of Announcement	Details
1		2	3
56.	Tobacco	February 1978	Export of flue-cured virginia, sun-cured virginia, sun-cured 'Natu' (Country) and sun-cured jutti tobacco would be subject to the minimum f.o.b. prices set down in the Annexure.
57.	Vanaspati ghee	March 1978	During October 1977-September 1978, export of vanaspati ghee (hydrogenated vegetable oil) would be allowed within a limited ceiling on first-come, first-served basis.
58.	Vegetables	July and September 1977, January 1978	Export of fresh vegetables other than onions and potatoes was banned with effect from July 19, 1977. It would not apply to frozen vegetables of fresh fruits (including sour lime) or pre-ban contracts against 100% irrevocable letter of credit or advance payment.
59.	Waste paper	December 1977	Waste paper (excluding waste newspaper) would not be allowed for export.
60.	Wheat seeds	August 1977	It was announced that export of wheat seeds would be banned with effect from August 20, 1977.
61.	Wollastonite	May 1977	During 1977-78, export of wollastonite would be licensed freely.
62.	Woollen carpets	January 1978	Export of hand-woven woollen carpets and rugs would be allowed to all destinations except to countries having common land frontiers with India and should be on out-right sale basis. The floor price prescribed would be as follows:—(i) in case of hand woven woollen carpets of Persian and Mobarik designs upto 32,000 knots per sq. metre—Rs. 85/- per sq. metre f.o.b., (ii) in case of hand woven woollen carpets and rugs except of Persian and Mobarik designs—Rs. 50/- per sq. metre f.o.b., and (iii) all other types of carpets and rugs—Rs. 65/- per sq. metre f.o.b. Export of carpets and rugs manufactured in Eluru would be permitted on production of a certificate to that effect from the Regional Office of All India Handicrafts Board.

B—COMMODITIES SUBJECT TO EXPORT DUTY DURING 1977-78*

Sr. No.	Item	Rate of Duty as on March 31, 1978	Changes during the year		Effective Date
			From	To	
1		2	3	4	5
1. Coffee		Rs. 5 per Kg.	Rs. 13 per Kg. Rs. 22 per Kg. Rs. 16 per Kg. Rs. 11 per Kg. Rs. 13 per Kg. Rs. 13 per Kg. Rs. 7 per Kg.	Rs. 22 per Kg. Rs. 16 per Kg. Rs. 11 per Kg. Rs. 13 per Kg. Rs. 7 per Kg. Rs. 5 per Kg.	April 26, 1977 May 19, 1977 June 25, 1977 September 13, 1977 October 17, 1977 March 16, 1978
2. Tea		Rs. 5 per Kg.	Nil	Rs. 5 per Kg.	April 9, 1977
3. Cardamom		Rs. 10 per Kg.	No change		February 24, 1977
4. Black pepper (excluding light and pinhead black pepper)		Rs. 1.25 per Kg.	No change		June 6, 1966
5. Tobacco unmanufactured		20 per cent <i>ad valorem</i> or 75 paise per kg. which ever is less.	No change		June 6, 1966
6. Raw cotton**		Rs. 1000 per tonne	No change		October 14, 1966
(i) Assam/Commilla Cotton, yellow pickings+ and Zoda Cotton pickings and sweepings		Rs. 550 per tonne			
(ii) Bengal Deshi		Rs. 700 per tonne			
(iii) Cotton linters		25 per cent <i>ad valorem</i>			
7. Cotton waste					
(i) Cotton waste (soft)		25 per cent <i>ad valorem</i>	No change		August 17, 1966
(ii) Cotton waste (hard)		40 per cent <i>ad valorem</i>	No change		June 15, 1966
8. Mica					
(i) Mica loose splittings of grade numbers 5½ and 6 and mica mixed torn loose grade numbers 5 and 5½		15 per cent <i>ad valorem</i>	No change		January 1, 1973
(ii) Mica splittings of all grades other than those specified against Sr. No. (i) above		20 per cent <i>ad valorem</i>	No change		January 1, 1973
(iii) Mica blocks and condenser films of all grade number 2 and grades superior thereto		30 per cent <i>ad valorem</i>	No change		April 28, 1973
(iv) Mica blocks and condenser films of all grades other than those specified against Sr. No. (iii) above		20 per cent <i>ad valorem</i>	No change		April 28, 1973
(v) Fabricated mica		10 per cent <i>ad valorem</i>	No change		May 1, 1972
9. Hides and skins and leather, tanned and untanned all varieties excluding leather manufactures. All varieties (excluding (a) finished leather of goat, sheep and bovine animals and of their young ones, (b) tanned hides of bovine animals but excluding calf skin)		25 per cent <i>ad valorem</i>	No change		May 1, 1976
10. Groundnuts					
(i) Groundnuts in kernel		Rs. 1500 per tonne	No change		November 13, 1976
(ii) Groundnuts in shell		Rs. 1125 per tonne	No change		November 13, 1976
11. Oilcakes					
(i) De-oiled groundnut oilcake		Rs. 125 per tonne	No change		June 6, 1966
(ii) De-oiled groundnut meals (Solvent extracted variety containing less than one per cent oil)		Rs. 125 per tonne	No change		June 6, 1966

Sr. No.	Item	Rate of Duty as on March 31, 1978	Changes during the year		Effective Date
			From	To	
	1	2	3	4	5
12.	Manganese ore				
	(i) Manganese ore having less than 10 per cent of manganese content	Rs. 7 per tonne	No change		July 24, 1967
	(ii) Manganese ore having 10 per cent or more but not more than 48 per cent of manganese content	Rs. 12.50 per tonne	No change		May 26, 1967
	(iii) Manganese ore having more than 48 per cent of manganese content	Rs. 20 per tonne	No change		August 2, 1966
13.	Manganese dioxide	20 per cent <i>ad valorem</i>	No change		August 2, 1966
14.	Iron ore				
	(a) Lumpy iron ore				
	(i) Lumpy iron ore having manganese content less than 10 per cent and combined manganese and iron content less than 3 per cent (commonly known as Black Iron Ore)	Rs. 7 per tonne	No change		May 28, 1973
	(ii) Lumpy iron ore having 60 per cent or more but less than 63 per cent of iron content	Rs. 6 per tonne	No change		August 31, 1968
	(iii) Lumpy iron ore having 58 per cent or more but less than 60 per cent of iron content	Rs. 5 per tonne			
	(iv) Lumpy iron ore having less than 58 per cent of iron content	Rs. 4 per tonne			
	(b) Iron ore fines (including blue dust)				
	(i) Iron ore fines (including blue dust) where the iron content is less than 62 per cent	Rs. 3 per tonne	No change		July 24, 1967
	(ii) Iron ore fines where the iron content is 62 per cent or more	Rs. 4 per tonne	No change		May 25, 1967
15.	Sillimanite	20 per cent <i>ad valorem</i>	No change		August 2, 1966
16.	Steatite (talc)	20 per cent <i>ad valorem</i>	No change		August 2, 1966
17.	Kyanite	Rs. 40 per tonne	No change		August 2, 1966
18.	Chrome concentrates	Rs. 15 per tonne	No change		August 2, 1966
19.	Chromite@@				
	(i) High grade fines and concentrates with CR 203 content 47 per cent and above	Rs. 200 per tonne	Nil	Rs. 200 per tonne	May 12, 1977
	(ii) Medium-grade fines and concentrates with CR 203 content 35 per cent and above but below 47 per cent	Rs. 150 per tonne	Nil	Rs. 150 per tonne	
	(iii) Lumpy ore with CR 203 content 35 per cent and above but below 42 per cent	Rs. 75 per tonne	Nil	Rs. 75 per tonne	
	(iv) Low-grade lumpy ore or fines or concentrates with CR 203 content below 35 per cent and FEO content above 23 per cent	Rs. 50 per tonne	Nil	Rs. 50 per tonne	

* Relates to the period April 1977 to March 1978.

** Export duty on raw cotton of staple length 24.5 millimetres and above was abolished with effect from May 15, 1975.

+ Export of yellow pickings was banned with effect from July 13, 1976.

@ Tea bags containing not more than 2.5 grams, tea packets in containers with not more than 1 kilogram and instant tea are exempted; export duty was reduced to Rs. 2 per kg. with effect from September 7, 1978.

@@ Chromite concentrates produced by beneficiation of low-grade chromite ore, has been exempted from new duty to encourage export of very low-grade chromite in the form of concentrates produced through this process.

£ Export duty on Coffee was reduced from Rs. 5 per kg. to Rs. 2 per kg. with effect from July 31, 1978; however, the duty was raised to Rs. 4 per kg. with effect from September 7, 1978.

APPENDIX II

A.—IMPORTANT ANNOUNCEMENTS IN REGARD TO IMPORT CONTROL POLICY, APRIL 1977 – MARCH 1978

Item	Month of Announcement	Details
1	2	3
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 KFTS 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, cinnamon and cloves	June 1977	Licences for import of dates, dry fruits, nutmegs/mace, cinnamon 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 September 30, 1977, with one month grace period.
Open General Licence No. CXV	July 1977	With effect from July 11, 1977 all imports of educational, scientific and technical journals, news-magazines and newspapers devoted to scientific and technological matters would be allowed from any country in the world except the Union of South Africa/South West Africa, Rhodesia and Tibet Region of China provided such goods were shipped on through consignments to India on or before 31st March 1978 without any grace period.
Coconut oil	July 1977	It was decided not to issue licences for import of coconut oil under free licensing scheme. Therefore, licences issued with general description for 'edible oils' were not valid for import of coconut oil. Import of coconut oil of white variety which conformed to the Prevention of Food Adulteration Rules, was allowed against the licences specifically endorsed permitting import of coconut oil. This, however, would not apply in cases where shipments had already been made or irrevocable letters of credit had been opened on or before the date of issue of this notice.
Viscose/Filament yarn	July 1977	Import of Viscose/Filament Yarn was allowed on free licensing basis to Actual users engaged in the textile industry and holding industrial licence/registration certificate and also to all art-silk units registered with Textile Commissioner, Bombay including co-operative societies. Import licence was issued for the value applied for on the condition that the imported goods would be used only in the licensee's own unit of production. Licences issued were valid for a period of six months from the date of issue and no grace period for shipment of goods was allowed.

Item	Month of Announcement	Details										
1	2	3										
Prototypes, office equipment and consumables for office equipment for units in Kandla Free Trade Zone and Santacruz Electronic Export Processing Zone	August 1977	General permission was given for import of prototypes, office equipment and consumables for office equipment from any country into Kandla Free Trade Zone, Gandhidham and Santacruz Electronics Export Processing Zone, Bombay. The import would be for the actual users and exclusively for export production. The importer was required to maintain a proper account of import, consumption and utilisation of imported materials and of exports made by him in the prescribed form.										
Stallions and broodmares	August 1977	With a view to encouraging the saddle horse breeders to enter export trade, the Government decided that requests for import of stallions and broodmares by bonafide breeders under export-oriented schemes would be considered on merits. Applications from horse breeders for this purpose were to be made to the CCI & E, New Delhi. Import licences, whenever granted under this scheme, would be subject to the conditions (a) that the importer would export horses/mares in value equal to three times the value of the import licence during a period of three years, and (b) that such exports would commence from the 6th year after the issue of the import licence, excluding the year in which it was issued. The annual export obligation would be equal to the value of the import licence. The importer would be required to execute a bond, backed by a revolving bank guarantee, of value equal to 25% of the value of the import licence, before actual imports were arranged.										
Nylon filament yarn	August 1977	The import of first quality base-flat nylon filament yarn which was, hitherto allowed through STC would now be allowed to certain categories of actual users engaged in the textile industry. Actual users holding an industrial licence would submit their applications to the Regional Licensing Authority. Imported goods were to be used only on the licensee's own unit of production. Licences issued would be valid for three months from the date of issue.										
Dates from Iraq	October 1977	Import of dates from Iraq, would be allowed to established importers having past imports of dates from that country by Sailing Vessels/Steamers etc. within the prescribed basic years, on the following basis: <table><tr><th>Scale of past imports</th><th>Quota</th></tr><tr><td>(i) Upto Rs. 1.5 lakhs</td><td>100% subject to a minimum of Rs. 17,000/-</td></tr><tr><td>(ii) Between Rs. 1,50,001/- and Rs. 5 lakhs</td><td>95% subject to a minimum of Rs. 1.5 lakhs</td></tr><tr><td>(iii) Between Rs. 5,00,001/- and Rs. 15 lakhs</td><td>60% subject to a minimum of Rs. 4.75 lakhs</td></tr><tr><td>(iv) Above Rs. 15 lakhs</td><td>50% subject to a minimum of Rs. 9 lakhs</td></tr></table>	Scale of past imports	Quota	(i) Upto Rs. 1.5 lakhs	100% subject to a minimum of Rs. 17,000/-	(ii) Between Rs. 1,50,001/- and Rs. 5 lakhs	95% subject to a minimum of Rs. 1.5 lakhs	(iii) Between Rs. 5,00,001/- and Rs. 15 lakhs	60% subject to a minimum of Rs. 4.75 lakhs	(iv) Above Rs. 15 lakhs	50% subject to a minimum of Rs. 9 lakhs
Scale of past imports	Quota											
(i) Upto Rs. 1.5 lakhs	100% subject to a minimum of Rs. 17,000/-											
(ii) Between Rs. 1,50,001/- and Rs. 5 lakhs	95% subject to a minimum of Rs. 1.5 lakhs											
(iii) Between Rs. 5,00,001/- and Rs. 15 lakhs	60% subject to a minimum of Rs. 4.75 lakhs											
(iv) Above Rs. 15 lakhs	50% subject to a minimum of Rs. 9 lakhs											
Raw materials/components for Kudremukh Iron Ore Co. Ltd.	October 1977	It was decided to grant import licences/release orders for raw materials and components required by indigenous producers for the manufacture of equipment and machinery to be supplied by them to M/s. Kudremukh Iron Ore Company Limited. These licences/release orders would be issued in consultation with the technical authorities concerned and would be treated as an addition to the normal Actual user entitlement of the applicant.										
Diesel generating sets	November 1977	Actual users were permitted to import diesel generating sets of more than 625 KVA to avert interruption in production due to power cuts.										
Dates from Oman (Muscat)	November 1977	It was decided to grant licences for import of dates to established importers having past imports of dates from Oman (Muscat),										

Item	Month of Announcement	Details										
1	2	3										
		on annual basis, during 1977-78 licensing period on the following basis:										
		<table><tr><th>Scale of past imports</th><th>Quota</th></tr><tr><td>(i) Upto Rs. 12,500/-</td><td>Minimum value licence of Rs. 12,500/- each</td></tr><tr><td>(ii) Between Rs. 12,501 and Rs. 1.5 lakhs</td><td>50% subject to a minimum of Rs. 12,500/-</td></tr><tr><td>(iii) Between Rs. 1,50,001/- and Rs. 5 lakhs</td><td>45% subject to a minimum of Rs. 75,000/-</td></tr><tr><td>(iv) Above Rs. 5 lakhs</td><td>40% subject to a minimum of Rs. 2,25,000/-</td></tr></table>	Scale of past imports	Quota	(i) Upto Rs. 12,500/-	Minimum value licence of Rs. 12,500/- each	(ii) Between Rs. 12,501 and Rs. 1.5 lakhs	50% subject to a minimum of Rs. 12,500/-	(iii) Between Rs. 1,50,001/- and Rs. 5 lakhs	45% subject to a minimum of Rs. 75,000/-	(iv) Above Rs. 5 lakhs	40% subject to a minimum of Rs. 2,25,000/-
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(iv) Above Rs. 5 lakhs	40% subject to a minimum of Rs. 2,25,000/-											
Newspapers	December 1977	General permission was given to import into India from any country in the world except the Union of South Africa/South West Africa, Rhodesia and Tibet Region of China, newspapers of all categories provided such goods were shipped on through consignments to India on or before the 31st March 1978 without any grace period.										
Nylon filament yarn	December 1977	It was decided to grant licences for import of first quality base flat nylon filament yarn with a validity period of six months instead of three months from the date of issue.										
Dates and dry fruits	January 1978	Import policy for April 1977 to March 1978 regarding dry fruits and dates under the free licensing scheme was revised. The maximum limit for import licences was raised from Rs. 10,000 to Rs. 50,000. Importers who had already obtained and utilised the licence for import of dry fruits and dates upto a maximum value of Rs. 10,000/- were eligible for the issue of supplementary licences upto the balance value of Rs. 40,000/-.										
Open General Licence No. CXVII	January 1978	General permission was granted for import of cloves, nutmegs/ mace and cinnamon/cassia from any country in the world, except the Union of South Africa/South West Africa, Rhodesia and Tibet Region of China.										
Fruits, dried, salted or preserved all sorts (excluding dates), dates, medicinal herbs, asafoetida and miscellaneous items from Iran	January 1978	It was decided to grant licences during November 1977 to October 1978 to the established importers having past imports of dry-fruits, dates, medicinal herbs, asafoetida etc. from Iran. The minimum value for dry fruits was Rs. 8,500 and for dates, asafoetida, gums and resins licensable on quota percentage basis would be Rs. 1,000/- for the year.										
Ball, roller and needle roller bearings	January 1978	It was decided to grant quota licences to established importers for import of permissible types of ball, roller and needle roller bearings to meet their requirements for servicing purposes.										
Safflower (Kardi) seed and oil	February 1978	It was decided to allow import of safflower oil and Safflower (Kardi) seed for refining, blending and for direct human consumption.										
Open General Licence CXVIII	February 1978	Imports of teaching aids such as microfilms and microfiches of educational nature, records for learning of languages and pre-recorded cassettes of educational nature, with or without film strips were allowed under Open General Licence by the recognised educational, scientific, technical and research institutions.										
Spare parts	February 1978	It was decided to issue licences to import non-permissible spare parts on the basis of $\frac{1}{4}$ % of the purchase price of indigenous machinery having imported components. The licence would be issued only for spare parts required for maintenance of machine installed or used in the licence holder's factory, including spare parts of ancillary equipment, control and laboratory equipment and safety appliances.										
Cartographic items	March 1978	In order to ensure better quality in the maps, charts and atlases printed in the country, it was decided to grant licences upto the value of Rs. 9,000 to each publisher to import cartographic items.										

B. CHANGES IN IMPORT DUTIES

Item	Month of Announcement	Details
1	2	3
Union budget for 1978-79	March 1978	Changes in import duties in the Central Government budget for 1978-79:— (a) increase in the import duty (basic plus auxiliary) on polyesters filament yarn from 120 per cent <i>ad valorem</i> to 200 per cent <i>ad valorem</i>, (b) reduction in the import duty (basic and auxiliary) on: (i) certain items of machinery for leather and garment industry, (ii) certain items of machinery for oil exploration, and (iii) certain machine tools, testing machines and instruments, (c) reduction in the import duty (basic, auxiliary and additional) on condenser tissue paper and electrical insulation paper from 186 per cent <i>ad valorem</i> to 75 per cent <i>ad valorem</i>, (d) reduction in the import duty (basic, auxiliary and additional) on polypropylene film for the manufacture of electrical capacitors from 230 per cent <i>ad valorem</i> to 75 per cent <i>ad valorem</i>, (e) reduction in the import duty on certain electronic components from varying rates to 45 per cent <i>ad valorem</i>, (f) reduction in the import duty (basic plus auxiliary) on certain cinematographic laboratory equipments from 120 per cent <i>ad valorem</i> to 40 per cent <i>ad valorem</i>, (g) reduction in the additional (countervailing) duty on exposed black and white cinematograph films from Rs. 12,000 per print to Rs. 7,750 per print and on colour cinematograph films from Rs. 18,000 per print to Rs. 13,000 per print in respect of films upto 4,000 metres in length. The rates of duty on films of longer length will be twenty-five per cent higher.

APPENDIX—III

DRAFT FIVE YEAR PLAN: 1978-83—A SUMMARY

The National Development Council (NDC) at its meeting held at New Delhi on 18th and 19th March, 1978 discussed the Draft Five Year Plan 1978-83 document prepared by the Planning Commission. The Council approved the objectives of removal of unemployment, reduction in poverty and inequalities and continued progress towards self-reliance and generally welcomed the proposals in the Draft Plan for the furtherance of these objectives. The NDC approved the increased allocations for agriculture, rural development, irrigation, flood control and power and village and small-scale industries. The Council emphasised that these larger allocations alone would not benefit the poorer sections of the people unless necessary institutional and administrative changes are made to ensure that benefits reach those for whom they are intended. In this connection the importance of speeding up of the implementation of land reforms was emphasised. While commending the emphasis in the document on the Minimum Needs Programme, the Council recognised that the public distribution system covering essential articles of mass consumption needs to be expanded and strengthened without any delay. It was agreed at the meeting that projections of employment opportunities indicated in the Plan should be reviewed in detail in consultation with the State Governments. It was further agreed at the NDC meeting that the Planning Commission would hold discussions with the States in regard to the details of the Draft Plan, especially the State Plans. The importance of ensuring conformity of the private sector to the national objectives was also emphasised.

The Council welcomed the larger role that the Draft Five Year Plan assigns to the State Governments in developmental planning and execution. Fiscal arrangements which would reflect this development, require further discussions having regard to the constitutional provisions. It was, therefore, decided to form

a Committee* of the NDC for this purpose. The Committee was expected, *inter alia*, to review the Gadgil formula and the scope of Centrally Sponsored Schemes in the Plan. The Plan for 1978-83 would be presented for approval to the NDC at a subsequent meeting after further discussions with the State Governments. It was hoped that before this meeting, the Report of the Seventh Finance Commission would be available so that its views could be taken into consideration. In the following paragraphs, an attempt is made to summarise the salient features of the Five Year Plan 1978-83 based on the Draft document.†

Principal Objectives of Planning

The Plan has taken the view that in the light of the past experience, it will not be appropriate to formulate the principal objectives of a particular plan period merely in relation to a specified target of growth for the economy. What is regarded as important is not the precise rate of increase in the national product that is achieved in five or ten years, but whether a measurable increase in the welfare of the millions of the poor can be ensured within a specified time-limit. In the light of this, it is proposed to achieve within a period of ten years the following three goals, viz., (a) the removal of unemployment and significant under-employment; (b) an appreciable rise in the standard of living of the poorest sections of the population and (c) provision by the State of some of the basic needs of the people in these income groups, like clean drinking water, adult literacy, elementary education, health care, rural roads,

*The Committee of the NDC which met in New Delhi on 21st and 22nd August, 1978 decided to constitute a Working Group for a more detailed examination of all issues, including the quantitative implications of the various proposals put forward for allocation of larger funds to the States.

†Vide Draft Five Year Plan 1978-83, Government of India, Planning Commission, New Delhi, April, 1978. All the tables, statements, etc. in this section are based on Draft Five Year Plan document except when otherwise indicated.

rural housing for the landless and minimum services for the urban slums. These primary objectives are sought to be attained while (d) achieving a higher rate of growth of the economy than in the past, (e) moving towards a significant reduction in the present disparities of income and wealth and (f) ensuring the country's continued progress towards self-reliance.

Development Perspective : 1977-78—1987-88

The development perspective covering the period 1977-78 to 1987-88 has been conceived in furtherance of the goals of full employment and distributive justice. According to the long-term perspective delineated in the Draft Five Year Plan, gross domestic product (GDP) at factor cost is projected to grow at an average annual rate of 4.7 per cent during 1978-79 to 1982-83 and 5.5 per cent during the perspective period 1982-83 to 1987-88. According to the demographic perspective, total population is estimated to increase from 634 million in March 1978 to 697 million in 1983 and further to 760 million in 1988. The rate of growth of population is projected to decline from an annual average of 2.14 per cent in the quinquennium 1971-76 to 1.97 per cent in 1976-81, to 1.79 per cent in 1981-86 and to 1.66 per cent in 1986-91. The decline in population growth rate is expected through a drop in the birth rate from 36.6 per thousand of population during 1971-76 to 27.0 per thousand of population during 1986-91. During the 10-year perspective period (1978-1988), total population is estimated to increase by 126 million and urban population by

44 million. During the same period, addition to labour force is estimated at 59 million.

The Planning Commission has defined poverty line on the basis of recommended nutritional requirements of 2,400 calories per person per day for rural areas and 2,100 calories per person per day for urban areas. In rupees the poverty line is the mid-point of the expenditure class (in 1973-74 consumer expenditure data) in which the calorie-needs are satisfied. Thus, by implication, the expenditure on non-food items included in the poverty line is the actual expenditure in this expenditure class. On this basis, the cut-off points turn out to be Rs. 61.8 and Rs. 71.3 per month for rural and urban areas at 1976-77 prices. Consumer demand has been projected on the assumption that the consumption deficiency of households below the poverty line will be made up to the extent of 75 per cent. According to the projections indicated in the Plan document, without any redistribution, the poverty is expected to decline from 46 per cent in 1977-78 to 38 per cent in 1982-83 and further to 27 per cent in 1987-88 (Table 1).

Public Distribution

The public distribution system is already operative in the case of consumer goods like foodgrains, sugar, kerosene and controlled cloth. It is proposed to expand coverage to include pulses and edible oils. Co-operative outlets are also to be encouraged to include in their operations, according to local demands, other consumer products such as salt, matches, tea, soap, common drugs, exercise books,

Table 1: Percentage of Population Below the Poverty Line

	Below poverty line			Below 75 per cent poverty line		
	1977-78	1982-83	1987-88	1977-78	1982-83	1987-88
Rural	47.85	38.70	27.28	26.42	19.39	11.88
Urban	40.71	35.33	26.23	22.34	18.35	12.26
All-India	46.33	37.95	27.04	25.55	19.16	11.97

ready-made garments and standard footwear. The total number of public distribution outlets will be increased particularly to serve the rural poor more adequately. The public distribution system does not necessarily improve the distribution of income but it helps to prevent a deterioration in distribution in inflationary conditions. Shortages of essential goods as well as monetary inflation can be highly regressive if a public distribution system does not prevent serious cuts in the consumption of the poor.

Price Policy

Although some price fluctuations during the plan period would be unavoidable, the primary aim should be to operate the economy within a regime of stable prices while implementing the investment programme. Price stability requires: (a) reasonable balance between aggregate demand and supply to be sustained through a mixture of fiscal and monetary policies; (b) providing for a steady increase in the supply of goods of essential mass consumption; (c) internally consistent policies dealing with prices of agricultural commodities, those of manufactures in the private and public sector and prices of various services.

The Plan has recognised that stabilisation policies for agricultural commodities will involve appropriate support prices, buffer stock operations and imports when necessary. The commodities to be covered under this policy would include not only rice and wheat but also cotton and jute. It is desirable to cover pulses and oilseeds subject to financial resources and administrative capabilities.

Monetary Policy

Although the new Plan is launched with a background of relative stability in prices, it is possible that inflationary pressures may develop during the course of the implementation of the Plan. It is, therefore, necessary to monitor the balance between the aggregate demand for goods and aggregate supply and to relate the growth of the money supply to the growth of the net domestic product. There is need

for caution in determining the permissible rate of growth of money supply, particularly because the pattern of investment in the Plan is so fashioned as to generate incomes among groups with a low savings potential.

In curbing monetary expansion in the present phase of the Indian economy, there are two major elements which are virtually not amenable to control, viz., increase in money supply corresponding to inward remittances of foreign exchange, and the requirement of credit for financing the purchase of foodgrains when a surplus has to be procured to support prices. The problem is aggravated by the need to support prices of commodities other than wheat and rice. The containment of the growth of money supply has then to operate only through two main levers, viz., the regulation of bank credit to the commercial sector and the extent of the combined budgetary deficit of the Central and State Governments. A third method of countering the growth of money supply, viz., the stepping up of imports—is also available, but its scope is limited if the full range of necessary imports has already been planned.

Fiscal Measures

A large number of fiscal measures have been suggested to ensure that the burden of additional resource mobilisation falls equitably on different classes. The Draft Five Year Plan underlines that the tax measures of additional resource mobilisation will have to be adequate enough to raise the ratio of tax revenue to gross national product from 18.4 per cent in 1977-78 to about 23.0 per cent in 1982-83 to finance the envisaged public sector plan outlay. In the field of direct taxation, wealth and agricultural taxes need to be made more progressive, and taxes have to be levied on capital gains from land values. In the field of indirect taxation, the twin principles to which primacy should be given in reforming the rate structure are that small-scale labour-intensive production and low income consumption should be given exemption or differential relief. All other production and consumption should be suitably taxed.

Since the return from investments in Central and State enterprises, is at present below the fair return allowed when fixing prices for the private sector, the Plan emphasises the need for raising such a return by economies and price adjustments to a post-tax level of about 10 per cent.

According to the Draft Plan, progressive reductions in subsidies at present paid by the Central Government would increase the availability of resources for the Plan. In general, subsidies should be admissible selectively to support low-income consumption and small unit labour-intensive production. Subsidies which do not serve these purposes should be phased out.

Trade Policy

Notwithstanding some uncertainty about the trend of world trade and the extent to which the developed countries as a whole may wish to restrict the import of certain commodities of interest to India, the outlook for the growth of India's international trade is viewed to be on the whole favourable. The Draft Plan noted the diversification of India's trading pattern due to the development of the West Asian market and also the prospects of growth of trade under India's bilateral agreements. However, the selection of commodities for export promotion in the future should be mainly on the basis of dynamic comparative advantage, taking into account the domestic resource cost of the exportable commodity.

While recognising the need for continuance of strict controls on all foreign exchange transactions, the Draft Plan endorsed the selective relaxation of trade controls in view of the healthy balance of payments position. However, such relaxation has to be consistent with other objectives of domestic policy such as protection of small industries.

The country never relied on private foreign investment as a major source of capital to augment domestic saving. While emphasising that substantial reliance on this form of external

resource would not be desirable, the Draft Plan observes that selective investment in the Indian industry by foreign firms on terms which are not onerous offers possibilities of import of associated technology on merits of individual proposals. However such proposals would need to be carefully assessed in terms of costs and benefits to the economy.

Termination of Fifth Five Year Plan

In view of the need for reordering plan priorities and restructuring investments accordingly, it was decided to terminate the Fifth Five Year Plan one year in advance and begin a new Five Year Plan commencing from the 1st April, 1978. The new priorities and investment structure will call for far reaching changes both in regard to the planning process as well as in the machinery for implementing and monitoring the progress of the Plan.

Short-comings of Planning Process

Some of the specific major short-comings of the planning process are : (1) the successive Five Year Plans tended to assume higher levels of savings and investment in real terms, and consequently, a much higher rate of growth than was warranted by objective considerations. As a result, there has been a growing gap between plan projections and actual achievements in all sectors of economy; (2) the plans could not make any allowance for fluctuations in agricultural output within the Plan, nor was there a machinery for adjustment of the plans to unforeseen external events. The consequence of both (1) and (2) was that the Third, Fourth and Fifth Five Year Plans were disrupted by inflationary crises and the unplanned cuts in developmental outlay necessitated thereby, resulted in disruption of plan priorities; (3) the planning process provided for one mid-term appraisal only and the corrections made in the course of such a review proved to be inadequate. Thus, if demand or supply in one sector did not develop according to anticipation, the necessary changes in other related sectors were not made adequately in time; (4) towards the later part of the plan period in a fixed Five Year Plan the time horizon was too short for

investment decisions in many sectors; (5) the plans were based on models which provided for theoretical inter-sectoral consistency for the terminal year of the 5 year period, and the likely imbalances that might arise from year to year were not provided for and finally (6) given the character of the mixed economy, planning of the large self-employed sector in agriculture, household industry and services was minimal.

Rolling Plan System

In view of the above, it has been proposed to adopt the Rolling Plan system with the following features: (i) year to year targets will be set for sectoral outlays and output for major sectors within the Five Year Plan; (ii) the horizon of the Five Year Plan will be extended by working out these selected sectoral targets for one additional year at the end of each year.

As far as major investment decisions are concerned, the Rolling Plan system will have the clear technical advantages of projections from a base level which is adjusted annually, continuous correction of errors and a constant time horizon for investment decisions. This will introduce a significant degree of realism and flexibility in the planning process and reduce the chronic and increasing shortfalls in targets and achievements observed in the past. The system will also be better adopted for coping with fluctuations and uncertainties. Further, under the Rolling Plan, objectives and strategies would not be opened for annual review; nor the resource mobilising efforts of the Centre and the States be allowed to slacken in periods of difficulty.

The Plan Framework

The quantitative framework upon which the Draft Plan is based is a consistency model i.e., description of the economy in terms of a set of relationships between different sectors, between income and consumption between production and employment, etc. The special features of the present planning model are related to the proposed objectives and development strategy. In building the model particular

attention was paid to the analysis of production possibilities and input requirements in agriculture. The employment objective was reflected in the special treatment of certain labour-intensive village and small industry sectors and detailed calculations of employment generation. The requirements of goods for consumption were estimated separately for rural and urban areas, and for the poor and non-poor so that the implications of the development strategy for production planning are fully taken into account.

Size of the Plan and Pattern of Outlay

An overall outlay of Rs. 1,16,240 crores is envisaged for the Five Year Plan 1978-83. Of this, Rs. 69,380 crores would be public sector outlay and the remaining Rs. 46,860 crores would represent the private sector investment. In the public sector Rs. 59,130 crores have been provided for investment and Rs. 10,250 crores for the current outlay. Thus, the total investment for the creation of productive assets in the economy is estimated at Rs. 1,05,990 crores.

Sectoral Strategies—Targets and Outlays

The sectoral strategies, targets and outlays closely reflect the main strategy and the basic objectives of the Plan. Therefore, the sectoral allocation is made on the basis of the following overall guiding principles, viz.,

(a) the highest priority has been given to the sectors which generate the maximum employment and which have a significant impact on the standard of living of the poorest, like agriculture and allied activities, village, cottage and small industries and inputs like irrigation, fertilisers and power, which are required to sustain them;

(b) upgraded norms have been adopted in the Revised Minimum Needs Programme and, to the extent possible, programmes in sectors like communications, science and technology, housing, health and family welfare, education, social welfare and nutrition have been oriented to benefit the rural and urban poor; and

(c) the objective of achieving self-reliance both technologically and by investment in sectors which will ensure that when necessary the country can manage without foreign aid. A massive shift of resources in favour of rural areas with an in-built redistributive character in almost every programme is proposed. Accordingly, about 43 per cent of the total public sector outlay is allocated to agriculture and rural development. The allocation of public sector plan outlay among various sectors is shown in Table 2.

Saving and Investment

Domestic saving is expected to finance about 95 per cent of total investment envisaged in the Five Year Plan 1978-83. Out of a total

estimated investment of Rs. 1,05,990 crores at 1977-78 prices, domestic saving is expected to finance to the extent of Rs. 1,00,855 crores. The balance of Rs. 5,135 crores is to be financed through foreign resources. Thus, the net inflow of external resources (including drawing down of foreign exchange reserves) would constitute about 5 per cent of the total investment in the Plan.

Of the total estimated domestic saving of Rs. 1,00,855 crores during the Plan, about 29 per cent is to be generated by the public sector and public financial institutions, about 9 per cent by the private corporate sector including co-operatives and the balance of 62 per cent by the household sector (Table 3).

Table 2: Sectoral Plan Outlays, 1978-83

Sector	Amount (Rupees Crores)	Percentage to total
1	2	3
I. Agriculture and Allied Activities	8600	12.4
1. Agriculture	5800	8.4
2. Rural Development	2000	2.9
3. Hill and Tribal Area Development	800	1.1
II. Irrigation and Flood Control	9650	13.9
1. Major & Medium Irrigation	7250	10.4
2. Minor Irrigation	1725	2.5
3. Flood Control	675	1.0
III. Industry and Minerals (Excluding energy)	10350	14.9
1. Village and Small Scale	1410	2.0
2. Large and Medium	7252	10.5
3. Fertilizers and Pesticides	1688	2.4
IV. Energy, Science & Technology	20800	30.0
1. Power	15750	22.7
2. Petroleum	2550	3.7
3. Coal	1850	2.7
4. Science & Technology	650	0.9
V. Transport & Communications	10625	15.3
1. Railways	3350	4.8
2. P & T, Telecommunications	2095	3.0
3. Civil Aviation	700	1.0
4. Ports and Shipping	1115	1.6
5. Road and Road Transport	2923	4.2
6. Information & Broadcasting and Publicity	183	0.3
7. Others (IWT etc.)	259	0.4
VI. Social Services	9355	13.5
1. Education	1955	2.8
2. Health & Family Welfare	2095	3.0
3. Housing, Urban Development & Works	2540	3.7
4. Water Supply	1580	2.3
5. Social Welfare and Nutrition	305	0.4
6. Backward Classes and Harijan Welfare	545	0.8
7. Others (Rehabilitation, Labour Welfare, etc. including unclassified)	335	0.5
GRAND TOTAL	69380	100.0

Sector											Amount (Rupees Crores)	Percentage to total
1.	Public Sector	..	..	..	..	..	..	..	..	..	27,444	27.2
	(a) Central and State Budgets	..	..	..	..	..	..	..	..	..	13,148	13.0
	(b) Central and State Enterprises	..	..	..	..	..	..	..	..	..	14,296	14.2
2.	Financial Institutions	..	..	..	..	..	..	..	..	..	2,754	2.7
	(a) Reserve Bank of India	..	..	..	..	..	..	..	..	..	1,750	1.7
	(b) Others —Public Sector	..	..	..	..	..	..	..	..	..	223	0.2
	—Private Institutions	..	..	..	..	..	..	..	..	..	781	0.8
3.	Private Sector	..	..	..	..	..	..	..	..	..	70,657	70.1
	(a) Private Corporate Non-Financial Sector including Co-operatives	..	..	..	..	..	..	..	..	..	8,293	8.2
	(b) Household Sector	..	..	..	..	..	..	..	..	..	62,364	61.9
4.	Total Domestic Saving	..	..	..	..	..	..	..	..	..	100,855	100.0

The household sector comprises individuals, non-government non-corporate enterprises in agriculture, trade and industry and non-profit organisations like trusts, charitable and religious institutions and so on. Gross saving of the household sector is estimated at Rs. 62,364 crores. Detailed estimates of household sector saving are presented in Table 4.

The saving strategy of the Draft Plan 1978-83 puts emphasis on achieving a higher rate of public sector saving. Accordingly public saving has been projected to increase from 4.1 per cent of GNP in 1977-78 to 7.4 per cent in 1982-83. Of this, the saving of Government is projected to increase from 2.4 per cent of GNP in 1977-78 to 4.4 per cent in 1982-83 and that

(Rupees Crores)

[illegible]

of autonomous public enterprises from 1.7 per cent to 3.0 per cent. On the other hand, private saving during the same period is estimated to rise from 15.7 per cent to 16.0 per cent of GNP, the increase is wholly accounted for by the corporate sector. As a result, gross domestic saving as a proportion of GNP is projected to rise from 19.8 per cent in 1977-78 to 23.4 per cent in 1982-83. The overall marginal rate of saving is estimated to be around 35 per cent. The share of public sector in aggregate domestic saving is projected to increase from 21 per cent in 1977-78 to 32 per cent in 1982-83. As the share of private corporate sector is estimated to remain almost same, the share of household sector is expected to decline from 70 per cent in 1977-78 to 60 per cent in 1982-83.

Financial Resources

In the light of the postulated growth of the economy (at an average rate of 4.7 per cent per annum), the total resources required to finance the public sector plan outlay are projected at Rs. 69,380 crores. If a plan of this size is to be financed, a massive resource mobilisation effort would be necessary. There is a considerable potential for public saving in view of the high rate of growth of time deposits, buoyancy of revenues and improvement in the surplus earning capacity of central public-sector undertakings. The main task, therefore, is to actualise potential public saving into resources for public sector investment. Further, some of the new sources of investment funds which have to be tapped include : (a) selective subsidy reductions, (b) improvement in the returns from central public sector enterprises which are now at the low level of 4.8 per cent (after tax) through improvements in efficiency and price adjustments, (c) similar increases in returns from central and state transport undertakings, irrigation and power projects, and other state governments' enterprises, (d) progressive surcharges added to land revenue, (e) cesses on market arrivals and (f) mopping up of a part of capital gains of land and property owners, in addition to the rationalisation of

direct and commodity taxes and fees. On the expenditure side, a renewed effort is called for to decelerate the growth of non-plan outlays. Conspicuous consumption in the private sector will need to be curbed and a vigorous effort undertaken to promote and mobilise voluntary private savings. Monetary policy will have to be integrated with fiscal policy in order to facilitate non-inflationary resource mobilisation. Above all, it will be necessary to realise the targeted levels of production in different sectors and, to this end, implement plan programmes on schedule and maximise the output from them. Efficiency in the use of invested resources and maximum utilisation of production capacities can add materially to production and resource generation. The pattern of financing public sector outlay is shown in Table 5.

Balance of Payments

There has occurred a breakthrough in the foreign trade and balance of payments situation of the country during the last few years. This turnaround has to be seen in the context of sluggish growth of investment and output in recent years. In such a situation, planning must aim at (a) the maintenance of real export growth at a reasonably high rate and (b) effective utilisation of the available exchange resources for accelerating the tempo of investment and growth in the economy. The estimates of balance of payments are presented in Table 6.

Exports

The Draft Plan recognised that requirements of exports will have to be dovetailed with the parameters of the process of growth, generation of employment and increasing supply of wage goods. The formulation of long-term export policies will have to be based on supporting investment policies. The needs of common man should be borne in mind while exporting goods of essential mass consumption like oilseeds, pulses, tea and vegetables. However, domestic consumption may have to be restrained in case of items

Table 5: Estimated Budgetary Resources for the Public Sector Plan

	At 1977-78 prices (Rupees Crores)	
	Amount	Percentage to total
1. Central and State Governments' resources on revenue account at 1977-78 rates of taxation	12889	18.6
(a) Balance from current revenues	12766	18.4
(b) Net transfer from current revenues to funds	123	0.2
2. Contribution of public enterprises at 1977-78 fares, freights, tariffs and rates..	10296	14.9
(a) Centre	7881	11.4
(b) States	2415	3.5
3. Additional resources mobilisation	13000	18.7
(a) By Centre	9000	13.0
(b) By States	4000	5.7
4. Market borrowings of Government, public enterprises and local bodies (net)	15986	23.0
5. Small savings	3150	4.5
6. State provident funds	2953	4.3
(a) Centre	1417	2.1
(b) States	1536	2.2
7. Term loans of financial institutions (net)	1296	1.9
(a) from LIC	980	1.4
(b) from RBI	166	0.2
(c) from REC	670	1.0
(d) Less: Repayments to financial institutions	(—) 520	(—) 0.7
8. Miscellaneous capital receipts (net)	450	0.6
9. External assistance (net)	5954*	8.6
10. Utilisation of foreign exchange reserves	1180	1.7
11. Total (1 to 10)	67154	96.8
12. Uncovered gap	2226	3.2
13. Aggregate resources	69380	100.0

Note: Major proportion of the investment financed by public sector financial institutions like ARDC, IDBI, IFC and HUDCO does not form part of public sector Plan outlay.

* Net of repayments only. Interest has been allowed for under item 1(a).

required by the high income groups in order to fulfil export commitments or exploit international market opportunities. A balance between domestic demand and the need for foreign exchange earnings will have to be struck.

Exports of labour-intensive products and items fetching higher net value-added, such as

precious and semi-precious stones, jewellery and various items of handicrafts, garments, electronics, etc. should be developed. Further, efforts will have to be made to move increasingly towards exports of services and technology.

Adequate attention would have to be paid to the diversification of commodity base by

Table 6: Balance of Payments Projections for the Five Year Plan Period, 1978-79 to 1982-83

(Rupees Crores)				
Sr. No.	Account			Amount
A. CURRENT ACCOUNT				
1.	Trade			
	(i) Exports, f.o.b.			34000
	(ii) Imports, c.i.f.		(-)	42823
	(iii) Balance of trade		(-)	8823
2.	Services (net)			3460
3.	Current transfers (net)			2015
4.	Investment income (net)		(-)	1787
	(i) Debt services		(-)	1510
	(ii) Others		(-)	277
5.	Total		(-)	5135
B. CAPITAL ACCOUNT				
1.	Private and banking capital (net)	(-)		490
2.	Official capital (net)	(-)		100
3.	Debt services	(-)		2921
4.	Assistance to other countries	(-)		350
5.	Lags between export shipments and receipts	(-)		200
6.	External assistance (gross)			8017
7.	Withdrawal of foreign exchange reserves			1179
8.	Total			5135

raising production and exports of dynamic sectors in which India has long-term comparative advantage, such as engineering goods, chemical products, garments, leather manufactures, handicrafts, marine products and so on. Further expansion of exports may be envisaged in areas where existing capacity in the economy is under-utilised and the expansion in investment and output is consistent with the plan priorities. Both the diversification of markets as well as of commodities is equally important.

Exports are projected to increase from Rs. 5,143 crores in 1976-77 to Rs. 7,750 crores (at 1976-77 prices) by 1982-83 or at an annual rate of 7 per cent. About half of the

projected growth in exports during the Plan-period is expected to be contributed by "leading" export sectors. @ Projections of aggregate exports for the whole five year period by major commodities and groups are given in Table 7.

Table 7: Export Projections for the Plan: 1978-83 at 1976-77 Prices

(Rupees Crores)				
Sr. No.	Item/Group of items			Total 1978-83
1.	Tea			1512
2.	Coffee			770
3.	Tobacco			568
4.	Cashew Kernels			595
5.	Processed Food			615
6.	Groundnut			00
7.	Oil cakes			757
8.	Vegetable oils (castor oil)			122
9.	Spices			383
10.	Sugar			640
11.	Fish and fish preparations			1246
12.	Raw cotton			160
13.	Jute manufactures			1231
14.	Processed Mica			109
15.	Iron ore			1782*
16.	Coal & coke			115
17.	Leather and leather manufactures including footwear			1895
18.	Cotton piece goods—mill made			1148
19.	Cotton piece goods—handloom			423
20.	Apparel, Hosiery and manufactures			2181
21.	Man-made fibre fabrics			198
22.	Coir and coir manufactures			129
23.	Iron and steel			1100
24.	Engineering goods			4895
25.	Chemicals and allied products			970
26.	Gems and Jewellery			1928
27.	Other handicrafts			1282
28.	Sub-total 1 to 27			26754
29.	Others			7246**
30.	Grand Total 28+29			34000

* Including Kudremukh exports.

** Includes exports of silver.

@A "leading" export sector is defined as a sector whose share in the expansion of exports exceeds 5 per cent and whose export-production ratio is rising. Engineering goods, chemicals, leather and leather manufactures handicrafts (including jewellery), textiles including ready-made garments and marine products come under this category.

Imports

Import policy in the context of changed external payments position has to be selectively liberalised and so designed as to yield the most orderly and judicious use of foreign exchange reserves. The Draft Plan underlines the need for appropriate changes in import policy and procedures to achieve the objectives of combating inflationary pressures, generating more employment and boosting up investment and growth in the economy. Import projections have been made on the following assumptions:

(1) the initial condition of comfortable foreign exchange reserves would permit a more liberal import policy during the medium-term plan period;

(2) the strategy of import substitution can now be made more flexible in order to give greater weight to domestic resource cost per unit of net foreign exchange saved so that, on the margin, further growth of extremely inefficient import-substituting capacity may be slowed down;

(3) sufficient provision is to be made for imports of essential consumption items to balance their demand and supply and prevent excessive price increases;

(4) conservation considerations should be given greater weight in the determination of trade policy relating to exhaustible resources;

(5) if one or two bad crop-years turn up during the next five years, some contingency agricultural imports may be necessary;

(6) the Minimum Needs Programme would increase the demand for paper, newsprint, cement and certain types of equipment;

(7) to meet the special needs of oil exploration, telecommunications, shipping, etc., larger imports of machinery would be required, and certain types of technology may have to be imported;

(8) some provision for imports of machinery and equipment is to be made in anticipation of capacity requirements beyond 1982-83; and

(9) the domestic consumption of POL and fertilisers may rise at rates exceeding past trend rates.

Imports are projected to increase from Rs. 5,074 crores in 1976-77 to Rs. 10,500 crores in 1982-83. Aggregate imports for the whole five year period 1978-83 are projected at Rs. 38,715 crores (at 1976-77 prices). The estimated value of imports rises to Rs. 39,146 crores if the provision for POL price rise effective from 1st January 1977 is included. Further, aggregate imports are projected at Rs. 42,823 crores including provisions for price increases, the import of technology and imports in anticipation of long-term capacity increases. Group-wise projections of imports are presented in Table 8.

Table 8: Import Projections for the Plan: 1978-79 at 1976-77 Prices

(Rupees Crores)		
Sr. No.	Item/Group of Items	Total 1978-83
1.	Metals, ores and scrap	2788
2.	Metal products, machinery and transport equipment	8706
3.	Petroleum crude, products and lubricants (POL)	8342 (8773)
4.	Fertilizers and raw materials for fertilizers	2667
5.	Other non-foodgrain imports	13697
	(a) Chemicals	2070
	(b) Paper, paper board & newsprint	767
	(c) Cement	450
	(d) Coking coal	250
	(e) Others	10160
6.	Total non-foodgrain imports, 1 to 5	36200
7.	Provision for contingency agricultural commodities imports	2515
8.	Total 6+7	38715 (39146)

Figures in parentheses refer to the value of imports after including POL price increase effective from January, 1977.

Agriculture and Rural Development

The aim of agricultural and rural development will be growth for social justice, achievement of full employment in the rural areas in a period of ten years and removal of poverty. The realisation of self-sufficiency will continue to be one of the policy objectives. The main thrust of development policy will be on the generation of substantial employment at productivity levels which evolve a fair return for labour so that the maximum feasible rate of growth in per capita income could be attained. The strategy for crop production will be to increase the area under irrigation, grass cropped area and cropping intensity and ensure larger application of inputs. This will be backed by improved agronomic practices for higher efficiency through development and propagation of better seeds, a strengthened extension system, assured availability of credit and improved facilities for marketing, storage and processing. Land and tenancy reforms and consolidation of holdings will be vigorously pursued. Special attention will be paid to increasing the area under oilseeds, pulses and

cotton, and the continuance of price incentives. As a result, a growth rate of nearly 4 per cent in the output of the agricultural sector is expected to be achieved during the Plan period. The demand and supply projections for selected agricultural commodities are indicated in Table 9. The broad sub-sector-wise distribution of outlays is given in Table 10.

Village and Small Industries

The rapid and widespread development of small industries including cottage, household and small scale industries is one of the major objectives of the Plan as a part of the primary goals of reducing unemployment and under-employment in the country. The major components of the strategy of development for these industries are to (1) generate opportunities for fuller and full-time employment by (a) revitalising and developing the existing traditional and other small scale industries, and (b) promoting intensive development of new viable small industries; (2) raise the level of earnings of rural artisans, handloom weavers, craftsmen and others employed in these industries;

Table 9: Demand and Supply Projections of Agricultural Commodities

Commodity	Unit	Production in 1977-78 (Anticipated)	Projected demand in 1982-83	Estimated production 1982-83	Compound Rate of growth@
1. Total foodgrains	Million Tonnes	121.00	140.48 to 144.48	140.50 to 144.50	3.61
2. Sugarcane	„	156.90 to 160.00	188.00	188.00	3.28
3. Jute and mesta	Lakh bales (each of 180 kgs.)	67.60 to 69.00	86.92	85.60	4.41
4. Cotton	Lakh bales (each of 170 kgs.)	64.30 to 68.00	92.50	81.50 to 92.50	6.35
5. Oilseeds	Lakh tonnes	100.00	124.54	125.00	4.56
of which 5 major oilseeds	„	92.00 to 93.00		112.00 to 115.00	4.34

@Worked out on the basis of upper levels of output.

Table 10: Public Sector Outlays on Agriculture and Rural Development During 1978-83

Sr. No.	Sector	Amount (Rupees Crores)	Percentage to total
1		2	3
I. Agriculture and allied activities		5,800	31.8
Agricultural Research and Education		425	2.3
Agricultural Production		1,125	6.2
Land Reforms and consolidation of holdings		350	1.9
Soil Conservation & Land Reclamation		450	2.5
Food		150	0.8
Animal Husbandry and Dairying		825	4.5
Fisheries		400	2.2
Forestry		450	2.5
Investment in agricultural financial institutions		1,000	5.5
Community Development and Panchayati Raj		150	0.8
Cooperation		475	2.6
II. Rural Development		2,800	15.3
Special programmes for rural development		1,550	8.5
Command Area Development		450	2.4
Hill and Tribal Area Development		800	4.4
III. Irrigation and Flood control		9,650	52.9
Major and Medium Irrigation		7,250	39.7
Minor Irrigation		1,725	9.5
Flood Control		675	3.7
Grand Total (I+II+III)		18,250*	100.0

*Sub-sectorwise break-up is only indicative and would be further refined in consultation with the States, Union Territories and Central Ministries.

(3) promote the growth of these industries in rural areas and small towns; and (4) reduce progressively the role of subsidies by providing these selectively for credit and development of skills, designs and marketing. Industry-wise outlays on the village and small industrial sector are shown in Table 11.

Industrial Growth

The Draft Five Year Plan 1978-83 postulates an annual growth in industrial production of 7 per cent per annum. The most important prerequisite for increasing the rate of growth of industrial production is the need to stimulate the demand for all classes of manufactured goods—consumer, intermediate and capital. It is presumed in the Plan that the proposed investment in employment intensive activities like agriculture and allied activities, irrigation and in infrastructure like power and roads and minimum needs like water supply and so on

will stimulate demand for a wide range of mass consumption, intermediate and capital goods.

Table 11: Outlays on Village and Small Industries

(Rupees Crores)

Industry	Fifth Plan 1974-78 (Estimated expenditure)	Plan Outlay 1978-83
1. Handloom Industry	80.6	280.0
2. Powerlooms	1.5	6.0
3. Khadi & Rural Industries	126.4	390.0
4. Small Scale Industries	121.9	545.0*
5. Industrial Estates	17.6	45.0
6. Handicrafts	14.9	57.0
7. Sericulture	19.2	70.0
8. Coir Industry	5.6	17.0
Total	387.7	1410.0

*Includes Rs. 60 crores for the schemes of craftsmen Training and Apprenticeship Training.

The strategy for industrial development as adopted in the Plan is designed to (a) make the fullest use of the existing capacity; (b) employ technologies which have a low capital to output ratio, provided production costs are not adversely affected to any significant extent; (c) conserve scarce non-renewable resources such as coking coal and other minerals whose reserves are low; (d) make use of foreign exchange reserves for imports to fill the planned gap between demand and supply; (e) reduce the concentration of economic power in the corporate private sector, through a mix of policy covering both the regulatory and organisational measures; (f) take timely steps through injection of finance or management or by modification of government policies to minimise the incidence

of sickness in private companies; and (g) reduce production costs through a combination of measures such as exposing domestic industry to a limited degree of competition from imports and by ensuring that, where economies of scale are significant, only units of economic size are put up.

The public sector outlay on large and medium industries and minerals during the Plan is envisaged at Rs. 13,340 crores; Rs. 12,464 crores in the Central Sector and Rs. 876 crores in the State Sector. Of the Central Sector outlay, approximately Rs. 8,300 crores is allocated for ongoing schemes and Rs. 4,100 crores for new projects. The broad break-up of this outlay among major sectors is shown in Table 12. Capacity and production targets for selected Industries are presented in Annexure I.

Table 12: Major Sector-wise Outlays: 1978-83

		(Rupees Crores)		
Sr. No.	Industry	Continuing Schemes including renewals and replacements	New Schemes	Total
1.	Steel	1976	515	2491
2.	Coal	892	958	1850
3.	Petroleum	2335	215	2550
4.	Fertilizers	518	1131	1649
5.	Non-Ferrous Metals	236	191	427
6.	Heavy Engineering	256	341	597
7.	Petrochemicals	268	213	481
8.	Cement	58	129	187
9.	Paper	321	45	366
10.	Electronics	78	1	79
11.	Drugs & Pharmaceuticals	62	45	107
12.	Iron ore	513	15	528
13.	Textiles	100	—	100

Revised Minimum Needs Programme

Given the difficulty of raising the incomes of the lowest income classes adequately to ensure minimum consumption standards, it is necessary to supplement the outlay on general economic development through sectoral programmes by specific programmes of direct transfers of basic services to the weaker sections of the population. Although the Minimum Needs approach

to the alleviation of poverty was mooted in the Fifth Plan period, the outlay originally earmarked for this programme had to be reduced on account of inflationary pressures during 1973-74 and 1974-75. Such outlay amounted to about Rs. 800 crores during 1974-75 to 1977-78. The list of basic needs, viz., supply of drinking water, provision of house-sites for the homeless, village access roads, elementary education for the rural poor, provision of rural

health services, extension of rural electrification, environmental improvement of slums and nutrition for the undernourished will be

extended to include adult education. The targets and outlay for Revised Minimum Needs Programme are presented in Table 13.

Table 13: Targets and Outlay for Revised Minimum Needs Programme

Sr. No.	Items	Norms	Coverage 1978-83	Outlay 1978-83
1		2	3	4
(Rs. Crores)				
1. (a) Elementary Education		100% coverage of children 6 to 14	90%	900
(b) Adult Education		Coverage of all adults in age group 15-35	66%	200
2. Rural Health	(a)	100% coverage by community health worker (sanitation, immunisation, simple remedies, referral services)	Primary Health Centre 46%	490
	(b)	Establishment of one primary health centre for every 50,000 population and one sub-centre for 5,000 population	Sub-Centres 71%	
3. Rural Water Supply		Coverage of all problem villages	100%	675
4. Rural Roads		Linking up all villages with a population of 1,000 or more	100% coverage of villages with population of 1,500 and above and 50% coverage of villages with pop. of 1,000-1,500	800
5. Rural Electrification		Supply of power to 50% of villages in each State/ Union Territory	40,000 villages to be electrified	250
6. (a) House-sites for landless and rural housing		100% coverage for landless labour households	About 45%	500
(b) Environmental improvement of urban slums		Environmental improvement comprehending (a) expansion of water supply, (b) sewerage, (c) paving of streets, and (d) provisions of community latrines in slum areas. Areas inhabited by scheduled castes, particularly scavengers, etc. to be given due priority.	13 million urban slum dwellers in large cities to benefit	190
7. Nutrition Programme	1.	Mid-day meals for one-fourth of children in age group 6-11 years	About 4 million additional children under Mid-day Meals.	175
	2.	Supplementary feeding programme for undernourished children in the age group 0-6, pregnant women and nursing mothers in blocks with high concentration of SC/ST.	Additional 2.6 million pre-school and nursing mothers under Supplementary Feeding Programme	
Total				4180

Employment Strategy

The Draft Five Year Plan emphasises the need for accelerating the growth of employment. Since large and medium industries are capable of absorbing only a small fraction of the increase in labour force the employment strategy of the Plan is:

- (a) to adopt an employment intensive sectoral planning;

- (b) to regulate technological change to protect and enhance employment; and

- (c) to promote area planning for full employment.

The pattern of growth and, therefore, the inter-sectoral allocations of investment and the determination of the output targets have been based explicitly on the need to increase

employment generation rapidly. The employment is also sought to be increased by laying emphasis on the development of irrigated agriculture and the largely expanded allied sectors of dairying, forestry and fisheries and expansion of infrastructure and social services, e.g., road construction, electrification, water supply, rural schools and community health services. It is also proposed to regulate the growth of farm mechanisation to ensure maximum use of labour consistent with optimum land and water utilisation. Furthermore, redistribution of income in favour of the poor is expected to result in a large increase in the

consumption of wage goods necessitating additional employment because wage goods can be produced by labour-intensive methods.

If the plans of investment and production are fully implemented, it is estimated that 49.3 million person years of additional employment would be generated during the Plan period (Table 14). This implies that the expansion in the labour force of 30 million during the period 1978-83 as well as a substantial part of the backlog of unemployment can be absorbed. Sectoral employment generation during 1978-83 is shown in Annexure II.

Table 14: Projected Growth of Employment—1977-78/1982-83.

(Million Person Years)								
Sector	Employment@		Increase	Annual Growth (per cent)	Annual Growth of Value Added (per cent)			
	1977-78	1982-83						
1. Agriculture and Allied Sectors	99.21	121.98	22.77	4.22	2.76			
2. Mining	0.90	1.35	0.45	8.45	9.07			
3. Manufacturing	22.74	31.65	8.91	6.83	4.67			
4. Others (including services)	44.22	61.35	17.13	6.77	6.52			
Total	167.07	216.33	49.26	5.30	4.70			

@In adjusted standard person years.

Backward Areas

Successive Five Year Plans have emphasised the need for accelerated development of backward areas with a view to reducing regional disparities. The approach to backward area development hitherto has been characterised by incentives for industrialisation on the one hand and problem-oriented special programmes on the other. The extent to which these measures have succeeded in evening out levels of development is uncertain. However, the experience with large industrial projects located in backward areas suggests that organised industry which

tends to be capital intensive is not necessarily the sort of growth catalyst that backward areas need. Their spread effects are low and the surrounding areas continue to remain poor and underdeveloped. In fact such development by creating a dualistic economic structure may pose more problems than it solves. The approach in this Plan, therefore, is to rely to a much greater extent on the development of agriculture, village and small industries, subsidiary occupations and related services through hill-area, tribal-area, Revised Minimum Needs and area development programmes for promoting growth in backward areas.

ANNEXURE I

Capacity and Production Targets for Selected Industries for 1982-83

Sr. No.	Industry	Unit	1977-78		1982-83	
			Capacity	Estimated Production	Target Capacity	Target Production
1		2	3	4	5	6
1. Mining						
(i) Coal		.. Million tonnes	—	103.20	—	149.00
(ii) Lignite		.. "	—	3.70	—	8.80
(iii) Petroleum (Crude)		.. "	—	10.77	—	18.00
(iv) Iron Ore		.. "	54.00	43.00	72.00	65.00
2. Basic Metals						
(i) Hot Metal		.. "	12.24	10.00	14.24	14.00
(ii) Steel Ingots		.. "	13.30	9.70	17.60	15.00
(iii) Saleable Mild Steel		.. "	10.25	7.73	13.62	11.80
(iv) Pig Iron for Sale		.. "	2.46	1.72	2.06	2.15
(v) Alloy and Special Steel		.. '000 tonnes	675	542	900	840
(vi) Aluminium		.. "	275	180	350	300
(vii) Copper		.. "	47.50	23.00	47.50	40.00
(viii) Zinc		.. "	95	43	95	75
(ix) Lead		.. "	8	8	18	15
3. Metal Products						
(i) Steel Castings		.. "	170	70	200	110
(ii) Steel Forgings		.. "	204	102	230	150
4. Non-Metallic Mineral Products						
(i) Cement		.. Million tonnes	21.87	19.20	35.00	30.00
(ii) Refractories		.. '000 tonnes	1500	800	1700	1100
5. Petroleum Products						
		.. Million tonnes	27.45	22.32	37.45	33.15
6. Basic Chemicals						
(i) Sulphuric Acid		.. '000 tonnes	2640	1900	3790	2910
(ii) Caustic Soda		.. "	704	530	970	800
(iii) Soda Ash		.. "	618	570	970	800
(iv) Methanol		.. "	44.50	40.00	104.00	85.00
(v) Industrial Oxygen		.. M. cu. metres	118	74	175	130
7. Agricultural Chemicals						
(i) Fertilizers (N)		.. '000 tonnes	3028	2060	6111	4100
(ii) Fertilizers P ₂ O ₅		.. "	915	660	1426	1125
(iii) Pesticides (Tech. Materials)		.. "	50	39	80	65
(iv) BHC		.. "	28.90	26.00	50.00	47.00
(v) DDT		.. "	4.20	4.50	9.20	9.00

ANNEXURE I (Contd.)

Capacity and Production Targets for Selected Industries for 1982-83

Sr. No.	Industry	Unit	1977-78		1982-83	
			Capacity	Estimated Production	Target Capacity	Target Production
1		2	3	4	5	6
8. Thermo Plastics and Synthetic Rubbers						
(i)	L. D. Polyethylene	.. '000 tonnes	33	24	113	99
(ii)	H. D. Polyethylene	.. "	30	24	30	30
(iii)	Polyvinylchloride	.. "	65	55	133	97
(iv)	Polystyrene	.. "	17.50	14.00	24.00	20.00
(v)	Polypropylene	.. "	—	—	30	27
(vi)	Synthetic Rubbers	.. "	30	28	50	50
9. Synthetic Fibres and Intermediates						
(i)	D.M.T.	.. "	24	26	65	48
(ii)	Caprolactum	.. "	20	17	20	18
(iii)	Viscose Filament Yarn	.. "	43	41	50	50
(iv)	Viscose Staple Fibre	.. "	89	85	130	120
(v)	Viscose Tyre Cord	.. "	21.00	15.70	23.00	21.00
(vi)	Nylon Filament Yarn	.. "	18.00	18.00	28.00	25.00
(vii)	Nylon Tyre cord and other industrial yarn	.. "	7.90	6.20	9.90	9.00
(viii)	Polyester Staple Fibre	.. "	25.00	22.20	77.00	60.00
(ix)	Polyester Filament Yarn	.. "	3.00	2.80	8.00	6.00
10. Drugs and Pharmaceuticals						
(i)	Bulk Drugs	.. Rs. crores		175.00		425.00
(ii)	Formulations	.. "		830.00		1900.00
11. Food Products						
(i)	Sugar	.. million tonnes	5.20	5.20	7.00	6.20
(ii)	Vanaspati	.. '000 tonnes	1283	600	1283	780
12. Textiles						
(i)	Cotton Yarn	.. Cap-Million Spindles Prod. Million kgs.	19.80	960	21.00	1220
(ii)	Cloth (Mill Sector)	.. Cap-lakh looms Prod. Million Metres	2.08	4200	2.08	4600
(iii)	Cloth (Decentralized sector)					
	Handloom	.. Prod. Million Metres		5200		3700
	Powerloom	.. "				3900
(iv)	Jute Manufactures	.. '000 tonnes	1400	1180	1400	1400
13. Paper and Paper Products						
(i)	Paper and Paper Boards	.. "	1137	900	1650	1250
(ii)	Newsprint	.. "	75	58	155	120

ANNEXURE I (Contd.)

Capacity and Production Targets for Selected Industries for 1982-83

Sr. No.	Industry	Unit	1977-78		1982-83	
			Capacity	Estimated Production	Target Capacity	Target Production
1		2	3	4	5	6
14. Leather and Rubber Goods						
(i)	Leather Footwear (Organised sector)	.. Million Pairs	23.00	14.00	23.00	20.00
(ii)	Rubber Footwear (Organised sector)	.. „	57.25	43.10	57.25	50.00
(iii)	Bicycle tyres (Organised sector)	.. Million Nos.	32.40	28.00	32.40	32.00
(iv)	Automobile tyres	.. „	7.93	6.20	11.07	9.20
15. Other Consumer Products						
(i)	Soap (organised sector)	.. '000 tonnes	233	290	285	350
(ii)	Synthetic Detergents (organised sector)	.. „	210	104	300	200
16. Industrial Machinery						
(i)	Machine Tools	.. Rs. crores	153	100	200	160
(ii)	Mining machinery (including coal machinery)	.. „	42	16	42	30
(iii)	Metallurgical machinery	.. „	—	55	—	70
(iv)	Cement machinery	.. „	—	18	—	34
(v)	Chemical and Pharmaceutical machinery	.. „	84	65	150	100
(vi)	Sugar machinery	.. „	—	50	—	80
(vii)	Rubber machinery	.. „	14	7	20	14
(viii)	Paper & Pulp machinery	.. „	35.70	13.50	45.00	30.00
(ix)	Cotton Textile machinery including accessories	.. „	213	130	230	190
(x)	Printing machinery	.. „	7	3	12.60	10
(xi)	Boilers (Power and Industrial)	.. „	—	170	—	240
17. Electric Power Equipment						
(i)	Steam Turbines	.. Million KW	2.70	1.52	3.50	3.44
(ii)	Hydro Turbines	.. „	1.40	1.11	1.80	1.34
(iii)	Transformers	.. Million KVA	22.20	18.00	40.00	35.00
(iv)	Motors	.. Million BHP	6.60	4.00	8.00	7.00
18. Construction Machinery						
(i)	Crawler tractors	.. Nos.	650	300	650	520
(ii)	Dumper & Scrapers	.. „	790	300	790	450
(iii)	Road Rollers	.. „	1800	500	1800	1000
19. Agricultural Machinery						
	Tractors	.. '000 Nos.	52	36	60	45
20. Rail and Water Transport						
(i)	Diesel Locomotives	.. Nos.	150	142	190	180
(ii)	Electric Locomotives	.. „	80	59	80	66
(iii)	Railway Coaches	.. „	1500	1000	1500	1350
(iv)	Railway Wagons	.. '000 Nos.	22.50	12.00	22.50	17.00
(v)	Ship Building	.. '000 GRT	80.00	66.40	238.00	238.00

ANNEXURE I (Concl.)

Capacity and Production Targets for Selected Industries for 1982-83

Sr. No.	Industry	Unit	1977-78		1982-83	
			Capacity	Estimated Production	Target Capacity	Target Production
1		2	3	4	5	6
21.	Road Transport					
	(i) Commercial Vehicles	.. '000 Nos.	73	40	73	65
	(ii) Passenger Cars .. .. .	.. ..	48.40	40.00	51.40	48.40
	(iii) Jeeps .. .. .	.. ..	13	9	18	15
	(iv) Scooters, Motor Cycles and Mopeds .. .. .	.. ..	450	290	500	425
	(v) Bicycles (organised sector)	.. Million Nos.	3.7	2.9	4.5	3.7
22.	Mechanical Components and consumer durables ..					
	(i) Ball and Roller Bearings	.. Million Nos.	39.00	30.50	55.00	50.00
	(ii) Typewriters	.. '000 Nos.	90.80	62.00	100.00	75.00
	(iii) Sewing Machines (organised sector) .. .. .	.. ..	530	390	530	431
23.	Electrical Components and Consumer durables ..					
	(i) Conductors (ACSR & AA)	.. '000 tonnes	113.10	70.00	150.00	140.00
	(ii) Cables (PVC & VIR)	.. Million Core Mts.	1281	470	1281	1000
	(iii) Dry Cells	.. Million Nos.	1291	620	1291	830
	(iv) Storage Batteries	.. '000 Nos.	2460	1500	2460	2085
	(v) G. L. S. Lamps	.. Million Nos.	200*	170	250.00	230.00
	(vi) Fluorescent Tubes .. .. .	.. ..	23.45*	18.00	31.00	28.00
	(vii) Electric Fans .. .. .	.. ..	2.99	2.70	6.00	5.00
24.	Electronics (excluding Telecommunications)					
	(i) Consumer Electronics	.. Rs. crores	196.5	170.0	414.0	350.0
	(ii) Medical Electronics .. .. .	.. ..	12.0	6.0	22.5	14.0
	(iii) Instruments .. .. .	.. ..	45.0	32.0	108.0	90.0
	(iv) Computers & Calculators .. .. .	.. ..	32.0	28.0	113.0	90.0
	(v) Controlled Industrial Electronics .. .. .	.. ..	35.0	30.0	70.0	63.0
	(vi) Components .. .. .	.. ..	183.0	92.0	255.0	188.0
	(vii) Materials .. .. .	.. ..	38.0	22.0	85.0	70.0
	(viii) Elementary and two-way communications .. .. .	.. ..	11.5	8.5	12.0	11.0

*Including 25 per cent excess licensed capacity.

ANNEXURE II

Sectoral Employment Generation, 1978-83

(Input-Output Model)

Sr. No.	Name of the Sector						Estimated Employment* (millions)		Increase (millions)	Share of Sector in total Employment (%) in 1982-83
							1977-78	1982-83		
	1						2	3	4	5
1.	Agriculture						99.213	121.981	22.768	56.387
1.1	Paddy						16.127	19.019	2.892	8.792
1.2	Wheat						6.150	7.413	1.263	3.427
1.3	Jowar						4.436	4.757	0.321	2.199
1.4	Bajra						2.257	2.698	0.441	1.247
1.5	Other cereals						4.326	4.134	(-) 0.192	1.911
1.6	Pulses						3.408	4.192	0.784	1.938
1.7	Sugar Cane						2.830	3.276	0.446	1.515
1.8	Jute						0.740	0.941	0.201	0.435
1.9	Cotton						1.972	2.439	0.467	1.127
1.10	Plantation						4.467	5.222	0.755	2.414
1.11	Other crops						13.374	16.535	3.161	7.643
1.12	Other agricultural Sectors						39.126	51.355	12.229	23.739
2.	Mining and Quarrying						0.899	1.346	0.447	0.622
3.	Manufacturing						22.736	31.654	8.918	14.632
3.1	Food						3.292	3.999	0.707	1.848
3.2	Beverages						0.381	0.448	0.067	0.207
3.3	Tobacco						1.707	1.854	0.147	0.857
3.4	Textiles						6.076	8.114	2.038	3.751
3.5	Footwear etc.						0.858	1.139	0.281	0.527
3.6	Wood and wood products						1.702	2.900	1.198	1.341
3.7	Paper and Paper products						0.138	0.186	0.048	0.086
3.8	Printing, Publishing, etc.						0.252	0.409	0.157	0.189
3.9	Leather and leather products						0.121	0.158	0.037	0.073
3.10	Rubber products						0.155	0.224	0.069	0.104
3.11	Chemicals						1.047	1.599	0.552	0.739
3.12	Products of Petroleum						0.063	0.098	0.035	0.045
3.13	Non-metallic mineral products						2.457	4.270	1.813	1.974
3.14	Basic Metals						0.602	0.923	0.321	0.427
3.15	Metal Products						0.801	1.140	0.339	0.527
3.16	Electrical Machinery						0.247	0.331	0.084	0.153
3.17	Other machinery						0.572	0.784	0.212	0.362
3.18	Transport Equipments						0.584	0.758	0.174	0.350
3.19	Miscellaneous Manufacturing						1.681	2.320	0.639	1.072
4.	Other Sectors						44.221	61.349	17.128	28.359
4.1	Electricity, Gas and Water						0.826	1.380	0.554	0.638
4.2	Construction						3.110	5.370	2.260	2.482
4.3	Railways						2.720	3.458	0.738	1.599
4.4	Other Transport						3.362	4.692	1.330	2.169
4.5	Other services						34.203	46.449	12.246	21.471
	Grand Total						167.071	216.330	49.261	100.000

Figures are given for aggregated sectors on the basis of primary calculations for the 89 input-output sectors model.

* Equivalent full time person years.

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