

FOREWORD

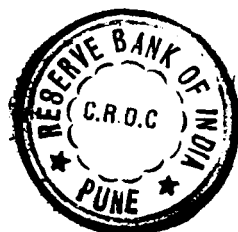
The Reserve Bank of India regularly brings out the Report on Currency and Finance, which was traditionally considered as a comprehensive source and record of economic developments. The structure of this Report has been re-oriented since 1998-99 from just documenting the economic developments to a 'theme-based 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



1978-79



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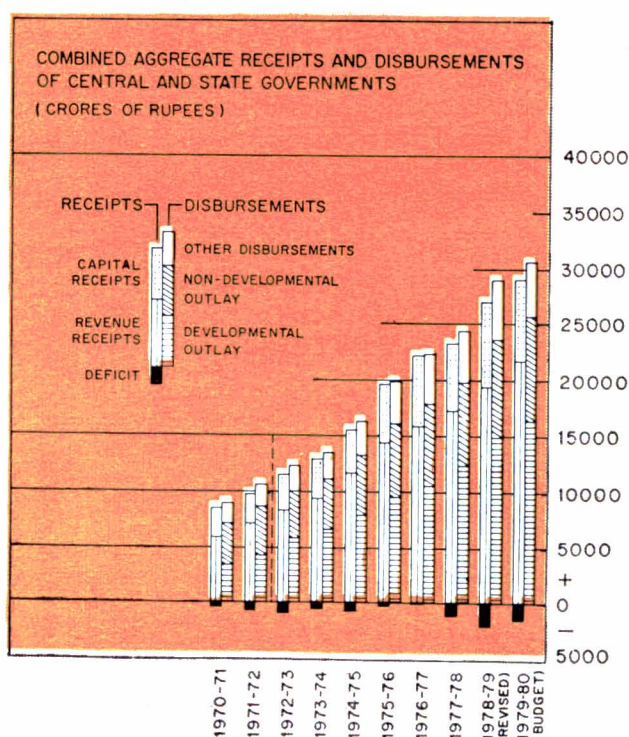
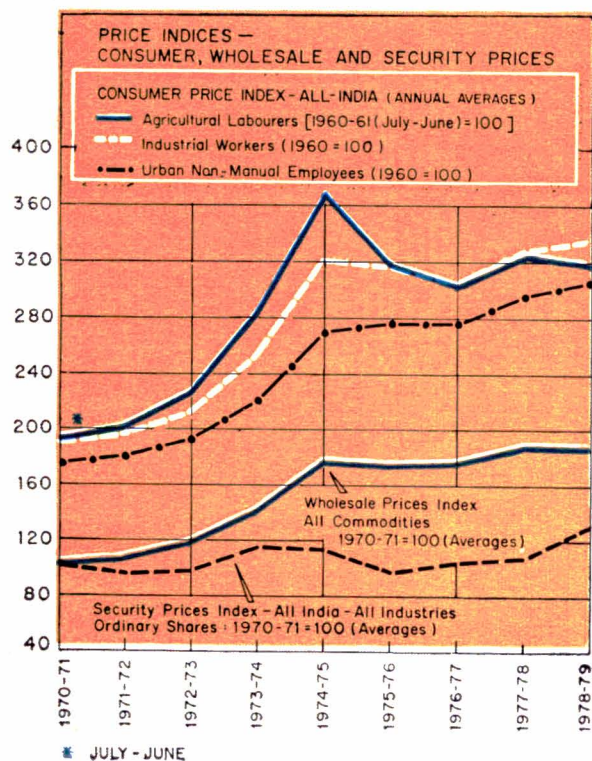
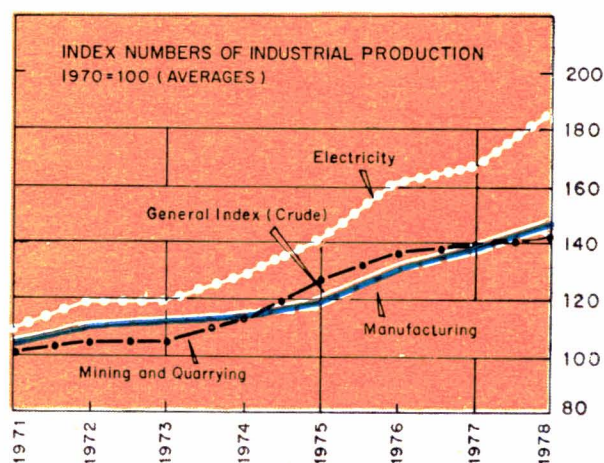
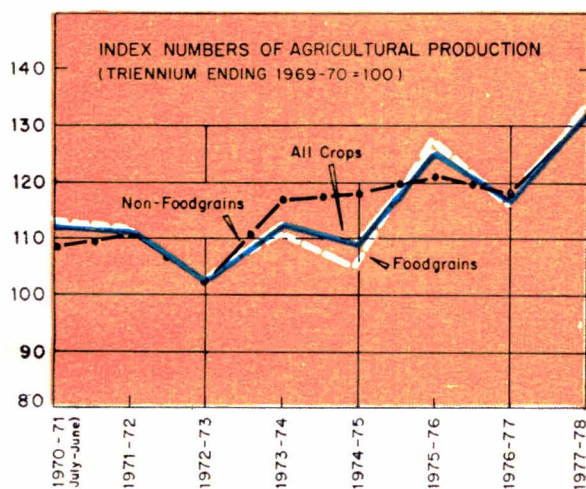
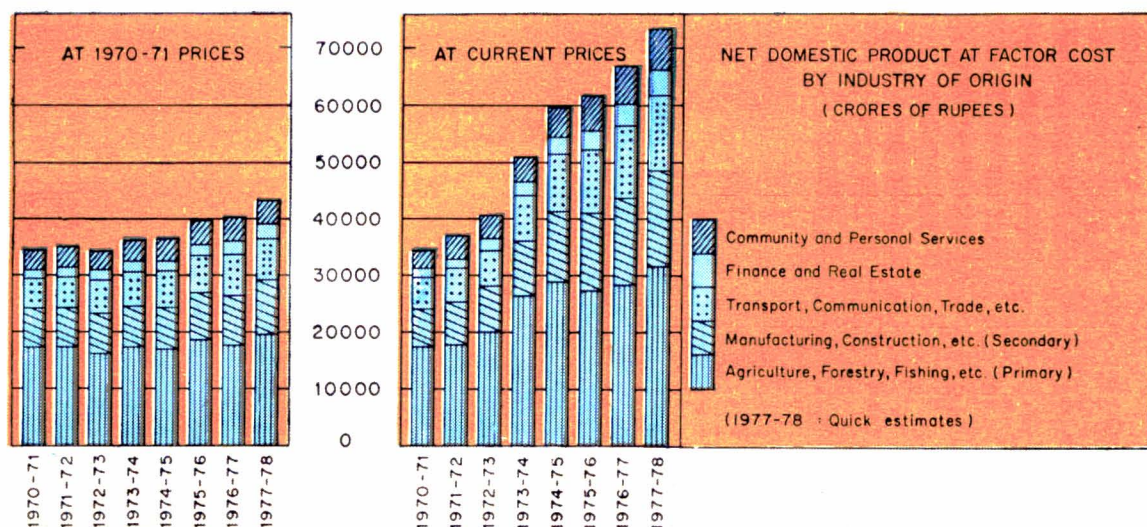
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SUBJECT INDEX

SELECTED ECONOMIC INDICATORS



Chapter I

Review and Outlook

Considered as a whole, the developments in the economy during the year July 1978 to June 1979, discussed in detail in the chapters that follow, brought into sharper focus some of the continuing weaknesses in the economy. There was evidence of improvement in aggregate investment and it was a good year in terms of production with agricultural output reaching a new record. On the other hand, the growth in industrial output, which improved markedly in 1978, slackened in the first half of 1979. The deceleration in industrial production derived from infrastructural inadequacies which have been evident for some time and have become more pronounced during the year under review. There was also a noticeable decline in the pace of accretion to foreign currency holdings. The most potent evidence of deterioration in the economic situation, however, was the emergence of inflationary tendencies in the latter part of the year. Developments since June 1979 have further added to the imbalances in the economy and, as of now, the prospects for the proximate future do not look so bright.

Agricultural production in 1978-79 showed a substantial increase for the second year in succession. The total foodgrains output, at about 131 million tonnes, recorded an improvement of 5 million tonnes over the production in 1977-78. This was brought about mainly by increased output of rice and wheat. Coarse grains and pulses, on the other hand, showed only marginal improvement, illustrating the absence of adequate development in some vulnerable areas. The production of some major commercial crops such as jute and cotton touched record levels while that of others like sugarcane and oilseeds also registered increases. The improvement in agricultural production owed significantly to the favourable weather conditions, which also facilitated the increasing use of fertilisers, high yielding varieties of seeds and other inputs. Another aspect of the increase in agricultural output was that it necessitated

larger purchases of foodgrains by government agencies. At the same time, the easy availability of foodgrains in the open market meant a decline in the off-take from the public distribution system; the off-take totalled 9.8 million tonnes in the period July 1978—June 1979, as against 11.5 million tonnes in the previous year. The total food stocks with public sector agencies at the end of June 1979 reached a new high of 21.4 million tonnes as against 18.3 million tonnes in June 1978.

Industrial production during the calendar year 1978 improved noticeably on the previous year's record: the monthly average of general index of industrial production was 147.8 as against 138.3 in the calendar year 1977. The better performance reflected higher capacity utilisation in several industries along with a noticeable increase in electricity generation. The situation in regard to industrial sickness, however, worsened: as a proportion of commercial banks' total outstanding advances to medium and large industrial units, the credit extended to sick units rose to 15.5 per cent at the end of September 1978 from 13.9 per cent a year ago. In the first half of 1979, there was a marked slackening in the pace of growth of industrial output with the index of industrial production increasing at a monthly average rate of just over 3 per cent, as against 6.7 per cent and 5.5 per cent in the corresponding halves of 1977 and 1978. A significant deterioration in the availability of power and in regard to transport and the overall labour situation appear as the principal reasons for the decline in the growth of industrial output since the beginning of 1979.

The growth in real national income during the year 1978-79 (April-March), estimated at 4.0 to 4.5 per cent, is considerably lower than that achieved in the previous year. It is also lower than the average annual growth of 5.6 per cent for the last three years. The slackening in 1978-79 mainly reflected the

fact that the level of agricultural output during the year, while high in itself, did not show a material improvement over the record level of the previous year. According to the RBI estimates, domestic savings during the year were considerably higher than in the last year. The ratio of savings to net national product also showed an improvement over the year; a higher savings propensity is to be expected in a period of relative price stability. The most important feature of the national income scene was a marked rise in the estimated investment. This followed an increase in domestic savings. But capital formation during the year exceeded the higher savings also, indicating a net inflow of foreign resources. In the past three years, capital formation was lower than domestic savings because of an outflow of resources from the economy; during 1978-79 the position has been reversed.

Despite unfavourable international conditions with deepening of recessionary trends, intensified protectionist measures and a decline in the prices of some primary commodities, the overall export performance during the year 1978-79 (April-March) was satisfactory; there was a marginal improvement in the rate of growth as compared to the preceding year. However, the trade deficit which re-emerged last year grew more pronounced. The policy of import liberalisation continued during the year and there was a considerable rise in the imports of commodities such as fertilisers, iron and steel, non-ferrous metals as well as machinery and transport equipment. The widening of the deficit on account of merchandise trade was a major factor contributing to a slackening in the pace of growth in the country's external reserves. At the end of June 1979, foreign currency reserves stood at Rs. 5,346 crores as against Rs. 4,518 crores at end-June 1978. The increase over the year was lower in absolute as well as in percentage terms, and also was the lowest since 1975-76.

The high rate of expansion in money supply of the last three years continued in 1978-79. In the context of the average annual increase of 16 per cent in money supply, or a total rise of 55.3 per cent in its level between end-June 1975 and the end of June 1978, while real GNP growth averaged at an

annual rate of 5.9 per cent, the object of monetary policy continued to be to restrain the impact of the increasing liquidity. Certain stringent steps were taken during the year to restrict undue expansion of bank credit; these have been detailed in the chapter on Banking Developments.

Relative price stability, which was the most heartening feature of the economic scene in the past two years, continued in the first eight months of the year under review. It, however, suddenly gave way to sharply rising prices after February 1979. Between end-February and end-June 1979, the general index of wholesale prices rose by 10.4 per cent. In contrast, in the preceding 23 month period since March 1977, the increase in the price index was just under one per cent. In consequence of the movements since February, the price increase over the entire period July 1978-June 1979 amounted to 9.5 per cent. The nature and composition of the price movements over the year as a whole are discussed in Chapter IV. It need only be noted here that the pace of the price rise was so sharp as to cause serious concern.

In the context of growing inflation, the constraints on enlargement of output appear more serious. The difficulties in the way of a substantial industrial growth, for instance, have become more complex, with the transport bottle-necks compounding the power shortages. In the present situation, while restrictionary monetary and credit policies will have to continue for limiting the impact of high liquidity and demand pressures, improvement on the supply side has to be assiduously worked for.

In the months since the end of the period covered in this Report, the situation has deteriorated further, principally because of the unfavourable south-west monsoon. The *kharif* output of foodgrains in 1979-80 is estimated at 70-72 million tonnes as against 79 million tonnes in 1978-79. Though *rabi* prospects are not as yet clear, the total production of foodgrains in the year as a whole may be lower by about 10 to 11 million tonnes. The weather factor, resulting in lower agricultural output, has had far-reaching effect on price expectations. There has been a further rise in prices; between end-June 1970

and end-October 1979 the wholesale price index has risen by 7.7 per cent. The snags impeding energy production and transport difficulties have grown more pronounced and industrial production has been adversely affected. In these circumstances it has become increasingly uncertain how far the GNP would show a growth in 1979-80 over the last year. The adverse effects of these domestic factors could well be aggravated by international uncertainties and rising prices

of oil as well as industrial materials and machinery. In any event it is clear that an improvement in the economic situation, particularly the price situation would require considerable skill in the management of limited supplies of both agricultural and industrial commodities, improvement in the power and transport nexus, increased efficiency in both public and private distribution machinery and, finally, re-establishment of socially beneficial codes of conduct in both public and private sectors.

Chapter II

National Income, Savings and Investment

1. Trends in National Income

The growth rate in net national product (NNP) in real terms during the year 1977-78, is placed, according to a quick estimate prepared by the Central Statistical Organisation, at 7.4 per cent which reflects a sharp increase over 1976-77; the growth in that year was 1.4 per cent. The per capita income is estimated to have increased by 5.2 per cent in contrast to a fall of 0.6 per cent in 1976-77 (Table II.1.)

The sharp increase in growth rate can be ascribed to the perceptible improvement of 13.9 per cent in the agricultural production during 1977-78. The growth rates in other important sectors viz. manufacturing sector (3.6 per cent), construction (8.0 per cent), electricity and water supply (3.7 per cent), transport, storage and communications (4.2 per cent), and banking and insurance (11.1 per cent) were, however, lower than in the preceding year.

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

							(Rupees Crores)				
							1974-75	1975-76	1976-77	1977-78	1978-79@
National Income											
At 1970-71 prices	..	..	..	..	..	..	36,504 (+1.0)	39,849 (+9.2)	40,395 (+1.4)	43,395 (+7.4)	45,348 (+4.5)
At current prices	..	..	..	..	..	..	59,315 (+17.1)	61,609 (+3.9)	66,561 (+8.0)	73,157 (+9.9)	76,376 (+4.4)
Per Capita Income (Rs.)											
At 1970-71 prices	..	..	..	..	..	..	618 (-1.0)	660 (+6.8)	656 (-0.6)	690 (+5.2)	715 (+3.6)
At current prices	..	..	..	..	..	..	1,004 (+14.7)	1,020 (+1.6)	1,081 (+6.0)	1,163 (+7.6)	1,205 (+3.6)

Source : Central Statistical Organisation, Government of India.

@ Estimated.

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

The growth rate in NNP during 1977-78 at current prices was 9.9 per cent, which was 1.9 percentage points higher than in 1976-77. Correspondingly, the per capita income in 1977-78 improved by 1.6 percentage points to 7.6 per cent. Official estimates of national income for 1978-79 are as yet not available. However, the growth rate in GNP during the year, in real terms has been provisionally placed lower at 4 to 4.5 per cent.

2. Aggregate Domestic Savings

According to provisional estimates for 1978-79, aggregate domestic savings at Rs. 17,327 crores represented a rise of Rs. 1,458 crores or 9.2 per cent over the year which was substantially higher than the rise of Rs. 826 crores or 5.5 per cent in the preceding year. As a proportion of national income at market prices, savings amounted to 20.0 per cent in

1978-79 as compared with 19.2 per cent in 1977-78. In the context of the comparatively low order of rise in the nominal national income during the year, the improvement in the saving-income ratio suggests an increase in saving propensities in a period of relative price stability.

Estimates of national savings are an aggregation of sectoral saving estimates separately made for (a) the household sector comprising individuals, non-Government, non-corporate entities in agriculture, trade and industry, non-profit making organisations like trusts and charitable and religious institutions, (b) the public sector comprising Central and State Governments, departmental and non-departmental undertakings, Reserve Bank of India, etc., and (c) the domestic private

corporate sector comprising non-Government financial institutions, non-financial public and private limited companies, and co-operative institutions. In the following sections the details of sector-wise estimates are discussed.

3. Household Sector Savings

The marked improvement in domestic savings during the year both in terms of the rate of savings as well as in terms of absolute level was entirely due to the increase in savings of the household sector in the form of financial assets and physical assets, net of change in the sector's financial liabilities. This sector's share in the total savings improved from 75.3 per cent in 1977-78 to 78.4 per cent in 1978-79 (Table II.2). The trends in the various components of household savings are reviewed below.

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

Sector	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1977-78	1978-79
1. Public Sector	3,641	3,443
Per cent of Net National Product at market prices	4.4	4.0
2. Domestic Private Corporate Sector (Including co-operatives)	283	301
Per cent of Net National Product at market prices	0.3	0.3
3. Household Sector	11,945	13,583
Per cent of Net National Product at market prices	14.5	15.7
4. Total Domestic Savings (1+2+3)	15,869	17,327
Per cent of Net National Product at market prices	19.2	20.0

Note : The rates of savings presented here are not to be compared with those published earlier because (i) the estimates of household savings in the form of physical assets are now based on figures published in the C.S.O's White Paper on National Accounts and (ii) the estimates of savings are related to NNP at market prices.

Financial Assets

Savings of the household sector in the form of financial assets are estimated at Rs. 8,484 crores constituting 55.1 per cent of the sector's gross savings as against Rs. 7,024 crores accounting for 51.7 per cent in the preceding year. The components of financial assets contributing to the increase

in savings are currency, deposits, insurance and provident funds of which the most preferred asset is currency. However, as regards 'deposits' and 'provident funds' though the absolute levels of savings have increased during the year, these assets registered a fall as a proportion to total financial assets. In view of the larger increases under currency and deposits as also the record rise under

insurance, the household sector's financial savings as a proportion to NNP moved up by 1.3 percentage points to 9.8 per cent in contrast to the significant fall of 1.1 per-

centage points in 1977-78. Savings in the form of claims on Government showed a steep fall as a result of repayment of an instalment of compulsory deposits (Tables II.3 & II.4).

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

Item	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1977-78	1978-79
1. Financial Assets (Gross)	7,024	8,484
Per cent of Net National Product at market prices	8.5	9.8
2. Physical Assets	6,562	6,909
Per cent of Net National Product at market prices	8.0	8.0
3. Financial Liabilities	1,641	1,810
Per cent of Net National Product at market prices	2.0	2.1
4. Total Net Savings (Net of Financial Liabilities i.e. 1+2-3)	11,945	13,583
Per cent of Net National Product at market prices	14.5	15.7

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)	
	1977-78	1978-79
Total Financial Assets (1 to 6)	7,024	8,484
Per cent of Net National Product at market prices	8.5	9.8
1. Currency	693	1,512
(a) Per cent of Total Financial Assets	9.9	17.8
(b) Per cent of Net National Product at market prices	0.8	1.8
2. Deposits	3,925	4,400
(a) Per cent of Total Financial Assets	55.9	51.9
(b) Per cent of Net National Product at market prices	4.8	5.1
3. Insurance	592	958
(a) Per cent of Total Financial Assets	8.4	11.3
(b) Per cent of Net National Product at market prices	0.7	1.1
4. Provident Funds	1,277	1,456
(a) Per cent of Total Financial Assets	18.2	17.2
(b) Per cent of Net National Product at market prices	1.6	1.7
5. Claims on Government	336	29
(a) Per cent of Total Financial Assets	4.8	0.3
(b) Per cent of Net National Product at market prices	0.4	—
6. Corporate and Co-operative shares and debentures including units of Unit Trust of India.	201	129
(a) Per cent of Total Financial Assets	2.8	1.5
(b) Per cent of Net National Product at market prices	0.2	0.1

CURRENCY

The household sector's savings in the form of currency showed a record rise of Rs. 1,512 crores during 1978-79 which was more than double the increase of 1977-78; its share in the sector's total financial assets rose from 9.9 per cent to 17.8 per cent during the year. The substantial increase in currency during the year may have been influenced by a combination of factors such as the sizeable procurement operations in the wake of increased agricultural output, family remittances by nationals working abroad and disruptions in the banking services in the recent past.

DEPOSITS

These include predominantly savings deposits and fixed deposits of households with commercial and co-operative banks and deposits with non-banking companies. Household savings through this medium aggregated Rs. 4,400 crores during 1978-79 as against Rs. 3,925 crores in 1977-78. However, as mentioned earlier, this asset as a proportion to gross financial savings recorded a decline from 55.9 per cent in 1977-78 to 51.9 per cent in 1978-79, reflecting a deceleration in the rate of growth. But in relation to NNP its share improved from 4.8 per cent in 1977-78 to 5.1 per cent in 1978-79.

INSURANCE AND PROVIDENT FUNDS

The household sector's savings through insurance and provident funds which are contractual savings have gained importance in recent years. Put together, they accounted for about 23.1 per cent of the sector's gross financial assets in 1976-77, 26.6 per cent in 1977-78, the share improving further to 28.5 per cent in 1978-79.

Savings in the form of insurance are measured by the changes in the Life Fund of the Life Insurance Corporation of India (LIC), State Insurance Funds and Postal Insurance. During the year, the Life Fund of the LIC is estimated to have registered a marked rise mainly as a result of record increase in new business under 'group insurance' and in part due to the increase in individual life business, which had recorded a decline in the past two years.

A moderate increase was recorded under Postal and State insurance. With the result, the household sector's savings by way of insurance formed about 11.3 per cent of the sector's gross financial savings and 1.1 per cent of NNP in 1978-79; the respective shares were 8.4 per cent and 0.7 per cent in 1977-78.

Accruals under provident funds viz., the Employees Provident Fund, State (Central and State Governments) Provident Funds and 'Other Provident Funds' are estimated at Rs. 1,456 crores during the year, compared with Rs. 1,277 crores in 1977-78. More than one-half of the total accruals under these funds is attributable to the Employees Provident Fund. As a proportion of NNP, accruals under provident funds reflected a marginal improvement, although their share in the household sector's gross financial assets recorded a decline.

CLAIMS ON GOVERNMENT

This category includes small savings collections from households, the household sector's direct investment in Government securities and the deposits made under Compulsory Deposit Scheme. During the year, the household sector's savings in these assets taken together showed a steep decline and were as low as Rs. 29 crores as against the peak of Rs. 987 crores in 1975-76, Rs. 819 crores in 1976-77 and Rs. 336 crores in 1977-78, mainly on account of the repayment of instalments of amounts impounded earlier under the Compulsory Deposit Scheme. During the year, net repayments under the CDS amounted to Rs. 316 crores as against a nominal accretion under this head of Rs. 14 crores in 1977-78. The increase in small savings together with that in investments in Government securities was not sufficient to offset the decline on account of repayments of instalments of Compulsory deposits.

OTHER FINANCIAL ASSETS

These include the household sector's investments in shares/debentures of corporate sector, units of Unit Trust of India (UTI), and investments in shares and debentures of co-operative institutions. All

these assets taken together are estimated to have declined by Rs. 72 crores to Rs. 129 crores, despite a substantial increase in the investments in units of the Unit Trust of India. As a result, savings in these assets as a proportion of the sector's gross financial assets during 1978-79 were lower at 1.5 per cent as against 2.8 per cent during the preceding year.

SAVINGS IN PHYSICAL ASSETS

For want of sufficient information, it has not been possible to estimate with any degree of precision, the household sector's savings in the form of physical assets which are generally grouped into construction, machinery and equipment and change in stocks. Estimates presented here are based on the data in regard to savings and capital formation of the household sector contained in the CSO's White Paper on National Accounts and assume that as a proportion of NNP these assets have remained unchanged during the year.

Financial Liabilities

Financial liabilities of the household sector include borrowings from commercial banks and co-operative institutions, loans from the Life Insurance Corporation of India, term lending institutions and from the Central and State Governments and net borrowings from the corporate sector in the form of trade credit, i.e. net change in trade transactions with the corporate sector. In order to arrive at the net savings of the household sector, these financial liabilities are netted from savings in the form of financial and physical assets. The total financial liabilities are estimated to have gone up from Rs. 1,641 crores in 1977-78 to Rs. 1,810 crores in 1978-79. Increases in financial liabilities were particularly marked in respect of borrowings from

commercial banks and co-operatives, and loans from the Governments. As regards the change in net trade credit position during the year, the household sector was a net lender to the corporate sector whereas in 1977-78 the position was in favour of the corporate sector.

4. Savings of the Public Sector

The contribution of the public sector to domestic savings declined by 3.0 percentage points to 19.9 per cent in 1978-79. Savings of the sector as proportion of NNP showed a marginal decline to 4.0 per cent in 1978-79 from 4.4 per cent in 1977-78. The net savings of this sector are estimated lower at Rs. 3,443 crores as compared with Rs. 3,641 crores in the preceding year (Table II. 5).

The decline was mainly on account of lower savings of the Union Government administration and departmental undertakings. Net savings of the former at Rs. 237 crores reflected a sharp fall from the previous year's level of Rs. 537 crores; as a proportion of revenue receipts of the Government, these savings constituted about 2.4 per cent as against 6.0 per cent last year. Similarly the savings of the departmental undertakings in the form of retained earnings and net depreciation provision amounting to Rs. 245 crores were about Rs. 100 crores lower during the year than those in the previous year. However, other constituents of public sector such as financial corporations including public sector banks and non-departmental commercial undertakings recorded improvements in their savings as compared with their performance in the last year. At Rs. 2,292 crores, the savings of the State Governments showed an increase of Rs. 24 crores over the year, which was smaller than the rise of Rs. 63 crores recorded in 1977-78.

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

Item	(Rupees Crores at Current Prices)	
	Financial Year (April-March)	
	1977-78	1978-79
1. Central Government (including Departmental Undertakings)	886	482
2. State Governments and Local Authorities	2,342	2,368
3. Non-Departmental Financial and Non-Financial Undertakings	413	593
4. Total (1 + 2 + 3)	3,641	3,443
Per cent of Net National Product at market prices	4.4	4.0

5. Savings of the Domestic Private Corporate Sector

Savings of the Domestic Private Corporate Sector (including co-operative institutions), estimated on the basis of available data showed a rise in absolute terms from Rs. 283 crores in 1977-78 to Rs. 301 crores in 1978-79, mainly due to relatively large plough back of funds by the companies in the wake of increased turnover and improved profitability. This sector's contribution to total domestic savings, however, came down by 0.1 percentage point to 1.7 per cent during 1978-79, though the saving-income ratio remained static at 0.3 per cent, a rate observed since 1976-77 (Table II.2).

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.@ During the year, the improved rate of domestic savings was accompanied by an inflow of foreign resources. As a result, investment-income ratio at 20.2 per cent showed a smart improvement of 1.6 percentage points over the year. Significantly this represented a reversal of the trend of the immediately past three consecutive years when the capital formation was less

than the domestic savings and there was an outflow of resources from the economy. During 1978-79 capital formation exceeded the saving rate of 20.0 per cent by 0.2 percentage points reflecting higher investment activity in the economy (Table II.6).

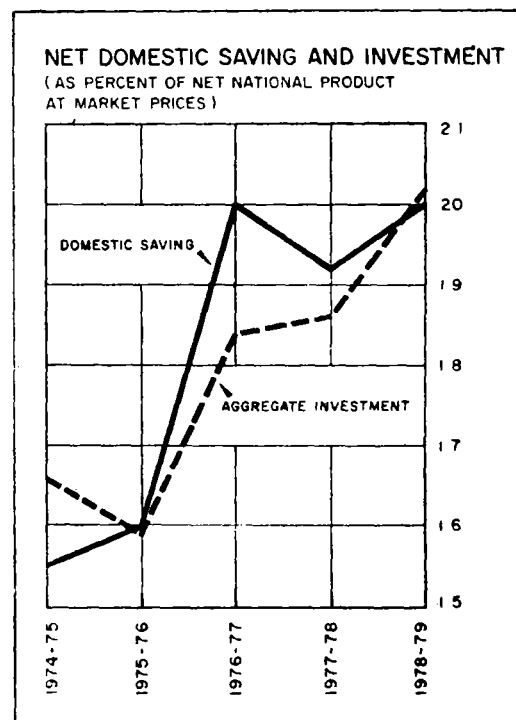


Table II.6 : Estimates of Domestic Savings and Investment :
Per cent of Net National Product at market prices*

	1977-78	1978-79
1. Domestic Savings	19.2	20.0
2. Inflow of Foreign Resources (Net)	- 0.6	0.2
3. Aggregate Investment (Net) (1+2)	18.6	20.2

* Please refer footnote to Table II.2

Sectoral Investment

On the basis of available indicators, broad trends in investment activity by different sectors are presented below briefly.

@ Net 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.

PUBLIC SECTOR

Capital formation out of budgetary resources of the Central Government forms a significant proportion of total investment in the public sector. Capital formation through the budget by way of direct investment as well as provision of financial assistance for this purpose to the States, Union Territories and non-departmental commercial undertakings and others

accounted for 8.4 per cent of NNP at market prices, as against a lower share of 6.9 per cent in 1977-78. Gross direct fixed capital formation improved by Rs. 208 crores to Rs. 1,327 crores, substantially higher than the rise of Rs. 29 crores in 1977-78. (Table II.7). Net capital formation (i.e. excluding expenditure on renewals and replacements) is estimated at Rs. 1,181 crores, higher by Rs. 239 crores over the level in 1977-78. The Union Government's assistance to the States and non-departmental undertakings for financing investment was also stepped up from Rs. 4,579 crores in 1977-78 to Rs. 5,828 crores in 1978-79. Gross capital formation in non-departmental industrial undertakings

which was continuously on the increase since 1972-73, suffered a set-back in 1977-78 with a decline over the year of Rs. 1,507 crores to Rs. 2,015 crores. The decrease was evident in both gross fixed assets and inventories; while the former declined by Rs. 185 crores, inventory decumulation amounted to as much as Rs. 1,322 crores. No firm data are available in regard to the position in 1978-79. Nevertheless, as a result of the larger savings of these undertakings in the form of retained earnings and increased financial assistance from the Union Government, the rate of investment in this sector may be assumed to have shown substantial improvement during the year.

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

								(Rupees Crores)	
								1977-78	1978-79 (R.E.)
1.	Gross Direct Fixed Capital Formation	..	..	..	..	..	..	1,119	1,327
2.	Variation in Inventories	..	..	..	..	..	..	—11	62
	Works stores	..	..	..	..	..	..	—11	62
3.	Net Capital Formation (i.e. gross direct fixed capital formation minus expenditure on renewals and replacements plus increase in inventories)	..	..	..	..	..	..	942	1,181
4.	Financial Assistance for Capital Formation	..	..	..	..	..	..	4,579	5,828
	(a) To States, Union Territories	..	..	..	..	..	..	2,221	3,314
	(b) To non-departmental commercial undertakings	..	..	..	..	..	..	2,156	2,280
	(i) Financial concerns	..	..	..	..	..	..	327	414
	(ii) Others	..	..	..	..	..	..	1,829	1,866
	(c) Other parties	..	..	..	..	..	..	202	234
5.	Investments in Central Government's Non-Departmental Industrial and Commercial Undertakings	..	..	..	..	..	..	2,015	N.A.
	(i) Gross Fixed Assets	..	..	..	..	..	..	2,098	N.A.
	(ii) Variation in Inventories	..	..	..	..	..	..	—83	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, 1977-78, Ministry of Finance, Government of India.

PRIVATE SECTOR

It is difficult at this stage to provide any precise estimate of the size of investment in the private sector. Broad trends in the organised segment of private sector, namely the corporate sector may, however, be indicated on the basis of identifiable sources of funds utilised for capital formation. Data on sources and uses of funds given in table II.8

reveal that barring the amount raised from the capital market, the availability of funds for investment purposes through retained earnings, advances from term-lending institutions and commercial banks, as also in the form of trade credit improved over the year. On this basis, the private corporate sector appears to have been able to increase the level of investment from Rs. 1,539 crores in 1977-78 to Rs. 1,663 crores in 1978-79.

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

(Rupees Crores at Current Prices)					
Financial Year (April-March)					
Sources			Uses		
	1977-78	1978-79		1977-78	1978-79
1. Capital Raised (including debentures)	169	89	1. Cash and Bank Balances and Investments	72	76
Less : Intra-sectoral Flows (Estimated)	34	18	2. Sundry Debtors	234	250
	135	71			
2. Retained Profits	195	250	3. Gross Fixed Assets and Inventories	1,539	1,663
3. Tax Provision	46	—			
4. Borrowings	555	588			
5. Sundry Creditors	184	300			
6. Depreciation Provision	730	780			
7. Total	1,845	1,989	4. Total	1,845	1,989

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

Chapter III

Agricultural and Industrial Output

I. Agricultural Output

For the second year in succession, agricultural production established a new record in 1978-79. The index number of agricultural production for 1978-79 is not available, but on the basis of available data, the rise in overall agricultural production would be around 3.6 per cent on the top of a rise of 13.9 per cent achieved in 1977-78. This increase in production was achieved despite damage caused by heavy floods in certain parts of the country. This encouraging performance was, besides good seasonal conditions, mainly due to increase in the area under high yielding varieties (4 million hectares), sharp rise in consumption of fertilisers (0.8 million tonnes), additional area under cultivation, availability of easier credit facilities, etc. Production of foodgrains, jute and cotton registered appreciable increases and scaled new peaks. Production of oilseeds, at 9.6 million tonnes surpassed the last year's level. Production of sugarcane is expected to be significantly lower at 16.5 million tonnes as against 18.8 million tonnes in 1977-78.

Foodgrains

PRODUCTION AND DISTRIBUTION

The total foodgrains production in 1978-79 is estimated at 131.4 million tonnes, which would be substantially higher than 126.4 million tonnes in 1977-78, which itself was a record level. Both *kharif* and *rabi* foodgrains productions are expected to be higher at 78.7 million tonnes and 52.7 million tonnes in 1978-79 as against 77.7 million tonnes and 48.7 million tonnes, respectively, in 1977-78.

The overall net availability of foodgrains which had increased from 98.9 million tonnes in 1977 to 109.5 million tonnes in 1978, is

expected to rise further during 1979 (Table III.1). The daily per capita availability of foodgrains, which increased from 437.1 grammes in 1977 to 472.6 grammes in 1978 is expected to rise further during 1979.

Offtake from the public distribution system was lower at 10.0 million tonnes in 1978 as compared to 11.7 million tonnes in 1977. During January-August 1979, the offtake from public distribution system was also lower at 6.5 million tonnes than 7.0 million tonnes during the corresponding period of 1978. The fall in the offtake from public distribution system was on account of the easy availability of foodgrains in the open market. Keeping in view the need to ensure easy availability of foodgrains to consumers, the requirements of wheat and rice of the State Governments were fully met. Wheat was also made available to the State Governments for distribution on gratuitous basis such as for relief works in flood-affected areas. Besides, rice and wheat were released to the State Governments under the Food-for-Work Programme[@] for generating additional employment opportunities in the rural areas. Also, a major portion (12.2 lakh tonnes upto August 1979) of the Soviet wheat loan was returned in kind. A small quantity of wheat and rice was also exported to Vietnam and Afghanistan as a gesture of goodwill. Rice was exported to Indonesia on commercial basis.

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 during 1978-79 was, therefore, confined only to Greater Calcutta and Durgapur—Asansol industrial complex. The population covered under the statutory rationing was about 9.5 millions at the end

[@] Refer page No. 28

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

(Million tonnes)

Year	Gross output@	Net output	Net imports	Change in Government stocks	Net availability	Per Capita net availability per day (in gms.)			Procurement	Public distribution	
						All food-grains	Cereals	Pulses			
1	2	3	4	5	6	7	8	9	10	11	
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	87.4	7.4	÷ 5.6	89.2	408.6	368.5	40.1	9.6	11.3
1976	..	121.0	105.9	6.4	+10.3	102.1	457.8	406.6	51.2	12.9	9.2
1977	..	111.2	98.9	0.4	— 1.3	98.9	437.1	393.2	43.9	10.0	11.7
1978	..	126.4	110.6	— 1.0	+ 0.1	109.5	472.6	427.8	44.8	11.0	10.0

@ For the agricultural year July-June.

Note : (1) Net availability = Net production + Imports — Change in the Government Stocks.

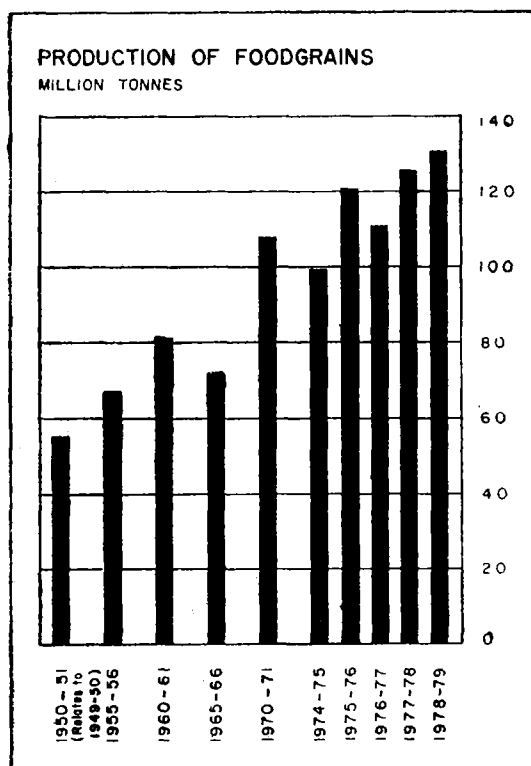
(2) Net output is defined as 87.5 per cent of gross production, the balance being provided for feed, seed and wastage.

Source : Economic Survey, 1978-79, Government of India.

of 1978. Besides, foodgrains continued to be supplied through fair price/ration shops in other areas. The total number of fair price/ration shops functioning in the country by the end of 1978 was about 2.42 lakhs as against 2.39 lakhs in 1977.

PROCUREMENT AND BUFFER STOCKS

Though no specific targets were fixed as in last year, actual procurement in the year was higher than in the preceding year. Procurement of rice between November 1, 1978 and September 28, 1979 was higher at 6.2 million tonnes as against 4.8 million tonnes procured during the corresponding period of the last season. During the 1979-80 season, procurement of wheat by the Government till September 28, 1979 aggregated 8.0 million tonnes as against 5.5 million tonnes procured during the corresponding period of the last season, thus, surpassing earlier record level of 6.6 million tonnes in the 1976-77 (Table III.2). Under the price support measures, the Government procured 1.25 lakh tonnes of *kharif* coarse grains upto the end of September 1979. The total physical stocks of foodgrains with the Central and State Governments were substantially higher at 20.9 million tonnes at the end of August 1979 as against 17.5 million tonnes a year ago. A change in the composition of stocks of foodgrains was, however, noticeable since March 1978. Prior to March 1978, the share of wheat in total foodgrains stocks exceeded that of rice. After March 1978, this trend was reversed and the stocks of rice started rising from 6.6 million tonnes at the end of March 1978 to 9.7 million tonnes at the end of April 1979, whereas the stocks of



wheat declined from 8.8 million tonnes to 5.9 million tonnes during the same period. However, stock composition has changed

at the end of May 1979 and wheat stocks again exceeded the rice stocks due to the record level of wheat procurement.

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
1974-75 ..	39.6	24.1	26.1	3.8	4.0	0.3	—	4.2	0.7	3.8	5.7	1.1	1.2	0.2
1975-76 ..	48.7	28.9	30.4	6.3	6.6	0.3	0.1	7.0	0.3	3.2	7.5	2.8	4.8	0.4
1976-77 ..	41.9	29.0	28.9	4.4	5.2	0.2	0.1	5.8	0.5	3.6	5.0	5.6	12.3	0.7
1977-78 ..	52.7	31.7	30.0	4.8	5.5	0.02	—	0.5	—	4.6	6.3	5.6	11.5	0.2
1978-79 ..	53.8	35.0	30.4	6.2*	8.0*	0.13*	—	—	—	3.2	6.7	8.1	9.2	0.1

* Upto September 28, 1979.

@ Final Estimate

Note : Procurement figures relate to the marketing year.

Imports, public distribution and year-end stocks relate to the calendar year.

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

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

Commodity-wise Review

RICE

Rice production during 1978-79 is estimated at an all-time high level of 53.8 million tonnes, which is higher than 52.7 million tonnes attained in 1977-78 (Table III.2).

The Agricultural Prices Commission (APC) had recommended under the *kharif* policy for the 1978-79 season, an increase of Rs. 5 in the procurement price of paddy from Rs. 77 in 1977-78 to Rs. 82 per quintal. APC had also recommended to the Government to keep up the tempo of procurement in order to maintain the balance of rice in the composition of stocks with them. Following the recommendations of APC, the Government increased the procurement price of paddy by Rs. 8 to Rs. 85 per quintal as against the recommended price of Rs. 82 by APC. For better varieties, the procurement price was still higher, the highest being Rs. 103 per quintal for superfine paddy in Andhra Pradesh. No procurement target was fixed for 1978-79 *kharif* marketing season and the policy of free movement of paddy and rice throughout the country was continued this year also.

The issue price of rice has been retained in the range of Rs. 135 to Rs. 172 per quintal (Table III.3). The premium of Rs. 5 per quintal to millers for par-boiled rice was continued.

Rice procurement during 1978-79 *kharif* marketing season (November 1, 1978 to September 28, 1979) has been substantially higher at 6.2 million tonnes compared with 4.8 million tonnes (Table III.4) in the corresponding period of 1977-78.

In 1978, 3.2 million tonnes of rice were distributed through the public distribution system as against 4.6 million tonnes in 1977. During January-August 1979, distribution of rice aggregated 2.1 million tonnes as against 2.3 million tonnes during the corresponding period of 1978.

In view of comfortable stock position of foodgrains, India exported 52,342 tonnes of rice to Indonesia on commercial basis; the exports of Basmati rice was decanalised with effect from February 15, 1979. The Central Government has entered into two separate agreements with the Government of Mauritius for the supply of 36,000 tonnes of rice on commercial basis.

WHEAT

Wheat production in 1978-79 is estimated higher at around 35.0 million tonnes as compared with 31.7 million tonnes during 1977-78 (Table III.2).

Under the procurement policy for wheat for the 1979-80 *rabi* marketing season (April-March), the procurement price for the fair average quality wheat has been slightly raised to Rs. 115.00 from Rs. 112.50 per quintal announced for 1978-79 (Table III.3), as recommended by APC. No procurement targets have been fixed for the marketing season of 1979-80. The procurement of wheat by the State public agencies would be mainly by way of price support operations. The issue price of wheat was raised by Rs. 5 to Rs. 130 per quintal with effect from December 1, 1978, which is maintained for 1979-80 *rabi* marketing season. The policy of free movement of wheat throughout the country continued and the whole country has been treated as a single zone for the purpose of purchases. At the end of April 1979, the Union Government liberalised certain conditions on roller flour mills to enable them to buy their wheat requirements. Accordingly, mills could buy wheat upto 60 per cent of their total requirements from the open market and the balance from the Food Corporation of India.

Purchases of wheat during the 1979-80 *rabi* marketing season till September 28, 1979 aggregated 8.0 million tonnes as against 5.5 million tonnes procured during the corresponding period last season (Table III.4), thus, surpassing earlier record level of 6.6 million tonnes procured in 1976-77.

In 1978, 6.7 million tonnes of wheat were distributed through public distribution system as against 6.3 million tonnes distributed in 1977. During January-August 1979, public distribution of wheat was lower at 4.4 million tonnes as against 4.6 million tonnes during the corresponding period of 1978.

Upto end-February 1979, India exported 95,699 tonnes of wheat to Vietnam and 34,152 tonnes to Afghanistan on a commodity loan basis. Towards 14.98 lakh tonnes of Russian wheat loan, India returned 12.2 lakh tonnes by end-August 1979.

COARSE GRAINS

The output of coarse grains for the year 1978-79 is estimated at 30.4 million tonnes as against 30.0 million tonnes produced in 1977-78. The support price of coarse grains was raised by Rs. 11 to Rs. 85 per quintal for 1978-79 *kharif* marketing season. Under the price support measure, the Government purchased only 19,000 tonnes of coarse grains in 1977-78 *kharif* marketing season. During the current season so far (upto September 28, 1979), purchases of *kharif* coarse grains have been considerably higher at 1.25 lakh tonnes as against only 18,599 tonnes during the corresponding period of the previous season. Distribution of coarse grains through public distribution system was much lower at 1.20 lakh tonnes in 1978 as against 7.69 lakh tonnes in 1977. During January-August 1979, public distribution of coarse grains totalled only 76,000 tonnes against 102,000 tonnes during the corresponding period of the previous year.

PULSES

Production of pulses is estimated marginally higher at 12.2 million tonnes in 1978-79 as against 12.0 million tonnes produced in 1977-78. Production of gram is estimated marginally higher at 5.8 million tonnes in 1978-79 as against 5.4 million tonnes produced in 1977-78. The support price for gram was further raised to Rs. 140 per quintal for 1979-80 *rabi* marketing season as against Rs. 125 per quintal for the last season. The support price of gram this year, was announced by APC well in advance of the season in order to provide an incentive to bring in more area under the cultivation of gram. The support prices for fair average quality of tur (*arhar*) and moong were raised by Rs. 10 each to Rs. 165 and Rs. 175 per quintal, respectively, for the 1979-80 *rabi* marketing season. The support price for urad was fixed for the first time at Rs. 175 per quintal for the 1979-80 marketing season.

COTTON

The all-India final estimate of cotton for 1978-79 places area at 80.87 lakh hectares and production at 79.27 lakh bales as compared to the revised estimate of 78.66 lakh

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

(Rupees per quintal)

Commodity	1975-76			1976-77			1977-78			1978-79		
	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
Paddy		74.00			74.00			77.00			85.00	
Rice			135.00—			135.00—			135.00—			135.00—
(Standard Variety)		117.00	172.00		117.00	172.00			172.00			172.00
(Coarse Variety)		127.00			127.00							
Wheat*		105.00	125.00		110.00	125.00		112.50	125.00 [§] 130.00 ^{§§}		115.00	130.00
Jowar		74.00			74.00			74.00			85.00	
Bajra		74.00	86.00		74.00	86.00		74.00	86.00		85.00	86.00
Maize		74.00			74.00			74.00			85.00	
Ragi		74.00			74.00			74.00			85.00	
Barley*	65.00			65.00			67.00			—		
Gram*	90.00			95.00			125.00			140.00		
Moong*		—		—			165.00			175.00		
Urad*		—		—			—			175.00		
Tur*		—		—			155.00			165.00		

[@] Not announced for kharif cereals and wheat.

* Rabi marketing season (April—March)

§ Upto November 30, 1978

§§ From December 1, 1978

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

Table III.4 : Procurement of Rice and Wheat

(Thousand tonnes)

State	1974-75		1975-76		1976-77		1977-78		1978-79		1979-80	
	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice@	Wheat	Rice	Wheat@
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra Pradesh	888	—	1380	—	483	—	612	—	970	—	—	—
Assam	129	—	257	—	155	1	21	—	32	—	—	—
Bihar	61	2	60	51	42	101	15	11	12	29	—	87
Gujarat	12	—	27	17	32	137	—	—	—	—	—	—
Haryana	278	249	480	433	647	907	740	908	880	933	—	1388
Jammu & Kashmir	25	—	41	19	33	15	49	8	58	13	—	21
Karnataka	123	—	265	—	65	—	50	—	106	—	—	—
Kerala	42	—	32	—	20	—	15	—	—	—	—	—
Madhya Pradesh	131	124	292	138	175	274	178	11	301	20	—	100
Maharashtra	87	—	52	55	37	21	1	6	31	—	—	—
Orissa	55	—	234	—	118	—	80	—	53	—	—	—
Punjab	970	1083	1201	2361	1534	2942	2190	3234	2725	3206	—	4204
Rajasthan	8	127	26	185	39	474	—	123	16	77	—	300
Tamil Nadu	439	—	888	—	173	—	94	—	19	—	—	—
Uttar Pradesh	283	319	762	790	691	1711	566	853	837	1164	—	1883
West Bengal	225	—	301	—	171	18	245	—	143	16	—	3
Others	27	51	50	91	16	193	6	11	7	20	—	14
TOTAL	3795	1955	6322	4049	4431	6602	4854	5165	6191	5478	—	8001

£ 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 September 28, 1979.

Source : Bulletin on Food Statistics, Government of India.

hectares and 72.43 lakh bales, respectively, for 1977-78, registering a rise of 5.62 lakh hectares (7.6 per cent) and 6.84 lakh bales (9.4 per cent). However, according to the estimate of Cotton Advisory Board (CAB), cotton production in 1978-79 is placed at 77.50 lakh bales as compared with 71.03 lakh bales in 1977-78 (Table III.5).

According to CAB, the 1978-79 cotton season has started with a larger opening stock of 18.42 lakh bales as compared with 12.42 lakh bales for the 1977-78 season and a small quantity of 0.31 lakh bales of imported cotton as spill-over from the previous years' contracts. Consumption of cotton by mills has been estimated to be higher at 70.50 lakh bales in 1978-79 as compared with 66.16 lakh bales in 1977-78. The increase in the consumption of cotton is due to (i) increase in spindleage, (ii) withdrawal of duty exemption for man-made fibres and consequent likely reduction in their imports and (iii) permission for exports of cotton yarn above 6s counts. Exports of 2.50 lakh bales are expected in 1978-79; extra-factory consumption would be around 2.50 lakh bales. Stocks of raw cotton

at the end of the season, according to CAB, would be around 20.73 lakh bales. The main strategy adopted for increasing production during 1978-79 consisted of (i) raising the per-hectare productivity of both irrigated and unirrigated cotton through intensive cultivation measures on district-wise basis, (ii) stepping up of area under irrigation for cotton by fully exploiting the potential under the command of new irrigation projects and (iii) accelerating the spread of high-yielding hybrid cottons to their maximum potential area. A comprehensive centrally sponsored Intensive Cotton District Programme (ICDP) incorporating the above strategy was implemented during the year in all the major cotton growing States. In addition, some of the State Governments also sponsored package programmes from their own resources to increase the production. Other measures taken during the year for increasing the productivity of cotton per hectare included extension of the ICDP to new irrigation projects, aerial spraying programme on cotton plants, production of hybrid cotton seeds, production of Nucleus and Foundation

(N & F) seed of improved varieties of cotton, establishment of centres for grading of kapas and the continuation of State package programmes. The total area targetted to be

covered under the ICDP programme by the end of 1978-79 season was 17.3 lakh hectares as compared with 16.6 lakh hectares for the previous season.

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 consump- tion	Stocks as at the end of season
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	5950 (5839)\$	142	818(P)	39*	6752	1242
1977-78	7103 (7243)\$	155	343(P)	N.A.	6616	1842
1978-79 (Latest CAB estimates)	7750 (7927)£	N.A.	31	250@@	7050	2073

\$ Revised estimate.

* Up to July 1977

N.A. Not Available

@ Stocks with Mills only

P Provisional

£ Final Estimate

@@ Exports permitted so far are 6.55 lakh bales.

Source : Directorate of Cotton Development, for the years 1973-74 and 1974-75 and Cotton Advisory Board, for the years 1975-76 to 1978-79.

For the 1978-79 season, the Agricultural Prices Commission (APC) recommended that the minimum support price for kapas of fair average quality of Punjab American 320-F variety be maintained at Rs. 255 per quintal as in the 1977-78 season and the corresponding prices for other varieties be fixed on the basis of the normal price differentials between 320-F and other varieties. The Government of India accepted the Commission's recommendations.

With a view to maintaining cotton prices at reasonable levels without undue fluctuations throughout the year and to protect the farmers from exploitation by middlemen, the new textile policy announced by the Union Government in August 1978, envisaged a bigger role for the Cotton Corporation of India (CCI) with the following additional functions : (i) to intervene in the market so as to prevent cotton prices from dropping below the prescribed minimum, (ii) to enter into commercial transactions and to build up and operate a buffer stock and (iii) to purchase cotton and supply it not only to mills under the National

Textile Corporation (NTC) but also to other mills in private and public sectors.

During the 1978-79 cotton season, the CCI was allowed to make purchases of cotton in domestic markets at ruling prices on commercial basis in addition to purchases against indents of the NTC mills. In the 1978-79 cotton season (September-August), the CCI has purchased 10.42 lakh bales of cotton. Its total purchases during 1976-77 and 1977-78 seasons were of the order of 5.35 lakh bales and 6.62 lakh bales, respectively.

The Government has decided not to import cotton this year in view of comfortable supply position of indigenous cotton.

The Government of Maharashtra reintroduced the "Monopoly Cotton Procurement Scheme" from December 16, 1978. The highlights of the modified scheme are (i) payment of full guaranteed prices which are 10 to 20 per cent higher than the minimum support prices at the time of tender, (ii) adjusting of 40 per cent of the price payable towards

recovery of co-operative dues and (iii) deduction of only five per cent of the difference between the guaranteed price and the final price towards the Price Fluctuation Fund. The Maharashtra State Co-operative Marketing Federation (MSCMF) — the State Government agency for monopoly purchase—has purchased kapas on behalf of the Government at prices 10 to 20 per cent higher than the support prices fixed by the Union Government. The MSCMF purchased 48.9 lakh quintals of kapas during 1978-79 season as against 7.78 lakh quintals purchased during the 1977-78 cotton season under "Voluntary Cotton Procurement Scheme" and 40.95 lakh quintals purchased during the 1976-77 cotton season under the "Monopoly Procurement Scheme".

RAW JUTE AND MESTA

Official final estimates place the production of raw jute during 1978-79 higher at 64.54 lakh bales (of 180 kgs. each) as compared with 53.61 lakh bales produced during 1977-78 season. Production of mesta during 1978-79 is placed at 18.40 lakh bales against 17.93 lakh bales produced during the preceding year. Thus, the aggregate production of raw jute and mesta at 82.94 lakh bales, has exceeded the previous year's production by about 11 lakh bales (Table III.6). Thus,

the annual plan for 1979-80 has tentatively fixed the jute production target at 81 lakh bales comprising 65 lakh bales of raw jute and 16 lakh bales of mesta.

The estimated opening stock of raw jute and mesta in the 1978-79 season was placed lower at 5.09 lakh bales as compared with 6.34 lakh bales in 1977-78. During 1978-79, for the second year in succession there was no import of raw jute. The total availability of raw jute and mesta during 1978-79 was higher at 88.03 lakh bales as against 77.88 lakh bales in the preceding year mainly due to higher production in 1978-79. Consumption of raw jute by mills during the first eleven months (July 1978 to May 1979) is estimated at about 58.70 lakh bales as compared with 62.45 lakh bales during the corresponding period of last year. Consumption of raw jute by mills during 1978-79 is estimated lower at 63.50 lakh bales as against 68.05 lakh bales consumed during the 1977-78 season. The lower consumption during the 1978-79 season was due to the 49 days' strike during January-February 1979 in jute mills. With village level consumption placed at 2.50 lakh bales and actual exports estimated at 0.19 lakh bales up to May 1979, the calculated closing stock of raw jute and mesta at the end of 1978-79 season would be about 21.84 lakh bales.

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

('000 bales of 180 kgs. each)

Year	Production	Imports	Exports	Consumption(a)	Closing Stocks(b)	Availability
1	2	3	4	5	6	7
1972-73	6090	255	74	7320	767	7630
1973-74	7676	82	197	6442	3300	8525
1974-75	5834	119	399	6520	1789	9253
1975-76	5914	335	121	7725	767	8038
1976-77	7099	37	17	7070	634	7903
1977-78	7154	—	18	7055	509	7788
1978-79	8294	—	19*	5870*	1742* @	8803

(a) Includes village level 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 May 1979

@However, according to Jute Situation of September 1979 issued by the Economic and Statistical Adviser to the Government of India, Ministry of Agriculture and Irrigation, total mill consumption during 1978-79 is estimated at 63.50 lakh bales. On this basis total consumption (including village consumption) would be 66 lakh bales.

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

For 1978-79, the Union Government raised the minimum support price of raw jute from Rs. 141 in 1977-78 to Rs. 150 per quintal for W-5 variety in Assam, as recommended by the Agricultural Prices Commission (APC). For 1979-80, the Union Government has fixed the minimum support price for raw jute (W-5 variety) for Assam at Rs. 155 per quintal on the recommendations of APC.

During the year 1978-79, the Jute Corporation of India (JCI) purchased 8.42 lakh bales of raw jute against only 0.68 lakh bales purchased in the previous year.

In contrast to the previous year, the current season (1978-79) generally witnessed a steep fall in raw jute prices from the very beginning of the season due to the prospects of a bumper crop. Prices dropped further on account of the strike of the jute mill workers. Due to the restricted activity in the market, and power shortage, the mills and their agents were reluctant to lift the fibres. In order to contain the declining trend in prices, the JCI and its associates embarked on purchases of raw jute on commercial basis. The 1978-79 being a bumper crop year, the Jute Commissioner withdrew on August 28, 1978, the maximum price restriction on raw jute reimposed on October 28, 1977, both at the up-country agencies and in the Calcutta terminal markets in order to maintain market equilibrium and to ensure fair prices to growers. The Jute Commissioner also directed on August 30, 1978 all the jute mills in the country to buy at least a minimum compulsory quota of raw jute every week and build up fibre inventories at a prescribed rate, modifying the earlier eight-week maximum stock holding for the month of August 1978 fixed on August 8, 1978. Mills were required to buy fibre in such a manner that their aggregate purchases during September 1978 would be 9 lakh bales out of estimated market arrivals of about 11 lakh bales, so that their month-end stocks for September 1978 would amount to 6 lakh bales. For October 1978, mills were directed by the Jute Commissioner to buy fibre every week equivalent to their one and a half-weeks' consumption but there was no such quota for mills for November 1978. In order to ensure equitable distribution of fibre among the mills the Deputy Jute Commissioner issued an order on November 28, 1978

restricting mills' maximum fibre inventory to 12 weeks' consumption level for the month of December 1978, which was extended further upto January 31, 1979.

The Government of India also announced the rates of cash assistance on jute goods export for one year. Through a gazette notification dated March 8, 1979, cash aid for hessian, '9 lb' cotton bagging and wool pack will come into effect from the date of issue of gazette i.e. March 8, 1979 to March 31, 1980 and in respect of remaining items, rates will be effective April 1, 1979 to March 31, 1980. The cash subsidy on hessian export has been partially restored and will be 5 per cent* of the f.o.b. value against 10 per cent, which was withdrawn on April 1, 1978. However, the cash subsidy on carpet backing and decorative fabrics has been kept unchanged at 10 per cent.** The rate for wool pack has been raised by 5 points to 15 per cent,@ while 7 lb and 9 lb cotton bagging will receive a uniform cash benefit of 17.5 per cent.

OILSEEDS

The all-India final estimates for 1978-79 place the total production of the five major oilseeds at 9.6 million tonnes, which shows a rise of 0.6 million tonnes or 6.1 per cent over the 1977-78 production of 9.0 million tonnes (Table III.7). The output though higher than that of the previous year, is still lower than the target of 10.8 million tonnes fixed for the year. Excepting linseed, production of which declined by 2.5 per cent to 5.1 lakh tonnes, production of each other major oilseed has registered a rise for the second successive year over its previous year's level. Production of groundnut at 64 lakh tonnes recorded a rise of 3 lakh tonnes (4.9 per cent) over 1977-78, production of rapeseed/mustard (19.0 lakh tonnes), sesamum (5.4 lakh tonnes) and castorseed (2.4 lakh tonnes) rose by 13.8 per cent, 3.7 per cent and 8.5 per cent, respectively. Over the year, while the total area under oilseeds increased by 4.1 per cent, their production increased by 6.1 per cent.

* Withdrawn on August 17, 1979.

** Reduced for carpet backing on August 17, 1979 to 5 per cent and was withdrawn completely on October 30, 1979.

@ Further reduced to 10 per cent on October 6, 1979.

The following centrally sponsored schemes for the development of oilseeds were continued during the year : (i) The Intensive Oilseeds Development Programme covered an area of 22.9 lakh hectares during 1978-79, as against the target of 23.6 lakh hectares, at an estimated cost of Rs. 315.5 lakhs in 29 selected districts of 10 states. In addition, an amount of Rs. 6.6 lakhs has been sanctioned to extend the scheme to cover rapeseed/mustard crop in Assam, Bihar, Gujarat, Orissa and West Bengal. Besides, an amount of Rs. 90.8 lakhs was sanctioned for the control of aphids on rapeseed/mustard crop in districts other than the selected districts in Haryana, Madhya Pradesh, Punjab, Rajasthan and Uttar Pradesh, (ii) The scheme for extension of oilseeds to new irrigated areas in the command area of major irrigation projects in the states of Andhra Pradesh, Karnataka, Orissa and Rajasthan covered an area of 3.1 lakh hectares as against the target of 3.7 lakh hectares, (iii) Under the schemes for the Development and Production of Non-traditional Oilseeds like sunflower and soyabean, the area covered in 1978-79 stood at 1.6 lakh hectares and 3.0 lakh hectares, respectively, as against the respective targets of 4.6 lakh hectares and 3.4 lakh hectares.

In the State sector, the Package Programme and the Integrated Oilseeds Development Scheme were continued during 1978-79 for encouraging the use of improved seeds and fertilisers, adoption of plant protection measures, improved agronomic practices, etc., with a view to increasing the production of different oilseeds.

With effect from August 1, 1978, the minimum usage limit of imported oils in the manufacture of vanaspathi was raised from 75 per cent to 80 per cent and that of cottonseed oil and other oils was reduced from 20 per cent to 15 per cent; the remaining 5 per cent being, for refined sesamum oil (as liquid oil). However, from December 12, 1978 cottonseed oil was allowed to be used upto 95 per cent in vanaspathi manufacture.

For the 1978-79 season, the Government of India have fixed a uniform support price of Rs. 175 per quintal for fair average quality (FAQ) of groundnut-in-shell, sunflower seed and soyabean. The support prices of these

three oilseeds stood lower at Rs. 160, Rs. 165 and Rs. 145, respectively, in 1977-78. The support price for mustardseed (FAQ) has also been raised to Rs. 245 per quintal for 1978-79 as against Rs. 225 fixed for 1977-78. As in the previous year, the price support operations have been entrusted to the National Agricultural Co-operative Marketing Federation (NAFED).

The ban imposed in December 1977 on the export of HPS variety of groundnut was lifted with effect from December 28, 1978. An initial quota of 25,000 tonnes of HPS groundnut was released to NAFED.

In December 1978, Government of India decided to canalise the imports of oilseeds and vegetable oils through the State Trading Corporation (STC) during the current oil year (November-October). In view of higher domestic production of oilseeds during 1977-78, the total imports of edible oils in 1978-79 oil year are expected to be somewhat lower than the imports of 12.9 lakh tonnes in 1977-78, valued at Rs. 711.6 crores. In January 1979, Government of India decided to canalise the export of groundnut extractions through STC instead of through Groundnut Extraction Export Development Association (GEEDA) in respect of quotas for 1979 onwards. GEEDA will continue to canalise exports pertaining to quotas for 1978.

SUGARCANE

According to the all-India second estimate for 1978-79, the area under sugarcane is placed marginally higher at 30.71 lakh hectares showing a rise of 0.5 per cent over the corresponding estimate of 30.57 lakh hectares in the previous year. The record output achieved in 1977-78 created problems in the disposal of cane and payments of cane price to cane-growers remained in arrears. Thus, there is likely to be a decline in Sugarcane production in 1978-79. Production of sugarcane (in terms of gur) in 1978-79 is expected to be only about 16.5 million tonnes as against the previous year's record production of 18.8 million tonnes (Table III.7).

The minimum price of sugarcane payable by factories to canegrowers during the 1978-79 season was raised by Rs. 1.50 to Rs. 10 per

quintal for the basic recovery of 8.5 per cent with a premium of 11.7647 paise for every increase of 0.1 per cent above the basic recovery level.

With a view to ensuring reasonable prices and prompt payment to canegrowers, the Union Government announced the abolition of the 15-year old excise duty on khandsari with effect from January 1, 1979 till the end of the 1978-79 sugar season.

The fall in sugar prices subsequent to decontrol of sugar effective August 16, 1978 resulted in mounting cane arrears payable to canegrowers. Besides, it was apprehended that many sugar factories might not commence sugarcane crushing promptly in the 1978-79 season. An Ordinance was, therefore, issued on November 9, 1978 empowering the Government to take over for a period of three years the management of those private sector sugar factories, which did not commence crushing by November 15, 1978 or had cane arrears in excess of 10 per cent of the cane price payable in respect of the 1977-78 season. The Ordinance, which was subsequently replaced by an Act, provided for payment of a compensation at the rate of Rs. 500 per month for a unit with crushing capacity of 500 tonnes per day or less, with an addition of Re. 1 per tonne for higher capacity units, subject to the maximum of Rs. 1,250 per month. An amending Ordinance was issued on January 31, 1979 which provided for the take over of those factories which had cane arrears exceeding 10 per cent of the cane price payable in respect of earlier years also.

The Centrally sponsored scheme for sugarcane development continued to be in operation in 16 States and 2 Union Territories.

The Centrally sponsored scheme for sugarbeet development was continued in Rajasthan. An area of 645 hectares was brought under sugarbeet cultivation during 1978-79 as compared with 1,140 hectares in 1977-78. Production of sugarbeet is estimated at 19,703 tonnes and beet sugar at 2,153.3 tonnes with average sugar recovery of 11.32 per cent.

TEA

Production of tea registered a further rise of 10.1 mn. kgs. to scale a new peak

level of 570.9 mn. kgs. in 1978 (Table III.7). Production in North India increased by 11.3 mn. kgs. to 440.9 mn. kgs., whereas in South India, it declined marginally by 1.2 mn. kgs. to 130.0 mn. kgs. Due to severe drought conditions in North India, production during the first eight months of 1979 is estimated lower at 316.8 mn. kgs. as compared with 345.0 mn. kgs. in the corresponding period of 1978. Target of production of tea for the years 1979-80 and 1980-81 are fixed at 600 and 640 mn. kgs., respectively.

Exports of tea during the financial year 1978-79 totalled 166.0 million kgs. as compared to 221.5 million kgs. exported in 1977-78. The unit value realised was also lower at Rs.19.76 per kg. as against Rs. 25.45 per kg. in 1977-78. Consequently, the value of tea exports during 1978-79 at Rs. 329.00 crores was much lower than the value of tea exports of Rs. 563.72 crores realised last year. As exports were lagging far behind its last year's level, the Government of India decided during the year to increase its competitiveness by reducing the export duty from Rs. 5 per kg. (imposed on April 9, 1977) to Rs. 2 per kg. with effect from September 7, 1978. Subsequently, from February 14, 1979, the export duty was completely abolished.

COFFEE

According to the provisional data, production of coffee at 110 thousand tonnes in 1978-79 registered a fall of 15 thousand tonnes over the previous year's record production of 125 thousand tonnes (Table III.7). The fall in coffee production during 1978-79 was due to a fall of 21 thousand tonnes in the production of Robusta coffee partly offset by an increase of 6 thousand tonnes in that of Arabica coffee.

The quantity of coffee released for internal consumption during the calendar year 1978 was marginally higher at 46 thousand tonnes as compared with 44 thousand tonnes released in 1977. As against the export target of 70 thousand tonnes during the fiscal year 1978-79, the country exported 66 thousand tonnes as compared to 56 thousand tonnes exported during 1977-78. However, in view of the sharp decline in world coffee prices, the export

earnings showed a steep fall of Rs. 73 crores from Rs. 230.5 crores in 1977-78 to Rs. 157.5 crores in 1978-79. In order to help the coffee export, the Government of India reduced during the year the rate of export duty on coffee from Rs. 500 to Rs. 200 per quintal with effect from July 31, 1978 but it was raised to Rs. 400 from September 6, 1978 which was further enhanced to Rs. 750 with effect from June 18, 1979[@] to keep in tune with the increased prices of coffee in international markets.

TOBACCO

The production of tobacco during 1977-78 at 445.2 million kgs. was higher by 26.4 million kgs. or 6.3 per cent than the production of 418.8 million kgs. in 1976-77 (Table III.7). The substantial increase in production achieved in Andhra Pradesh (65.8 million kgs.) due to higher acreage was offset by a sharp fall of 39.3 million kgs. in the production recorded by Gujarat. A significant rise in acreage (about 33 thousand hectares) in Andhra Pradesh was attributed to the prevalence of favourable climatic conditions. Both the area and production of tobacco declined sharply in Gujarat, probably on account of the difficulties experienced by the growers in the marketing of 1977 bidi tobacco crop at remunerative prices, discouraging them to plant the same area in 1977-78.

The all-India estimates of production of tobacco for the year 1978-79 are not yet available. However, normal South-West monsoon in all the important tobacco growing states except Gujarat and the satisfactory condition of the standing Virginia tobacco crop in Andhra Pradesh indicate good prospects for higher production in 1978-79.

Domestic consumption of raw tobacco rose from 34.4 million kgs. in 1976-77 to 36.1 million kgs. in 1977-78.

The official estimates of exports of unmanufactured tobacco for the year 1977-78 are not available so far. But these exports have been provisionally estimated at 75.4 million kgs., showing a fall of 5.9 per cent,

as compared with 80.1 million kgs. exported in 1976-77. The exports in 1978-79 are likely to be still lower as some of the important markets like the USSR and Bulgaria did not show keen interest in fresh purchases during the initial period of the export season (April-July 1978). However, under the trade agreements which are being finalised with Bulgaria and China, it is expected that significant quantities of unmanufactured tobacco will be exported to these countries.

The Tobacco Leaf Purchase Voucher system (TLPV), introduced by the Tobacco Board in Andhra Pradesh during 1977-78 to ensure timely payments to the growers, was extended to Karnataka during the 1978 *kharif* season.

Under the centrally sponsored scheme for improving the production of exportable variety of tobacco in new light soil areas, an additional area of 14.3 thousand hectares was covered with financial assistance of Rs. 94 lakhs in 1978-79.

Under the Tobacco Development Schemes (Non-Plan), administered by various research institutes in different States but financed fully by the Government of India, about 11,890 kgs. of seed and 165.65 lakh seedlings of different improved varieties were distributed to growers during 1978-79. The Tobacco Extension Service Scheme for providing technical guidance to growers for adopting improved technique was continued in seven States* during 1978-79.

Government of India took the following measures during the year to help tobacco growers :

(i) The excise duty on unmanufactured tobacco was withdrawn under the Finance Bill, 1979 to eliminate excise control over tobacco growers and curers, small dealers and warehouse licencees.

(ii) For the 1978-79 marketing season, the Government has directed the STC to procure 5 million kgs. each from the growers, the cooperatives and the small packers, in

[@] On July 6, 1979, the duty was further raised to Rs. 900 per quintal but was reduced thereafter to Rs. 730 per quintal w.e.f. August 4, 1979.

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

Table III.7 : Trends in Non-foodgrains Commodities

Commodity years as indicated	Oilseeds@ (November-October)		Tea (January-December)		Coffee			Sugarcane (Nov.-Oct.) Production (Million tonnes)††	Tobacco (Mar.-Feb.) Production (Million kgs.)
	Produc- tion (Million tonnes)	Yield per hectare (kgs.)	Produc- tion (Million Kgs.)	Exports (Million Kgs.)	Produc- tion (‘000 tonnes) @@	Exports† (‘000 tonnes)	Internal Consump- tion(‘000 tonnes) @@@		
1	2	3	4	5	6	7	8	9	10
1973-74	8.9	573	472.0	188.2	86.4	52.7	39.4	14.4	462
1974-75	8.5	545	489.5	210.6	92.5	49.5	37.6	14.7	363
1975-76	9.9	651	487.1	218.1	84.0	59.4	36.9	14.4	350
1976-77	7.8	528	511.8	233.6	102.3*	50.6	37.7	15.8	419
1977-78	9.0	585	560.8**	221.5†**	125.0*	55.8	44.1	18.8	445
1978-79	9.6	596	570.9*	166.0†**	110.0\$	66.3**	46.0	16.5*	N.A.

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

* Estimated

**Provisional

† Figures relate to the fiscal year.

†† In terms of Gur

@@ Figures relate to October-September.

@@@ Figures relate to the Calendar year.

N.A. Not available.

\$ Revised

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

collaboration with the Tobacco Board as a price support measure. The purchases from the growers and the cooperatives will be on Government account, while those from the small packers will be on STC's own commercial account.

(iii) To help the bidi tobacco growers in Gujarat, Karnataka and Maharashtra, the National Agricultural Co-operative Marketing Federation (NAFED) was directed by the Central Government to purchase 25 million kgs. of bidi tobacco during 1977-78 season. Accordingly, the quantity of bidi tobacco procured by NAFED by the end of December 1978 amounted to 50.5 lakh kgs. and 2.23 lakh kgs. in Gujarat and Karnataka, respectively.

Production Strategy and Measures Undertaken

HIGH YIELDING VARIETIES PROGRAMME

The target for coverage under High Yielding Varieties (HYV) in 1978-79 was fixed at 42 million hectares. In 1977-78, 38 million hectares were brought under HYV Programme

against the target of 37 million hectares (Table III.8). Cultivation of high yielding varieties of rice, wheat, maize, jowar and bajra which was the major plank of the strategy for increasing foodgrains production made further advance. The implementation of community nurseries programme was continued this year also to help timely sowing of rice in the major rice-growing States. Further, the mini-kits programme was continued during 1978-79 to enable the farmers to choose the newly evolved right type of varieties. The scheme for replacing the rust-susceptible varieties of wheat gradually but completely in hills in the off-season of summer and in plains in the main crop season was continued during the 1978-79 *rabi* season and seeds of rust-resistant varieties like Choti Lerma, HD-2135, Girija and Shailaja were supplied to the farmers free of cost.

QUALITY SEEDS

Quality seeds both for *kharif* and *rabi* seasons were made easily available during the year 1978-79. In the case of wheat seeds, some difficulty was, however, experienced

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

Commodity	(Million hectares)				
	1974-75	1975-76	1976-77	1977-78	1978-79 (Targets)
			(Actuals)		
Wheat	11.29	13.45	14.69	15.50	16.50
Rice	10.83	12.74	13.73	15.60	17.50
Maize	1.09	1.13	1.20	1.20	1.30
Jowar	1.30	1.95	2.65	3.10	3.50
Bajra	2.50	2.89	2.21	2.60	3.20
Total	27.01	32.16	34.48	38.00	42.00

Source : Economic Survey 1978-79, Government of India.

due to damage caused by floods, incidence of diseases and untimely rains in April/May 1978 in some parts of the wheat growing areas. To meet the unforeseen demand for seeds a reserve stock of 3,000 quintals of foundation seeds and 37,200 quintals of certified seeds is proposed to be created by the National Seeds Corporation (NSC). The State Seeds Corporations in Andhra Pradesh, Haryana, Maharashtra and Punjab produced over 6.3 lakh quintals of improved seeds during 1977-78. Further, independent State Seeds Certification Agencies were set up by the State Governments to ensure the supply of quality seeds to the farmers. The NSC organised sale of certified seeds of hybrid maize so as to cover 0.97 lakh hectares under maize during *kharif* 1978 as compared to 0.73 lakh hectares in *kharif* 1977. Hybrid bajra seeds were supplied to 2.43 lakh hectares compared to 1.94 lakh hectares in *kharif* 1977. During *rabi* 1978-79, the NSC arranged the supply of certified wheat seeds for inter-state marketing so as to cover 1.50 lakh hectares compared to 1.21 lakh hectares in the previous *rabi* season.

IRRIGATION

The Sixth Plan aimed at bringing an additional 17 million hectares under irrigation. Out of this, 9 million hectares would be under minor irrigation. During the year 1978-79, an additional area of 2.8 million hectares is estimated to have benefited through irrigation programme as against the achievement of 2.6 million hectares in 1977-78. Out of this target of 2.8 million hectares of additional

irrigation, 1.45 million hectares by minor irrigation is likely to be achieved as against the achievement of 1.10 million hectares in 1977-78. Besides, the plan outlay of Rs. 225 crores allocated for minor irrigation programmes during the year 1978-79, an institutional investment of Rs. 290 crores is envisaged for creation of the additional irrigation potential. In addition, Rs. 12.50 crores were provided as advance central assistance to some States for speedy completion of ongoing minor irrigation works over and above their approved plan outlays.

COMMAND AREA DEVELOPMENT PROGRAMME

Under the Integrated Command Area Development Programme (CAD) for water management introduced for maximising the use of available irrigation water, 38 CAD authorities covering 60 irrigation commands are functioning. Progress achieved upto March 1978 includes planning and designing in 15.70 lakh hectares, construction of field channels in 20.27 lakh hectares, construction of field drains in 3.42 lakh hectares, land levelling /shaping in 7.90 lakh hectares and soil and topographical surveys over 42.16 and 18.82 lakh hectares, respectively. During 1978-79, it is expected that field channels would cover about 4.0 lakh hectares and land levelling and shaping about 1.5 lakh hectares.

FERTILISERS AND MANURES

The consumption of fertilisers increased from 42.9 lakh tonnes in 1977-78 to a record

level of 50.8 lakh tonnes in 1978-79 (Table III.9). The consumption of phosphatic fertilisers increased by 21.1 per cent, nitrogenous fertilisers by 16.7 per cent and potassic fertilisers by 24.3 per cent. A notable feature has been the emergence of trend towards balanced use of fertilisers revealed by larger increases in the consumption of phosphatic and potassic fertilisers.

A series of measures for encouraging consumption of fertilisers was further taken. The intensive Fertiliser Promotion Campaign was extended to 77 districts during 1978-79 as against 68 districts in the previous year. The scheme for payment of subsidy to the manufacturers of phosphatic fertilisers, introduced in March 1976 was continued. Short-term loans worth Rs. 125 crores were provided to the State Governments for the purpose of stocking and distribution of fertilisers, seeds and pesticides during 1978-79.

The policy of encouraging greater use of organic manure in conjunction with chemical fertilisers was continued. During 1978-79, about 215 million tonnes of rural compost and 6 million tonnes of urban compost were expected to be made available as against the estimated achievement of 210 million tonnes and 5.8 million tonnes, respectively, in the previous year. The mechanical compost plants at Ahmedabad and Baroda were commissioned; the plants at Calcutta and Bangalore are expected to be commissioned shortly and a scheme for 24 more plants at other places have been approved. During 1978-79, additional 30,000 gobar gas plants are likely to be set up. In addition, 100 Janata bio-gas plants with 100 per cent subsidy were set up for demonstration purposes.

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
1974-75	..	..	..	1.77	0.47	0.33	2.57
1975-76	..	..	..	2.14	0.47	0.28	2.89
1976-77	..	..	..	2.46	0.63	0.32	3.41
1977-78	..	..	..	2.91	0.87	0.51	4.29
1978-79 (Target)	..	..	..	3.40	1.05	0.63	5.08

Sources : Economic Survey 1978-79 Government of India; Annual Report, Ministry of Agriculture and Irrigation 1978-79, Government of India.

PLANT PROTECTION MEASURES

During 1978-79, a total area of 87.4 million hectares was likely to benefit from plant protection measures. Consumption of pesticides in terms of technical grade material during the year was estimated to have amounted to about 65,000 tonnes as compared with 60,000 tonnes during the preceding year. Under the pest and disease surveillance scheme, six new central surveillance stations were set up, raising the total to 18 to conduct surveys on pest and diseases in selected areas. An *ad hoc* rice survey was conducted for the

ninth year in succession. The scope of the *ad hoc* surveys was extended to pulses, sugarcane and cardamom. Aerial spraying of pesticides against pest infestation covering an area of about 1.6 lakh hectares (upto December 1978) was undertaken by the Directorate of Agricultural Aviations for quick control measures.

MACHINERY AND IMPLEMENTS

A new centrally - sponsored plant scheme was introduced to assist the States/Union Territories in popularising the use of animal

drawn and manually operated agricultural implements and water-lifts of improved types amongst the small and marginal farmers. During the year 1978-79, standards for 29 agricultural implements and machinery and their components were finalised with the assistance of Indian Standard Institution.

SCHEMES FOR SMALL FARMERS

All the 169 schemes for Small Farmers Development Agency (SFDA) projects initiated by the Government of India with a view to reaching the benefits of economic development to the weaker sections in the rural areas continued to operate during 1978-79. The number of participants (identified) increased from 146.15 lakhs in 1977-78

(Table III.10) to 162.74 lakhs in 1978-79 (upto March 1979). Of the total participants, 70.32 lakhs were enrolled as members of co-operatives. The finance released upto end-March 1979 aggregated Rs. 198.4 crores, while the amount utilised was Rs. 196.3 crores. The number of beneficiaries under the minor irrigation programme increased to 7.98 lakhs at the end of March 1979. The outlay for the normal SFDA scheme for the year 1978-79 was Rs. 65 crores. In addition to this, an amount of Rs. 50 crores was provided for the intensive development of selected blocks. Against the above outlays, the Government had released Rs. 49.4 crores upto end-December 1978. During 1978-79, the SFDA agencies were able to utilise Rs. 18.40 crores (upto November 1978).

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

Items	Progress upto		
	June 1977	June 1978	March 1979 ^S
1. Number of project areas.	169	169	169
2. Number of participants identified (in lakhs)	121.96	146.15	162.74
3. Number enrolled as members of co-operatives (in lakhs)	50.77	62.18	70.32
4. Finance released (since inception) to agencies (Rs. in crores)	112.8	157.4	198.4
5. Funds utilised (Rs. in crores)	112.9	152.1	196.3
6. Physical results ⁽ⁱ⁾			
(i) No. of beneficiaries under minor irrigation* (in lakhs)	4.76	6.59	7.98
(ii) Milch cattle.	2.70	3.81	5.12
(iii) Poultry.	0.15	0.17	0.20
(iv) Other animal Husbandry**	1.41	1.77	2.29

⁽ⁱ⁾ Relate to co-operative year.

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

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

^S Data are provisional.

Source : Ministry of Agriculture and Irrigation, Department of Rural Development, Government of India.

Integrated Rural Development Programme

The Integrated Rural Development Programme (IRDP), initiated in 1976-77 was continued in 1978-79. During 1978-79, the scope of IRDP was expanded and new IRDP was launched from April 1, 1978. During the current Five Year Plan, the programme is being taken up in selected blocks of the country with the main objective of providing full employment through productive programmes in the selected blocks within a definite time frame. The new programme has been taken up in 2,000 blocks out of the 3,000 blocks

under the three special programmes i.e. SFDA/DPAP/CADP and 300 blocks selected from non-special programme areas as against the old programme which was in operation in 16 districts of 14 States.

All the principal components of these programmes viz. SFDA/DPAP/CADP have been incorporated into the new programme of IRD which aims at adopting the family as a unit and enabling it to undertake productive investment, the returns on which are large enough to lift the family above the poverty line and keep it there. The other important

objective of the programme is to reach the goal of full employment at least substantially in these blocks by 1983.

Out of over Rs. 8 crores sanctioned for old IRD programme, only Rs. 1.80 crores were utilised upto December 1978. An outlay of Rs. 258 crores has been provided in the Union Budget for 1979-80 for accelerating the new programme.

DESERT DEVELOPMENT PROGRAMME

The programme, taken up at the fag end of the year 1977-78 aimed at an integrated development of hot and cold regions by increasing productivity, income level and employment opportunities for the inhabitants through optimal utilisation of physical, human, livestock and other biological resources. During the current year 1978-79, Rs. 16 crores have been allocated to State Governments as grant from the Central Government for this programme.

WHOLE VILLAGE DEVELOPMENT AND ANTYODAYA PROGRAMME

The Whole Village Development Programme which was initiated as a result of the recommendation of the National Commission on Agriculture, continued this year also. The contents of the programme were primarily directed towards agricultural development in organising irrigation, land-shaping and agricultural programme followed by animal husbandry and village industries in order to find out subsidiary occupation for landless labourers, marginal farmers and poor sections of the society. There was a provision of Rs. 1.98 crores for the entire Fifth Five Year Plan. Out of this, a sum of Rs. 56.50 lakhs was released till March 1978, out of which Rs. 12.12 lakhs has been spent so far. A provision of Rs. 50 lakhs has been made for the year 1978-79 in the budget.

AGRO-INDUSTRIES CORPORATION

During 1978-79, the Agro-Industries Corporations continued to make useful contribution to agricultural growth through distribution of agricultural inputs, extension of facilities for mechanisation of agricultural operations, production of inputs like fertilisers,

seeds, pesticides, etc. to the farmers in their respective States. Presently, 17 State Agro-Industries Corporations are functioning. Upto December 1978, additional 117 agro-service centres were set up by the private entrepreneurs, raising the total number of centres in operation to 2858.

FOOD-FOR-WORK PROGRAMME

The Food-for-Work Programme, 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, was continued. The scheme was liberalised to include all ongoing plan and non-plan works and new items of public and community works, provided they resulted in the creation of durable community assets. The scheme was further modified under which the State Governments can draw their requirements of rice upto 75 per cent of the total quantity as against the original scheme in which only wheat and milo were to be made available to the State Governments. Also there is a proposal to give option to the State Governments to have the total requirements of foodgrains in the form of wheat or rice according to their choice to help the rice consuming States. In order to fulfil the basic objective of the programme i.e., generating of additional employment opportunities in the rural areas by utilisation of foodgrains for productive purposes and thereby creating durable community assets for establishing sound infrastructure for rural development, the District Magistrates have been empowered to enlarge the scheme.

Allocation of foodgrains under the programme for the year 1978-79 was higher at 10 lakh tonnes of wheat and 2 lakh tonnes of rice, out of which 7.1 lakh tonnes of wheat and 0.8 lakh tonnes of rice have been released to the States upto December 15, 1978. In 1977-78, a total of 2.05 lakh tonnes of wheat and 0.02 lakh tonnes of milo were distributed. The budgetary grant for this programme during 1979-80 is expected to be increased to Rs. 150 crores from Rs. 100 crores. The overall investment including the States' contribution is expected to exceed Rs. 200 crores.

The Union Government is exploring possibilities of allowing State Governments to utilise their stocks of local grain crops, which may reduce cost of transport incurred on the movement of wheat for distribution.

SUGAR

Sugar production for the 1978-79 season is placed at about 58.58 lakh tonnes, 9.5 per cent lower than the record production of

64.72 lakh tonnes in the year 1977-78 (Table below). With the opening stock of 32.89 lakh tonnes, the total availability of sugar for the season was 91.47 lakh tonnes, as against the total availability of 80.96 lakh tonnes with the opening stock of 16.24 lakh tonnes in the previous season. The off-take during 1978-79 for internal consumption and exports amounted to 62.22 lakh tonnes and 8.62 lakh tonnes, respectively, as against 46.05 lakh tonnes and 2.02 lakh tonnes, last year.

Sugar					(In lakh tonnes)			
Year (October-September)					Opening Stock	Production	Export	Consumption
1974-75	..	..	..	..	8.78	47.97	9.24	34.57
1975-76	..	..	..	..	12.94	42.64	10.21	36.91
1976-77	..	..	..	..	8.46	48.43	3.12	37.53
1977-78P	..	..	..	..	16.24	64.72	2.02	46.05
1978-79P	..	..	..	..	32.89	58.58	8.62	62.22

P : Provisional

Source : Ministry of Agriculture and Irrigation, Government of India.

Under the International Sugar Agreement, the effective quota allotted to India for exports in 1979 continued to be 6.5 lakh tonnes. The State Trading Corporation (STC) has concluded export deals of 3.5 lakh tonnes up to May-end. The Union Government decided in 1979 to allow sugar factories to export sugar directly under the open general licence, but without any subsidy being granted by the Government. They were required to register their export contracts with the STC upto March 31, 1979, and ship sugar against those contracts by June 30, 1979.

The Union Government removed all controls on prices, distribution and releases of sugar with effect from August 16, 1978, in view of the significant rise in production and accumulated sugar stocks. All restrictions on stock holding by sugar dealers were also removed. Before the decontrol of sugar, there were two rates of excise duty on sugar, one for the levy sugar and the other for the non-levy sugar (referred to in the last year's Report, vide page 58). After the decontrol, the new rates of excise duties and surcharge were fixed as follows, averaging out the

earlier two rates : basic excise duty—11.5 per cent ; additional excise duty—6 per cent and surcharge—5 per cent on the basic excise duty. Thus, the average rate of the total excise duty works out to 18.075 per cent *ad valorem*.

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

Month	Tariff Value Rs. per quintal			
July 1978	..	..	..	255
August 16, 1978	..	..	..	215
November 1978	..	..	..	205
December 1978	..	..	..	190
January 1979	..	..	..	180
April 1979	..	..	..	200
June 1979	..	..	..	205

Prior to decontrol, Government granted excise duty rebate of Rs. 54 per quintal for free sale sugar and of Rs. 9.60 per quintal for

levy sugar in respect of production during May-September 1978 in excess of the average production during the corresponding period of the preceding three seasons. With effect from August 16, 1978, this rebate was revised to Rs. 25 per quintal for the excess production from August 16 to September 30, 1978.

As sugar prices declined steeply after decontrol, the Indian Sugar Mills Association introduced voluntary regulation of monthly sugar releases for the domestic market from March 1979. The quotas released for March, April, May and June were 4.25, 5.65, 5.00 and 4.75 lakh tonnes, respectively. As the prices of sugar then started firming up, the Union Government reintroduced the regulatory control over monthly sugar releases in June 1979 to maintain them at a reasonable level and an official quota of 5.25 lakh tonnes of sugar was ordered to be released for June 1979 as against that of 4.75 lakh tonnes fixed earlier by the Steering Committee on Sugar Releases under the industry's voluntary scheme. With a view to ensuring an even flow of sugar into the market and avoiding fluctuations in prices, the Union Government issued an Order to sugar mills on June 28, 1979 under the Sugar (Control) Order 1966 regarding their weekly sales and despatches from the monthly sugar quota. The Order, which came into force from July 1, 1979, directed the factories to sell and despatch not less than 20 per cent of their monthly quota in each of the four periods of the month, 1st to 7th, 8th to 15th, 16th to 22nd and 23rd to the end of the month. Sale and despatch of sugar on Government account to State Government nominees and the Food Corporation of India have been kept out of the purview of this Order. Subsequently, the Government imposed a penalty on the defaulting sugar mills in the form of fine and imprisonment for a period ranging from 3 months to 7 years.

A sum of Rs. 1.19 crores was credited to the Levy Sugar Prices Equalisation Fund[@] during the year. The Food Corporation of India also collected, by way of such recovery,

[@] The Levy Sugar Price Equalisation Fund Act, 1976 was enforced from April 1, 1976 to recover the excess realisations by sugar mills over and above the levy prices fixed under the Essential Commodities Act in accordance with the various interim orders passed by the courts (for details, vide Report on Currency and Finance, 1975-76, page 56).

a sum of Rs. 1.97 crores from the sugar mills.

In June 1979, the Union Government decided to allow private traders to export khandsari sugar upto November 30, 1979, provided the export contracts are registered with the State Trading Corporation upto June 15, 1979.

II. INDUSTRIAL SECTOR

Trends in Industrial Production during 1978

Industrial production recorded a higher growth rate of 6.9 per cent during 1978, compared to 5.2 per cent in 1977 (Table III.11). The recovery in industrial output during the year was attributable to a sharp increase in electricity generation, and to improved availability of essential raw materials as a result of imports and better stock management. The monthly average of general index of industrial production stood at 147.8 (Base: 1970 = 100) in 1978 as compared with 138.3 in the previous year. The growth rate of industrial production started recovering in the second quarter of 1978, and the improvement continued till the end of the year. As a result, the rate of growth of 8.1 per cent in the second half of 1978 was much higher than that of 5.5 per cent recorded during the first half.

Industries accounting for a weight of 72.47 per cent in the general index of industrial production recorded increases in output in 1978, as compared to industries with a weight of 81.71 per cent in 1977. The overall performance was, however, better during 1978 as industries with as much as 35.61 per cent weight in the index showed increases exceeding 10 per cent as compared to industries with weight of only 13.71 per cent showing similar increases in 1977 (Table III.12).

Industry Group-wise Analysis

Higher industrial growth rate during 1978 was mainly due to improved performance of 'Intermediate' and 'Consumer' goods industry groups; the growth rates of the other two industry groups viz., 'Basic' and 'Capital' goods, were, however, lower than those in 1977.

Table III.11 : Trends in Industrial Production—Group-wise

Based on C.S.O.'s Index (1970=100) of Industrial Production										
Groups							Weights	Increase (+)/Decrease(—) over the previous year (Per cent)		
								1976	1977	1978*
1							2	3	4	5
General Index (Crude)							100.0	+ 9.9	+ 5.2	+ 6.9
A. Use-based Classification :										
1. Basic Industries							32.28	+14.3	+ 5.1	+ 4.8
2. Capital Goods Industries							15.25	+10.5	+ 5.5	+ 2.7
3. Intermediate Goods Industries							20.95	+ 7.5	+ 2.9	+ 8.0
4. Consumer Goods Industries							31.52	+10.2	+ 6.4	+10.0
(a) Durables							3.41	+13.2	+14.2	+ 7.7
(b) Non-durables							28.11	+ 9.9	+ 5.4	+10.3
B. Input-based Classification :										
1. Agro-based Industries							33.68	+ 5.7	+ 2.3	+ 8.7
2. Metal-based Industries							21.93	+10.0	+ 6.9	+ 6.1
3. Chemical-based Industries							12.86	+17.1	+ 6.9	+10.3
C. Sectoral Indicators :										
1. Transport Equipment and Allied Industries							10.79	+14.2	— 1.3	— 0.4
2. Electricity and Allied Industries							14.53	+12.4	+ 7.0	+ 8.6
3. Energy Output@							18.51	+11.1	+ 3.3	+ 7.7

* Provisional.

@ Consists of coal and lignite, petroleum crude and products and electricity.

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)	
							1977	1978*
1							2	3
A. Increase								
1. Moderate : Less than 5%							40.82	24.79
2. Marked : 5% and above							40.89	47.68
Of which : 10% and above							13.71	35.61
3. Total Weight (1+2)							81.71	72.47
B. Decline								
4. Moderate : Less than 5%							11.20	16.43
5. Marked : 5% and above							4.46	8.47
Of which : 10% and above							2.32	3.46
6. Total Weight (4+5)							15.66	24.90
Total Weight (A+B)							97.37	97.37

* Provisional.

The rate of growth of production in the 'Basic' industries group (total weight 32.28 per cent) declined from 5.1 per cent in 1977 to 4.8 per cent in 1978. Under this group, only two industries viz., 'salt' and 'electricity generation', together having a weight of 9.44 per cent, showed improvement in growth rates over those recorded in 1977. The deceleration in the growth rate of this group was, therefore, the result of sluggish growth in the output of the entire mining and quarrying sector and that of industries producing heavy organic chemicals, cement and non-ferrous basic metals, and due to absolute decline in the production of steel.

The growth rate of production in the 'Capital Goods' industries group (total weight 15.25 per cent) during 1978 declined sharply to 2.7 per cent from 5.5 per cent in 1977. Industries accounting for a weight of only 4.54 per cent in this group showed improvement in the growth rates over the previous year. The sharp deceleration in the growth rate of capital goods industries was primarily due to lower growth in the production of internal combustion engines, road rollers, air-conditioners and refrigerators and heavy electrical equipments, and actual decline in the production of boilers and steam generating plants, weighing machines, electric motors, rail-road equipments and automobile ancillaries. As against this, impressive increases were noticed in the production of tractors, general items of machinery and specialised equipments. Production of machine tools recorded an increase of 6.7 per cent in 1978, whereas it had declined by 10.9 per cent in 1977.

Output in the 'Intermediate Goods' industries group (total weight 20.95 per cent) increased appreciably in 1978 by 8.0 per cent as compared with only 2.9 per cent in 1977. The industries in this group showing higher rates of growth during 1978 than in 1977 were cotton and blended yarn, tyres and tubes, man-made fibres, explosives, paints and varnishes, bolts, nuts and rivets and dry cells; these together have a weight of 12.58 per cent i.e., more than 60 per cent of the total weight of this group in the general index. However, production of jute textiles, newsprint, synthetic resins and plastics, synthetic rubber, dye-stuffs, fine chemicals and structural clay products declined.

The 'Consumer Goods' industries group (total weight 31.52 per cent) recorded the highest growth rate among the four groups viz. 10.0 per cent in 1978 as compared to 6.4 per cent in 1977. The aggregate weight of industries in this group whose performance improved in 1978 was 15.42 per cent. While the production of non-durables in the group increased by 10.3 per cent as compared to 5.4 per cent in 1977, the rate of growth of durables declined to 7.7 per cent in 1978 from 14.2 per cent in the previous year. In the durables group, the growth was particularly marked in the case of hurricane lanterns, typewriters and duplicators, motor cycles and bicycles and watches and clocks. Production of professional and scientific measuring and controlling instruments, motor cars, telecommunication equipments, sewing and knitting machines, however, declined during the period under review. In the non-durables group, the most notable performance was of the sugar industry which registered a record increase of 42.3 per cent during the year in contrast to a decline of 0.4 per cent in the previous year. While there was an increase in the production of vanaspati, tobacco manufactures, cloth in mill and decentralised sectors, paper and paper boards, soaps, matches, glass and glass products, razor blades and electric lamps, decline was noticed in case of bakery products, coffee curing, beverages, drugs and pharmaceuticals and photographic and optical goods.

Industrial Growth : 1979

During the first half of 1979, for which provisional data on industrial production are available, the average index showed a slower rate of growth of 3.1 per cent compared with 6.7 per cent and 5.5 per cent in the corresponding periods of 1977 and 1978, respectively. This was mainly due to the sluggish growth in the 'manufacturing' group which has an aggregate weight of 81.08 per cent in the general index. The rate of growth of this group less than halved to 2.0 per cent during January-June 1979 from 4.8 per cent in the comparable period of the previous year. While the performance of the 'mining' group improved considerably to 6.0 per cent from 1.4 per cent in January-June 1978,

growth of 'electricity generation' slowed down from 10.0 per cent to 7.7 per cent.

Capacity Utilisation

Data available for selected industries, accounting for a total weight of 40.01 per cent in the general index of industrial production, show that the average ratio of utilisation to installed capacity in 1978 was marginally higher at 77.4 per cent than that of 75.3 per cent in the previous year. Shortage of energy (coal, electricity and fuel oil), transport bottlenecks and unsatisfactory labour relations were the major constraints, which prevented better utilisation of the productive capacities.

The trends in utilisation of capacity in 48 selected industries are discussed below with reference to the monthly average of installed capacity and production (Table III.13). Compared to the previous year, while capacity utilisation ratios improved in the case of 29 industries during the year, they declined in respect of the remaining industries. Group-wise, the average ratio of capacity utilisation declined in the 'Basic' and 'Capital Goods' industries from 72.3 per cent and 73.5 per cent respectively in 1977 to 67.2 per cent and 68.5 per cent in 1978, whereas in the case of 'Intermediate Goods' and 'Consumer Goods' industries it increased from 72.2 per cent and 79.0 per cent respectively in 1977 to 81.4 per cent and 84.1 per cent in 1978. The industries showing increase in the utilisation ratio were spread over all the four groups: soda ash, caustic soda and sulphuric acid in 'Basic' industries group, ball and roller bearings and agricultural tractors in the 'Capital Goods' group, tyres and tubes (automobiles and cycles), storage batteries, cotton yarn, paints and varnishes, dry cells and ceramics (refractories) in the 'Intermediate Goods' group, and soaps, baby food, razor blades, electric lamps (incandescent filament), streptomycin, penicillin, domestic refrigerators, bicycles, typewriters, matches, glass and glassware (sheet glass), cloth (mill sector), radio receivers, vanaspati and clocks in the 'Consumer Goods' group. The increase in these cases ranged between 36.6 per cent (agricultural tractors) and 1.2 per cent (ball and roller bearings). The decline in the case of 19 industries also showed a wide range between

39.4 per cent (sewing machines) and 0.5 per cent (cement). The frequency distribution of 48 selected industries, according to capacity utilisation ratios, is given in Table III.14. It will be seen therefrom that the number of industries with more than 80 per cent of capacity utilisation ratio increased over the year from 19 to 22.

Industrial Sickness

The situation regarding industrial sickness worsened during the year under review. At the end of September 1978, the number of medium and large sick units (with credit facilities of Rs. 1 crore and above from commercial banks) and the outstanding bank credit to these units increased to 334 and Rs. 983 crores respectively from 270 and Rs. 774 crores a year earlier. Scheduled commercial banks' funds locked up with the sick units constituted 15.5 per cent of their total outstanding advances to medium and large industrial units at the end of September 1978 compared with 13.9 per cent a year earlier.

The incidence of sickness was particularly high in the case of cotton textiles, jute textiles, sugar and engineering industries. Industry-wise, engineering/electricals and iron and steel industries continued to be most afflicted by sickness (110 units with Rs. 291 crores in outstanding bank credit), followed by cotton textiles (85 units with outstanding bank credit of Rs. 288 crores excluding those taken over by the National Textile Corporation), chemicals (24 units with outstanding bank credit of Rs. 123 crores), jute (32 units with outstanding bank credit of Rs. 77 crores), sugar (30 units with outstanding bank credit of Rs. 71 crores), rubber (6 units with outstanding bank credit of Rs. 27 crores), cement (4 units with outstanding bank credit of Rs. 14 crores) and 43 miscellaneous industrial units with outstanding bank credit of Rs. 92 crores.

The Government and the financial institutions continued to devise suitable measures during the year under review to tackle the problem of growing sickness among the industrial units. The problem received special attention of the Inter-Institutional Group on co-ordination of the lending operations of the term-lending institutions and commercial banks, set up by the Bank in March 1978.

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

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Group/Industry	Accounting Unit	1976 Monthly Average			1977 Monthly Average			1978* Monthly Average			Percentage Variation between 8 & 5	Percentage Variation between 11 & 8
		Produc- tion	Ins- talled Capa- city	Ratio of (3) to (4)	Produc- tion	Ins- talled Capa- city	Ratio of (6) to (7)	Produc- tion	Ins- talled Capa- city	Ratio of (9) to (10)		
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Basic Industries												
1. Cement (Hydraulic)	.. '000 Tonnes	1557.0	1789.0	87.0	1597.5	1806.0	88.5	1635.4	1857.0	88.1	+ 1.7	— 0.5
2. Steel Castings .. ..	.. ..	5.3	16.5	32.1	6.0	13.3	45.1	5.7	13.3	42.9	+40.5	— 4.9
3. Saleable Steel .. ..	.. ..	—	—	92.0	—	—	90.0	—	—	82.0	—2.2	— 8.9
4. Ingot Steel .. ..	.. ..	—	—	84.0	—	—	84.0	—	—	77.0	Nil	— 8.3
5. Aluminium (Virgin Metal) .. ..	.. ..	17.7	18.4	96.2	15.3	18.4	83.2	17.3	27.1	63.8	—13.5	—23.3
6. Aluminium Sheets and Circles .. ..	.. ..	3.2	5.6	57.1	4.1	5.6	73.2	3.8	6.3	60.3	+28.2	—17.6
7. Caustic Soda .. ..	.. ..	41.9	57.5	72.9	43.2	58.0	74.5	45.7	58.0	78.8	+ 2.2	+ 4.5
8. Soda Ash .. ..	.. ..	47.1	52.8	89.2	47.3	51.5	91.8	48.9	51.5	95.0	+ 2.9	+ 3.5
9. Light, Medium and Heavy Structural .. ..	.. ..	10.3	37.5	27.5	10.8	35.7	30.3	11.6	51.5	22.5	+10.2	—25.7
10. Nitrogenous Fertilisers (N' Content) .. ..	.. ..	147.5	209.0	70.6	164.4	252.0	65.2	169.5	271.6	62.4	— 7.6	— 4.3
11. Phosphatic Fertilisers (P ₂ O ₅) .. ..	.. ..	36.2	59.0	61.4	51.4	66.0	77.9	59.2	90.2	65.6	+26.9	—15.8
12. Sulphuric Acid .. ..	.. ..	140.0	232.0	60.3	168.5	264.7	63.7	184.8	271.6	68.0	+ 5.6	+ 6.8
II. Capital Goods Industries												
1. Motor Vehicles (Automobiles)	.. '000 Nos.	6.8	10.2	66.7	7.0	10.2	68.6	7.8	N.A.	—	+ 2.8	—
2. Railway Wagons (In Terms of 4 Wheelers) .. ..	.. ..	0.9	2.6	34.6	1.1	2.6	42.3	0.9	2.6	34.6	+22.3	—18.2
3. Agricultural Tractors .. ..	.. ..	3.1	4.3	72.1	2.9	4.5	64.4	4.4	5.0	88.0	—10.7	+36.6
4. Power Transformers	.. '000 KVA	1178.7	1680.0	70.2	1471.5	1849.0	79.6	1512.1	2224.0	68.0	+13.4	—14.6
5. Electric Motors	.. '000 HP	289.1	554.4	52.1	329.2	472.6	69.7	308.4	560.7	55.0	+33.8	—21.1
6. Machine Tools	.. Lakh Rupees	1063.8	1010.0	105.3	951.0	1010.0	94.2	1014.7	1380.0	73.5	—10.5	—22.0
7. Ball and Roller Bearings	.. Lakh Nos.	22.9	25.9	88.4	24.1	26.6	90.6	24.4	26.6	91.7	+ 2.5	+ 1.2
III. Intermediate Goods Industries												
1. Tyres—Automobiles	.. '000 Nos.	426.9	411.5	103.7	444.0	459.4	96.6	489.7	459.4	106.6	— 6.8	+ 10.4
2. Tyres—Cycles .. ..	.. ..	1947.5	2849.0	68.4	1930.0	2883.0	66.9	2564.2	2833.0	90.5	— 2.2	+35.3
3. Tubes—Automobiles .. ..	.. ..	383.5	388.5	98.7	400.7	431.8	92.8	416.6	431.8	96.5	— 6.0	+ 4.0
4. Tubes—Cycles .. ..	.. ..	1366.6	2480.0	55.1	1247.6	2709.0	46.1	1374.4	2709.0	50.7	—16.3	+10.0
5. Storage Batteries .. ..	.. ..	116.7	144.0	81.0	123.8	129.0	96.0	134.9	129.0	104.6	+18.5	+ 9.0
6. Dry Cells	.. Lakh Nos.	499.5	1076.0	46.4	531.2	1011.0	52.5	688.4	1011.0	68.1	+13.1	+29.7
7. Paints and Varnishes	.. '000 Tonnes	6.0	10.2	58.8	6.3	9.1	69.2	7.3	9.1	80.2	+17.7	+15.9
8. Ceramics (Refractories) .. ..	.. ..	63.8	90.0	70.9	67.8	125.0	54.2	69.8	126.0	55.4	—23.6	+ 2.2
9. Cotton Spinning @ .. ..	.. ..	—	—	76.8	—	—	75.5	—	—	80.4	— 1.7	+ 6.5

IV. Consumer Goods Industries

1. Vanaspati	.. '000 Quintals	443.4	1075.0	41.2	486.0	1075.0	45.2	541.4	1075.0	50.4	+ 9.7	+11.5
2. Soaps	.. '000 Tonnes	22.3	18.9	118.0	24.4	18.8	129.8	27.4	18.8	145.7	+10.0	+12.2
3. Matches	.. Million Sticks	16421.7	20800	79.0	16444.0	20800.0	79.1	17920.4	20833.3	86.0	+ 0.1	+ 8.7
4. Footwear (Leather)(Western Type)	Lakh Pairs	6.9	11.5	60.0	7.0	11.3	61.9	4.9	N.A.	N.A.	+ 3.2	—
5. Footwear (Rubber)	.. Lakh Pairs	35.1	46.5	75.5	37.3	46.5	80.2	34.5	46.5	74.2	+ 6.2	— 7.5
6. Hurricane Lanterns	.. '000 Nos.	186.4	319.0	58.4	201.0	319.0	63.0	189.3	319.0	59.3	+ 7.9	— 5.9
7. Electric Lamps (Incandescent Filament)	.. Million Nos.	14.0	13.7	102.2	13.3	15.3	86.9	15.1	15.7	96.2	—15.0	+10.7
8. Electric Fans	.. '000 Nos.	198.0	243.0	81.5	275.7	243.0	113.5	255.2	246.0	103.7	+39.3	— 8.6
9. Glass & Glassware (Sheet Glass) ..	.. Lakh Sq. Mtrs.	16.5	22.1	74.7	16.0	22.1	72.4	16.5	20.7	79.7	— 3.1	+10.1
10. Razor Blades	.. Million Nos.	76.2	174.6	43.6	82.2	100.0	82.2	101.6	100.0	101.6	+88.5	+23.6
11. Typewriters	.. '000 Nos.	4.9	6.2	79.0	5.5	7.5	73.3	6.8	7.5	90.7	— 7.2	+23.7
12. Paper and Paper Boards (excluding Newsprint)	.. '000 Tonnes	73.3	93.0	78.8	76.6	94.8	80.8	83.5	108.3	77.1	+ 2.5	— 4.6
13. Radio Receivers	.. '000 Nos.	139.7	239.0	58.5	149.9	239.0	62.7	157.4	202.0	77.9	+ 7.2	+28.5
14. Domestic Refrigerators .. .. .	.. .. .	9.1	15.3	59.5	14.8	15.3	77.1	14.1	15.3	92.2	+29.6	+19.6
15. Sewing Machines .. .. .	.. .. .	30.2	44.2	68.3	31.5	44.2	71.3	20.0	46.3	43.2	+ 4.4	—39.4
16. Bicycles .. .. .	.. .. .	220.4	335.0	65.8	256.7	335.0	76.6	288.4	317.3	90.9	+16.4	+18.7
17. Cigarettes	.. Million Nos.	5591.2	6292.0	88.9	5616.3	6292.0	89.3	5954.4	8040.0	74.1	+ 0.4	—17.0
18. Penicillin	.. M.M.U.	N.A.	N.A.	N.A.	26.0	30.3	85.8	27.4	30.3	90.4	—	+ 5.4
19. Streptomycin	.. Tonne	N.A.	N.A.	N.A.	17.4	21.4	81.3	20.1	21.4	93.9	—	+15.5
20. Clocks	.. '000 Nos.	16.1	50.1	32.1	18.2	55.7	32.7	21.9	49.9	43.9	+ 1.9	+34.3
21. Baby Food	.. '000 Tonnes	2.2	2.5	88.7	2.5	2.50	99.2	2.9	2.5	117.6	+11.8	+18.5
22. Cotton Weaving (Mill Sector)@ ..	.. —	—	—	75.9	—	—	76.3	—	—	78.2	+ 0.5	+ 2.5

* Provisional.

@ Capacity utilisation ratio indicates the ratio of spindles/looms worked to spindles/looms installed.

Sources : C.S.O., Ministry of Industry and Steel Authority of India Ltd.

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

Range of Capacity Utilisation Ratio in 1978	Industry	Capacity Utilisation Ratio			Percentage Variation	
		1978	1977	1976	1978 over 1977	1977 over 1976
1	2	3	4	5	6	7
A. Basic Industries						
Above 80	1. Soda Ash	95.0	91.8	89.2	+3.5	+ 2.9
	2. Cement (Hydraulic)	88.1	88.5	87.0	— 0.5	+ 1.7
	3. Saleable Steel	82.0	90.0	92.0	— 8.9	— 2.2
Between 70 to 80	4. Caustic Soda	78.8	74.5	72.9	+ 4.5	+ 2.2
	5. Ingot Steel	77.0	84.0	84.0	— 8.3	—
Between 60 to 70	6. Sulphuric Acid	68.0	63.7	60.3	—11.0	+ 5.6
	7. Phosphatic Fertilisers (P ₂ O ₅)	65.6	77.9	61.4	—15.8	+26.9
	8. Nitrogenous Fertilisers (N Content)	62.4	65.2	70.6	— 4.3	— 7.6
Below 50	9. Aluminium (Virgin Metal)	63.8	83.2	96.2	—23.3	—13.5
	10. Aluminium Sheets and Circles	60.3	73.2	57.1	—17.6	+28.2
	11. Steel Castings	42.9	45.1	32.1	— 4.9	+40.5
	12. Light, Medium and Heavy Structural	22.5	30.3	27.5	—25.7	+10.2
	Group Average	67.2	72.3	69.2	— 7.1	+ 4.5
B. Capital Goods Industries						
Above 80	1. Ball and Roller Bearings	91.7	90.6	88.4	+ 1.2	+ 2.5
	2. Agricultural Tractors	88.0	64.4	72.1	+36.6	—10.7
Between 70 to 80	3. Machine Tools	73.5	94.2	105.3	—22.0	—10.5
Between 60 to 70	4. Power Transformers	68.0	79.6	70.2	—14.6	+13.4
Between 50 to 60	5. Electric Motors	55.0	69.7	52.1	—21.1	+33.8
Below 50	6. Railway Wagons	34.6	42.3	34.6	—18.2	+22.3
	Group Average	68.5	73.5	70.5	— 6.8	+ 4.3
C. Intermediate Goods Industries						
Above 80	1. Tyres—Automobiles	106.6	96.6	103.7	+10.4	— 6.8
	2. Storage Batteries	104.6	96.0	81.0	+ 9.0	+18.5
	3. Tubes—Automobiles	96.5	92.8	98.7	+ 4.0	— 6.0
Between 60 to 70	4. Tyres—Cycles	90.5	66.9	68.4	+35.3	— 2.2
	5. Cotton Spinning	80.4	75.5	76.8	+ 6.5	— 1.7
	6. Paints and Varnishes	80.2	69.2	58.8	+15.9	+17.7
	7. Dry Cells	68.1	52.5	46.4	+29.7	+13.1
Between 50 to 60	8. Ceramics (Refractories)	55.4	54.2	70.9	+ 2.2	—23.6
	9. Tubes—Cycles	50.7	46.1	55.1	+10.0	—16.3
	Group Average	81.4	72.2	73.3	+12.7	— 1.5
D. Consumer Goods Industries						
Above 80	1. Soaps	145.7	129.8	118.0	+12.2	+10.0
	2. Baby Food	117.6	99.2	88.7	+18.5	+11.8
	3. Electric Fans	103.7	113.5	81.5	— 8.6	+39.3
Between 60 to 70	4. Razor Blades	101.6	82.2	43.6	+23.6	+88.5
	5. Electric Lamps (Incandescent Filament)	96.2	86.9	102.2	+10.7	—15.0
	6. Streptomycin	93.9	81.3	N.A.	+15.5	—
Between 50 to 60	7. Domestic Refrigerators	92.2	77.1	59.5	+19.6	+29.6
	8. Bicycles	90.9	76.6	65.8	+18.7	+16.4
	9. Typewriters	90.7	73.3	79.0	+23.7	— 7.2
Below 50	10. Penicillin	90.4	85.8	N.A.	+ 5.4	—
	11. Matches	86.0	79.1	79.0	+ 8.7	+ 0.1
	12. Glass and Glass Ware (Sheet Glass)	79.7	72.4	74.7	+10.1	— 3.1
Between 70 to 80	13. Cotton Weaving (Mill Sector)	78.2	76.3	75.9	+ 2.5	+ 0.5
	14. Radio Receivers	77.9	62.7	58.5	+28.5	+ 7.2
	15. Paper and Paper Boards (Excluding Newsprint)	77.0	80.8	78.8	— 4.7	+ 2.5
Between 50 to 60	16. Footwear (Rubber)	74.2	80.2	75.5	— 7.5	+ 6.2
	17. Cigarettes	74.1	89.3	88.9	—17.0	+ 0.4
	18. Hurricane Lanterns	59.3	63.0	58.4	— 5.9	+ 7.9
Below 50	19. Vanaspati	50.4	45.2	41.2	+11.5	+ 9.7
	20. Clocks	43.9	32.7	32.1	+34.3	+ 1.9
	21. Sewing Machines	43.2	71.3	68.3	—39.4	+ 4.4
	Group Average	84.1	79.0	72.0	+ 6.5	+ 9.7
	Average Ratio (All Industries)	77.4	75.3	71.4	+ 2.8	+ 5.5

The Group observed in its report that rehabilitation of sick units called for close co-ordination and concerted action by banks and term-lending institutions, and emphasised that the viability of a unit and its ability to repay dues within reasonable period, and not security alone, should be the guiding factors in lending. The Group also recommended that there should be periodical meetings between lending institutions to review the performance of the assisted units, to consider fresh corrective measures and for sharing of cash flows. The District Industries Centres (DICs), which have been set up under the aegis of the Ministry of Industry all over the country, were also asked to identify sick units and restore them to health by offering a package of assistance.

District Industries Centres

The programme of setting up District Industries Centres (DICs) envisaged in the Government's Industrial Policy Statement of December 1977 made significant progress during the year under review. By the end of 1978-79, 346 DICs (covering 358 districts out of 399 districts in the country) had been sanctioned as against 180 envisaged originally for 1978-79. According to the progress reports available in respect of 168 DICs, they had identified 55,117 entrepreneurs for grant of assistance and had prepared 14,314 project profiles as a result of which 39,883 units were established providing additional employment to 129,359 persons in the decentralised industrial sector. Out of these units, nearly 32 per cent were in the small-scale sector and most of them were located in semi-urban and rural areas. Provisional or permanent registration was granted to 39,247 units.

Financial institutions had provided assistance to the tune of Rs. 48.26 crores so far, under the scheme of providing credit-assistance to the units in the DICs. Many of the DICs provided other assistance also, covering technical, managerial and marketing fields. According to information received from 171 DICs, they propose to establish 95,618 new units during 1979-80 of which 28,263 units would be in the small-scale sector. The anticipated total investment of these units is estimated at Rs. 197.50 crores, about 71 per cent of which would be provided by

the financing institutions. The gross value of the annual production of these units is likely to amount to Rs. 513.17 crores. These units are expected to provide direct employment opportunities to over 3.79 lakh persons.

Selected Industries : A Review

A review of the performance of certain selected industries is attempted in this subsection under four broad groups viz., basic, capital goods, intermediate goods and consumer goods industries.

A. Basic Industries

(a) COAL

Output of coal (including lignite), at 105.1 million tonnes in 1978, registered only a marginal increase of 1.2 per cent over the level of the previous year (Table III.15). The near-stagnation in coal production during the past three years is attributable to inadequate and erratic power supplies, shortages of explosives and labour unrest. The deteriorating labour situation was reflected in the number of man-days lost due to strikes in Coal India Ltd. (CIL) and Singareni Collieries Company Ltd. (SCCL) which tripled to 1.4 million in 1978 resulting in a production loss of 1.4 million tonnes. Besides, mining operations were severely disrupted during August-September 1978 due to the heavy floods in the Bengal-Bihar coal mine belt. In addition, non-availability of rail wagons in adequate number and difficulties in loading and unloading of coal due to labour troubles came in the way of providing adequate quantities out of pit heads to major coal consumers like thermal stations, steel plants and a large number of industrial units which suffered from shortages of coal supplies. While production in various industries was adversely affected by the shortage of coal, pit head stocks of coal increased from 12.5 million tonnes at end-March 1978 to 14.7 million tonnes by the end of March 1979. During the first six months of 1979 (upto June), production of coal (including lignite) amounted to 55.5 million tonnes showing a fractional increase of 0.7 per cent over the corresponding period of 1978.

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

									(Million tonnes)		
Commodity									1976	1977	1978*
1									2	3	4
A. Coal (including lignite)											
Production	..	..	..	..	..	..	..	..	104.9 (+6.1)	103.9 (-1.0)	105.1 (+1.2)
Of which :											
Coking Coal	..	..	..	..	..	..	..	..	29.6 (+17.9)	29.9 (+1.0)	29.5 (-1.3)
Despatches +	..	..	..	..	..	..	..	..	91.6 (+5.9)	97.6 (+6.5)	96.3 (-1.3)
Exports £	..	..	..	..	..	..	..	..	0.5	0.7	0.4
Year-end Stocks (at pit-heads)	..	..	..	..	..	..	..	..	12.3	9.8	10.7
B. Iron Ore											
Production :											
(a) All India	..	..	..	..	..	..	..	..	43.9 (+3.8)	42.6 (-3.2)	38.2 (-10.3)
(b) Excluding Goa	..	..	..	..	..	..	..	..	30.2 (+7.5)	N.A.	N.A.
Exports											
Quantity	..	..	..	..	..	..	..	..	23.4	23.2	N.A.
Value (Rs. crores)	..	..	..	..	..	..	..	..	232	252	N.A.
Year-end Stocks	..	..	..	..	..	..	..	..	4.5	5.3	5.9
C. Cement											
Production	..	..	..	..	..	..	..	..	18.7 (+15.1)	19.2 (+2.6)	19.6 (+2.4)
Installed Capacity	..	..	..	..	..	..	..	..	21.5 (+1.6)	21.7 (+1.0)	22.3 (+2.8)
Capacity Utilisation (per cent)				..	..	..	..	..	87.0	88.5	88.1
Year-end Stocks	..	..	..	..	..	..	..	..	0.23	0.25	0.32
Exports	..	..	..	..	..	..	..	..	0.77	0.81	0.07
Imports	..	..	..	..	..	..	..	..	—	—	1.06

* Provisional.

+ Excluding coal consumed by collieries and used for coal making, etc.

£ Includes coal and coke.

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

Sources :

Coal : Office of the Coal Controller.

Iron Ore : Indian Bureau of Mines.

Cement : C.S.O. and Cement Manufacturers' Association.

During 1978-79, coking coal was imported from Canada and Australia to augment domestic supplies of quality coal mainly required by steel plants. The exemption from the entire basic, auxiliary and additional customs duty granted by the Government on imported coking coal was extended for one more year upto June 30, 1980. Exports of coal which are now restricted only to traditional buyers amounted to 0.4 million tonnes during 1978 compared to 0.7 million tonnes during 1977.

Production and demand for coal during 1979-80 have been assessed by the Working Group on Coal and Lignite at 118.90 million tonnes and 117.89 million tonnes respectively. The annual production plan for 1979-80 aims at a total coal output of 117.89 million tonnes of which 102.90 million tonnes is assigned to the CIL. The production plan lays great stress on developing new projects and reconstructing old mines. Co-ordination between chief executives of coal mines and railway authorities is to be strengthened. Besides, loading, quality control and despatch of coal are to be streamlined.

The Government revised the prices for coal, effective July 17, 1979. The average price has been increased from Rs. 64.71 per tonne to Rs. 101.18 in the case of coal produced by CIL and from Rs. 68.70 per tonne to Rs. 99.92 in respect of Singareni Collieries. The increase is meant to offset the losses incurred by coal companies due to escalation in the cost of production since the last price revision in July 1975. The Government also decided to withdraw the recent hike in central excise duty levied on non-coking coal and coking coal to soften the impact of the latest upward revision of the price of coal.

(b) IRON ORE

The output of iron ore at 38.2 million tonnes in 1978 was 10.3 per cent lower than that in the previous year (Table III.15). The fall in the production was attributable to the decline in internal as well as export demand. Nearly one-third of the decline during the year under review was accounted for by the fall of over 16 per cent in the iron

ore produced by the National Mineral Development Corporation (NMDC) from 9.3 million tonnes in 1977 to 7.8 million tonnes. The share of the NMDC in the total iron ore production declined from 23 per cent to 21 per cent in 1978; the share of public sector mines, however, increased from 48 per cent to 52 per cent over the same period.

During the year, despatches of iron ore to steel plants in India declined from 16.3 million tonnes in 1977 to 16.1 million tonnes, reflecting the latter's poor production performance. The despatches for export declined more sharply by 16.5 per cent to 21.3 million tonnes in 1978. The decline in exports during the year was due to recession in the steel industry of major steel producing countries, particularly Japan, traditionally the major consumer of Indian iron ore. As a result of sluggish internal and foreign demand, mine-head stocks of iron ore rose to 5.9 million tonnes in 1978 from 5.3 million tonnes in 1977, despite the considerable decline in production during the year.

(c) CEMENT

The production of cement, at 19.6 million tonnes in 1978, recorded for the second year in succession only a marginal growth (2.4 per cent); the increase in 1977 was 2.6 per cent. The low growth rate during 1978 was largely attributable to power shortages, poor quality and inadequacy of coal supplies and inadequate availability of railway wagons for movement of raw materials. These constraints resulted in further decline of 3.0 per cent in cement production during the first six months of 1979, compared to the corresponding period of 1978.

In order to meet the internal demand, the exports of cement were banned in July 1977 (except for irrevocable contractual obligations). The ban was continued during 1978 and further it was decided to arrange for imports to augment domestic supplies. Accordingly, the import of cement during 1978 aggregated 10.6 lakh tonnes and exports declined sharply to 70,000 tonnes. The total availability of cement in the country including imports was, however, adversely affected by transport bottlenecks and port congestion. Transport difficulties were responsible for the

stocks with the cement factories rising from 253,000 tonnes at the end of 1977 to 316,000 tonnes at the end of 1978. In order to bridge the gap between likely demand for and supply of cement, the Government have decided to import 2 million tonnes of cement during 1979.

Cement shortage highlights the need for substantial expansion of existing capacity. Since September 1977, the Government have issued industrial licences/letters of intent for installing additional capacity of the order of 14.9 million tonnes. The problem of regional imbalances in cement production is being tackled by the Government by promoting quick-yielding and labour-intensive mini-cement plants (with a daily capacity of upto 200 tonnes). To reduce transport requirements, these plants are being established near the site of limestone deposits. The Government has so far received 41 proposals for setting up of such plants with a total capacity of 1.7 million tonnes.

Incentives offered by the Government for mini-cement plants include a rebate in the payment of excise duty upto 50 per cent for a period of five years, exemption from distribution control, and additional excise relief or cash subsidy for plants set up in hilly and remote areas. In addition, the ex-works price of cement produced by mini-cement units has been fixed at Rs. 296 per tonne i.e. at the same level as for the large sized plants. This price is assured for five years from the date of commencement of commercial production.

It has also been decided to pursue a policy of 'split location' plants with a view to avoiding transportation of cement over long distances from the factory to the consumer and also for bringing about wider dispersal of units in the industry. Under the system, clinkering would be done at places of limestone deposits and the grinding would be done near principal consuming centres. Letters of intent and industrial licences already issued for new units were being recalled for necessary amendment to conform to this policy.

A major development during the period under review affecting the cement industry

was the Government's decision to replace with effect from 3rd May 1979 the system of uniform price of cement payable to the producers by a three-tier system of retention prices of Rs. 185, Rs. 205 and Rs. 220 a tonne for low, medium and high cost units respectively, on the basis of the recommendations of a high level committee headed by the Chairman of the Bureau of Industrial Costs and Prices. The three-tier price formula, which provides for a minimum post-tax return of 12 per cent on net worth, will be in force upto March 31, 1982, and the Government will review annually the impact of manufacturing costs on the retention prices. The new policy also provides for the continuance of the higher retention price of Rs. 296 a tonne for new units and in case of substantial expansion as announced in September 1977. Likewise, units in hilly areas will continue to get higher retention prices as at present. Besides, the Government has decided to continue the subsidies payable to cement units for the consumption of furnace oil and for operating captive diesel power generating plants.

With effect from October 1, 1978, 14 States/Union Territories decided to introduce schemes for direct control over public distribution of cement so as to ensure fair supplies to priority sectors, discourage consumption of cement for non-priority and non-essential purposes, facilitate availability to small users and eliminate black marketing.

(d) IRON & STEEL

The production of steel ingots in the integrated steel plants declined by 3.2 per cent to 8.2 million tonnes during 1978-79 on the top of a decline of 0.1 per cent in the previous year. Output of saleable steel also declined during 1978-79 to 6.6 million tonnes, or by 4.4 per cent compared to the decline of 0.4 per cent in 1977-78. The rates of capacity utilisation in the integrated steel plants at 77 per cent and 82 per cent respectively for steel ingots and saleable steel were lower by 7-8 percentage points over the preceding year. Steel output in 1978-79 was adversely affected by inadequate availability, coupled with poor quality, of coking coal. Other contributory factors were the shortage of power and heavy floods in the eastern region during August-

September 1978, which inundated a number of coking coal mines, disrupted rail traffic and partially flooded two of the steel plants. Though the Government arranged for imports

of 1.4 million tonnes of coking coal, a considerable portion of it could not be moved from the ports to the steel plants due to transport bottlenecks.

Table III.16 : Production of Iron and Steel

(Thousand tonnes)

Year	Bhilai	Durgapur	Rourkela	Bokaro	TISCO	IISCO	Total (2 to 7)	VISL	ASP	Total (9 + 10)
1	2	3	4	5	6	7	8	9	10	11
Production of Steel Ingots										
1975-76	2,209	1,001	1,282	342	1,787	630	7,251	138	90	228
1976-77	2,302	1,092	1,503	956	1,908	667	8,428	137	95	232
1977-78	2,371	1,092	1,409	933	1,968	651	8,424	103	97	200
1978-79*	2,200	945	1,319	1,195	1,866	628	8,153	113	97	210
Production of Saleable Steel										
1975-76	1,850	751	1,041	150	1,486	500	5,778	85	47	132
1976-77	2,019	901	1,174	736	1,550	542	6,922	81	52	133
1977-78	1,930	865	1,178	815	1,601	506	6,895	73	49	122
1978-79*	1,846	776	1,042	931	1,516	481	6,592	84	49	133
Production of Finished Steel										
1975-76	1,468	474	1,036	62	1,033	362	4,435	—	—	—
1976-77	1,673	502	1,146	660	1,001	363	5,345	—	—	—
1977-78	1,632	531	1,160	731	1,065	336	5,455	—	—	—
1978-79*	1,586	534	1,029	894	962	314	5,319	—	—	—

*Provisional.

Source : Steel Authority of India Ltd.

The production of alloy steels at the Alloy Steel Plant, Durgapur (ASP) and the Visvesvarayya Iron and Steel Ltd., Bhadravati (VISL), however, showed increases during the year. The production of ingots registered an increase of 5 per cent as against a decline of about 14 per cent in 1977-78, and that of saleable steel by 9 per cent, which entirely wiped out the decline of 11 thousand tonnes in 1977-78.

The output of mini-steel plants also registered an impressive growth during the year due to a package of measures and fiscal incentives announced in the Union budget for 1978-79 (referred to in the last year's Report). In addition, mini-steel plants were permitted during the year under review to import heavy melting scrap required by them free of import duties and without any quantitative restrictions. As a result, out of the 144 mini steel units with an installed capacity of 3.29 million tonnes of steel per annum, as many as 130 with a production capacity of 2.97 million

tonnes were operational as on 1st December 1978. Their production aggregated 1.73 million tonnes in 1978-79, which represented an increase of 53 per cent over the previous year's output. Consequently, their average capacity utilisation further improved to about 58 per cent from 40 per cent in 1977-78.

While the output of integrated plants tended to decline, the growth of demand for steel continued to rise from 16 per cent in 1977-78 to 20 per cent in 1978-79 due to a spurt in building construction and revival in industrial activity. In recognition of the emerging trends in production and consumption of steel, the import and export policy for steel underwent a drastic change during the year. Exports during the year were restricted to past commitments. Besides, arrangements were made for sizeable quantity of imports, particularly of certain categories which were in acute short supply such as structurals, plates, hot rolled and cold rolled coils and sheets. Further, the Government decided

to exempt from import duties such of the imports as were effected for building up a buffer stock. Of the total imports of 8.17 lakh tonnes, over half the quantity viz., 4.69 lakh tonnes, was meant for the creation of a buffer stock. As the prices at which the metal is imported are much higher than indigenous prices, the Government introduced a system of pooled prices for imported and indigenous steel.

As the shortages persisted despite imports, the Government reviewed the steel distribution policy and evolved a new distribution formula taking into consideration past off-take, capacity and export commitments. Supplies to the small-scale sector, routed mainly through the State-level small industries corporations, were based on their off-take during the best year in the recent past. To bring about uniformity in the distribution of steel and to avoid duplication in allotment, the Government brought in May 1979 the production of Tata Iron & Steel Co. Ltd. (TISCO) also within the purview of the system of regulated distribution. The distribution programme of TISCO would be co-ordinated with that of the Steel Authority of India Ltd. (SAIL) and supplies monitored region-wise so that corrective action could be taken where necessary.

The demand for steel is expected to grow by 15-20 per cent in 1979-80. According to the production plan drawn up for the year, the production of ingot steel by the integrated plants was projected to increase by 14.7 per cent to 9.4 million tonnes and that of saleable steel by 12.4 per cent to 7.4 million tonnes, while the production of alloy steel ingots was projected to increase by 13.6 per cent to 2.4 lakh tonnes and of saleable alloy steel by 9.7 per cent to 1.5 lakh tonnes. Import of about 2 million tonnes of steel is also planned during the year. However, in view of the continued shortages of coking coal and also to avert any contingency of stoppage of production in some sections of the steel plants, which could cause severe damage to costly equipment, the Government decided to cut back production by 8 per cent during April-June 1979 in all the steel plants to conserve and build up adequate stocks of coking coal before the onset of monsoon. As a direct consequence of this,

the production of ingots in the integrated steel plants declined by 2.6 per cent and that of saleable steel by a much steeper rate of 9.0 per cent in the first quarter of 1979-80. The production of alloy steels also declined during this period by 1.9 per cent in respect of ingots and 9.9 per cent in respect of saleable steel.

The base prices of all items of steel (exclusive of the development and import surcharges) were increased by 15 per cent and an additional surcharge of Rs. 100 per tonne was imposed on pig iron effective from April 6, 1979. The resources raised by the increase in prices, after providing for some compensation to the steel plants for uncovered costs and escalations, are expected to leave around Rs. 200 crores in the Steel Development Fund created in 1978 for utilisation in approved outlays on this sector. In view of the increased prices announced by the Government, it was simultaneously decided to withdraw the full exemption from excise duty allowed on steel ingots and semi-finished steel products manufactured by mini-steel units, and to impose a basic excise duty of Rs. 100 per tonne thereon.

(e) ELECTRICITY

The total generation of electricity during 1978 was 100.9 billion kwh as compared to 90.9 billion kwh in 1977. At 54.3 billion kwh in the first half of 1979, it was higher by 4.8 billion kwh than in the corresponding period of 1978.

Power generation increased during 1978 by 11.0 per cent as compared to an increase of 3.2 per cent in 1977. The rate of growth during January-June 1979 was 9.7 per cent compared to 10.1 per cent in the corresponding half of the previous year. While hydel power generation increased during 1978 by 27.3 per cent, reflecting the position in regard to coal supplies the thermal power generation increased by only 1.3 per cent, the respective growth rates for January-June 1979 being 8.9 per cent and 4.5 per cent.

Despite higher generation of power during 1978 and the first half of 1979, the availability of power fell short of demand in almost all the States and Union Territories, excepting

three or four States. Region-wise requirements of power and actual supplies during 1977, 1978 and the first half of 1979 are shown in Table III.17. With a view to tiding over the energy shortage, a number of States imposed power cuts during 1978-79. The magnitude of such cuts ranged between 10-25 per cent in the north-eastern region, 8-20 per cent in the western region, 15 per cent in the eastern region and 10-15 per cent in the southern region. In the northern region,

it varied widely from 4 per cent in Jammu & Kashmir to 100 per cent in U.P. in the case of continuous process industries getting a supply of 33 KV and above. The States where power position was most critical included West Bengal, Maharashtra, Karnataka, Bihar, U.P. and M.P. The Power situation worsened during early 1979 forcing industries in West Bengal to go on about a week's holiday during April 1979 and in Maharashtra during June 1979.

Table III.17 : Power Supply Position —(Requirement and Actual Supply)

(Gwh/per day)

Regions	1977 (January-December)			1978 (January-December)			1979 (January-June)		
	Requirement	Actual Supply	% Deficit	Requirement	Actual Supply	% Deficit	Requirement	Actual Supply	% Deficit
	1	2	3	4	5	6	7	8	9
Northern Region ..	868.95	734.79	—15.3	956.87	839.21	—12.3	603.4	548.72	—9.1
Western Region ..	955.22	857.85	—10.2	1034.47	950.73	—8.8	654.2	576.68	—11.8
Southern Region ..	821.79	696.81	—15.2	900.19	818.55	—9.1	557.0	513.2	—7.9
Eastern Region ..	559.24	480.26	—14.1	581.51	488.43	—12.0	349.9	287.8	—17.8
North Eastern Region ..	32.40	25.40	—21.6	39.60	27.05	—31.7	23.9	16.8	—29.5
Total (For All Regions) ..	3237.60	2795.11	—13.7	3512.64	3132.98	—10.8	2188.3	1943.1	—11.2

Source : Central Electricity Authority.

The widespread power shortage was mainly attributable to the failure to complete the major power projects on schedule, teething troubles of newly installed power plants, under-utilisation of capacity as a result of inadequate supply of coal to thermal plants due to shortage of railway wagons, poor maintenance of plants and mounting transmission losses. In West Bengal, where the demand-supply gap is the largest, capacity utilisation of plants was as low as 25 per cent in 1978.

Installation of additional capacity for power generation during 1978-79 is estimated to have reached a level of 3,000 MW as compared to 2,210 MW installed during the previous year. The following targets have been tentatively fixed for addition of new capacity during the next four years : 3,165 MW in 1979-80, 3,224 MW in 1980-81, 4,472 MW in 1981-82 and 4,764 MW in 1982-83.

B. Capital Goods Industries

(a) ENGINEERING INDUSTRIES

Production of engineering goods (including steel) in 1978-79, valued at roughly Rs.10,000 crores, was nearly 13.5 per cent higher than in the preceding year despite the difficult power supply situation. While domestic demand for engineering goods improved considerably, export demand slackened somewhat. The growth of engineering goods exports decelerated further from 13 per cent in 1977-78 to about 11 per cent in 1978-79 due to frequent rises in shipping freight rates and strike by port and dock workers. During the year under review, the list of engineering industries and the eligibility criteria for assistance under the soft loan scheme for modernisation were revised, with a view to helping the industrial units producing

agricultural tractors, commercial vehicles, passenger cars, scooters, motor cycles, bicycles and electric fans.

A brief review of the performance of the heavy mechanical engineering, light mechanical engineering and electrical engineering industries in 1978 is presented below.

(i) *Heavy Mechanical Engineering Industries:* The production of all items falling under this group, except railway wagons and passenger cars, registered a sizeable increase during 1978 (Table III.18). The rate of growth of the automobile industry as a whole, at 11.1 per cent in 1978, was nearly three times that in the previous year, despite a decline of 9.2 per cent in the production of passenger cars whose output had increased by 20.2 per cent

in 1977. The better performance of the automobile industry reflected the increase in the production of commercial vehicles by 30.8 per cent in contrast to a decline of 14.2 per cent in the previous year. On account of heavy domestic and foreign demand for commercial vehicles and in view of their potential for generating employment and facilitating movement of goods and passengers, the Government asked two major producers viz., TELCO and Ashok Leyland to go in for a substantial expansion in their manufacturing capacity. Production of jeeps also increased but at a slower rate of 16.7 per cent than that of 39.1 per cent in 1977. The rate of growth of scooter production, however, accelerated from 2.4 per cent to 6.7 per cent in 1978.

Table III.18 : Output of Heavy Mechanical Engineering Industries

Item	Unit	1976	1977	1978*
1	2	3	4	5
Automobiles (total i+ii+iii)	'000 Nos	81.0 (+16.2)	84.1 (+ 3.8)	93.4 (+11.1)
(i) Passenger Cars	"	31.7 (+34.9)	38.1 (+20.2)	34.6 (— 9.2)
(ii) Commercial Vehicles	"	42.4 (+11.6)	36.4 (—14.2)	47.6 (+30.8)
(iii) Jeeps	"	6.9 (—15.9)	9.6 (+39.1)	11.2 (+16.7)
Scooters	"	152.1 (+49.7)	155.8 (+ 2.4)	166.2 (+ 6.7)
Light, Medium & Heavy Structural	'000 Tonnes	123.9 (+ 1.2)	130.0 (+ 4.9)	139.0 (+ 6.9)
Steel Castings (including alloy steel castings) ..	"	324 (+25.6)	303 (— 6.5)	358 (+18.5)
Diesel Engines (stationary)	'000 Nos	106.6 (—24.0)	130.4 (+22.3)	136.2 (+ 4.4)
Railway Wagons†	"	11.3 (— 7.4)	12.7 (+12.4)	10.7 (—15.7)
Road Rollers	Nos.	228 (—69.4)	502 (+120.2)	767 (+52.8)
Machine Tools	Rs. Crores	128.0 (+ 5.6)	114.1 (—10.9)	121.8 (+ 6.7)

* 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.

The output of the passenger car industry further declined during January-June 1979, being 22.3 per cent lower than in the corresponding period of 1978. In contrast, the production of scooters and jeeps increased during the period by 18.6 per cent and 25.4 per cent, respectively. The production of commercial vehicles, which had improved considerably in 1978, continued to expand during the first six months of 1979, rising by 30.5 per cent over the corresponding period of 1978. The production of road rollers, which had more than doubled during 1977, improved by 52.8 per cent in 1978. However, it received a set-back during January-June 1979, being 3.4 per cent lower than in the same period of 1978. Output of steel and alloy castings registered an increase of 18.5 per cent during 1978 in contrast to the decline of 6.5 per cent in the previous year. The value of production of machine tools also increased during 1978 by 6.7 per cent as against a decline of 10.9 per cent in 1977, due to the revival in domestic as well as foreign demand. This performance was

further improved upon during the first six months of 1979, when the value of production of machine tools increased by 37.4 per cent to Rs. 83.23 crores. The output of railway wagons declined in 1978 by 15.7 per cent due to power shortage and the non-availability of wheel-sets from the railways in contrast to the increase of 12.4 per cent in 1977. However, during January-June 1979, wagon output stood 10.3 per cent higher than in the corresponding period of 1978.

(ii) *Light Mechanical Engineering Industries* : Among the industries in this group, the production of typewriters and crown corks increased appreciably by 25.7 per cent and 59.1 per cent, respectively during 1978 (Table III.19). The production of pressure stoves increased by 30 per cent in contrast to a decline of 47.4 per cent in 1977, while that of razor blades showed a rise of 23.6 per cent compared to 7.8 per cent in 1977. The production of sewing machines, however, recorded a steep decline of 36.4 per cent.

Table III. 19 : Output of Light Mechanical Engineering Industries

Item	Unit	1976	1977	1978*
1	2	3	4	5
Ball & Roller Bearings	Million Nos.	27.7 (+21.5)	28.3 (+ 2.2)	29.3 (+ 3.5)
Typewriters	'000 Nos.	60.0 (+11.1)	65.8 (+ 9.7)	82.7 (+25.7)
Rubber Ply Transmission & Conveyor Beltings.	Tonnes	7113 (+ 0.2)	5977 (-16.0)	6548 (+ 9.6)
Bicycles	'000 Nos.	2644 (+19.7)	3081 (+16.5)	3461 (+12.3)
Sewing Machines	'000 Nos.	362.4 (+39.2)	378.0 (+ 4.3)	240.5 (-36.4)
Hurricane Lanterns	'000 Nos.	2237 (+33.4)	2412 (+ 7.8)	2271 (- 5.8)
Razor Blades	Million Nos.	915 (-11.1)	986 (+ 7.8)	1219 (+23.6)
Stoves (Pressure type)	'000 Nos.	3.8 (+137.5)	2.0 (-47.4)	2.6 (+30.0)
Crown Corks	Million Nos.	603 (+ 7.9)	704 (+16.7)	1120 (+59.1)
Bolts, Nuts, Rivets & Dogspikes	Tonnes	26827 (- 4.7)	27660 (+ 3.1)	28474 (+ 2.9)

* Provisional.

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

Source : C.S.O.

During January-June 1979, the production of typewriters at 47,230 units registered a decline of 20.8 per cent over the comparable period of 1978, and that of sewing machines continued to fall and at 143,700 units, declined by 10.7 per cent. The production of bicycles, which had increased by 12.3 per cent during 1978, improved further by 23.1 per cent during the six-month period ended June 1979. The rate of growth recorded during the same period in the production of ball and roller bearings at 17.1 per cent was also much more impressive than that in the first half of 1978.

(iii) *Electrical Engineering Industries* : But for a decline of 7.5 per cent in the production of electric fans and that of 6.4 per cent in electric motors, all other industries in this group registered a rise in their production during 1978 over the previous year. The storage batteries industry operated at above-full capacity, and in the absence of any addition to installed capacity, faced capacity constraints in the wake of increasing demand. This was reflected in the depletion of their stocks by 17 per cent to 86 thousand units at end-December 1978 from the level a year earlier (Table III.20).

Table III. 20 : Output of Electrical Engineering Industries

Item	Unit	1976	1977	1978†
1	2	3	4	5
Light Electrical Engineering				
Electrical Lamps ..				
(i) GLS & Others	Million Nos.	167.5 (+29.8)	159.3 (- 4.8)	181.3 (+13.8)
(ii) Fluorescent	"	16.9 (-)	17.6 (+ 4.1)	20.5 (+16.5)
Electric Fans	'000 Nos.	2376 (+13.6)	3309 (+13.9)	3062 (- 7.5)
Radio Receivers	'000 Nos.	1676 (+ 8.8)	1799 (+ 7.3)	1889 (+ 5.0)
Storage Batteries	'000 Nos.	1400 (+ 5.1)	1486 (+ 6.1)	1618 (+ 8.9)
Dry Cells	Million Nos.	599.4 (+10.3)	637.5 (+ 6.4)	826.1 (+29.6)
Domestic Refrigerators	'000 Nos.	108.8 (+ 2.4)	141.1 (+29.7)	177.7 (+26.0)
Heavy Electrical Engineering				
Power Transformers	'000 KVA	14144 (+26.7)	17659 (+24.9)	18145 (+ 2.8)
Electric Motors	'000 H.P.	3469 (+11.8)	3951 (+13.9)	3700 (- 6.4)

† Provisional.

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

Source : C.S.O.

During January-June 1979, the production of electric fans was higher by 15.7 per cent over the corresponding period of the previous year. The declining trend in the production of electric motors, however, continued and the output dropped further by 3.0 per cent. The production of dry cells during the same period aggregated 449.9 million units, record-

ing an increase of 24.2 per cent over the level a year ago. Among other items, the production of fluorescent tubes went up by 14.0 per cent but that of incandescent lamps by only 4.0 per cent.

The rate of growth of production of domestic refrigerators, at 26.0 per cent, remained

at a high level during 1978, though somewhat lower than that in 1977. During January-June 1979, however, the production increased by as much as 30.6 per cent to 109.35 thousand units. The production of power transformers, which had increased by only 2.8 per cent in 1978, staged a remarkable recovery during January-June 1979 and recorded an increase of 36.6 per cent over the corresponding period of 1978. The production of radio receivers, whose growth rate has progressively declined during the last three years, also staged an impressive recovery and recorded a growth of 14.6 per cent during January-June 1979.

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

The details of output in respect of various metallurgical industries other than iron and steel are given in Table III.21. Among the major industries in this group, *aluminium* industry, which had suffered a severe setback

in 1977, improved its performance considerably with its production rising from 183.8 thousand tonnes to 207.4 thousand tonnes or by 12.8 per cent in contrast to the decline of 13.3 per cent in 1977. During the first six months of 1979, the increase in production was 19.4 per cent over the corresponding period of 1978. This improvement was due largely to the increase of nearly 50 per cent in the installed capacity, and relatively better availability of power. The indigenous production still lagged considerably behind domestic demand necessitating large-scale imports, which increased from 9,000 tonnes in 1977-78 to 33,000 tonnes in 1978-79, and are expected to reach a level of 75,000 tonnes during 1979-80. According to the projections made by the Planning Commission's Working Group on Non-ferrous Metals, the demand for aluminium will go up at an annual rate of 10 per cent upto 1982-83 and the gap between domestic supply and demand will widen from 35,000 tonnes in 1979-80 to 75,000 tonnes in 1982-83.

Table III. 21 : Output of Metallurgical Industries
(Other than Iron and Steel)

								(Thousand Tonnes)		
Item								1976	1977	1978*
1								2	3	4
Virgin Metals										
Aluminium	..	..	..	..	..	..	..	211.9 (+26.6)	183.8 (-13.3)	207.4 (+12.8)
Copper	..	..	..	..	..	..	..	21.3 (+30.1)	21.7 (+ 1.9)	21.2 (- 2.3)
Lead	..	..	..	..	..	..	..	5.4 (+12.5)	7.7 (+42.6)	9.2 (+19.5)
Zinc	..	..	..	..	..	..	..	26.8 (+ 4.3)	36.0 (+34.3)	58.7 (+63.1)
Semi-manufactures										
Aluminium Sheets and Circles	..	..	..	..	..	..	..	38.0 (+ 0.3)	49.4 (+30.0)	45.3 (-8.3)
Aluminium Wire Rods for ACSR	..	..	..	..	..	..	..	60.4 (+48.0)	39.6 (-34.4)	20.0 (-49.5)
Copper sheets and Circles@	..	..	..	..	..	..	..	2.2 (+ 4.8)	2.7 (+22.7)	2.1 (-22.2)
Brass Sheets and Circles@	..	..	..	..	..	..	..	11.5 (+28.1)	12.3 (+ 7.0)	11.4 (-7.3)
Zinc Sheets and strips	..	..	..	..	..	..	..	7.1 (+10.9)	7.3 (+ 2.8)	9.4 (+28.8)

* Provisional.

@Includes Strips.

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

Source : C.S.O.

With effect from October 8, 1978, the dual pricing policy was replaced by a new pricing policy under which the prices of the entire aluminium production in the country are controlled. Under the new policy, the retention price fixed for ingots covers full cost of production, and provides for a minimum post-tax return on networth depending upon the rate of capacity utilisation.

In view of the substantial imports of aluminium, the Government decided to pool the c.i.f. price of the imported metal with the price of domestic metal and announce the pool price every quarter. Further, it decided to waive the customs duty and the counter-vailing duty on imported metal till the c.i.f. price was equal to or higher than the price of locally produced metal. With a view to ensuring equitable distribution of the metal in short supply, Government announced in May 1979 a new distribution policy under which the entitlement for the metal of each consuming unit will be determined on the basis of capacity and maximum off-take of the unit in any year during the previous four years pro-rated to availability.

The production of *copper* at 21.2 thousand tonnes recorded a decline of 2.3 per cent as against an increase of 1.9 per cent in 1977. The poor production performance was the result of inadequate power supplies, shortages of explosives, labour problems in the Hindustan Copper Ltd. plant at Ghatshila, and the technical and operational problems at the Khetri copper smelter. On the other hand, the demand for copper, particularly from the power generation sector, registered a steady increase. In order to bridge the gap between domestic production and demand, the MMTC undertook massive imports from Zambia and Tanzania during the year under review. Firm arrangements were made for import of about 83,000 tonnes during 1978-79, as compared to the imports of over 33,000 tonnes during 1977-78 and more imports were planned for 1979-80.

The production of *lead* at 9.2 thousand tonnes recorded an increase of 19.5 per cent during 1978. The increase was somewhat lower at 15.9 per cent during January-June 1979, over the corresponding period of 1978. The improvement was largely attributable to

the completion of the Hindustan Zinc Ltd.'s lead smelter plant at Visakhapatnam. In December, 1978, the Union Government sanctioned a Rs. 12 crore lead mine project at Sargipalli in Orissa to produce 500 tonnes of lead ore per day which is likely to be fully operative by 1982-83.

Among the semi-manufactures, production of *aluminium sheets and circles* declined by 8.3 per cent, in contrast to a sharp increase of 30 per cent in 1977. There was, however, a smart recovery during January-June 1979, when the production increased substantially by 44.6 per cent. For the second year in succession, the production of *aluminium wire rods for ACSR* declined substantially, the fall being 49.5 per cent in 1978. The production of *copper sheets and circles* also showed a sharp decline of 22.2 per cent in 1978 in contrast to the increase of 22.7 per cent during 1977. Inadequate power supplies and mounting labour unrest in the manufacturing plants adversely affected the production. The output of *zinc sheets and strips* registered a significant rise of 28.8 per cent during 1978, as compared to a nominal increase of 2.8 per cent in 1977. The growth in production was facilitated by substantial higher production of zinc by the Hindustan Zinc Ltd. (HZL) at its Visakhapatnam zinc refining smelter. However, the production of *brass sheets and strips* declined by 7.3 per cent during 1978.

C. Intermediate Goods Industries

(a) JUTE TEXTILES

The output of jute textiles in 1978, at 11.96 lakh tonnes, recorded a net increase of 0.9 per cent as against a decline of 0.4 per cent during the previous year. While the production of hessian declined from 3.50 lakh tonnes in 1977 to 3.30 lakh tonnes in 1978 and that of carpet backing from 1.43 lakh tonnes to 1.29 lakh tonnes, the production of sacking increased moderately from 5.50 lakh tonnes to 5.75 lakh tonnes (Table III.22). During January-June 1979 production of jute goods at 3.95 lakh tonnes was much lower than that of 5.18 lakh tonnes during the corresponding period of 1978, mainly because of the prolonged strike of jute workers in early

1979 and the shortage of power in West Bengal resulting in complete shut down of

industries for about a week in April 1979 and massive load shedding thereafter.

Table III. 22 : Jute Textiles

(Thousand Tonnes)

Item						Year	Hessian	Sacking	Carpet backing	Total@
1						2	3	4	5	6
Production	..	..	..	..	..	1976	316.8 (+6.6)	629.0 (+3.6)	120.2 (-1.2)	1191.0 (+5.0)
						1977	349.5 (+10.3)	549.5 (-12.6)	143.2 (+19.1)	1185.9 (-0.4)
						1978*	330.3 (-5.5)	575.4 (+4.7)	128.7 (-10.1)	1196.3 (+0.9)
Exports	..	..	..	..	..	1976	222.6 (-1.7)	53.1 (-31.0)	116.6 (+7.7)	424.2 (-4.7)
						1977	266.5 (+19.7)	68.7 (+29.4)	136.8 (+17.3)	511.2 (+20.5)
						1978*	208.0 (-22.0)	52.4 (-23.7)	103.2 (-24.6)	399.4 (-21.9)
Domestic Consumption**	..	..	..	..	..	1976	92.5 (+20.0)	572.1 (+13.6)	—	762.9 (+16.2)
						1977	95.7 (+3.5)	456.4 (-10.2)	—	660.3 (-13.4)
						1978*	105.4 (+10.1)	531.4 (+16.4)	—	761.2 (+15.3)
Stocks (as at end-December)	..	..	..	..	..	1976	41.1 (-2.8)	52.1 (-10.9)	14.7 (+19.2)	122.7 (-10.6)
						1977	30.7 (-25.3)	59.1 (+13.4)	9.3 (-26.6)	114.3 (-6.8)
						1978*	60.2 (+96.1)	39.8 (-22.7)	26.8 (+188.2)	142.4 (+24.6)

@ Inclusive of 'Others'. * Provisional. ** Figures represent despatches for internal consumption.

Note : Figures within brackets represent percentage change over preceding year.

Source : Ministry of Industry (Office of the Jute Commissioner).

Despatches of jute textiles for domestic consumption during 1978 increased sharply by 15.3 per cent to 7.61 lakh tonnes from 6.60 lakh tonnes in 1977, mainly due to the increase of 16 per cent in the off-take of sacking by the DGS & D. Despatches for domestic consumption of hessian also rose by 10.1 per cent to 1.05 lakh tonnes in 1978. Internal consumption of jute goods aggregated 2.0 lakh tonnes during the first four months of January-April 1979.

Exports of jute goods, which had staged a remarkable recovery during 1977, suffered a setback in 1978 due to lower off-take by

major importing countries like the USA, the USSR and Japan aggravated by the strike by Calcutta port workers. Exports declined from 5.11 lakh tonnes in 1977 to 3.99 lakh tonnes in 1978, the decline ranging between 22 and 25 per cent for different varieties.

Stocks of jute goods with the mills at 1.4 lakh tonnes at the end of December 1978 were higher by 0.3 lakh tonnes over end-December 1977. The rise in the domestic consumption of jute goods did not offset entirely the impact of sluggishness of exports; in the result, stocks of jute goods rose somewhat in 1978. Since the beginning of 1979,

however, stocks have come down progressively and stood at 0.8 lakh tonnes at the end of April mainly due to lower production of jute goods during the first four months of 1979.

On March 8, 1979, the Government of India announced revised rates of cash assistance for export of jute goods which will remain in force till March 31, 1980.* Accordingly, cash assistance on hessian exports, which was withdrawn in April 1978, was partially restored at 5 per cent. The prevailing 10 per cent assistance on carpet backing, etc. was retained. Besides, the Government completely exempted from excise duty laminated jute bags, as nearly 80 per cent of these bags are used domestically for packing fertilisers.

During the year under review, four jute mills which had remained closed for a long period were reopened, and the Government took over the management of three mills, including two reopened mills. Government also took over Lagan Jute Machinery Co., Calcutta with a view to continue its operation as the premier jute machinery manufacturing unit in the country. The Jute Manufactures'

Development Council (JMDC) was reconstituted in order to intensify research and development and market promotional efforts.

(b) RUBBER MANUFACTURES

The rubber manufactures industry registered a substantially higher growth rate during 1978; this increase was shared, unlike in 1977, by almost all items of rubber manufactures. The monthly average index of rubber manufactures (Base : 1970=100), at 142.1 in 1978, was 11.1 per cent higher over the year as compared to 4.5 per cent in 1977. The improved performance during 1978 was facilitated by the overall pick-up in demand, particularly from automobile sector.

While the production of automobile tyres increased by 10.3 per cent in 1978, as compared to the rise of 4.0 per cent in the previous year, the rate of growth in production of automobile tubes declined from 4.5 per cent in 1977 to 4.0 per cent in 1978 (Table III.23). The production of cycle tyres and tubes during 1978 increased by 32.9 per cent and 10.2 per cent respectively as against declines of 0.9 per cent and 8.7 per cent in 1977. Due to sluggish demand, production of rubber footwear, however, declined by 7.4 per cent in contrast to an increase of 6.2 per cent in 1977.

* In view of the spurt in export prices, the Government withdrew effective from August 17, 1979 the cash aid for hessian exports and reduced that on carpet backing by half to 5 per cent.

Table III. 23 : Rubber Manufactures

		(Thousands)									
		Tyres (Automobiles)		Tubes (Automobiles)		Tyres (Cycles)		Tubes (Cycles)		Footwear (Rubber)†	
Year		Produc- tion	Year- end Stocks	Produc- tion	Year- end Stocks	Produc- tion	Year- end Stocks	Produc- tion	Year- end Stocks	Produc- tion	Year- end Stocks
1		2	3	4	5	6	7	8	9	10	11
1976	.. ..	5122.9 (+ 4.8)	NA	4603.0 (+ 2.2)	NA	23370 (- 2.4)	536	16398.6 (- 1.2)	187	421.2 (+ 6.3)	49.0
1977	.. ..	5328.5 (+ 4.0)	NA	4808.3 (+ 4.5)	NA	23157 (- 0.9)	468	14971.4 (- 8.7)	638	447.5 (+ 6.2)	3.3
1978*	.. ..	5876.1 (+10.3)	NA	4999.7 (+ 4.0)	NA	30770 (+32.9)	398	16493.0 (+10.2)	409	414.3 (- 7.4)	49.4
January-April											
1978	.. ..	1867.2	—	1632.5	—	9217	—	5600.0	—	141.0	—
1979*	.. ..	2124.9 (+13.8)	—	1917.2 (+17.4)	—	9941 (+7.9)	—	5882.0 (+5.0)	—	148.0 (+5.0)	—

† Figures in lakhs pairs.

* Provisional.

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

Source : Central Statistical Organisation.

Against the background of the position in regard to rubber manufactures, the trends in production of natural rubber, which is a primary raw material for the rubber manufactures industry, were less encouraging. The output of natural rubber, at 133.0 thousand tonnes in 1978, registered a sharp decline of 12.3 per cent in contrast to a rise of 2.6 per cent in 1977 (Table III.24). The sizeable fall in production during the period under review was brought about by prolonged monsoon resulting in the loss of tapping days, and the strike in rubber plantations throughout Kerala during the peak tapping season *i.e.*, November-December 1978. Consumption of natural rubber, on the other hand, spurted by 10.8 per cent to 158.2 thousand tonnes. To overcome the shortages and arrest the uptrend in rubber prices, the

Government decided to import 30,000 tonnes of natural rubber; of this, 14,800 tonnes was actually imported during the year. The production of synthetic rubber increased by 2.8 per cent in 1978 which was, however, a much lower rate of growth than that of 17.5 per cent recorded in 1977. During the first half of 1979, production of natural rubber at 63,765 tonnes was 15.7 per cent higher over the same period of 1978, mainly reflecting the intensive production drive launched by the Rubber Board and the favourable climatic conditions. Consumption of natural rubber during the period was, however, much higher at 84,480 tonnes. During the same period, production of synthetic rubber was higher by 14.3 per cent than in the corresponding half year of 1978.

Table III. 24 : Rubber

						(Tonnes)		
Item						1976	1977	1978
1						2	3	4
Production								
Natural	..	..	..	..	..	147758 (+ 8.6)	151609 (+ 2.6)	132991 (—12.3)
Synthetics	..	..	..	..	..	23265 (+ 1.3)	27328 (+17.5)	28094 (+ 2.8)
Reclaimed	..	..	..	..	..	20157 (+14.2)	22114 (+ 9.7)	23652 (+ 7.0)
Imports								
Natural	..	..	..	..	..	—	—	14750 (—)
Synthetic	..	..	..	..	..	6469 (+ 0.3)	8800 (+36.0)	9269 (+ 5.3)
Reclaimed	..	..	..	..	..	—	—	—
Consumption								
Natural	..	..	..	..	..	133494 (+ 3.4)	142763 (+ 6.9)	158168 (+10.8)
Synthetic	..	..	..	..	..	33396 (+ 5.0)	34543 (+ 3.4)	37529 (+ 8.6)
Reclaimed	..	..	..	..	..	20811 (+10.6)	21325 (+ 2.5)	23761 (+11.4)
Stocks at the end of the period								
Natural	..	..	..	..	..	60172 (+11.4)	57250 (— 4.9)	42940 (—25.0)
Synthetic	..	..	..	..	..	8538 (—30.4)	9772 (+14.5)	9400 (— 3.8)
Reclaimed	..	..	..	..	..	1730 (—27.4)	2519 (+45.6)	2410 (— 4.3)

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

Source : Rubber Board.

Reflecting the trends in production and consumption, the stocks of natural rubber declined progressively to 42,900 tonnes at the end of December 1978 from the level of 57,300 tonnes a year earlier. The declining trend continued during early 1979 and the stocks at the end of March 1979 amounted to 29,500 tonnes. In contrast to the position in the previous year, there were declines in

the stocks of synthetic and 'reclaimed' rubber also, which was the combined result of a lower rate of increase in their production and a higher rate of increase in consumption during the year.

The Government of India revised the minimum prices of natural rubber with effect from 17th April 1979. The revised prices

range from Rs. 788.27 to Rs. 825.00 per quintal for RMA5 to RMA1 grades.

The Rubber Board implemented various development schemes during the year under review to step up production and productivity of natural rubber. As mentioned earlier, the Board also launched during the year an intensive production drive, educating rubber growers on the adoption of improved techniques which would yield immediate results. In order to bridge the gap between demand and supply, the Government decided to import 45,000 tonnes of rubber during 1979-80.

(c) CHEMICALS AND CHEMICAL PRODUCTS

Output of major chemicals and chemical products continued to rise during 1978 (Table III.25). The production of *phosphatic* and *nitrogenous fertilisers* increased from 617,000 tonnes and 1,973,000 tonnes, respectively in 1977 to 710,000 tonnes and 2,034,000 tonnes in 1978. The rate of growth, however, slackened to 15.1 per cent and 3.1 per cent, respectively, from the impressive levels of 42.8 per cent and 10.9 per cent in 1977. The deceleration in the growth rate was mainly due to the power cuts, frequent breakdowns of equipment in some of the plants, and short supply of inputs such as coal and sulphur. During January-June 1979, the output of phosphatic and nitrogenous fertilisers at 384,000 tonnes and 1,069,000 tonnes, respectively, was higher by 15.7 per cent and 13.7 per cent over the corresponding period of 1978.

During 1978-79 (April-March), the capacity utilisation ratio further improved to 84 per cent in the case of phosphatic fertilisers and to 71 per cent in case of nitrogenous fertilisers, compared to 80 per cent and 69 per cent, respectively in 1977-78. As a result of better capacity utilisation and commencement of regular production by the Nangal Expansion and Trombay IV plants during 1978-79, the availability of fertilisers in the country improved considerably. The consumption of nitrogenous fertilisers went up to around 34 lakh tonnes and that of phosphatic fertilisers to 10.5 lakh tonnes, from 29.1 lakh tonnes and 8.7 lakh tonnes, respectively in 1977-78. The scheme of price support to phosphatic fertilisers continued to be in operation in

1978-79. In pursuance of the recommendations of the Fertilisers Prices Committee, the Government introduced, with effect from February 1, 1979 the system of retention pricing for complex phosphatic fertilisers and triple super phosphates also, thus bringing them under statutory price control. Under this system, the manufacturers would be eligible for a price support equal to the difference between their ex-factory retention price and their current ex-factory price (without subsidy).

In order to meet the growing demand for fertilisers, a large scale modification programme was undertaken during the year under review in respect of the fertiliser units in the public, private and co-operative sectors with a loan assistance of US \$ 105 million from the International Development Association (IDA). At present, eleven fertiliser projects are under various stages of implementation.

The output of *caustic soda*, at 549,000 tonnes, increased by 5.8 per cent in 1978 as compared to a rise of 3.2 per cent in 1977. The increase was due largely to higher utilisation of existing capacity, which went up to 78.4 per cent during 1978 from 74.6 per cent in 1977, and to the commissioning of new capacity of 53,400 tonnes. But for the shortage of salt, power and fuel, the production of caustic soda would have increased at a still higher rate. The production of caustic soda at 288,500 tonnes during January-June 1979 was 7.7 per cent higher than in the corresponding period of 1978.

The output of *soda ash*, at 586,000 tonnes in 1978, increased at the rate of 3.2 per cent, compared to a rise of only 0.5 per cent in 1977. Capacity utilisation ratio was marginally higher at 95.0 per cent in 1978 than that of 91.8 per cent in 1977. Despite this rise, shortages emerged in the supply of soda ash and its prices rose steeply. To meet the increased demand, the Government decided to import 20,000 tonnes of soda ash as in the previous year. The customs duty exemption granted on imports of soda ash till June 30, 1979 was extended upto March 31, 1980. In the first half of 1979, however, the output at 286,300 tonnes was 3.1 per cent lower than in the corresponding period of 1978. A High-

Table III. 25 : Major Chemicals and Chemical Products

(Thousand Tonnes)

Year			Sulphuric Acid		Caustic Soda		Soda Ash		Nitrogenous Fertilisers (N Content)	Phosphatic Fertilisers (P ₂ O ₅)	Paints & Varnishes†		Soap†	
			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	12	13
1976	..	..	.. 1,682 (+25.8)	N.A.	503 (+13.8)	12	565 (+ 4.4)	60	1,779 (+26.2)	432 (+ 7.2)	73 (+15.9)	9	267 (— 0.7)	N.A.
1977	..	..	.. 2,023 (+20.3)	N.A.	519 (+ 3.2)	21	568 (+ 0.5)	31	1,973 (+10.9)	617 (+42.8)	76 (+ 4.1)	7	293 (+ 9.7)	N.A.
1978*	..	..	.. 2,218 (+ 9.6)	N.A.	549 (+ 5.8)	4	586 (+ 3.2)	4	2,034 (+ 3.1)	710 (+15.1)	88 (+15.8)	8	329 (+12.3)	N.A.

* Provisional.

† Figures relate to production in organised sector.

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

Source : C. S. O.

Power Committee constituted to go into all aspects of production and distribution of soda ash submitted its report during the year making a number of recommendations.

The production of *sulphuric acid*, a basic heavy inorganic chemical, amounted to 2,218,000 tonnes in 1978. Though it was 9.6 per cent higher than in the previous year, this growth rate was much lower than that of 20.3 per cent recorded in 1977. With a total installed capacity of 3,260,000 tonnes in 73 units, the utilisation ratio amounted to 68.0 per cent during 1978, as compared to 63.7 per cent in 1977.

In the organised sector, the output of *soap* at 329,000 tonnes in 1978 was 12.3 per cent higher than in the previous year, as compared to a rise of 9.7 per cent in 1977. The industry which has been operating at over 100 per cent of capacity since 1974, recorded a utilisation ratio of as high as 145.7 per cent in 1978, there being hardly any fresh addition to capacity which has remained at 225,800 tonnes since 1974. During January-June 1979, however, the production of soap showed a decline of 10.9 per cent as compared to the same period of 1978.

The output of *paints and varnishes* in the organised sector of the industry increased from 76,000 tonnes in 1977 to 88,000 tonnes in 1978, recording an increase of 15.8 per cent compared to that of 4.1 per cent during the previous year. During January-June 1979, the output was 7.5 per cent higher over the corresponding period of 1978. It is estimated that there are about 600 small-scale units in the industry producing an equal quantity of paints as the large scale sector.

The value of output of *bulk drugs* during 1978-79 aggregated Rs. 180 crores and that of *formulations* Rs. 1,000 crores, as compared to Rs. 164 crores and Rs. 900 crores, respectively in 1977-78. A major development during the year affecting the drugs and pharmaceutical industry was the promulgation of the new Drugs (Prices Control) Order on March 31, 1979, embodying the pricing decisions of the New Drug Policy announced on March 29, 1978.

The new Order which replaced the earlier order issued in 1970, brings under Price

control three categories of formulations and two specific groups of bulk drugs used in the production of price controlled formulations, and stipulates that a reasonable return on net worth/sales turnover will be allowed on these bulk drugs and formulations. Further, it makes it obligatory for every importer of bulk drugs to seek the Government's prior approval before fixing their prices. As a measure to provide protection to domestic manufacturers, the Government will fix retention prices for individual manufacturers and importers when a bulk drug is produced indigenously and also imported, and pool the prices for their sale. The Order further provides for fixing prices of bulk drugs and formulations in the absence of availability of data from manufacturers and maintenance of detailed records pertaining to bulk drugs and formulations by manufacturers, as also for marking of prices on containers.

D. Consumer Goods Industries

(a) COTTON TEXTILES

The total production of cloth (including 100 per cent man-made fabrics and blended fabrics), in both the organised and decentralised sectors, registered a significant growth of 10.0 per cent to 10,521 million metres in 1978, compared to a fractional increase of only 0.2 per cent in 1977 (Table III.26). The output of cloth in the decentralised sector went up by 15.2 per cent, compared to an increase of only 2.3 per cent in 1977. The output in the mill sector was also higher by 3.0 per cent in 1978, in contrast to the decline of 2.5 per cent in 1977. During the first four months of 1979, the total output of cloth recorded a further rise of 4.4 per cent over that in the corresponding period of 1978. All-round revival of demand, easy availability of cotton and man-made fibres, continuation of the multi-fibre policy, improved labour situation and modernisation effected by some mills were the important factors responsible for the industry's recovery from its prolonged stagnation since 1973. However, the output during May-June 1979 was as much as 8.8 per cent lower than in May-June 1978 due to the power shortage and labour unrest. In the result, there was a net decline of 0.1 per cent in the output during January-June 1979 from the level in the corresponding period a year earlier.

Table III. 26 : Cotton Textiles

(Cloth in Million Metres)
(Yarn in Million Kgs.)

Item	1976	1977	1978*
1	2	3	4
A. Cloth			
(i) Production £	9,551 (+ 3.3)	9,568 (+ 0.2)	10,521 (+10.0)
(a) Mill Sector	4,226 (- 1.0)	4,122 (- 2.5)	4,246 (+ 3.0)
(b) Decentralised Sector	5,325 (+ 6.9)	5,446 (+ 2.3)	6,275 (+15.2)
(ii) Exports (in Rs. Crores)	189†	142	133
(iii) Domestic Consumption@	3,341	3,050	3,026
(iv) Year-end Stocks (unsold) †	206	151	168
B. Yarn			
(i) Production\$	1,147 (+ 5.9)	1,122 (- 2.2)	1,240 (+ 5.2)
(ii) Exports (in Rs. Crores)	22	29	14
(iii) Domestic Consumption@	449	405	449
(iv) Year-end Stocks (unsold)	11	9	14

* Provisional.

† Relates to mill sector only.

@ Represents deliveries for civil consumption. Figures of yarn relate to sale of yarn by mills to handlooms and powerlooms.

£ Including 100 per cent man-made fibre fabrics and blended fabrics.

\$ Including 100 per cent man-made fibre spun yarn and blended yarn.

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

Sources : Indian Cotton Mills Federation and Cotton Textiles Export Promotion Council.

The production of textiles during 1978 was in line with the Integrated Textile Policy of 1978 which, *inter alia*, aimed at restricting the production in the organised sector while meeting the additional demand through a step-up in production in the decentralised sector. The adoption of the multi-fibre approach, incorporated in the textile policy, also resulted in a marked shift in the pattern of production towards man-made fibre fabrics and blended fabrics.

With a carry-over stock of 17.55 lakh bales (of 170 kgs. each), and an estimated crop of over 77 lakh bales during the 1978-79 season compared to that of 68 lakh bales in the previous season, the availability of cotton during the year was comparatively comfortable. Cotton prices, which ruled fairly high

in 1976-77, started declining in 1977-78 and further eased in 1978-79 due to larger availability. With a view to stabilising cotton prices, the Government adopted various measures such as (i) upward revision of cotton stock limits for mills and traders, (ii) removal of restrictions on intra-trade transactions, and (iii) the decision to export 3.5 lakh bales of staple cotton and Bengal Deshi cotton. The Government also announced on February 16, 1979 the lifting of the statutory obligation of the mills to consume man-made fibres to the extent of not less than 10 per cent of their total requirements, imposed on January, 1, 1977. Further, the role of the Cotton Corporation of India was widened to include organisation of buffer stocks and undertaking of related operations.

The output of yarn (including 100 per cent man-made fibre spun yarn and blended yarn) increased by 5.2 per cent to 1,240 million kgs. in 1978, in contrast to a decline of 2.2 per cent in 1977. The increase was relatively steep in respect of blended yarn, which rose from 189 million kgs. in 1977 to 230 million kgs. or by 21.7 per cent in 1978, reflecting a marked improvement in the offtake of man-made fibres. Though a substantial quantity was diverted to the decentralised sector, the level of unsold stocks of yarn was relatively high in most of the months in 1978 compared to the stocks held in the corresponding months of 1977. The level of unsold stocks at 14 million kgs. as at end-December 1978 was 5 million kgs. higher than a year ago. As in the case of cloth output, the production of yarn also increased during January-April 1979 to a level 6.5 per cent higher than in the corresponding period of 1978, but declined sharply during May-June 1979 to a level which was 13.5 per cent lower than in the corresponding period of 1978, resulting in an overall decline of 0.2 per cent during January-June 1979 from the level in the comparable period of 1978.

During 1978, the total number of spindles and looms installed in the industry remained at the same level as in 1977. However, there was some improvement in the capacity utilisation from 75.5 per cent and 76.3 per cent, respectively in 1977 to 80.4 per cent and 78.2 per cent. The year also witnessed a welcome reduction in the number of sick textile mills from 35 at end-January 1978 to 18 by the end of October 1978.

The value of cotton piece goods exported during 1978 was lower at Rs. 133 crores, compared to Rs. 142 crores in 1977. Recession in international markets and protectionist policies pursued by some of the developed countries towards imports from developing countries, dampened the export effort of the cotton textiles industry.

With the take-over of the six industrial undertakings of Swadeshi Cotton Mills in April 1978, the total number of mills under the National Textile Corporation (NTC) increased to 111 in 1978-79. Out of the 109 mills operating during 1978-79, 38 were

spinning units and 71 composite units (including 4 weaving only) with a total installed capacity of 3.2 million spindles and 47,787 looms, accounting for 16 per cent and 23 per cent respectively of the total spinning and weaving capacity of the mill sector. The NTC mills further increased the output of cloth and yarn in 1978-79 to 940 million metres and 70 million kgs. or by 10.2 per cent and 27.3 per cent, respectively. Nearly 98 per cent of the cloth produced by these mills was of coarse and medium varieties, used mostly by weaker sections of the society. About 60 per cent of the yarn produced by the NTC mills was supplied to the handloom weavers. For the first time since nationalisation, the NTC mills group as a whole reported a net profit of Rs. 2.36 crores during 1978-79, compared to a loss of Rs. 28.51 crores in 1977-78.

In terms of the Integrated Textile Policy of 1978, the obligation of the organised sector to produce earmarked quantity of controlled cloth was discontinued with effect from October 1, 1978. Under the new scheme, the production of mill-made controlled cloth would be limited to 400 million square metres and would be undertaken both by the NTC and private sector mills. After earmarking the share of the NTC mills, contracts for the production of the remaining quantity would be given to private sector mills on the basis of competitive bids, subject to the price not exceeding the cost at which similar cloth would be manufactured by the NTC mills. Further, the responsibility of meeting any shortfall in production by the private sector mills would rest with the NTC mills. The financial burden would be distributed equitably on the entire textile industry through additional excise duty of 10 per cent introduced with effect from October 4, 1978, on selected products of the textile industry.

In response to the suggestion made by the Government, the textile industry voluntarily subjected itself since May 10, 1979, to a rollback scheme of control on prices of cloth and yarn. Under the scheme, the mills agreed to roll back the prices of cotton cloth and yarn of counts upto 59s to the level obtaining in October 1978, and to reduce the prices of yarn of 60s to 89s by 5 per cent from the April 1979 invoices.

(b) PAPER, PAPER BOARDS AND NEWSPRINT

The production of paper and paper boards (excluding newsprint) increased from 9.2 lakh tonnes in 1977 to 10.0 lakh tonnes in 1978 (Table III.27).

The growth rate doubled from 4.4 per cent in 1977 to 9.0 per cent during the year mainly on account of improved availability of raw material and power supplies. Variety-wise, the output of paper board increased from

1.6 lakh tonnes in 1977 to 1.7 lakh tonnes in 1978, that of wrapping paper from 2.1 lakh tonnes to 2.4 lakh tonnes, and that of special varieties from 3,400 tonnes to 3,700 tonnes. The increase in production was mainly due to additional capacity created during the year. While the capacity utilisation ratio for the industry as a whole fell from 81 to 77 per cent, for the small-scale units, it improved from 50 per cent to 62 per cent. During January-June 1979, the production of paper and paper boards declined

Table III. 27 : Paper and Paper Boards

					(Thousand tonnes)	
Year					Installed Capacity	Production
					Year-end Stocks	Capacity utilisation Ratio (Per cent)
1	2	3	4	5		
A. Paper & Paper Boards						
1976		1068	880 (+ 8.2)	36	82	
1977		1137	919 (+ 4.4)	37	81	
1978*		1300	1002 (+ 9.0)	35	77	
B. Newsprint						
1976		75	57 (+ 9.6)	—	76	
1977		75	57 (—)	—	76	
1978*		76	49 (—14.0)	—	64	

* Provisional.

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

Sources : C.S.O. and Ministry of Industry.

fractionally to 4.85 lakh tonnes as compared to that of 4.88 lakh tonnes in the corresponding period of 1978.

Despite the higher production, shortages in paper developed as the increase lagged behind the rise in demand. With a view to preventing malpractices in the paper distribution system, and also to ensure availability of cultural varieties of paper to the common man at fair prices, the Government announced a package of measures on June 30, 1979. Under the new Paper Control Order, which

complements the Paper (Regulation of Production) Order, 1978, the ex-factory price of white printing paper was revised upwards by Rs. 250 to Rs. 3,000 per tonne largely to compensate for the escalation in the cost of inputs as well as to enable the industry to earn a reasonable return on investment. The Government also fixed for the first time a price of Rs. 3,785 a tonne for cream laid or wove paper. Besides, the Order empowers the Government to issue directions to the manufacturers as to the disposal of their stocks of both varieties of paper on such

terms and conditions as may be specified. The Government is also arranging separately the import of writing and printing paper to augment domestic supplies.

Newsprint

As regards newsprint, the production, after remaining stagnant at 57,000 tonnes during 1976 and 1977, declined by 14 per cent to 49,000 tonnes in 1978, which is the lowest level since 1974. The declining trend continued during January-June 1979 also, when the production of 23,900 tonnes was 11.6 per cent lower than in the corresponding period of 1978.

A newsprint project involving an investment of Rs. 90 crores, to be set up at Rangapani in the Darjeeling district by the Hindustan Paper Corporation, is scheduled to be implemented by November 1979. The Rs. 100 crore Mysore Paper Mills newsprint project under completion at Bhadravati is also likely to be commissioned by March 1980 to produce 75,000 tonnes of newsprint per annum. These, together with the present NEPA newsprint manufacturing unit in Madhya Pradesh and the 75,000 tonne unit to be completed in Kerala by the end of 1979, are expected to meet about 60 per cent of the current newsprint requirements of the country.

Chapter IV

Price Trends and Price Policy

OVERALL PRICE SITUATION

The significant feature of the year July 1978-June 1979 is the re-emergence of inflationary trends, after a year of price decline, with clear signs of the possibility of further escalation in prices. The All-India Wholesale Prices Index for 'all commodities' (1970-71 = 100) reached a peak of 203.6 at end-June 1979 showing a rise of 9.5 per cent over the index at end-June 1978; in contrast, the general index had declined by 1.3 per cent between the corresponding dates of the previous year.

The price rise during the year under review was widespread and shared by all the main groups. While 'primary articles' and 'manufactured products', with larger weights showed significant price increases respectively of 6.4 per cent (against a fall of 2.1 per cent in 1977-78) and 13.5 per cent (against a fall of 2.0 per cent in 1977-78), 'fuel, power, light and lubricants' moved up by 3.6 per cent on top of a rise of 4.9 per cent last year (Table IV.1).

There were two distinct major phases in the price movements during the year. The first phase was one of decline between end-June 1978 and February 24, 1979 and the second was one of a sharp rise between February 24, 1979 and end-June 1979.

In the first phase, the general level of wholesale prices declined by 0.8 per cent mainly owing to a fall in the indices of two main groups of 'primary articles' and 'fuel, power, light and lubricants' by 3.3 per cent and 1.5 per cent respectively, offset largely by a rise in the index of 'manufactured products'. The decline in the index of 'primary articles' was brought about mainly by a substantial fall in the prices of 'fruits and vegetables', 'oilseeds', 'bajra' and 'raw jute', whose availabilities were comfortable particularly in the post-harvest period. In respect of raw jute, an additional factor at work was

the reduced demand from jute mills owing to power shortages and the workers' strike in January-February 1979. The fall in the price index of the main group 'fuel, power, light and lubricants' largely reflected the manner in which the index is compiled and is therefore only statistical in nature. The rise in the prices of 'manufactured products' in the first phase occurred in spite of a decline of 9.6 per cent in 'food products' which have the largest weight among the components of this main group. Apart from the imbalances between demand and supply which affected items like leather, rubber and paper, some administrative measures seemed to have imparted an inflationary influence. The man-made yarn was subjected to an increased excise duty in October 1978; and further, mainly to provide a prop to cotton yarn prices, the mills were relieved with effect from February 16, 1979 of the restriction that they should use at least 10 per cent of their total requirements of raw materials including raw cotton, in the form of man-made fibre. The sale prices of natural rubber and cement were allowed to go up, while the prices of imported steel items like plates, joists, structurals and coils, were raised by Rs. 100/- per tonne effective September 12, 1978.

In the second phase, the general level of prices moved up by 10.4 per cent, with all the main groups sharing the rise. The indices of 'primary articles' and 'manufactured products' rose more or less equally by 10.1 per cent and 11.8 per cent respectively while the index of 'fuel, power, light and lubricants' went up by 5.2 per cent. Among the factors behind the sudden and substantial rise in prices in the second phase were : the imposition of excise duties on a wide range of consumer goods in the 1979-80 Union budget; the substantial hike in import prices of crude oil and petroleum products; price increases allowed on some of the crucial industrial raw materials such as finished steel, cement and paper; the delayed monsoon

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

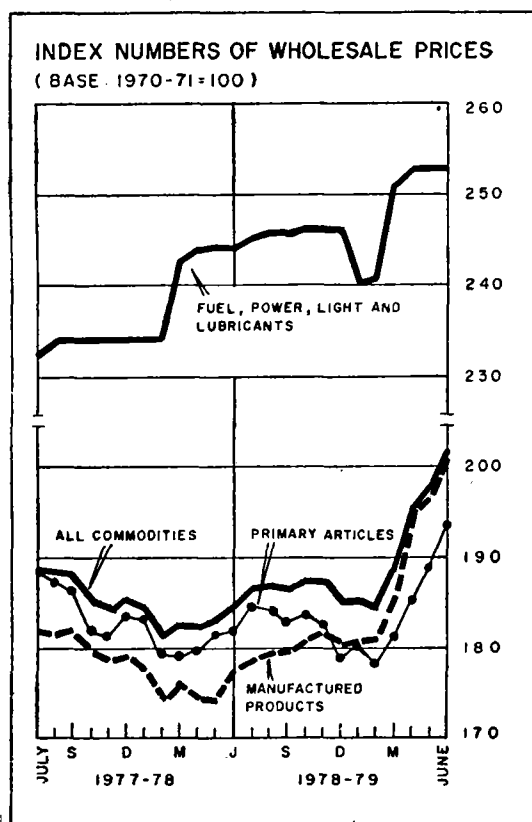
	Weight	Index as on				Per cent Variation			
		June 25, 1977	June 24, 1978	Feb. 24, 1979	June 30, 1979	end-June 1979 over end-June 1978	end-June 1978 over end-June 1977	Feb. 24, 1979 over June 24, 1978	June 30, 1979 over Feb. 24, 1979
1	2	3	4	5	6	7	8	9	10
ALL COMMODITIES	1000.00	188.4	186.0	184.5	203.6	+ 9.5	— 1.3	— 0.8	+10.4
I. PRIMARY ARTICLES	416.67	187.7	183.8	177.7	195.6	+ 6.4	— 2.1	— 3.3	+10.1
1. Food Articles	297.99	176.1	176.6	166.0	185.2	+ 4.9	+ 0.3	— 6.0	+11.6
Foodgrains (a + b)	129.22	167.8	172.9	169.8	173.8	+ 0.5	+ 3.0	— 1.8	+ 2.4
(a) Cereals	107.43	163.2	159.2	157.2	161.6	+ 1.5	— 2.5	— 1.3	+ 2.8
(i) Rice	51.31	169.6	163.8	157.6	171.5	+ 4.7	— 3.4	— 3.8	+ 8.8
(ii) Wheat	34.17	150.6	148.4	161.8	150.9	+ 1.7	— 1.5	+ 9.0	— 6.7
(iii) Jowar	8.39	163.5	163.5	151.0	160.2	— 2.0	—	+ 7.6	+ 6.1
(iv) Bajra	5.64	167.6	156.7	138.9	140.5	—10.3	— 6.5	—11.4	+ 1.2
(b) Pulses	21.79	190.5	240.6	231.9	234.1	— 2.7	+26.3	— 3.6	+ 0.9
(c) Fruits and Vegetables	61.32	187.5	173.0	144.4	203.8	+17.8	— 7.7	—16.5	+41.1
(d) Milk and Milk Products	61.50	158.4	167.5	158.9	176.1	+ 5.1	+ 5.7	— 5.1	+10.8
(e) Other Food Articles	16.04	253.6	201.1	184.2	206.2	+ 2.5	—20.7	— 8.4	+11.9
(i) Tea	11.49	312.4	233.4	202.9	229.5	— 1.7	—25.3	—13.1	+13.1
(ii) Coffee	1.61	133.5	120.0	127.9	127.9	+ 6.6	—10.1	+ 6.6	—
2. Non-food Articles	106.21	186.8	168.8	172.0	181.2	+ 7.3	— 9.6	+ 1.9	+ 5.3
(a) Fibres	31.73	196.4	173.5	164.3	165.7	— 4.5	—11.7	— 5.3	+ 0.9
(i) Raw Cotton	22.46	209.4	173.6	161.7	160.9	— 7.3	—17.1	— 6.9	— 0.5
(ii) Raw Jute	4.29	147.8	160.0	134.6	144.2	— 9.9	+ 8.3	—15.9	+ 7.1
(b) Oilseeds	42.01	196.8	165.2	145.5	168.9	+ 2.2	—16.1	—11.9	+16.1
(i) Groundnut	18.21	199.4	154.6	137.2	170.9	+10.5	—22.5	—11.3	+24.6
(c) Other Non-food Articles	32.47	164.5	168.7	213.7	212.2	+25.8	+ 2.6	+26.7	— 0.7
(i) Raw Tobacco	8.07	137.6	140.2	169.1	138.5	— 1.2	+ 1.9	+20.6	—18.1
3. Minerals	12.47	473.1	485.1	505.4	566.5	+16.8	+ 2.5	+ 4.2	+12.1
II. FUEL, POWER, LIGHT AND LUBRICANTS	84.59	232.4	243.9	240.3	252.7	+ 3.6	+ 4.9	— 1.5	+ 5.2
(i) Coal	10.39	197.6	212.2	212.2	212.2	—	+ 7.4	—	—
Mineral Oils	49.12	267.6	271.2	260.1	279.3	+ 3.0	+ 1.3	— 4.1	+ 7.4

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

	Weight	Index as on				Per cent Variation			
		June 25, 1977	June 24, 1978	Feb. 24, 1979	June 30, 1979	end-June 1979 over end-June 1978	end-June 1978 over end-June 1977	Feb. 24, 1979 over June 24, 1978	June 30, 1979 over Feb. 24, 1979
1	2	3	4	5	6	7	8	9	10
III. MANUFACTURED PRODUCTS	498.74	181.6	178.0	180.7	202.0	+13.5	— 2.0	+ 1.5	+11.8
1. Food Products	133.22	197.1	160.7	145.2	188.7	+17.4	—18.5	— 9.6	+30.0
(a) Sugar, Khandsari and Gur	72.41	203.0	150.9	132.5	196.5	+30.2	—25.7	—12.2	+48.3
(i) Sugar	21.91	161.9	153.2	134.4	161.1	+ 5.2	— 5.4	—12.3	+19.9
(ii) Gur	45.58	223.4	149.5	132.6	217.8	+45.7	—33.1	—11.3	+64.3
(b) Miscellaneous Food Products	49.16	194.3	170.8	155.6	178.2	+ 4.3	—12.1	— 8.9	+14.5
Edible Oils	37.16	185.0	161.6	148.7	175.6	+ 8.7	—12.6	— 8.0	+18.1
Groundnut Oil	14.15	193.8	146.0	138.0	172.4	+18.1	—24.7	— 5.5	+24.9
2. Beverages, Tobacco and Tobacco Products	27.08	170.7	177.6	178.0	184.6	+ 3.9	+ 4.0	+ 0.2	+ 3.7
3. Textiles	110.26	169.8	174.2	186.4	194.1	+11.4	+ 2.6	+ 7.0	+ 4.1
(i) Cotton Yarn	13.82	202.4	195.0	208.1	212.3	+ 8.9	— 3.7	+ 6.7	+ 2.0
(ii) Cotton Cloth (Mills)	38.04	176.7	182.3	185.7	184.5	+ 1.2	+ 3.2	+ 1.9	— 0.6
Jute, Hemp, & Mesta Textiles	12.14	122.6	147.2	176.5	204.1	+38.7	+20.1	+19.9	+15.6
4. Paper and Paper Products	8.51	182.1	190.4	202.9	223.5	+17.4	+ 4.6	+ 6.6	+10.2
5. Leather and Leather Products	3.85	225.6	250.7	299.4	315.0	+25.6	+11.1	+19.4	+ 5.2
6. Rubber and Rubber Products	12.07	156.7	169.8	189.4	202.5	+19.3	+ 8.4	+11.5	+ 6.9
7. Chemicals and Chemical Products	55.48	172.6	175.8	179.3	184.3	+ 4.8	+ 1.9	+ 2.0	+ 2.8
Fertilisers	12.52	178.5	176.0	175.9	165.0	— 6.2	— 1.4	— 0.1	— 6.2
8. Non-Metallic Mineral Products	14.15	192.0	206.9	224.8	239.4	+15.7	+ 7.8	+ 8.7	+ 6.5
9. Basic Metals, Alloys and Metal Products	59.74	194.0	211.0	216.8	245.3	+16.3	+ 8.8	+ 2.7	+13.1
Iron, Steel and Ferro Alloys	34.73	187.5	214.8	219.0	254.9	+18.7	+14.6	+ 2.0	+16.4
10. Machinery and Transport Equipment	67.18	171.4	180.5	189.8	207.2	+14.8	+ 5.3	+ 5.2	+ 9.2
11. Miscellaneous Products	7.20	178.3	181.2	196.4	204.3	+12.7	+ 1.6	+ 8.4	+ 4.0

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

and insufficient rains in many parts of the country; the seasonal impact on prices of commodities such as 'fruits and vegetables' and 'oilseeds'; restricted releases of sugar by sugar mills; a relative decline in the availabilities of gur; and the set-back in industrial production due to power cut and shortage of critical raw materials.



Primary Articles :

All the three groups under 'primary articles' recorded increases during the year under review. 'Food articles' rose by 4.9 per cent, 'non-food articles' by 7.3 per cent and 'minerals' by 16.8 per cent. In the preceding year, 'food articles' and 'minerals' had shown increases of 0.3 per cent and 2.5 per cent respectively, but the rise in case of the two groups was more than offset by a fall of 9.6 per cent in the group 'non-food articles' with the result that the main group 'primary articles' recorded a fall of 2.1 per cent.

About 11 per cent of the weighted rise in the 'all commodities' index was on account of

the spurt in the prices of 'fruits and vegetables' in the second phase. Here the factors at work were the seasonality element, the delay in the onset of monsoon, and exports of green vegetables and fruits to the Gulf countries. The rise of 0.5 per cent in the index of 'food-grains' was about one-sixth of what was in 1977-78. This was largely the result of a fall of 2.7 per cent during 1978-79 in the index for 'pulses' in sharp contrast to the huge rise of 26.3 per cent in 1977-78. Jowar and bajra among 'cereals', also helped the sentiment by registering declines of 2.0 per cent and 10.3 per cent respectively. Rice prices, however, increased by 4.7 per cent principally owing to the usual seasonal impact. The sub-group 'other food articles', which was mainly responsible for the fall in the index of the group as a whole in the previous year, recorded a rise of 2.5 per cent in the year under review. The price index of coffee in this sub-group increased by 6.6 per cent, in contrast to a fall of 10.1 per cent last year, following larger exports in the wake of higher international prices notwithstanding a subsequent increase in the export duty. As international prices of tea declined sharply from the high levels of 1976-77, domestic tea prices fell by 25.3 per cent in 1977-78. The prices fell further, though only by 1.7 per cent during 1978-79 under the influence of a larger rise in production and further easing of international prices.

The group 'non-food articles' showed a rise of 7.3 per cent during the year which was shared by the two sub-groups 'oilseeds' (2.2 per cent) and 'other non-food articles' (25.8 per cent). The price index of the third sub-group viz., 'fibres', however, declined by 4.5 per cent. Prices of 'oilseeds' went up as a result of the seasonal fall in arrivals coupled with late sowing operations due to the delayed monsoon. Prices of groundnuts went up by 10.5 per cent against a fall of 22.5 per cent in 1977-78, probably due to larger demand and fears of damage due to floods to the groundnut crop in Gujarat. Under 'other non-food articles', the price rise came from items like rubber (2.8 per cent) and raw hides (66.5 per cent), mainly because of the impact of larger exports on short supply caused partly due to domestic availabilities and because of the increase granted by the Government in the price of natural rubber. The third sub-group

'fibres', on the other hand, recorded a fall of 4.5 per cent, shared by both raw cotton and raw jute, the price indices of which declined by 7.3 per cent and 9.9 per cent respectively. The fall in the prices of both these fibres may be attributed mainly to comfortable availability and partly to relatively lower demand from mills due to severe power cuts and in the case of jute mills, also the strike by mill workers in January-February 1979. The rise in prices of crude oil effected on two occasions by the oil producing countries resulted in the sharp rise of 16.8 per cent in the index of the 'minerals' group, as the index of the sub-group 'petroleum, crude and natural gas' went up by 20.3 per cent.

Manufactured Products :

All the constituent groups among 'manufactured products' showed substantial increases during the year under review, ranging from the low of 3.9 per cent to the high of 25.6 per cent. In 1977-78 also, all the groups barring 'food products' have registered increases, though of a smaller magnitude, ranging between 1.6 per cent and 11.1 per cent; but the fall of 18.5 per cent recorded by the group 'food products' more than neutralised these increases, with the result that the main group 'manufactured products' showed a fall of 2.0 per cent. This year, however, 'food products' showed a marked increase of 17.4 per cent mainly because of the pressure exerted by the important consumer items such as sugar, gur and edible oils. The sub-group 'sugar, khandsari and gur' went up by 30.2 per cent during the period in sharp contrast to a decline of 25.7 per cent in 1977-78. Sugar prices rose by 5.2 per cent in view of the regulation of the releases by mills in the face of buoyant internal seasonal demand. Higher prices of sugar in open markets had their impact on prices of gur which shot up by 45.7 per cent in 1978-79 in contrast to the fall of 33.1 per cent in 1977-78. Besides, the last gur crushing season (1978-79) was somewhat delayed, starting in January-February instead of in November-December, as a result of which gur availability was reduced. Under the sub-group 'miscellaneous food products', which rose by 4.3 per cent in the current year, edible oil prices rose sharply by 8.7 per cent along with the rise in oilseeds prices. The index of groundnut oil

went up by 18.1 per cent in the wake of severe shortcomings in the programme for import and distribution of edible oils. The increases recorded by other groups, under 'manufactured products' were : 'beverages, tobacco and tobacco products', 3.9 per cent; 'paper and paper products', 17.4 per cent; 'leather and leather products', 25.6 per cent; 'rubber and rubber products', 19.3 per cent; 'chemicals and chemical products', 4.8 per cent; 'non-metallic mineral products', 15.7 per cent; 'basic metals, alloys and metal products', 16.3 per cent; 'machinery and transport equipment', 14.8 per cent; 'miscellaneous products', 12.7 per cent; and 'textiles', 11.4 per cent. Under the group 'textiles', which increased by 11.4 per cent during the year, cotton yarn rose by 8.9 per cent following scarce supplies owing to strike by yarn-producing mills in Tamil Nadu and larger demand from handloom and powerloom sectors. Cotton cloth (mills) showed a nominal rise of 1.2 per cent principally on account of a fall in its raw material prices and the result of the directive issued by the Government to roll back the prices to the October 1978 level. The index of 'jute, hemp, and mesta textiles' rose by 38.7 per cent following the disruption in jute goods production due to strike by mills in the beginning of the year, power shortages, high domestic demand and sharpened competitiveness of jute goods in the international markets in the context of the increase in the prices of synthetic substitutes.

The rise in the prices of 'paper and paper products' (17.4 per cent) and 'rubber and rubber products' (19.3 per cent) was the result of continued inadequacy of domestic supplies in relation to demand and the increases allowed by the Government in the prices of controlled varieties of these commodities. In the case of 'chemicals and chemical products' the rise in the index was restricted to 4.8 per cent in 1978-79 mainly through the reduction of excise and countervailing customs duties on fertilisers. Further, imports of soda ash and sulphur also helped in checking the prices of this group. The index of 'non-metallic mineral products' showed a rise of 15.7 per cent during the year under review. Prices of cement, which is the major component of this group increased when the retention price was raised by the Government on two oc-

casations during the year by Rs. 39.91 to Rs. 293.26 per tonne in December 1978 and again by Rs. 25.68 to Rs. 318.94 per tonne in May 1979. Besides, there was a larger demand due to an increase in construction activity. To overcome the continued shortage of cement, the Government decided on some imports as a short-term measure, and as a long-term solution has targetted an increase in cement production from the present level of 20 million tonnes to 40 million tonnes by the end of the Five Year Plan (1978-83). As regards the group, 'basic metals, alloys and metal products', the rise during 1978-79 was of the order of 16.3 per cent against 8.8 per cent in 1977-78. This was largely accounted for by an increase in the index of the sub-group 'iron, steel and ferro alloys' by 18.7 per cent. During the year under review, steel prices were revised upwards on two occasions, by Rs. 100 per tonne on certain steel items in September 1978, and by 15 per cent on all steel items in April 1979. In addition, the excise duty was imposed on main steel items in the budget for 1979-80 and imports were restricted.

Price increases effected in the case of tyres by manufacturers along with strikes in the automobile industry, power shortages and the escalation in the prices of most finished steel items led to a rise in the index of 'machinery and transport equipment' in 1978-79, and in particular, hampered the production of commercial vehicles.

Weighted Contribution to the Change in the General Price Level

While prices of all the main groups increased, the weighted contribution of the 'manufactured products' to the rise in the general index was the highest at 68.0 per cent with 'primary articles' and 'fuel, power, light and lubricants' contributing 27.9 per cent and 4.2 per cent respectively. In the previous year, while the weighted contribution of 'primary articles' and 'manufactured products' to the fall in the general index was 67.7 per cent and 74.8 per cent respectively, that of 'fuel, power, light and lubricants' had a negative contribution (*viz.* an increase in price) of 40.5 per cent (Table IV. 2).

All the groups of the main group, 'primary articles' contributed to the rise in the general price level, with the weighted contribution of 'food articles' at 14.6 per cent outstripping the shares of 'non-food articles' at 7.5 per cent, and 'minerals' at 5.8 per cent. The important weighted contributions in the 'food articles' group were those of the sub-groups 'fruits and vegetables' (10.7 per cent), 'cereals' (1.5 per cent) and 'milk and milk products' (3.0 per cent). The weighted contribution of 'pulses' was negative, though marginally, at 0.8 per cent. In the group, 'non-food articles', the largest contribution was that of 'other non-food articles' (8.0 per cent) followed by 'oil-seeds' (0.9 per cent). 'Fibres' made a negative contribution of 1.4 per cent.

All the groups comprising the main group 'manufactured products' also contributed to the rise in the general index. The largest weighted contribution to the rise came from the group 'food products' (21.2 per cent), of which 'sugar, khandsari and gur' alone accounted for 18.8 per cent. The group 'textiles' made a contribution of 12.5 per cent. Of the remaining groups, major contributions were made by 'basic metals, alloys and metal products' (11.6 per cent), 'machinery and transport equipment' (10.2 per cent), 'chemicals and chemical products' (2.7 per cent) and 'non-metallic mineral products' (2.6 per cent).

Price Policies

Some of the policies initiated in the previous year were continued in 1978-79, in view of reasonable price stability obtained till February 1979 in most of the essential items. Besides continuing these policies, wherever necessary, the Government took several measures to ensure that consumer goods were available in domestic markets as also to promote exports. Some of the important measures pertaining to industrial raw materials and commodities are highlighted in this section, while regulatory measures in respect of agricultural commodities have been already reviewed in the Chapter on Agricultural and Industrial Output.

Two important measures were taken during the year in regard to export duties. The export duty on tea was reduced from Rs. 5/-

Table—IV.2.—The Weighted Contribution to Price Variation by Group/Sub-groups/commodities

Main Group/Groups/Sub-groups/Commodities	Weight	Actual Variation		Weighted Contribution in per cent	
		end-June 1978 over end-June 1977	end-June 1979 over end-June 1978	end-June 1978 over end-June 1977	end-June 1979 over end-June 1978
1	2	3	4	5	6
All Commodities	1000.00	— 2.4	+17.6	— 100.0	+100.0
I. Primary Articles	416.67	— 3.9	+11.8	—67.7	+27.9
A. Food Articles	297.99	+ 0.5	+ 8.6	+ 6.2	+14.6
Foodgrains (a + b)	129.22	+ 5.1	+ 0.9	+27.5	+ 0.7
(a) Cereals	107.43	— 4.0	+ 2.4	—17.9	+ 1.5
(i) Rice	51.31	— 5.8	+ 7.7	—12.4	+ 2.2
(ii) Wheat	34.17	— 2.2	+ 2.5	— 3.1	+ 0.5
(iii) Jowar	8.39	—	— 3.3	—	— 0.2
(iv) Bajra	5.64	—10.9	—16.2	— 2.6	— 0.5
(b) Pulses	21.79	+50.1	— 6.5	+45.5	— 0.8
(c) Fruits and Vegetables	61.32	—14.5	+30.8	—37.0	+10.7
(d) Milk & Milk Products	61.50	+ 9.1	+ 8.6	+23.3	+ 3.0
(e) Eggs, Fish & Meat	18.97	+28.3	+25.1	+22.4	+ 2.7
(f) Condiments & Spices	10.94	+11.7	—48.3	+ 5.3	— 3.0
(g) Other Food Articles	16.04	—52.5	+ 5.1	—35.1	+ 0.5
B. Non-Food Articles	106.21	—18.0	+12.4	—79.7	+ 7.5
(a) Fibres	31.73	—22.9	— 7.8	—30.3	— 1.4
(b) Oilseeds	42.01	—31.6	+ 3.7	—55.3	+ 0.9
(c) Other non-food articles	32.47	+ 4.2	+43.5	+ 5.7	+ 8.0
C. Minerals	12.47	+12.0	+81.4	+ 6.2	+ 5.8
II. Fuel, Power, Light and Lubricants	84.59	+11.5	+ 8.8	+40.5	+ 4.2
III. Manufactured Products	498.74	— 3.6	+24.0	—74.8	+68.0
A. Food Products	133.22	—36.4	+28.0	—202.1	+21.2
(a) Sugar, Khandsari and Gur	72.41	—52.1	+45.6	—157.2	+18.8
(i) Sugar	21.91	— 8.7	+ 7.9	— 7.9	+ 1.0
(ii) Gur	45.58	—73.9	+68.3	—140.3	+17.7
(b) Miscellaneous Food Products	49.16	—23.5	+ 7.4	—48.1	+ 2.1
Edible oils	37.16	—23.4	+14.0	—36.2	+ 3.0
(i) Groundnut oil	14.15	—47.8	+26.4	—28.2	+ 2.1
B. Beverages, Tobacco & Tobacco Products	27.08	+ 6.9	+ 7.0	+ 7.8	+ 1.1
C. Textiles	110.26	+ 4.4	+19.9	+20.2	+12.5
(i) Cotton Cloth (Mills)	38.04	+ 5.6	+ 2.2	+ 8.9	+ 0.5
D. Paper and Paper Products	8.51	+ 8.3	+33.1	+ 2.9	+ 1.6
E. Leather and Leather products	3.85	+25.1	+64.3	+ 4.0	+ 1.4
F. Rubber and Rubber products	12.07	+13.1	+32.7	+ 6.6	+ 2.2
G. Chemicals and Chemical products	55.48	+ 3.2	+ 8.5	+ 7.4	+ 2.7
H. Non-Metallic Mineral products	14.15	+14.9	+32.5	+ 8.8	+ 2.6
I. Basic Metals, Alloys and Metal products	59.74	+17.0	+34.3	+42.3	+11.6
J. Machinery and Transport Equipment	67.18	+ 9.1	+26.7	+25.5	+10.2
K. Miscellaneous Products	7.20	+ 2.9	+23.1	+ 0.9	+ 0.9

per kg. to Rs. 2/- per kg. in September 1978 and was completely abolished in February 1979 in order to promote exports in the context of lower international prices and demand. In the case of coffee, in line with the movement of international prices the export duty was reduced from Rs. 500/- to Rs. 200/- per quintal from August 1, 1978, and was increased in September 1978 to Rs. 400/- per quintal.

In view of the falling domestic prices of turmeric and cumminseed, the ban on exports of these commodities was lifted in January 1979.

In view of the easy availability and the consequent decline in the prices of sugar at the beginning of the year under review, the Union Government decontrolled sugar with effect from August 1978. Keeping in view the impact that sugar decontrol is likely to have on prices obtained by cane growers who were already in a weak position because of very large sugar production, the statutory minimum price payable by sugar mills for sugarcane was raised from Rs. 8.50 to Rs. 10/- per quintal for the sugar season 1978-79. Effective from January 1, 1979, the excise duty on khandsari was abolished mainly to ensure reasonable prices and payments to sugarcane growers who sold their produce to khandsari units.

As raw cotton prices were continuously on decline till the beginning of February 1979 on account of easy availability, the Union Government withdrew, effective February 16, 1979 the restriction that mills should compulsorily use man-made fibre at least to the extent of 10 per cent of the total requirements of raw materials including raw cotton. In January 1979, the Government increased the export duty on 'Bengal deshi' variety of cotton from Rs. 700/- per tonne to Rs. 2,500/- per tonne in view of the high ruling prices of cotton in the international markets.

As a measure of assistance to small scale units, the Union Government allowed in July 1978 a price concession of Rs. 150/- a tonne on stockyard supplies of raw materials to the State Small Industries Corporations. The Corporations could also get their supplies

directly from the main steel plants, in which case the relief would be only Rs. 115/- a tonne, since the margin for stockyard supplies was to be Rs. 35/- a tonne.

The Union Government revised prices of finished steel items twice during the year. In September 1978, the base prices of some of the imported finished steel items such as plates, joists, structurals and coils were marked up by Rs. 100/- per tonne. The second revision was effected in April 1979 on all finished steel items, as a result of which prices were put up by about 15 per cent, exclusive of development and import surcharges. Besides, the price of pig-iron too was increased by Rs. 100/- per tonne as a surcharge. Also, the Government imposed in April 1979 a basic excise duty of Rs. 100/- per tonne on steel ingots and semi-finished steel products produced by mini-steel plants. To reduce the impact of price revisions on engineering exports, the Government announced in April 1979 concessional prices at which steel and pig-iron would be made available. Engineering exporters were required to pay only 10 per cent more than the prices prevailing before April 7, 1979, instead of the general increase of 15 per cent.

In regard to cement, a number of States and Union Territories took over its distribution from October 1, 1978. In December, the Union Government raised the retention price of cement by Rs. 39.91 per tonne; of this, Rs. 8/- was on account of the higher priced cement imports, Rs. 13.38 for increased wages and Rs. 18.53 to compensate for the use of furnace oil in place of coal by some cement factories. Cement from mini cement plants (with capacity upto 200 tonnes a day) was exempted from distribution control, giving such plants a benefit of Rs. 30/- per tonne in the price. The mini cement plants were in addition given a 50 per cent rebate in the excise duty for 5 years from the start of production.

Under a new pricing policy, the cement price was raised further by Rs. 25.68 per tonne to Rs. 318.94 in May 1979, exclusive of excise duty and package charges. 53 old units were classified into three categories on the basis of post-tax return of 12 per cent on net worth,

and their retention prices were fixed per tonne at Rs. 185/-, Rs. 205/- and Rs. 220/- for low, medium and high-cost cement respectively, in consonance with the new price policy.

The dual pricing policy for aluminium introduced in July 1975 was abandoned with effect from October 18, 1978. A uniform ex-factory price of Rs. 8,682 per tonne for aluminium ingots was brought in line with retention prices fixed for individual producers on the basis of production costs and a graded post-tax return on net worth based on capacity utilisation. It was, however, stipulated that 50 per cent of the production should be of electrical conductor (EC) grade, as before, the electrical conductor grade metal costing at Rs. 8,732 per tonne or Rs. 100/- more than the commercial grade metal. Instead of a differential excise duty on the two types of metal, a uniform levy of 40 per cent *ad valorem* at the ingot stage was introduced. As a result, prices of both commercial and electrical conductor grade metals would have gone down. The subsidy to State Electricity Boards was, therefore, withdrawn. The primary producers had agreed to bring down the price of aluminium circles of utensil grade by Rs. 368/- per tonne. Subsequently, the Union Government abolished on December 6, 1978 the specific duty on aluminium of Rs. 840/- (including the special duty of Rs. 40/-) per tonne.

In order to encourage production of fertilisers, a higher retention price ranging from 30 to 50 per cent than the existing weighted average price, would be paid for urea produced by new fertiliser projects likely to be commissioned in 1979. Prices of urea were reduced by Rs. 100/- per tonne in March 1979, as a sequel to reduction of excise and countervailing customs duties on fertilisers. Prices of other kinds of fertilisers were also reduced in the range of Rs. 15/- to Rs. 30/- per tonne.

Consumer Price-Index

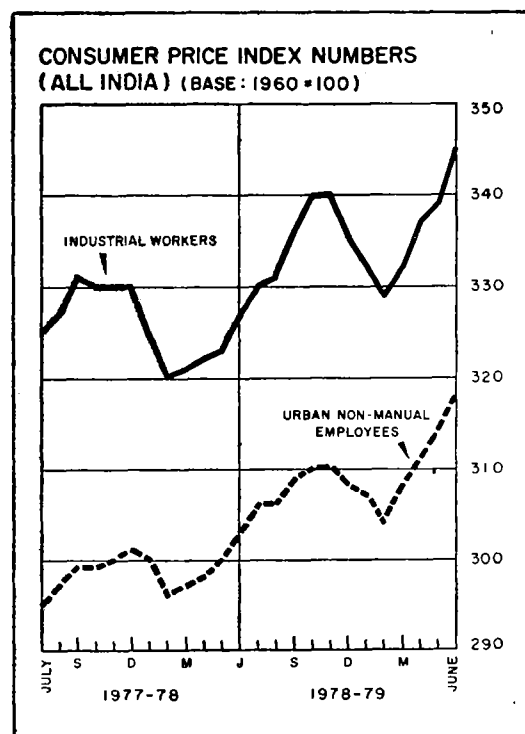
The All-India Consumer Price Index for Industrial Workers (base : 1960=100) at 345 in June 1979 registered, an increase of 5.5 per cent during 1978-79, on a point-to-point basis, as compared to a smaller rise of 2.2 per cent in 1977-78 (Table IV.3). On an average basis,

it stood at 336 during 1978-79 recording a rise of 3.1 per cent, against a higher increase of 5.8 per cent in 1977-78. The increase of 5.5 per cent on a point-to-point basis in 1978-79 was reflected in the indices at all the important centres. The highest rise was in the case of Alwaye (6.4 per cent) followed by Sholapur (5.2 per cent), Calcutta (4.8 per cent), Nagpur (3.9 per cent), Coimbatore (3.8 per cent), Jamshedpur (3.5 per cent) and Ahmedabad (3.3 per cent).

Table—IV.3

Trends in Consumer Price Index Number—All-India

Year/Item	YEAR-END (JUNE)		
	1976-77	1977-78	1978-79
Industrial Workers (Base : 1960=100)			
Index	320	327	345
Per cent variation	..+10.0	+ 2.2	+ 5.5
Urban Non-Manual Employees (Base : 1960=100)			
Index	291	303	318
Per cent variation	..+ 7.8	+ 4.1	+ 5.0



The Consumer Price Index for Urban Non-Manual Employees (base : 1960=100) stood at 318 in June 1979. On a point-to-point basis the index showed a rise of 5.0 per cent during 1978-79, as against a comparable rise of 4.1 per cent in 1977-78. On an average basis, the index stood at 309 during 1978-79 recording a marginal rise of 3.3 per cent in 1978-79, as compared to a higher in-

crease of 6.0 per cent in 1977-78. The increase of 5.0 per cent on a point-to-point basis in 1978-79 was shared by all the important centres. The highest was in the case of Srinagar (7.4 per cent) followed by Bombay (6.6 per cent), Calcutta (6.0 per cent), Delhi (5.5 per cent), Shillong (4.2 per cent) and Hyderabad (3.9 per cent).

Chapter V

Monetary Developments

The year 1978-79 (July-June) was characterised by a significant increase in money supply with the public (M_1) and in other measures of monetary liquidity. M_1 increased by Rs. 3,655 crores (18.8 per cent), while M_3 —i. e. M_1 plus time deposits with banks— expanded by Rs. 7,397 crores (21.2 per cent). These increases took place on top of expansions of Rs. 3,107 crores (19.0 per cent) in M_1 and of Rs. 5,747 crores (19.7 per cent) in M_3 in the previous year. M_2 consisting of M_1 and post office savings deposits, and M_4 comprising M_3 and all forms of post office deposits also recorded increases in 1978-79 on top of the large increases in 1977-78 (Table V : 1).

Annual Trends

Money supply with the public spurted up from Rs. 19,477 crores as on the last Friday of June 1978 to Rs. 23,132 crores as on the last

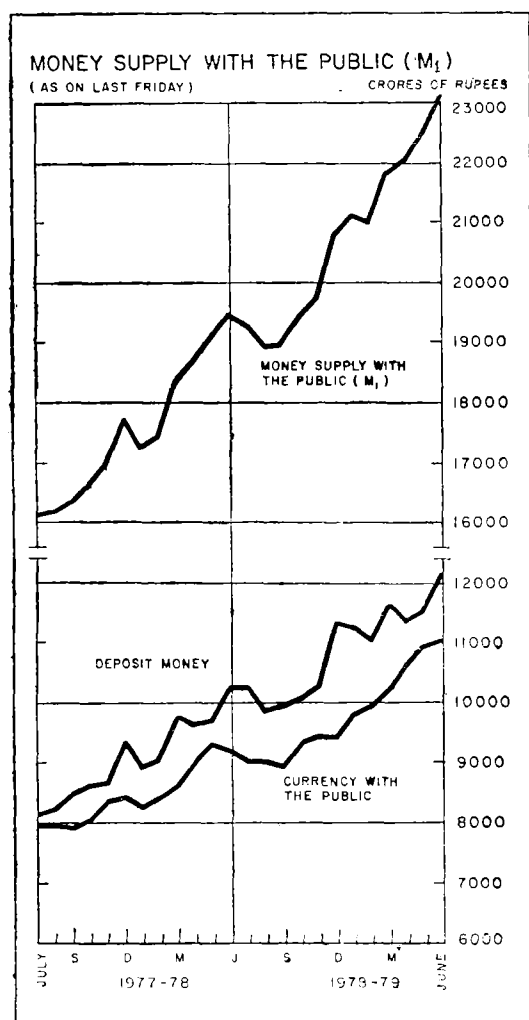
Friday of June 1979, i.e. by Rs. 3,655 crores or 18.8 per cent. In the previous year, M_1 increased at a slightly faster rate of 19.0 per cent, though in absolute terms the increase was lower at Rs. 3,107 crores. Yet, the growth rate of 18.8 per cent in 1978-79 was higher than the average annual growth rate of 13.1 per cent during the preceding five year period, viz., 1973-74 through 1977-78. Besides, it was a source of concern in view of the estimated rise of only 4 to 4.5 per cent in real national income and an increase of 9.5 per cent between end-June 1978 and end-June 1979 in the wholesale price index.

The rise in money supply during the year was reflected in both currency with the public and demand deposits. There was an increase of Rs. 1,795 crores (19.5 per cent) in the currency whereas in the previous year, it rose by only Rs. 926 crores (11.2 per cent). Demand deposits with banks showed a rise of

Table V.1 : Money Supply (M_1) and Its Components

Table V.1 : Money Supply (M1) and Its Components					(Rupees Crores)				
					Outstandings as on last Friday of			Variations during	
					June 1977	June 1978	June* 1979	1977-78	1978-79
M ₁ (Money Supply with the Public) (a + b + c)	..	..	..	..	16370	19477	23132	+3107 (+19.0)	+3655 (+18.8)
(a) Currency with the Public	..	..	..	..	8298	9224	11019	+ 926 (+11.2)	+1795 (+19.5)
(b) Demand Deposits with Banks	..	..	..	..	8019	10146	11996	+2127 (+26.5)	+1850 (+18.2)
(c) Other Deposits with R. B. I.	..	..	..	..	53	107	118	+ 54 (+101.9)	+ 11 (+10.3)
M ₂ (M ₁ + Post Office Savings Bank Deposits)	..	..	..	..	17859	21100	24885	+3241 (+18.1)	+3785 (+17.9)
M ₃ (M ₁ + Time Deposits with Banks)	..	..	..	..	29106	34853	42250	+5747 (+19.7)	+7397 (+21.2)
M ₄ (M ₃ + Total Post Office Deposits)	..	..	..	..	32747	39012	46982	+6265 (+19.1)	+7970 (+20.4)

Note : Figures within brackets represent percentage variations.
*Partially revised.



Rs. 1,850 crores (18.2 per cent) in 1978-79 as against the previous year's increase of Rs. 2,127 crores (26.5 per cent). Consequently, the share of currency in the increase in money supply moved up to 49.1 per cent in 1978-79 from 29.8 per cent in 1977-78, while the marginal ratio of demand deposits to M_1 declined to 50.6 per cent from 68.5 per cent. Time deposits with banks increased by 24.3 per cent against a rise of 20.7 per cent last year.

The decline in the pace of growth in demand deposits and the impetus gained by time deposits could be attributed to a considerable extent to a statistical factor related to classification of savings deposits into demand

and time components.* Since June 1978, a smaller portion of savings deposits is being classified as demand deposits. Correspondingly, the share of time deposits in savings deposits has gone up considerably.

From Table V : 2, it may be seen that the demand liability portion of savings deposits declined from 87.4 per cent in January 1978 to 76.2 per cent in June 1978 and further to 60.3 per cent in March 1979. The time liability portion correspondingly moved up from 12.6 per cent in January 1978 to 23.8 per cent in June 1978 and 39.7 per cent in March 1979. The change in the classification of savings deposits has depressed the pace of growth in M_1 in comparison with the preceding year, though it does not affect the comparative position of the rate of expansion in M_3 .

During the course of the year, there were some variations in the pace of growth of money supply. In July and August 1978 M_1 declined by Rs. 312 crores and Rs. 231

*In terms of the Reserve Bank of India Scheduled Banks' Regulations, 1951, scheduled banks are required to apportion the balances in the savings bank accounts into 'demand' and 'time' liabilities for the purpose of the weekly return to be submitted to the Reserve Bank under Section 42(2) of the Reserve Bank of India Act, 1934 (2 of 1934). According to the procedure outlined in the above Regulation, if the Savings Bank Rules of the bank specify a maximum amount that may, at any time, be withdrawn from an account without previous notice, then in respect of each account, such maximum amount, or where the balance in the account was not more than this maximum, the whole of the balance, should be regarded as a demand liability and the excess over the maximum amount, as a time liability. It was felt that this procedure did not give a realistic estimate of the 'demand' liability portion of these deposits. To provide for a realistic apportionment of savings bank deposits into 'time' and 'demand' liabilities, the provisions of Regulation 7 of the Scheduled Banks' Regulations, 1951, were amended by the Bank in 1978, in exercise of the powers conferred by Sub-Section (1) and (2) of Section 58 of the RBI Act, 1934 to the effect that the average of the monthly minimum balances in a savings account on which interest is being credited to the account shall be regarded as a time liability and the excess over the said amount, as a demand liability. In other words, until this amendment, what was included in demand deposits was that portion of savings deposits that was freely withdrawable under the regulations governing the operation of savings deposit accounts. With the amendment, what is so included is the portion of savings deposits that is actually freely drawn upon by the depositors, while that portion which remains with the banks earning interest is being taken under 'time' deposits. The amended regulation came into force with effect from August 16, 1978, but the new procedure is yet to be adopted by all banks.

Table V.2 : Apportionment of Savings Deposits into Demand and Time Deposits

(Rupees Crores)

Year/Month	Savings Deposits			Percentage to Total	
	Demand Liability Portion	Time Liability Portion	Total	Demand Liability Portion	Time Liability Portion
1	2	3	4	5	6
End of March					
1974	2297.90	380.98	2678.89	85.8	14.2
1975	2660.01	431.28	3091.30	86.0	14.0
1976	3157.07	504.42	3661.49	86.2	13.8
1977	3909.31	500.24	4409.56	88.7	11.3
1978	4942.93	747.12	5690.05	86.9	13.1
1979	4396.23	2896.43	7292.66	60.3	39.7
1978					
January	4790.88	691.22	5482.10	87.4	12.6
February	4860.69	710.33	5571.02	87.2	12.8
March	4942.93	747.12	5690.05	86.9	13.1
April	5166.26	771.23	5937.49	87.0	13.0
May	5018.50	942.74	5961.24	84.2	15.8
June	4720.91	1471.76	6192.68	76.2	23.8
July	4575.63	1721.68	6297.31	72.7	27.3
August	4636.58	1725.73	6362.30	72.9	27.1
September	4706.52	1773.57	6480.08	72.6	27.4
October	4464.47	2129.32	6593.78	67.7	32.3
November	4670.75	2040.52	6711.27	69.6	30.4
December	4684.06	2292.08	6976.15	67.1	32.9
1979					
January	4485.81	2345.90	6831.70	65.7	34.3
February	4384.51	2749.99	7134.50	61.5	38.5
March	4396.23	2896.43	7292.66	60.3	39.7

crores, respectively. With a rise of only Rs. 46 crores in September 1978, the quarter, July-September showed a net decline of Rs. 497 crores in money supply. In the corresponding quarter of 1977-78, money supply showed a marginal rise of Rs. 23 crores. Between October and December 1978, money supply went up steeply by Rs. 1,826 crores; in December alone, it rose by Rs. 1,053 crores, as against a rise of Rs. 728 crores in December 1977. The sharp jump in M_1 in December 1978 was brought about by a sudden spurt in demand deposits to the tune of Rs. 1,003 crores. This scenario was caused by the agitation of bank employees, leading to disruption in clearings and consequently to some proliferation of accounts. The subsequent three months, i.e., January to March 1979 saw M_1 going up further by Rs. 1,053 crores against a rise of Rs. 633 crores in the corresponding quarter of the previous year. Put together, the second and third quarters accounted for a rise of over Rs. 2,800 crores — almost 80 per cent of the rise in money supply during the year under review, whereas, in the previous year, money supply rose by only Rs. 1,991 crores between October and March and accounted for about 65 per cent of the overall rise in the year as a whole. Money supply in the quarter, April to June 1979 went up by Rs. 1,274 crores as compared with Rs. 1,093 crores in the corresponding quarter of 1977-78, although the growth rate remained unchanged at 5.8 per cent in the two quarters of both the years under review.

Among the factors behind the monetary expansion during the year under review, there was the striking increase of Rs. 2,937 crores or 21.1 per cent in the net bank credit to the Government sector which was double that of Rs. 1,466 crores or 11.8 per cent in the previous year. The increase mainly reflected the widening budgetary gap of both the Union and State Governments. While the net growth in the Reserve Bank credit to Government at Rs. 1,519 crores was higher than in the previous year by Rs. 1,219 crores, the increase in credit extended by other banks to Government, at Rs. 1,419 crores was higher by Rs. 253 crores than the rise in the preceding year; the latter reflected in good measure larger investments by banks in Government

securities on account of increased SLR requirements in effect from December 1, 1978. Claims of the Reserve Bank on Governments increased substantially despite a considerable increase in Government deposits. The increase in claims on Central Government amounted to Rs. 3,222 crores during the year under review against Rs. 1,045 crores last year, while the claims on the State Governments were also higher by Rs. 40 crores as against a steep decline of Rs. 421 crores in 1977-78. Deposits of the Central Government with the Bank were also substantially high at Rs. 1,737 crores as on the last Friday of June 1979 as compared with Rs. 313 crores a year ago (Table V : 3).

Bank credit to the commercial sector went up by Rs. 4,326 crores or 19.5 per cent, as against an increase of Rs. 3,224 crores or 17.0 per cent in the previous year. About 96 per cent of the incremental credit to the commercial sector represented the rise of Rs. 4,174 crores in other banks' credit to commercial sector, the remaining being on account of the rise in the RBI credit. The increase in commercial bank credit at Rs. 3,317 crores was substantially higher by Rs. 1,120 crores than in the previous year. Food credit recorded a considerable increase of Rs. 471 crores as compared to a decline of Rs. 11 crores in 1977-78. Thus, a considerable part of the incremental credit by banks was provided for financing non-food purposes. Indicative data show that priority sector advances, as also credit to industries such as engineering, textiles, tea, vegetable oils, rubber, iron and steel and fertilisers had gone up during the year under review.

Net foreign exchange assets of the banking sector, accretions to which were a major source of monetary expansion in the recent past, increased by a relatively small magnitude of Rs. 1,063 crores or 23.6 per cent as against Rs. 1,261 crores or 38.9 per cent in the previous year; this could be attributed partly to the deceleration in the growth of inflows of foreign remittances and partly to the increase in the country's external payments. The non-monetary liabilities of the banking sector witnessed a massive increase of Rs. 4,655 crores or 21.4 per cent during the year; this was mainly because of the brisk pace of accretion to time deposits at Rs. 3,742 crores

Table V.3 : Sources of Change in Money Supply

(Rupees Crores)

			Outstandings as on last Friday of			Variations	
			June 1977	June 1978	June 1979*	June 1978 over June 1977	June 1979 over June 1978
Sources of Change in M1							
I. Net Bank Credit to Government (A + B)	..	..	12449	13915	16852	+1466 (+11.8)	+2937 (+21.1)
A. R. B. I.'s Net Credit to Government (a — b)	..	..	7929	8229	9748	+ 300	+1519
(a) Claims on Government (i + ii)	..	..	8000	8624	11886	+ 624	+3262
(i) Central Government	..	..	7454	8499	11721	+1045	+3222
(ii) State Governments (i.e. Loans and Advances to State Governments)	..	..	546	125	165	— 421	+ 40
(b) Government Deposits with R.B.I. (i + ii)	..	..	71	395	2138	+ 324	+1743
(i) Central Government	..	..	65	377	2114	+ 313	+1737
(ii) State Governments	..	..	7	18	24	+11	+ 6
B. Other Banks' Credit to Government	..	..	4520	5686	7105	+1166	+1419
II. Bank Credit to Commercial Sector (A + B)	..	..	18986	22210	26536	+3224 (+17.0)	+4326 (+19.5)
A. R.B.I.'s Credit to Commercial Sector	..	..	840	1067	1220	+ 227	+ 153
B. Other Banks' Credit to Commercial Sector (i+ii+iii)	..	..	18146	21143	25317	+2997	+4174
(i) Bank Credit by Commercial Banks	..	..	13504	15701	19018	+2197	+3317
(ii) Bank Credit by Co-operative Banks	..	..	2525	3073	3465	+ 548	+ 392
(iii) Investments by Commercial and Co-operative Banks in Other Securities	..	..	2118	2369	2834	+ 251	+ 465
III. Net Foreign Exchange Assets of the Banking Sector (A+B)	..	..	3242	4502	5565	+1261 (+38.9)	+1063 (+23.6)
A. Net Foreign Exchange Assets of R.B.I. (a—b)	..	..	3312	4573	5635	+1261	+1062
(a) Gross Foreign Assets	..	..	3761	4733	5643	+ 972	+ 910
(b) Non-monetary Foreign Liabilities	..	..	449	160	8	— 289	— 152
B. Net Foreign Exchange Assets of Banks	..	..	—70	—70	—70	—	—
IV. Government's Currency Liabilities to the Public	..	..	583	609	591	+ 26 (+ 4.3)	— 18 (—3.0)
V. Non-monetary Liabilities of Banking Sector (A+B+C)	..	..	18889	21758	26413	+2869 (+15.2)	+4655 (+21.4)
A. Time Deposits with Banks	..	..	12735	15376	19118	+2641 (+20.7)	+3742 (+24.3)
B. Net Non-monetary Liabilities of R.B.I.	..	..	3593	3056	3407	— 537	+ 351
C. Other Net Non-monetary Liabilities of Commercial and Co-operative Banks	..	..	2561	3327	3888	+ 766	+ 561

Note : Figures in brackets indicate percentage variations.

*Partially revised data.

or 24.3 per cent; during the previous year, non-monetary liabilities increased by Rs.2,869 crores or 15.2 per cent, with time deposits rising by Rs. 2,641 crores or 20.7 per cent. Net non-monetary liabilities of the RBI and other banks had thus gone up by Rs. 912 crores against a rise of only Rs. 229 crores last year.

Seasonality in Money Supply Expansion

During the slack season of 1978 (May-October), the expansion in money supply with the public was somewhat higher at Rs. 734 crores as against an expansion of Rs. 617 crores in the slack season of 1977. The rate of expansion at 3.9 per cent was the same as in the preceding slack season. M_3 recorded a higher increase of Rs. 2,638 crores or 7.9 per cent than the increase of Rs.1,888 crores or 6.7 per cent in the preceding slack season. The increase in money supply was mainly accounted for by the currency component; currency with the public increased by Rs. 308 crores against a decline of Rs. 143 crores in preceding slack season. The increase in deposit money at Rs. 426 crores was less than that of Rs. 760 crores recorded in the slack season of 1977.

A sizeable increase in bank credit to the commercial sector at Rs. 2,029 crores was primarily responsible for the money supply expansion in the slack season under review. Net bank credit to Government increased only by Rs. 140 crores. The accretion to net foreign exchange assets of the banking sector was also low at Rs. 247 crores. Non-monetary liabilities of the banking sector increased by Rs. 1,682 crores: time deposits, which is the main component, increased by Rs. 1,903 crores or 12.8 per cent as against an increase of Rs. 1,272 crores or 10.5 per cent in the previous slack season while net non-monetary liabilities of the RBI and other banks recorded a decline of Rs. 221 crores (Table V:4).

During the busy season of 1978-79 the money supply with the public expanded by Rs. 2,641 crores (13.6 per cent) as compared with Rs. 2,036 crores (12.2 per cent) in the previous season. The expansion was shared by the currency component and the deposit

component almost equally (Rs. 1,330 crores and Rs. 1,311 crores, respectively); during the last busy season, the currency share was 49 per cent and the deposit money share was 51 per cent. A sizeable increase in bank credit to the commercial sector was primarily responsible for the higher rate of monetary expansion; it increased by Rs. 2,291 crores as against Rs. 1,403 crores in the previous busy season. The additional net credit of Rs. 2,007 crores drawn on by the Government from the banking system as a whole, almost of the same order as in the 1977-78 busy season, was also an important contributory factor. The accretion to net foreign exchange assets of the banking sector at Rs. 749 crores was lower than that of Rs. 880 crores in the previous busy season. The increase in the non-monetary liabilities at Rs. 2,401 crores was higher by Rs. 114 crores than that recorded in the last season.

During the slack season of 1979 (upto June 1979), the expansion in money supply with the public was larger than that recorded in the corresponding period of the last slack season. This was brought about by an increase in bank credit to both government and commercial sectors, partly offset by a marginal fall in net foreign exchange assets of the banking sector and an increase in the sector's non-monetary liabilities.

Trends in Currency Ratios and Ratios of Deposits to Money

The large expansion in currency with the public during the year increased the incremental ratios of currency to money supply and to M_3 from 29.8 per cent and 16.1 per cent in 1977-78 to 49.1 per cent and 24.3 per cent in 1978-79, respectively. The average ratios of currency to money supply or to M_3 showed small increases. While it is not possible to explain the expansion in currency in a short period of one year, such factors as the increased scale of procurement operations and inward remittances have had an influence on the expansion of currency. The acceleration in the growth of time deposits during the year pushed up the marginal ratio of time deposits to M_3 from 45.9 per cent

Table V.4: Analysis of Money Supply Variations

(Rupees Crores)						
	Variations during					
	Slack Season		April 1978 to June 1978	April 1979 to June 1979	Busy Season	
	1977	1978			1977-78	1978-79
	1	2	3	4	5	6
I. M1 (Money Supply with the Public) (A + B)	+ 617 (+ 3.8)	+ 734 (+ 3.9)	+ 784 (+ 4.2)	+1064 (+ 4.8)	+2036 (+12.2)	+2641 (+13.6)
A. Currency with the Public	— 143 (— 1.7)	+ 308 (+ 3.4)	+ 188 (+ 2.1)	+ 345 (+ 3.2)	+ 991 (+12.3)	+1330 (+14.2)
B. Deposit Money	+ 760 (+ 9.7)	+ 426 (+ 4.4)	+ 596 (+ 6.2)	+ 720 (+ 6.3)	+1045 (+12.1)	+1311 (+13.0)
II. Sources of change in M1 (1+2+3+4—5)						
1. Net Bank Credit to Government (A+B)	— 58 (— 0.5)	+ 140 (+ 1.0)	— 151 (— 1.1)	+ 639 (+ 3.9)	+2019 (+16.8)	+2007 (+14.1)
A. RBI's Net Credit to Government						
(a—b)	— 394	— 360	+ 228	+ 906	+ 891	+1201
(a) Claims on Government (i + ii)	— 678	—2696	—3002	+ 843	+4444	+2114
(i) Central Government	— 612	—2142	—2421	+ 886	+4187	+2058
(ii) State Governments	— 68	— 555	— 581	— 43	+ 257	+ 56
(b) Government Deposits with RBI						
(i + ii)	— 284	—2336	—3229	— 63	+3553	+ 913
(i) Central Government	— 283	—2345	—3239	— 71	+3552	+ 914
(ii) State Governments	— 2	+ 9	+ 10	+ 8	— 1	— 1
B. Other Banks' Credit to Government ..	+ 335	+ 501	— 379	— 266	+1128	+ 805
2. Bank Credit to Commercial Sector (A+B)	+1034 (+ 5.6)	+2029 (+ 9.6)	+1165 (+ 5.5)	+1171 (+ 4.6)	+1403 (+ 7.2)	+2291 (+9.9)
A. RBI's Credit to Commercial Sector ..	+ 30	+ 180	+ 166	— 9	— 15	+ 149
B. Other Banks' Credit to Commercial Sector (i+ii+iii)	+1003	+1849	+ 998	+1181	+1418	+2142
(i) Bank Credit by Commercial Banks	+ 546	+1418	+ 941	+1166	+ 932	+1674
(ii) Bank Credit by Co-operative Banks	+ 198	+ 192	+ 4	+ 9	+ 330	+ 195
(iii) Investments by Commercial and Co-operative banks in Other Securities	+ 259	+ 238	+ 53	+ 5	+ 156	+ 274
3. Net Foreign Exchange Assets of Banking Sector (A+B)	+ 865 (+30.2)	+ 247 (+ 5.4)	— 109 (— 2.3)	— 43 (— 0.8)	+ 880 (+23.6)	+ 749 (+15.4)
A. RBI's Net Foreign Exchange Assets						
(i—ii)	+ 865	+248	— 109	— 43	+ 880	+ 749
(i) Gross Foreign Assets	+ 573	+ 88	— 109	— 43	+ 880	+ 757
(ii) Non-monetary Foreign Liabilities	— 292	— 160	—	—	—	+ 8
B. Other Banks' Net Foreign Exchange Assets	—	—	—	—	—	—
4. Government's Currency Liabilities to the Public	+ 3 (+ 0.5)	—	+ 12 (+ 2.0)	—	+ 20 (+ 3.5)	—6 (— 1.0)
5. Non-monetary Liabilities of Banking Sector (A+B+C)	+1225 (+ 6.8)	+1682 (+ 7.8)	+ 132 (+ 0.6)	+ 704 (+ 2.7)	+2287 (+11.8)	+2401 (+10.3)
A. Time Deposits with Banks	+1272 (+10.5)	+1903 (+12.8)	+ 503 (+ 3.4)	+ 783 (+ 4.3)	+1429 (+10.6)	+1559 (+ 9.3)
B. Net Non-monetary Liabilities of R.B.I.	— 94	— 269	— 140	+ 514	+ 132	— 34
C. Other Net Non-monetary Liabilities of Commercial and Co-operative banks ..	+ 46	+ 48	— 230	— 592	+ 726	+ 875
III. M3 (M1 + Time Deposit with Banks)	+1888 (+ 6.7)	+2638 (+ 7.9)	+1287 (+ 3.8)	+1846 (+ 4.6)	+3465 (+11.5)	+4200 (+11.6)

in 1977-78 to 50.6 per cent in 1978-79 (Table V : 5). The impetus to time deposits was mainly derived from the amended classification of savings accounts into 'time' and 'demand' liability portions, as indicated earlier. The smaller increase in demand deposits (DD)

this year brought down the marginal ratios of DD to M₁, DD to time deposits and DD to M₃ from 68.5 per cent, 80.5 per cent and 37.0 per cent, respectively, in 1977-78 to 50.6 per cent, 49.4 per cent and 25.0 per cent in 1978-79.

Table V.5 : Average and Incremental Ratios Relating to Components of M1 and M3

(Rupees Crores)													
Year (July-June)				1974-75		1975-76		1976-77		1977-78@		1978-79 @	
				Out-standings	Variations	Out-standings	Variations	Out-standings	Variations	Out-standings	Variations	Out-standings	Variations
1.	Currency with the Public			6662	+ 110	7235	+ 573	8298	+1063	9224	+ 926	11019	+1795
2.	Demand Deposits with Banks			5815	+ 643	6757	+ 942	8019	+1262	10146	+2127	11996	+1850
3.	M1			12542	+ 771	14038	+1496	16370	+2332	19477	+3107	23132	+3655
4.	Time Deposits with Banks			8031	+1265	9978	+1947	12735	+2757	15376	+2641	19118	+3742
5.	M3			20573	+2036	24017	+3444	29106	+5089	34853	+5747	42250	+7397
Ratios				Average	Marginal	Average	Marginal	Average	Marginal	Average	Marginal	Average	Marginal
1.	Currency/M1			53.1	14.2	51.5	38.3	50.7	45.6	47.4	29.8	47.6	49.1
2.	Currency/DD			114.6	17.1	107.1	60.8	103.5	84.2	90.9	43.6	91.9	97.0
3.	Currency/TD			83.0	8.7	72.5	29.4	65.2	38.6	60.0	35.1	57.6	48.0
4.	Currency/Aggregate Deposits			48.1	5.8	43.2	19.8	40.0	26.4	36.1	19.5	35.4	32.1
5.	Currency/M3			32.4	5.4	30.1	16.6	28.5	20.9	26.5	16.1	26.1	24.3
6.	DD/M1			46.4	83.4	48.1	63.0	49.0	54.1	52.1	68.5	51.9	50.6
7.	DD/TD			72.4	50.8	67.8	48.4	63.0	45.8	66.0	80.5	62.7	49.4
8.	DD/M3			28.3	31.6	28.1	27.4	27.6	24.8	29.1	37.0	28.4	25.0
9.	TD/M3			39.0	62.1	41.5	56.6	43.8	54.2	44.1	45.9	45.2	50.6

@Provisional.

Trends in Reserve Money

The faster growth in currency has resulted in a considerable increase in reserve money of Rs. 2,586 crores during 1978-79 as against an increase of Rs. 2,232 crores in the previous year (Table V : 6). The share of currency in the overall expansion of reserve money moved up to 69 per cent in 1978-79 from 41.5 per cent in 1977-78. Banks' deposits

with the Reserve Bank, the other main component of reserve money, recorded a lower order of increase of Rs. 697 crores than the sizeable rise of Rs. 1,049 crores in the previous year. The share of the banks' deposits came down to 27 per cent from 47 per cent in 1977-78. Cash with banks increased during the year by Rs. 83 crores as against an increase of Rs. 204 crores last year.

Table V.6 : Analysis of Sources of Change in Reserve Money

(Rupees Crores)							
	Out-standings as on the last Friday of June 1974	1974-75	1975-76	1976-77	1977-78*	1978-79*	Out-standings as on the last Friday of June 1979*
1	2	3	4	5	6	7	8
Reserve Money (1+2+3+4)	7584	+ 82	+ 686	+1649	+2232	+2586	14819
1. Currency with the Public	6552	+ 110	+ 573	+1063	+ 926	+1795	11019
2. Other Deposits with R. B. I.	47	+ 18	— 19	+ 7	+ 54	+ 11	118
3. Cash with Banks	398	+ 35	— 19	+ 71	+ 204	+ 83	772
4. Bankers' Deposits with R. B. I.	587	— 80	+ 150	+ 508	+1049	+ 697	2911
Sources of Change in Reserve Money							
Reserve Bank's claims on :							
(1+2+3+4+5-6)							
1. Government (Net)	6564	+ 946	— 263	+ 682	+ 299	+1520	9748
2. Commercial and Co-operative Banks	657	— 24	+ 354	— 57	— 117	+ 219	1032
3. Commercial Sector	652	— 27	+ 115	+ 100	+ 226	+ 154	1220
<i>Of which :</i>							
(a) Commercial bills rediscounted with R.B.I.	274	— 142	+ 12	— 28	— 15	— 24	77
4. Net Foreign Exchange Assets of R.B.I.	671	— 362	+ 971	+2032	+1260	+1063	5635
5. Government's Currency Liabilities to the Public	521	+ 33	+ 1	+ 28	+ 26	— 18	591
6. Net Non-monetary Liabilities of R.B.I.	1481	+ 483	+ 494	+1135	— 537	+ 351	3407

*Provisional.

The main contributory factors to changes in reserve money were the large increases in the Reserve Bank's net claims on the Government and its claims on commercial and co-operative banks. The addition to net foreign exchange assets of the RBI, though lower than in the previous year was also an important factor. The Reserve Bank's loans to commercial and co-operative banks increased by Rs. 219 crores against the decline of Rs. 117 crores last year. The RBI credit to banks in the context of higher cash-reserves and statutory liquidity ratios, helped banks to run down their free reserves and maintain a tempo of credit expansion. The increase in the net non-monetary liabilities of the Reserve Bank during the year as against a decline last year considerably off-set the expansion in reserve money.

Money Multiplier

The faster growth in reserve money than in M_1 for the third year in succession, lowered both average and incremental money multipliers : the former declined from 1.672 in 1976-77 to 1.637 in 1977-78 and further to 1.592 in 1978-79 and the latter to 1.386 in 1978-79 from 1.452 in 1977-78 and 1.587 in 1976-77. Despite an accelerated growth rate in time deposits, there was a fall in both the average and incremental multipliers of reserve money with respect to M_3 from 2.952 and 3.008 respectively, in 1977-78 to 2.928 and 2.820 in 1978-79. The decline in the values of the money multiplier reflected the large currency component. The incremental cash to aggregate deposits ratio showed a rise

from 19.5 per cent in 1977-78 to 39.7 per cent in 1978-79. On the other hand, the banks' behavioural parameter affecting the money multiplier did not show much change :

the marginal bank reserves to aggregate deposits ratio showed a very mild fall from 26.2 per cent in 1977-78 to 26.0 per cent in 1978-79 (Table V : 7).

Table V.7 : Trends in Money Multipliers in India

Average of last Fridays of the months (July-June)	Money Multiplier					Increases in			Marginal Money Multiplier	
	Reserve Money	Money Supply	Aggregate Monetary Resources	Money Supply	Aggregate Monetary Resources	Reserve Money	Money Supply	Aggregate Monetary Resources	Money Supply	Aggregate Monetary Resources
	(Rupees Crores)					(Rupees Crores)				
1	2	3	4	5	6	7	8	9	10	11
1974-75 ..	7265.3	11755.3	19195.5	1.618	2.642	+ 235.9	+1000.7	+2075.2	4.242	8.797
1975-76 ..	7647.8	12902.1	21854.8	1.687	2.858	+382.5	+1146.8	+2659.3	2.998	6.952
1976-77 ..	9004.0	15054.3	26480.4	1.672	2.941	+1356.2	+2152.2	+4625.6	1.587	3.411
1977-78@ ..	10719.0	17544.9	31639.7	1.637	2.952	+1715.0	+2490.6	+5159.3	1.452	3.008
1978-79@ ..	13029.4	20746.8	38155.3	1.592	2.928	+2310.4	+3201.9	+6515.6	1.386	2.820

Notes : 1. Reserve money comprises currency with the public, bank reserves i.e. cash with banks and banks' balances with RBI and other deposits with R.B.I.
2. Money multiplier refers to ratio of money supply or aggregate monetary resources to reserve money.
@ Provisional.

Income Velocity of Money

The income velocity of money supply (derived by dividing nominal national income by money supply/ M_3), declined in the fiscal year 1978-79. The income velocity of M_1 declined from 4.35 in the fiscal year 1977-78 to 3.84 in fiscal 1978-79. The income velocity of M_3 came down to 2.10 in fiscal 1978-79 from 2.42 in fiscal 1977-78 (Table V : 8). The decline in velocities occurred mainly owing to the increase in the currency component of money.

Currency and Coinage

The year 1978-79 witnessed a striking expansion in currency in circulation; from Rs. 9,152 crores as at the end of March 1978, it reached a level of Rs. 10,814 crores as at end-March 1979, thus recording a rise of Rs. 1,662 crores or 18.2 per cent as compared with an increase of Rs. 884 crores or 10.7 per cent in 1977-78. Notes in circulation increased by Rs. 1,665 crores (19.5 per cent);

this order of increase not only was almost twice that in the preceding year of Rs. 859 crores (11.2 per cent) but even surpassed the larger expansion of Rs. 1,208 crores or 18.6 per cent in 1976-77. Circulation of rupee coins and small coins at Rs. 350 crores and Rs. 240 crores, respectively, remained almost unchanged at the March 1978 level. As a proportion to the total currency, notes in circulation went up by 1 point to 94.6 per cent during the year under review while the share of rupee coins and small coins declined from 3.9 per cent and 2.6 per cent in 1977-78 to 3.2 per cent and 2.2 per cent, respectively in 1978-79 (Table V : 9).

Circulation of notes and coins

The large expansion in 'notes in circulation' was spread over the entire year, except for a short spell of contraction during the quarter July-September. From Rs. 8,559 crores at the end of March 1978, the notes in circulation increased sharply to Rs. 9,305 crores at the end of June 1978 i. e., by Rs. 746 crores as

Table V.8 : Income Velocity of Money Supply and Aggregate Monetary Resources

(Rupees crores)

Financial year	National Income at Current Prices£		Currency with the Public*		Money Supply with the Public*		Aggregate Monetary Resources*		Average Income Velocity of		
	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Currency	Money Supply	Aggregate Monetary Resources
1	2	3	4	5	6	7	8	9	10	11	12
1974-75 ..	59315	17.1	6291.6	8.1	11571.9	11.7	18709.7	13.6	9.43	5.13	3.17
1975-76 ..	61609	3.9	6520.8	3.6	12546.8	8.4	21036.4	12.4	9.45	4.91	2.93
1976-77 ..	66561	8.0	7284.1	11.7	14450.7	15.2	25195.2	19.8	9.14	4.61	2.64
1977-78@..	73157	9.9	8231.8	13.0	16829.4	16.5	30262.7	20.1	8.89	4.35	2.42
1978-79@..	76376	4.4	9407.7	14.3	19870.8	18.1	36386.6	20.2	8.12	3.84	2.10

£ At factor cost and not at market prices.

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

@ Provisional.

Table V.9 : 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-standings	Variation over the previous year	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year
1	2	3	4	5	6	7	8	9	10	11
1976-77..	7700 (93.1)	+1208	335 (4.1)	+ 4	233 (2.8)	+ 9	8268 (100.0)	+1221	395	+ 52
1977-78..	8559 (93.5)	+ 859	353 (3.9)	+ 18	240 (2.6)	+ 7	9152 (100.0)	+ 884	521	+ 126
1978-79*	10,224 (94.6)	+1665	350 (3.2)	— 3	240 (2.2)	—	10,814 (100.0)	+1662	614	+ 93

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

*Provisional.

compared with a rise of Rs. 500 crores in the comparable period of 1977-78. This was partially offset by a contraction of Rs. 364 crores during July-September 1978 which was a shade lower than the decline of Rs. 379 crores in the corresponding quarter of 1977-78. The slack season of 1978 (May-October) witnessed a contra-seasonal expansion of Rs. 359 crores in notes in circulation as against a contraction of Rs. 72 crores in the 1977 slack season. The uptrend continued during the rest of the year and the note circulation reached a record level of Rs. 10,224 crores at the end of March 1979.

Mention was made in the last year's Report of the demonetisation of notes of high denomination *i.e.*, Rs. 1,000, Rs. 5,000 and Rs. 10,000, with effect from January 16, 1978. These high denomination notes as on that date aggregated Rs. 145.52 crores. Notes tendered for conversion to the Reserve Bank of India as per the data available up to 30th September 1979, amounted to Rs. 125.04 crores. Of this amount, Rs. 64.94 crores were tendered by banks and Government Treasuries. The amount passed by the Reserve Bank of India for exchange into lower denomination notes was of the order of Rs. 118.23 crores, including Rs. 61.18 crores in respect of the notes declared by banks and Government Treasuries.

During the year under review, four coins were issued with development oriented design having a common theme 'Food and Shelter for All' in the denomination of Rs. 50/-, Rs. 10/-, 10 paise and 5 paise with effect from August 15, 1978. 10 Paise and 5 paise coins were issued by the Bank for regular circulation, while coins of the denomination of Rs. 50/- and Rs. 10/- were sold to the public directly by the India Government Mint, Bombay in proof/uncirculated sets. In 1979, development oriented design coins in the denomination of 10 paise and 5 paise with the IYC theme, "Happy Child—Nation's Pride" were issued by the Bank for regular circulation.

Circulation of Rupee Coins and Small Coins

During the fiscal year 1978-79, rupee coins, (including Government of India one rupee notes) in circulation marginally declined by

Rs. 3 crores or 0.8 per cent to Rs. 350 crores; in 1977-78, the circulation of these rupee coins had registered an increase of Rs. 18 crores or 5.4 per cent.

Mintage

Decimal coins of various denominations valued at Rs. 5.15 crores were minted in 1978-79. Since the introduction of decimal coinage in 1956-57, the mintage of decimal coins totalled Rs. 280.7 crores till the end of March 1979.

Lost, Destroyed and Mutilated Notes

The number of claims in respect of lost, destroyed and mutilated notes received during the fiscal year 1978-79 was lower at 1.85 lakh for 64.38 lakh pieces than 1.90 lakh claims for 60.03 lakh pieces in 1977-78. However, in terms of value, such claims were higher at Rs. 4.50 crores than those for Rs. 4.39 crores in fiscal 1977-78. During the year, claims approved for payment aggregated Rs. 4.39 crores and the payment against approved claims including those admitted during the previous year amounted to Rs. 4.96 crores; in the fiscal year 1977-78, claims approved and the amount paid against claims totalled Rs. 3.96 crores and Rs. 4.76 crores, respectively.

Note Forgeries

The total number of forged notes including one rupee notes received by the Bank during 1978-79 rose sharply to 5,953 pieces from 1,263 pieces in 1977-78; correspondingly, the value of such notes was considerably higher at Rs. 88,944 than that of Rs. 35,693 last year.

Trends in Gold and Silver Prices

Gold

During the period under review, (July 1978 to June 1979) the U.S. Treasury sold 10.95 million ounces of gold and the sales by the International Monetary Fund amounted to 5.61 million ounces. Despite these rising official sales, the rise in the international prices of gold during the period had been somewhat unprecedented from \$183.20 per

fine ounce at the end of June 1978 to \$ 276.45 per fine ounce at the end of June 1979. The upsurge in the price stemmed largely from the speculative demand fostered by the growing lack of confidence in the U.S. Dollar and the resurgence of inflation around the world. The factors which aided the hardening of international gold prices are described in Chapter X on Balance of Payments which reviews also the trends in the prices.

Domestic Market

The price of gold in the Bombay Bullion Market ruled distinctly buoyant during the year 1978-79 (July-June) in line with the trends in the international markets. From the end-June 1978 level of Rs. 680, per 10 grams, it recorded a net increase of Rs. 295 or 43.4 per cent by end-June 1979 as compared with a rise of about U.S. \$93.25 per fine ounce or 51 per cent in the London market. The corresponding increases in the two markets in the preceding year were Rs. 99 or 17 per cent and \$ 40.25 or 28 per cent, respectively. The peak for the year was touched at Rs. 1,000 on April 13, 1979 while that in London was recorded at \$ 284.50 per fine ounce on June 25, 1979. The lowest price of Rs. 670 was touched on July 7, 1978 and that of London at \$ 183 on July 3, 1978.

The price of gold which stood at Rs. 680 per 10 grams in Bombay at end-June 1978 ruled steady throughout July fluctuating within the range of Rs. 670 to Rs. 680 against the backdrop of a sale of 6.38 tonnes of gold to 3,679 successful bidders, at prices ranging between Rs. 620 and Rs. 675 at the five Reserve Bank of India auctions held during May and June, and 2.97 tonnes of gold sold to 2,130 successful bidders at the sixth and seventh auctions conducted on July 12 and July 28 at prices ranging between Rs. 641 and Rs. 654. The steady undertone in the market during July did not, however, continue further and in sharp reaction to the upward trend in the international markets, the price in the domestic market rose to Rs. 746 on August 17. The bullish sentiment was aided by the rejection by the Reserve Bank of all the bids received at the eighth auction on August 8, as none of the bids came upto the reserve

price fixed for the purpose. At the ninth auction held on August 17, the Reserve Bank sold 0.85 tonnes of gold to 605 successful bidders (compared with the quantity of 1.45 tonnes of gold sold at the seventh auction held on July 26) at prices ranging between Rs. 711 and Rs. 721. Following the reduction in official supplies and the continued bullish trend in international markets, the Bombay price tended to move upward reaching Rs. 766 on August 23 and to Rs. 786 on September 29, the sentiment in the market having been aided by the seasonal upsurge in demand reinforced, to some extent, by the strengthening of the speculative tendencies in the context of expectations of a further rise in price. Following the rejection of all the bids received at the thirteenth auction held on October 12, as none of the bids came upto the reserve price, and the spurt in prices in the international markets, the domestic price continued to show a bullish trend in October also, reaching the peak level for 1978 of Rs. 960 on October 17. The price declined thereafter, touching Rs. 810 by October 24 mainly on account of the waning of the festive demand and to some extent due to the announcement by the Tirumalai-Tirupathi Devasthanam (TTD) of its intention to sell substantial quantities of gold. However, the rising trend re-emerged quickly with the price touching Rs. 870 by the end of the month. At the auction held on October 23, 19.2 kgs. of gold were sold at prices ranging between Rs. 805-Rs. 911 (Vide Table V-10).

In view of the bullish trend in the international gold market and the erratic behaviour of gold prices in the domestic market particularly during August-October 1978, and the consequent increase in the speculative and other undesirable activities of bullion dealers, the Government of India considered it necessary to review the gold sales policy and pending such review the sales of gold from Government stocks through fortnightly auctions were suspended by the Reserve Bank of India after the auction on October 23. A high level committee was appointed by the Government on November 8, 1978 under the Chairmanship of the Governor of the Reserve Bank of India to review all aspects of the gold policy.

Table V. 10 : Reserve Bank of India's Gold Auctions during 1978

Sr. No.	Date of Auction	Bids		Quantity Awarded kgs.	Value in Rs. Crores	Price (Rs. per 10 grams)		Average price (Rs. per 10 grams)
		Bids received	Bids accepted			Quoted by successful bidders (Range)	Minimum price accepted by RBI	
1	2	3	4	5	6	7	8	9
1.	May 3, 1978	429	229	492.6	3.1	620-663	620	632.75
2.	May 16,	1155	658	1555.4	9.9	630-675	630	635.29
3.	May 31,	1501	602	1220.4	7.7	631-655	631	635.78
4.	June 14,	1598	997	1493.4	9.6	641-675	641	643.90
5.	June 28,	1369	1193	1618.9	10.4	641-661	641	645.77
6.	July 12,	1192	1100	1520.4	9.8	641-655	641	644.56
7.	July 26,	1455	1030	1446.4	9.4	645-654	645	646.62
8.	August 8,	1823	..	..	..	..	..	..
9.	August 17,	1935	605	853.1	6.1	711-721	711	712.13
10.	August 30,	1640	698	934.8	6.8	731-751	731	732.44
11.	September 13,	1287	685	820.2	6.1	741-761	741	742.21
12.	September 27,	1009	759	981.8	7.4	751-761	751	752.22
13.	October 12,	1207	..	..	..	..	..	..
14.	October 23,	716	21	19.2	0.2	805-911	805	839.44
	Total of all 14 auctions	18316	8577	12956.6	86.5	620-911	620-805	667.87
	Of which held during July-October 1978	12264	4898	6575.9	45.8	641-911	641-805	

With the comparative tranquillity in the international gold markets during November and December 1978, the domestic market also ruled steady with prices varying within a range of Rs. 805 to Rs. 850 during this period.

The turn of the year, however, witnessed a sharp rise in the price of gold attributable mostly to the bullish trends in international markets bolstered by the usual seasonal upsurge in demand during the period January to May. Consequently, the price started scaling successively new peaks reaching Rs. 925 on January 30, 1979, Rs. 950 on February 13, and after fluctuating between Rs. 911 and Rs. 939 during March, rose to Rs. 1,000 on April 13. Towards the end of April, however, the price declined to Rs. 976. For the rest of the period under review, the price displayed a steady to firm trend fluctuating in the range of Rs. 954 to Rs. 995. At end-June 1979, it stood at Rs. 975.

Gold Auctions

The principal objective of the gold auctions was to narrow the gap between Indian and international prices of gold and the scope

such spread provided for smuggling. Such sales, it was also felt, would help counteract to some extent the monetary impact of the budgetary deficit.

Beginning May 3, 1978 on behalf of the Government, the Reserve Bank of India commenced auctions of gold out of Government stocks at fortnightly intervals. The auctions were initially open to dealers holding valid licences issued under the Gold (Control) Act, 1968. Effective from the fourth auction on June 14, 1978, goldsmiths were also allowed to bid through their co-operative societies provided the society held a licence to deal in gold. Further, joint bids were allowed provided the number of persons in the joint bid did not exceed five and each person in the joint bid held a valid licence to deal in gold. The auctions were held on the basis of sealed tenders and it was stipulated that the quantity bid was in multiples of 100 grams subject to a minimum and a maximum amount of gold. The minimum was initially set at 1,000 grams which was revised downward to 500 grams and the initial maximum of 5,000 grams was reduced to 2,500 grams, both these revisions becoming effective from the fourth auction of June 14, 1978. The

maximum quantity that could be bid was scaled down further to 2000 grams from the eighth auction of August 8, 1978. In order to broaden the coverage with a view to achieving the principal objective of the auctions, the resale of gold among dealers acquired through auctions to other dealers at the place of auction was banned. For each auction, the bids received were scrutinised, and the valid bids ranked according to the descending order of the price quoted per ten grams. Awards were made to bidders who ranked above the position determined by the Reserve Bank with due regard to the quantity to be sold and the reserve price. The award was for the quantity bid at the price quoted.

The Reserve Bank held in all 14 gold auctions between May and October 1978, the number of auctions held during the period covered by the review (July 1978 to June 1979) being nine, in which gold aggregating 6.58 tonnes valued at Rs. 45.8 crores was sold to 4,898 successful bidders at prices ranging from Rs. 641 to Rs. 911 per 10 grams (vide Table V-10.)

In the 14 auctions held, a total quantity of 12.96 tonnes of gold valued at Rs. 86.5 crores was awarded to 8,577 successful bidders at prices ranging from Rs. 620 to Rs. 911. The average price realised in all auctions taken together worked out to Rs. 667.87. The first auction, as already reported, was held on May 3, 1978, and the last on October 23, 1978 while no gold was awarded to any of the bidders at the eighth and thirteenth auctions as the price quoted by the bidders did not come upto the reserve price.

The details of the auctions are given in table V-10.

The spread between Indian and international prices

As already mentioned, both international and domestic prices of gold rose during the year. The spread between the monthly average prices of gold in Bombay and London markets which was 39 per cent in July 1978 came down to 37 per cent in August; thereafter the gap widened substantially to 53 per cent by December 1978, consequent on the much steeper rise in the Bombay price than in the

London price (vide Table V-11). The peak of the spread was 58.4 per cent touched on October 13. With persistent rise in gold prices in the international markets, the gap somewhat narrowed to 42 per cent by February 1979. Thereafter, the domestic gold price, reflecting buoyancy in demand usual during the period, registered a sharp increase. With the London price showing a marginal decline during this period, the gap between domestic and international prices of gold widened to 54 per cent by April 1979. With the re-emergence of bullish trend in the international gold price since April together with the steady trend in the domestic gold price, the gap between domestic and international prices narrowed down to 35 per cent by June 1979.

Gold Jewellery Export Replenishment Scheme 1978.

The Government of India introduced the Gold Jewellery Export Replenishment Scheme, with effect from August 21, 1978. The scheme provides for export of gold jewellery with facility of replenishment by imported gold. The scheme can be availed of by all registered exporters of gem and jewellery, co-operative societies of certified goldsmiths, and public sector corporations both of Central and State Governments operating as Export Houses.

Gold is made available under this scheme at prices to be notified by the Government from time to time. Exports of jewellery other than studded jewellery made of gold of purity not less than 0.5833 fineness (equivalent to 14 carats) are entitled to the replenishment benefit provided the minimum value added over the value of the pure gold content is $33\frac{1}{3}$ per cent. In order to reduce multiplicity of controls, the Reserve Bank issued an order under the Foreign Exchange Regulation Act, 1973, permitting certain officers of the Export Trade Control to grant licences for export of jewellery under the scheme. The exports are required to be made by air freight through the Custom Houses at Bombay, Calcutta, Delhi and Madras, subject to compliance with the normal GR form procedure. An important feature of the scheme is that the entitlement to replenishment of gold is available to the exporters only after the full

Table V.11 : Gold Prices in London and Bombay during 1978-79
(Monthly averages)

								(Rs. per 10 grams)			
Month								London price (Morning fixing)	Bombay price (Closing)	Spread between Bombay and London prices	
										Absolute	Percentage
July	1978	..	..	..	..	..	..	491.32	680.69	189.37	39
August	..	..	..	..	..	..	..	534.88	735.08	200.20	37
September	..	..	..	..	..	..	..	548.47	766.68	218.21	40
October	..	..	..	..	..	..	..	579.24	848.29	269.05	46
November	..	..	..	..	..	..	..	552.18	826.91	274.73	50
December	..	..	..	..	..	..	..	547.31	834.64	287.33	53
January	1979..	..	..	..	..	..	..	600.44	890.64	290.20	48
February	..	..	..	..	..	..	..	649.86	925.88	276.02	42
March	..	..	..	..	..	..	..	638.24	925.50	287.26	45
April	..	..	..	..	..	..	..	633.03	975.55	342.52	54
May	..	..	..	..	..	..	..	684.78	980.64	295.86	43
June	..	..	..	..	..	..	..	726.09	978.20	252.11	35

export proceeds have been realised through an authorised dealer in foreign exchange. Only exports which earn free foreign exchange for the country are eligible for benefit under the scheme. The scheme provides for the import of gold by the State Bank of India for supply to the exporters against release orders issued by the appropriate Licensing Authorities.

The scheme was modified from time to time so as to improve its operation. Major concessions granted are :

(i) By a notification issued on November 8, 1978 the Government lowered the minimum value added over the pure gold content of ornaments to 20 per cent (formerly $33\frac{1}{3}$ per cent) in a bid to make Indian gold jewellery competitive in international markets.

(ii) With a view to giving further fillip to jewellery exports, the Government announced on January 1, 1979 the extension of the scheme to cover studded jewellery and gold articles in order to replenish upto 80 per cent, the pure gold used in the studded ornaments.

The quantities of gold supplied to exporters of jewellery during 1978-79 under the Gold Replenishment Scheme along with the prices are given in the Table below :-

Table V-12 : Quantity released and price fixed under Gold Replenishment Scheme

Month					Quantity released (kg.)	Rs. per 10 grams
December	1978..	..	..	..	13.13	590
January	1979..	..	..	..	41.51	620
February	..	..	..	..	13.89	680
March	..	..	..	..	21.10	720
April	..	..	..	..	60.38	700
May	..	..	..	..	97.04	710
June	..	..	..	..	40.05	800
July	..	..	..	..	136.50	800

*Silver***International Market**

The prices of silver in the New York and London markets displayed a firm uptrend during the period 1978-79 (July to June). Over the year, the price in the New York market recorded a substantial rise of 331.50 cents per ounce (or 62.96 per cent) while in the London market, it rose less conspicuously by 109.95 pence (or 38.76 per cent). The increases in prices in these two markets during the preceding year were only 80.00 cents (or 17.9 per cent) and 21.70 pence (or 8.3 per cent), respectively.

The price in the New York market, which was 526.50 cents at end-June 1978 initially declined to 515.50 cents on July 17, 1978. A bullish trend set in thereafter for the remainder of the month, leading to a recovery in price to 561.00 cents on July 28, in line with the movements in gold prices. After a temporary setback to 548.50 cents on August 4, 1978, the price recovered to the month's peak of 567.80 cents on August 14 consequent on sustained buying in the wake of rising industrial off-take. Though the price remained subdued for the next few days touching a low of 534.70 cents on August 23, the firmness set in again lifting the price to successively higher levels of 570.00 cents on September 25 and 629.60 cents on October 30. The price tended to decline thereafter, till December 6, 1978, touching a low of 583.50 cents when it resumed the upward movement reaching 607.40 cents by end-December and scaling successively new peaks of 675.30 cents by end-January 1979 and 792.50 cents on February 22, 1979. The firmness in the market evident since August 1978 was attributable to the growing industrial off-take and to the speculative demand in the context of the upward movement in prices of gold and other precious metals. The weakness of the dollar in the international currency markets also aided the sentiment. In the first fortnight of March 1979, the price eased somewhat to 711.50 cents on March 12. The uptrend was resumed, the price reaching 785.00 cents on April 30, following a hike in oil prices by the OPEC and the anticipated higher demand for silver by the U. S. Government. The uptrend

continued during May with the price reaching a high of 876.80 cents on May 25, before closing the month at 860.40 cents. In June, the price fluctuated erratically within the range of 830.00 to 876.00 cents and closed at 858.00 cents.

In the London Market, the price of silver, after hovering between 280.00 and 285.95 pence per ounce for the major part of July 1978 spurted to 292.60 pence by July 28. In the subsequent two months of August and September, it remained steady, the monthly averages working out to 285.34 pence and 285.58 pence, respectively. Sharply reacting to the trends in the gold market, the price scaled a new high of 302.10 pence on October 10. It advanced further to 311.20 pence on November 24, coming down to 295.35 pence on December 28. Subsequently, after hovering around the level of 296.50 pence during the first fortnight of January 1979, it rose to 336.40 pence by the end of the month. The market remained almost buoyant during February to May 1979, with the monthly average price progressing steadily from 367.08 pence in February to 407.68 pence in May. The highest price for the year of 435.80 pence was recorded on May 29. The bullish trend however, did not persist thereafter and the price eased to 393.65 pence towards the end of June 1979.

Domestic Market : The price of silver in the Bombay market moved more or less in line with the price trends in the international markets during the year. By end-June 1979, the price registered a sharp rise of Rs. 228.00 (or 16.7 per cent) to Rs. 1,365 per kg; the rise during 1977-78 (July-June) was Rs. 165.00 only (or 13.8 per cent). After remaining somewhat subdued at the beginning of July 1978, silver prices touched the lowest level for the month of Rs. 1,341 on July 19 due to the tapering off of the seasonal demand and weaker overseas advices consequent on the narrowing down of the differential between the Indian and international prices. The Government announced on July 6, 1978, the compulsory sampling of silver bars before exportation. The Government also announced an export quota of 1,000 tonnes for 1978-79, the same as for 1977-78.

The bearish trend that manifested in the first half of July abated somewhat during the latter half of the month on expectations of improvement in overseas advices following the steep rise in U. S. silver prices. The price staged a modest recovery to Rs. 1,415 on August 1. After fluctuating somewhat erratically, mostly in sympathy with the relative export prospects, the price closed lower at Rs. 1,393 on August 31. The market turned buoyant thereafter on the strength of increased U. S. demand lifting the price to a high of Rs. 1,439 by end-September 1978 and mainly to a high due to seasonal demand it rose further to Rs. 1,500 by mid-October, 1978. It slid down thereafter to Rs. 1,477 on October 24. In line with the firmness of gold prices in the international markets and in the domestic market it moved upto Rs. 1,546.00 on October 31. The sentiment was also aided to some extent by good harvests and seasonal demand. The price declined to Rs. 1,495 on November 10, following reports of a likely ban on silver exports by the Government, but moved up to Rs. 1,566 on November 30. The bullish trend, however, did not last long and the price came down to Rs. 1,515 on December 14, on reduced offtake while arrivals increased. Later, it recovered partially touching Rs. 1,541 by end-December 1978 with the revival once again of the export demand and perhaps as a reaction to Saudi Arabia's announcement about the hike in oil prices. After moving within a narrow range between Rs. 1,534 and Rs. 1,545 during the first fortnight of January 1979, it rose at an accelerated pace touching the month's peak of Rs. 1,726 by end-January 1979 following encouraging advices, especially from the USA and paucity of supplies. During the following fortnight the price of silver showed a mixed trend. Price soared to Rs. 1,958 on February 19 due to sharp rise in USA and the speculative buying that followed anticipations of further increases in price. This led to the imposition of a ban on silver exports by the Government with effect from February 20. Total exports of silver during the financial year 1978-79 (upto February 20) amounted to 665 tonnes, as against the target of 1,000 tonnes. It may be recalled that the year 1977-78 (April to March) witnessed an export realisation of 645 tonnes as against the export target of 1,000 tonnes. The State Trading Corporation sold the largest

amount of silver worth Rs. 2.70 crores in the London market on February 20, the day on which the export ban was imposed

Following, the ban, silver price declined to a low of Rs. 1,713 on February 24 to recover later to Rs. 1,820 on March 2. The recovery, however, proved short lived and the price thereafter moved down to touch a low of Rs. 1,619 on April 4 on expectations of increased arrivals coupled with reported seizures of silver. The price started rising thereafter touching the highest level for the month at Rs. 1,773 on April 16 because of encouraging overseas advices, limited supplies and good seasonal demand. The price then declined to Rs. 1,693 towards the end of the month due to discouraging overseas advices, good offerings and the stock of undisposed export commitments. After making a partial recovery to Rs. 1,748 on May 4, mainly on receipt of encouraging overseas advices and a favourable Bombay High Court judgement allowing fulfilment of pre-ban export commitments the price dipped again to a low of Rs. 1,637 on May 24 on heavy arrivals in the market. It suffered a further decline in June, closing the month at Rs. 1,593 mostly due to the low upcountry demand.

Silver Export Policy

Official silver exports commenced in February 1974. With effect from August 1976, they were channelled through the State Trading Corporation, and with a view to restricting the outflow from the country, the policy of fixing annual quota was prescribed. The quantum and value of silver exports during the period of 1974 to 1978 are given below :

Table V-13 : Quantity and price of silver export from India

Year	Quantity (m. tonnes)	Value (Rs. crores)
1974 (10 months)	1350	155
1975	1671	200
1976	1645	205
1977	725	95
1978	800	115

Source : Bombay Bullion Association.

The Government of India put a ban on exports of silver on February 20, 1979.

Banking Developments

INTRODUCTION

A further substantial growth in both aggregate deposits and bank credit, implementation of various measures to speed up the flow of credit to weaker sections, and the initiation of a new comprehensive commercial banks' branch expansion policy directed towards reduction of regional imbalances, were the salient features of banking developments during 1978-79.

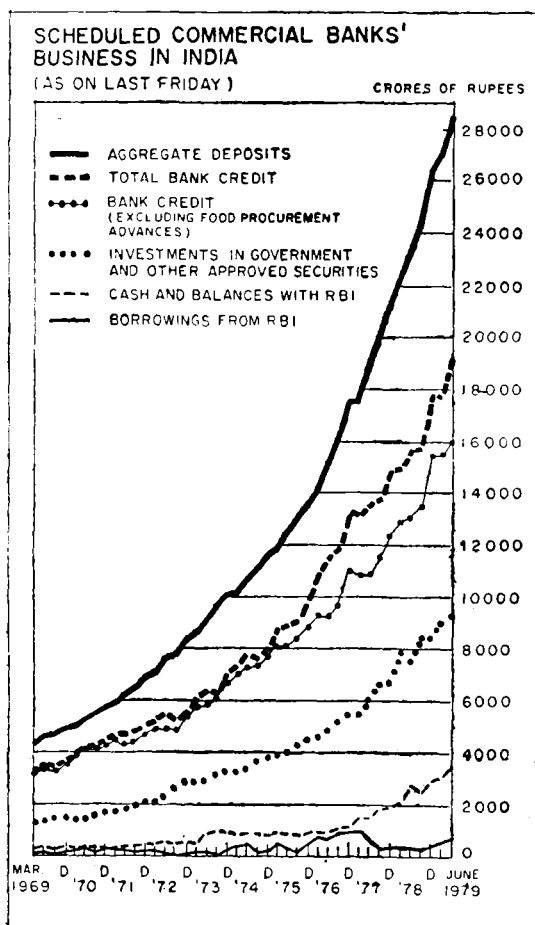
Both aggregate deposits and gross bank credit recorded high rates of growth over the year—deposits rose by Rs. 5,222 crores or 22.4 per cent and gross bank credit by Rs. 3,287 crores or 20.8 per cent. However, while the rise in aggregate deposits was almost uninterrupted throughout the year (July-June), gross bank credit showed a mixed trend. During the early part of the year, while deposits rose, bank credit declined and consequently banks' liquidity position improved substantially; the investment-deposit ratio rose from 32.4 per cent to 36.0 per cent by September 22. In the succeeding eight-week period upto November 17, 1978, the expansion in gross non-food credit was very steep—over Rs. 100 crores a week on an average—the incremental credit-deposit ratio for these eight weeks worked out to almost 100 per cent. To contain credit expansion potential during the rest of the financial year, the Reserve Bank raised on November 30, 1978, the statutory liquidity ratio (SLR) by 1 per cent to 34 per cent and also stipulated that the incremental gross non-food credit-deposit ratio for the period December 1, 1978 to end-March 1979 should be well within 40 per cent. The rising trend in bank credit, however, continued till end-January 1979, the incremental non-food gross credit-deposit ratio during December 1978 and January 1979 working out to 106 per cent. Bank credit declined during February but again rose thereafter. Over the year, non-food gross bank credit recorded an

increase of Rs. 2,816 crores or 21.2 per cent—this was on top of a rise of about 20 per cent in 1977-78. This expansion was very much on the high side, even after making allowance for higher industrial growth in 1978-79 and the need for supporting larger inventories in some sectors like sugar.

The expansion in deposits and credit continued in the first quarter of 1979-80. Prices also witnessed an uptrend. The Reserve Bank, therefore, took further regulatory measures on August 24, 1979 intended to restrict credit expansion which included curtailment of refinance facilities and advice to banks to reduce drawing limits in respect of borrowers enjoying cash credit limit of Rs. 25 lakhs and above. This was followed in September by changes in the structure of interest rates relating to bank credit and deposits. The ceiling rate on commercial bank advances was raised from 15-16 per cent to 18-19 per cent. The minimum lending rate on advances against commodities subject to selective credit controls was also raised. The interest rate on savings and fixed deposits were also stepped up.

According to the target laid down by the Government of India, advances to priority sectors like agriculture, small-scale industries and small borrowers by the public sector banks were to reach a level of one-third of their outstanding credit by end-March 1979. By the end of March 1979, the share of advances to priority sectors by 50 large banks accounting for about 95 per cent of total bank credit, had increased to 30.5 per cent as against 28.2 per cent a year before. Further, public sector banks were also expected to achieve by March 1979 a credit-deposit ratio of at least 60 per cent in respect of their rural and semi-urban branches separately. For the country as a whole, the ratios for rural and semi-urban areas were 52.5 per cent and 47.4 per cent respectively, at the end of June 1978. The guidelines issued to banks following the

recommendations of the five Working Groups, constituted by the Government of India in October 1978, would give a further impetus to banks in meeting the needs of the weaker sections even among the priority sectors.



In the field of branch expansion, a new policy for 1979-81 was formulated in September 1978 which provided for setting up of offices in rural and semi-urban areas of deficit districts and thus reduce regional imbalances. For this purpose, district-wise plans are being drawn up by the Reserve Bank in consultation with the State Governments.

A new Cell called "Rural Planning and Credit Cell" was set up in the Reserve Bank during the year to ensure proper implementation of the multi-agency approach to credit in rural areas.

CREDIT POLICY

In view of the sizeable monetary expansion in two successive years 1976-77 and 1977-78, and in the light of prospects of a moderate growth in national income in 1978-79, the Reserve Bank's credit policy during 1978-79, aimed at restraining credit expansion and relating it to the increase in production, economic activity and employment creation. A series of measures were taken by the Bank for controlling credit; these included: the raising of the statutory liquidity ratio (SLR), stipulation of an incremental non-food gross credit-deposit ratio, imposition of penalty for default in maintaining SLR and cash reserve ratio, (CRR), reduction in the extent of refinance available from the Reserve Bank, requiring banks to restrict the effective drawing power under cash credit limits in respect of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above, raising of lending rates of banks, etc. The following paragraphs indicate in some detail, measures taken by the Reserve Bank from time to time during the year for regulating credit.

November 1978 Measures

The period April to November 10, 1978 witnessed a sizeable monetary expansion which caused concern for two reasons; firstly, it came on top of substantial expansion in the preceding two years and secondly, the growth in national income in 1978-79 was expected to be moderate at 3 to 4 per cent. Further, bank credit also registered a steep rise in the eight-weeks ended November 17, 1978 — over Rs. 100 crores a week on an average — the incremental credit-deposit ratio for this eight-week period worked out to as high as nearly 100 per cent. The Bank therefore, considered it imperative to contain credit expansion potential during the rest of the financial year.

With this objective, two additional measures were announced by the Reserve Bank on November 30, 1978. They were: (1) introduction of an incremental credit-deposit ratio, and (2) raising of the statutory liquidity ratio. Banks were advised that they should so plan their non-food gross credit expansion that the

incremental gross non-food credit-deposit ratio for the period December 1, 1978 to end-March 1979 would be well within 40 per cent. The SLR was raised from 33 per cent to 34 per cent with effect from December 1 1978; the higher ratio was to be strictly applied to the additional deposits, regardless of any excess in SLR as on December 1, 1978. The impounding of deposits to the extent of (a) 10 per cent of the increase in total deposits since January 14, 1977 and (b) 50 per cent of the increase in deposits under Non-Resident (External) Rupee Accounts and Foreign Currency (Non-Resident) Accounts Scheme, since June 1, 1978 were continued. The existing refinance facilities in respect of food procurement, exports and small loans to farmers were also continued, but banks were told to use them only in case of extreme need. The Reserve Bank also informed banks that discretionary refinance would be limited to very special situations or situations of extreme need. It was also impressed on banks that (1) they should monitor the utilisation of bank credit by borrowers more closely than before and implement the norms set by the Tandon Committee, (2) they should ensure that there was no leakage of credit from large or small borrowers to socially undesirable sectors, and (3) they should not extend concessions in interest charges to relatively large borrowers.

The Governor also asked banks to make special efforts to reach the target set in respect of priority sector lending by March 1979. Banks were also advised that while the earlier emphasis on priority sectors and on utilising a substantial proportion of deposits mobilised in rural areas in those areas remained valid, even in priority sectors and rural areas, banks were to make earnest efforts to meet the needs of the weaker sections.

In November 1978, the Reserve Bank advised the private sector banks that there would be a formal obligation on them to undertake the same responsibilities in various matters as public sector banks, such as (1) lending a minimum of $33\frac{1}{3}$ per cent of total advances to the priority sectors by March 1980, (2) their rural and semi-urban branches separately achieving a credit-deposit ratio of at least

60 per cent within a time bound programme, (3) lending 1 per cent of their total advances under the Differential Rates of Interest Scheme with 40 per cent of such advances going to scheduled castes/tribes, and (4) providing credit to at least two additional borrowers per branch per month.

March 1979 Measures

Monetary expansion during 1978-79 upto February 23, 1979 was substantially larger than in the corresponding period last year. Further credit extension to the commercial sector was the dominant factor contributing to the monetary expansion. Therefore, in mid-March 1979, the Reserve Bank again impressed on banks the necessity to ensure that any further increase in credit was related strictly to the needs of increase in production. Also, as the seasonal demand in respect of foodgrains, sugar, cotton, tea and tobacco was likely to continue and even increase in the next few months, it was all the more necessary for banks to ensure that credit to other borrowers who had already drawn heavily on the banking system should be carefully regulated to meet only the most essential requirements.

Banks were further advised (i) to strengthen their internal machinery of data collection and monitoring to enable them to keep a close watch over credit expansion from week to week, (ii) to review credit limits of Rs. 50 lakhs and above — in respect of accounts where 60 to 65 per cent of the existing credit limit was already utilised, grant of further credit was to be strictly scrutinised and to be related to increase in production or existing commitments, and (iii) to keep to the minimum their reliance on borrowings from call money market and issue of participation certificates (PCs).

As, despite the raising of the SLR, banks had not increased their investments in Government securities, but continued to expand credit by recourse to money market and issue of PCs, penalty on the non-observance of SLR and CRR was introduced. With effect from March 30, 1979, in respect of banks which did not maintain the SLR of 34 per cent of demand and time liabilities,

and/or defaulted in respect of stipulated reserve ratios, access to refinance/rediscount facilities was not to be available until such deficiencies were fully made good. Where, in addition to defaulting as above, banks had, as on March 30, 1979, utilised refinance/rediscount facilities, an additional interest of 3 per cent was to be charged on the portion of refinance/rediscount accommodation equivalent to the shortfall in SLR and CRR.

May 1979 Measurers

The marked expansion in money supply in 1978-79 continued to be a matter of concern for the Reserve Bank, especially in view of the emergence of an uptrend in prices. Further, as the money supply expansion in 1978-79 was mainly because of a sharp increase in non-food credit, the Reserve Bank considered it necessary that credit expansion in 1979-80 should be significantly less than in the previous year, in both relative and absolute terms. For ensuring this, the banks were advised in May 1979 to initiate action immediately, *i.e.* in the slack season itself. As disbursement of credit for financing food procurement operations was expected to be larger in the next few months, banks were asked to restrict non-food credit, and also ensure that the return flow of funds from seasonal industries which had borrowed heavily earlier, was accelerated.

It was also considered necessary that banks should exercise adequate control on credit at branch level and this was sought to be achieved by requiring banks to evolve and issue guidelines immediately on the following: (i) while fixing new credit limits or considering enhancement of existing credit limits, a full and detailed scrutiny of the proposals should be made, and in this scrutiny, increases sought on the basis of expected price increases should be disregarded; additional accommodation should be related strictly to increases in output or in permitted inventories; (ii) in respect of proposals for revising existing credit limits above Rs. 50 lakhs, great discretion should be exercised. Banks should also seek to discourage continuous and extensive dependence of large borrowers on bank credit for working capital purposes; and (iii) banks should be specially

careful in sanctioning credit and monitoring its use in respect of sensitive commodities, and should take prompt measures to restrict such credit particularly to traders. They should also ensure that only genuine trade bill financing is transacted by their offices.

As regards interest rates policy, while by and large it was kept unchanged, banks were asked to consider whether concessions given to large borrowers in respect of interest rates need to continue. They were also told that in respect of consortium credit, uniform interest rates should be charged by member banks.

August 1979 Measures

In the first four months of the financial year 1979-80, the increase in money supply was larger than in the corresponding period last year. Non-food credit also showed a sharp rise. The increase in wholesale prices during the five months ended July 1979 was as much as 15 per cent. The Reserve Bank, therefore, took certain regulatory measures on August 24, as under:

(1) The extent of refinance available from the Reserve Bank in respect of food credit at 9 per cent was to be reduced, from the last Friday of September 1979, from 50 per cent to 30 per cent of the increase in food credit over the level of Rs. 2,000 crores. With effect from the same date, *i.e.* September 29, 1979, the refinance to small farmers for loans not exceeding Rs. 2,500 was to be available at 50 per cent of the increase over the level as on the last Friday of December 1978 as against 50 per cent of the increase in such advances over January 1, 1978 level.

(2) Banks were instructed to bring down, by the last week of September 1979, their issue of PCs to the level as on July 27, 1979. Where the amounts of outstanding PCs were already below July 27 level, these were not to be raised.

(3) The drawing limit in respect of cash credit was reduced. In the case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above from the banks, the effective drawing power under the

limits for cash credit and inland bills for the period August 23, 1979 to end-December 1979 was to be limited to 80 per cent of the peak levels of actual utilisation reached during the two-year period ended June 1979. Banks were, however, allowed to provide additional credit upto 10 per cent of the effective drawing power after satisfying that the additional credit needs were justified in terms of production increases and/or market dislocations were beyond the control of the concerned units. In no case was the cash credit limit to be above that prevailing on August 22, 1979. Cases, where additional accommodation required exceeded 10 per cent, were to be examined by a Committee of Executives of the bank constituted for the purpose.

In respect of all credit limits subject to credit authorisation by the Reserve Bank,

additional credit in excess of 80 per cent of the peak levels of actual utilisation of the last two years would need prior approval of the Bank.

September 1979 Measures

In continuation of the measures taken on August 24, 1979 for regulating further credit expansion, the Reserve Bank introduced with effect from September 13, 1979 certain changes in the structure of interest rates relating to deposits and loans/advances/cash credit/overdrafts etc. of scheduled commercial banks. The ceiling rate on short-term advances and the minimum lending rate on advances against commodities subject to selective credit controls were raised (*vide* Table VI.1 and para on Selective Credit Control). Interest rates on savings deposits and term deposits of 9 months and over were also raised (*vide* Table VI.2).

Table VI.1: Lending Rates of Scheduled Commercial Banks effective September 13, 1979

								(Per cent per annum)	
								Old Rates	New Rates
Maximum Lending Rates* on Short-term advances									
In respect of banks with demand and time liabilities									
(a)	Rs. 25 crores and above	..	..	..	..	..	..	15	18
(b)	Below Rs. 25 crores	..	..	..	..	..	..	16	19
								Rate presently charged to be raised by	
1.	Advances to Trading Sector	..	..	..	..	..	..		
(a)	Advances of Rs. 10 lakhs and above	..	..	..	..	..	..	3 per cent	
(b)	Advances below Rs. 10 lakhs	..	..	..	..	..	..	2 per cent	
2. Advances to Others									
(a)	Advances of Rs. 2 crores and above	..	..	..	..	..	..	3 per cent	
(b)	Advances between Rs. 50 lakhs and Rs. 2 crores	..	..	..	..	..	..	2 per cent	
(c)	Advances below Rs. 50 lakhs	..	..	..	..	..	..	no change	

*The following categories have been exempted from the increase in lending rates.

- (i) Advances to Priority Sectors.
- (ii) Pre-shipment and post-shipment (export credit).
- (iii) Credit to Sick Units under the agreed nursing programmes.
- (iv) Credit to Food Corporation of India and to State Governments and their agencies for public procurement and distribution of foodgrains.
- (v) Credit to specified public sector agencies for procurement/distribution of other commodities.

Table VI.2 : Rates of Interest* payable on Deposits by Scheduled Commercial Banks

									(Per cent per annum)	
Deposit Category									Old Rates (since March 1, 1978)	New Rates
Current Deposits									Nil	Nil
Savings Deposits									4 $\frac{1}{2}$	5
Fixed Deposits										
Maturity of										
15 to 45 days									2 $\frac{1}{2}$	2 $\frac{1}{2}$
46 to 90 days									3	3
91 days to less than 6 months									4	4
6 months to less than 9 months									4 $\frac{1}{2}$	4 $\frac{1}{2}$
9 months to less than 1 year									5	5 $\frac{1}{2}$
1 year to 3 years									6	7
Over 3 years and upto 5 years									7 $\frac{1}{2}$	8 $\frac{1}{2}$
Above 5 years									9	10

*The revised rates on deposits will be applicable in respect of fixed deposits made on or after September 13, 1979; for savings deposits, the revised rate would be applicable from October 1, 1979.

Note : Scheduled commercial banks with deposits liabilities below Rs. 25 crores are allowed to pay $\frac{1}{2}$ per cent more on savings deposits and on fixed deposits upto 5 years. Regional Rural Banks are allowed to pay $\frac{1}{2}$ per cent more on their savings deposits and on fixed deposits upto 5 years.

Participation Certificates brought under SLR/CRR

In the last one or two years, bank credit was extended also through substantial recourse to non-banking financial institutions in the form of call money and PCs. Since large use of such extra-banking resources is clearly inconsistent with credit planning and credit control, the Reserve Bank set up in early April 1979 a Working Group to examine this aspect. The Working Group recommended, among other things, that the funds raised through PCs should be brought under the purview of the SLR and CRR. While considering the various suggestions made by the Group, the Reserve Bank decided, to begin with, to initiate measures to discourage the commercial banks from excessive recourse to PCs. It was, however, necessary to ensure at the same time, that action by the Bank in this regard should not

result in dislocation of operations of banks and also should not make it difficult for other financial institutions to shift to other instruments for short-term investment. The Bank, therefore, decided to phase the process of bringing PCs under SLR/CRR over the period July 1979 to September 1979 in stages. The banks were advised on June 21, that from the last Friday of July 1979, the outstanding PCs would have to be treated as deposits, and such outstanding PCs would be subject to 34 per cent SLR and 6 per cent CRR in stages—50 per cent from the last Friday of July 1979, 75 per cent from the last Friday of August 1979 and the entire 100 per cent from the last Friday of September 1979. In addition, banks would be required to keep with the Reserve Bank, an additional average daily balance equivalent to not less than 10 per cent of the increase in PCs over the outstanding level as on the last Friday of July 1979.

CREDIT TRENDS

Annual Trends, 1978-79

Over the year July 1978 to June 1979, accretion to aggregate deposits was larger in amount, viz., Rs. 5,222 crores as against Rs. 4,410 crores in 1977-78, but the rate of growth in deposits was slightly lower at 22.4 per cent, as against 23.3 per cent in 1977-78. Of the total accretion, time deposits accounted for Rs. 3,498 crores or about two-thirds and demand deposits for Rs. 1,724 crores or about one-third. The larger increase in time deposits could be partly statis-

tical, due to change in procedure for determining demand/time portion of savings bank accounts for the purpose of reporting under Section 42(2) of the Reserve Bank of India Act; a much larger portion of savings deposits is now classified as time deposits. In 1977-78, the share of time deposits and demand deposits in total accretion were 56.3 per cent and 43.7 per cent, respectively. The percentage increase in time deposits over the year 1978-79 was higher at 24.8 per cent, as compared to 21.4 per cent in the previous year, while that in demand deposits was much less at 18.7 per cent, as against 26.5 per cent in 1977-78 (Table VI.3).

Table VI.3: Variations in Scheduled Commercial Banks' Data
(Seasonal and Annual)

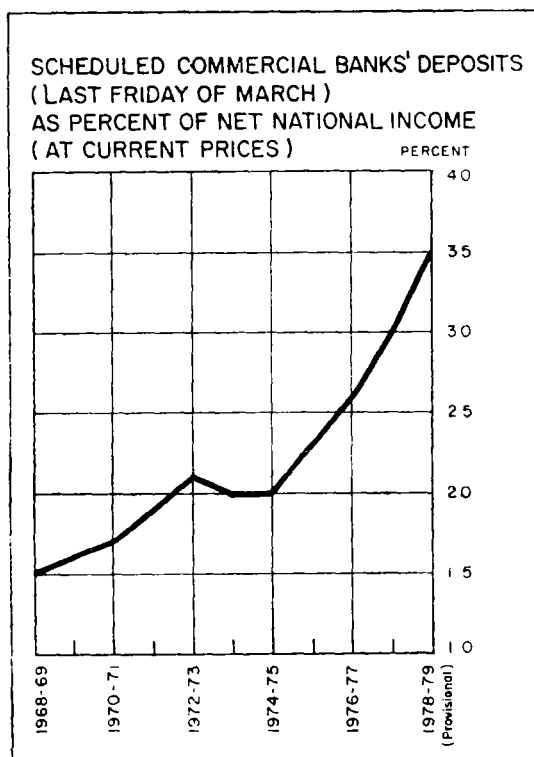
(Seasonal and Annual)							(Rupees Crores)	
Items	Seasonal Variations					Annual Variations (July-June)		
	Slack Season 1977	Busy Season 1977-78	Slack Season 1978	Busy Season 1978-79§	Slack Season		1977-78	1978-79§
					1978 (Upto July 28, 1978)	1979 (Upto July 27, 1979)§		
1	2	3	4	5	6	7	8	9
1. Aggregate Deposits ..	+1960	+2347	+1990	+2673	+ 952	+1562	+4410	+5222
(a) Demand	+ 765	+ 966	+ 237	+1250	+ 91	+ 490	+1929	+1724
(b) Time	+1195	+1381	+1753	+1423	+ 861	+1072	+2481	+3498
2. Borrowings from the RBI	— 256	— 203	+ 90	+ 142	+ 52	+ 361	— 228	+ 324
3. Cash and Balances with the RBI	+ 609	+ 434	+ 88	+ 834	— 200	+ 112	+1192	+ 813
4. Money at Call and Short Notice	+ 127	— 125	— 7	— 34	— 41	— 41	+ 106	— 167
5. Investments in Government and Other Approved Securities.	+ 566	+1252	+ 725	+1074	+ 464	— 39	+1372	+1837
(a) Govt. Securities ..	+ 328	+1124	+ 479	+ 802	+ 353	— 102	+1145	+1379
(b) Other Approved Securities.	+ 238	+ 128	+ 246	+ 272	+ 111	+ 63	+ 227	+ 458
6. Bank Credit*	+ 527	+ 940	+1418	+1674	+ 609	+1052	+2203	+3317
(a) Food Procurement Advances	— 10	— 280	+ 219	+ 14	+ 490	+ 763	— 11	+ 471
(b) Other Advances* ..	+ 537	+1220	+1199	+1660	+ 119	+ 289	+2214	+2846
7. Bills Rediscounted with the RBI	— 41	— 64	— 17	+ 35	+ 26	— 14	— 15	— 30
8. Gross Bank Credit* (6+7)	+ 486	+ 876	+1401	+1709	+ 635	+1038	+2188	+3287

§ Partially revised.

* Exclusive of credit extended through recourse to participation certificates issued to financial institutions.

Notes : 1. Data are based on weekly returns submitted by banks under Sec. 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.

The expansion in the scheduled commercial banks' gross credit (including bills rediscounted with the Reserve Bank) was appreciably larger at Rs. 3,287 crores or 20.8 per cent, as compared to Rs. 2,188 crores or 16.1 per cent in the preceding year. The expansion in 1978-79 was shared by both food credit and non-food gross credit; food credit went up by Rs. 471 crores or 18.7 per cent, and non-food gross credit by Rs. 2,816 crores or 21.2 per cent. This was in sharp contrast to 1977-78, when the entire expansion in gross credit was accounted for by non-food gross credit which registered a rise of Rs. 2,199 crores or 19.9 per cent, food credit actually registering a marginal decline of Rs. 11 crores. On June 29, 1979, the gross credit-deposit ratio stood 0.9 percentage point lower at 66.9 per cent, as against 67.8 per cent on June 30, 1978.



Scheduled commercial banks' investments portfolio rose over the year by Rs. 1,837 crores to Rs. 9,389 crores; in 1977-78, the increase in the investments portfolio was much less at Rs. 1,372 crores. The larger build-up of investments portfolio in 1978-79 could, in part, be due to the raising of the

SLR by 1 percentage point to 34 per cent, from December 1, 1978; the investment-deposit ratio worked out to 32.9 per cent on June 29, 1979, as against 32.4 per cent a year ago. Scheduled commercial banks' cash on hand and balances with the Reserve Bank, which had increased by Rs. 1,192 crores during 1977-78, showed a relatively small increase of Rs. 813 crores over the year 1978-79. Banks' borrowings from the Reserve Bank, which had stood at Rs. 335 crores on June 30, 1978, remained generally at a lower level during July to November, but rose thereafter and stood at Rs. 659 crores on June 29, 1979 — an increase of Rs. 324 crores over the year—in contrast to liquidation of Rs. 228 crores in the preceding year. Of the total borrowings of Rs. 659 crores at the end of June 1979, food refinance accounted for Rs. 413 crores or 62.7 per cent. A year ago, food refinance amounted to Rs. 106 crores and accounted for 31.6 per cent of total borrowings of Rs. 335 crores.

Credit Trends : Slack Season, 1978

A slower rate of deposit accretion and a much faster rate of growth in bank credit were the main features of the operations of scheduled commercial banks during the slack season of 1978 (last Friday of April 1978 to last Friday of October 1978), as compared to the preceding slack season. Consequently, borrowings from the Reserve Bank registered a moderate increase, as against considerable liquidation during the 1977 slack season. Cash on hand and balances with the Reserve Bank showed only a small increase during the 1978 slack season, as against a sizeable rise in the previous slack season.

The accretion to aggregate deposits during the 1978 slack season at Rs. 1,990 crores was somewhat larger in absolute terms as compared to Rs. 1,960 crores in the 1977 slack season, but the rate of increase was lower at 8.9 per cent, as against 10.8 per cent in the 1977 slack season. Of the total accretion to aggregate deposits of Rs. 1,990 crores, the share of time deposits was as much as Rs. 1,753 crores or 88 per cent, but a part of this increase in time deposits was statistical as

explained earlier; in the 1977 and 1976 slack seasons, time deposits accounted for 61 per cent and 69 per cent, respectively, of the accretion to aggregate deposits.

The expansion in gross bank credit was very sharp at Rs. 1,401 crores or 9.5 per cent, as against an expansion of only Rs. 486 crores or 3.6 per cent in the slack season of 1977. Of the total expansion of Rs. 1,401 crores in the slack season, as much as Rs. 751 crores was over the nine-week period August 25 to October 27. The rise in the 1978 slack season was shared by both food credit, which increased by Rs. 219 crores or 11.0 per cent and by non-food gross credit which went up by Rs. 1,182 crores or 9.2 per cent. In the slack season of 1977, however, the increase of Rs. 486 crores in gross bank credit was the net result of a rise of Rs. 496 crores in non-food gross credit and a decline of Rs. 10 crores in food credit. The gross credit-deposit ratio at 66.4 per cent on October 27, 1978 was lower as compared to the level a year ago (69.4 per cent), and two years ago (75.8 per cent).

The banks' investments portfolio showed a larger increase of Rs. 725 crores during the 1978 slack season, as compared to the rise of Rs. 566 crores in the 1977 slack season. Although the banks were required to deposit in rupees with the Reserve Bank, the equivalent of one-half of the aggregate amount accruing to their Non-Resident (External) Rupee Accounts and Foreign Currency (Non-Resident) Accounts Scheme, effective June 1, 1978, the increase in their cash on hand and balances with the Reserve Bank was only Rs. 88 crores during the 1978 slack season, as against a substantial increase of Rs. 609 crores in the 1977 slack season. Their borrowings from the Reserve Bank increased by Rs. 90 crores over the slack season, in marked contrast to the liquidation of borrowings to the extent of as much as Rs. 256 crores in the 1977 slack season. On October 27, 1978, outstanding borrowings stood at Rs. 245 crores, of which food refinance accounted for only Rs. 17 crores, constituting 6.9 per cent of total borrowings outstanding. A year ago, outstanding borrowings from the Reserve Bank were Rs. 358 crores, of which as much as 83 per cent constituted food refinance.

Credit Trends : Busy Season 1978-79

The slower rate of deposit mobilisation and the much faster pace of credit expansion witnessed during the 1978 slack season continued in the busy season of 1978-79 also (*i.e.* October 27, 1978 to April 27, 1979). The banks' borrowings from the Reserve Bank registered a moderate increase, in contrast to a substantial liquidation in the preceding busy season, while the build-up of their investments portfolio was smaller than in the previous busy season.

Aggregate deposits recorded a larger accretion in absolute terms in the 1978-79 busy season—of Rs. 2,673 crores, as against Rs. 2,347 crores in the busy season of 1977-78, but the rate of accretion was lower at 10.9 per cent as against 11.7 per cent in the previous busy season. Of the total increase in deposits, time deposits accounted for Rs. 1,423 crores (or 53.2 per cent); the share of time deposits was a little higher at 58.8 per cent in the 1977-78 busy season.

The expansion in gross bank credit during the 1978-79 busy season was as much as Rs. 1,709 crores or 10.5 per cent, *i.e.* nearly double the expansion of Rs. 876 crores or 6.3 per cent in the preceding busy season. The expansion in the 1978-79 busy season was due almost entirely to the increase in non-food gross credit by Rs. 1,695 crores or 12.1 per cent; the increase in food credit was only nominal—Rs. 14 crores. In the 1977-78 busy season, the expansion in non-food gross credit was Rs. 1,156 crores or 9.9 per cent and was partially off-set by a decline of Rs. 280 crores in food credit. The expansion in gross bank credit during the busy season was uneven—gross bank credit rose by Rs. 1,461 crores during December-January, declined by Rs. 240 crores during February, but again moved up by Rs. 237 crores in March-April. The steep increase in December-January partly resulted from the dislocation in clearing operations throughout the country which led to an abnormal inflation of credit figures. The gross credit-deposit ratio stood at 66.2 per cent on April 27, 1979, as compared to 66.1 per cent a year ago. The incremental non-food gross credit-deposit ratio since December 1, 1978 worked out to as high as

106 per cent at the end of January 1979, but declined to 72 per cent by end-April. As a result of a sizeable expansion in bank credit, the increase in banks' investments portfolio in the 1978-79 busy season was lower at Rs. 1,074 crores, as against an increase of Rs. 1,252 crores in the 1977-78 busy season. The investment-deposit ratio stood at 35.7 per cent on April 27, 1979, as against 35.1 per cent a year ago. The banks stepped up their borrowings from the Reserve Bank from Rs. 245 crores on October 27, 1978 to Rs. 548 crores by end-January 1979; borrowings remained around this level up to end-March but declined afterwards to Rs. 387 crores by April 27, 1979—a net increase of Rs. 142 crores over the busy season in contrast to the liquidation of borrowings to the extent of Rs. 203 crores in the previous busy season. The banks' cash on hand and balances with the Reserve Bank increased by Rs. 834 crores, as compared to a rise of Rs. 434 crores in the previous busy season.

The dislocation in the clearing arrangements in the banking industry during December 1978 and January 1979 resulted in banks availing of larger refinance and rediscount accommodation from the Reserve Bank. The outstanding amount of refinance rose from Rs. 54 crores on November 24 to Rs. 354 crores by January 26, and the outstanding bills rediscounted increased from Rs. 55 crores to Rs. 93 crores over the same period. The increases were due both to the Reserve Bank making available to banks higher refinance/rediscount limits, and also to larger utilisation by banks of these limits. For instance, food refinance entitlement of banks went up from Rs. 146 crores in November 1978 to Rs. 225 crores in January 1979 and the rate of utilisation went up from 11 per cent to 69 per cent. The stand-by refinance limit for meeting "clearing imbalances" as well as discretionary refinance limits were also temporarily stepped up to mitigate the difficulties faced by banks, but were brought down in March-April 1979 following restoration of normalcy in the banking industry.

Credit Trends : Slack Season, 1979

During the slack season of 1979 so far (i.e. upto July 27, 1979), the accretion to

aggregate deposits and the expansion in bank credit were larger than in the corresponding period of the 1978 slack season. Thus, during the period April 27, 1979 to July 27, 1979, aggregate deposits rose by Rs. 1,562 crores (5.8 per cent), as compared to Rs. 952 crores (4.2 per cent) during the corresponding period of the 1978 slack season. Gross bank credit registered a sharp increase of Rs. 1,603 crores or 8.9 per cent as against Rs. 635 crores or 4.3 per cent in the slack season of last year. It should, however, be pointed out that the figures relating to bank credit for July 27, 1979 are inclusive of credit extended through recourse to PCs. Hence, strictly speaking, the figure of bank credit expansion during the 1979 slack season is not comparable to the corresponding figure of the previous slack season. For comparison purposes, therefore, the figure of expansion in bank credit during the 1979 slack season, has been worked out excluding the quantum of credit extended through recourse to PCs issued to financial institutions*. Excluding the amount of outstanding PCs, the expansion in gross bank credit upto July 27, 1979 worked out to Rs. 1,038 crores as against Rs. 635 crores during the corresponding period in 1978. Of the total increase in gross bank credit (excluding PCs) of Rs. 1,038 crores, Rs. 763 crores was in respect of food procurement advances and Rs. 275 crores in gross non-food credit. In the corresponding period of the 1978 slack season, food procurement advances had increased by Rs. 490 crores and non-food gross credit by Rs. 145 crores.

The larger expansion in bank credit was financed from accretion to aggregate deposits and a substantial increase of Rs. 361 crores in borrowings from the Reserve Bank. Borrowings from the Reserve Bank stood at a high

*Prior to July 27, 1979, the amount of PCs issued by a bank was deducted from the figure of its total advances and the amount of PCs purchased by a bank was included in its total advances. The advances figure for all banks was, thus, inclusive of PCs issued by banks to other banks, but excluded PCs issued by banks to financial institutions. From July 27, 1979 onwards the amount of PCs issued by a bank is not deducted from the figure of its total advances. The total advances figure from July 27, 1979 onwards is, thus, inclusive of not only PCs issued by banks to other banks but also by banks to financial institutions.

level of Rs. 748 crores on July 27, 1979 as against Rs. 207 crores a year ago; of these borrowings, refinance against food credit constituted 44 per cent. In the slack season of 1978 (upto July 28), scheduled commercial banks' borrowings from the Reserve Bank registered a much smaller increase of Rs. 52 crores. Their investments in Government and other approved securities declined by Rs. 39 crores, as against a build-up of the investments portfolio by Rs. 464 crores during the corresponding period of the 1978 slack season. Cash on hand and balances with the Reserve Bank increased by Rs. 112 crores, as against a decline of Rs. 200 crores during the same period last year.

Effective June 5, 1979, the Reserve Bank withdrew the stipulation regarding the minimum period of one year and maximum period of five years applicable to deposits under the Foreign Currency (Non-Resident) Accounts Scheme, thus bringing such deposits on par with all other deposits accepted by banks. Banks were further advised that with effect from June 5, 1979, they would not be required to deposit with the Reserve Bank, in terms of rupees, the equivalent of one-half of the net aggregate amount accruing to each bank under the Foreign Currency (Non-Resident) Accounts Scheme and in the Non-Resident (External) Rupee Accounts.

INTEREST RATES

In continuation of the measures taken in August 1979 for regulating further expansion in commercial bank credit, the Reserve Bank introduced, effective September 13, 1979, certain changes in the structure of interest rates relating to deposits and loans/advances/ cash credit/overdrafts/or discount usance bills by scheduled commercial banks.

Except for certain categories, the ceiling rate on short-period advances was raised by 3 percentage points from 15-16 per cent to 18-19 per cent (vide Table VI-1).

The general minimum lending rate on advances against commodities subject to selective credit controls was also raised (*vide* para on Selective Credit Control).

The interest rates on savings deposits and on deposits of 9 months to one year were raised by $\frac{1}{2}$ percentage point each, while those on deposits of over 1 year were raised by 1 percentage point each (vide Table VI-2).

Some small adjustments were also made during the year in the lending rates to be charged by banks to farmers, PACS/FSS and on advances to small-scale industries. Consequent to the ARDC reducing, effective March 15, 1979, its refinance rates and also the maximum rates chargeable by the lending institutions to the ultimate borrowers, banks were advised to charge interest on loans of not less than three years to farmers (i) for minor irrigation and land development at a rate not exceeding 9.5 per cent (as against the earlier rate of 10.5 per cent) and (ii) for diversified purposes (a) at a rate not exceeding 9.5 per cent to small farmers, and (b) not exceeding 10.5 per cent to other farmers (as against the earlier rate of 11 per cent for both). The refinance rates of ARDC would be 6.5 per cent for (i) and (ii) (a) and 7.5 per cent for (ii) (b). Earlier, the refinance rates of ARDC were 7.5 per cent for (i) and 8 per cent for (ii). The revised rates were applicable to all new loans granted from March 15, 1979, irrespective of whether such loans were too small to be eligible for refinance from ARDC or not, and irrespective of whether the bank concerned actually utilised the refinance facility.

Earlier, in February 1979, following the reduction in the lending rates of co-operative banks, the Reserve Bank considered it necessary to bring the rates of interest charged to borrowers of PACS/FSS financed by commercial banks/Regional Rural Banks in alignment with those charged to the agriculturists borrowing either directly from the commercial banks/RRBs or through primary societies financed by central co-operative banks. Commercial banks/RRBs were, therefore, required to charge interest at 9 per cent per annum on their credit facility whether short-term loans or term finance granted to PACS/FSS, with effect from April 1, 1979. The Reserve Bank revised the interest rate again from April 16, 1979, following the reduction by ARDC in its refinance rates and also in the maximum rates chargeable

by the lending institutions to ultimate borrowers. The commercial banks/RRBs are now required to charge interest on their credit facility to PACS/FSS/LAMPS at rates of interest which would enable the latter to retain a margin of 1.5 per cent in the case of term loans for land development/minor irrigation schemes and for diversified purposes as defined by ARDC. Consequently, banks were advised to charge interest on term loans with a maturity of not less than three years to PACS/FSS/LAMPS as under: (a) for land development/minor irrigation : 8 per cent per annum, (b) for diversified purposes : (i) 8 per cent on loans to small farmers and (ii) 9 per cent on loans to other farmers. The rates to be charged to ultimate borrowers by societies

would be 9.5 per cent for (a) and (b) (i) and 10.5 per cent for (b) (ii).

On short-term loans, no change was made in the rates indicated in February 1979. Thus, the rate to be charged by banks to societies would be 9 per cent irrespective of the amount of loan. The rate to be charged by societies to the ultimate borrowers would be 11 per cent for loans upto Rs. 2,500, while for loans above Rs. 2,500, the rate would be the same as charged by co-operatives financed by central co-operative banks.

Some adjustments were made in respect of the maximum interest rates to be charged on advances to small scale industries as under :

Category of Borrower	Name of Advance	Maximum Rate of Interest to be charged
(i) Artisans, Village and Cottage Industries	Composite Term Loans upto Rs. 25,000	9½% is specified backward districts; 11% in other areas
(ii) Tiny Sector	(a) Working Capital limits upto Rs. 1 lakh	12½% (13½% for banks with DTL of less than Rs. 25 crores)
	(b) Term loans for not less than three years	9½% in specified backward districts; 11% in other areas
(iii) Other small scale industries	Term Loans for not less than 3 years	9½% in specified backward districts; 11% in other areas

The above categories of advances are exempt from the minimum lending rate directive (currently 12½ per cent). Advances to small scale industries other than the categories specified above upto Rs. 2 lakhs and covered under the Credit Guarantee Scheme for small scale industries are also exempt from the minimum lending rate directive.

CALL MONEY MARKET

During 1978-79 (July-June), except for temporary easiness between the last week of July and mid-September 1978 and then again in the latter half of April 1979, the inter-bank call money markets both at Bombay and Calcutta ruled generally firm, the inter-bank call money rate ruling at the ceiling level of 8½ per cent.

During the greater part of July, stringent conditions prevailed in the call money markets at both Bombay and Calcutta, the rate re-

maining steady at 8½ per cent. From the last week of July, however, conditions tended to ease owing to slackening in demand for funds. The inter-bank call money rate which had remained firm at 8½ per cent till July 22, eased thereafter and was quoted generally between 5 per cent and 7 per cent in Bombay and between 6 per cent and 8 per cent in Calcutta till the middle of September. The demand for funds revived somewhat in the latter half of September and during October and the rate fluctuated generally around 7 to 8½ per cent. From November 1978 till mid-April 1979, however, the call money markets ruled distinctly firm and the rate remained steady throughout at the ceiling level of 8½ per cent. In the latter half of April, while the inter-bank call money rate in Bombay eased and was quoted between 5 and 8½ per cent, the rate in Calcutta continued to remain firm at 8½ per cent. In the last two months of the year, the call money markets witnessed

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

(Amount in Rupees Lakhs)

1	As on last Friday of								
	June 1974			June 1978			June 1979*		
	Amount	Percent- age to total of 1 to 6	Percent- age to total bank credit	Amount	Percent- age to total of 1 to 6	Percent- age to total bank credit	Amount	Percent- age to total of 1 to 6	Percent- age to total bank credit
	2	3	4	5	6	7	8	9	10
1. Foodgrains (Excluding food procurement advances)	4956	10.5	0.6	9498	12.2	0.6	10542	13.4	0.5
(a) Paddy and rice	1159	2.4	0.2	3110	4.0	0.2	4649	5.9	0.2
(b) Wheat	1080	2.3	0.1	1451	1.9	0.1	1795	2.3	0.1
(c) Other foodgrains	2717	5.8	0.3	4937	6.3	0.3	4098	5.2	0.2
2. Sugar including khandsari ..	13430	28.5	1.7	37457	48.1	2.4	30263	38.5	1.6
3. Oilseeds	1781	3.8	0.2	1232	1.6	0.1	1295	1.7	0.1
(a) Groundnut	1031	2.2	0.1	648	0.8	0.1	578	0.7	—
(b) Rapeseed/mustardseed ..	613	1.3	0.1	466	0.6	—	596	0.8	0.1
(c) Linseed	93	0.2	—	48	0.1	—	81	0.1	—
(d) Castorseed	44	0.1	—	70	0.1	—	40	0.1	—
4. Vegetable oils	1453	3.1	0.2	1889	2.4	0.1	2540	3.2	0.1
(a) Groundnut oil	694	1.5	0.1	651	0.8	—	828	1.1	—
(b) Rapeseed/mustard oil ..	341	0.7	0.1	491	0.6	—	778	1.0	—
(c) Castor oil	289	0.6	—	676	0.9	0.1	899	1.1	0.1
(d) Linseed oil	129	0.3	—	71	0.1	—	35	—	—
5. Vanaspati	435	0.9	0.1	583	0.7	—	928	1.2	0.1
6. Cotton and kapas @	25068	53.2	3.2	27283	35.0	1.7	33088	42.1	1.7
(a) Indigenous	21360	45.3	2.7	23824	30.6	1.5	26805	34.1	1.4
(b) Imported	3708	7.9	0.5	3459	4.4	0.2	6283	8.0	0.3
7. Total of 1 to 6	47123	100.0	6.0	77942	100.0	5.0	78657	100.0	4.1
8. Raw jute**£	6535		0.8	2888		0.2	4740		0.3
9. Total of 7 and 8	53658		6.8	80830		5.2	83427		4.4
Total Bank Credit+	785831		100.0	1569413		100.0	1901067		100.0

* Data are provisional. @ Inclusive of advances to Cotton Corporation of India.

**Not covered by Selective Credit Control.

£ Inclusive of advances 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.

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

(As percentages to total credit against respective commodities)

Commodities	Last Friday of	
	June 1979	June 1978
1.	2.	3.
1. Sugar (including khandsari)	98.0	98.5
2. Rapeseed/mustard Oil ..	89.7	77.5
3. Castor oil	88.9	97.0
4. Paddy and rice	83.0	72.0
5. Vanaspati	79.6	91.3
6. Groundnut oil	76.0	78.5
7. Castorseed	75.0	85.7
8. Linseed oil	75.0	85.7
9. Rapeseed/mustardseed ..	61.0	52.2
10. Cotton and kapas	58.2	62.4
11. Wheat	57.8	66.9
12. Groundnut	56.9	55.4
13. Other foodgrains	39.3	28.6
14. Linseed	37.5	60.0
All Selected Commodities	94.1	78.9

Source : Basic Statistical Return 3.

keen demand for funds and the call money rate ruled throughout at the ceiling level of 8½ per cent.

SELECTIVE CREDIT CONTROL

While the general framework of Selective Credit Control continued to remain unchanged, adjustments were made in the regulations governing advances against selected commodities keeping in view the supply position and trends in prices.

(i) Sugar

In the context of the removal of control on prices, movement and distribution of sugar, effective August 16, 1978 and in view of Government's decision that the basis for the

valuation of stocks need not be changed during the transition period, scheduled commercial banks were advised on August 29, 1978 not to make any change in the valuation of stocks against which advances had been granted to parties manufacturing sugar. They were further advised 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, 15 per cent or 65 per cent, as the case may be, for advances might continue to be applied. The valuation of stocks and margin stipulations governing advances against sugar to parties other than those manufacturing sugar remained unchanged. Further, taking into account the impact of falling sugar prices on the working of sick sugar mills and the genuine (temporary) credit needs of the sugar industry, banks were advised in September 1978 to consider granting temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 25 lakhs, in the case of each borrower without prior reference to Reserve Bank, subject to certain stipulations. Such loans could be granted up to November 30, 1978 to be repaid as soon as possible after the commencement of the 1978-79 season but in any case not later than May 31, 1979.

Subsequently, effective October 14, 1978, the notional distinction between levy stocks and free-sale stocks of sugar was dispensed with. In view of the comfortable supply position of sugar and good prospects of sugarcane production in the 1978-79 season, the minimum margin on advances granted against stocks of sugar to parties manufacturing sugar was stipulated uniformly at 15 per cent of the value of all stocks charged to the banks as security. The minimum margin and the minimum rate of interest in respect of advances granted to parties other than those manufacturing sugar continued to be 65 per cent and 15 per cent per annum, respectively. While no minimum rate of interest was prescribed for advances against stocks of sugar to parties manufacturing sugar, they were subject to the general minimum lending rate on advances (12½ per cent per annum).

In the context of the rise in prices in general and in prices of some of the sensitive commo-

dities (including sugar), in particular, despite comfortable supply position, banks were advised on June 29, 1979 to keep a strict vigilance on advances to check any tendency to utilise bank finance for hoarding those commodities. Instructions issued in relation to advances against pulses, oilseeds and vegetable oils are given in the respective sections. On sugar advances banks were advised that (a) clean limits of Rs. 25 lakhs permitted earlier to sugar manufacturing units should be withdrawn and loans should be repaid expeditiously, (b) credit drawn by sugar factories for holding stocks of sugar should be reduced in line with the release of stocks from the factories and (c) margin requirements on all advances against sugar should be raised by 10 percentage points. Consumers' co-operatives holding stocks under a scheme of public distribution organised by Government were, however, exempt from this requirement.

In the context of revival of Government Control on the release of sugar stocks by mills, differential minimum margins for advances against stocks released and those against stocks not released were reintroduced. The revised margins are :—

(i) 75 per cent for each credit limit granted to parties other than those manufacturing sugar and parties manufacturing sugar in respect of stocks released for sale by Government which have left the factory or mill premises and on which excise duty has been paid ;

(ii) 65 per cent for each credit limit granted against warehouse receipts issued by Central or State Warehousing Corporations and

(iii) 25 per cent for credit granted to parties manufacturing sugar against stocks of sugar other than those released for sale which have left the factory and on which excise duty has been paid.

(ii) *Cotton and Kapas*

Taking into account the relaxation announced by the Textile Commissioner in the limits for cotton stocks held by textile mills, the Bank modified on March 29, 1979 credit control measures relating to advances to mills against raw cotton and *kapas*. Inventory levels in respect of which bank advances to mills might be made with minimum margins

in force were raised from four weeks' to three months' consumption for mills located in Bombay and Ahmedabad, from eight weeks' to four and a half months' consumption for mills in Bihar and West Bengal, from six weeks' to four months' consumption for mills in other parts of India, and from six weeks' to four months' consumption for mills solely engaged in spinning yarn. The minimum margins and interest rate, however, remained unchanged except for consequential changes related to level of stocks. Credit control on advances to parties other than mills also remained unchanged with the exception that the level of credit would be 100 per cent of the peak level of credit utilised by a party with the bank in any of the three preceding years (November to October) viz., 1977-78, 1976-77 and 1975-76, instead of 1975-76, 1974-75 and 1973-74. The Bank also reiterated that the level of inventories in respect of industries would continue to be governed by such norms as laid down, whether in pursuance of the recommendation of the Study Group on Follow-up of Bank Credit or otherwise.

(iii) *Pulses, Oils and Oilseeds*

On June 29, 1979 scheduled commercial banks were advised to keep minimum margins of not less than 45 per cent (as against 35 per cent earlier) on advances against pulses for processing units and of not less than 60 per cent for others as against 50 per cent earlier. The minimum margin on advances against warehouse receipts covering pulses was retained at 40 per cent for processors and raised to 50 per cent from 40 per cent for others.

Banks were also advised to refrain from granting additional limits against vegetable oils and oilseeds to parties other than Government and Government-supported organisations ; even in the case of such organisations a strict scrutiny on drawals was required to be maintained.

Hike in Minimum Interest Rates

As part of the measures taken on September 13, 1979 for regulating further expansion in commercial bank credit, the minimum interest rates under selective credit control were also

Table VI. 6 : Selective Credit Controls : Position as on September 13, 1979 (Summary of the Provisions of the Directive 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
(i) DBOD. No. Dir. BC. 102/C 218-75 dated 11th November 1975	<i>Paddy :</i> 1. 35 % on advances against stocks of paddy to rice mills.	18 % per annum for all parties on loans/advances /cash credits/ overdrafts.	A. 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)	The following categories of advances are completely exempted from control : <i>States :</i> (i) Advances in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura.
(ii) DBOD. No. Dir. BC.106/C. 218-77 dated 20th August 1977	2. 40 % on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks.			
(iii) DBOD.No.Dir. BC.98/C.218-79 dated 29th June 1979.	3. 50 % on all other advances. <i>Pulses :</i> 1. 45 % on advances to processing units against stocks of pulses.		<i>Note :</i> Credit limits granted to any party against wheat at any time during the preceding three years viz. 1975-76, 1974-75 & 1973-74 shall not be utilised by banks for granting credit against 'other foodgrains' (other than wheat) and banks shall strictly enforce this stipulation.	<i>Public Procurement, Storage and Distribution Agencies :</i> (ii) Advances to the Food Corporation of India and State Governments.
(iv) DBOD.No.Dir. BC.131/218(a)-79 dated 7th September 1979 and	2. 60 % on advances against stocks of pulses to parties other than processing units			(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 Governments to the extent of the stocks held by them as such agents.
(v) DBOD.No.Dir. BC.140/C.218(a) 79 dated 13th September 1979	3. 40 % on advances to processing units against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of pulses. 4. 50 % on advances to parties other than processing units against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of pulses.		B. In the case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above from banks, the effective drawing power under the limits for cash credit and inland bills for the period August 23, 1979 to end-December 1979 would be limited to 80 % of the peak levels of actual utilisation reached during the two-year period ended June 1979. This method of arriving at the effective drawing limit should, in no case, result in raising the cash credit limits as they stand on August 22, 1979. Where the drawing limit as stipulated above is lower than the ceiling prescribed in A, such lower drawing limit would be effective.	(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.
	<i>Other Foodgrains :</i> 1. 35 % on advances against stocks of foodgrains (used as raw materials) other than paddy and rice to foodgrains processing units (other than rice mills) for stocks equivalent to four weeks' consumption of such units. 2. 25 % on advances against wheat to roller flour mills. 3. 40 % on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks. 4. 50 % on all other advances.		C. 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 upto Rs. 1 lakh per branch to new parties.	(v) Advances against rationed foodgrains granted to wholesale and retail dealers appointed/licensed by Government. and/or operating under statutory rationing /fair price distribution system in all the States and Union Territories. (vi) Advances granted to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.
				<i>Others :</i> (vii) Advances against the security of maize and barley to manufacturing units (i.e. industrial users) and against the security of suji (rawa), flour (atta) and maida to biscuit manufacturers.

Exemptions :

- (i) Advances to manufacturing units and other borrowers, wholly or partly against the security of foodgrains which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd. @/Credit Guarantee 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.
- (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.

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. @ subject to a maximum of Rs. 50,000/- for each such trader, provided he undertakes to borrow against foodgrains from only one bank.
- (iii) Advances to manufacturing units and other borrowers, wholly or partly against security of foodgrains which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd. @/Credit Guarantee Organization, subject to a maximum of Rs. 50,000/- for each such manufacturing unit/borrower provided it/he undertakes to borrow against foodgrains from only one bank.
- (iv) Advances against foodgrains to 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.

- (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.

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- * 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.
 - + 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.
 - @ Now 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
(i) DBOD.No.Dir. BC.63/C.218(H) -76/77 dated 31st May 1977	A. <i>Indigenous and Imported Oilseeds i.e. groundnut, cottonseed, rapeseed/mustard, castorseed and linseed.</i>	18 % per annum for all parties on loans /advances/cash credits/over drafts against groundnut, cottonseed/mustardseed/castorseed and linseed.	A. In respect of each party, separate ceiling for each of (i) Groundnut, (ii) Cottonseed (iii) Linseed and Castorseed together:100 % of the peak level of credit maintained by the party in any of the three preceding years (November-October) viz., 1975-76, 1974-75 and 1973-74.	The following categories of advances are completely exempted from Control : <i>States :</i> (a) Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland , Orissa and Tripura.
(ii) DBOD.No.Dir. BC.131/218(a) -79 dated 7th September 1979. and	B. <i>All other Imported Oilseeds (Other than groundnut, cottonseed, rapeseed/ mustard, castorseed and linseed).</i>		B. In the case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above from banks, the effective drawing power under the limits for cash credit and inland bills for the period August 23, 1979 to end-December 1979 would be limited to 80 % of the peak levels of actual utilisation reached during the two-year period ended June 1979. This method of arriving at the effective drawing limit should, in no case, result in raising the cash credit limits as they stand on August 22, 1979. Where the drawing limit as stipulated above is lower than the ceiling prescribed at A, such lower drawing limit would be effective.	<i>Public Procurement, Storage and Distribution Agencies :</i> (b) Advances to the Food Corporation of India and the State Trading Corporation against stocks of oilseeds. (c) Wholesale and retail dealers appointed/ licensed by the 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.
(iii) DBOD.No.Dir. BC.140/C.218(a) -79 dated 13th September 1979.	1. 70 % on advances against stocks of groundnut, cottonseed, rapeseed/mustard, castorseed and linseed. 2. 60 % on advances against warehouse receipts issued by the Central or State Warehousing Corporations covering stocks of groundnut, cotton seed, rapeseed/mustard, castorseed and linseed. 3. 60 % on advances against stocks of rapeseed/mustard, equivalent to two months' consumption of each oil mill in all the States and Union Territories other than Rajasthan, U.P., M.P., West Bengal and Bihar. 4. 45 % on advances against stocks of groundnut and rapeseed/mustard, equivalent to two months' consumption of each oil mill in Rajasthan, U.P. MP., West Bengal and Bihar. 5. 60 % on advances against imported oilseeds <i>other than</i> groundnut, cottonseed, rapeseed/mustard, castorseed and linseed <i>after a period of 8 weeks from the arrival of the goods in India.</i>		<i>Exemptions :</i> (a) Advances against the security of oilseeds grown in India to registered oil mills* and vanaspati manufacturers. (b) 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. (c) Advances to manufacturing units and other borrowers, wholly or partly against the security of oilseeds, which are covered by a guarantee scheme of Credit Guarantee Corporation of India Ltd.,@/Credit Guarantee Organization subject to a maximum of Rs. 25,000/- for each unit/borrower, provided it/he undertakes to borrow against oilseeds from only one bank.	(d) Advances to the Wholesale Consumers' Co-operative Stores and the State and, National Federations of Consumers' Co-operatives. <i>Exports :</i> (e) 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. (f) 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 groundnut 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

Exemptions :

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

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

C. Additional Limits:

Banks should refrain from granting additional limits against vegetable oilseeds to parties other than Government and Government supported organisations; even in the case of such organisations strict scrutiny on drawals should be maintained. (Letter DBOD No. Dir BC. 97/C. 218-70 dated 29th June 1979.)

the sale proceeds of the residual groundnut or in cash, as soon as the selection of the HPS groundnut is completed, within 15 days from the date of such advances and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bill.

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

Others :

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

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

@ Now Deposit Insurance and Credit Guarantee Corporation.

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
(i) 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.	18 % 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.	A. 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.	The following categories of advances are completely exempted from control.
(ii) DBOD.No.Dir. BC.131/218(a) -79 dated 7th September 1979 and			B. In the case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above from banks, the effective drawing power under the limits for cash credit and inland bills for the period August 23, 1979 to end-December 1979 would be limited of 80 % of the peak level of actual utilisation reached during the two-year period ended June 1979. This method of arriving at the effective drawing limit should, in no case, result in raising the cash credit limits as they stand on August 22, 1979. Where the drawing limit as stipulated above is lower than the ceiling prescribed in A, such lower drawing limit would be effective.	<i>States :</i> (a) Advances in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura.
(iii) DBOD.No.Dir. BC.140/C. 218 (a)-79 dated 13th September 1979	<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.		<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 vegetables 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	<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. (f) Advances to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.
	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 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 oil used as raw material equivalent to 6 weeks' consumption of each factory located in Northern Zone, and
- (c) 60 % on advances against stocks of such oils used as raw materials equivalent to 4 weeks' consumption of each factory in Southern and Western Zones.

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

For new vanaspati factories :
The basis is the average actual weekly consumption from the date of establishment.

For Vanaspati Units likely to start production in future :
The margin is to be related to 4 to 6 weeks' requirement (as stipulated) depending upon the location of the factory, based on one-third of the average weekly production capacity of the units for the first six

to a maximum of Rs. 25,000/- for each such unit/borrower, provided it/he undertakes to borrow against vegetable oils (including vanaspati) from only one bank.

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

C. Additional Limits ;
Banks should refrain from granting additional limits against vegetable oils to parties other than Government and Government-supported organisations; even in the case of such organisations strict scrutiny on drawals should be maintained.
(Letter DBOD No. DIR BC 97/C. 218-79 dated, 28th June 1979).

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

Others :

- (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.

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
1	2	3	4	5

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.

Exemptions :

- (a) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for the distribution of essential consumer articles.
- (b) Advances to traders wholly or partly against the security of vegetable oils (including vanaspati) which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., subject to a maximum of Rs. 25,000/- for each such trader, provided he undertakes to borrow against vegetable oils (including vanaspati) from only one bank.
- (c) Advances to manufacturing units and other borrowers, wholly or partly against

the security of vegetable oils (including vanaspati), which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., @/ Credit Guarantee Organization subject to a maximum of Rs. 25,000/- for each such unit/borrower, provided it/he undertakes to borrow against vegetable oils (including vanaspati) from only one bank.

- (d) Advances to vanaspati manufacturers against cottonseed oil.
- (e) Advances against all imported vegetable oils *for a period not exceeding* 4 weeks after arrival of the goods in India.

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 directives had he availed himself of advances against the commodity.

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 materials 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
(i) DBOD.No.Dir. BC.47/C.218(F)-79 dated March 29, 1979.	A. <i>Mills under National Textile Corporation</i> (i) 20 % for stocks of 4 months' consumption (ii) 35 % for stocks in excess of 4 months' consumption	On loans/advances/ cash credits/overdrafts (a) 17 % p.a. for cotton mills in respect of raw cotton stocks or kapas of 3, 4 or 4½ months' consumption for which they are entitled for a lower margin of 20 % or 25 % as specified in the directive.	A. 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 years (November-October) viz., 1977-78, 1976-77 and 1975-76.	The following categories of advances are completely exempted from control:
(ii) DBOD.No.Dir. BC.131/218(a)-79 dated 7th September 1979 and	B. <i>Other Mills</i> For mills other than those in Bombay, Ahmedabad and in States of Bihar and West Bengal. (i) 25 % for stocks of 4 months' consumption (ii) 45 % for stocks in excess of 4 months' consumption	(b) 17 % p.a. for mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton and kapas equivalent to 4½ months' consumption. (c) 18 % p.a. for other stocks of raw cotton held by the mills.	B. In the case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above from banks, the effective drawing power under the limits for cash credit and inland bills for the period August 23, 1979, to end-December 1979 would be limited to 80 % at the peak levels of actual utilisation reached during the two-year period ended June 1979. This method of arriving at the effective drawing limit should, in no case, result in raising the cash credit limits as they stand on August 22, 1979. Where the drawing limit as stipulated above is lower than the ceiling, prescribed in A, such lower drawing limit would be effective.	<i>States :</i> 1. Advances in Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura.
(iii) DBOD.No.Dir. BC.140/C.218(a)-79 dated 13th September 1979	C. <i>For mills in Bombay and Ahmedabad.</i> (i) 25 % for stocks of 3 months' consumption (ii) 45 % for stocks in excess of 3 months' consumption D. <i>For mills in Bihar and West Bengal</i> (i) 20 % for stocks of 4½ months' consumption (ii) 40 % for stocks in excess of 4½ months' consumption E. <i>For mills solely engaged in spinning yarn</i> (i) 20 % for stocks of 4 months' consumption (ii) 35 % for stocks in excess of 4 months' consumption	(d) 18 % p.a. for parties other than mills.	<i>Exemptions :</i> 1. Advances against cotton and kapas to industrial users such as manufacturers of surgical cotton (absorbent cotton wool), provided that such stock is held by the borrower for processing and not for re-sale. 2. Advances against the security of stocks of (a) imported cotton and (b) new and/or long-staple varieties of cotton grown in India, viz., Hybrid 4 and 5 (Shanker-4 and 5), Gujarat 67 (LSC-67), MCU 4,5 and 8 Sujatha, Sea Island Andrews, Hampi, Varalaxmi, Maljhari, Narmada A. 51/9, Khandwa 1 and 2, Suvin, Vishnu and Badnavar-1, 320-F, Bengal Deshi, J-34, 205 and H-14, Bikaneri-Narma, R.S.-89, Jawahar Kapas, Sujay, SRT. 1, Jyoti, Mahalakshni, NH-12, Bhagya (GS-23), CBS-156 and Giza-7.	<i>Exports :</i> 2. Advances in respect of pre-shipment credit for cotton exports, provided the advances are made in respect of firm export order and are repaid on negotiations 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. <i>Others :</i> 5. Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of cotton and kapas. 6. Advances granted to processing/manufacturing units covered under

- F. *To others (parties other than 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 & 8, Sujatha, Sea Island Andrews, Hampi, Varalaxmi, Maljhari, Narmada A-51/9, Khandwa-1 & 2, Suvini, Vishnu and Badnavar-1, 320 F, Bengal Deshi, J-34, 205 and H-14, Bikaneri-Narma, R.S.89, Jawahar Kapas,Sujay SRT-1, Jyoti, Mahalakshmi, NH-12, Bhagya(GS-23), CBS-156 and Giza 7.
 - (ii) 25 % for stocks of imported cotton.
 - (iii) 60 % for stocks of other varieties of cotton.
 - (iv) 50 % for 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 in West Bengal under the National Textile Corporation or by its authorised agencies, against stocks equivalent to 4½ months' consumption of each mill.*
3. Advances granted to mills against the security of imported cotton.

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

the Rural Industries Projects, up to Rs. 25,000/- per unit.

*Minimum rate of interest of 17 per cent per annum applies to advances against these stocks.

E. Sugar, Gur and Khandsari

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No. and Date of Directive	Minimum Margin	Minimum rate of Interest	Complete Exemption
1	2	3	4
(i) DBOD. No. Dir. BC. 105/C.218 (J)-75 dated 11th November, 1975.	A. <i>To Sugar Factories :</i> (i) 75 % on advances to parties manufacturing sugar in respect of such stocks of sugar as have been released for sale by the government and have left the factory or mill premises and on which excise duty has been paid.	On loans/advances/cash credit/over-drafts <i>Sugar</i> <i>For sugar factories in respect of all stocks: 15½ % per annum.</i> <i>For parties other than sugar factories : 18 % per annum</i> <i>For Gur and Khandsari ; 18 % per annum</i>	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 confectioneries, bakeries, biscuit manufacturers, etc., against stocks of sugar, gur and khandsari pledged/hypothecated with 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.
(ii) DBOD. No. Dir. BC. 33/C.218(J)-78 dated 3rd March 1978.	(ii) 25 % on advances to parties manufacturing sugar against stocks of sugar other than those referred to in (i) above.		
(iii) DBOD. No. Dir. BC. 142/C.218(J)-78 dated 14th October 1978.	B. <i>Manufacturers of Gur and Khandsari :</i> 35 % on advances against stocks of gur/khandsari.		
(iv) DBOD. No. Dir. BC. 99/C.218(J)-79 dated 29th June 1979. and	C. <i>To Others :</i> 75 % on advances against stocks of sugar and 45 % on advances against stocks of gur and khandsari.		
(v) DBOD. No. Dir. BC. 140/C.218(a)-79 dated 13th September 1979.	D. <i>Warehouse Receipts :</i> (i) 65 % on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of sugar. (ii) 30 % on advances against warehouse receipts issued by Central or State Warehousing Corporations covering stocks of gur and khandsari. <i>Exemption :</i> Advances to consumers' co-operatives in respect of stocks held under schemes of public distribution organised by Government.		

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

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Complete Exemption
1	2	3	4
(i) DBOD. No. Dir. BC. 106/C.218(T)-75 dated 11th November 1975.	For traders, dealers and agents: 30 %	18 % per annum for traders, dealers and agents on loans/advances/cash credits/ overdrafts.	<i>Exports :</i> (i) Advances in respect of pre-shipment credit for exports of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres provided the advance is made in respect of firm export order and is repaid on negotiation of relevant export bills on shipment. (ii) Advances against the security of or by way of purchase or discount of export bills relating to export of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres, from India.
(ii) DBOD. No. Dir. BC. 32/C.218(T)-76 dated 15th March 1976.			
(iii) DBOD. No. Dir. BC. 140/C.218(a)-79 dated 13th September 1979.			<i>Others :</i> (iii) Advances to traders wholly or partly against the security of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres which are covered by a guarantee scheme of the Credit Guarantee Corporation of India Ltd., @ subject to a 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, power- loom 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.

@ Now Deposit Insurance and Credit Guarantee Corporation.

raised. Sugar advances to factories which had attracted only the general minimum lending rate of $12\frac{1}{2}$ per cent, were made subject to a minimum lending rate of $15\frac{1}{2}$ per cent under selective credit control in respect of all stocks.

The minimum lending rate for advances was raised from 14 per cent to 17 per cent for cotton textile mills in respect of advances for which lower margins of 20 to 25 per cent were prescribed on stocks of cotton and *kapas* of 3, 4 or $4\frac{1}{2}$ months' consumption and mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton and *kapas* of $4\frac{1}{2}$ months' consumption. In all other cases covered by selective credit control the minimum lending rate was increased from 15 per cent to 18 per cent. Advances against commodities subject to selective credit control continued to be governed by the directive on maximum lending rate also. The restriction on banks in discounting usance bills arising from sales of commodities covered by selective credit control, except when and where specifically permitted by the Reserve Bank continued.

Table VI.6 (at page 102) indicates the position of selective credit control as on September 13, 1979.

Advances against sensitive commodities

Scheduled commercial banks' outstanding advances against selected commodities at Rs. 834 crores at end-June 1979 showed an increase of Rs. 26 crores over the year (Table VI.4 on page 99). Excluding Rs. 47 crores outstanding against raw jute (which is not covered by selective credit control) the advances amounted to Rs. 787 crores, indicating an increase of only Rs. 7 crores over the year. Of the total amount of Rs. 787 crores, advances against cotton and *kapas*, sugar (including khandsari) and foodgrains accounted for Rs. 331 crores (42.1 per cent), Rs. 303 crores (38.5 per cent) and Rs. 105 crores (13.4 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, declined marginally from 5.0 per cent to 4.1 per cent during the year.

The major beneficiaries of advances against selected commodities (covered by selective credit control) were mills/factories and industrial users, which accounted for 94 per cent of total advances against these commodities at end-June 1979 as against 79 per cent at end-June 1978 (Table VI.5 on page 100). Commodity-wise, this proportion was considerably higher at end-June 1979 than that at end-June 1978 in the case of rapeseed/mustard oil, paddy and rice, rapeseed/mustardseed and 'other foodgrains', but was considerably lower for castor oil, vanaspati, linseed, castorseed, linseed oil and wheat. Ninety-eight per cent of advances against sugar (including khandsari) was outstanding against mills/factories and industrial users, at the end of June 1978 and June 1979. The variations in the case of other commodities were of a small order as between the two dates under reference.

WORKING OF DIFFERENT SCHEMES

In this section a brief review of the working during the year of the various schemes like Credit Authorisation Scheme, Export Credit Schemes, Participation Certificates Scheme, Differential Interest Rates Scheme, etc., is given.

(a) Credit Authorisation Scheme

The Credit Authorisation Scheme (CAS) administered by the Reserve Bank since 1965 continues to be an effective instrument of credit regulation. The steps taken by the Bank in pursuance of the recommendations of the Tandon Study Group have helped in ensuring proper allocation of credit based on the borrowers' production requirements, and have also assisted banks in the follow-up and supervision of funds lent. The progress made by banks in monitoring credit has been rather slow; partly this could be due to reluctance on the part of the borrowers to supply the required data and partly to the inadequacy of trained personnel to perform the specialised work devolving on banks under the system. The Reserve Bank has been consistently taking up with the banks the question of speedy switch-over to the new method of lending and supervision of credit recommended by the Study Group.

With a view to accelerating the pace of disposal of the applications submitted under CAS, the Reserve Bank recently furnished banks with a list containing common discrepancies noticed while examining the authorisation proposals submitted by banks. This is expected to reduce to a considerable extent the time-lag between the receipt of the proposals and their final disposal.

During the year, the Reserve Bank effected further relaxation and modifications in the working of the scheme mainly with a view to further streamlining the procedures, as also delegating more authority to the banks themselves for facilitating quick credit decisions. For instance, term loans granted by banks for acquisition of capital assets have now been excluded for the purpose of the cut-off points under the CAS (Rs. 2 crores for private sector and Rs. 3 crores for public sector) from September 1978. As a result, a few units have been allowed to go out of the purview of the scheme.

As against this, letters of credit for acquisition of capital assets as also for other purposes and deferred payment guarantees for purchase of capital equipment and acceptance limits in connection therewith, sanctioned by banks to the borrowers covered by the CAS have been brought within the purview of the scheme, subject to certain exemptions.

However, such facilities will continue to be excluded for the purpose of computing the cut-off point.

Working of the Scheme

During the year July 1978 to June 1979, the number of parties covered under the CAS increased from 979 (end-June 1978) to 1,059 (end-June 1979), inclusive of 187 public sector undertakings, as against 178 such undertakings at the end of June 1978. The total limits in force relating to the parties covered under the scheme at Rs. 11,968 crores at the end of June 1979, showed an increase of Rs. 1,327 crores over the year, as against an increase of Rs. 802 crores in 1977-78. The credit limits in respect of public sector units increased by Rs. 670 crores (mostly for food procurement) as against an increase of Rs. 268 crores in the previous year. The share of private sector in the incremental credit amounted to Rs. 657 crores, as compared to Rs. 534 crores in 1977-78. (Table VI.7).

The pattern of purpose-wise distribution of the total limits in force at the end of June 1979 remained more or less unchanged : 88.2 per cent was for working capital purposes (including packing credit and bills), 8.7 per cent for term finance and 3.1 per cent for sale of machinery on deferred payment basis.

Table VI.7 : Distribution of credit limits by type of credit

Type of credit	(Amount in Rupees Crores)					
	As on June 30, 1977		As on June 30, 1978		As on June 30, 1979	
	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*	8813 (89.6)	5157 (93.6)	9496 (89.2)	5401 (93.5)	10553 (88.2)	5951 (92.3)
Of which :						
(a) Bills purchased and discounted	775 (7.9)	131 (2.4)	859 (8.1)	168 (2.9)	957 (8.0)	186 (2.9)
(b) Export Finance	583 (5.9)	54 (1.0)	642 (6.0)	64 (1.1)	749 (6.3)	68 (1.1)
2. Sales of machinery on deferred payments basis	328 (3.3)	58 (1.1)	346 (3.3)	61 (1.1)	378 (3.1)	81 (1.3)
3. Term Finance	698 (7.1)	295 (5.3)	799 (7.5)	315 (5.4)	1037 (8.7)	415 (6.4)
Total limits in force	9839 (100.0)	5509 (100.0)	10641 (100.0)	5777 (100.0)	11968 (100.0)	6447 (100.0)
Number of parties	890	159	979	178	1059	187

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

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

Table VI.8: Occupation-wise Distribution of Total Limits in Force
(As on June 30, 1979)

				(Rupees Crores)			
Industry				Total limits in force		Of which public sector units	
1				2		3	
I. Agriculture and Allied Activities				365.90	(3.1)	254.21	(3.9)
1. Agriculture	..	..	..	247.43	(2.1)	206.39	(3.2)
(i) Direct Finance	..	..	..	45.75	(0.4)	21.31	(0.3)
(ii) Indirect Finance of which	..	..	..				
(a) Distribution of Fertilisers	..	..	..	189.36	(1.6)	172.76	(2.7)
(b) Others	..	..	..	12.32	(0.1)	12.32	(0.2)
2. Plantations	..	..	..	118.47	(1.0)	47.82	(0.7)
(i) Tea	..	..	..	83.04	(0.7)	12.82	(0.2)
(ii) Others	..	..	..	35.43	(0.3)	35.00	(0.5)
II. Industry				6640.33	(55.5)	1844.11	(28.6)
A. Mining & Quarrying				208.62	(1.8)	181.14	(2.8)
(i) Coal mining	..	..	..	126.34	(1.1)	126.34	(1.9)
(ii) Iron ore	..	..	..	12.47	(0.1)	3.75	(0.1)
(iii) Others	..	..	..	69.81	(0.6)	51.05	(0.8)
B. Manufacturing				6431.71	(53.7)	1662.97	(25.8)
1. Sugar	..	..	..	463.44	(3.9)	47.08	(0.7)
2. Edible Oils & Vanaspati	..	..	..	114.42	(1.0)	6.29	(0.1)
3. Tobacco Processing & Tobacco Products Manufacturing	..	..	..	105.95	(0.9)	4.50	(0.1)
4. Cotton Textiles	..	..	..	833.95	(7.0)	98.49	(1.5)
5. Jute Textiles	..	..	..	176.66	(1.5)	—	(—)
6. Silk & Synthetic fibres	..	..	..	197.29	(1.6)	21.00	(0.3)
7. Wool & Woollen Textiles	..	..	..	28.80	(0.2)	—	(—)
8. Other Textiles	..	..	..	4.55	(—)	—	(—)
9. Paper & Paper Products	..	..	..	121.10	(1.0)	—	(—)
10. Leather & Leather Products	..	..	..	37.76	(0.3)	—	(—)
11. Rubber & Rubber Products	..	..	..	164.35	(1.4)	—	(—)
12. Manufacture of Chemicals and Chemical Products	..	..	..				
(a) Heavy Industrial Chemicals	..	..	..	212.64	(1.8)	47.68	(0.7)
(b) Fertiliser (Production)	..	..	..	359.43	(3.0)	127.79	(2.0)
(c) Drugs & Pharmaceuticals	..	..	..	115.32	(1.0)	9.60	(0.1)
(d) Plastic & Plastic Products	..	..	..	9.18	(0.1)	—	(—)
(e) Others	..	..	..	146.25	(1.2)	4.25	(0.1)
13. Petroleum	..	..	..	44.89	(0.4)	33.94	(0.5)
14. Cement	..	..	..	73.24	(0.6)	—	(—)
15. Basic Metal and Metal Products	..	..	..				
(i) Iron & Steel	..	..	..	341.46	(2.8)	203.52	(3.2)
(ii) Others	..	..	..	79.09	(0.7)	9.25	(0.1)
16. Engineering (Except Transport Equipment)	..	..	..				
(a) Heavy Engineering	..	..	..				
(i) Machinery except electrical Machinery	..	..	..	812.18	(6.8)	251.18	(3.9)
(ii) Electrical Machinery	..	..	..	519.99	(4.3)	281.92	(4.4)
(b) Light Engineering (including Light Metal Products)	..	..	..	549.10	(4.6)	51.06	(0.8)
17. Manufacture of Transport Equipment	..	..	..				
(i) Railway Equipment Industry	..	..	..	160.34	(1.3)	69.01	(1.1)
(ii) Others	..	..	..	253.22	(2.1)	55.94	(0.9)
18. Others (Manufacture)	..	..	..	158.44	(1.3)	20.50	(0.3)
19. Electricity—Generation and Distribution	..	..	..	348.67	(2.9)	319.97	(5.0)
III. Trade				4500.83	(37.6)	4073.02	(63.2)
(a) Foodgrains	..	..	..	3150.54	(26.3)	3150.54	(48.9)
(b) Fertilisers	..	..	..	448.04	(3.7)	448.04	(6.9)
(c) Mineral Oils	..	..	..	35.69	(0.3)	5.50	(0.1)
(d) Raw Cotton	..	..	..	291.69	(2.4)	253.75	(3.9)
(e) Raw jute	..	..	..	53.79	(0.5)	49.50	(0.8)
(f) Others	..	..	..	521.08	(4.4)	165.69	(2.6)
IV. All Others				461.33	(3.8)	275.25	(4.3)
Total				11968.39	(100.0)	6446.59	(100.0)

Note : Figures in brackets indicate the percentages to respective totals.

Table VI.9A: Particulars of Applications received, approved, rejected/withdrawn and cases reported under Credit Authorisation Scheme during the period July 1978—June 1979.

Particulars	July- September 1978	October- December 1978	January- March 1979	April- June 1979	Total
1	2	3	4	5	6
1. Applications received@	143 (32)	171 (33)	203 (35)	323 (37)	840 (137)
2. Applications approved	114 (25)	139 (23)	147 (24)	113 (15)	513 (87)
3. Applications rejected/withdrawn	3 (—)	2 (—)	5 (1)	3 (—)	13 (1)
4. Reporting cases	317 (41)	236 (37)	293 (45)	213 (27)	1059 (150)

Note : Figures in brackets relate to public sector.

@Excluding number of applications received for the extensions of period, authorisations for letters of credit or deferred payment guarantees, etc.

Table VI.9B: Particulars of Authorisations granted by Reserve Bank of India, amount involved in applications rejected/withdrawn, limits reported by banks

(Rupees Crores)

Particulars	July- September 1978	October- December 1978	January- March 1979	April- June 1979	Total
1	2	3	4	5	6
1. Authorisations granted by Reserve Bank of India	229.80 (141.94)	289.59 (110.00)	174.40 (80.78)	697.89 (582.42)	1391.68 (915.14)
2. Amounts involved in applications rejected/ withdrawn	0.02 (—)	0.02 (—)	1.97 (0.50)	3.67 (—)	5.68 (0.50)
3. Limits reported by banks	—52.80 (—69.43)	57.47 (—0.18)	44.49 (—29.83)	—113.95 (—146.26)	—64.79 (—245.70)

Note : Figures in brackets relate to public sector.

Occupation-wise distribution of the total limits in force of Rs. 11,968 crores at the end of June 1979, show that "industry" accounted for Rs. 6,640 crores (55.5 per cent), of which engineering and cotton textiles claimed limits of Rs. 1,881 crores (15.7 per cent) and Rs. 834 crores (7.0 per cent), respectively. Trading accounted for Rs. 4,501 crores (37.6 per cent); under trading, food procurement alone claimed Rs. 3,151 crores or 26.3 per cent of the total limits in force. As regards public sector units, of the total credit limits in force of Rs. 6,447 crores, trading accounted for 63.2 per cent (the share of food procurement was 48.9 per cent), engineering 9.1 per cent, electricity generation and distribution 5.0 per cent and basic metal and metal products (iron and steel) 3.2 per cent (Table VI-8).

Applications received for the Reserve Bank's authorisation during the year 1978-79 numbered 840 including 137 applications from public sector units. Applications approved numbered 513, including 87 from public sector units. The number of cases where reduced limits were authorised was 31 and the reduction in the amount was of the order of Rs. 37 crores. In certain cases, the limits were authorised for a reduced period as the financial position and/or credit requirements of the company concerned necessitated a fresh assessment. In a few other cases, certain stipulations such as utilisation of the limits for the specific purposes or distribution of dividends with the permission of the financing bank or prohibiting investments in associate companies, etc. as considered necessary on the basis of the facts of the individual cases, were made while authorising the credit limits. (Table VI.9A and VI 9B).

Committee of Direction

The Committee of Direction constituted by the Reserve Bank of India in 1975 for an on-going review of the lending norms recommended by the Study Group on Follow-up of Bank Credit (Tandon Committee) and to advise the Reserve Bank in regard to the modifications required, held three meetings to examine the issues raised by banks, industries and their representative associations, as also Chambers of Commerce and Industry, in regard to application/modification of lending

norms, as also other related matters referred to it. Some of the major issues discussed by the Committee, decisions taken and guidelines/instructions issued to banks, wherever necessary, are given below :

(i) With a view to making the lending methods (recommended by the Study Group) more flexible, banks were advised in July 1978 that they may, as a special case, consider permitting slip-back in current ratio to a limited extent for certain purposes to industrial units which have good past performance record and which have built up a sound current ratio over a period of time. However, banks should ensure that the current ratio of at least 1.33 : 1 is maintained. Further, the borrowers to whom the first method of lending recommended by the Study Group is applied should not normally be allowed to expand their activities without bringing in additional equity or raising term loans so that their financial structure is not weakened as a result of expansion.

(ii) As regards the question whether various recommendations of the Study Group on Follow-up of Bank Credit should be made applicable to small-scale units, the Committee is of the view that as over 90 per cent of the small-scale units enjoy credit limits of less than Rs. 2 lakhs and as the inventory norms recommended by the Study Group are applicable only to units enjoying credit limits of over Rs. 10 lakhs from the banking system, most of the small-scale industries (SSI) units are outside the purview of the norms. Only the larger units among them are covered by the discipline, and as they are potential medium/large industries, it is advisable to expose them gradually to better management practices.

(iii) Regarding the question whether relaxations in the norms of inventory/receivables are to be allowed to tyre manufacturing industries, the Committee feels that there was no case for a general modification in the inventory/receivables norms, as applicable to rubber products.

(iv) As regards interchangeability in the norms, the Committee is of the view that there is already an in-built interchangeability in the norms in respect of finished goods and receivables in certain industries, which have been prescribed by the Study Group itself.

Secondly, the norms have been stipulated separately in respect of individual components of inventory (*i.e.*, raw materials, stocks-in-process and finished goods), as the factors governing their needs vary and that further interchangeability will not be in line with the rationale of norms.

(v) As regards the continuance or otherwise of the relaxations in inventory/receivables norms for cotton spinning mills and fertiliser industry, the following decisions were taken.

(a) *Cotton Spinning Mills* : There was no need for continuing the relaxations as the position of the cotton spinning mills had improved.

(b) *Fertilizer Industry* : Before considering any modifications in the existing relaxations allowed to the industry, the matter might be discussed further with the Fertilizer Association of India.

(vi) In response to a representation received from the Leather Export Promotion Council, the Reserve Bank advised banks in October 1978 that though the Tandon Committee had not prescribed any norms for leather industry, banks might determine the reasonable levels in respect of inventory/receivables in this regard, keeping in view the past trends, process/lead time, trade practices, etc. Further, since most of the units were stated to be small proprietary/partnership concerns, they might not be in a position to raise equity and term loans to provide 25 per cent of the working capital gap, even on the basis of the first method of lending. In order to enable the industry to take advantage of the export market, banks were asked to permit suitable relaxations in deserving cases, subject to periodical review and also consider their request for term loans sympathetically for purchase of the requisite machinery. Banks were to ensure that the assisted units improved their financial structure by such measures as plough-back of profits.

Regulation of Credit to Industries

SUGAR INDUSTRY

In view of the difficulties faced by the sugar industry following the decontrol of

sugar, effective August 16, 1978, the Reserve Bank advised the banks in September 1978 to consider granting temporary clean advances to deserving units to a limited extent upto Rs. 25 lakhs in the case of each borrower to meet expenses necessary for off-season repairs and other essential purposes, repayable as soon as possible but not later than May 31, 1979, without prior reference to it, subject to certain conditions. The above facility of temporary financial assistance was allowed upto November 30, 1978.

Following representations that the banks were adjusting the clean loans of Rs. 25 lakhs sanctioned in terms of the above instructions for correcting the irregularity in the cash credit account, the Reserve Bank advised banks in December 1978 to ensure that these clean loans were used for the purpose for which they were intended. The banks were further advised to assist sugar mills, which were unable to meet the dues of the cane growers and to adjust the margin deficit in their cash credit accounts, by allowing working capital term loans on selective basis and subject to certain conditions. Such loans were to be secured by a charge on fixed assets and/or guarantee of State Government/directors or proprietors of the company/firm.

For financing sugar mills during the 1978-79 crushing season, the Reserve Bank advised banks in November 1978 that they might sanction credit limits on merits, without prior authorisation from the Reserve Bank, to individual sugar mills to the extent of the average of maximum outstandings under the regular limits for the last two crushing seasons, *viz.*, 1976-77 and 1977-78 (exclusive of drawings, if any, over and above the regular limits, as also limits granted on a temporary basis). In case a bank considered it necessary to sanction credit limits to any sugar mill in excess of the limit indicated above, and the total of the existing and the proposed additional limits of the borrower come within the purview of credit authorisation, the bank should release such limits only after obtaining the Reserve Bank's prior authorisation.

The above instructions were modified in February 1979, and banks were advised that they might sanction for the crushing season

1978-79, credit limits on merits to individual sugar mills to the extent of the maximum outstandings under the regular limits for the last crushing season only, *i.e.*, 1977-78 (exclusive of drawings if any, over and above the regular limits, as also the limits granted on a temporary basis) without obtaining prior authorisation from the Reserve Bank.

(b) Differential Rates of Interest Scheme

The Differential Rates of Interest (DRI) Scheme operative since 1972 is intended for the benefit of the weaker sections of the community. Under the Scheme, individuals with income not exceeding Rs. 2,000/- in rural areas and Rs. 3,000/- in urban areas, are eligible to obtain limited finance at 4 per cent rate from banks. The DRI Scheme was modified in December 1978. Banks operating the Scheme are now required to lend under the scheme minimum 1 per cent (as against $\frac{1}{2}$ % per cent earlier) of their aggregate advances as at the end of the previous year. In order to ensure that the weaker sections in the rural areas derive maximum benefits under the scheme, operating banks are required to route through their rural and semi-urban branches not less than two-thirds of their advances. To enable persons belonging to the scheduled castes and scheduled tribes to obtain their due share of the benefits under the Scheme, at least 40 per cent (as against 33 $\frac{1}{3}$ per cent earlier) of the eligible credit under the DRI Scheme is required to be given to eligible borrowers under these categories. Banks may route credit under the Scheme through cooperative societies/LAMPS organised specifically for the benefits of the tribal population in areas identified by the Government of India. A formal obligation was placed on private sector banks in December 1978 when they were advised to implement the Scheme and achieve the target of 1 per cent of their aggregate advances. Lending under the DRI Scheme by private sector banks till then was on a voluntary basis. The smaller banks having deposits of less than Rs. 25 crores are however required to lend at least $\frac{1}{2}$ per cent of the aggregate advances under the Scheme.

As at the end of December 1978, public sector banks had extended advances amount-

ing to Rs. 90.00 crores covering 16.20 lakhs accounts as against Rs. 67.37 crores covering 13.92 lakhs accounts as at the end of December 1977. The advances made by banks under the Scheme constituted 0.71 per cent of their total advances as at the end of 1978, as against the earlier requirement of 0.50 per cent. Of the total advances as at the end of December 1978, Rs. 36.78 crores or 40.9 per cent went to members of scheduled castes/scheduled tribes exceeding the present requirement of 40 per cent, as against 33 $\frac{1}{3}$ per cent stipulated earlier. The percentage of overdues to total outstanding advances under the Scheme worked out to 24.0 per cent for the public sector banks as at the end of December 1978. Outstanding advances under the Scheme rose further from Rs. 89.99 crores covering 16.20 lakhs accounts at the end of December 1978 to Rs. 103.17 crores covering 17.57 lakhs accounts by end-March 1979 (Table VI.10). The private sector banks have also initiated steps for extending credit under the Scheme and such credit extended by them aggregated Rs. 1.12 crores covering 11,115 accounts as at the end of December 1978.

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

As 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
1979*	..	..	..	..	17.6	103.17

*Provisional.

(c) Participation Certificates Scheme

There was no change in the number of eligible institutions to whom the banks are permitted to issue PCs. The total amount of certificates issued by 38 banks and outstanding as at the end of July 1979 stood at

Rs. 606 crores as against Rs. 453 crores a year ago.

In view of the growing resort by banks to PCs and borrowings in the call money market for extending credit, the Reserve Bank appointed in early April 1979 a Working Group under the Chairmanship of Shri W. S. Tambe, Executive Director, Reserve Bank, to examine, among other matters, the size and pattern of operations in the call money market and in respect of PCs and clarify their implications for monetary and credit policies; to examine the implications of any limitations on supplies of such funds from the non-banking institutions participating in call money markets and PCs arrangements and suggest alternative avenues for the productive use of such funds.

The various suggestions made by the Working Group are being examined by the Reserve Bank; however, to begin with, the Reserve Bank decided to bring PCs under the purview of SLR and CRR with a view to discouraging banks from excessive resort to this source of finance. (For details please see last para under Credit Policy).

As a result of outstanding PCs being treated as 'deposits', banks were instructed to report such deposits in the Weekly Return under 'demand and time deposits from banks' and 'other demand and time liabilities' depending on whether the PCs were issued to banks or other financial institutions. Further, the amount of PCs issued is not to be excluded from the figure of total advances as was the practice earlier. The banks purchasing the PCs should not include the amount of such certificates in the total advances but are required to show it under advances to banks, i.e., due from banks. Deposits arising from the issue of PCs have been exempted from the purview of the directive on interest rates on deposits. The maximum rate of interest on PCs continued to be 10 per cent per annum.

(d) Lead Bank Scheme

The High Power Committee (HPC) constituted in the Reserve Bank of India to monitor the overall progress of the lead bank scheme

and to issue policy guidelines for the effective functioning of the Scheme, at its meetings held in July and December 1978 considered, among others, the question of preparation of new district credit plans and annual programmes and also training programmes at district and State levels.

(i) *Preparation of new district credit plans and annual action plans.*—The existing credit plans were prepared by the lead banks at different times and they cover varying periods. It was, however, felt that there should be uniformity in the methodology adopted for preparation and implementation of the credit plans and certain guidelines were evolved in this behalf. It was, therefore, decided that the credit plans at present in operation might be terminated in December 1979 and the lead banks should formulate fresh plans for the period January 1980 to December 1982 so that these new plans would synchronize more or less with the Five Year Plan of Government. Uniformity in incorporating therein block-wise as also sector-wise and scheme-wise estimated credit requirements should be ensured. Further, the lead banks should prepare annual action plans in December each year indicating sectoral, scheme-wise and institution group-wise break-up of the total credit outlays. Lead banks should also develop their own systems of carrying out evaluation studies of the implementation of the credit plans of their lead districts periodically. The Rural Planning and Credit Cell in the Reserve Bank of India have since formulated further guidelines for the preparation of the new district credit plans for the period 1980-82 and annual action plan for 1980 so as to ensure that all lead banks prepare the new credit plans in a uniform manner, dovetailing them into the district development plans, and launch them for implementation in January 1980. These guidelines have been advised to all lead banks and State Governments. The lead banks were earlier advised regarding the preparation of annual action plans for 1979 also, in case the existing plans were not considered as realistic.

(ii) *Training Programmes.*—With a view to having a better understanding and appreciation of the objectives and implications of the lead bank scheme, the High Power

Committee had earlier decided that the National Institute of Bank Management (NIBM) should organise workshops for officials of the State Governments and commercial banks at district level as also at the State level. NIBM had accordingly arranged workshops in seven districts of Uttar Pradesh and in three districts of West Bengal. The matter was again considered by the HPC in July 1978 and it was decided that a strategy should be evolved whereby all the districts in the country could be covered by the training programme as quickly as possible, by involving the lead banks themselves in organising the workshops in their respective districts.

The NIBM/SBI have already organised State level workshops in some States and it is proposed to organise State level workshops in all the other States also, by involving the Conveners of the State level Bankers' Committees.

Extension of the areas covered under the Lead Bank Scheme.—

With a view to co-ordinating the activities of financial institutions for bringing about a more systematic and integrated development of the rural areas of the Union Territories of Delhi and Chandigarh, it was decided in August 1978 to cover these areas under the Lead Bank Scheme and the responsibility in respect of these rural areas was entrusted to the State Bank of India and Punjab National Bank, respectively.

Banks have prepared district credit plans in respect of all the 390 districts and these have been launched for implementation.

Implementation of the District Credit Plans/ District Consultative Committee meetings.—

As the presence of senior officials helps in taking decisions at the District Consultative Committee meetings, thus paving the way for effective implementation of the credit plans, lead banks and non-lead banks have been advised to depute their Regional/Division/Development Managers to attend District Consultative Committee meetings as far as practicable, particularly the meetings where half-yearly and annual review of credit plans and finalisation of annual action plan are taken up.

The attention of all lead banks was drawn to the 'Margin Money Scheme' formulated by the Government of India for financial assistance to State Governments/Union Territories to provide margin money to small scale units. In order to implement the scheme successfully for the development of the rural areas, District Consultative Committees are required to ensure effective co-ordination between development agencies and commercial banks and also discuss the aspects of the 'Margin Money Scheme' at their periodical meetings. Banks are required to provide technically trained development officials at appropriate levels, to give guidance to prospective entrepreneurs.

They have also been advised that the District Consultative Committee would be the appropriate forum to discuss the common problems (including supply of inputs, power and marketing arrangements etc.) and devise ways and means to overcome them to ensure speedy implementation of the Reserve Bank's instructions.

Sample Surveys of the Implementation of Credit Plans in the Lead Districts.—

With a view to assessing the progress made by the lead banks and other participating institutions/agencies, it was decided that random sample surveys of the districts where credit plans had been in operation for more than 2 years should be undertaken by the Economic Department of the Reserve Bank. Accordingly, one district each from 3 States, viz., Farrukhabad (U.P.), Seoni (M.P.) and Jaisalmer (Rajasthan) having different lead banks have been selected for the purpose. The survey of the implementation of the credit plans of the three districts was carried out and the relative reports are under preparation.

District Industries Centres.—

In order to give the maximum impetus to the promotion of the small scale, cottage and village industries and to maximise the employment potential, the Government of India have decided to set up district industries centres in certain districts. All the public sector banks and two private sector banks which have been entrusted with the lead

responsibility have been requested by the Government to depute their officers to function as Credit Managers in the districts chosen for setting up the district industries centres. Accordingly, the Reserve Bank has advised all the lead banks suitably in the matter.

(e) Export Credit

Measures taken relating to export finance during the year under review are outlined below :

The period of post-shipment credit for export (other than those on deferred payment basis for periods exceeding one year for which the finance is available at the concessional rate of interest) was enhanced from 128 days to 180 days effective February 1, 1979. This was effected to make exports more competitive and also to provide for the longer shipment period required for countries particularly in the Western Hemisphere. Keeping in view, the obligation of the units set up in Kandla Free Trade Zone and Santacruz Electronics Processing Zone at Bombay, to export their entire production, it was decided to extend working capital finance to such units at concessional rate of interest and also to exempt the units from production of letters of credit or firm orders for export at the time of avilment of pre-shipment credit from banks.

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

The scheme, which provides for compensating the banks extending export credit to make up partially for their losses in interest earnings, has been in operation for over 10 years. Certain amendments to the Scheme proposed by the Reserve Bank are awaiting the Government's approval. Operational difficulties regarding the audit of the interest subsidy accounts at the banks are being examined in consultation with the Government. A review of the general working of the Export Credit (Interest Subsidy) Scheme, is also proposed to be taken up by the Reserve Bank and for this purpose the views of the Indian Banks' Association have already been called for. The claims for interest subsidy amounting to Rs. 13.08 crores received from 58 eligible banks were settled during the year

under review (July 1, 1978 to June 30, 1979). Out of the above, subsidy towards pre-shipment credit accounted for Rs. 7.41 crores, and subsidy towards post-shipment credit for Rs. 5.67 crores. The total amount of subsidy disbursed since the inception of the Scheme upto June 30, 1979 aggregated Rs. 72.28 crores.

Interest subsidy at $1\frac{1}{2}$ per cent per annum from the Marketing Development Fund of the Commerce Ministry and at 3 per cent from the funds allotted by the Ministry of External Affairs is being paid to the IDBI, the United Commercial Bank and the United Bank of India, on a Special Bank Credit of Rs. 25 crores extended by them to certain financial institutions in Bangladesh for import of specified capital goods from India. The total subsidy disbursed to the three institutions during the period July 1, 1978 to June 30, 1979 amounted to Rs. 90.46 lakhs (Rs. 23.59 lakhs at $1\frac{1}{2}$ per cent and Rs. 66.87 lakhs at 3 per cent). Besides, interest subsidy amounting to Rs. 6.10 lakhs at $1\frac{1}{2}$ per cent each from the Marketing Development Fund as also 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 the Punjab National Bank, respectively.

(g) Duty Drawback Credit Scheme

The scheme introduced by the Reserve Bank in February 1976 is intended to benefit exporters who can avail of interest-free advances from banks upto 90 days against shipping bills provisionally certified by the Customs Authorities towards refund of duty. The financing banks in turn, are eligible to avail of interest-free refinance from the Reserve Bank pending final settlement of duty drawback claims to the exporters. During the period November 1, 1978 to May 31, 1979, limits aggregating Rs. 18.60 crores were sanctioned to 29 banks which availed of refinance to the extent of Rs. 13.76 crores; the amount outstanding was Rs. 3.46 crores on May 25, 1979.

The accounting procedure was revised recently to remove certain difficulties experienced by banks and exporters. As per the new

procedure which came into force from May 1979, the Customs Authorities would make payment of final duty drawback by cheques direct to the banks concerned, which in turn, would repay to the Reserve Bank the corresponding amount of refinance availed of by them under the scheme within five working days after the receipt of cheque from the Customs Authorities. The Reserve Bank together with the Ministry of Commerce are presently examining the possibility of extending the Scheme to cover exports to Bangladesh as well as those financed under IDA credit. The reasons for the fall in the utilisation of refinance facility by banks and the consequent reduction in the limits sanctioned to them by the Reserve Bank are also being looked into.

(h) Scheme for Rupee Finance to cover Import of Capital Goods

To encourage import of capital goods, the Government of India have formulated a special scheme, under which importers of capital goods can apply for term loans for rupee equivalent of the import cost, from any scheduled commercial bank and/or any national level term lending institution. During the year this facility was, as a special case, made available to State Electricity Boards for import of gas turbine generating sets. However, it has been allowed as a one time exception and current policy guidelines already in force in regard to bank finance to State Electricity Boards remain otherwise unchanged. The banks will be entitled to refinance from the Reserve Bank in respect of the above loans granted by them to State Electricity Boards.

According to the information furnished by fourteen public sector banks, the assistance sanctioned by them under the Scheme upto end-March 1979 aggregated Rs. 13.32 crores.

(i) Refinance for Import of Capital Goods

To lend support to the Scheme for Rupee Finance to cover import of capital goods, in April 1978, the Reserve Bank announced a special Refinance Scheme under which the Bank would extend refinance facility to the full extent to banks advancing loans upto 10 years covering foreign exchange cost of im-

ported capital goods. While the banks are required to charge interest on their loan at 11 per cent per annum, the refinance will be available at the Bank Rate viz., 9 per cent per annum.

(j) Sick Industrial Undertakings Cell

The Sick Units Cell created by the Reserve Bank in its Department of Banking Operations and Development has been monitoring banks' performance in identifying sick industrial units and taking remedial action, wherever necessary. The Cell serves as a reference point and tries to bring about co-ordination in the efforts of banks, financial institutions and Government in solving the problems of sick units. In order to bring about an improvement in the banks' performance in the rehabilitation of sick units, the Cell issues instructions and guidelines to banks and calls for various statements/reports from them.

Following representations that banks were reluctant to relax margin requirements in the case of weak units, the Reserve Bank advised banks in September 1978 to adopt a flexible approach in respect of margins, etc., during the nursing period to help revival of sick units and apply to the Reserve Bank in deserving cases, for grant of exemption from directives relating to margins.

Banks were further advised in December 1978 to take expeditious steps to implement the decisions of the High Power Committee presided over by the Finance Minister on the problems of sick units. The decisions of the Committee which require action on the part of banks are : (i) reviewing the functioning of special cells set up by them (banks) for sick units and strengthening of monitoring arrangements, (ii) referring to the IDBI cases of sick units in which banks themselves would not be able to provide the assistance required and preparation of package of measures by the IDBI in respect of those cases, (iii) establishing a separate cell at the top level in banks to look into the complaints of sick small-scale units and small entrepreneurs in order to tackle their problems with greater awareness and understanding, (iv) providing consultancy services

to small scale industries and (v) ensuring that the difficulties of the sick units are not compounded by charging penal rate of interest.

Banks were also advised in January 1979 to submit to the Reserve Bank every quarter a progress report together with statistical

data (including those relating to small-scale sick units as well as on units enjoying aggregate credit of less than Rs. 1 crore), on the implementation of the decisions of the High Power Committee to enable the Bank to furnish the necessary information to Government.

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 June 1978

(Rupees Crores)											
State	Engineering		Iron & Steel		Textiles		Jute		Chemicals		
	No. of units	Out-standing	No. of units	Out-standing	No. of units	Out-standing	No. of units	Out-standing	No. of units	Out-standing	
1	2	3	4	5	6	7	8	9	10	11	
West Bengal	18	74.17	5	12.51	4	6.10	29	74.09	5	10.10	
Maharashtra	23	68.29	8	11.22	26	120.31	—	—	6	13.89	
Karnataka	6	13.26	—	—	2	2.35	—	—	2	17.71	
Gujarat	5	12.85	6	7.53	24	52.83	—	—	—	—	
Tamil Nadu	9	17.24	2	3.92	9	40.33	—	—	5	67.51	
Andhra Pradesh ..	3	4.92	1	5.21	—	—	1	1.10	1	2.84	
Bihar	1	4.48	2	3.37	—	—	—	—	—	—	
Haryana	4	7.60	—	—	—	—	—	—	—	—	
Rajasthan	2	5.03	—	—	2	6.02	—	—	—	—	
Madhya Pradesh ..	3	4.54	3	4.38	3	7.55	—	—	—	—	
Orissa	2	7.07	—	—	1	8.07	—	—	—	—	
Uttar Pradesh ..	2	6.19	4	4.28	6	16.59	1	1.39	—	—	
Kerala	1	2.61	1	1.64	—	—	—	—	1	4.17	
Punjab	—	—	—	—	—	—	—	—	—	—	
Assam	—	—	—	—	—	—	—	—	—	—	
New Delhi	1	3.87	—	—	1	3.50	—	—	—	—	
Pondicherry	—	—	—	—	—	—	—	—	1	1.73	
Goa	—	—	—	—	—	—	—	—	—	—	
Total	80	232.12	32	54.06	78	263.65	31	76.58	21	117.95	

State	Cement		Rubber		Sugar		Miscellaneous		Total		
	No. of units	Out-standing	No. of units	Out-standing	No. of units	Out-standing	No. of units	Out-standing	No. of units	Out-standing	
	12	13	14	15	16	17	18	19	20	21	
West Bengal	—	—	2	9.58	1	1.16	14	41.91	78	229.62	
Maharashtra	—	—	1	5.05	—	—	4	8.85	68	227.61	
Karnataka	—	—	—	—	2	14.61	1	0.76	13	48.69	
Gujarat	—	—	—	—	—	—	3	7.30	38	80.51	
Tamil Nadu	—	—	1	6.41	6	10.81	4	8.44	36	154.66	
Andhra Pradesh ..	—	—	—	—	1	1.47	3	4.97	10	20.51	
Bihar	3	5.32	—	—	2	5.09	4	5.00	12	23.26	
Haryana	—	—	—	—	—	—	—	—	4	7.60	
Rajasthan	1	8.37	—	—	1	1.74	—	—	6	21.16	
Madhya Pradesh ..	—	—	—	—	1	1.57	—	—	10	18.04	
Orissa	—	—	—	—	—	—	—	—	3	15.14	
Uttar Pradesh ..	—	—	—	—	17	43.03	3	5.89	33	77.37	
Kerala	—	—	1	4.13	—	—	2	3.58	6	16.13	
Punjab	—	—	—	—	—	—	1	1.50	1	1.50	
Assam	—	—	—	—	—	—	1	0.70	1	0.70	
New Delhi	—	—	—	—	—	—	—	—	2	7.37	
Pondicherry	—	—	—	—	—	—	—	—	1	1.73	
Goa	—	—	—	—	—	—	3	4.48	3	4.48	
Total	4	13.69	5	25.17	31	79.48	43	93.38	325	956.08	

The High Power Committee had recommended that in a few selected centres, committees might be set up on the lines of the Ad hoc Committees of the Inter-Institutional Group in West Bengal so that there could be adequate interfacing between State Government officials and State level institutions on the one side and Reserve Bank and banks and term lending institutions on the other. It was decided to constitute new committees at all centres under the convenorship of regional heads of DBOD. Steps have accordingly been taken for the constitution of the Committees which are expected to commence their work soon.

In terms of the Reserve Bank's instructions issued to banks in November 1976, banks are submitting to the Reserve Bank quarterly statements giving brief particulars of all sick units enjoying aggregate bank credit of Rs. 1 crore and above. The statement for the quarter ended September 1978 revealed that the number of large sick units identified by banks increased to 334 involving total bank finance of Rs. 983.33 crores, as compared to 270 units involving bank finance of Rs. 773.70 crores at the end of September 1977. These exclude the sick textile mills taken over by the National Textile Corporation.

(k) Bills Rediscounting Scheme

The bills rediscounting facilities to banks continued to be extended on discretionary basis. The limits thus sanctioned amounted to Rs. 118 crores as at the end of June 1979, as against Rs. 187 crores last year. The outstandings as at the end of June 1979 at Rs. 71 crores were also lower as against Rs. 101 crores last year. The rates of rediscount on these limits ranged between 9 and 11 per cent.

The ceiling rate on bills rediscounted by the banks with other commercial banks as well as certain approved financial institutions remained unchanged at 10 per cent per annum.

QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION :

Sectoral Deployment of Credit

Provisional data on sectoral deployment of commercial bank credit as at the end of June

1979 (Table VI. 12), shows that the share of advances to priority sectors, *i.e.*, agriculture, small-scale industries and other priority sectors in total gross credit outstanding registered a further increase from 27.2 per cent at the end of June 1978 to 29.3 per cent by end-June 1979. As against this, the proportion of advances for public food procurement operations in total gross credit outstanding declined marginally from 15.8 per cent to 15.5 per cent. In the non-food sector, the share of both industry (medium and large) and of wholesale trade (other than food procurement) in total gross bank credit outstanding also declined, respectively, from 39.2 per cent and 8.9 per cent in June 1978 to 37.7 per cent and 8.3 per cent in June 1979; at the end of March 1978, advances to large and medium industries and to wholesale trade (other than food procurement) accounted for as much as 60.6 per cent and 14.2 per cent, respectively, of total outstanding advances of scheduled commercial banks (Table VI. 13). Over the year 1978-79 (July '78 to June '79), advances to priority sectors showed a larger increase of Rs. 1,343 crores as compared to an increase of Rs. 848 crores in the preceding year, their share in total incremental bank credit rising from 36.0 per cent in 1977-78 to 39.7 per cent in 1978-79. In the non-food sector, advances to industry (medium and large) showed a larger increase over the year of Rs. 1,042 crores as against an increase of Rs. 877 crores last year but their share in total incremental credit was lower at 30.8 per cent as against 37.3 per cent in the preceding year. Advances to wholesale trade (other than food procurement) increased by Rs. 188 crores over the year, as against an increase of Rs. 371 crores in the preceding year, their share in total incremental credit registering a sizeable decline from 15.8 per cent in 1977-78 to 5.6 per cent in 1978-79.

Industry-wise Deployment of Credit

Total credit to industry (large, medium and small-scale) increased from Rs. 6,832 crores at the end of June 1977 to Rs. 8,005 crores by end-June 1978 and further to Rs. 9,543 crores by end-June 1979. The increase in credit to industry was thus higher at Rs. 1,538 crores in 1978-79 as against Rs. 1,173 crores in 1977-78. Of the total increase over the year of Rs. 1,538

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

					(Rupees. Crores)			
Item					June 1978	Variation over the year	June 1979	Variation over the year
1					2	3	4	5
I. Public Food Procurement Credit					2,525 (15.8)	- 11 (-0.5)	2,996 (15.5)	+ 471 (13.9)
II. (a) Priority Sectors					4,334 (27.2)	+ 848 (36.0)	5,677 (29.3)	+1,343 (39.7)
(i) Agriculture					1,726 (10.8)	+ 345 (14.7)	2,288 (11.8)	+ 562 (16.6)
(ii) Small-Scale Industries					1,756 (11.0)	+ 296 (12.6)	2,252 (11.6)	+ 496 (14.7)
(iii) Other Priority Sectors					852 (5.3)	+ 207 (8.8)	1,137 (5.9)	+ 285 (8.4)
(b) Industry (medium and large)					6,249 (39.2)	+ 877 (37.3)	7,291 (37.7)	+1,042 (30.8)
(c) Wholesale Trade (other than food procurement)					1,424 (8.9)	+ 371 (15.8)	1,612 (8.3)	+ 188 (5.6)
(d) Other Sectors					1,428 (8.9)	+ 268 (11.4)	1,767 (9.1)	+ 339 (10.0)
III. Non-food Gross Bank Credit (a+b+c+d)					13,435 (84.2)	+2,364 (10.0.5)	16,347 (84.5)	+2,912 (86.1)
Export credit (included under item III)					1,142 (7.2)	+ 13 (0.6)	1,449 (7.5)	+ 307 (9.1)
IV. Gross Bank Credit (I+III)					15,960 (100.0)	+2,353 (100.0)	19,343 (100.0)	+3,383 (100.0)

Note : (1) Data for June 1979 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.

crores, engineering accounted for Rs. 477 crores or 31 per cent, and chemicals, dyes, pharmaceuticals, etc., of Rs. 159 crores or 10 per cent (Table VI.14). In the preceding year also, of the increase of Rs. 1,173 crores in total bank credit to industry, engineering had accounted for Rs. 264 crores or 23 per cent and chemicals, dyes, pharmaceuticals of Rs. 142 crores or 12 per cent. Outstanding credit to coal industry declined over the year by Rs. 11

crores and that to sugar and tobacco and tobacco products marginally by Rs. 1 crore each, as against increases in such credit of Rs. 12 crores, Rs. 124 crores and Rs. 19 crores, respectively, in the preceding year. Outstanding credit to iron and steel and jute textiles in contrast increased by Rs. 75 crores and Rs. 25 crores over the year 1978-79, as against declines of Rs. 45 crores and Rs. 5 crores in 1977-78.

Table VI.13 : Sectoral Classification of Scheduled Commercial Banks' Advances

(Rupees Crores)

Sector	Outstanding as on											
	March 31, 1968		June 29, 1973		June 28, 1974		June 27, 1975		June 25, 1976		June 24, 1977	
	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total	Amount	Percent- age to total
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Industry	2068	67.5	3490	55.1	4555	56.9	5095	56.5	5713	48.9	6241	46.4
(a) Large and Medium Industries	1857	60.6	2731	43.1	3550	44.4	3977	44.1	4462	38.2	4779	35.5
(b) Small-Scale Industries	211	6.9	759	12.0	1005	12.5	1118	12.4	1251	10.7	1462	10.9
II. Agriculture and Allied Activities	67	2.2	572	9.0	709	8.9	969	10.8	1214	10.4	1400	10.4
Of which:												
(a) Direct Finance	..	..	301	4.8	404	5.1	522	5.8	738	6.3	949	7.1
(b) Plantations	58	1.9	109	1.7	133	1.7	136	1.5	151	1.3	150	1.1
III. Internal Trade	588	19.2	1176	18.6	1396	17.5	1500	16.7	3115	26.7	3828	28.4
(a) Wholesale Trade	541	17.7	1006	15.9	1180	14.8	1266	14.1	2822	24.2	3485	25.9
Of which:												
Food Procurement	109	3.5	468	7.4	523	6.5	795	8.8	2192	18.8	2536	18.8
(b) Retail Trade	47	1.5	170	2.7	216	2.7	234	2.6	293	2.5	343	2.5
IV. Services	..	..	362	5.7	461	5.7	539	6.0	664	5.7	831	6.2
V. Personal Loans	..	..	204	3.2	289	3.6	319	3.5	356	3.0	401	3.0
VI. All Others	341*	11.1	529	8.4	589	7.4	589	6.5	616	5.3	756	5.6
VII. TOTAL	3064	100.0	6333	100.0	7999	100.0	9011	100.0	11678	100.0	13457	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 29, 1973, June 28, 1974, June 27, 1975, June 25, 1976 and June 24, 1977 are based on 'Basic Statistical Returns'.

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

(Rupees Crores)

Industry	June 1978 (Outstandings)	Variation over the previous year	June 1979@ (Outstandings)	Variation over the previous year
1	2	3	4	5
1. Coal	80 (0.5)	+ 12	69 (0.4)	— 11
2. Iron and Steel	425 (2.7)	— 45	500 (2.6)	+ 75
3. Other Metals and Metal Products	256 (1.6)	+ 53	319 (1.6)	+ 63
4. All Engineering	2057 (12.9)	+ 264	2534 (13.1)	+ 477
5. Electricity (Generation and Trans- mission)	79 (0.5)	— 6	74 (0.4)	— 5
6. Cotton Textiles	915 (5.7)	+ 89	959 (5.0)	+ 44
7. Jute Textiles	107 (0.7)	— 5	132 (0.7)	+ 25
8. Other Textiles	414 (2.6)	+ 102	492 (2.5)	+ 78
9. Sugar	401 (2.5)	+ 124	400 (2.1)	— 1
10. Tea	115 (0.7)	+ 15	166 (0.9)	+ 51
11. Vegetable Oils (Incl. Vanaspati)	104 (0.7)	+ 19	150 (0.8)	+ 46
12. Tobacco and Tobacco Products	111 (0.7)	+ 19	110 (0.6)	— 1
13. Paper and Paper Products	169 (1.1)	+ 32	212 (1.1)	+ 43
14. Rubber and Rubber Products	151 (0.9)	+ 7	188 (1.0)	+ 37
15. Chemicals, Dyes, Paints, Drugs and Pharmaceuticals	875 (5.5)	+ 142	1034 (5.3)	+ 159
Of which : Fertiliser	157 (1.0)	—	197 (1.0)	+ 40
16. Cement	45 (0.3)	—	62 (0.3)	+ 17
17. Leather and Leather Products	121 (0.8)	+ 41	178 (0.9)	+ 57
18. Construction	81 (0.5)	+ 10	105 (0.5)	+ 24
19. Other Industries	1499 (9.4)	+ 300	1859 (9.6)	+ 360
TOTAL CREDIT TO INDUSTRY	8005 (50.2)	+1173	9543 (49.3)	+1538
Total Gross Bank Credit	15960 (100.0)	+2353	19343 (100.0)	+3383

@Provisional.

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

Source : Credit Planning and Banking Development Cell, RBI.

Table VI. 15 : Advances of Scheduled Commercial Banks to Major Industries

(Percentage to Total Bank Credit)

Industry 1	As on					
	March 31, 1968	June 29, 1973	June 28, 1974	June 27, 1975	June 25, 1976	June 24, 1977
	2	3	4	5	6	7
1. Basic Metals & Metal Products	N.A.	6.6	6.5	7.2	6.3	5.7
<i>Of which :</i>						
Iron & Steel	3.7	3.7	3.7	4.4	4.0	3.5
2. Beverage and Tobacco	N.A.	1.2	1.3	1.2	0.8	1.0
3. Cement	1.3	0.5	0.5	0.4	0.5	0.4
4. Chemicals & Chemical Products	6.0	5.1	5.6	5.8	5.7	5.3
<i>Of which :</i>						
(a) Heavy Industrial Chemicals	N.A.	0.7	0.7	0.6	0.5	0.6
(b) Drugs & Pharmaceuticals	N.A.	1.3	1.3	1.3	1.1	1.0
(c) Fertilisers	N.A.	0.7	0.9	1.3	1.5	1.2
5. Coal	0.8	0.4	0.6	0.4	0.4	0.4
6. Edible Oils & Vanaspati	1.4	1.2	1.2	1.0	0.8	0.8
7. Engineering	15.7	9.9	10.8	11.2	10.6	8.8
(a) Heavy Engineering	8.9	6.8	7.3	7.8	7.1	5.5
(b) Light Engineering	6.8	3.1	3.5	3.4	3.5	3.3
8. Leather and Leather Products	N.A.	1.0	0.8	0.7	0.7	0.7
9. Manufacture of Basic Minerals	N.A.	0.5	1.0	0.8	0.4	0.3
10. Paper, Paper Products and Printing	1.6	1.8	1.7	1.7	1.6	1.5
11. Rice Mills, Flour and Dal Mills	N.A.	0.5	0.6	0.5	0.6	0.4
12. Rubber and Rubber Products	0.7	0.6	0.7	0.9	1.0	1.1
13. Sugar	5.3	2.6	2.1	2.6	1.7	1.9
14. Textiles	15.5	12.0	12.2	11.0	9.8	9.8
<i>Of which :</i>						
(a) Cotton Textiles	10.3	7.3	7.3	6.5	6.1	5.9
(b) Jute Textiles	3.1	1.5	1.7	1.3	0.7	0.9
15. Vehicles, Vehicle Parts and Transport Equip- ments	N.A.	2.5	2.7	2.9	2.3	2.1
16. Other Industries	17.6	8.7	8.6	8.2	5.7	6.2
TOTAL CREDIT TO INDUSTRY	67.5	55.1	56.9	56.5	48.9	46.4
Total Bank Credit	100.0	100.0	100.0	100.0	100.0	100.0

N.A. : Not available.

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

Data for June 29, 1973, June 28, 1974, June 27, 1975, June 25, 1976 and June 24, 1977 are based on 'Basic Statistical Returns'.

Over the year 1978-79, the percentage share of industry in total gross bank credit declined from 50.2 per cent to 49.3 per cent. The share of cotton textiles in total gross bank credit declined from 5.7 per cent to 5.0 per cent and sugar from 2.5 per cent to 2.1 per cent. The share of engineering industry in contrast showed a marginal increase from 12.9 per cent to 13.1 per cent. The percentage share of each industry in total bank credit during the preceding five years and in March 1968 is presented in Table VI.15.

Table VI.16 shows inventories as percentage of sales and bank borrowings as percentage of inventories in respect of medium and large

public limited companies in the private sector. It will be seen that the ratio of inventories to sales which ranged between 30 and 33 per cent during 1970-71 to 1975-76, declined to 26.3 per cent by 1977-78. The percentage of short-term bank borrowings to total inventories and total bank borrowings to total inventories showed a steady decline between 1970-71 and 1974-75, but have tended to rise thereafter; the ratio worked out to 50.3 per cent and 55.1 per cent, respectively, in 1977-78 in respect of 415 large companies, as against 47.2 per cent and 51.1 per cent in respect of those companies in 1975-76, and 41.2 per cent and 44.1 per cent in respect of 385 large companies in 1974-75.

Table VI.16 : Inventories—Sales and Bank Borrowings—Inventories Ratios
(Public Limited Companies in the Private Sector)

			Total inven- tories as percentage of sales@	Inventories in the form of raw materials, components, etc. as percentage of total inventories	Short-term bank borrow- ings as percentage of total inventories	Total bank borrowings as percentage of total inventories
	•	1	2	3	4	5
1650 Medium and Large Public Limited 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 Limited 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
415 Companies	1975-76	..	30.4	31.9	47.2	51.1
	1976-77	..	27.2	31.6	50.2	54.9
	1977-78	..	26.3	32.2	50.3	55.1

@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.

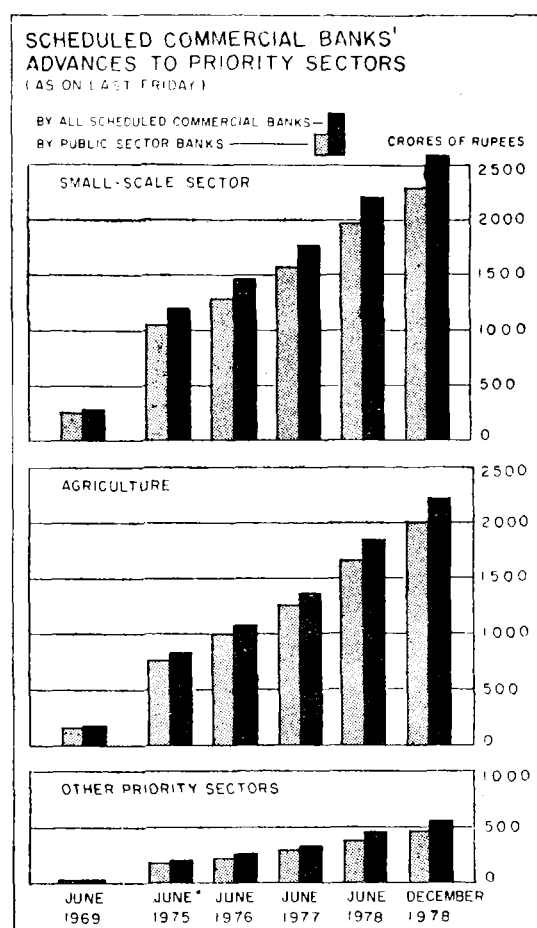
Source : Reserve Bank of India Studies on Company Finances.

Advances to Priority Sectors

Bank credit to priority sectors, viz., agriculture, small-scale sector and other priority sectors (excluding exports) which had increased from only Rs. 482 crores in June 1969 to Rs. 4,137 crores by December 1977 rose further to Rs. 5,405 crores by December 1978—an increase over the year of 30.6 per cent. Of the total advances to the priority sectors of Rs. 5,405 crores as at the end of December 1978, agriculture accounted for Rs. 2,236 crores (41.4 per cent), small-scale sector Rs. 2,598 crores (48.1 per cent) and other priority sectors Rs. 571 crores (10.6 per cent). A year ago, i.e., at the end of December 1977, the share of agriculture, small-scale sector and other priority sectors was Rs. 1,651 crores (39.9 per cent), Rs. 2,067 crores (50.0 per cent) and Rs. 419 crores (10.1 per cent) in the total credit of Rs. 4,137 crores to the priority sectors. Advances to the priority sectors constituted 30.4 per cent of total bank credit as at the end of December 1978, as against 27.9 per cent a year ago, and only 13.4 per cent in June 1969. The percentage of advances to priority sectors to total bank credit excluding food advances worked out to 35.0 per cent as at the end of December 1978 as against 33.1 per cent a year ago and only 14.3 per cent in June 1969 (Table VI. 17).

Small-Scale Sector: Advances to the small-scale sector rose from Rs. 2,067 crores as at the end of December 1977 to Rs. 2,598 crores by end-December 1978—a rise of Rs. 531 crores or 25.7 per cent over the year. Component-wise, advances to small-scale industries registered an increase of Rs. 450 crores or 26.4 per cent, advances to road and water transport operators by Rs. 76 crores or 22.4 per cent and advances for setting up of industrial estates by Rs. 5 crores or 22.7 per cent. Of the total advances of Rs. 2,598 crores to the small-scale sector at the end of December 1978, advances amounting to Rs. 2,156 crores or 83.0 per cent were in respect of small-scale industries, Rs. 415 crores or 16.0 per cent for road and water transport operators, and only Rs. 27 crores or 1.0 per cent were for setting up of industrial estates.

Credit to small-scale industries as a percentage to total bank credit increased from 11.5



per cent at the end of December 1977 to 12.1 per cent by end-December 1978 and as a percentage to total bank credit excluding food advances from 13.7 per cent to 14.0 per cent.

Other Priority Sectors : Advances to other priority sectors increased from Rs. 419 crores in end-December 1977 to Rs. 571 crores by end-December 1978 i.e., by Rs. 152 crores or 36.3 per cent. In this group, advances to retail trade and small business increased from Rs. 321 crores to Rs. 440 crores and professional and self-employed persons from Rs. 91 crores to Rs. 123 crores.

Exports : Bank credit for exports increased from Rs. 270 crores in June 1969 to Rs. 1,166 crores by December 1977 and further to Rs. 1,239 crores by December 1978. As at the end of December 1978, the share of export credit in total bank credit worked out to 7.0 per cent as against 7.9

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

Sector	As on the last Friday of	(No. of Accounts in thousands) (Amount in Rupees Crores)			
		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
	Dec. 1977	5182	1519	5869	1651
	Dec. 1978	6242	2009	7001	2236
<i>Of which</i>					
(i) Direct Finance.. ..	June 1969	160	40	257	54
	Dec. 1977	4562	1151	5226	1260
	Dec. 1978	5441	1525	6073	1665
(ii) Indirect Finance	June 1969	5	122	11	134
	Dec. 1977	620	368	643	391
	Dec. 1978	801	484	928	571
2. Small-scale Sector@	June 1969	53	257	60	294
	Dec. 1977	641	1829	672	2067
	Dec. 1978	752	2286	793	2598
<i>Of which:</i>					
(i) Road & Water Transport Operators@	June 1969	2	6	3	8
	Dec. 1977	181	289	196	339
	Dec. 1978	217	354	235	415
(ii) Small-scale Industries@	June 1969	51	251	57	286
	Dec. 1977	460	1520	476	1706
	Dec. 1978	535	1908	558	2156
(iii) Setting up of Industrial Estates	June 1969	Neg.	Neg.	Neg.	Neg.
	Dec. 1977	Neg.	20	Neg.	22
	Dec. 1978	Neg.	24	Neg.	27
3. Other Priority Sectors	June 1969	42	22	N.A.	N.A.
	Dec. 1977	1573	364	1672	419
	Dec. 1978	1862	488	2024	571
<i>Of which:</i>					
(i) Retail Trade and Small Business	June 1969	33	19	N.A.	N.A.
	Dec. 1977	999	277	1071	321
	Dec. 1978	1210	375	1332	440
(ii) Professional and Self-employed persons	June 1969	8	2	N.A.	N.A.
	Dec. 1977	542	81	567	91
	Dec. 1978	617	106	652	123
(iii) Education	June 1969	1	1	N.A.	N.A.
	Dec. 1977	32	6	34	7
	Dec. 1978	35	7	40	8
Total Priority Sector Advances (1+2+3)	June 1969	260	441	328	482
	Dec. 1977	7396	3712	8213	4137
	Dec. 1978	8856	4783	9818	5405
4. Exports	June 1969	—	204	—	270
	Dec. 1977	—	967	—	1166
	Dec. 1978	—	1144	—	1239
Total Bank Credit	June 1969		3016		3599
	Dec. 1977		12632		14850
	Dec. 1978		15075		17808
Total Bank Credit Excluding Food Advances	June 1969		2783		3366
	Dec. 1977		10482		12494
	Dec. 1978		12949		15424
Percentage of Priority Sector Advances to Total Bank Credit	June 1969		14.6		13.4
	Dec. 1977		29.4		27.9
	Dec. 1978		31.7		30.4
Percentage of Priority Sector Advances to Total Bank Credit Excluding Food Advances	June 1969		15.9		14.3
	Dec. 1977		35.4		33.1
	Dec. 1978		36.9		35.0

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

Note : Figures for December 1978 are provisional.

Neg. = Negligible

N.A. = Not available.

per cent in December 1977 and 7.5 per cent in June 1969.

Regional and Rural/Urban Pattern of Credit Deployment

Under the target laid down by the Government of India, public sector banks were required to achieve by March 1979 a credit-deposit ratio of at least 60 per cent in respect of their rural and semi-urban branches separately. At the end of June 1978, for the country as a whole, the credit-deposit ratios for the rural and semi-urban offices of scheduled commercial banks were 52.5 and 47.4, respectively. Excepting the Southern Region where the ratio for rural offices was 76.3 and for semi-urban offices was 59.7, it was appreciably lower than 60 per cent in all the remaining regions—the ratio for rural and semi-urban offices, respectively, was 37.2 and 47.4 in the Northern Region, 29.6 and 34.5 in the North-Eastern Region, 52.1 and 34.1 in the Eastern Region, 52.0 for both in the Central Region and 41.0 and 42.1 in the Western Region. Even within each Region, the ratio varied sharply.

Data on frequency distribution of districts based on credit-deposit ratios for rural and semi-urban bank offices for June 1978 show that the rural bank offices had attained credit-deposit ratio of 60 per cent and above in 148 or 38 per cent out of 388 districts while in another 37 districts, the ratio was between 50 and 60 per cent. At the other end, in 72 districts the ratio was upto 20 per cent only. Semi-urban offices, attained 60 per cent and above ratio in 113 out of the 346 districts, *i.e.* in one-third of the districts; the ratio was upto 20 per cent in 40 districts.

Data on State-wise frequency distribution of districts based on credit-deposit ratios as at the end of June 1978 show that out of 148 districts in which rural bank offices achieved ratio of 60 per cent and over, 19 districts were each from Madhya Pradesh and Andhra Pradesh, 18 from Uttar Pradesh, 16 from Rajasthan, 13 from Karnataka and 11 each from Tamil Nadu and Maharashtra. Of the 113 districts in which semi-urban bank offices reached credit-deposit ratio of 60 per cent and above, 17 districts were from Andhra

Pradesh, 13 each from Madhya Pradesh and Uttar Pradesh, 12 each from Bihar and Karnataka, 10 from Rajasthan, 9 from Tamil Nadu and 8 from Maharashtra.

Distribution of Credit According to Interest Range

The latest available data on classification of bank credit according to interest range relate to June 1977 and these are reproduced in Table VI.18.

It will be seen from the Table that the distribution of credit according to interest rates did not show any material change between June 1976 and June 1977; credit given at interest rates of 12 per cent and below increased from 27.2 per cent of the total to 29.4 per cent, reflecting presumably the increase in food credit and in priority sector lending, while credit at interest rates above 12 per cent and upto 15 per cent declined from 35.6 per cent to 34.5 per cent and the credit at rates above 15 per cent from 37.2 per cent to 36.1 per cent. A substantial part, *i.e.*, 42.6 per cent (as against 44.8 per cent in June 1976) was at interest rates ranging from 14 to 16 per cent. In view of the downward adjustment effected in the lending rates of scheduled commercial banks from March 1978, the proportion of credit provided at higher rates is likely to show a further decline when data relating to June 1978 become available.

GEOGRAPHICAL AND FUNCTIONAL COVERAGE OF BANKS

Branch Expansion

The policy of systematic branch expansion by commercial banks designed to achieve a progressive reduction in regional imbalances branch banking was continued during 1978-79. As indicated in the last year's Report, during the year 1978, while special emphasis was laid on the expansion of banking facilities in the rural and semi-urban areas of the deficit districts in the country, banks were also advised that in order to enable them to consolidate their position, there would not be too large an expansion during that year and that the issue of licences by the Reserve Bank would be limited.

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

(Amount in Rupees Crores)

Interest Range	As on the last Friday of							
	June 1974		June 1975		June 1976		June 1977	
	No. of Accounts	Out- standing	No. of Accounts	Out- standing	No. of Accounts	Out- standing	No. of Accounts	Out- standing
1.	2.	3.	4.	5.	6.	7.	8.	9.
6 per cent and less ..	19,235 (4.2)	141.5 (2.4)	23,673 (4.8)	147.6 (2.2)	29,512 (5.2)	173.6 (2.2)	34,844 (5.3)	213.5 (2.3)
Above 6 per cent and upto 8 per cent	34,588 (7.6)	546.2 (9.5)	5,816 (1.2)	113.1 (1.7)	4,555 (0.8)	69.0 (0.8)	4,634 (0.7)	97.2 (1.0)
Above 8 per cent and upto 9 per cent	22,588 (5.0)	368.3 (6.4)						
Above 9 per cent and upto 10 per cent	43,437 (9.5)	228.5 (4.0)	30,147 (6.1)	121.7 (1.9)	30,343 (5.4)	133.7 (1.7)	35,486 (5.4)	150.3 (1.6)
Above 10 per cent and upto 11 per cent	98,860 (21.6)	1500.2 (26.0)	24,908 (5.0)	110.4 (1.7)	27,602 (4.9)	118.2 (1.5)	39,534 (6.1)	184.3 (2.0)
Above 11 per cent and upto 12 per cent	72,637 (15.9)	1032.2 (17.9)	49,402 (9.9)	769.9 (11.7)	61,322 (10.9)	1684.4 (21.0)	76,046 (11.7)	2095.6 (22.5)
Above 12 per cent and upto 13 per cent	155,105 (34.0)	1875.2 (32.5)	50,519 (10.2)	322.5 (4.9)	58,883 (10.4)	320.2 (4.0)	72,516 (11.1)	378.0 (4.1)
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)	79,240 (12.1)	736.6 (7.9)
Above 14 per cent and upto 15 per cent			64,935 (13.1)	1700.0 (25.5)	76,991 (13.6)	1942.1 (24.3)	91,649 (14.1)	2096.2 (22.5)
Above 15 per cent and upto 16 per cent	10,252 (2.2)	74.6 (1.3)	65,624 (13.2)	1465.8 (22.2)	68,479 (12.1)	1636.6 (20.5)	68,139 (10.4)	1869.7 (20.1)
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)	127,374 (19.5)	1307.5 (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)	16,823 (2.6)	129.4 (1.4)
Above 18 per cent			13,102 (2.6)	123.8 (1.9)	8,013 (1.4)	67.3 (0.8)	6,192 (1.0)	55.0 (0.6)
Total	456,702 (100.0)	5766.7 (100.0)	496,408 (100.0)	6580.4 (100.0)	564,656 (100.0)	8001.9 (100.0)	652,477 (100.0)	9313.3 (100.0)

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

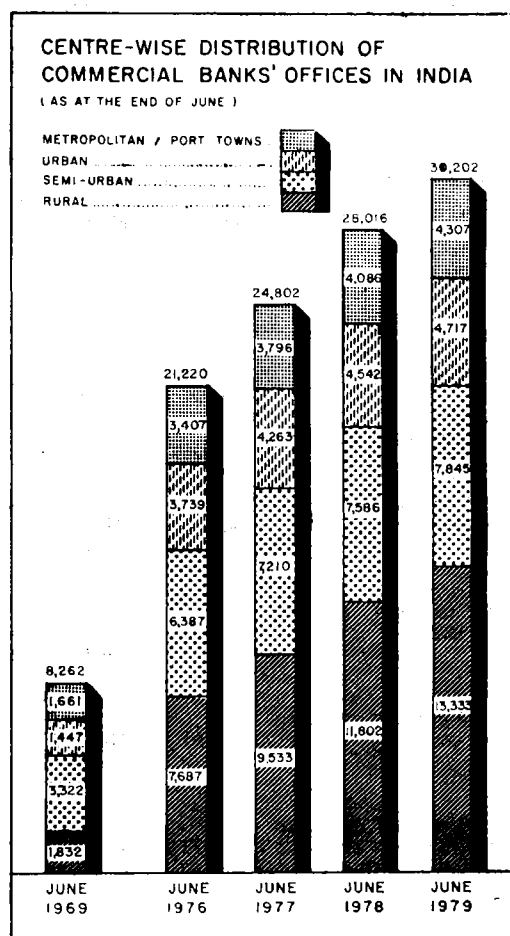
Note: Figures in brackets indicate percentages to total.

Source: Basic Statistical Returns.

Keeping in view the need for rectifying the deficiencies in branch expansion that continue to persist in some areas, particularly in the context of the added emphasis given to rural development, dispersal of industries and development of small-scale industries in the sixth five year plan (1978-79 to 1982-83) and in the light of the recommendations made by the James Raj Committee, the Dantwala Committee and the Kamath Working Group, a comprehensive branch licensing policy for the years 1979-81 was formulated in August 1978 in consultation with the Government of India and the broad outlines thereof were communicated to all Indian commercial banks in September 1978. The new policy, inter alia, provided for the opening of 6,500 additional bank offices in the rural and semi-urban areas of the deficit districts in the country (*viz.*, districts where the average population per rural/semi-urban offices in relation to the population of such areas is higher than the national average of 20,000) during the three years *viz.* 1979-81. For this purpose, district-wise plans of expansion are being drawn up by the Reserve Bank in consultation with the State Governments and the concerned banks. The allotment of centres in the various States/Union Territories has since been taken up and upto June 30, 1979, 1488 rural/semi-urban centres have been allotted to various banks for opening their offices during the three years covered by the new policy.

A time bound programme has also been drawn up to ensure that all unbanked Community Development Block headquarters in the country are provided with a commercial bank office each, latest by the end of June 1979.

During the year 1978-79 (July-June), 2191 offices were opened by commercial banks as against 3,222 offices opened in the previous year. The thrust into unbanked areas continued with 1,478 offices (or 67.5 per cent of the total new offices) opened in such areas. A bulk of these offices were opened in the backward states of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal. During 1977-78, 2,249 offices opened in unbanked areas formed 69.8 per cent of total new offices. The number of offices opened in rural areas during the year 1978-79,



viz. 1,536, formed 70 per cent of the total offices opened during the year, as against 52 per cent in 1976-77 and 71 per cent 1977-78.

The number of commercial bank offices in the country increased from 8,321 on the eve of nationalisation to 30,202 by end-June 1979 (Table VI.20). Of the 21,881 offices opened from July 19, 1969 to end-June 1979, 11,476 offices (52.4 per cent) were opened in unbanked centres. The average population per bank office declined from 65,000 as on the date of nationalisation to 18,000 as at the end of June 1979.

RURAL PLANNING AND CREDIT CELL

With a view to ensuring the proper implementation of multi-agency approach to credit in the rural areas now accepted as a matter of policy, a new Cell called 'Rural Planning and Credit Cell' has been set up in the Reserve

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- centage 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
1978-79	2186	1531	70.0

@Adjusted for offices closed.

Bank of India. The Cell which began functioning from January 1979 has been entrusted with the work relating to Regional Rural Banks, Credit Plans at district and block levels and Agricultural Credit and Intensive Development Programme, which was hitherto being handled by DBOD and ACD.

Agricultural Credit Intensive Development (ACID) Programme

During the year under review, field studies were completed in 9 more districts, raising the number of districts for which such studies were conducted to 32 out of 41 districts selected under the ACID Programme. Credit and action programmes were formulated for 7 districts; the number of districts where the formulation of such programmes was completed is thus 25. Besides, as directed by the Sub-Committee of the Agricultural Credit Board for ACID scheme, in-depth studies were conducted in each of those 18 districts where camps were held till April 1978, to analyse the reasons for overdues, poor coverage of the rural population by co-operatives, underutilisation of credit limits sanctioned by the Reserve Bank, slow progress in reorganisation of pri-

mary agricultural credit societies and time-bound supplementary credit, and action programmes for strengthening of the co-operative credit structure in these districts were drawn up. Out of these 18 districts, supplementary action programmes were issued for 16 districts.

One of the major achievements of the ACID scheme has been the bringing about of a functional co-ordination between various agencies concerned with the formulation and implementation of development schemes and the credit institutions operating in the district. The Scheme has recorded good progress in some districts in areas such as reorganisation of PACS, enrolment of new members and flow of credit for financing agriculture and allied activities etc., for instance :

(i) During 1977-78 (April-March), reorganisation was completed in 6 more districts, thus raising the total number of districts where the reorganisation programme was completed to 24.

(ii) The number of paid secretaries increased from 7,248 on March 31, 1977 to 7,967 by March 31, 1978. The paid secretaries were in position in most of the societies in 22 districts.

(iii) The coverage of PACS increased especially with reference to the small and marginal farmers. In 37 out of 41 selected districts, the total membership of the PACS increased by 6.56 lakhs. In 28 selected districts where the break-up of membership of societies into small/marginal farmers, other farmers and rural artisans was available, out of the total increase of 5.21 lakhs in the membership of the societies, 68.1 per cent or 3.54 lakhs was accounted for by members belonging to the weaker sections.

(iv) At the central co-operative banks' level, restrictive loaning policies and procedures, hitherto impeding the flow of credit, were streamlined to ensure adequate and timely financing and better end-use of credit. The benefit of increased lendings had accrued more to the small and marginal farmers.

Overdues of central banks, however, continued to pose a major problem in the

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

	No. of offices as on														
	19-7-1969					30-6-1978					30-6-1979				
	Rural	Semi-Urban	Urban	Metro-politan/ Port Town	Total	Rural	Semi-Urban	Urban	Metro-politan/ Port Town	Total	Rural	Semi-Urban	Urban	Metro-politan/ Port Town	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
State Bank of India ..	462 (29.4)	796 (50.7)	163 (10.4)	150 (9.5)	1571 (100.0)	2179 (45.3)	1479 (30.7)	647 (13.4)	508 (10.6)	4813 (100.0)	2330 (46.1)	1528 (30.2)	661 (13.1)	533 (10.6)	5052 (100.0)
Associate Banks of State Bank of India	358 (40.0)	375 (42.0)	86 (9.6)	75 (8.4)	894 (100.0)	933 (42.6)	735 (33.5)	296 (13.5)	228 (10.4)	2192 (100.0)	1024 (43.9)	755 (32.3)	315 (13.5)	241 (10.3)	2335 (100.0)
14 Nationalised Banks ..	703 (16.9)	1465 (35.1)	928 (22.3)	1072 (25.7)	4168 (100.0)	5294 (38.5)	3531 (25.7)	2516 (18.3)	2404 (17.5)	13745 (100.0)	5767 (39.7)	3647 (25.1)	2609 (18.0)	2510 (17.2)	14533 (100.0)
Regional Rural Banks ..	—	—	—	—	—	1275 (90.7)	110 (7.9)	20 (1.4)	—	1405 (100.0)	1813 (92.2)	131 (6.7)	21 (1.1)	—	1965 (100.0)
Other Commercial Banks	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1688 (100.0)	2121 (36.2)	1731 (29.6)	1063 (18.1)	946 (16.1)	5861 (100.0)	2399 (38.0)	1784 (28.2)	1111 (17.6)	1023 (16.2)	6317 (100.0)
Total	1860 (22.3)	3344 (40.2)	1456 (17.5)	1661 (20.0)	8321 (100.0)	11802 (42.1)	7586 (27.1)	4542 (16.2)	4086 (14.6)	28016 (100.0)	13333 (44.1)	7845 (26.0)	4717 (15.6)	4307 (14.3)	30202 (100.0)

Notes : 1. 5 offices were closed during the period July 1978 to June 1979.

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.

dispensation of credit by them. As on June 30, 1978, 16 central banks had overdues exceeding 50 per cent of the demand and of these, overdues of 7 central banks were above 60 per cent. Consequently, the ability of these central banks to provide credit has been severely restricted even for short-term agricultural purposes.

Since the introduction of the ACID scheme, there have been certain developments requiring a review of the scheme. The major developments are the introduction of the Integrated Rural Development Programme in 2,000 blocks with coverage of 300 additional blocks every year during the current Plan period and the establishment of District Industrial Centres in more than 220 districts. The lead banks had also been advised to terminate their existing credit plans by December 1979 and formulate fresh District Credit Plans (DCPs) for their lead districts for the period January 1980—December 1982 and Annual Action Plan by December for each year. The DCP would be a comprehensive credit plan for the district and would indicate total credit outlays sector-wise, block-wise, scheme-wise and institution-wise for technically feasible and economically viable schemes for financing production and investments by banks. In the context of these developments, it has been decided to effectively integrate the ACID Programme with the DCP from the year 1980 onwards.

Regional Rural Banks (RRBs)

Between July 1978 and June 1979, the Central Government have set up 8 more RRBs, bringing the total number of RRBs to 56 in 17 States. Table below shows the State-wise break-up of the RRBs together with the number of branches and districts covered.

On June 30, 1979, the total deposits with RRBs amounted to Rs. 98.26 crores and their total advances to Rs. 173.06 crores as against Rs. 45.26 crores and Rs. 65.97 crores, respectively, at the end of June 1978. Of the total advances of Rs. 173.06 crores, those granted to small/marginal farmers, landless labourers and rural artisans amounted to Rs. 162.22 crores.

State	No. of RRBs	No. of branches*	No. of districts
1. Andhra Pradesh ..	3	240	7
2. Assam	1	34	3
3. Bihar	10	266	17
4. Gujarat	2	9	2
5. Haryana	2	63	3
6. Himachal Pradesh ..	1	22	3
7. Jammu & Kashmir ..	1	42	4
8. Karnataka	4	156	6
9. Kerala	2	117	3
10. Madhya Pradesh ..	5	151	9
11. Maharashtra	1	49	4
12. Orissa	4	159	5
13. Rajasthan	4	169	8
14. Tamil Nadu	1	55	2
15. Tripura	1	24	3
16. Uttar Pradesh ..	10	337	13
17. West Bengal	4	97	10
	56	1990	102

*As on last Friday of June 1979.

The Dantwala Committee, to which a reference was made in the last Report, has since submitted its report to the Reserve Bank. The Reserve Bank has accepted the Committee's view that RRBs have a significant role to play in financing the rural sector with a view to ensuring the proper implementation of multi-agency approach to credit in rural areas. In pursuance of decisions taken on the recommendations of the Committee, a Steering Committee has been constituted in the Reserve Bank in lieu of the one in Central Government which hitherto had been looking after the work relating to RRBs. The Steering Committee is to identify areas for location of RRBs, look after organisational matters such as local participation in management, composition of boards, appointment of chairmen, operational matters such as loaning policies etc., periodical review of existing relaxations and concessions in regard to liquidity requirements, recruitment and training of staff, monitoring and review of the progress of RRBs, supervision over the functioning of RRBs and to suggest guidelines on the follow-up action on Dantwala Committee Report. Three meetings of the new Steering Committee were held till June 1979 and a number of subjects were discussed and appropriate recommendations made.

The Reserve Bank has undertaken to provide training to the chairmen and branch managers of RRBs. While the training of

chairmen and branch managers of RRBs would be conducted at the College of Agricultural Banking (CAB), Pune, the training of other staff, such as Accountants, Field Officers and Clerks will be conducted at the training centres of the respective sponsor banks under the overall supervision of the CAB, Pune.

By a notification issued by the Reserve Bank, further exemption was allowed to RRBs from the proviso to sub-section (1) of Section 42 of the Reserve Bank of India Act, 1934 for a period of one year commencing from October 2, 1979. Thus, cash reserves to be maintained by each RRB will continue to be 3 per cent of its total demand and time liabilities as specified in sub-section(1) of Section 42 of the Act, as against the increased rate of 6 per cent applicable to the other scheduled commercial banks. Besides, RRBs have been exempted from the purview of the directive requiring the scheduled commercial banks to maintain with the Reserve Bank 10 per cent of the incremental demand and time liabilities. RRBs have also been allowed certain relaxation, in maintenance of liquid assets under Section 24 of the Banking Regulation Act, 1949; the liquid assets to be maintained by these banks have been fixed at 25 per cent as against 34 per cent applicable to other banks.

Deposits and Credit of Scheduled Commercial Banks

Table VI.21 shows the impact of the expansion of scheduled commercial banks' branches on the regional distribution of deposits and credit.

During the nine and a half year period June 1969 to December 1978, deposits of scheduled commercial banks increased from Rs. 4,665 crores to Rs. 26,509 crores *i.e.*, a rise of Rs. 21,844 crores and their advances from Rs. 3,609 crores to Rs. 18,571 crores or by Rs. 14,962 crores. Of the total increase of Rs. 21,844 crores in deposits and Rs. 14,962 crores in advances, metropolitan offices accounted for Rs. 9,045 crores or 41.4 per cent of the increase in deposits and Rs. 7,757 crores or 51.8 per cent of the increase in advances. Urban offices accounted for 24.8 per cent and 21.7 per cent of the increase in deposits

and advances, respectively, semi-urban offices' share was 21.8 per cent of the increase in deposits and 16.4 per cent of the increase in advances, while the corresponding share of rural offices was 11.9 per cent and 10.0 per cent. Over the years June 1969 to December 1978, however, the share of rural offices in total deposits rose from 3.1 per cent to 10.4 per cent and in total advances from 1.5 per cent to 8.4 per cent. The share of semi-urban and urban offices in total deposits remained more or less unchanged around 22 per cent and 25 per cent, respectively, but their share in advances rose from 11.3 per cent and 20 per cent, respectively, in June 1969 to 15.4 per cent and 21.4 per cent in December 1978. The share of metropolitan offices in both total deposits and in advances declined appreciably over the years—deposits from 49.0 per cent to 42.7 per cent and advances from 67.2 per cent to 54.8 per cent.

The credit-deposit ratio of the metropolitan offices declined from 106.1 per cent in June 1969 to 89.9 per cent by December 1978. As against this, credit-deposit ratio of rural offices moved up from 37.2 per cent to 56.6 per cent, semi-urban offices from 39.7 per cent to 49.3 per cent and urban offices marginally from 59.7 per cent to 59.9 per cent. Thus, rural and semi-urban offices have yet to achieve the target credit-deposit ratio of 60 per cent.

Table VI. 22 shows the distribution of deposits of scheduled commercial banks according to type of deposits and population group as at the end of June 1977. It will be seen that at the end of June 1977, total deposits aggregated Rs. 18,983 crores in 786 lakh accounts, of which metropolitan deposits amounted to Rs. 8,320 crores or 44 per cent, urban deposits Rs. 4,717 crores or 25 per cent, semi-urban deposits Rs. 4,234 crores or 22 per cent and rural deposits Rs. 1,711 crores or 9 per cent. Of the total number of accounts *viz.* 786 lakhs, 242 lakh accounts (31 per cent) were in semi-urban areas, 200 lakh accounts (25 per cent) in urban areas, 196 lakh accounts (25 per cent) in metropolitan areas and 148 lakh accounts (19 per cent) in rural areas. The table also shows that of the total amount of deposits of all groups together, the amount of fixed deposits accounted for Rs. 11,087 crores

Table VI.21—Distribution of Deposits and Advances of Scheduled Commercial Banks according to Population Groups (June 1969—December 1978)

(Rupees Crores)									
Population Group*	As on last Friday of						Increase (June 1969 to December 1978)		
	June 1969		December 1977		December 1978				
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances	
1	2	3	4	5	6	7	8	9	
1. Rural	145	54	2049	1137	2747	1555	2602	1501	
Percentage to total	3.1	1.5	9.7	7.4	10.4	8.4	11.9	10.0	
Average amount per office	0.10	0.04	0.19	0.10	0.21	0.12			
2. Semi-urban	1024	407	4668	2203	5793	2858	4769	2451	
Percentage to total	22.0	11.3	22.0	14.4	21.9	15.4	21.8	16.4	
Average amount per office	0.31	0.12	0.62	0.29	0.74	0.36			
3. Urban	1209	722	5238	3284	6637	3975	5428	3253	
Percentage to total	25.9	20.0	24.7	21.4	25.0	21.4	24.8	21.7	
Average amount per office	0.63	0.38	1.09	0.68	1.42	0.85			
4. Metropolitan/Port Towns	2287	2426	9259	8687	11332	10183	9045	7757	
Percentage to total	49.0	67.2	43.6	56.7	42.7	54.8	41.4	51.8	
Average amount per office	1.53	1.62	2.59	2.43	2.67	2.39			
Total (1 to 4)	4665	3609	21214	15311	26509	18571	21844	14962	
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	
Average amount per office	0.57	0.44	0.79	0.57	0.90	0.63			

*Based on 1971 Census. Note : Data for December 1977 and 1978 are provisional.

Sources : Basic Statistical Returns.

or about three-fifths, savings deposits for Rs. 4,713 crores or about one-fourth, and current deposits Rs. 3,061 crores or about one-sixth. Of the total number of accounts viz., 786 lakhs, 505 lakh accounts or 64 per cent were in respect of savings deposits, 228 lakh accounts or 29 per cent were in respect of fixed deposits and only 49 lakh accounts were in respect of current accounts.

The table also shows that the proportion of fixed deposit accounts in total number of accounts varied from 24.9 per cent in the rural group to 30.1 per cent in the metropolitan group, but the amount held in fixed deposits constituted as much as 51.6 per cent of the total deposits in rural group and 60.6 per cent of the total deposits in metropolitan group. The number of savings deposit accounts constituted 70.5 per cent of total number of accounts in rural group, and 61.8 per cent of the total number of accounts in metropolitan group, but the amount held in savings deposits formed 39.8 per cent of total deposits in rural group and only 18.8 per cent of total deposits in metropolitan group. The proportion of

current deposit accounts to total number of accounts varied from 4.3 per cent in the rural group to 7.6 per cent in the metropolitan group and the amount held in current deposits as percentage of total deposits varied from 8.3 per cent in rural group to 19.8 per cent in metropolitan group. The average deposit per account varied—it was lowest for rural group and highest for metropolitan group. Also the average deposit per account for savings deposits was lower than that for fixed or current account deposits.

Data on State-wise distribution of deposits according to different population groups reveal that over the nine-year period end-June 1969 to end-June 1978, of the total increase in deposits of rural offices of Rs. 2,234 crores, Uttar Pradesh accounted for the largest amount viz., Rs. 325 crores or 14.5 per cent, followed by Punjab Rs. 258 crores (11.6 per cent) and Gujarat Rs. 223 crores (10.0 per cent).

The increases ranged between Rs. 107 crores and Rs.168 crores in Bihar, West Bengal, Maharashtra, Andhra Pradesh, Karnataka,

Table VI-22 : Distribution of Deposits of Scheduled Commercial Banks according to Population Group and Type of Deposits

(As on the last Friday of June 1977)

(No of Accounts in thousands)
(Amount in Rupees Lakhs)

Population Groups	Current			Savings			Fixed			Others			Total		
	No. of Acc- ounts	Amount Out- standing	Average per Account	No. of Acc- ounts	Amount Out- standing	Average per Account	No. of Acc- ounts	Amount Out- standing	Average per Account	No. of Acc- ounts	Amount Out- standing	Average per Account	No. of Accounts	Amount Out- standing	Average per Account
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
RURAL	6,31	1,42,71	2,262	104,21	6,81,56	654	36,80	8,81,98	2,397	45	5,22	1,160	147,77	1,711,47	1,158
Per cent to total deposit cate- gory	(12.8)	(4.7)		(20.6)	(14.5)		(16.2)	(8.0)		(13.2)	(4.3)		(18.8)	(9.0)	
Per cent to total deposits ..	4.3	8.3		70.5	39.8		24.9	51.6		0.3	0.3		100.0	100.0	
SEMI-URBAN	14,04	5,38,32	3,834	156,50	12,80,50	818	70,46	24,00,53	3,407	1,02	15,50	1,520	242,02	42,34,85	1,750
Per cent to total deposit cate- gory	(28.5)	(17.6)		(31.0)	(27.2)		(31.0)	(21.7)		(29.9)	(12.7)		(30.8)	(22.3)	
Per cent to total deposits ..	5.8	12.7		64.7	30.2		29.1	56.7		0.4	0.4		100.0	100.0	
URBAN	13,91	7,36,60	5,295	123,79	11,82,82	956	61,32	27,66,11	4,511	1,06	31,32	2,955	200,08	47,16,85	2,357
Per cent to total deposit category	(28.3)	(24.1)		(24.5)	(25.1)		(27.0)	(25.0)		(31.0)	(25.7)		(25.5)	(24.0)	
Per cent to total deposits ..	6.9	15.6		61.9	25.1		30.7	58.6		0.5	0.7		100.0	100.0	
METROPOLITAN	14,93	16,43,28	11,007	120,86	15,68,32	1,298	58,96	50,38,77	8,546	88	69,83	7,935	195,63	83,20,20	4,253
Per cent to total deposit category	(30.4)	(53.7)		(23.9)	(33.3)		(25.9)	(45.5)		(25.8)	(57.3)		(24.9)	(43.8)	
Per cent to total deposits ..	7.6	19.8		61.8	18.8		30.1	60.6		0.5	0.8		100.0	100.0	
TOTAL	49,19	30,60,91	6,223	505,36	47,13,20	933	227,54	110,87,39	4,873	341	1,21,87	3,574	785,50	189,83,37	2,417
Per cent to total deposit category	(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)	
Per cent to total deposits ..	6.3	16.1		64.3	24.8		29.0	58.4		0.4	0.7		100.0	100.0	

Note : Data are provisional
Source : Basic Statistical Returns.

Kerala and Tamil Nadu—these seven States together accounted for Rs. 955 crores or 42.7 per cent of the total increase in rural deposits over the ten-year period. In most of the remaining States/Union Territories, though the increase in deposits in absolute amount was not very large, the level of rural deposits in June 1978 was several times the level in June 1969. For instance, in Jammu & Kashmir, it was 83 times the level in June 1969, in Pondicherry 42 times, in Assam 36 times and in Haryana 31 times. Over the nine-year period, June 1969 to June 1978, deposits in semi-urban centres rose by Rs. 4,158 crores; the largest increase was again in Uttar Pradesh—Rs. 453 crores. The increase was Rs. 419 crores in Gujarat, while it was over Rs. 300 crores in Punjab, Bihar, West Bengal, Maharashtra, Tamil Nadu and Kerala. These eight States together accounted for a total increase of Rs. 2,877 crores or 69 per cent of the increase in semi-urban deposits.

The deposits of urban/metropolitan centres increased by Rs. 12,234 crores between June 1969 and June 1978, of which Maharashtra alone accounted for Rs. 3,165 crores or 26 per cent, Delhi Rs. 1,869 crores or 15 per cent, and West Bengal Rs. 1,622 crores or 13 per cent.

The total deposit mobilisation over the nine-year period reviewed here was over Rs. 18,626 crores, of which Maharashtra's share was Rs. 3,631 crores or 19.5 per cent, West Bengal Rs. 2,082 crores or 11.2 per cent, and Uttar Pradesh Rs. 1,734 crores or 9.3 per cent.

An analysis of the State-wise distribution of bank credit in respect of the three population groups over the period June 1969 to June 1978 show that of the total increase in bank credit of rural offices of Rs. 1,193 crores, Uttar Pradesh's share was the largest—Rs. 157 crores, followed by Karnataka Rs. 137 crores, Andhra Pradesh Rs. 129 crores and Tamil Nadu Rs. 108 crores: these four States accounted for 44 per cent of the total increase in bank credit of all rural offices. In rural offices of the remaining States/Union Territories, advances at the end of June 1978 were below Rs. 100 crores, but the level of advances attained in June 1978 was several times that of June 1969—for instance, in West Bengal it

was over 320 times higher, in Orissa over 260 times, in Jammu and Kashmir over 210 times, in Madhya Pradesh about 140 times, and in Himachal Pradesh 64 times. In Haryana, Punjab, Rajasthan, Assam, Bihar, Gujarat, Maharashtra, Kerala, Tamil Nadu and Pondicherry also, advances of rural offices registered substantial increases over the nine-year period, advances in June 1978 being 18 to 33 times the level of advances in June 1969. As regards credit extended in semi-urban centres, of the total increase in such credit of Rs. 2,050 crores, Uttar Pradesh's share was Rs. 230 crores and Tamil Nadu's was Rs. 193 crores. Maharashtra and Andhra Pradesh, accounted for about Rs. 178 crores each and Gujarat, Karnataka, Kerala, Punjab and Bihar about Rs. 142 crores to Rs. 158 crores each. Advances of urban and metropolitan bank offices increased by Rs. 9,417 crores over the nine-year period, of which Delhi's share was the largest *viz.*, Rs. 2,427 crores or about 26 per cent and Maharashtra came second with Rs. 2,108 crores or 22 per cent. The increase in advances of urban/metropolitan offices of West Bengal was Rs. 907 crores, Tamil Nadu Rs. 793 crores, Chandigarh Rs. 502 crores and Uttar Pradesh, Gujarat and Karnataka Rs. 430 crores to Rs. 498 crores each. These six States and Delhi and Chandigarh accounted for as much as 86 per cent of the total advances of urban/metropolitan offices. In the total increase in advances of the rural, semi-urban and urban/metropolitan offices together of Rs. 12,661 crores, Delhi's share was the largest at Rs. 2,436 crores, and Maharashtra's was Rs. 2,378 crores.

INDIAN BANKS' OFFICES ABROAD

During 1978-79, Indian commercial banks opened 10 offices abroad as against 19 offices opened in the previous year. Of these, four were in the U.K. [one each at Luton, Slough, Gravesend and Glasgow (Scotland)], two in New York (USA) and one each in Channel Islands, Cayman Islands, Hong Kong and Bahamas (Table VI. 23).

As at the end of June 1979, there were 11 Indian commercial banks having 123 branches functioning in 25 countries. Besides, there was one subsidiary of an Indian commercial

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

Table VI. 23 : Statement showing the number of offices opened or closed in foreign countries by Indian banks during July 1978-June 1979

A. No. of Offices opened:	1. Four in the U.K. [1 each at Luton, Slough, Gravesend and Glasgow (Scotland)], two in New York (USA), and one each in Channel Islands, Cayman Islands, Hongkong and Bahamas.
B. No. of Offices closed :	Nil.

WORKING OF DIFFERENT INSTITUTIONS

(a) Export Credit and Guarantee Corporation Ltd.

The Working of the Export Credit and Guarantee Corporation Ltd. (ECGC) during 1978-79 (July-June) showed an increase both in the number of policies and guarantees issued during the year and the value of the risk covered. The number of policies and guarantees issued increased from 7,197 in 1,977-78 to

7,827 in 1978-79. The value of risk covered rose from Rs. 3,706.3 crores in 1977-78 to Rs. 4,409.0 crores in 1978-79, out of which the value of shipments covered under policies accounted for Rs. 818.8 crores as compared to Rs. 805.9 crores in the preceding year and financial guarantees for Rs. 3,590.2 crores as compared to Rs. 2,900.4 crores in 1977-78. The premium income during the year under review was also higher at Rs. 7.0 crores as against Rs. 6.7 crores during 1977-78. The number of policies and guarantees in force at the end of June 1979, however, stood lower at 8,678 as compared to 8,941 a year ago (Table VI. 24).

ECGC introduced three new schemes during the year, viz., Whole Turnover Post-Shipment Guarantee, Special Scheme for Small Scale Exporters and Overseas Investment Insurance. The salient features of the Schemes are mentioned below:

(i) Whole Turnover Post-Shipment Guarantee

Under the Whole Turnover Post-Shipment Guarantee, the percentage of cover has been increased from 75 per cent under individual guarantees to 85 per cent for policyholders

Table VI.24: ECGC's Guarantees and Policies for Exporters (July-June)

	No. of policies and guarantees				Bank finance (guarantees)	
	Issued during		In force at the end of		availed of (Rs. crores)	
	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79
Standard Policies	3804	4241	5593	4977	—	—
Packing Credit Guarantee	918	870	998	899	2552.07	3265.33
Post-Shipment Guarantee	904	1013	747	869	185.33	221.04
Export Finance Guarantee	348	318	402	355	23.32	16.89
Export Production Finance Guarantee	37	14	62	54	32.16	26.47
Export Performance Guarantee ..	1069	1303	1106	1503	78.02	58.38
Transfer Guarantee	115	66	27	12	7.13	2.09
Line of Credit	1	1	1	3	22.39	—
Buyer's Credit	1	1	5	6	—	—
TOTAL	7197	7827	8941	8678	2900.42	3590.20

Source ; Export Credit and Guarantee Corporation Ltd.

other than small-scale exporters, and to 90 per cent for small-scale exporters. While Individual Post-Shipment Guarantees are issued only in respect of policyholders, the Whole-Turnover Post-Shipment Guarantee covers non-policyholders as well, with a lower percentage of cover of 65 per cent for small-scale exporters and 60 per cent for others. The premium payable is reduced from 5 paise under individual post-shipment guarantee to 2 paise and 2.5 paise per Rs. 100 per month according as L/C transactions are also covered or not.

The intention in fixing very low premium rate of 2 paise/2.5 paise per Rs. 100 per month is that the incidence of the post-shipment guarantee which is mainly intended to benefit the banks is borne by the banks and the exporter is not burdened with cost thereof.

(ii) *Special Scheme for Small-Scale Exporters*

The definition of the small-scale exporter has been enlarged to cover all exporters with annual export turnover of not more than Rs. 10 lakhs and total annual turnover of not more than Rs. 25 lakhs. The limitation of the total annual turnover has been removed in respect of small-scale industrialists coming within the definition of Government of India. The benefits of the scheme are also available to co-operatives of artisans, co-operatives or associations or consortia of small-scale industries, Handloom and Handicrafts Export Corporation, State export corporations, State small-scale industries corporations, and National Small Industries Corporation in respect of exports made by them on behalf of eligible small-scale exporters.

(iii) *Overseas Investment Insurance*

The scheme affords protection against political risks of expropriation, nationalisation, war, armed rebellion and transfer problems. It covers original investment in capital, retained earnings and dividend actually repatriable to India subject to a ceiling of 150 per cent of the original investment. While the full amount will be eligible for cover during the first ten years of the investment, the amount of investment eligible for cover will be reduced

progressively to 90 per cent, 80 per cent, 70 per cent, 60 per cent and 50 per cent during the 11th to 15th year. In case of turn-key projects, with a long gestation period, the cover may be made available upto 20 years. An additional investment will also be eligible for cover subject to a ceiling of 50 per cent of the original investment. The investment should have been approved by the Government of India/Reserve Bank and be in conformity with local laws and regulations of the host country. The Corporation will indemnify 90 per cent of the loss.

(b) **Deposit Insurance and Credit Guarantee Corporation**

Mention was made in the last year's Report of the taking over of the Credit Guarantee Corporation of India Ltd. by the Deposit Insurance Corporation in terms of the Deposit Insurance Corporation (Amendment and Miscellaneous Provisions) Act, 1978, which came into effect from July 15, 1978. In terms of the provisions of the above Act, all the liabilities and assets of the Credit Guarantee Corporation of India Ltd. as also all its rights and obligations were transferred to and now vest in the Corporation which has been consequently renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC). The Corporation paid to the Credit Guarantee Corporation of India Ltd. as consideration for the transfer, a sum of Rs. 2 crores, equal to the paid-up capital of the Credit Guarantee Corporation of India Ltd. This amount has been distributed among its shareholders; steps are being taken to wind up the company in the manner provided for in the above Act.

To enable the DICGC to meet the increased establishment and other expenses of the combined unit, its capital which was Rs. 2 crores was increased to Rs. 10 crores as on July 15, 1978; the additional contribution of Rs. 8 crores was obtained from the Reserve Bank of India, which is the only shareholder.

Deposit Insurance Function

The number of insured commercial banks continued to remain unchanged at 78 as at the end of June 1979, while that of insured

Regional Rural Banks stood at 56 on June 30, 1979 as against 48 a year back.

As regards co-operative banks, the Deposit Insurance Scheme was extended during the year to two additional States — to the State of Orissa from July 1, 1978 and covered 27 co-operative banks, and to the State of Uttar Pradesh from January 1, 1979 and covered 71 co-operative banks. The total number of insured co-operative banks increased from 859 at the end of June 1978 to 978 by end-June 1979.

At the end of June 1979, the scheme of insurance of deposits covered co-operative banks in the States of Andhra Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tripura, Uttar Pradesh, West Bengal and three Union Territories, viz., Delhi, Goa, Daman and Diu and Pondicherry. The scheme has since been extended to Gujarat State with effect from September 1, 1979, covering 277 co-operative banks in that State. As regards other States, the matter is being actively pursued with the concerned State Governments.

The rate of insurance premium remained unchanged at 4 paise per Rs. 100 per annum. The periodicity of payment of the insurance premium was, however, changed from quarterly to half-yearly intervals since the commencement of 1979, with a view to reducing the work-load on banks in compiling the necessary statements of insured deposits. The total amount of assessable deposits as on the last Friday of September 1978 aggregated Rs. 21,659 crores, out of which commercial banks accounted for Rs. 20,427 crores (including Rs. 35.25 crores of Regional Rural Banks) and co-operative banks Rs. 1,232 crores. The percentage of insured deposits to total deposits assessable to premium worked out to 71.1 per cent for commercial banks and Regional Rural Banks taken together, 84.4 per cent for Regional Rural Banks separately and 68.8 per cent for co-operative banks. The percentage of fully protected accounts to total number of accounts worked out to 98.2 per cent for commercial banks including Regional Rural Banks, 99.9 per cent for Regional Rural Banks separately and 99.4 per cent for co-operative banks.

The total claims paid or provided for by the Corporation since its inception upto June 1979 amounted to Rs. 113.02 lakhs* in respect of 14 insured commercial banks and Rs. 95.40 lakhs in respect of 9 co-operative banks i.e., a total of Rs. 208.42 lakhs. The total repayments received upto June 1979 in respect of the subrogated claims relating to commercial banks amounted to Rs. 73.94 lakhs—repayments in respect of co-operative banks have not been received so far.

Credit Guarantee Function

With the taking over of all the rights and obligations of the Credit Guarantee Corporation of India Ltd., DICGC is continuing the three credit guarantee schemes formulated and operated by that organisation. The Corporation is also empowered to introduce new schemes.

The total advances covered by the three guarantee schemes viz., the Small Loans Guarantee Scheme, the Financial Corporations Guarantee Scheme, and the Service Co-operative Societies Guarantee Scheme, which had steadily increased from Rs. 208.39 crores at the end of June 1972 to Rs. 1,517.12 crores by end-December 1977, rose further to Rs. 1,814.38 crores by the end of December 1978, an increase of 19.6 per cent during the calendar year and further to Rs. 1,917.76 crores by the end of June 1979, an increase of 11.8 per cent over the June 1978 level of Rs. 1,715.17 crores (Table VI.25).

Advances to farmers and agriculturists continued to constitute a major portion (62.32 per cent), followed by credit to transport operators (14.92 per cent) and retail traders (11.41 per cent), as at the end of June 1979.

Number of Participating Credit Institutions

Participation in the Credit Guarantee Scheme of the Corporation is voluntary. All the functioning commercial banks, numbering 75, as also 51 out of the 56 RRBs, i.e., in all 126 banks are participating in the Small Loans Guarantee Scheme, which

*In respect of commercial banks, the figure of Rs. 113.02 lakhs related to the period 1963 to 1970 the figure was nil for the years 1971 to 1978.

Table VI.25: Credit Facilities Guaranteed by the Deposit Insurance and Credit Guarantee Corporation

(Rupees Crores)

	As on last Friday of				
	June 1977*	December 1977*	June 1978*	December 1978*	June 1979
A. Small Loans Guarantee Scheme					
1. Transport Operators	202.25	234.18	282.66	270.08	277.38
2. Retail Traders in goods other than fertilisers or mineral oils	124.07	146.81	178.92	205.19	218.80
3. Retail Traders in fertilisers or mineral oils	13.93	15.64			
4. Professional & self-employed persons	69.72	78.12	87.96	96.44	101.73
5. Business Enterprises	46.83	54.46	68.07	73.04	77.36
6. Farmers and Agriculturists	845.64	953.00	1,057.04	1,127.56	1,195.24
7. Residual category of borrowers under Differential Interest Rate Scheme	20.36	26.34	31.64	32.93	37.23
Total	1,322.80	1,508.55	1,706.29	1,805.26	1,907.75
B. Financial Corporations Guarantee Scheme					
1. Transport Operators	6.95	7.64	7.97	8.15	8.69
2. Business Enterprises	0.62	0.65	0.69	0.75	0.69
Total	7.57	8.29	8.66	8.90	9.38
C. Service Co-operative Societies Guarantee Scheme					
Service Co-operative Societies	0.34	0.28	0.22	0.22	0.62
Total (A+B+C)	1,330.71	1,517.12	1,715.17	1,814.38	1,917.75

* Revised

accounts for 99.5 per cent of the total advances guaranteed by the Corporation. All the 17 State Financial Corporations and the Tamil Nadu Industrial Investment Corporation Ltd. participate in the Financial Corporations Guarantee Scheme, 1971. As regards the Service Co-operative Societies Guarantee Scheme, 1971, participation in which is open to all scheduled commercial banks, RRBs and to co-operative banks (other than primary co-operative banks), which are eligible for deposit insurance cover, 86 commercial banks including 25 RRBs and 31 co-operative banks *i.e.*, in all 117 banks have joined the Scheme.

The rate of guarantee fee in force is $\frac{1}{2}$ per cent per annum ($\frac{1}{4}$ per cent per annum in the

case of RRBs with effect from July 1, 1979) and is payable half-yearly, calculated on the outstandings in the guaranteed accounts as on the last Friday of the preceding half-year.

Invocation of guarantee by the participating credit institutions commenced in 1973. During the first three years, 1973-75, only 2,775 claims for an aggregate amount of Rs. 0.93 crore were received. Since then, however, there has been a rapid increase in the inflow of claims, the trend becoming very much pronounced in 1978. During that year, 29,925 claims for a total amount of Rs. 8.76 crores were received which exceeded the number and amount of claims lodged in all the previous years till the end of December 1977 *viz.*, 21,638

claims for Rs. 6.69 crores. The rising trend continued in 1979—during January-June 1979, 19,154 claims for an amount of Rs. 5.96 crores were received. The average amount per claim worked out to Rs. 3,028 as at the end of June 1979. Claims in respect of credit extended to farmers and agriculturists accounted for 55.3 per cent of the total amount of claims, with an average of about Rs. 2,861 per claim. Claims relating to advances to transport operators constituted 26.4 per cent of the total amount of claims; the average amount per claim under this category worked out to a much higher amount of Rs. 11,477.

To meet the increasingly large number of claims preferred with the Corporation, the scrutiny procedures and content were considerably simplified, while a simpler claim format was also introduced in November 1978. As nearly half the number of claims are for amounts of Rs. 1,000 or less, a more simple settlement procedure and a tabular form of claim format has been introduced for the expeditious disposal of these claims. These steps facilitated speedy payment of claims. Of the total 70,717 claims received upto end-June 1979, 36,508 claims for Rs. 8.96 crores were disposed of, while additional 18,861 claims for Rs. 7.89 crores were scrutinised and certain clarifications/additional information have been sought from the claimant banks.

With the pronounced increase in the claims paid, the Corporation is devoting particular attention to verification of claim paid accounts and recovery of the amounts due from the borrowers concerned. It realised a sum of Rs. 32.84 lakhs as its share of recoveries during 1978, as against an aggregate amount of Rs. 11.73 lakhs realised during all the previous years. A further sum of Rs. 22.87 lakhs has been recovered during the half-year ended June 1979.

Enlargement of scope and benefits of guarantee cover

The provisions of the various guarantee schemes are amended from time to time so as to enlarge the benefits for the small borrowers. With a view to facilitating liberal grant of

rehabilitation finance to flood victims, the claim liability of the Corporation for overdue crop loans to borrowers affected by natural calamities, converted into term loans, has been raised from Rs. 5,000 to Rs. 7,500, so as to cover dues in respect of three agricultural seasons, commencing from 1977 Kharif, instead of two seasons as hitherto. This is in addition to the liability upto a maximum of Rs. 2,500 for the fresh crop loan that may be granted to the borrower. Further, in pursuance of the recommendations of the Working Group set up by the Government of India in regard to the operation of the Differential Rates of Interest Scheme, the guarantee cover of the Corporation in regard to advances granted under that scheme on or after January 1, 1979, has been enhanced from 75 per cent to 90 per cent of the 'amount in default'.

With a view to giving some relief to RRBs in view of the special role they are required to play in extending credit to the priority sectors in rural areas, the rate of guarantee fee in respect of their guaranteed advances was lowered from $\frac{1}{2}$ per cent to $\frac{1}{4}$ per cent per annum for a period of three years from July 1, 1979 or from the date of joining the Scheme by the RRBs concerned, whichever is later.

Another important amendment to the Small Loans Guarantee Scheme, effective April 1979, relates to relaxation of the overall monetary ceilings on the Corporation's liability per borrower prescribed in the Scheme in regard to certain categories of borrowers. These ceilings are now applicable in relation to credit facilities granted to a borrower by each bank instead of by the entire banking system as hitherto.

Credit extended to small-scale industries is presently covered by a separate guarantee scheme formulated by the Government of India and administered by the Reserve Bank of India. A working group constituted by the Government to consider the question of integration of all the Credit Guarantee Schemes under one organisation, and to work out the modalities thereof has since submitted its report to the Government.

COMMITTEES/WORKING GROUPS RELATING TO BANKING

(a) Working Groups to consider measures for greater flow of credit to weaker sections of society

Following the meeting of the Prime Minister with the Chief Executives of major commercial banks and financial institutions on October 8, 1978, four Working Groups were set up to consider specific measures for greater flow of credit to the neglected and weaker sections of the society and for augmenting employment opportunities with the help of bank finance.

The groups dealt with

- (i) Differential Rate of Interest Scheme;
- (ii) Credit to Small Scale Industries;
- (iii) Credit to agriculture with special reference to problems of small and marginal farmers, and
- (iv) Promotion of employment.

Further, a high powered meeting was convened by the Finance Minister on October 27, 1978 to look into the problems of sick units and the deliberations of this meeting were drawn up in the form of a report. The major recommendations in these five reports are mentioned below:

1. Working Group on Differential Rate of Interest Scheme

To ensure an increased flow of funds to the scheduled tribes, the Group recommended that the banks might be permitted to use the medium of co-operative societies/large-sized multi-purpose societies (LAMPs) organised specifically for the benefits of tribals for channelising funds under the scheme. The Working Group did not consider it necessary to effect any increase in the prescribed minimum of $\frac{1}{2}$ per cent of total advances which banks were required to lend under the scheme, since it felt that the ability of banks to subsidise the scheme was limited and moreover, the quantum of loans automatically increased every year in absolute terms. As regards the private sector banks which were hitherto

implementing the scheme on a voluntary basis, the Group, however, felt that they should draw up a time-bound programme to improve their performance under the scheme so as to achieve at least the minimum stipulation regarding the quantum of lending within the earliest possible time.

The Group also recommended further simplification in the claims settlement procedure of Deposit Insurance and Credit Guarantee Corporation in respect of claims under this scheme, and also raising of the existing guarantee cover to 90 per cent of the amount in default. Other recommendations made by the Group included action to be taken by State Governments and their various development organisations for assisting banks in identifying eligible borrowers and also in effecting recoveries.

Although the Working Group did not recommend any increase in the minimum quantum of lending under the scheme, in view of the pressing demands from the weaker sections of the society, some enlargement of the scheme was felt necessary and Government decided that banks should lend atleast 1 per cent of their total advances as at the end of the previous year under the DRI Scheme. The proportion stipulated for advances to members of Scheduled Castes/Scheduled Tribes was also raised from $33\frac{1}{3}$ per cent to 40 per cent of the total advances under the scheme.

2. Working Group on "Small-Scale Industries with special reference to District Industries Centres (DICs)"

The major recommendations made by the Group were :

- (i) Institutional assistance to artisans and village and cottage industries upto Rs. 25,000/- should be provided as composite loans whether it is for equipment finance or working capital or both. The maturity period should be 7 to 10 years and initial moratorium period should be 12 to 18 months. Such composite loans should be sanctioned at concessional rate of interest—maximum 11 per cent ($9\frac{1}{2}$ per cent in backward areas) without any margin or collateral security. These loans should be covered by the IDBI Automatic Refinance

Scheme and guarantee cover for such loans should be increased to 90 per cent under the Credit Guarantee Scheme.

(ii) Interest rates for the 'tiny' sector should not exceed $12\frac{1}{2}$ per cent for working capital.

(iii) The centrally sponsored schemes for seed capital/margin money should be mainly oriented to meet the requirements of the 'tiny' sector and integrated with institutional lending.

(iv) The role of Credit Managers deputed to the DICs should be a promotional one—providing guidance, assistance and support required by entrepreneurs and artisans for obtaining adequate institutional finance. The Credit Manager would recommend the credit proposal, after due appraisal to the concerned credit institution. Specific recommendations have been made as to how proposals for financial assistance upto Rs. 1 lakh could be disposed of by the banks within 30 days of their receipt.

(v) Since marketing is a major limitation to the successful establishment of village and cottage industries, a two-tier approach for augmenting institutional credit to 'tiny,' cottage and household industries is recommended under which marketing organisations will be eligible for bank credit as if they were priority sector activities.

(vi) In case of larger small-scale industries, suggestions for reducing delay in sanction of credit limits have been made. Term loans to units in specified backward districts should be charged concessional rate of $9\frac{1}{2}$ per cent as against 11 per cent in other areas.

3. Working Group on "Agricultural Credit"

The Working Group has suggested that the aim may be to increase the share of small and marginal farmers in the total credit to agriculture to 50 per cent by the end of the Plan period i.e., by 1982-83. Since Regional Rural Banks (RRBs) are especially suited to the extension of credit to the weaker sections of the community in rural areas, priority should be

given by the Reserve Bank to the setting up of RRBs in areas selected for intensive rural development. Similarly, blocks chosen for intensive rural development should receive priority when the Reserve Bank grants licences for branch expansion. The Group has also recommended that proper organisational set-up should be evolved for administration of the Integrated Rural Development (IRD) programme at the block level and district level. The technical departments of the State Governments and agencies at District/Block levels involved in rural development programme should be strengthened so that bankable schemes are prepared to support District and Block Credit Plans.

The lending procedures and policies of banks have to be periodically reviewed to ensure that loans are sanctioned in time, are adequate and production-oriented. In-depth study of the problems of overdues has been recommended.

4. Working Group on "Role of Banks in Promoting Employment"

In order to promote self-employment, the Working Group suggested that banks should aim at providing credit on an aggregative annual basis to at least two additional borrowers per branch per month.

The Group has made a number of recommendations specifically designed to motivate banks for augmenting credit for promotion of self-employment. An important suggestion relates to ceding of Large-sized Multipurpose Societies (LAMPs) to banks as a strategy to enable banks to extend their coverage among the scheduled tribes. The Group has strongly urged the strengthening of the organisational set-up of banks, firstly by extending RRBs, secondly by the development of new organisational plans for specialised branches and thirdly by upgradation of one-man branches and strengthening of inadequately staffed branches.

A new margin money scheme to cover self-employment in sectors and areas not covered by the existing schemes has been recommended for consideration by Government.

5. *Report on Problems of Sick Units*

The more important recommendations made in the Report are given below :

Banks must strengthen their information system so as to monitor cases of sickness (including incipient sickness). They should set up a Cell at the top level to look into the complaints received from small-scale entrepreneurs and also to identify financial and other assistance necessary to revive sick units. Co-ordinated action in respect of sick units will have to be taken by Government, term-lending institutions and banks for their revival and rehabilitation. The Committee has suggested that IDBI as a premier term-lending institution, should take the lead to evolve a package scheme of relief for sick units. A panel of technically qualified people should be kept updated so that services of persons included in the panel could be drawn upon in cases of mismanagement of sick units.

The Report has also recommended that a National Equity Fund should be set up so that small-scale units are not set up with weak equity base. Also, a Soft Loan Fund could be set up with the Reserve Bank taking initiative in the matter along with banks from which loans could be extended to banks which grant re-scheduling of interest, moratorium of interest, etc. so as to rehabilitate small-scale units. Another recommendation is that the Reserve Bank should consider setting up a committee in a few selected centres so that there is adequate interfacing between State Government Officials and State-level institutions on one side, and the Reserve Bank, banks and term-lending institutions on the other.

(b) Working Group on Simplification of Application Forms and Lending Procedures for Loans to Agriculture and Allied Activities.

The Working Group constituted by the Government of India to consider simplification of loan application forms and procedures for grant of loans to agriculture and allied activities submitted its Report in December 1978.

The Working Group has evolved a set of simplified application forms for loans to agri-

culture and allied activities to be adopted uniformly by all banks and made available in all regional languages. The Group has also made a number of recommendations for simplifying the procedures for sanction of loans and for speeding up the flow of credit to the agricultural sector and especially to the small farmers. The recommendations of the Group cover documentation, margin money, security and other procedural requirements for agricultural advances. The Group has suggested that the 'small farmers window' of the Reserve Bank should be increased from Rs. 2,500 to Rs. 5,000. Among the measures recommended for action by State Governments are introduction of agricultural pass-books by State Governments and expeditious issue of the extracts of land records/non-encumbrance certificates.

Quick follow-up action was initiated by the Reserve Bank/Government following the submission of the above reports and banks have been advised to initiate suitable measures in implementing the recommendations made by the above Working Groups. The progress made by the banks in this regard is being monitored by the Reserve Bank on a quarterly basis.

(c) Working Group on Customer Service in Banks

Mention was made in the last year's Report regarding constitution of a small group (task force) to examine the recommendations of the Working Group on Customer Service in Banks with a view to implementing them expeditiously. The said Small Group held meetings regularly and reviewed the progress made by banks in the implementation of the recommendations. During the year, two more recommendations of the final report have been accepted by the Government with certain modifications and the banks were advised in September 1978 to implement them.

Many banks in the public sector have made considerable progress in the implementation of those recommendations which could be implemented unilaterally by them. The Reserve Bank maintains up-to-date data in this regard on the basis of the quarterly progress reports submitted by the banks.

The progress made by the banks in the seven areas in which the Working Group had felt an urgent need for achieving improvement in the customer service in banks is given below :

Service Area	Total no. of recommendations accepted by the Government	Total no. of recommendations implemented by more than 50 per cent banks
1. Deposit Accounts	14	8
2. Remittances and Collections ..	12	8
3. Loans and Advances	8	6
4. Foreign Exchange Business ..	5	1
5. Government Business	1	1
6. Discipline and attitude	7	3
7. General	4	4

(d) Working Group on Cash Credit

The Reserve Bank constituted in early April 1979 a Working Group to review the system of cash credit by banks in recent years, particularly with reference to the gap between sanctioned credit limits and the extent of their utilisation, to suggest modifications and/or alternative types of credit facilities for ensuring greater credit discipline and enabling banks to relate credit limit to increases in output. The Group submitted its interim Report in May 1979.

OTHER BANKING DEVELOPMENTS

Measures to increase Flow of Credit to Priority/Neglected Sectors

Pursuant to the decision taken at the meeting the Prime Minister had with the Chief Executives of major commercial banks and financial institutions, on October 8, 1978 the Government of India constituted Working Groups/High Power Committee to study in depth and make recommendations in respect of Differential Rate of Interest Scheme, Small Scale Indus-

tries, Agricultural Credit, Promotion of Employment and Problems of Sick Units (For details please see the section on 'Committees/Working Groups relating to Banking'). Based on the recommendations of these Working Groups, the Government of India and the Reserve Bank of India have issued detailed guidelines to commercial banks and State Governments regarding the measures to be taken. These measures are designed to increase further, the flow of credit for productive ventures, to weaker sections and rural areas and also to ensure that timely financial assistance is provided by banks to these sectors on easier terms. Banks are required to increase their assistance to priority sectors to 33½ per cent of their total advances and also to step up the credit-deposit ratio of their rural and semi-urban branches separately to 60 per cent. The important measures recommended to banks for implementation are :

(a) To intensify the lendings to agriculture and allied activities in the 2,000 blocks selected under IRD Programme and ensure that at least 50 per cent of their total agricultural advances go to small and marginal farmers by the end of the Plan period *i.e.* by 1982-83.

(b) To provide credit to at least two additional borrowers per branch per month on an annual aggregate basis.

(c) To draw special bankable schemes to assist members of scheduled castes/scheduled tribes.

(d) To increase the quantum of assistance under the D.R.I. Scheme from the minimum target of ½ per cent to 1 per cent of total outstanding advances of previous year and to give minimum 40 per cent of such advances to scheduled castes and scheduled tribes.

(e) To provide composite loan upto Rs. 25,000/- to artisans, village and cottage industries and term loans to 'tiny' and other small-scale industries on liberal terms including concessional interest rate of 9½ per cent and 11 per cent per annum in specified backward areas and other areas respectively.

(f) To establish closer liaison with the District Industries Centres (DICs) which have been set up in different districts for promoting self-employment.

Bank Finance for Housing Schemes

Mention was made in the last year's Report of the main recommendations made by the Working Group constituted by the Reserve Bank for an in-depth study of the role of the banking system in providing finance for housing schemes. The Working Group's recommendations were examined by the Reserve Bank and necessary instructions were issued in a circular letter to scheduled commercial banks.

The circular letter to banks stated that the contribution of the banking system towards financing of house construction activities can only be a modest one. Banking system as a whole may provide funds of the order of Rs. 75 crores per annum as housing finance for (a) residential houses to be constructed by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies or employers (priority is to be accorded to construction of houses meant for economically weaker sections, low income group and middle income group), (b) educational, health, social, cultural institutions/centres which are part of a housing project and are necessary for development of settlements or townships, (c) shopping complexes, markets catering to residents of housing colonies and forming part of a housing project, and (d) construction meant for improving conditions in slum areas; credit may be extended directly to the slum dwellers on the guarantee of the Government or indirectly to them through the State Governments. The banks should extend credit as part of housing finance also to (i) the bodies constituted for undertaking repairs and (ii) for repairs or additions undertaken by individuals, provided the credit is sufficiently backed by security/guarantee. The amount of Rs. 75 crores earmarked for housing finance constitutes 0.5 per cent of total advances of all scheduled commercial banks as at the end of December 1978. Within the amount earmarked on the basis of the above formula, the banks have the discretion to decide upon the proportion of direct and indirect finance. However, banks are required to ensure that the major portion of the additional finance is provided in the form of subscription to the guaranteed bonds and debentures of HUDCO and State Housing

Boards which cater mainly to the less well-to-do sections of the society and by way of direct finance to housing projects for the benefit of economically weaker sections, low income/middle income groups.

Housing finance provided by banks should not normally exceed 50 per cent of the total cost. The interest rate should be 12 per cent with $\frac{1}{2}$ per cent rebate for regular payment of instalments. However, for direct loans to scheduled castes, scheduled tribes, and low income groups, banks may provide housing loans upto 80 per cent of the cost, and interest rate on direct loans to scheduled castes/tribes would be 4 per cent, provided the loan given to an individual does not exceed Rs. 2,500. The repayment period should not exceed 10 years and the security should be either mortgage of the properties or Government guarantee. Commercial banks may consider channelising housing finance through regional rural banks, village co-operatives and voluntary agencies.

Certain construction activities should continue to be eligible for being financed by banks on commercial considerations and also considerations of national priority, but the amount advanced to them should not form a part of the quantum of 'housing finance'. Such activities include industries manufacturing building materials for construction, construction of warehouses, hospitals, clinics, schools, colleges, markets, shopping centres, hotels, commercial offices, etc. While the finance for construction activities other than housing finance may be granted to public as well as private sector undertakings, banks are required to ensure that in case of public sector units, bank finance is not being substituted for usual budgetary allocations for construction of infrastructural facilities. The terms and conditions for such finance differ from those for housing finance, for instance, banks should not advance more than 40 per cent and in exceptional cases 50 per cent of the project cost; the interest should be at the rate usually applicable to commercial advances; the repayment should normally be within seven years, but in any case not exceeding 10 years, and security may comprise mortgage of properties and/or other security normally available for such purposes.

Banks were asked not to finance the construction of buildings meant purely for Government/semi-Government offices, including municipal and panchayat offices. Banks may, however, grant loans for activities which may be refinanced by institutions like ARDC and to companies or individuals who contract to undertake infrastructural construction for working capital purposes.

Wherever possible and particularly for projects involving capital outlay of large amounts, banks were advised to adopt consortium approach, involving commercial banks, HUDCO, Housing Boards, LIC, etc., depending upon the nature of the scheme. In such consortium lending, the repayment period should not be more than ten years in respect of finance provided by banks, and the amount of instalments should be on a *pro rata* basis.

Finance provided by banks either as housing finance or for other eligible construction activities would not be eligible for refinance from the Reserve Bank. Further, such advances would not be treated as those granted to priority sectors. Banks are required to obtain Reserve Bank's prior authorisation under CAS, where necessary.

LEGISLATION/REGULATIONS RELATING TO BANKING

(a) Banking Laws (Amendment) Bill, 1978

The Banking Laws (Amendment) Bill, 1978 was introduced in the Lok Sabha during its winter session. The Bill seeks to give legislative effect mainly to such of the recommendations of the Banking Commission as have been accepted by the Government. It contains amendments to the Bankers' Books Evidence Act, 1891, Reserve Bank of India Act, 1934, Banking Regulation Act, 1949, State Bank of India Act, 1955, State Bank of India (Subsidiary Banks) Act, 1959, Deposit Insurance and Credit Guarantee Corporation Act, 1961 and Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

(b) Amendment to Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations, 1951.

In terms of Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations, 1951, as it was hitherto, scheduled banks were required to apportion the balances in the savings bank accounts into 'demand' and 'time' liabilities for the purpose of the weekly return to be submitted to the Reserve Bank under Section 42(2) of the Reserve Bank of India Act, 1934. According to the procedure outlined in the above Regulation, if the Savings Bank Rules of the bank specify a maximum amount that may, at any time, be withdrawn from an account without previous notice, then in respect of each account, such maximum amount, or where the balance in the account was not more than this maximum, the whole of the balance, should be regarded as a demand liability and the excess over the maximum amount, as a time liability. It was observed that the aforesaid procedure did not give a realistic estimate of the 'demand' liability portion of these deposits with the result that the data on 'money supply with the public' to that extent became notional. With a view to indicating the realistic apportionment of savings bank deposits into 'time' and 'demand' liabilities, Regulation 7 of the Scheduled Banks' Regulations, 1951, was amended by the Bank in 1978, in exercise of the powers conferred by sub-section (1) and (2) of Section 58 of the Reserve Bank of India Act, 1934 (2 of 1934) to the effect that the average of the monthly minimum balances in a savings account on which interest is being credited to the account shall be regarded as time liability and the excess over the said amount, as demand liability.

This amendment came into force with effect from August 16, 1978.

(c) Amendment to State Bank of India General Regulations, 1955

Following the recommendations 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 convert Chandigarh and Bhubaneswar Regional Offices into full-fledged local Head Offices.

(d) Review of Laws affecting and concerning Banks—Report of the Banking Laws Committee.

In 1972, the Government of India constituted the Banking Laws Committee as a one-man committee, under the Chairmanship of Dr. P. V. Rajamannar, which submitted the following reports to the Government and the Reserve Bank of India for consideration.

(i) *Report on Negotiable Instruments Law*

The report is the product of a comparative study of the law and practice in India and in other countries with reference to negotiable instruments. The committee has made a comprehensive review of all aspects of the general law relating to negotiable instruments, particularly bills, cheques and notes and has made certain recommendations for amending the present Negotiable Instruments Act which has been in operation in the country since 1881.

(ii) *Report on Real Property Security Law*

This report reviews the real property security law in general (embodied mainly in our mortgage law) and the special law relating to the extension of rural credit by institutional agencies against both personal property and real property.

(iii) *Report on Personal Property Security Law*

The report considers all the aspects relating to commercial and business credit with reference to the different types of available personal property which may be offered as security to the institutional and other lenders.

(iv) *Report on Documents of Title to Goods*

The Committee has reviewed in this report, the legal framework governing railway receipts, lorry receipts, bills of lading, warehouse receipts and other documents eligible for bank advances. It has also reviewed PDO (Pucca Delivery Order) System prevailing in jute trade.

(v) *Report on Indigenous Negotiable Instruments (Hundis)*

The report proposes to codify the practices and usages relating to indigenous negotiable instruments, viz., Hundis.

The above reports are being reviewed by the Reserve Bank and the Government of India.

CONTROL OVER NON-BANKING COMPANIES

Follow-up action on the Recommendations of the Raj Study Group on Non-Banking Companies

A reference was made in the last year's Report regarding the introduction in Parliament of the Bill for the banning of prize chits and money circulation schemes. The Bill was passed by both the Houses of Parliament and came into force on December 12, 1978. The said Act—the Prize Chits and Money Circulation Schemes (Banning) Act, 1978—extends to the whole of India except the State of Jammu & Kashmir. Under the Act, all State Governments (the term also includes Union Territories) are required to frame Rules in consultation with the Reserve Bank for carrying out the provisions of the Act, more particularly for facilitating the winding up of the existing business of prize chits or money circulation schemes within the stipulated period (which shall not extend beyond two years or such extended period as may be allowed by the State Government, in consultation with the Reserve Bank). The Reserve Bank has already framed draft model Rules and has forwarded them to the State Governments for adoption. So far, Maharashtra and Rajasthan have notified the Rules, while proposals from other States, viz., Himachal Pradesh and Kerala have also been approved by the Bank. The matter is being actively pursued with the other States.

A Bill entitled 'The Chit Funds Bill, 1979' to regulate the conduct of conventional chit fund business on a uniform basis throughout the country as drawn up by the Bank and later examined by the Raj Study Group, was introduced in Parliament on February 23, 1979.

The draft of the comprehensive legislation (to give effect to one of the recommendations of the Raj Study Group) for regulating the general conduct of business by other non-banking financial companies is being finalised by the Bank.

Partial withdrawal of the Directions applicable to miscellaneous non-banking companies

The definition of a 'prize chit' as given in the Prize Chits and Money Circulation Schemes (Banning) Act, 1978, referred to earlier, is the same as the description of the type of business mentioned in paragraph 2(1) of the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977. The relative directions were withdrawn from May 9, 1979, insofar as they related to companies carrying on in India, except the State of Jammu & Kashmir, prize chit business of the type referred to in Paragraph 2(1) of the Directions. The aforesaid directions, therefore, now apply only to companies conducting conventional chit fund business.

Amendment to Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977.

Mention was made in the last year's Report of the amendments effected to the Non-Banking Financial Companies (Reserve Bank) Directions, 1977 with a view to covering a residuary class of non-banking financial companies, i.e., companies which do not come under hire-purchase, housing finance, investment, loan, mutual benefit financial companies, etc., but which are nonetheless 'financial institutions'. As a consequential measure, the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977, which regulate the issue of advertisements by such companies for soliciting deposits from the public, were also amended to bring residuary companies within the purview of the said Rules.

Though these Rules have been made by the Central Government pursuant to the powers vested in them under section 58A of the Companies Act, 1956, the administration thereof is vested in the Reserve Bank and for this purpose powers have been delegated to specified officers of the Bank for filing complaints against non-banking companies violating the provisions of the said Rules.

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

As mentioned in the last year's Report, the Companies (Acceptance of Deposits) Rules,

1975 were amended with effect from April 1, 1978 to implement such of the recommendations of the Raj Study Group on Non-Banking Companies as pertained to the non-financial companies. As a consequence of one of the amendments, the exemption in respect of inter-company borrowings was withdrawn, except in cases where the borrowing companies had not gone into commercial production. However, after considering the representations made by various Chambers of Commerce and other representative bodies of trade and industry against this amendment, the Government of India, in consultation with the Reserve Bank, further amended the Rules in July 1978 restoring the *status quo ante* in respect of the exemption for all types of inter-company borrowings upto March 31, 1980. Meanwhile, as desired by the Government, the Bank has undertaken a study with a view to assessing the extent of inter-company borrowings in relation to the totality of company finances.

Acceptance of Deposits by Unincorporated bodies

With a view to prohibiting the acceptance of deposits by unincorporated bodies from more than a specified number of depositors, a comprehensive set of amendments to the Reserve Bank of India Act, 1934, had been forwarded by the Bank to the Government of India (*vide* last year's Report). These amendments were subsequently incorporated in the Banking Laws (Amendment) Bill, 1978 which was introduced in Parliament on December 21, 1978. Subsequent to the introduction of the Bill in Parliament, certain representations were received by Government as well as the Reserve Bank from representative bodies of the mercantile community contending that the proposed provisions would cause great hardships and dislocate the system of informal credit obtained in the country. The Bank has since suggested certain further modifications to the relative provisions in the Bill to obviate the difficulties that might be faced by the mercantile community in this regard.

Growth of Deposits with Non-Banking Companies, 1975-76.

The survey of the growth of deposits with Non-Banking companies as on March 31,

1976 on the basis of the data available from the statutory returns submitted by them show an increase in the total number of reporting companies from 4,612 to 5,640. The aggregate amount of deposits and exempted borrowings of these companies stood at Rs. 1,265.2 crores at the end of March 1976 as against Rs. 1,196.7 crores a year ago. Of the total amount of Rs. 1,265.2 crores of deposits/exempted borrowings as on March 31, 1976, deposits amounted to Rs. 544.9 crores and exempted borrowings amounted to Rs. 720.3 crores. Of the Rs. 1,265.2 crores of deposits and exempted borrowings in respect of reporting companies, 3,589 non-financial companies accounted for Rs. 803.7 crores, 1,393 financial companies for Rs. 384.6 crores and 658 miscellaneous non-banking companies accounted for the balance of Rs. 76.9 crores.

Further, a quick survey of deposits with non-banking companies as on March 31, 1978 based on the returns submitted by them was also carried out during the year under review. The results shown by the said survey are provisional. The survey reveals that the aggregate amount of deposits and exempted borrowings of 5,356 reporting non-banking companies (comprising 3,333 non-financial, 1,201 financial and 822 miscellaneous non-banking companies) amounted to Rs. 2,214.9 crores. Component-wise, deposits amounted to Rs. 776.8 crores and exempted borrowings to Rs. 1,438.1 crores. The reporting 3,333 non-financial companies accounted for Rs. 632.7 crores of deposits and Rs. 925.0 crores of exempted borrowings, the 1,201 financial companies accounted for Rs. 100.1 crores of deposits and Rs. 481.5 crores of exempted borrowings, while the 822 miscellaneous non-banking companies accounted for Rs. 44.0 crores of deposits and Rs. 31.6 crores of exempted borrowings.

TRENDS IN RURAL CREDIT

I. Institutional Finance for Agriculture

Institutional credit requirements for agriculture have been assessed at Rs. 3,890 crores of short-term loans to be reached by the end of the Mid-term Plan and Rs. 6,290 crores as term loans to be advanced during the Plan

period 1978-83@. The co-operative institutions are expected to be the major source financing a sum of Rs. 2,500 crores (64 per cent) of short-term credit and Rs. 3,690 crores (58.6 per cent) of term loans. Commercial banks are expected to provide Rs. 2,600 crores of term loans and reach a level of Rs. 1,400 crores in short-term loans by 1982-83. Half of the total loan amount would be disbursed among the weaker sections of the population and such loans would be higher in areas with concentration of small and marginal farmers and agricultural labourers. In addition, special attention would be given to the needs of scheduled castes and scheduled tribes.

Direct Finance :

Total direct institutional credit for agriculture disbursed during 1978-79 is estimated at Rs. 2,657 crores. At this level, it records a rise of Rs. 471 crores or 21.5 per cent over disbursement during 1977-78, as against the rise of 7.3 per cent in 1977-78 over 1976-77 (Table VI-26).

Term-wise, short-term loans continued to predominate, accounting for Rs. 1,812 crores or 68.2 per cent of the total direct institutional finance for agriculture during 1978-79. However, term loans at Rs. 845 crores represented a larger share of 31.8 per cent as against 29.6 per cent during 1977-78, owing mainly to better performance by land development banks. Estimated disbursement of credit of Rs. 325 crores by LDBs during 1978-79, recorded a rise of Rs. 108 crores over 1977-78, as against a decline of Rs. 61 crores during 1977-78 to Rs. 217 crores from 1976-77 level.

During 1978-79, co-operatives accounted for the major share (Rs. 1,740 crores or 65.5 per cent) in total direct advances, followed by scheduled commercial banks (Rs. 670 crores or 25.2 per cent), State Governments (Rs. 146 crores or 5.5 per cent) and RRBs (Rs. 101 crores or 3.8 per cent). According to provisional data available for 1977-78, direct advances of co-operatives registered a rise of 3.0 per cent over 1976-77, those of scheduled commercial banks 12.1 per cent

@Government of India, Ministry of Agriculture and Irrigation (Department of Rural Development) Annual Report of 1978-79.

Table VI. 26.—Direct Institutional Finance for Agriculture

(Rupees Crores)

Source	Loans issued during					Loans Outstanding as on June 30		
	1974-75	1975-76	1976-77	1977-78P	1978-79E	1978P	1979E	
I. Co-operatives (July-June)		1039.2	1186.7	1431.2	1475.2	1740.0	2762.0	3405.0
<i>Of which</i>								
(a) Short-term loans by PACS		750.0	881.4	1016.3 ^R	1108.0	1240.0	1309.7	1610.0
(b) Term loans by PACS/LDBs		289.2	305.3	414.9	367.2	500.0	1452.3	1795.0
II. State Governments (April-March)		77.5	81.5	82.3 ^R	97.8	146.4	N.A.	N.A.
III. Scheduled Commercial Banks (April-March)		274.3	404.9	507.7	569.4	670.0	1339.7	1747.9
<i>Of which</i>								
(a) Short-term loans		146.1	212.5	253.8 ^R	288.1	325.0	546.6	661.4
(b) Term loans		128.2	192.4	253.9	281.3	345.0	793.1	1086.5
IV. Regional Rural Banks (July-June)		N.A.	1.5	16.2	43.7	101.1	N.A.	N.A.
Total Direct Finance (I to IV)		1391.0	1674.6	2037.4	2186.1	2657.5	4101.7	5152.9
<i>Of which</i>								
(a) Short-term loans		973.6	1176.9	1368.6	1537.6	1812.5	1856.3	2271.4
(b) Term loans		417.4	497.7	668.8	648.5	845.0	2245.4	2881.5

R = Revised P = Provisional E = Estimates N. A. = Not Available

and of State Governments 18.8 per cent. The estimated position for 1978-79 showed the percentage increases in advances by these agencies at 18.0 per cent, 17.7 per cent and 49.7 per cent, respectively.

The outstanding level of the direct institutional finance advanced to agriculture is estimated at Rs. 5,153 crores as on June 1979, recording a rise of Rs. 1,051 crores or 25.6 per cent over the year.

Indirect Finance :

Indirect advances disbursed during 1978-79 by SCBs/CCBs/REC/RRBs for which data are available, are placed at Rs. 841 crores showing a rise of Rs. 154 crores or 22.4 per cent over 1977-78 as against the decline of Rs. 18 crores in 1977-78 over 1976-77 (Table VI-27). A sum of Rs. 681 crores is estimated to have been disbursed as short-term loans by SCBs/CCBs/RRBs during 1978-79 for purposes such as procurement of foodgrains, marketing of agricultural commodities, distribu-

tion of fertilisers, etc. as against Rs. 575 crores during 1977-78. Data on term loans are available only in respect of REC. At Rs. 160 crores, these loans showed a rise of Rs. 48 crores in over 1977-78.

Total estimated indirect advances outstanding on June 30, 1979 at Rs. 1,825 crores showed a rise of Rs. 430 crores over the year. Major quantum of these loans was shared by scheduled commercial banks (with Rs. 750 crores or 41.1 per cent) followed by REC (with Rs. 650 crores or 35.6 per cent) and Co-operatives (with Rs. 425 crores or 23.3 per cent).

II. Reserve Bank of India and Cooperative Agricultural Credit

The Reserve Bank's cooperative credit policy during the year continued to lay stress on streamlining of loan policies of cooperative credit institutions, strengthening of the cooperative credit structure, facilitating larger flow of funds to weaker sections/areas, etc.

Table VI.27: Institutional Finance for Agriculture

(Rupees Crores)

	Loans issued during the year					Loans outstanding as on June 30				
	1974-75	1975-76	1976-77	1977-78P	1978-79E	1975	1976	1977	1978P	1979E
A. TOTAL DIRECT FINANCE (I+II)	1,391.0	1,674.6	2,037.4	2,186.1	2,657.5	2,723.8	3,147.4	3,826.7	4,101.7	5,152.9
I. Short-term loans (i to iv)	973.6	1,176.9	1,368.6	1,537.6	1,812.5	1,150.0	1,375.9	1,666.8	1,856.3	2,271.4
(i) Primary Agricultural Credit Societies(1)	750.0	881.4	1,016.3R	1,108.0	1,240.0	903.8	1,012.1	1,215.8	1,309.7	1,610.0
Of which financed by scheduled commercial banks (including Regional Rural Banks)	12.3	16.6	24.8	26.7	37.0	15.6	21.7	35.8	43.3	55.0
(ii) State Governments (Departmental Loans)(2)	77.5	81.5	82.3R	97.8	146.4	N.A.	N.A.	N.A.	N.A.	N.A.
(iii) Scheduled Commercial Banks (3)	146.1	212.5	253.8R	288.1	325.0	246.2	363.8	451.0	546.6	661.4
(iv) Regional Rural Banks (4)	N.A.	1.5	16.2	43.7	101.1	N.A.	N.A.	N.A.	N.A.	N.A.
II. Medium and Long-term loans (i to iii)	417.4	497.7	668.8	648.5	845.0	1,573.8	1,771.5	2,159.9	2,245.4	2,881.5
(i) Primary Agricultural Credit Societies (1)	108.4	89.9	136.8@	150.1@	175.0	272.9	287.1	386.5@	410.3@	525.0
Of which financed by scheduled commercial banks (including Regional Rural Banks)	1.3	2.2	6.1	6.5	10.0	3.0	5.0	9.8	14.1	20.0
(ii) Land Development Banks(5)	180.8	215.4	278.1	217.1	325.0	983.5	1,057.9	1,193.4	1,042.0	1,270.0
(iii) Scheduled Commercial Banks(3)	128.2	192.4	253.9	281.3	345.0	317.4	426.5	580.0	793.1	1,086.5
B. TOTAL INDIRECT FINANCE (I+II)	589.9	632.8	705.4	687.2	841.0	815.5	854.3	1,006.3	1,394.8	1,824.8
I. Short-term loans (i to iv)	512.0	556.8	617.2	575.0	681.0	393.6	337.0	362.1	521.1	612.1
(i) State Co-operative Banks (6)	263.3	280.9	307.4R	251.7	325.0	176.8	150.5	166.9R	200.2	225.0
(ii) Central Co-operative Banks(6)	248.7	275.9	307.9	320.6	350.0	118.4	86.8	89.7	180.2	200.0
(iii) Scheduled Commercial Banks (3) (Advances for fertilizer distribution)	N.A.	N.A.	N.A.	N.A.	N.A.	98.4	99.7	105.5	140.7	187.1
(iv) Regional Rural Banks(4)	N.A.	N.A.	1.9	2.7	6.0	N.A.	N.A.	N.A.	N.A.	N.A.
II. Medium and Long-term loans (i+ii)	77.9	76.0	88.2	112.2	160.0	421.9	517.3	644.2	873.7	1,212.7
(i) Scheduled Commercial Banks(3) Of which financed through Primary Agricultural Credit Societies	N.A.	N.A.	N.A.	N.A.	N.A.	181.2	201.8	244.2	370.3	562.7
(ii) Rural Electrification Corporation Ltd.(7)	77.9	76.0	88.2	112.2	160.0	240.7	315.5	400.0	503.4	650.0

P=Provisional.

R=Revised.

E=Estimates.

N.A.=Not Available.

- Exclude loans disbursed for "non-agricultural purposes such as, industrial, consumption and other non-agricultural purposes" under short-term and "others" under medium-term. Outstanding figures are, however, inclusive of outstandings against these advances.
- Financial year data in State Budgets, presumed to be for short-term. These advances include direct advances to 'agriculture, minor irrigation, soil conservation and area development'.
- Loans disbursed relate to financial year data reported in half-yearly returns while outstandings are as on end June reported in quarterly returns.
- Outstanding position of loans is not available.
- These are advances to "individuals" by Central and Primary Land Development Banks.
- Loans disbursed include procurement finance but these are not included in loans outstanding which mainly cover direct advances given to non-agricultural credit societies operating at apex, regional or primary level.
- Excluding Harijan Basti loans but inclusive of loans to co-operative societies and State Electricity Boards.

@Including long-term loans given by PACS.

The important measures taken during the year are given below :

Loan Policy : Changes in Interest Rates by RBI

It may be recalled that some changes in short-term interest rates structure were made in March 1978 and subsequently in June 1978. The changes effected during the year related to the interest rates on medium-term credit for agriculture and conversion of short-term loans into medium-term credit. In both the cases, existing rates charged by the RBI were reduced from $2\frac{1}{2}$ per cent below the Bank Rate to 3 per cent below the Bank Rate with effect from January 1, 1979, so as to bring these rates on par with RBI refinance rate for short-term agricultural loans.

The ARDC also reduced its refinance rates to land development banks (LDBs) as discussed later.

Interest Rates on Advances by Commercial Banks to Co-operative Societies

Under the scheme of financing Primary Agricultural Credit Societies (PACS) by commercial banks and RRBs, loans are advanced to PACS/FSS for financing short-term/medium-term agricultural operations. With a view to bringing these interest rates on par with those of Central Co-operative Banks (CCBs), the rates charged by commercial banks and RRBs were reduced from 10 per cent to 9 per cent with effect from March 1, 1979. These rates were further reduced on March 15, 1979, by one per cent in respect of loans to LDBs for minor irrigation and for diversified purposes to small farmers.

Deposit Rates of Co-operatives

There was no change in the existing rates of interest payable by co-operatives on deposits during the period under review. The concession granted to co-operatives last year in respect of payment of interest on deposits at rates higher than those of commercial banks was continued during the year also. In February 1979, the RBI advised all State,

@In September 1979, consequent to revision in interest rates of commercial banks, interest rates of co-operative banks were raised within the range of $\frac{1}{2}$ per cent to 1 per cent per annum.

Central and Primary Co-operative Banks that whenever the interest payable to a depositor is reduced on account of premature withdrawal of deposit, the interest charged on advances against such deposits should also be reduced so as to keep a difference of only two percentage points between the two rates.

Other Policy Changes—Short-term Credit

Seasonality Discipline

The existing seasonality discipline requiring specified recoveries of *kharif* and *rabi* advances before permitting drawals by CCBs was continued during this year also. However, as recommended by the Study Group on Interest Rates Structure of Co-operatives, certain modifications in the policy were made so as to ensure that these conditions do not become unduly restrictive and deprive the benefit of concessions extended by the RBI particularly in regard to the rate of interest. The modified stipulations applicable from the year 1978-79 are as follows :

Every CCB shall recover and remit to the Apex Bank a minimum of 40 per cent of the current *kharif* demand under short-term agricultural loans (exclusive of overdues as on June 30 of the previous year) or 30 per cent of the total demand (comprising overdues under short-term loans as on June 30 of the previous year plus all short-term agricultural loans falling due for repayment during the period July 1 to March 31) whichever is less, on or before March 31 every year. The modified seasonality discipline envisaged for the CCBs was also applicable to SCBs which are functioning as central financing agencies in their area of operation. By a further modification, SCBs were enabled to draw in excess of 70 per cent of sanctioned limits to the extent of finance provided to small farmers.

Medium-term Credit

The RBI policy governing the sanction of medium-term credit limits for agricultural purposes to SCBs during the calendar year 1979 remained more or less unchanged. Certain relaxations intended to benefit beneficiaries under SFDA/MFAL/DPAP and Antyop-

daya programmes were, however, announced. Suitable changes were also made in operational details of the schemes like dairy, poultry, sheep rearing, etc. so as to enable weaker sections to take advantage of these schemes. Persons having no landed property were also enabled in certain cases to obtain unsecured loans on personal credit.

It was also decided to include goat-rearing activity of farmers as eligible item for refinance under medium-term loan limits of RBI. From the year 1979, the existing relaxation in separate minimum 50 per cent recovery performance in respect of medium-term loans available to banks serving SFDA/MFAL areas was extended to all banks and it was also extended for financing Antyodaya beneficiaries subject to certain conditions.

With a view to curbing overdues, it was, however, decided that the refinance facility would not be available to banks with overdues as on June 30, 1978, of 60 per cent or above of their total demand for 1977-78 and the banks for which short-term credit limits for 1978-79 were rejected for any reason.

National Agricultural Credit (Stabilisation) Fund

On the recommendations of the Agricultural Credit Board, it was decided in May 1979 that, in future, the stabilisation arrangements introduced last year by RBI should be strictly adhered to and the State Governments should bear their share of 15 per cent of conversions sanctioned in respect of short-term production loans issued for *rabi* 1978-79 season and thereafter. It was also decided to restrict the scope of refinance from the Fund to States following scientific methodology for declaration of Annewari and to States granting relief in land revenues and other dues to affected areas. A sum of Rs. 30 crores, same as last year, was transferred to the Fund raising the total amount transferred to the Fund upto June 30, 1979, to Rs. 225 crores.

Long-term Agricultural Credit

In the field of long-term agricultural credit the RBI continued to lay emphasis on the production-oriented investment loans by

LDBs, higher level of investment by small and marginal farmers and higher recovery performance. Towards this end it announced certain relaxations as discussed below :

Regulation of Advances : Revision of Slabs

As per the recommendations of the Standing Committee on Debenture Norms and in consultation with the ARDC and the IDA, the existing parameters for determining eligibility of banks for drawal of funds were revised on February 1, 1979 and the gap in the two (overdue) slabs was reduced to 5 per cent from 10 per cent earlier. As a result of the revised slab system, larger funds were available to the PLDBs/branches having overdues between 26 and 55 per cent of demand. However, for improving the recovery performance, the level of overdues beyond which eligibility was not permitted was reduced by 5 percentage points to 55 percent of demand from 60 per cent operating earlier. In such cases also, to enable farmers to finish the incomplete work, it was decided that the PLDBs/branches of SLDBs would be permitted to draw funds from the SLDBs to meet the required instalments even though their overdues exceeded 55 per cent, subject to conditions that 25 per cent of the loan amount is disbursed in first instalment, or the scheme is sanctioned by ARDC without such provision. Similar concession was also given to PLDBs/branches of SLDBs in SFDA, DPAP and CAD areas for completion of ongoing schemes, where the RBI/ARDC are satisfied of adequate monitoring and supervision. If the available funds, however, were found to be insufficient for providing fresh loans after meeting committed expenditure, PLDBs were also made eligible for additional funds.

With a view to reducing the impact of overdues, the earlier policy of widening the capital base by permitting contributions by State Governments to the share capital of PLDB/branch of SLDB an amount not exceeding 10 per cent of demand as well as of undertaking mid-year reviews of recovery performance, introduced in 1976-77, was continued. However, the concession in regard to the State Government contribution (to the extent of 20 per cent of the share capital) available so far for meeting the committed

expenditure by PLDBs/branches of SLDBs with a minimum recovery of 40 per cent without State Government contribution in the previous two years but whose recovery performance declined to 40 per cent or less in the next succeeding year, was withdrawn.

Agricultural Credit Intensive Development (ACID) Scheme

The Agricultural Credit Intensive Development Scheme which was under implementation in 41 districts continued to show progress. During the year, field studies were completed in 9 more districts raising the number of districts where such studies were conducted to 32. Further, credit and action programmes were formulated for 7 new districts raising the number of districts where the formulation of such programmes was completed to 25.

One of the major achievements of the ACID Scheme has been the bringing about of a functional co-ordination among various agencies concerned with the formulation and implementation of development schemes and the credit institutions operating in the district. The Scheme recorded good progress in some districts in matters such as re-organisation of PACS, enrolment of new members and flow of credit for financing agriculture and allied activities. During the financial year 1977-78, the work relating to re-organisation was completed in 6 more districts, thus raising the total number of districts where the reorganisation was completed to 24. The coverage of PACS had increased especially with reference to small and marginal farmers. In 37 out of 41 selected districts, the total membership of PACS increased by about 7 lakhs. At the CCB's level, the restricted loaning policies and procedures affecting the flow of credit were streamlined to ensure adequate and timely financing and better end-use of credit. The benefits of increased lendings had accrued more to the small and marginal farmers than to others.

Since the introduction of the ACID Scheme, there have been certain developments requiring a review of the Scheme. The lead banks have been advised to terminate their existing plans by December 1979 and formulate fresh Dis-

trict Credit Plans (DCPs) for their lead districts for the period from January 1980 to December 1982 and Annual Action Plan by December each year. The DCP would be a comprehensive credit plan for the district and would indicate total credit outlay (sector-wise, block-wise, scheme-wise and institution-wise) for technically feasible and economically viable schemes for financing production and investments by the banks in the district. Co-operatives, among other financial institutions, are also participating agencies in the formulation and implementation of the plans. In the context of these developments it has been decided to effectively integrate the ACID programme with DCP from 1980 onwards.

Strengthening of Co-operative Credit Structure

(1) Reorganisation of Primary Agricultural Credit Societies

Following the efforts made by the Government of India and RBI to persuade State Governments to speed up the reorganisation of PACS, considerable progress has been made in several States in the reorganisation of PACS on a viable basis. The reorganisation of PACS was more or less complete in Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, Punjab and West Bengal. Efforts towards reorganisation are continuing in other States also. However, some States seem to be still having reservations as regards completion of the programmes on the lines already agreed to. The total number of societies in the country is expected to decline from 1,24,000 at the end of 1976-77 to about 90,000 after the process of reorganisation is completed.

(2) Integration of three-tier credit structure in Co-operatives :

The recommendations of the Hazari Committee on Integration of Co-operative Credit Institutions have generally been accepted by various States and RBI is pursuing the matter with other State Governments. The progress of the scheme in various States is discussed in Section VIII.

(3) *National Agricultural Credit (Long-term Operations) Fund*

Policy governing grant of loans from NAC (LTO) Fund to State Governments for contributing to share capital of co-operative credit institutions was modified during the year in respect of FSS functioning for over 3 years and in respect of weak PLDBs. In the former case, the sanction was subjected to overdues not exceeding 50 per cent of the demand during 1977-78, while in the latter case, the conditions applicable to PLDBs functioning in SFDA/notified areas were extended to weak PLDBs brought under rehabilitation programme.

During 1978-79, loans amounting to Rs. 19.1 crores were sanctioned from the Fund to State Governments for contribution to share capital of 5 SCBs, 86 CCBs, 4 SLDBs, 81 PLDBs, 21 UCs, 6749 PACS, 156 FSS and 239 LAMPS.

A sum of Rs. 140 crores, as against Rs. 115 crores last year, was transferred to the Fund by the RBI during 1978-79 raising the total amounts transferred so far to Rs. 750 crores as on June 30, 1979.

Other Developments :

Lending by SCBs outside the Co-operative Fold

The Bank permitted SCBs to invest their surplus funds outside the co-operative fold for financing agro-based public sector institutions, dairy-development corporations, marketing boards, electricity boards, etc. subject to certain conditions. This permission is expected to relieve the prevailing problem of excess liquidity with SCBs.

Floitation of Rural Debentures : Rate of Interest

During the financial year 1978-79, the rate of interest on rural debentures by LDBs was raised from 10 per cent to 12 per cent per annum. The other terms and conditions for flotation of such debentures remained the same. No bank had, however, floated rural debentures, under the scheme during 1978-79.

The Government of India reviewed in July 1978 the performance of rural debentures floated by quasi-public bodies and decided that the interest rate may remain unchanged at 12 per cent per annum but the maturity period should be reduced from 10 years to 5 years. These rural debentures were also made eligible as security for raising loans from the scheduled banks as well as from co-operatives after an initial lock-up period of one year. Floating of rural debentures was to be linked with a project of immediate benefit to rural population in a particular area.

Penal Rate of Interest

Consequent upon the lowering of refinance rates of RBI advances for approved cottage and small-scale industries under Section 17(2)(bb) read with Section 17(4)(c) of the RBI Act 1934 from March 1, 1978, the RBI reviewed the penal rate of interest to be charged to SCBs defaulting in repayment of loans/loan instalments on due dates. With effect from July 11, 1978, penal interest has been charged at the Bank Rate for the entire period of the loan, as against the earlier rate of 1 per cent above the normal lending rate for the period of default.

Advances against the Security of Gold, Gold and Silver Ornaments by Co-operatives

In the context of the gold auctions then undertaken by the Bank since May 3, 1978,* the policy governing advances by co-operatives against the security of gold and gold and silver ornaments was reviewed. With effect from July 22, 1978, co-operative banks were advised not to grant/renew any advances against gold bullion, to recall outstanding advances before September 30, 1978 and to ensure that advances against gold ornaments are not used for speculative purposes.

III. Reserve Bank's Credit to State Co-operative Banks and State Governments

Short-term Credit :

Short-term credit limits sanctioned by RBI to SCBs aggregated Rs. 946 crores and showed

*Discontinued on October 23, 1978.

a sizeable increase over 1977-78. The rise of 12 per cent noticed during the period as against the increase of 4 per cent in 1977-78 may be attributed primarily to various measures taken by the RBI in March 1978. These have been discussed in the last year's Report (vide P. Nos. 148-151). Drawals and repayments during 1978-79 were at Rs. 1,218 crores and Rs. 1,283 crores, respectively, as compared to Rs. 1,228 crores and Rs. 1,163 crores during the previous year. The year-end outstanding position as such was lower at Rs. 259 crores as against Rs. 325 crores at the end of 1977-78 (Table VI-28).

Seasonal agricultural operations continued to account for the major share in short-term credit limits and showed a rise of Rs. 46 crores over 1977-78. At Rs. 795 crores these represented 84 per cent of limits sanctioned, 87 per cent of drawals and 90 per cent of outstanding amounts against short-term credit. The increase in limits for seasonal agricultural operations may be attributed mainly to the improvement in coverage of families, reorganisation of societies and the recovery performance of CCBs in certain States. The limits sanctioned for agricultural operations, drawals against the limits as well as repayments during the period, recorded increases over the year. In absolute terms the rise in credit limits sanctioned by RBI for seasonal agricultural operations during July-June 1979 amounted to Rs. 46 crores or 6 per cent over 1977-78 and was shared by Uttar Pradesh and West Bengal (Rs. 11 crores each), Gujarat and Maharashtra (Rs. 8 crores each), Punjab (Rs. 7 crores), Bihar and Orissa (Rs. 5 crores each) and Haryana (Rs. 3 crores). States showing decline in refinance from the RBI included Andhra Pradesh (Rs. 7 crores), Tamil Nadu (Rs. 4 crores), Karnataka (Rs. 1 crore) Madhya Pradesh (Rs. 0.5 crore) and Kerala (Rs. 0.3 crore). The outstanding level as on May 1979 was Rs. 234 crores as against Rs. 289 crores as on June 1978. Credit limits sanctioned by the RBI for the purposes other than seasonal agricultural operations aggregated Rs. 151 crores as against Rs. 96 crores last season. The rise in credit limits was noticed in all purposes excepting distribution of fertilisers. The rise was prominent in cotton and kapas following reintroduction of Monopoly

Cotton Procurement Scheme in Maharashtra. Limits sanctioned for marketing of cotton and kapas and other crops and for production and marketing of handloom products at Rs. 69@ crores and Rs. 51 crores, respectively were higher than Rs. 15 crores and Rs. 44 crores sanctioned in previous year. Although, credit limits sanctioned for production and marketing of handloom products thus rose by Rs. 7 crores to Rs. 51 crores during the year ended March 1979, drawals against the limits aggregated Rs. 126 crores which were, however, lower than Rs. 167 crores drawn in 1977-78. Despite reduction in Bank's lending rate there was no rise in drawals because the number of eligible banks continued to be small.

Medium-term Credit

Credit limits sanctioned during the year for medium-term credit were lower at Rs. 66 crores as against Rs. 121 crores during the preceding year owing mainly to decline from Rs. 98 crores in 1977-78 to Rs. 37 crores in July-May 1979 in limits sanctioned for conversion of short-term loans into medium-term loans. The drawals against the limit were Rs. 22 crores as against Rs. 103 crores in previous year. The outstandings as on May 1979 at Rs. 97 crores were also lower than Rs. 138 crores outstanding on June 1978. Limits sanctioned, drawals and repayments for medium-term agricultural purposes during 1978 at Rs. 28 crores, Rs. 16 crores and Rs. 11 crores respectively were, however, higher by Rs. 7 crores, and Rs. 4 crores each over 1977. The outstanding level of advances was also higher by Rs. 6 crores to Rs. 28 crores.

Long-term Credit

Under long-term refinance, limits are sanctioned by the RBI to State Governments for contributions to share capital of co-operative credit institutions. During 1978-79, limits sanctioned, drawals against the limits and the repayments during the year were almost around the same levels as in 1977-78. Although overall limits sanctioned had declined

@Rs. 4.8 crores for cotton & kapas covered by Bank's directives, Rs. 19.1 crores for non-directive cotton, Rs. 45 crores to MSCB for monopoly cotton procurement scheme.

Table VI.28: Reserve Bank Credit to Co-operatives, State Governments and ARDC during 1977-78 and 1978-79

(Rupees in crores)											
Refinance Rate of RBI	Purpose of finance	Period for which limits are sanctioned	1977-78				1978-79				
			Limits sanctioned	Drawals	Repay-ments	Out-standings	Limits sanctioned	Drawals	Repay-ments	Out-standings	
1	2	3	4	5	6	7	8	9	10	11	
I. Short-term ££	.. .. .		845	1,228	1,163	325	946	1,218	1,283	259	
3 % below Bank Rate from March 1978**	(i) Seasonal agricultural operations	July-June	749	994	934	289	795	1,066*	1,121*	234*	
Bank Rate from June 1978	(ii) Marketing of crops other than cotton and kapas	July-June	1	—	—	—	3	—	—	—	
-do-	(iii) Marketing of cotton and kapas including monopoly procurement of cotton	July-June	14	1	1	—	66	4	4	—	
1 % above Bank Rate from June 1978	(iv) Purchase and distribution of fertilisers	January-December	13	24	31	3	6	8	10	1	
2 ½ % below Bank Rate from March 1978	(v) Production and marketing of handloom products	April-March	44	167	159	24	51	126	134	16	
3 % below Bank Rate from March 1978	(vi) Financing of other cottage and small scale industries	April-March	7	5	4	5	6	12	9	8	
Bank Rate	(vii) Loans to ARDC	July-June	10	—	—	—	10	—	—	—	
-do-	(viii) Purchase and sale of yarn	April-March	2	1	1	—	3	1	1	—	
3 % above Bank Rate	(ix) Against pledge of sugar	July-June	8	36	34	3	6*	1	4	—	
II. Medium-term ££	.. .. .		121R	115	89	161	66	38	75	125	
3 % below Bank Rate from January 1, 1979	(i) Agricultural purposes	January-December	21	12	7	22	28	16	11	28	
3 % below Bank Rate from January 1979	(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas including re-phasement and reschedulement	July-June	98R	103	81	138	37	22*	64*	97*	
Bank Rate	(iii) Purchase of shares in co-operative sugar factories/processing societies	January-December	1	—	—	—	1	—	—	—	
III. Long-term	.. .. .		86	86	29	328	94	94	38	385	
6 % per annum	(i) Loans to State Governments for contribution to share capital of co-operative credit institutions	April-March	21	21	8	111	19	19@	10	121	
6 % per annum	(ii) Loans to ARDC	July-June	65	65	21	217	75	75	28	264	
Total Credit (I+II+III)	.. .. .		1,052R	1,429	1,281	814	1,106	1,350	1,396	769	

££ The totals at various items in short and medium-term loans may not add up to group totals due to rounding up of figures.

R Revised.

* Position as on 31-5-1979.

@ Including drawals against limits sanctioned in 1977-78.

** Subject to recovery of an additional interest of 1½ % as per linking scheme.

by Rs. 2 crores over last year, higher limits were sanctioned to weaker States such as Punjab (Rs. 1.9 crores), Bihar (Rs. 1.2 crores), Orissa (Rs. 0.7 crore), and West Bengal (Rs. 0.3 crore). The outstanding level of credit as on March 1979 was Rs. 121 crores as against Rs. 111 crores on end-March 1978. In addition, limit of Rs. 75 crores was also sanctioned to ARDC as against Rs. 65 crores in the previous year.

Land Development Banks

Lending Programme for 1978-79

In consultation with other financing institutions, the RBI finalised the co-ordinated investment programme in ordinary debentures floated by LDBs. The total lending programme of State Land Development Banks (SLDBs) for the financial year 1978-79, at

Rs. 419.4 crores, was higher by Rs. 91.3 crores than in 1977-78. This comprised Rs. 271.4 crores under schemes refinanced by ARDC and Rs. 148.0 crores under normal lending programmes of which a sum of Rs. 125.0 crores was to be financed by issue of ordinary debentures and the balance from their internal resources. The total lending programme for the financial year 1979-80 has been tentatively fixed at Rs. 433.8 crores which comprises Rs. 297.8 crores under ARDC refinanced schemes and Rs. 136 crores under ordinary lending programme (Rs. 125 crores by way of ordinary debentures and Rs. 11 crores through internal resources). Thus, the project lending through ARDC rose from 58 per cent in 1977-78 to 65 per cent in 1978-79 and further to 69 per cent in 1979-80. The following Table VI-29 gives the position of approved programmes and the subscriptions received from various agencies.

Table VI. 29—Ordinary Debenture Programme of Central Land Development Banks

Agencies	(Rupees crores)				
	1977-78		1978-79		1979-80
	Approved Programme	Subscriptions received	Approved Programme	Subscriptions received	Approved Programme
(i) Central & State Governments	12.0	14.9	12.0	17.1	16.0
(ii) Life Insurance Corporation	22.5	22.5	32.5	32.5	38.0
(iii) Commercial Banks (through IBA)	10.0	9.8	10.0	9.6	10.0
(iv) State Bank of India Group	5.0	5.0	5.0	5.0	7.0
(v) Mutual Support	60.5	36.4	65.5	22.1	54.0
(vi) Self-help	10.0	4.2	—	6.5	—
Total	120.0	92.8	125.0	92.8	125.0

IV. Reserve Bank of India and Co-operative Non-Agricultural Credit.

Handloom Finance

The concessional rate of interest ($2\frac{1}{2}$ per cent below the Bank Rate) at which refinance was given to SCBs on experimental basis during the financial year 1978-79 for financing production and marketing of polyester cloth by primary handloom weavers' co-operative societies was continued for the financial year 1979-80.

Credit Authorisation Scheme

The scheme, requiring prior authorisation from the RBI in disbursal of credit was continued during 1978-79 subject to specified conditions. However, in keeping with the recommendations of the Study Group on Interest Rates in the Co-operative Credit Structure the State/Central co-operative banks were permitted in January 1979 to sanction higher clean limits for amount upto Rs. 10 lakhs or the owned funds of the concerned society, whichever is less (as against Rs. 5 lakhs earlier) to a processing

society or marketing-cum-processing society undertaking processing activity without obtaining prior authorisation from the RBI.

During the year ended June 1979, authorisation was granted by the RBI for Rs. 10.7 crores for block capital requirements and Rs. 584.5 crores for working capital requirements. The proposals involved numbered 26 and 148, respectively.

Urban Co-operative Banks

The existing limit on total advances to a single party by PUCBs with total time and demand liabilities (TDL) of Rs. 2 crores or more was raised on June 9, 1979 from Rs. 10 lakhs to Rs. 15 lakhs or five per cent of total TDL whichever is lower. Of these, limit on unsecured advances to a single party for purposes like trade, commerce, cottage and small scale industries, housing and education has been enhanced from Rs. 10,000 to Rs. 15,000. All PUCBs were also now permitted to include 75 per cent of the paid-up capital and reserves in TDL as against the existing facility to only newly organised PUCBs.

The report of the Committee on UCBs set up by the RBI was finalised and suitable action initiated during the year.

Finance for Rural Artisans

During the year under review, the RBI decided to extend for the year 1979-80, its re-finance assistance to SCBs for advancing loans to rural artisans in 22 broad groups of industries. Further, in view of the necessity of active participation by co-operatives in assisting rural artisans and cottage industries for increasing employment potential in the area, @ co-operatives were advised to undertake such loans including loans to industrial co-operative societies registered under the Societies Registration Act, in case these were not adequately financed by the Khadi and Village Industries Board. This type of financing was to be done mainly by UCBs, but wherever it was not

feasible, the SCBs/CCBs were permitted to treat such societies as individual members and extend the required financial accommodation from their own resources not exceeding 10 per cent of their time and demand liabilities. If all the three co-operative organisations were unable to do the needful, these societies will also be permitted to obtain the required finance from commercial banks.

V. Government of India and Rural Credit

With a view to strengthening the co-operative credit institutions and enabling them to meet the increased demand for credit, the Government of India have been providing assistance through Centrally Sponsored Schemes. During the year 1978-79, a provision of Rs. 318.9 crores was made by the Government for various schemes of the Rural Development Department. Of this, major allocations viz. Rs. 115 crores and Rs. 76.5 crores, respectively, were for SFDA/MFAL projects and DPAP (including IRD) programmes which are discussed elsewhere in the Report. A sum of Rs. 15.8 crores was allotted for the following four schemes intended to improve the organisational structure of co-operatives.

Scheme of Rehabilitation of Weak Central Co-operative Banks

This scheme was introduced during the middle of the Fourth Plan with a view to removing the weaknesses of primary credit institutions and CCBs on account of accumulation of overdues. As such, CCBs which are very weak and whose bad and doubtful debts, accumulated losses and other overdues over 3 years exceed 50 per cent of their owned funds and whose uneroded owned funds are less than Rs. 50 lakhs are made eligible for central support. As on March 1979, 180 CCBs, 5 SCBs operating as central financing agencies and 54 PUCBs were covered under the rehabilitation programmes. Of these, 146 CCBs were brought under the Central Sector Plan Scheme and Rs. 8.4 crores were sanctioned by Government of India as its share in writing off bad debts, of which Rs. 7.7 crores were released till March 1979. This scheme will be discontinued by the end of March 1980.

@Findings of Working Group on Small Scale Industries and Committee on Urban Co-operative Banks.

Assistance to CCBs in Co-operatively Weak States for Non-Overdue Cover :

This scheme was introduced from the beginning of the Fifth Plan with a financial outlay of Rs. 14 crores (subsequently revised to Rs. 13.1 crores) against which Rs. 7.0 crores were sanctioned to 75 CCBs in nine weak States*, to enable them to overcome the difficulties in providing the non-overdue cover. In addition a sum of Rs. 4.5 crores was proposed to be released during 1978-79 to eligible banks.

Scheme of Agricultural Credit Stabilisation Fund

RBI sanctions medium-term conversion loans from NAC (Stabilisation) Fund to tide over natural calamities. Central Government also provides assistance to SCBs through State Governments for building up their Agricultural Credit Stabilisation Funds under a Centrally Sponsored Scheme. The provision made for 1978-79 was of the order of Rs. 8.4 crores, against which an amount of Rs. 5.6 crores has been released to the concerned State Governments upto November 1978.

Scheme of Risk Fund for Consumption Credit

The scheme was introduced in 1977-78, with a view to cover the risk involved in extending consumption credit to weaker@ sections of the community. Risk fund assistance is limited to the extent of 10 per cent of the total quantum of loans advanced for meeting consumption needs and is provided by State Governments out of their Budgetary resources. Of these, 50 per cent of the loans are reimbursed by Government of India to State Governments. During the financial year 1979-80, a sum of Rs. 40 lakhs has been provided for the purpose.

Integrated Rural Development Programme (IRDP)

A new strategy of rural development has been adopted by the Government of India

*Assam, Bihar, Meghalaya, Orissa, Rajasthan, West Bengal, Manipur, Tripura and Nagaland.

@Comprising landless labourers and marginal farmers holding land upto 0.5 acre.

for the Mid-term Plan period. As a part of this strategy, the Government of India have introduced an Intensive Rural Development Programme with a view to providing full employment through productive programmes in the selected areas. The objective of the programme is to undertake intensive development of 2,000 community development blocks from out of 3,000 such community development blocks which have already been covered by the SFDA, DPAP and CADA schemes. Further, 300 other blocks would be brought under the scheme during each year of the Plan so that by the end of the Mid-term Plan 3,500 blocks would be covered by the scheme.

All SCBs were requested by the RBI to ensure that implementation of these programmes does not, in any way, suffer for want of credit.

VI. Commercial Banks and Rural Credit

Policy Changes

An important development in the field of agricultural financing by commercial banks was the appointment by the Government of India in October 1978 of a Working Group, to study the progress of agricultural credit from commercial banks with special reference to small and marginal farmers. As recommended by the Group, commercial banks were advised by the RBI to ensure that at least 50 per cent of their total direct agricultural advances (excluding advances for allied activities) would meet the requirement of small and marginal farmers by the end of the Plan period, i.e. by 1982-83. Following the Working Group's recommendations, some modifications were also effected in the Differential Rate of Interest Scheme (DRI). A minimum of 40 per cent of the credit under the DRI Scheme is now expected to be disbursed through co-operative societies and Large-sized Multi-purpose Societies (LAMPS) to eligible borrowers belonging to scheduled castes and scheduled tribes as against 33 1/3 per cent so far. A formal obligation has since been cast on the private sector banks also and they have been advised in December 1978 to implement the DRI Scheme and achieve the target of disbursing under the Scheme at least one per cent of their aggregate advances as at the end of previous year as against 0.5 per cent so far.

Disbursal of Credit to Agriculture and Allied Activities by Commercial Banks

During April 1977 to March 1978 for which latest data are available, scheduled commercial banks made further strides in extending finance to agriculture and allied activities and disbursed Rs. 569 crores as against Rs. 508 crores in 1976-77. Of these, a sum of Rs. 288 crores (50.6 per cent) was disbursed as short-term loans for production of crops, Rs. 203 crores (35.6 per cent) as term loans for improvement in agriculture through investments in minor irrigation, pumpsets, tractors and other machinery, construction of godowns, etc. and Rs. 79 crores (13.8 per cent) for allied activities. In term finance, loans for purchases of tractors and agricultural implements and machinery ranked relatively high with Rs. 95 crores, followed by loans for pumpsets/oil engines (Rs. 26 crores). In the case of allied activities, loans for dairy activity at Rs. 33 crores were the most prominent followed by fisheries (Rs. 11 crores.)

Public sector banks accounted for about 87 per cent (Rs. 495 crores) of the total loans issued. The State Bank of India and its group disbursed Rs. 223 crores (39.1 per cent), while the 14 nationalised banks disbursed Rs. 272 crores (47.8 per cent) as shown below:

Direct loans Issued for Agriculture during 1977-78 (April-March)

(Rupees Crores)

<i>Banks</i>	<i>Amount</i>
State Bank of India and its Subsidiaries ..	222.8
14 Nationalised Banks	272.3
Other Indian Scheduled Banks and Foreign Banks	74.3
Total	569.4

Disbursal of Credit—Region-wise

Out of Rs. 288 crores of short-term loans disbursed, the Southern region with Rs. 188 crores accounted for 65.4 per cent of the total credit followed by the Western region and

Eastern region with 10.9 and 9.7 per cent, respectively. The other three regions, viz., Northern-region, Central region and North-Eastern-region together accounted for 14.0 per cent only. Similarly, in the case of loans disbursed for allied activities, Southern region was leading with 42.0 per cent (Rs. 33 crores) of the credit disbursed followed by Western region (26.3 per cent) and Northern region (13.5 per cent). The other three regions together accounted for 18.2 per cent of which the share of North-Eastern region was almost negligible. In the case of term loans, however, Northern region with Rs. 61 crores accounted for 30.1 per cent followed by Central region (27.5 per cent), Southern region (18.5 per cent), Eastern region (12.5 per cent) and Western region (11.1 per cent). The share of North-Eastern region was negligible at 0.3 per cent. (Table VI-30).

Financing of Societies by Commercial Banks

As at the end of December 1978, the scheme of financing PACS by commercial banks was in operation in 12 States where 623 branches of 24 commercial banks had taken over 2894 societies in 122 districts. The average number of societies per branch was still lower at 5 as compared to the general norm of 10 societies per branch.

According to the working results of the loans advanced under the Scheme, short-term *Kharif* loans disbursed amounted to Rs. 13.7 crores for 1913 societies and Rs. 4.7 crores of *Rabi* short-term loans for 982 societies. Besides, medium-term loans of Rs. 2.6 crores were disbursed to 556 societies. The average short-term loan business per society increased significantly during 1977-78 and reached the viability norm of Rs. 2 lakhs per society as against Rs. 0.3 lakh in 1970-71. The total loans outstanding as on December 31, 1978 were Rs. 47 crores, of which Rs. 29 crores or 62 per cent were overdues. Since the introduction of the Scheme, over 4 lakh new members were admitted to the societies taken over by commercial banks increasing the total number of members of these societies to about 15 lakhs of which 37 per cent had borrowed from the commercial banks till December 1978.

Table VI.30: Purpose-wise/Region-wise distribution of Credit-1977-78

(Rupees lakhs)															
Northern Region				North Eastern Region		Eastern Region		Central Region		Western Region		Southern Region		Total	
Short-term (Crop loans)	..	..	21,55	(23.1)	1,00	(52.2)	27,98	(47.2)	17,77	(21.8)	31,38	(42.2)	188,42	(72.7)	288,10
			(7.5)		(0.3)	(9.7)		(6.2)		(10.9)		(65.4)		(100.0)	
Term Loans	..	..	61,08	(65.5)	66	(34.5)	25,25	(42.6)	55,81	(68.4)	22,40	(30.1)	37,55	(14.5)	202,75
			(30.1)		(0.3)	(12.5)		(27.5)		(11.1)		(18.5)		(35.6)	(102.0)
1. Sinking & deepening of wells & Tube Wells	..	..	2,10		4		2,90		4,14		2,31		3,60		15,08
2. Pumpssets/Oil engines	..	..	3,57		3		5,28		11,42		2,62		3,27		26,20
3. Composite minor irrigation Schemes	..	..	2,71		—		2,60		6,24		1,73		1,35		14,64
4. Tractors & Agricultural implements & machinery	..	..	43,35		15		6,04		27,97		10,94		6,43		94,88
5. Plough Animals	..	..	87		6		73		1,03		99		1,95		5,65
6. Reclamation & Land Development Schemes	..	..	1,02		4		15		29		47		2,05		4,01
7. Construction of Godowns & Cold Storages	..	..	1,44		10		1,03		1,43		1,07		2,68		7,74
8. Plantations	..	..	7		12		4,06		9		31		10,79		15,43
9. Others	..	..	5,95		12		2,46		3,20		1,96		5,43		19,12
Allied Activities	..	..	10,59	(11.4)	26	(13.3)	6,04	(10.2)	799	(9.8)	20,67	(27.7)	33,00	(12.8)	78,55
			(13.5)		(0.3)	(7.7)		(10.2)		(26.3)		(42.0)		(100.0)	
1. Dairying	..	..	5,45		7		1,20		4,02		9,85		12,19		32,78
2. Poultry farming, piggery & Bee keeping	..	..	2,77		8		42		66		1,86		2,06		7,85
3. Fisheries	..	..	4		4		65		13		4,85		4,95		10,66
4. Others	..	..	2,33		7		3,77		3,18		4,11		13,80		27,26
Grand Total	..	..	93,22	(100.0)	1,91	(100.0)	59,27	(100.0)	81,57	(100.0)	74,45	(100.0)	258,98	(100.0)	569,40
															(100.0)

() Figures indicate the percentage share of the three categories of loans in each region.

() Figures in lower brackets indicate the percentage share of each region in the loans disbursed under each category.

Source : DBOD Half-yearly Returns for September 1977 and March 1978—Direct Advances to Agriculture.

In view of the slow progress of the Scheme, the RBI constituted a Group for identifying factors inhibiting its progress and suggesting remedial measures as desired by the Agricultural Credit Board.

Farmers Service Societies (FSS)

The FSS are multi-purpose in character and are organised to function as a single contact point for providing credit, other services and technical guidance needed by farmers. As at the end of June 1978, 18 public sector banks and 2 private sector banks had set up 213 FSS in 13 States and the Union Territory of Delhi.

Progress of SBI Schemes

During the year ended December 1978, the State Bank of India and its group extended the Village Adoption Scheme to 6,852 additional villages covering 3.2 lakh farmers, bringing the cumulative figures till December 1978 to 26,362 villages and 9.8 lakh farmers. The outstanding level of credit advanced also rose by Rs. 82.7 crores to Rs. 241.9 crores at the end of December 1978.

In order to give further impetus to agricultural development, the State Bank Group has been opening special Agricultural Development Branches (ADB's). The number of such branches opened by the end of 1978 was 384 covering 11 lakh farmers as against 314 branches covering 8 lakh farmers at the beginning of the year. The outstandings at the end of 1978 of Rs. 274.7 crores showed a rise of Rs. 82.9 crores over those of Rs. 191.8 crores at the end of 1977.

Various innovative and socially desirable programmes were introduced to help the poor and the weaker sections of population. Financial assistance for installation of hand-pumps to provide drinking water in villages, loans to educated unemployed for paying the security deposits and loans to the parents of students to purchase equipments like electronic calculators, slide rules, etc., are some of the new schemes financed by the State Bank of India in addition to the existing schemes. Steps were taken in collaboration with the Tribal Welfare Agencies/Government Depart-

ments to evolve appropriate schemes to improve the coverage of tribals and assistance to the tune of Rs. 2.5 crores spread over 41,299 accounts was provided to them.

Integrated Rural Development Programme was launched by the State Bank of India during 1977 on pilot basis. During the first year of its operation, detailed surveys were undertaken in the area and 214 villages were selected in which Rs. 3.0 crores spread over 26,519 accounts were advanced. The social activities promoted in the villages comprise removal of illiteracy, improvement of sanitation, provision of medical facilities, etc.

VII. Other Important Institutions and Rural Credit

Agricultural Refinance and Development Corporation (ARDC)

The ARDC has been playing an active role in promoting viable investments in agriculture in different States. Impressive progress in its performance is noticed since 1974, specially in the context of the World Bank assisted programmes for agricultural development. The Corporation disbursed during 1978-79, Rs. 285 crores as against Rs. 234 crores in 1977-78, raising the cumulative disbursements since inception to Rs. 1,334 crores, inclusive of Rs. 775 crores under the various World Bank Group Projects. During 1978-79, 2,505 schemes involving Corporation's commitment of Rs. 573 crores were sanctioned as against 1,836 schemes with commitment of Rs. 330 crores during the previous year. As on June 1979, the ARDC had sanctioned in all 8,655 schemes with aggregate commitment of Rs. 2,303 crores.

Diversification of Business

The Corporation continued its emphasis on wider geographical spread and diversification of its activities. During the year, increased diversification of the business of the Corporation to cover purposes allied to agriculture was in evidence. Thus, as many as 1,470 schemes (59 per cent of total number) with a commitment of Rs. 226 crores (40 per cent of the aggregate commitment) were sanctioned for purposes other than minor irrigation, as against 1,314 schemes with commit-

ment of Rs. 153 crores during the previous year. The number of minor irrigation schemes had also increased from 522 during 1977-78 to 1035 during 1978-79 and those for plantation and horticulture from 112 to 311. Schemes sanctioned for storage/market yards declined sharply from 434 during 1977-78 to 196 during 1978-79 (Table VI-31). Earnest efforts are being made by the Corporation to increase the coverage of small farmers under the schemes approved by it. Both under ARDC Credit Projects I and II which are being implemented with assistance from IDA, more than 50 per cent of the funds have been utilised for meeting the investment needs of

small farmers, thus fulfilling one of the terms in the project. The Corporation continued to provide refinance at 90 per cent of loan assistance for schemes sponsored under the aegis of SFDA, DPAP and special schemes intended for the benefit of scheduled castes and scheduled tribes. This facility which was available upto March 31, 1979 has been extended indefinitely. At the end of June 1979, 534 schemes sponsored by SFDA/MFAL agencies were sanctioned. The financial commitments by the Corporation for these schemes amounted to Rs. 90 crores of which a sum of Rs. 47 crores has been availed of by financing institutions at the end of June 1979.

Table VI.31.—Purpose-wise sanctions and disbursements during 1977-78 and 1978-79

Purpose	(July—June)						(Rupees crores)		
	During 1977-78			During 1978-79			Cumulative Position as on 30-6-1979		
	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	522	176.7	143.3	1,035	346.7	171.1	3,713	1,500.6	902.6
Land Development/CA D	98	9.8	4.1	107	26.8	11.4	499	143.5	56.1
Farm Mechanisation	246	31.7	28.7	320	50.2	41.3	1,284	247.6	186.7
Plantation/Horticulture	112	26.3	7.9	311	67.8	12.1	798	149.0	41.6
Poultry/Sheep breeding/Piggery	79	4.4	2.1	152	8.4	3.7	343	19.0	8.1
Fisheries	125	12.0	5.4	102	17.3	7.8	386	44.7	22.3
Dairy Development	185	25.0	3.9	229	16.7	6.5	704	69.4	19.9
Storage/Market yards	434	36.2	37.8	196	30.0	27.1	843	114.0	91.4
Agricultural Aviation	—	—	—	—	—	—	3	0.4	0.2
ICDP	15	5.8	0.6	—	—	2.6	—	—	2.6
Forestry	1	0.7	0.5	13	5.0	0.8	26	9.1	1.5
Gobar Gas	19	1.5	—	29	2.4	0.4	48	4.0	0.4
Others	—	—	—	11	1.4	0.1	8	1.3	0.1
Total	1,836	330.1	234.3	2,505	572.7	284.9	8,655	2,302.6	1,333.5

* Exclude, schemes sanctioned and withdrawn during the same year.

Reduction in Regional Imbalances

ARDC intensified its efforts towards reducing inter as well as intra-regional disparities in agricultural development by increasing the flow of institutional credit to less developed/under banked areas viz., the States in the Eastern, North-Eastern and Central Regions, and Himachal Pradesh, Jammu and Kashmir and Rajasthan in Northern Region. The number of schemes sanctioned in these areas so far was 3,899 with ARDC's commitment of Rs. 1,012 crores of which Rs. 527 crores were disbursed.

Region-wise, the Southern region absorbed 28.2 per cent of the ARDC's refinance followed by the Central region (23.0 per cent), Northern region (19.0 per cent), Eastern and North Eastern region (15.7 per cent) and Western

region (14.1 per cent); the corresponding proportions in the previous year were 27.5 per cent, 25.5 per cent, 15.6 per cent, 17.1 per cent and 14.3 per cent, respectively.

Agency-wise Sanctions/Disbursements

Commercial banks continued to be the major borrowers during 1978-79 with borrowings of Rs. 150 crores (53 per cent) followed by SLDBs with Rs. 131 crores (46 per cent) as compared to Rs. 120.3 crores (51.3 per cent) and Rs. 111.9 crores (47.8 per cent), respectively, during the previous year. As many SCBs have yet to develop necessary expertise in financing term investment in agricultural development, their involvement in ARDC's programmes continued to be negligible at Rs. 4 crores showing a rise of Rs. 2 crores over 1977-78 (Table VI-32).

Table VI.32.—Agency-wise Sanctions during 1977-78 and 1978-79

		(July—June)				(Rupees Crores)			
		Number of Schemes		Financial Assistance		A.R.D.C. Commitments		ARDC Disbursements	
Agency		1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79
		1	2	3	4	5	6	7	8
1. State Land Development Banks	..	330 (18.0)	529 (21.1)	147.6 (37.6)	287.4 (41.4)	128.9 (39.1)	251.8 (44.0)	111.9 (47.8)	131.3 (46.1)
2. Scheduled Commercial Banks	..	1465 (79.8)	1955 (78.0)	230.9 (58.8)	399.4 (57.5)	191.6 (58.0)	314.0 (54.8)	120.3 (51.3)	149.6 (52.5)
3. State Co-operative Banks	..	41 (2.2)	21 (0.9)	14.2 (3.6)	8.0 (1.1)	9.6 (2.9)	6.9 (1.2)	2.1 (0.9)	4.0 (1.4)
Total	..	1836	2505	392.7	694.8	330.1	572.7	234.3	284.9

Figures in brackets indicate percentage shares of each agency to the total.

Policy decisions during the year

During the year, the ARDC liberalised the scale of refinance assistance to be made available to the State Electricity Boards (SEBs) for energisation of agricultural pumpsets; banks can now provide assistance at the rate of Rs. 5,500 per pumpset upto 5 h.p. as against the earlier rate of Rs. 4,500. As recommended by the Working Group on Planned Participation of Commercial Banks in Rural Electrification Schemes appointed by the RBI, ARDC has agreed to participate jointly with REC and commercial banks in the rural elec-

trification programme for energisation of 6 lakh pumpsets during next five years involving total estimated cost of Rs. 360 crores of which ARDC's share is Rs. 120 crores. ARDC also agreed to refinance loans given for boring alone to help the small farmers who cannot afford to own pumpsets provided it is technically feasible and satisfactory arrangements exist to obtain pumpsets on hire.

In view of the difficulties experienced by SLDBs in effecting cent per cent recoveries, the ARDC has decided to allow SLDBs with effect from July 1, 1978 to float special

development debentures with maturity period of not more than 2 years in excess of the period of the corresponding loans issued to the ultimate borrowers other than Corporate bodies. The maximum period of debentures will, however, continue at 15 years.

As RBI and ARDC have been applying common norms for regulating the lending programmes of SLDBs on the basis of overdues at primary/branch level, necessary changes were made by ARDC following revisions in the RBI policy discussed earlier.

The facility of 90 per cent refinance to the SLDBs by way of subscription to their special development debentures for minor irrigation schemes which was available up to June 30, 1979, has been extended indefinitely not only to SLDBs but also to commercial banks, SCBs and RRBs in respect of minor irrigation investments and the loans given by them to State Electricity Boards for energisation of agricultural pumpsets under ARDC schemes.

In view of the difficulties experienced by State Governments in charging the market fee of 1 per cent from inception, the Corporation has agreed to extend refinance facilities to the schemes for development of market yards with a minimum market fee of 0.5 per cent provided provision is made in the relevant Act to raise the fee to 1 per cent in the subsequent two or three years.

A Standing Committee called CALCOB^a was set up to review the operations of commercial banks in agricultural sector and suggest appropriate measures to improve their recovery performance so as to channelise credit for development of agriculture and allied activities efficiently.

The exemption of the ARDC from the payment of Corporation tax for 5 years coupled with the reduction of interest rate by 0.5 per cent on GOI loans, has enabled the Corporation, as indicated earlier, to reduce its interest rates and thus pass on their benefits to the ultimate borrowers. The ARDC has reduced with effect from March 15, 1979 interest rates on the refinance provided by it

from 7.5 per cent to 6.5 per cent per annum for minor irrigation/land development and from 8 per cent to 7.5 per cent for schemes for diversified purposes. The rates to be charged to the ultimate borrower would be 9.5 per cent and 10.5 per cent, respectively. Refinance rate on loans to small farmers for minor irrigation and diversified activities was also reduced to 6.5 per cent provided the financing banks would lend to small farmers at 9.5 per cent as against the earlier rate of 10.5 and 11 per cent, respectively.

IDA/IBRD Credit

During the year, the IDA sanctioned the Punjab Irrigation Project in which a part of the credit (\$ 46 million) will be routed through ARDC and the Third ARDC Credit Project for \$250 million in July 1979. Thirty-seven projects, including the Third ARDC Credit Project involving financial assistance of Rs. 1,765 crores have so far been approved by the World Bank (4 projects) and IDA (33 projects). A credit to the extent of \$ 1,167 million in the aggregate would be routed through ARDC under these projects. Besides, the IDA mission appraised two projects—one for development of cashew plantations in Andhra Pradesh, Karnataka, Kerala and Orissa, and the other for the Inland Fisheries Project in Bihar, Uttar Pradesh, West Bengal, Orissa and Madhya Pradesh.

During the year, the Canadian International Development Association (CIDA) sanctioned credit worth \$ 15 million. A credit of £ 15 million has also been sanctioned under the United Kingdom Local Costs Grant, 1979 by the U. K. Government.

Rural Electrification Corporation

During the financial year 1978-79, Rural Electrification Corporation (REC) recorded an impressive progress in its activities. The number of schemes sanctioned rose to 717 involving a financial assistance of Rs. 231 crores as against 397 schemes and Rs. 158 crores during 1977-78. These Projects, sanctioned during 1978-79 and phased for completion over a period ranging upto 5 years, aim at extension of electricity to 27,330 villages

^aCommittee on Agricultural Loans through Commercial Banks.

and intensive electrification in 16,208 villages already electrified. Of the 717 projects approved during the year, 307 were in the districts covered by SFDA/MFAL. Disbursals at Rs. 156 crores also showed an increase of 39.8 per cent over Rs. 113 crores disbursed during 1977-78. The cumulative position of the loans sanctioned by the Corporation since its inception rose to Rs. 1,032 crores (net after adjustments) covering 2,731 schemes. These schemes are expected to provide electrification in 1.4 lakh villages (excluding 0.1 lakh Harijan Bastis and 0.4 lakh already electrified villages) and provide service connections in respect of 1.6 lakh small industries and 11.5 lakh agricultural pumpsets. The aggregate loans disbursed by the Corporation stood at Rs. 673 crores as on March 31, 1979.

Among the new schemes introduced during the year, mention may be made of the scheme known as Special Project Drinking Water (SPD) Scheme to assist State Electricity Boards in providing electrification support to drinking water supply programme in rural areas. The Corporation, for the first time, decided to finance a dual purpose project in Krishna District of Andhra Pradesh for de-watering agricultural land and its utilisation for agriculture and development of pisciculture.

Four other categories of loans (viz., Mini-Advanced (MA), Mini-Backward (MB), Mini-Underdeveloped (MU) and Mini MNP (MN) loans) were introduced during the year so as to benefit villages/hamlets not covered so far within the area of the schemes already sanctioned by the Corporation. The Corporation also relaxed the terms and conditions in respect of its financial assistance under Minimum Needs Programme and Special Loan Category.

Another new category of loan called Special Project Industries (SPI) loan was also introduced during the year. This category of loan provides financial assistance for projects formulated within an Electrical Division or Sub-Division for extension of electricity to industrial estates, industrial development areas and/or cluster of private small industries in and around villages and towns having a population upto 50,000.

The Working Group on Planned Participation of Commercial Banks in Rural Electrification Schemes referred to under ARDC section had recommended country-wide energisation of agricultural pumpsets. Accordingly, the Corporation introduced necessary modifications in its existing Special Project Agriculture (SPA) loan category enabling disbursement of term loans with a maturity of 8 to 14 years and withdrew Mini-Farm (MF), the Mini-Farm Lift Irrigation (MFLI) and the Mini-Industrial Estate (ME) categories of loans.

National Co-operative Development Corporation

During the year ended March 1979, the National Co-operative Development Corporation (NCDC) continued to play its promotional and financial role for the development of agricultural marketing, processing, storage and supplies through cooperatives. Assistance was also provided for the development of poultry, dairy, fisheries, handlooms, sericulture, minor forest produce, etc. in the co-operative sector, and to the rural consumer cooperatives for developing them as part of viable public distribution system. The total financial assistance provided by the Corporation was of the order of Rs. 47.5 crores showing a rise of 51.3 per cent over the disbursements during the previous year. Out of the total assistance of Rs. 47.5 crores advanced, Rs. 19.4 crores (as against Rs. 16.0 crores in 1977-78) was under Central Sector Schemes and Rs. 28.1 crores (as against Rs. 15.4 crores in 1977-78) under Corporation sponsored programmes. The assistance provided during the year was thus higher than last year by 82.5 per cent and by 21.3 per cent under the Central Sector Schemes.

The total assistance of Rs. 47.5 crores made available during 1978-79 was shared mainly by Uttar Pradesh (22.3 per cent), Maharashtra (11.5 per cent), Andhra Pradesh (8.6 per cent), Punjab (8.2 per cent), Tamil Nadu (6.4 per cent) and Karnataka (5.3 per cent).

The total assistance given by NCDC so far aggregated Rs. 280 crores of which Rs. 162 crores were outstanding as on March 31, 1979.

Agricultural Finance Corporation (AFC)

The main focus of the Corporation's activities continued to be on identification and formulation of rural development schemes and providing consultancy services in this regard to its clients. During 1978-79, such efforts were concentrated in areas such as command area development, comprehensive area development in the reserve areas of sugar mills, integrated tribal and scheduled caste development, horticulture, flood relief, oil-palm cultivation, etc. The Corporation assisted State Governments and State Government Corporations in preparing technically feasible and commercially viable projects. Besides, it also framed guidelines for commercial banks assistance to States facing natural calamities. The Corporation has been enlisted as the agency for appraising loan proposals of the private seed producers under the World Bank National Seed Project.

During 1978-79 (July—June), the Corporation sanctioned two schemes namely, Girijan Co-operative Corporation Ltd., and Red Oil-palm Project involving commitments by its member banks of Rs. 1.9 crores and Rs. 3.3 crores, respectively. The total number of schemes approved by AFC upto end-June 1979 was 66 involving net commitment of Rs. 212.9 crores and disbursements of Rs. 94.1 crores of which Rs. 3.8 crores were by AFC and the balance by member banks.

Warehousing Corporations

By the end of June 1979, the Central Warehousing Corporation managed 260 warehouses functioning with a total capacity of 32.2 lakh metric tonnes as against 203 warehouses with a total capacity of 28.6 lakh metric tonnes as at the end of June 1978. Of the total capacity, 18.5 lakh metric tonnes was in the Corporation's owned godowns, 2.9 lakh metric tonnes in the shape of plinths and 10.8 lakh metric tonnes in hired godowns.

The Corporation entered the new field of clearance and handling of ships carrying cement at the important ports and has so far handled 26 ships with 3.8 lakh metric tonnes cement on behalf of the Cement Controller of India. The Corporation has

fixed a target of putting up a capacity of 17 lakh metric tonnes during the Sixth Plan period, of which 4.8 lakh metric tonnes would be in the shape of base depots for the use of Food Corporation of India under the World Bank Project.

The total number of godowns with State Warehousing Corporations in sixteen* States declined from 1,065 at the end of March 1978 to 1,031 at the end of March 1979, the corresponding decline in the total capacity being from 49.1 lakh metric tonnes to 48.9 lakh metric tonnes. During the financial year 1978-79, 38 new godowns were opened by SWCs in seven States and 72 godowns were closed in other seven States. While the capacity of godowns owned by SWCs rose from 16.4 lakh metric tonnes to 20.9 lakh metric tonnes, the hired capacity was reduced from 32.7 lakh metric tonnes to 28.0 lakh metric tonnes, mainly on business considerations.

The total capacity (including the godowns hired) of the Central Warehousing Corporation (June 1979) and of the Sixteen State Warehousing Corporations (March 1979) aggregated 81.1 lakh metric tonnes.

VIII. Study Groups/Committees

1. Study Group on Handloom Finance

As mentioned in the previous year's Report the Study Group constituted for reviewing the working of the RBI's Scheme for Handloom Finance had submitted its report in June 1978. Important recommendations of the Group pertaining to the RBI policies were accepted and necessary action was initiated.

Accordingly, the revised RBI policy on handloom finance will consider 1) export needs of Apex Weavers' Societies, 2) limits for financing production and marketing activities of the weavers' societies even to CCBs not eligible for short-term limits due to overdues and 3) permit weavers' societies to issue consumption loans to members and sanction credit limits to them on behalf of co-opera-

*Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

tive spinning mills under Section 17(2)(bb) read with Section 17(4)(c) as well as for acquisition of shares in co-operative spinning mills. The RBI would also review the scales of finance per loom once in three years and reassess working capital needs of Apex societies through detailed studies.

2. *Study Group on Interest Rates in the Co-operative Credit Structure*

As mentioned earlier, the follow-up action by the RBI on the findings of the Study Group was an important event during the year and the significant changes based on the recommendations of the Study Group have been mentioned in the para on interest rates and credit policy.

These recommendations were broadly intended to grant relief to small farmers through lower rates of interest, increasing the concessional rate of refinance for medium-term loans, review of seasonality discipline, relieving SCBs of their excess liquidity problem and bringing about parity in the rates of interest charged to ultimate borrowers by financing institutions.

The Study Group also laid down the margin in the rate of interest to be maintained at SCB/CCB/PACS levels. The interest rate to the ultimate borrowers would thus, over and above the RBI refinance rate charged to SCBs ranged from 5.0 per cent to 5.50 per cent in short term loans and from 4.75 per cent to 5.25 per cent in medium term loans. In States where non-agricultural loans disbursed by SCBs/CCBs are significant the above margins were to be reduced further.

Study Team on Jammu & Kashmir and Himachal Pradesh

The report of the Study Team on Agricultural Credit Institution for Jammu & Kashmir referred to in the last year's Report, was finalised during the year and that of Himachal Pradesh was nearing completion.

Integration of Co-operative Institutions

The proposals of integration of the two wings (short/medium-term and long-term)

were considered by the Agricultural Credit Board in respect of Punjab, M.P. and Rajasthan and although the Board had not accepted the main recommendations of the Committee, these three State Governments, have initiated, *on their own*, action to bring about integration.

The States of Punjab and Rajasthan propose abolition of the district-level institutions, viz., CCBs in short-term wing and the PLDBs in the long-term wing and envisage a two-tier structure with reorganised PACS at the primary level and the State Co-operative Development Bank (SCDB) at the Apex level with branches of the SCDB at the district level. In the case of Punjab, the Agricultural Credit Board desired to call for additional particulars before considering the issue and the proposals for Rajasthan are under discussion. In the case of Madhya Pradesh the proposed integration of the two wings has not generally been favoured by the Board. It has opined that the State Government should proceed in the matter very cautiously without hampering the existing credit flow. It should also agree to fulfil certain specified conditions involving financial and administrative commitments.

During the year, two States (Meghalaya and Nagaland) and 4 Union Territories (Andaman and Nicobar Islands, Delhi, Goa, Daman and Diu and Mizoram) have accepted the Committee's recommendation that it is not necessary to establish separate LDBs in their areas. As regards other recommendations, developments were as under: Six State Governments (Bihar, Gujarat, Haryana, Karnataka, Kerala and West Bengal) have accepted the recommendations regarding absorption of Government staff working with LDBs and transfer of their administrative control to them. Other States have yet to take action. Similarly, the SLDBs in Bihar, Haryana, Kerala and Tamil Nadu have agreed to raise the resources by issue of bonds on security of State Government guarantee only, instead of through floatation of debentures. LDBs in Bihar, Gujarat, Haryana, Karnataka, Kerala, Orissa, Uttar Pradesh and West Bengal have agreed to introduce a special charge for lending viz. 'Gehan'.

Introduction of "farmers' pass-books" has been implemented in Maharashtra. The banks in Bihar, Haryana, Karnataka and Gujarat have accepted the recommendation. However, banks in Kerala and Tamil Nadu have not favoured the same.

Committee for Reviewing Arrangement for Financing Institutional Credit for Agriculture and Rural Development (CRAFICARD)

A significant development in the field of rural credit during the year was constitution of a high-level Committee by the RBI in March 1979 to suggest improvements in the existing arrangements for institutional credit for agricultural and rural development. The Committee has been asked, among others, 1) to review the structure and operations of ARDC in the light of growing need for term loans for agricultural and allied purposes ; 2) to examine the need for and the feasibility of integration of the short-term and medium-term credit with long-term credit structure at national, state, district and village levels in the context of the intensification of rural development programmes ; 3) to assess the relative merits and demerits of three-tier and two-tier structure of co-operative financing institutions and suggest improvements; 4) to study consultancy services provided by AFC and suggest improvements and 5) to review the role of the RBI in the field of rural credit.

Study Group on Scheme of Financing PACS by Commercial Banks

A Study Group has been constituted by the RBI to review the scheme of financing

PACS. The Study Group comprises officers from RBI, Government of India (Department of Rural Development in the Ministry of Agriculture and Irrigation) and the State Bank of India. The work of the Study Group is in progress.

Working Group for the Study of Rural Storage

The Ministry of Agriculture and Irrigation had set up a Working Group to look into storage problem in rural areas in pursuance of the need for increased storage to minimise wastage of agricultural products. The Group was asked 1) to review existing storage facilities in rural areas ; 2) to identify the gaps and assess the need for additional storage capacity ; 3) to suggest an agency for creation of additional capacity and measures to co-ordinate the programme with other agencies engaged in warehousing and marketing ; 4) to identify agencies for providing technical guidance for construction of additional storage facility and management and assess requirements and sources of finance for creating additional capacity as also suggesting a suitable financing pattern and 5) to consider steps for facilitating credit availability from institutional sources to farmers against the pledge of their stocks and suggest measures for integrating this programme with other ongoing rural development programmes such as 'food for work', 'integrated rural development', etc.

The GOI has since launched a new scheme for building a national grid of rural godowns for storage of agricultural produce.

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 analysed in Sections three and four, respectively. The last Section deals with public debt.

Combined Position of Central and State Governments

The fiscal policy for 1978-79 formulated against the backdrop of a favourable economic situation as reflected in a satisfactory growth in gross domestic product, sizeable stocks of foodgrains and a comfortable balance of payments position was designed to set in motion a process of sustained increase in output and employment, particularly in the rural areas. Along with agriculture, small scale and rural industries were assigned an important role in the elimination of poverty and unemployment in terms of the new industrial policy of the Government. The total public sector Annual Plan outlay of the Centre, States and Union Territories for 1978-79 was stepped up by 17 per cent to Rs. 11,649 crores@ from the level of Rs. 9,960 crores@ in the preceding year. The Plan outlay of the States and Union Territories rose by a larger magnitude of Rs. 964 crores to Rs. 5,985 crores than that of the Centre which increased by Rs. 725 crores to Rs. 5,664 crores, indicating a reordering of plan priorities in favour of agriculture, irrigation, power

and rural development, and, in some measure, a shift towards decentralisation in planning. In the context of the narrow base for direct taxes and the need to avoid fresh distortions in the tax structure, major reliance had been placed on indirect taxation for mobilising resources for development. Tax proposals in the field of direct taxation were designed to promote not only larger savings and their channelisation into new investment, but also to curb extravagant and wasteful expenditure in business and professions.

The combined budgetary deficit¹ of the Central and State Governments according to the revised estimates for 1978-79 which amounted to Rs. 2,003 crores² was significantly higher than Rs. 1,162 crores recorded in 1977-78. Net Reserve Bank credit to these Governments increased sharply by Rs. 1,772 crores in 1978-79 in marked contrast to a decline of Rs. 118 crores in 1977-78 (Table VII-1). Net RBI credit to the Central Government rose by Rs. 2,191 crores in 1978-79 as against a fall of Rs. 260 crores in 1977-78. On the other hand, the amount of such credit to States decreased by Rs. 419 crores as against an increase of Rs. 142 crores in 1977-78.

The combined aggregate receipts of the Central and State Governments, according to the revised estimates for 1978-79 increased by Rs. 3,578 crores (or by 15.4 per cent) to Rs. 26,838 crores over the preceding year

*Figures in this Chapter relate to fiscal years (April-March).

@ According to Economic Survey, 1978-79 the Plan outlay for 1978-79 and 1977-78 is estimated at Rs. 11,650 crores and Rs. 9,564 crores, respectively.

1. Budgetary Deficit or Surplus is measured (A) in the case of the Central Government by (i) net increase/decrease in outstanding treasury bills and (ii) withdrawal from/addition to cash balances and (B) in the case of States by the State Budget figures of (i) net increase/decrease in RBI credit in the form of ways and means advances and overdrafts (repayable within 7 working days with effect from May 1, 1972), (ii) decline

in/addition to cash balances, (iii) net sales/purchases of securities held by States in their cash balance investment accounts and (iv) encashment of/investment in securities held in revenue reserve funds.

2. According to the books of the Reserve Bank of India, the combined deficit for 1978-79 amounts to Rs. 632 crores—Rs. 1,508 crores on Centre's account (i.e., net variation in outstanding treasury bills and cash balances) together with a surplus of Rs. 876 crores on account of the States (i.e., variations in (a) States' holdings of treasury bills, (b) their cash balances and (c) ways and means advances from the Reserve Bank of India). Data on receipts and disbursements conforming to this figure are not yet available.

Table VII.1 : Trends in Budgetary Deficits and Net RBI Credit to Government

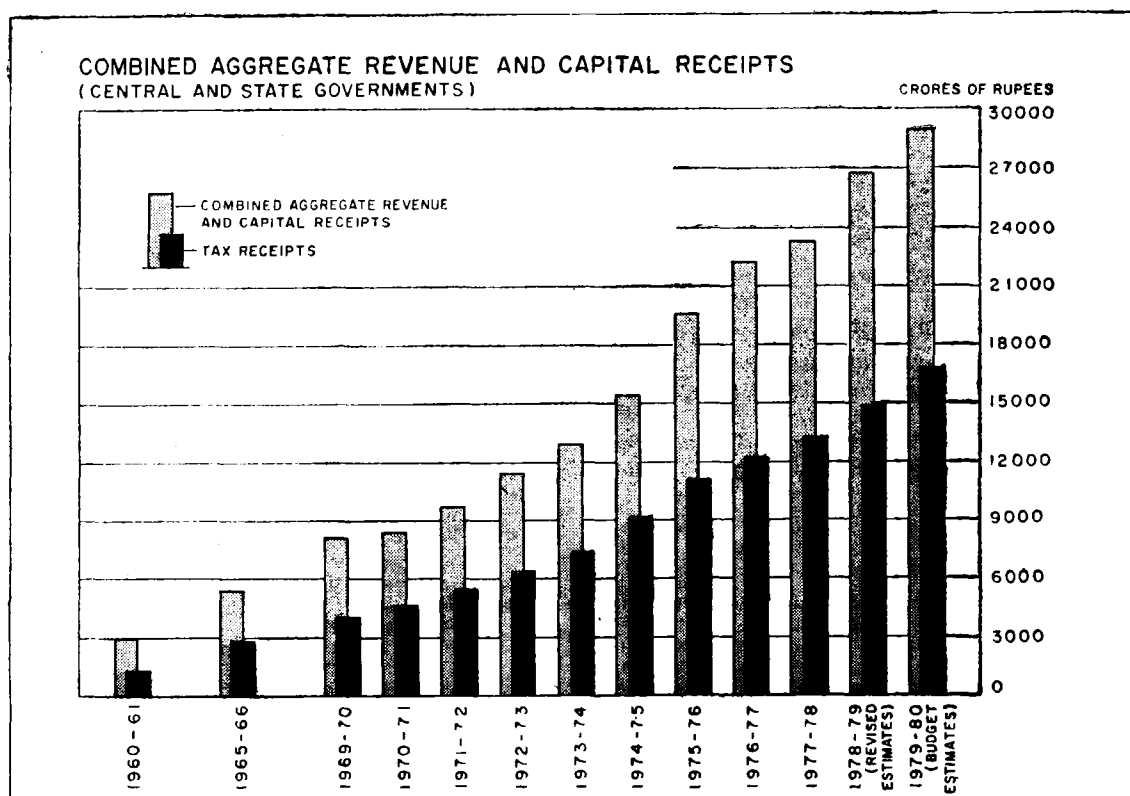
(Rupees Crores)

Year	Budgetary Surplus (+) or Deficit (—)(a)			Net R.B.I. 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	 933	— 229	—1162	— 260	142	— 118
1978-79 (Revised Estimates)	.. —2145	+ 142	—2003	2191	— 419	1772

(a) For definition see foot-note 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.



(Table VII-2). Such receipts formed about 35.1 per cent of the national income at current prices in 1978-79 as compared with 31.8 per cent in the preceding year. The rate of growth in capital receipts at 25.5 per cent was substantially higher than that of 11.9 per cent in revenue receipts.

Aggregate tax receipts increased by 13.3 per cent in 1978-79 and their proportion to national income at current prices at 19.6 per cent was higher than 18.1 per cent in 1977-78. Receipts from taxes on commodities and services recorded a higher growth rate of 14.9 per cent than the rate of growth of 7.7 per cent in the receipts from taxes on income and property. Receipts under market borrowings (net of repayments) were higher by Rs. 465 crores while those under State Provident Funds (net) and small savings (net) recorded an increase of Rs. 110 crores and Rs. 55 crores, respectively. According to the budget estimates for 1979-80, the combined aggregate receipts during the year are anticipated to increase by Rs. 2,138 crores (or 8.0 per cent) over the revised estimates for 1978-79. Revenue receipts are estimated to rise at a rate of 12.7 per cent while capital receipts are estimated to decline by 4.2 per cent.

Tax receipts are envisaged to increase at a lower rate (12.2 per cent) in 1979-80 as compared with (13.3 per cent) in the preceding year.

Aggregate combined disbursements of the Centre and States were marked up by Rs. 4,419 crores (or 18.1 per cent) in 1978-79. Such disbursements as a proportion of national income at current prices are estimated to increase from 33.4 per cent in 1977-78 to 37.8 per cent in 1978-79. According to the budget estimates for 1979-80, combined disbursements during the year are likely to increase by Rs. 1,655 crores (or 5.7 per cent) over the revised estimates for 1978-79. A major part of the increase (Rs. 1,234 crores) is accounted for by developmental expenditure (Table VII-2).

1. Budgetary Operations of the Central Government

The overall budgetary deficit of the Central Government, according to the revised esti-

mates for 1978-79 moved up steeply to Rs. 2,145 crores* from the level of Rs. 933 crores in 1977-78.

Aggregate disbursements during 1978-79 at Rs. 20,383 crores were higher by Rs. 4,069 crores (or 24.9 per cent) than in the previous year. Whereas expenditure on revenue account rose by Rs. 1,787 crores that on capital account was stepped up by Rs. 2,283 crores.

The rise in expenditure on revenue account is mainly accounted for by growth in expenditure on grants-in-aid to State and Union Territory Governments for developmental purposes (Rs. 748 crores), interest payments (Rs. 418 crores), defence expenditure (Rs. 204 crores) and agriculture and allied services (Rs. 164 crores). The growth in capital expenditure is attributed to the increase in loans to State and Union Territory Governments (Rs. 1,436 crores), other loans and advances (Rs. 435 crores) and non-developmental capital outlay on general services other than defence (Rs. 219 crores).

Aggregate receipts at Rs. 18,238 crores recorded a rise of Rs. 2,857 crores or 18.6 per cent in 1978-79. Revenue receipts were marked up by Rs. 1,228 crores while capital receipts increased by Rs. 1,629 crores. The rise in revenue receipts was mainly due to the step-up in the yield from taxes on commodities and services by Rs. 1,002 crores. Taxes on income and property, on the other hand, showed a smaller rise of Rs. 144 crores.

Under capital receipts, the major part of the increase was accounted for by the rise in net 'other capital receipts' (e.g., suspense and miscellaneous receipts, remittances, inter-State settlement, oil credits, etc. (Rs. 784 crores), net receipts from internal market loans (Rs. 468 crores), small savings (Rs. 55 crores), State Provident Funds (Rs. 55 crores) and recovery of loans and advances from State and Union Territory Governments (Rs. 81 crores).

*The overall budgetary deficit of the Central Government in 1978-79, according to the Reserve Bank's books, amounted to Rs. 1,508 crores, Rs. 637 crores less than the revised estimates. Details of receipts and expenditure corresponding to this figure are not yet available.

Table VII.2: Combined Receipts and Disbursements of Central and State Governments

Items	(Rupees Crores)				
	1977-78 (Accounts)		1978-79 (Revised Estimates)		1979-80 (Budget Estimates)@
	Amount		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	24422	28841	+ 18.1	30496	+ 5.7
<i>Of which :</i>					
1. Developmental (a+b+c)	15865	18827	+18.7	20061	+ 6.6
(a) Revenue	8601	10335	+20.2	11549	+11.7
(b) Capital	3787	4456	+17.7	4803	+ 7.8
(c) Loans	3477	4036	+16.1	3709	— 8.1
2. Non-Developmental (a+b+c)	7580	9073	+19.7	9408	+ 3.7
(a) Revenue	7104	8192	+15.3	8825	+ 7.7
(b) Capital	310	547@@	+76.5	365	—33.3
(c) Loans	166	334	+101.2	218	—34.7
II. Total Receipts (A+B)	23260	26838	+15.4	28976	+ 8.0
(A) Revenue Receipts	17257	19302	+11.9	21760	+12.7
<i>Of which :</i>					
Tax Receipts (a+b)	13215	14967	+13.3	16798	+12.2
(a) Taxes on commodities and services	10237	11761	+14.9	13240	+12.6
(b) Taxes on income and property ..	2978	3206	+ 7.7	3558	+11.0
(B) Capital Receipts	6003	7536	+25.5	7216	— 4.2
<i>Of which :</i>					
(i) Market Borrowings (Gross)	1591	2114	+32.9	2489	+17.7
Market Borrowings (Net)	1367	1832	+34.0	2071	+13.0
(ii) Small Savings (Net)	545	600	+10.1	650	+ 8.3
(iii) State Provident Funds (Net) ..	368	478	+29.9	484	+ 1.3
III. Overall Surplus (+) or Deficit (—) (II—I) ..	—1162	—2003		—1520*	
<i>Financing of Surplus (+) or Deficit (—)</i>					
(i) Increase (+) or decrease (—) in cash balances of Centre and States	+2321	—2680		— 143	
(ii) Increase (—) or decrease (+) in Treasury bills of Centre	—3351	+ 581		—1382	
(iii) Withdrawals from (—) or additions to (+) cash balance investment accounts and revenue reserve funds of States	+ 35	— 151		+ 5	
(iv) Increase (—) or decrease (+) in ways and means advances and overdrafts from the Reserve Bank of India to States ..	— 167	+ 247		—	

@ Including effects of budget proposals as adjusted for tax concessions announced on March 16 and April 24, 1979 (Rs. 39 crores) by the Government of India.

@@ Including a provision for payment to IMF of Rs. 245 crores on account of the increase in India's quota at the IMF and by way of currency valuation adjustment.

* This deficit would be higher by Rs. 255 crores if supplementary demands for grants of Gujarat and Maharashtra aggregating Rs. 88 crores and the unbudgeted outlays of Rs. 167 crores in respect of Himachal Pradesh, Jammu & Kashmir, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal are taken into account.

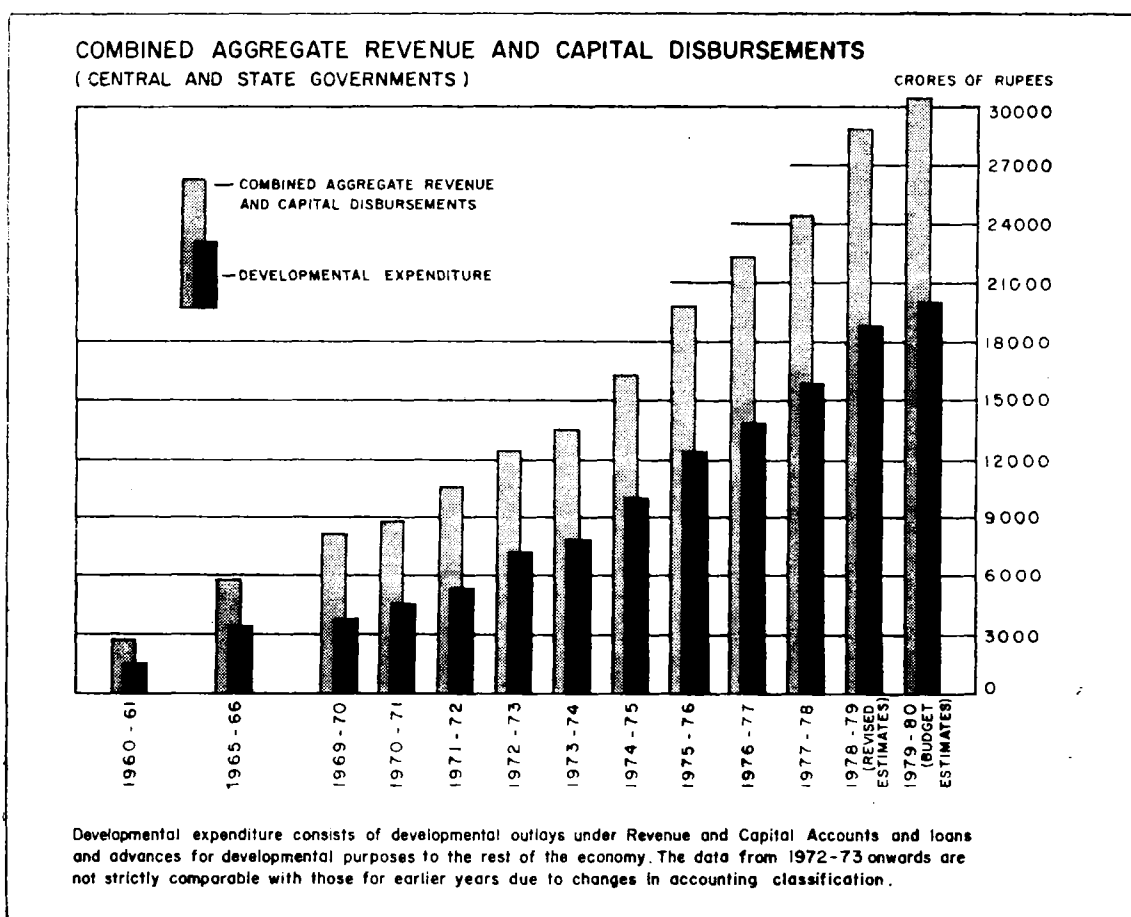
Notes : 1. Data do not cover Union Territories with legislatures.

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

3. Figures are provisional.

4. The figures of Developmental and Non-Developmental Expenditure do not add up to total disbursements, since the latter include besides Developmental and Non-Developmental Expenditure, items like discharge of debt of Central and State Governments, compensation and assignments to local bodies, etc.

Source : Budgets of Central and State Governments.



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 1978-79 (revised estimates) was placed at Rs. 18,274 crores showing an increase of Rs. 3,288 crores (or 21.9 per cent) over the preceding year (Table VII-3).

[@]The figure of total expenditure as given in the 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 and (b) current expenditure of departmental commercial undertakings, their interest payments and net transfer of funds. 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 and current expenditure of other departmental commercial undertakings.

Economic Classification

About 84 per cent of the increase in the total expenditure was accounted for by financial resources provided to the rest of the economy which rose from Rs. 10,200 crores in 1977-78 to Rs. 12,949 crores in 1978-79 (or by 27.0 per cent). The share of expenditure under this category in the total expenditure increased from 68.1 per cent in 1977-78 to 70.9 per cent in 1978-79. Of the financial resources provided to the rest of the economy, those provided for capital formation increased by Rs. 1,248 crores over the year while the quantum of resources allocated for purposes other than capital formation was higher by Rs. 1,501 crores. Reflecting this, the share of the former in the total expenditure increased from 30.6 per cent in 1977-78 to 31.9 per cent in 1978-79 and that of the latter from 37.5 per cent to 39.0 per cent.

Table VII.3 : Economic Classification of Total Budgetary Expenditure of the Central Government

(Rupees Crores)								
Items	1977-78 (Accounts)	Per cent Variation over the previous year	1978-79 (Budget Estimates)	Per cent Variation over the previous year	1978-79 (Revised Estimates)	Per cent Variation over the previous year	1979-80 (Budget Estimates)	Per cent Variation over the previous year
1	2	3	4	5	6	7	8	9
I. Total Expenditure	14986 (100.0)	+14.0	17517 (100.0)	+16.9	18274 (100.0)	+21.9	17808 (100.0)	- 2.6
A. Final Outlays	4786 (31.9)	+ 1.4	5769 (32.9)	+20.5	5325 (29.1)	+11.3	6018 (33.8)	+13.0
(a) Consumption Expenditure	3678 (24.5)	+ 2.0	4140 (23.6)	+12.6	3936 (21.5)	+ 7.0	4270 (24.0)	+ 8.5
(b) Capital Expenditure	1108 (7.4)	- 0.4	1629 (9.3)	+47.0	1389 (7.6)	+25.4	1748 (9.8)	+25.8
B. Financial Resources Provided to the Rest of the Economy	10200 (68.1)	+21.0	11748 (67.1)	+15.2	12949 (70.9)	+27.0	11790 (66.2)	- 9.0
(a) For Capital Formation	4580 (30.6)	+18.1	5418 (30.9)	+18.3	5828 (31.9)	+27.2	5270 (29.6)	- 9.6
(i) To States and Union Territories	2221 (14.8)	+45.7	2830 (16.1)	+27.4	3314 (18.1)	+49.2	2557 (14.4)	-22.8
(ii) To Others*	2359 (15.8)	+ 0.2	2588 (14.8)	+ 9.7	2514 (13.8)	+ 6.6	2713 (15.2)	+ 7.9
(b) For Purposes other than Capital Formation	5620 (37.5)	+23.4	6330 (36.2)	+12.6	7121 (39.0)	+26.7	6520 (36.6)	- 8.4
(i) To States and Union Territories	1541 (10.3)	+10.2	1895 (10.8)	+23.0	2031 (11.1)	+31.8	1510 (8.5)	-25.7
(ii) To Others*	4079 (27.2)	+29.3	4435 (25.4)	+ 8.7	5090 (27.9)	+24.8	5010 (28.1)	- 1.6
II. Total Capital Formation Expenditure	5688 (38.0)	+14.0	7047 (40.2)	+23.9	7217 (39.5)	+26.9	7017 (39.4)	- 2.8
III. Total Expenditure for purposes other than Capital Formation	9298 (62.0)	+14.0	10470 (59.8)	+12.6	11057 (60.5)	+18.9	10791 (60.6)	- 2.4

* 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.

Consequent to 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 31.9 per cent in 1977-78 to 29.1 per cent in 1978-79. The expenditure on final outlays in absolute terms, increased by Rs. 539 crores in 1978-79. Of this, Rs. 258 crores (or 48 per cent) was accounted for by the rise in consumption expenditure (i.e. Government's direct demand for goods and services for consumption). On the other hand, expenditure on capital formation rose by Rs. 281 crores over the year. Accordingly, the expenditure on capital formation both on account of direct outlays and transfer of financial resources to the rest of the economy moved up by Rs. 1,529 crores to Rs. 7,217 crores in 1978-79 (or by 26.9 per

cent) and its proportion to total expenditure rose from 38.0 per cent to 39.5 per cent.

Functional Classification

The Central Government's developmental expenditure, comprising disbursements on account of social and economic services, has been stepped up over the year by Rs. 2,326 crores (or 27.6 per cent) to Rs. 10,764 crores. The share of developmental expenditure in total expenditure was higher at 58.9 per cent in 1978-79 than 56.3 per cent in the preceding year. Of the total increase in developmental expenditure, as much as Rs. 2,060 crores (or about 88 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).

Table VII-4 : Functional Classification of Central Government's Total Expenditure

(Rupees Crores)								
Items	1977-78 (Accounts)		1978-79 (Budget Estimates)		1978-79 (Revised Estimates)		1979-80 (Budget Estimates)	
	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
1	2	3	4	5	6	7	8	9
Total Expenditure (A+B)	14986 (100.0)	14.0	17517 (100.0)	16.9	18274 (100.0)	21.9	17808 (100.0)	-2.6
A. Developmental Expenditure (i+ii)	8438 (56.3)	17.6	9973 (56.9)	18.2	10764 (58.9)	27.6	10474 (58.8)	-2.7
(i) Social Services	970 (6.5)	7.8	1273 (7.3)	31.2	1236 (6.8)	27.4	1336 (7.5)	8.1
(ii) Economic Services*	7468 (49.8)	19.0	8700 (49.6)	16.5	9528 (52.1)	27.6	9138 (51.3)	-4.1
B. Non-Developmental Expenditure (i+ii)	6548 (43.7)	9.6	7544 (43.1)	15.2	7510 (41.1)	14.7	7334 (41.2)	-2.3
(i) General Services	3271 (21.8)	-0.9	3891 (22.2)	19.0	3690 (20.2)	12.8	3804 (21.4)	3.1
(ii) Unallocable	3277 (21.9)	22.5	3653 (20.9)	11.5	3820 (20.9)	16.6	3530 (19.8)	-7.6

*Includes block grants and loans.

Note : Figures in brackets are percentages to total expenditure.

Source : Economic and Functional Classification of the Central Government Budget.

Non-developmental expenditure of the Central Government comprising disbursements on account of general services (including defence expenditure) and unallocable items, rose over the year by Rs. 962 crores to Rs. 7,510 crores in 1978-79. Unallocable items such as consumption subsidies, interest payments, pensions, statutory grants-in-aid and special loans to State Governments largely accounted for the increase in non-developmental expenditure.

However, its growth rate over the year was lower at 14.7 per cent than that of the developmental expenditure. Consequently, its share in total expenditure declined from 43.7 per cent in 1977-78 to 41.1 per cent in 1978-79.

Pattern of Expenditure for 1979-80—Budget Estimates

The Budget of the Central Government for 1979-80, presented against the background of satisfactory performance of the economy in the sphere of agricultural and industrial production and relative stability in prices has been formulated in the context of the primacy of the objectives of eradicating poverty and unemployment. Pursuant to these objectives, the Budget has placed emphasis on programmes designed to promote agricultural growth and employment.

The Annual Plan outlay of the Centre, States and Union Territories for 1979-80 has been increased by 7.4 per cent to Rs. 12,511 crores* as against a higher rate of growth of 17 per cent in the preceding year. However, for a proper assessment of the Plan outlay for 1979-80, account should be taken of the

fact that a sum of Rs. 835 crores has been transferred as committed expenditure from the Plan side to the non-Plan side in the Central and State Plans. The provision in Central budget for the Central Plan has been increased by Rs. 489 crores to Rs. 4,808 crores while that for the Plans of the States, Union Territories and North Eastern Council at Rs. 2,300 crores is estimated to be lower by Rs. 812 crores than the revised outlay for the preceding year. The outlay on agriculture and allied sectors has been stepped up over the preceding year by Rs. 66 crores (3.8 per cent) to Rs. 1,811 crores. The provision for village and small industries has shown an increase of Rs. 68 crores (31.1 per cent) to Rs. 287 crores in 1979-80. The outlay on irrigation and flood control has been increased by 8.4 per cent to Rs. 1,258 crores. In the case of power and transport and communications, the allocations have been raised by 11.1 per cent and 19.1 per cent to Rs. 2,440 crores and Rs. 2,137 crores, respectively. Plan provision for industry and mining has been placed at Rs. 2,551 crores indicating a rise of 5.7 per cent.

Aggregate disbursements@ in 1979-80 are estimated at Rs. 19,219 crores showing a decline of Rs. 1,164 crores (or 5.7 per cent) over the revised estimates for 1978-79. Aggregate receipts adjusted for the effect of post-budget tax concessions in 1979-80, placed at Rs. 17,837 crores are likely to show a fall of Rs. 401 crores (or 2.2 per cent) from the revised estimates for 1978-79. The decline both in aggregate receipts and disbursements of the Central Government budgeted for 1979-80 reflects partly the recommendations of the Seventh Finance Commission.** The

*Subsequently, the Planning Commission has released the Annual Plan for the year 1979-80. Accordingly, the Plan for 1979-80 envisages an outlay of Rs. 12,601 crores in the public sector, representing an increase of Rs. 951 crores or 8.2 per cent over the Plan outlay of Rs. 11,650 crores in 1978-79. However, the outlay for 1979-80 shows an increase of Rs. 1,010 crores or 8.7 per cent as compared with the latest estimate of Rs. 11,591 crores in 1978-79. The committed expenditure, namely, the maintenance expenditure on Fifth Plan Schemes completed by the end of 1978-79, which has been treated as non-Plan expenditure from 1979-80 onwards is estimated at Rs. 805 crores. Taking this into account the total developmental outlay for 1979-80, comparable to the revised Plan outlay of Rs. 11,591 crores for 1978-79, works out to Rs. 13,406 crores representing an increase of 16 per cent.

@Government of India have appointed a Commission for Public Expenditure under the Chairmanship of Shri S. N. Mishra with suitable terms of reference to conduct a comprehensive inquiry into Government expenditure. It will among other things, identify areas in which economy can be effected without impairing efficiency or adversely affecting growth.

** As a consequence of the recommendations of the Seventh Finance Commission, States' share in Central taxes would be higher by Rs. 1,49 crores in 1979-80 and the recovery of loans by the Centre from the States would be lower by Rs. 100 crores as compared with the previous year. On the other hand, statutory grants to States are budgeted to decline by Rs. 440 crores during 1979-80.

Budget leaves an uncovered gap of Rs. 1,382* crores in 1979-80 as compared with a higher deficit of Rs. 2,145** crores in the preceding year.

Economic Classification

According to the economic classification, the total expenditure of the Central Government during 1979-80 at Rs. 17,808 crores is expected to show a decline of 2.6 per cent as against a notable increase of 21.9 per cent recorded in the preceding year (Table VII—3). This is mainly due to the decline in the financial resources provided to the rest of the economy. The expenditure on account of financial resources provided to the rest of the economy is anticipated to decrease by Rs. 1,159 crores (or by 9.0 per cent) to Rs. 11,790 crores in 1979-80 as compared with the rise of Rs. 2,749 crores (or by 27.0 per cent) to Rs. 12,949 crores in the preceding year. Financial resources provided to States and Union Territories for both capital formation and for purposes other than capital formation are budgeted to decline sharply during 1979-80.

Provision for 'final outlays' which accounts for roughly one-third of the total expenditure has been stepped up by Rs. 693 crores (or by 13.0 per cent) compared with 29.1 per cent in the preceding year. The provision for direct gross capital formation expenditure at Rs. 1,748 crores has been placed higher by Rs. 359 crores (or by 25.8 per cent) as compared with 25.4 per cent in the preceding year. The share of such a provision in the total expenditure is expected to show a rise from 7.6 per cent to 9.8 per cent. Consumption expenditure which is the major component of final outlays is envisaged to rise by 8.5 per cent in 1979-80 as compared with 7.0 per cent in the preceding year and its proportion to the total expenditure is likely to show an increase from 21.5 per cent in 1978-79 to 24.0 per cent in 1979-80.

* Including the effect of tax concessions announced on March 16, 1979 and April 24, 1979. The Government of India announced recently that excise and customs duties levied on petroleum products in the Budget for 1979-80 would be treated as price increases. As a consequence of this, the budgetary deficit may further go up, other things remaining the same.

** The budgetary deficit in 1978-79 is estimated at Rs. 1,590 crores excluding the loans to certain States for clearing their past deficits.

The provision for gross capital formation out of the budgetary resources of the Central Government during 1979-80 would decline by 2.8 per cent as compared with an increase of 26.9 per cent in 1978-79. Although the aggregate provision for gross capital formation for 1979-80 shows a decline, its share in total expenditure is maintained at the previous year's level of 39.4 per cent. The share of resources provided for capital formation for developmental purposes in total developmental expenditure is likely to go down marginally from 66.6 per cent in 1978-79 to 66.2 per cent in 1979-80. (Table VII-5).

Functional Classification

Developmental expenditure of the Central Government is anticipated to show a decline of 2.7 per cent in 1979-80 as against an increase of 27.6 per cent in the preceding year. The developmental expenditure, estimated at Rs. 10,474 crores in 1979-80 would constitute about 59 per cent of the total expenditure. Expenditure on economic services accounting for about one-half of the total expenditure, is expected to decline by 4.1 per cent as against an increase of 27.6 per cent in the preceding year. Provision for social services, on the other hand, has been marked up by 8.1 per cent. Non-developmental expenditure is budgeted to decline by Rs. 176 crores (or 2.3 per cent) to Rs. 7,334 crores as compared with an increase of 14.7 per cent in the preceding year (Table VII—4).

Major Tax Proposals@

Taxation measures incorporated in the Budget for 1979-80 aim *inter-alia* at (i) reduction in income disparities, (ii) increasing production and avoiding waste and (iii) eliminating unemployment and underemployment by encouraging labour intensive techniques of production. Tax proposals are expected to yield a revenue of Rs. 665 crores of which the share of the Central Government

@The Government has announced the appointment of a Committee under the Chairmanship of Prof. V. M. Dandekar to study the impact of concessions provided for in the tax laws—particularly those relating to corporation tax and central excise—on the techniques of production used in industry and make recommendations which will encourage the adoption of labour intensive methods of production.

Table VII-5 : Provision for Capital Formation

Items	(Rupees Crores)					
	1977-78 (Accounts)	1978-79 (Budget Estimates)	1978-79 (Revised Estimates)	1979-80 (Budget Estimates)	Per cent variation of	
					Column 4 over 2	Column 5 over 4
1	2	3	4	5	6	7
I. Total Provision for Capital Formation (A+B)	5688	7047	7217	7017	26.9	-2.8
A. Developmental (1 to 3)	5652	6981	7165	6934	26.8	-3.2
1. Social Services	233	264	283	340	21.5	20.1
2. Economic Services (a to d)	3834	4660	4545	4959	18.5	9.1
(a) Agriculture	359	734	575	637	60.2	10.8
(b) Industry	2115	2291	2167	2290	2.5	5.7
(c) Transport and Communication	1044	1285	1300	1585	24.5	21.9
(d) Other Economic Services	316	350	503	447	59.2	-11.1
3. Block Grants and Loans	1585	2057	2337	1635	47.4	-30.0
B. Non-Developmental (1 + 2)	36	66	52	83	44.4	59.6
1. General Services	36	66	52	83	44.4	59.6
2. Unallocable	—	—	—	—	—	—
II. Total Developmental Expenditure	8438	9973	10764	10474	27.6	-2.7
III. I A as per cent of II	67.0	70.0	66.6	66.2		

Source : Economic and Functional Classification of the Central Government Budget.

would be Rs. 460 crores. Subsequently, certain tax concessions were announced involving a revenue loss of Rs. 39 crores of which the Centre's share is estimated at Rs. 27 crores. As in the preceding year, the Budget has placed major reliance on indirect taxation for mobilising resources for development.

Direct Taxes

The rate of surcharge on income-tax in the case of all categories of non-corporate tax payers including individuals and Hindu Undivided Families is raised from 15 per cent to 20 per cent of the income-tax. As a result, the marginal rate of personal income-tax would go up from 69 per cent to 72 per cent. In the case of all categories of companies, the rate of surcharge has been enhanced from 5 per cent to 7.5 per cent.

Since inequalities of wealth have lesser justification than inequalities of income, the rates of wealth-tax on the higher slabs of net

wealth have been increased. In the case of individuals and Hindu Undivided Families (other than those having one or more members with independent net wealth exceeding Rs. 1 lakh) the new rate of wealth-tax is 3 per cent on the slab of net wealth from Rs. 10,00,001 to Rs. 15,00,000 (as against 2½ per cent previously) and 5 per cent on the slab of net wealth over Rs. 15,00,000 (as against 3½ per cent previously). In the case of Hindu Undivided Families having one or more members with independent net wealth exceeding Rs. 1 lakh, the new rates of wealth-tax will be 3 per cent on the slab of net wealth from Rs. 5,00,001 to Rs. 10,00,000 (as against 2½ per cent previously) and 5 per cent on the slab of net wealth over Rs. 10,00,000 (as against 3½ per cent previously). The rates of wealth-tax on the lower slabs in either case have remained unchanged.

Although concessions in respect of long-term savings through life insurance premia, provident fund contributions and other app-

proved forms of savings subserve certain desirable social and economic objectives, they give a disproportionately large tax benefit to tax payers in higher income brackets. To correct the regressive nature of such concessions, certain modifications were made in the relevant provisions. Thus, while the quantum of deduction in respect of long-term savings for the first Rs. 5,000 of the qualifying savings is retained at the previous level (100 per cent), the quantum of deduction in respect of the next Rs. 5,000 is allowed at the rate of 35 per cent as against 50 per cent previously. The quantum of deduction in respect of the balance is allowed at the lower rate of 20 per cent as against 40 per cent previously.

The tax holiday concession which consists of exemption from income-tax upto a specified percentage of the capital employed in an undertaking will not be available to an industrial undertaking which begins to manufacture or produce any articles specified in the list in the Eleventh Schedule to the Income-tax Act after 31st March 1979. This list contains articles or things of low priority, such as, alcoholic beverages, tobacco and tobacco preparations, cosmetics, etc.

With a view to enabling the Agricultural Refinance and Development Corporation which serves a desirable socio-economic purpose by granting medium and long-term credit by way of refinance for the development of agriculture, to perform its functions effectively and to build up its reserves, exemption has been granted to the Corporation from income-tax and surtax for a period of five years commencing from the assessment year 1979-80. Further, this concession would enable the Corporation to reduce the rate of interest at which it refinances loans for minor irrigation and land development thus making investment in such activities cheaper and attractive. To assist scheduled commercial banks in promoting rural banking, deduction from income-tax has been granted in respect of provisions made by them for bad and doubtful debts relating to advances made by their rural branches. However, such a deduction will be limited to 1.5 per cent of the aggregate average advances made by the rural branches.

Under the Income-tax Act, specified categories of resident tax-payers are entitled to a weighted deduction, in the computation of taxable profits, at a rate of one and one-third times the amount of qualifying expenditure incurred on the development of export markets. This scheme has been modified in two ways. First, it has been provided that the expenditure incurred on advertisement or publicity outside India in respect of goods, services or facilities dealt in or provided by the tax-payer in the course of his business would also qualify for the weighted deduction. Secondly, the benefit of the scheme has been extended to all domestic companies and non-corporate tax-payers resident in India.

Under the earlier provisions of the Income-tax Act, capital gains arising on the transfer of a "long-term capital asset" were exempted from income-tax if the full value of the consideration received or accruing as a result of the transfer was invested or deposited in specified financial assets such as units of the Unit Trust of India, fixed deposits in nationalised or co-operative banks, equity shares of new industrial companies, etc. within a period of six months from the date of transfer. Where only a part of the consideration was so invested or deposited the exemption from capital gains was granted proportionately. The capital gains are merely a species of unearned income and exemption thereof from income-tax tends to accentuate economic disparities. Therefore, the exemption granted in respect of transfers of long-term capital assets made after 28th February 1979 has been withdrawn in the Budget for 1979-80. However, subsequently on April 24, 1979 the Government announced a modified scheme of income-tax exemption on capital gains. Income from capital gains will now be exempted from tax provided the sale proceeds of such capital assets are invested within six months in 7-Year National Rural Development Bonds to be issued by the Government. The amount of capital gains to be invested will be determined with reference to the net sale proceeds of the capital assets, after deducting the expenditure incurred by the tax-payer in connection with the transfer thereof. The modified scheme relating to capital gains is expected not only to help the Government to mobilise additional

resources for rural development but also check the generation of black money.

Under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974, individuals who are citizens of India, Hindu Undivided Families and trustees of discretionary trusts are required to make compulsory deposits for the assessment years, 1975-76 to 1979-80 (both inclusive) if their "current income" exceeds Rs. 15,000. In order to raise necessary resources as also to curb inflationary pressures, the Scheme has been extended for another two years *i. e.* for the assessment years 1980-81 and 1981-82.

Indirect Taxation

Tax proposals in the field of indirect taxation have been designed to eliminate unemployment and under-employment by stimulating agricultural production, encouraging labour intensive techniques of production and improving the competitive capacity of small scale and cottage industries in relation to large scale industry. To introduce further progression in the excise duty structure, the duty on a number of luxury and semi-luxury articles of consumption was stepped up.

Excise Duties

To facilitate further increase in agricultural productivity by application of more inputs, the central excise duties on all chemical fertilisers have been reduced to 50 per cent of the previous rates. Thus, the basic excise duty on urea has been reduced from 15 per cent to $7\frac{1}{2}$ per cent *ad valorem* while that on single and triple super phosphate fertiliser has been brought down from 7.5 per cent to 3.75 per cent *ad valorem*. Corresponding reductions have also been made in the countervailing duties leviable on imported chemical fertilisers.

As a measure of simplification and rationalisation, the excise duty was shifted from unmanufactured tobacco to manufactured tobacco. Unmanufactured tobacco has been completely exempted from excise duties including additional excise duties. This exemption would give relief to nearly a million tobacco growers, curers, small dealers and warehouse licensees from excise control.

Suitable upward adjustment in the rates of duties on manufactured tobacco products has been made to make good the loss, to a substantial extent, resulting from the above measure.

Excise duties on a number of luxury and semi-luxury items have been enhanced. These items include cosmetics and toilet preparations (other than perfumed hair oil), air conditioners, parts of refrigerating and air-conditioning machinery, stereo and hi-fi equipment and higher priced television sets, radios and radiograms. As regards durable consumer articles, the excise duties have been enhanced on pressure cookers, steel furniture, domestic electrical appliances and safes and strong boxes. Similarly, certain consumer items like confectionery, cocoa, chocolates, biscuits, toilet soap, household soap, tooth paste, tooth brushes, locks and matches produced by the mechanised sector, have been subjected to increased rates of duties.[@] Care has, however, been taken to see that the goods produced by small units in the decentralised sector are not adversely affected by the increase.

With a view to restraining the consumption of the more important petroleum products, excise duty on motor spirit has been raised from Rs. 2,253.88 to Rs. 2,750.00 per kilo litre. The duty on high-speed diesel oil has been enhanced from Rs. 404.04 to Rs. 500.00 per kilo litre while that on kerosene has been stepped up from the level of Rs. 408.19 to Rs. 500.00 per kilo litre.* Similarly, the rate of duty on liquefied petroleum gas has been increased from the level of Rs. 262.50 per metric tonne to Rs. 400.00 per metric tonne.

The rate of duty on goods falling under Item 68 of the Central Excise Tariff has been raised from 5 per cent to 8 per cent *ad valorem* with suitable exemptions for exports and small scale industries.

[@] Subsequently, the Government has announced total withdrawal of the increase in excise duty on confectionery, cocoa, chocolates, biscuits, toilet soap and household soap and has partly reduced the increase in excise duty on tooth paste, tooth brushes, locks and matches produced in the mechanised sector.

* Subsequently, the Government of India has reduced the excise duty on high-speed diesel oil and kerosene by 7 paise per litre.

The special duties of excise at the rate of 1/20 of the effective basic excise duties imposed as a part of the 1978-79 Budget which were due to expire at the end of March 1979 have been continued for another year.

As a part of the follow-up action on the Jha Committee's recommendations regarding rationalisation of the excise tariff, the number of effective excise duty rates has been reduced from 28 to 16* in respect of the commodities covered by the budget proposals. Some rationalisation has been made in respect of the rates applicable to personalised modes of transport. The rate of duty on mopeds has been reduced from 13.1 per cent to 10 per cent. The duty on scooters, motor cycles and three wheelers has been increased from 13.13 per cent to 20 per cent. Cars have been subjected to a duty of 25 per cent as against 18.38 per cent previously. The rates applicable to cars used as taxis and auto-rickshaws and commercial vehicles have also been raised as part of the scheme of rationalisation.

Customs Duties

In view of the continuous rise in the rate of excise duty on goods falling under Item 68 of the Central Excise Tariff and as a measure of protection to the indigenous goods falling under this Item, the earlier exemption from countervailing duties of customs applicable to imported goods listed under the Item has been withdrawn.

In the context of the sizeable gap between supply and demand of edible oils, substantial imports of these oils have taken place in the past and may continue in future. As a measure of assuring remunerative prices to indigenous producers of oil seeds, basic customs duty at 5 per cent *ad valorem* has been levied on palm oil, rapeseed oil, soyabean oil, sunflower oil and palmolein oil imported by the State Trading Corporation. However, imports by private parties who had made commitments prior to the canalisation of imports through the STC will bear a levy of

12.5 per cent. These products, however, are exempted from auxiliary and countervailing duties.

With a view to promoting agricultural production in small holdings, power tillers imported by State Agro-Industries Corporations and the Central Government are exempted from customs duty.

Exemption has been given to specialised bulk drugs numbering 22 required for the formulation of life saving drugs from customs duties. The duty on 17 specified bulk drug intermediaries has been reduced from 75 per cent to 25 per cent *ad valorem*.

Postal Services

As the unit cost of a number of postal services exceeded the revenue fetched by them and as the modernisation of telecommunication services would involve large capital investments, it was found necessary to revise the postal and telecommunication tariffs upwards. The tariffs have accordingly been revised and are estimated to result in an additional revenue of Rs. 57.96 crores per annum. The quantum of additional amount likely to accrue during 1979-80 is placed at Rs. 48.30 crores.

II BUDGETARY OPERATIONS OF STATE GOVERNMENTS

Revised Estimates for 1978-79:

The combined budgetary position of the States shows a surplus of Rs. 142 crores in 1978-79 in contrast to a deficit of Rs. 229 crores in 1977-78 (Table VII-6). Such a recovery in the budgetary position of the States is attributable to larger increase in receipts, mainly on account of loans and grants from the Centre, including special non-plan loans aggregating Rs. 551 crores* sanctioned to certain States to clear their closing deficit with the Reserve Bank of India as at the end of March 1978. The aggregate receipts at Rs. 16,044 crores in 1978-79 recorded an increase of Rs. 2,915 crores (or 22.2 per cent) over the level of 1977-78, and aggregate disbursements placed at Rs. 15,902 crores rose by Rs. 2,544 crores (or 19.0 per cent).

* Effective rates are fixed by notifications. These rates are different from existing rates in the case of these commodities. The effective rates are generally lower than the existing rates.

*Excluding a loan of Rs. 4 crores to Jammu and Kashmir.

TABLE VII. 6: OVERALL BUDGETARY POSITION OF STATE GOVERNMENTS

Items	(Rupees Crores)						
	1977-78 (Accounts)	1978-79 (Budget Estimates)		1978-79 (Revised Estimates)		1979-80 (Budget Estimates)	
	Amount	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year
1	2	3	4	5	6	7	8
I. Aggregate Receipts (A + B)	13129	14661	+11.7	16044	+22.2	16809	+ 4.9
A. Revenue Receipts (1 + 2)	9931	11047	+11.2	11445	+15.2	13203	+15.4
(1) Tax Receipts (a + b)	6155	6673	+ 8.4	6760	+ 9.8	8778	+29.9
(a) States' Taxes	4349	4655	+ 7.0	4779	+ 9.9	5275	+10.4
(b) Share in Central Taxes	1806	2018	+11.7	1981	+ 9.7	3503	+76.8
(2) Non-Tax Receipts (c + d)	3776	4374	+15.8	4685	+24.1	4425	- 5.5
(c) Grants from the Centre	1838	2269	+23.4	2476	+34.7	2034	-17.9
(d) Other non-tax receipts	1938	2105	+ 8.6	2209	+14.0	2391	+ 8.2
B. Capital Receipts (1 + 2)	3198	3614	+13.0	4599	+43.8	3606	-21.6
(1) States' Capital Receipts	1287	1361	+ 5.7	1514	+17.6	1484	- 2.0
Of which :							
(a) Market Borrowings (Gross)	281	296	+ 5.3	280	- 0.4	341	+21.8
(b) Recovery of Loans and Advances	279	350	+25.4	371	+33.0	418	+12.7
(2) Loans from the Centre (Gross)	1911	2253	+17.9	3085	+61.4	2122	-31.2
II. Aggregate Disbursements (A to E)	13358	15033	+12.5	15902	+19.0	16947	+ 6.6
A. Developmental Expenditure* (1 + 2)	9348	10808	+15.6	11593	+24.0	12495	+ 7.8
(1) Social and Community Services	3931	4301	+ 9.4	4659	+18.5	5125	+10.0
Of which :							
Expenditure on Natural Calamities	140	62		130		103	
(2) Economic Services	5417	6507	+20.1	6934	+28.0	7370	+ 6.3
B. Non-Developmental Expenditure*	2797	3236	+15.7	3237	+15.7	3513	+ 8.5
C. Repayment of Loans to the Centre	790	748	- 5.3	795	+ 0.6	605	-23.9
D. Discharge of Internal Debt	161	140	-13.0	142	-11.8	175	+23.2
Of which :							
Market Loans	99	98		102		121	
E. Others†	262	101	-61.5	135	-48.5	159	+17.8
III. Overall Surplus (+)/Deficit (-) (I-II)	- 229	- 372		+ 142		- 138**	
						(- 536)	

Notes : 1. Budget Estimates for 1979-80 include estimated yield from Budget Proposals by States (Rs. 205 crores) and the States' share (Rs. 193 crores) in the Centre's additional taxation after taking into account the concessions announced by the Central Government on March 16, and April 24, 1979.

2. Figures given here differ from those given in the Reserve Bank's Annual Report for 1978-79 due to revision in data.

‡ Comprise compensation and assignments to local bodies, appropriation to contingency fund and remittances (net).

* Comprises States' expenditure on revenue and capital accounts and loans and advances extended by States.

** Inclusive of the Supplementary demands for grants of Gujarat and Maharashtra aggregating Rs. 88 crores and the unbudgeted outlays of Himachal Pradesh, Jammu and Kashmir, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal aggregating Rs. 167 crores, this deficit would increase to Rs. 393 crores.

Receipts

Both revenue and capital receipts contributed to the increase in aggregate receipts in 1978-79; the former rose by Rs. 1,514 crores to Rs. 11,445 crores and the latter by Rs. 1,401 crores to Rs. 4,599 crores. In revenue account, tax receipts at Rs. 6,760 crores in 1978-79 were Rs. 605 crores more than their level in the preceding year, and non-tax receipts at Rs. 4,685 crores registered a rise of Rs. 909 crores. The revenue from States' taxes increased to Rs. 4,779 crores in 1978-79 from Rs. 4,349 crores in 1977-78, thus recording a rise of Rs. 430 crores (or 9.9 per cent) compared with a rise of Rs. 316 crores (or 7.8 per cent) in the preceding year. The States' share in Central taxes registered an increase of Rs. 175 crores to Rs. 1,981 crores during the same period. Two-third (or Rs. 283 crores) of the rise in revenue from States' taxes was on account of sales tax in 1978-79. Among other taxes which yielded increase in revenue were : tax on vehicles (Rs. 42 crores), tax on goods and passengers (Rs. 14 crores), agricultural income tax (Rs. 4 crores), profession tax (Rs. 4 crores), stamps and registration fees (Rs. 14 crores) and land revenue (Rs. 8 crores). Revenue from State excise, however, was lower by Rs. 5 crores. Of the increase of Rs. 175 crores in States' share in Central taxes, Rs. 54 crores were on account of income tax and Rs. 121 crores from Union excise duties.

Among the non-tax revenue items of the States, grants from the Centre amounting to Rs. 2,476 crores in 1978-79 were higher by Rs. 638 crores over the level in the preceding year. Other constituents of non-tax revenue moved up by Rs. 271 crores to Rs. 2,209 crores and included increases from interest receipts (Rs. 137 crores), economic services (Rs. 81 crores), social and community services (Rs. 23 crores) and general services (Rs. 28 crores). The improvement in interest receipts was mainly on account of States' departmental commercial undertakings and non-departmental undertakings. Dairy development, forest and road and water transport services raised the level of revenue from economic services.

Capital receipts increased to Rs. 4,599 crores in 1978-79 from Rs. 3,198 crores in

1977-78. The bulk of the rise accrued from Central loans (gross) which spurted by Rs. 1,174 crores to Rs. 3,085 crores during the year. The large rise included a special Central loan of Rs. 551 crores* to eleven States to clear their closing deficit with the Reserve Bank of India as at the end of March 1978. The market borrowings at Rs. 280 crores in 1978-79 were almost at the same level as in 1977-78. Recoveries of loans and advances increased by Rs. 92 crores of which Rs. 45 crores were from agricultural sector. While the net receipts from small savings, provident funds etc., increased by Rs. 59 crores to Rs. 285 crores, net receipts on account of deposits and advances declined by Rs. 39 crores to Rs. 170 crores.

Scheme for regulating States' Overdrafts

During the two years 1977-78 and 1978-79 a number of States had excessive and continuous resort to overdrafts from the Reserve Bank of India. The States' overdrafts with the Reserve Bank of India had risen to Rs. 505 crores as on June 27, 1978 which were cleared on June 29, 1978 by an advance release of Central assistance in the form of loans and grants and of the States' share in Central taxes; the amount cleared by the close of June 1977 amounted to Rs. 320 crores. Consequently, in consultation with the Reserve Bank, the Central Government introduced certain measures to regulate overdrafts of the State Governments. First, in August and December 1978, as aforesaid, the Central Government extended to eleven States special non-plan loans totalling Rs. 551 crores for clearing their closing deficit with the Reserve Bank of India as at the end of March 1978 so as to avoid carry forward of such deficits by the States to subsequent years. Secondly, the Reserve Bank doubled the existing limits of normal (unsecured) ways and means advances of all the States so as to provide sufficient manoeuvrability to them to manage their finances in such a way as to obviate the need for resorting to overdraft from the Reserve Bank of India. Thirdly, with a view to avoiding recurrence of large overdrafts of States, a system was introduced

* Excluding a loan of Rs. 4 crores to Jammu and Kashmir.

from October 1978 according to which if a State Government is indebted to the Reserve Bank for more than 45 days even within the prescribed limits of the ways and means advances, the matter would be taken up with the concerned State Government to devise remedial measures as may be called for. In addition, as soon as any State Government has availed itself of 75 per cent of the authorised ways and means limit, the Reserve Bank will caution the concerned State Government, and if, despite such action, the State Government account is overdrawn for more than 7 working days, the Reserve Bank would suspend payments on account of the State Government which will not be resumed until after the overdraft has been cleared. After the introduction of this Scheme, the States' recourse to overdrafts has been significantly reduced and overdrafts availed by the States amounted to only Rs. 1.4 crores on June 15, 1979.

Transfer of Resources from the Centre

The total devolution of resources from the Centre to the States in the form of shares in Central taxes, grants and net loans (net of repayment of loan instalment of Rs. 794.7 crores and interest of Rs. 586.6 crores) amounted to Rs. 6,160 crores in 1978-79 representing a rise of Rs. 1,905 crores (or 44.8 per cent) over the level in 1977-78. Following such large transfers, their share in the net aggregate receipts of States sharply moved up to 40.4 per cent in 1978-79 from 34.5 per cent in 1977-78. Excluding States' share in Central taxes, the increase in net transfers amounted to Rs. 1,730 crores (or 70.6 per cent) which constituted 27.4 per cent of net aggregate receipts as compared with 19.9 per cent in the preceding year. The larger transfer of resources from the Centre to States in 1978-79 is attributable to a steep rise in Central loans and grants which included advance plan assistance to the States to finance relief expenditure necessitated by natural calamities. Central loans (net) recorded a rise of Rs. 1,093 crores to Rs. 1,704 crores in 1978-79 from Rs. 610.7 crores in 1977-78. The rise in Central loans was on account of special loan of Rs. 551 crores to eleven States, as mentioned earlier, and Plan loans to all States which were Rs. 540 crores more than that in the preceding

year. The Plan grants from the Centre to the States at Rs. 1,648 crores in 1978-79 recorded an increase of Rs. 511 crores over the level of the preceding year. While there was an increase of Rs. 308 crores in respect of grants for State Plan schemes and of Rs. 199 crores for Centrally sponsored schemes, an increase of Rs. 4 crores was observed in transfer for Central Plan schemes. Non-Plan Statutory grants increased to Rs. 618 crores in 1978-79 from Rs. 564 crores in 1977-78 and non-Plan non-statutory grants increased by Rs. 73 crores to Rs. 210 crores during the same period.

Disbursements

Aggregate disbursements recorded a larger rise of Rs. 2,544 crores (or 19.0 per cent) to Rs. 15,902 crores in 1978-79 than of Rs. 1,486 crores (or 12.5 per cent) in 1977-78. The developmental expenditure which spurted by Rs. 2,245 crores (or 24.0 per cent) to Rs. 11,593 crores constituted 88.2 per cent of the total increase in aggregate disbursements. Consequently, the proportion of developmental expenditure to aggregate disbursements increased to 72.9 per cent in 1978-79 from 70.0 per cent in 1977-78. Two-third of the increase in developmental expenditure was in respect of economic services (Rs. 1,517 crores) and social and community services accounted for the rest (Rs. 728 crores). The non-developmental expenditure increased by Rs. 440 crores (or 15.7 per cent) to Rs. 3,237 crores in 1978-79 which constituted 20.4 per cent of aggregate disbursements as against 20.9 per cent in the previous year. Repayments of Central loans and market loans were higher by Rs. 5 crores and Rs. 3 crores in 1978-79 than in the preceding year.

Budget Estimates for 1979-80:

The States' budget estimates for 1979-80, inclusive of additional resource mobilisation of Rs. 205 crores, anticipate a combined budgetary deficit of Rs. 138 crores in contrast to a surplus of Rs. 142 crores for 1978-79 (revised estimates) when only Rs. 57 crores were raised through additional resource mobilisation. The estimated deficit for 1979-80 is due to larger increase of Rs. 1,045 crores

(or 6.6 per cent) in aggregate disbursements than of Rs. 765 crores (or 4.9 per cent) in aggregate receipts.

Receipts

Aggregate receipts are budgeted to rise by 4.9 per cent to Rs. 16,809 crores in 1979-80 from 16,044 crores in the preceding year which had recorded an increase of 22.2 per cent. The deceleration in receipts in 1979-80 is on account of estimated fall of Rs. 993 crores (or 21.6 per cent) in capital receipts to Rs. 3,606 crores as against a rise of Rs. 1,401 crores (43.8 per cent) in the preceding year. Revenue receipts which are estimated to rise by Rs. 1,758 crores to Rs. 13,203 crores would record a growth rate of 15.4 per cent, almost the same as was observed in the preceding year. The anticipated improvement in revenue receipts in 1979-80 is mainly on account of tax receipts; non-tax receipts on the other hand are estimated to decline. At Rs. 8,778 crores, tax receipts are expected to rise by Rs. 2,018 crores, as compared to an increase of Rs. 605 crores in 1978-79. The marked rise in tax receipts in 1979-80 is due to substantial step up of States' share in Central taxes by Rs. 1,522 crores to Rs. 3,503 crores, a major part of this increase being the result of the implementation of the Seventh Finance Commission's recommendations. The bulk of the increase is on account of States' share in Union excise duty which has been raised to 40 per cent from 20 per cent. Revenue from States' taxes at Rs. 5,275 crores is estimated Rs. 496 crores (10.4 per cent) higher than their level in 1978-79 when the rise was Rs. 430 crores (9.9 per cent). The major portion of the rise in States' tax revenue in 1979-80 is expected from taxes on commodities and services (Rs. 442 crores), —contribution from sales tax alone to this increase is placed at Rs. 296 crores.

Non-tax receipts are budgeted to decline by Rs. 260 crores to Rs. 4,425 crores in 1979-80 from Rs. 4,685 crores in 1978-79. The decline is entirely on account of grants from the Centre which are anticipated lower by Rs. 442 crores at Rs. 2,034 crores following the recommendations of the Seventh Finance Commission. The other non-tax

revenues from interest receipts and economic services etc. are estimated to increase by Rs. 182 crores to Rs. 2,391 crores.

The anticipated decline in capital receipts in 1979-80 is mainly due to estimated fall of Rs. 963 crores to Rs. 2,122 crores in the loans from the Centre. This fall is on account of lower provision for Plan loans and non-provision for special loans to the States by the Centre in 1979-80. The decline in States' own capital receipts by Rs. 30 crores to Rs. 1,484 crores is on account of contingency fund, reserve fund and deposits and advances. The decline in receipts from these sources is expected to be partly offset by market borrowings and recovery of loans and advances which are placed higher by Rs. 61 crores and Rs. 47 crores at Rs. 341 crores and Rs. 418 crores, respectively.

Recommendations of the Seventh Finance Commission

The Seventh Finance Commission has recommended substantially larger devolution of resources to the States than those recommended by the Sixth Finance Commission. In addition, the principles of distribution of transferred resources among the States have been modified to increase the share of economically backward States.

The main recommendations relating to the size of transfers, effective from 1979-80, are raising the share of the States' in the divisible pool of income-tax from 80 to 85 per cent and of Union excise duty from 20 to 40 per cent. The entire net proceeds of excise duty on generation of electricity will be transferred to the States. All the net proceeds from additional excise duties will continue to be transferred to the States along with net proceeds of estate duty on non-agricultural property, grants in lieu of railway passenger tax and wealth tax on agricultural property.

The Commission has retained the relative weightage given to the population and the assessment of income in each State at 90 per cent and 10 per cent, respectively, for the purpose of distribution among the States *inter se* of the share assigned to them in the income tax proceeds, but has recommended

new criteria for distribution of Union excise duties. The States' share in Union excise duties would be distributed among them on the basis of equal weightage of 25 per cent to following four factors, viz., (i) population, (ii) the inverse of per capita State domestic product, (iii) the percentage of poor in each State and (iv) a formula of revenue equalisation worked out by the Commission. The proceeds of additional excise duties will be shared among the States on the basis of estimates of consumption (measured by despatches to States in respect of sugar and by percentage share of each State's per capita domestic product in the corresponding all-States' total figure in respect of textiles and tobacco). Grants in lieu of railway passenger tax will be distributed on the basis of non-suburban passenger earnings of each of the States instead of length of railway lines in it.

The Commission has recommended an aggregate amount of Rs. 1,173 crores for the period of five years as grants-in-aid under article 275 of the Constitution to 8 States, viz., Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Nagaland, Orissa, Sikkim and Tripura. It has also recommended that 17 States would get grants-in-aid towards revenue and capital expenditure aggregating Rs. 437 crores during the five year period for upgrading the standard of administration in certain services because these States would be having deficits in non-plan revenue account without devolution of resources in terms of the Commission's report.

On the basis of an assessment of the non-plan capital gap of the States on a uniform and comparable basis for the five years ending 1983-84, the Commission has reviewed the States' debt position in respect of outstanding Central loans at the end of 1978-79 and has recommended relief in relation to repayment of Central loans to the extent of Rs. 2,156 crores during the five years 1979-84.

The large increase in the transfer of resources from the Centre to the States resulting from the recommendations of the Commission is mainly through shared taxes and duties. The transfer of resources through 'Grants-in-aid' under article 275 of the Constitution is lower under the recommendations of the Seventh Finance

Commission than that awarded by the Sixth Finance Commission. The relative reduction in the significance of 'Grants-in-aid' is the result of liberal share allotted to the States in respect of Central taxes, particularly Union excise duties, and also due to the change in the criteria adopted for deciding the size of grants.

Total devolution of resources through shared taxes, loans and grants from the Centre to the States is estimated to rise by Rs. 257 crores (or 4.2 per cent) in 1979-80 as compared with the large rise of Rs. 1,905 crores (or 44.8 per cent) in 1978-79. As loans from the Centre are expected to be lower in 1979-80 than in the preceding year, ratio of devolution of resources from the Centre to the net aggregate receipts of the States would decline to 39.6 per cent from 40.4 per cent in 1978-79. The States' share in Central taxes is placed at Rs. 3,503 crores which records a sharp rise of Rs. 1,522 crores (or 77 per cent) over the level of Rs. 1981 crores in the preceding year. This is mainly due to the implementation of the aforesaid recommendations of the Seventh Finance Commission and the States' share in the Central taxes would constitute 21.6 per cent of their net aggregate receipts in 1979-80 as against 13 per cent in 1978-79. On the other hand, both grants and net loans from the Centre are budgeted to decline to Rs. 2,034 and Rs. 881 crores from Rs. 2,476 crores and Rs. 1,704 crores, respectively, and the proportion of grants to net aggregate receipts would decline to 12.5 per cent from 16.2 per cent and that of loans to 5.4 per cent (almost same as in 1977-78) from 11.2 per cent in 1978-79. The special factors responsible for raising the proportions of the Central loans and grants in 1978-79 are mentioned earlier.

Proposals to raise additional resources

The measures for additional resources mobilisation to the extent of Rs. 227 crores have been announced by 15 States, viz., Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. Maharashtra and Gujarat

have given concessions in existing levies to the extent of Rs. 15 crores and Rs. 5 crores respectively. Thus, net aggregate additional resource mobilisation proposed by States would amount to Rs. 205 crores (Table VII-7) of which Rs. 177 crores would be obtained by raising tax levies and Rs. 28 crores through non-tax levies.

Table VII.7 : Estimated yield from Budget Proposals 1979-80

				Additional Yield (Rs. Crores)
1				2
<i>By States</i>				
1.	Assam	..	..	4.34
2.	Bihar	..	..	9.75
3.	Gujarat	..	..	1.30
4.	Haryana	..	..	9.94
5.	Himachal Pradesh	..	..	4.65
6.	Jammu and Kashmir	..	..	3.00
7.	Karnataka	..	..	30.00(a)
8.	Madhya Pradesh	..	..	0.50
9.	Maharashtra	..	..	29.89
10.	Meghalaya	..	..	0.22
11.	Orissa	..	..	17.12
12.	Rajasthan	..	..	14.00
13.	Tamil Nadu	..	..	8.50
14.	Uttar Pradesh	..	..	37.50
15.	West Bengal	..	..	34.00
Total				204.71(b)
<i>By Major Heads</i>				
1.	Sales Tax	..	..	58.52
2.	State Excise	..	..	21.95
3.	Stamps and Registration Fees	..	..	17.35
4.	Entertainment Tax	..	..	4.91
5.	Motor Vehicles Tax	..	..	22.97
6.	Tax on Goods and Passengers	..	..	2.65
7.	Land Revenue	..	..	5.67
8.	Electricity Duties	..	..	12.66
9.	Agricultural Income-tax	..	..	3.10
10.	Profession Tax	..	..	9.00
11.	Others	..	..	17.88
12.	Non-Tax Receipts	..	..	28.05
Total				204.71(b)

(a) Out of this Rs. 4 crores will have to be given to local bodies. (b) After adjusting for concessions amounting to Rs. 22.41 crores,—Assam (Rs. 0.60 crore), Gujarat (Rs. 5.00 crores), Haryana (Rs. 0.14 crore), Madhya Pradesh (Rs. 0.15 crore), Maharashtra Rs. 15.02 crores and Rajasthan (Rs. 1.50 crores)

Maharashtra has announced measures in 1979-80 which are likely to provide additional revenue of Rs. 44.9 crores including Rs. 25 crores from changes in sales tax, Rs. 8.2 crores from State excise duties,

Rs. 8 crores from stamps and registration fees and Rs. 3.7 crores from other tax changes. On the other hand, it has also given tax concessions to the sugar industry resulting in revenue loss of Rs. 13 crores. Uttar Pradesh has proposed to mobilise Rs. 37.5 crores, West Bengal has budgeted to raise additional resources of Rs. 34 crores through measures like revision in rates of sales tax (Rs. 14 crores), profession tax (Rs. 9 crores) and royalty on coal mines (Rs. 6 crores) etc. The other States which have made noteworthy efforts for raising additional resources are Karnataka (Rs. 30 crores), Orissa (Rs. 17 crores), Rajasthan (Rs. 14 crores), Bihar (Rs. 10 crores), and Haryana (Rs. 10 crores).

Taxes on commodities and services would constitute Rs. 142 crores or four-fifths of the additional tax effort of Rs. 177 crores in 1979-80. Sales tax alone accounts for Rs. 58.5 crores. For raising additional yield, revisions are effected in motor vehicles tax (Rs. 23 crores), State excise duties (Rs. 22 crores), electricity duties (Rs. 12.7 crores) and profession tax (Rs. 9 crores). During 1978-79, only Rs. 2.4 crores were raised by fresh imposts relating to stamps and registration fees. But during 1979-80 upward revision in the stamps and registration fees proposed by Bihar, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh would yield Rs. 17.4 crores. Non-tax levies are expected to contribute additional revenue of Rs. 28.1 crores. Of this, economic services would account for Rs. 26.2 crores and social and community services for Rs. 1.9 crores. Among the constituents of economic services which are expected to contribute to the additional resource mobilisation are royalty on mines (Rs. 11.4 crores) and forest levies (Rs. 7.4 crores).

Disbursements

Aggregate disbursements are budgeted to increase by Rs. 1045 crores (or by 6.6 per cent) to Rs. 16,947 crores in 1979-80 as against the rise of Rs. 2,544 crores (or 19 per cent) in 1978-79. The estimated lower growth of disbursements in 1979-80 reflects deceleration of both developmental and non-developmental expenditure. Developmen-

TABLE VII. 8 : PLAN OUTLAY OF STATES AND UNION TERRITORIES

(Rupees Crores)									
States, Union Territories	Total proposed plan outlay (1969-70 to 1973-74)	Actual Expenditure for 4th Plan	1974-75 Actual Expenditure	1975-76 Actual Expenditure	1976-77 Actual Expenditure	1977-78 Actual Expenditure	1978-79 Approved Outlay	1978-79 Revised Approved Outlay	1979-80 Approved Outlay
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Andhra Pradesh	421	426	148	203	293	361	449	449	422
Assam	245†† (28)	198	46	56	74	106*	155	148	155
Bihar	480	479	153	205	248	266	384	343	357
Gujarat	485	545	188	236	249	327	335	335	392
Haryana	277	358	88	106	136	147	210	199	227
Himachal Pradesh	79	113	34	35	39	54	73	73	73
Jammu and Kashmir	164	162	48	59	77	94	108	108	118
Karnataka	340	374	121	167	234	246	309	303	299
Kerala	274	333	81	104	127	159	176	177	170
Madhya Pradesh	461	476	167	220	283	347*	413	415	455
Maharashtra	906	1005	297	381	505	648	735	735	762
Manipur	17	31	11	14	17	21	28	28	31
Meghalaya	—	36	12	17	19	23	29	30	33
Nagaland	42	39	15	16	19	21	25	26	26
Orissa	245	249	75	93	136	149	191	191	191
Punjab	360	428	127	166	222	204	260	231	260
Rajasthan	300	309	110	141	173	191	235	235	275
Sikkim	—	—	—	—	12	13	16	16	18
Tamil Nadu	467	552‡	141	173	242	265	305	305	307
Tripura	20	35	9	12	14	14	23	23	28
Uttar Pradesh	1023	1163	374	481	585	653	755	722	690
West Bengal	321	364	150	182	225	304	371	371	480†
A. Total All States	6927	7675	2395	3067	3929	4613	5585	5463	5769
B. Hill Areas**	—	—	25@	19	35	43	53	53	55
C. Tribal Areas@@	—	—	—	10	36	51	70	70	70
D. Total Union Territories	365	278	72	96	133	165	214	211	227
E. North Eastern Council	—	—	5	7	16	30	36	36	47
Total (A to E)	7292	7953	2497	3199	4149	4902	5958	5833	6168

Note : Figure in bracket indicates plan outlay for Meghalaya.

* Anticipated Expenditure.

† Including Rs. 30 crores for Centrally sponsored schemes.

**It includes Hill areas of Assam, Tamilnadu, Uttar Pradesh, West Bengal and States of Western Ghats.

@Represents approved outlays and it includes outlay for tribal areas also.

@@Expenditure for tribal areas (1975-76—1977-78) provisional.

†† Includes Plan Outlay for Meghalaya also.

Source : Planning Commission.

‡ Excludes Rs. 19 Crores on Power as outside the plan.

tal expenditure is anticipated to increase by Rs. 902 crores (or 7.8 per cent) to Rs. 12,495 crores as against a rise of Rs. 2,245 crores (or 24 per cent) in the preceding year. But its share in aggregate disbursements is expected to move up marginally to 73.7 per cent in 1979-80 from 72.9 per cent in 1978-79 due to lower growth of other disbursements.

The deceleration in developmental expenditure is likely to affect social and community services and economic services. The growth rate of social and community services would decline to 10 per cent and of economic services to 6.3 per cent in 1979-80 from 18.5 per cent and 28 per cent respectively in 1978-79. The expenditure on social and community services is budgeted at Rs. 5125 crores which indicates a rise of Rs. 466 crores in 1979-80 as compared with that of Rs. 728 crores in the previous year. Education and allied services would account for the bulk of the increase in expenditure on social and community services in 1979-80. Expenditure on economic services would be higher by Rs. 436 crores at Rs. 7,370 crores as compared with a rise of Rs. 1,517 crores in 1978-79. The major part of the increase in expenditure on economic services is in respect of agriculture and allied services which is budgeted higher by Rs. 253 crores in 1979-80 over the level of 1978-79.

Non-developmental expenditure is estimated to increase by Rs. 276 crores (or 8.5 per cent) to Rs. 3,513 crores in 1979-80 as compared with a rise of Rs. 440 crores (or 15.7 per cent) in the preceding year. Interest payment and administrative services would account for Rs. 186 crores or a little more than two-third of the increase in non-developmental expenditure in 1979-80.

States' Annual Plan Outlay

The approved Annual Plan outlay of States at Rs. 5,769 crores for 1979-80 represents an increase of Rs. 306 crores (or 5.6 per cent) over the Plan outlay of 1978-79 (Tables VII-8 and VII-9) when it is anticipated to have increased by Rs. 850 crores (or 18.4 per cent) to Rs. 5,463 crores.

According to the current Plan priorities, larger outlay has been provided for power and irrigation and flood control in 1979-80. The Plan outlay for power at Rs. 1,968 crores, forming 34.1 per cent of the total outlay, would be higher by Rs. 188 crores (or 10.6 per cent). While the outlay on irrigation and flood control has been raised by Rs. 130 crores to Rs. 1,198 crores, that on agriculture and allied programmes has been reduced by Rs. 6 crores to Rs. 853 crores.

Table VII. 9 : States' Plan Outlay by Heads of Development

(Rs. crores)			
	1978-79 (revised approved)	1979-80 (approved)	Variation over the previous year
1	2	3	4
1. Agriculture and Allied Programmes including Co-operation	859 (15.7)	853 (14.8)	— 6 (— 0.7)
2. Irrigation and Flood Control	1068 (19.5)	1198 (20.8)	+ 130 (+12.2)
3. Power	1780 (32.6)	1968 (34.1)	+188 (+10.6)
4. Village and Small Industries	80 (1.5)	88 (1.5)	+ 8 (+10.0)
5. Industry and Mining	141 (2.6)	157 (2.7)	+ 16 (+11.3)
6. Transport and Communications	455 (8.3)	458 (7.9)	+ 3 (+ 0.7)
7. Others	1080 (19.8)	1047 (18.2)	— 33 (— 3.1)
Total (1 to 7) ..	5463 (100.0)	5769* (100.0)	+306 (+ 5.6)

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

* Includes Rs. 30 crores for C.S.S. in case of West Bengal

Source : Planning Commission.

III. RAILWAY FINANCES

The Railway Budget for the year 1979-80 presented to the Lok Sabha on February 20, 1979 projects a surplus of Rs. 88.5 crores¹ for the fourth year in succession. The Rail Tariff Enquiry Committee's (1977) recommendations regarding revision in passenger fares and freight rates have been implemented by the Government with certain modifications in the Budget for 1979-80. In addition, a supplementary charge of 5 per cent upto 500 Kms and 10 per cent beyond 500 Kms on goods traffic was levied to provide additional funds for the enhanced plan outlays. The financial implications of the RTEC's interim recommendations, as accepted with modifications together with other revisions sought in freight rates would net additional revenue of Rs. 178.0 crores².

Revised Estimates: 1978-79

According to the revised estimates for 1978-79, the total receipts show an increase of Rs. 41.9 crores (or 2.0 per cent) to Rs. 2,175.7 crores as against Rs. 2,133.8 crores in the preceding year (Table VII-10). Rail operations received a severe set-back during July-October 1978 due to unprecedented floods in Northern and Eastern parts of the country causing a loss of Rs. 30 crores to the railways. Passenger earnings have been estimated 6.6 per cent higher at Rs. 663.0 crores as compared to Rs. 621.7 crores in 1977-78. Originating revenue earning goods loadings fell short of budgeted traffic by 17 million tonnes to 205 million tonnes due to the floods. Despite adverse factors mentioned above, the change in the pattern of movement of traffic of several commodities resulted in an increase in the average lead of traffic. For instance, due to complete stoppage of foodgrains imports through various ports, the average lead³ of foodgrains traffic has risen sharply from 948

kilometres in 1976-77 to 1,319 kilometres upto end-November 1978. Lead of fertiliser traffic, which was around 939 kilometres in 1976-77 increased to 1,088 kilometres by end-November 1978. During this period, the average lead of cement traffic went up from 649 kilometres to 821 kilometres while that of petroleum products from 594 kilometres to 700 kilometres and a similar trend was observed in respect of other goods traffic. Consequently, overall earnings from such traffic has been estimated higher by Rs. 10.7 crores (or 0.8 per cent) at Rs. 1,359.2 crores in 1978-79 as compared with Rs. 1,348.5 crores in 1977-78.

Total expenditure rose over the year from Rs. 1,781.0 crores in 1977-78 to Rs. 1,917.5 crores, an increase of Rs. 136.5 crores (or 7.7 per cent). The increase is mainly attributed to the new levies imposed through the General Budget of 1978-79, payment of additional instalment of dearness allowance, increase in the price of steel and fulfilment of some pending staff demands and extra repairs to track and equipment consequent upon floods. Category-wise, the largest expenditure—Rs. 738.9 crores (or 38.5 per cent) was on account of operating expenses (traffic, fuel, rolling stock and equipment) followed by repairs and maintenance—Rs. 643.7 crores (or 33.6 per cent.)

The ratio of total expenditure to total receipts of railways worked out to 88.1 per cent as against 83.5 per cent in 1977-78 due to factors mentioned earlier leading to higher expenditure unmatched by any appreciable rise in total receipts. After providing for Rs. 145.0 crores towards Depreciation Reserve Fund, Rs. 50.0 crores for Pension Fund and after making full payment to the extent of Rs. 230.5 crores as Dividends to General Revenues, the year 1978-79 is expected to close with a surplus of Rs. 27.7 crores despite post-budgetary burdens and losses due to floods. The estimated surplus has been made possible through effective monitoring of expenditure and tighter budgetary control. The entire net surplus is appropriated to Railway Development Fund. The indebtedness of the railways to the General Revenues is estimated to come down to Rs.

1. As a result of post-budget concessions in season ticket fares, which would result in a revenue loss of Rs. 18.0 crores, surplus is expected to decline to Rs. 70.5 crores.

2. Additional revenue would stand reduced by Rs. 18.0 crores to Rs. 160.0 crores due to post-budget concessions in season ticket fares.

3. Represents average distance for which a tonne of goods is transported.

Table VII.10 : Financial Results of Railways

(Rupees Crores)

Items	1975-76 (Actuals)	1976-77 (Actuals)	1977-78 (Actuals)	1978-79 (Revised Estimates)	1979-80 (Budget Estimates)
1	2	3	4	5	6
I. Total Receipts	1,775.5	2,045.7	2,133.8	2,175.7	2,467.1
II. Total Expenditure	1,638.5	1,749.4	1,781.0	1,917.5	2,133.2
III. Ratio of Total Expenditure to Total Receipts	92.3	85.5	83.5	88.1	86.5
IV. Net Revenue (I-II)	137.0	296.3	352.8	258.2	333.9
V. Capital-at-Charge*	4,354.8	4,533.7	4,797.1	5,140.1	5,521.1
VI. Net Revenue as Percentage of Capital-at-Charge	3.1	6.5	7.4	5.0	6.1
VII. Dividend to General Revenues	198.1	209.1	226.6	230.5	245.4
VIII. Net Surplus (+)/Deficit(—) (IV-VII)	—61.1	+87.2	+126.2	+27.7	+88.5
IX. Appropriation to (+) or Withdrawals from (—) Funds or Loans from (—) General Revenues to finance deficit :					
(a) Development Fund	—	+25.8	+34.6	+27.7	+36.9
(b) Revenue Reserve Fund	—	+61.4	+91.6	—	+51.6
(c) General Revenues	—61.1	—	—	—	—

*Excluding outlay on Metropolitan Transport Projects.

Note : As a result of Post-Budget concessions in season ticket fares amounting to Rs. 18.0 crores, there would be changes in the Budget Estimates for 1979-80 as follows :

- (i) Total Receipts would stand reduced to Rs. 2,449.1 crores.
- (ii) Net Revenue would amount to Rs. 315.9 crores and Net Surplus would be Rs. 70.5 crores; and
- (iii) Ratio of Total Expenditure to Total Receipts would stand at 87.1 per cent while Net Revenue as percentage of Capital-at-Charge would be 5.7 per cent.

346.4 crores in 1978-79 from Rs. 368.7 crores in 1977-78. If a relief of Rs. 10 crores towards dividends liability for 1978-79 as recommended by the Expert Group on the Railway's Capital Structure @ is accepted by the Railway Convention Committee and Parliament, the estimated surplus would go up to Rs. 38.0 crores.

Developmental Expenditure: 1978-79

The outlay on developmental programme of the railways for 1978-79 which was originally envisaged at Rs. 535.3 crores was raised to Rs. 553.7 crores in order to make up the arrears of Railways' share of equity in the State Road Transport Corporations, as well as to provide for purchase of additional 3000 wagons. Of the total outlay, Rs. 238.5 crores (or 43.1 per cent) was on

account of rolling stock (Table VII-11). The outlays on traffic facilities and track renewals were Rs. 81.0 crores and Rs. 72.7 crores, respectively. The other important outlays were on new lines—Rs. 31.4 crores, electrification—Rs. 27.5 crores, signalling and interlocking works etc.,—Rs. 18.9 crores, metropolitan transport projects—Rs. 14.9 crores and staff quarters—Rs. 9.9 crores.

Social Obligations

The financial cost of social obligations ⁴ of the railways is estimated at Rs. 152.7 crores during 1978-79 as compared to Rs. 148.8 crores in 1977-78. The loss on coaching services was Rs. 86.9 crores in 1978-79 as against Rs. 79.3 crores in 1977-78. There

@Report of the Expert Group on the Capital Structure of Indian Railways, October 1978 (Mimeographed)—Government of India, Ministry of Railways, Railway Board.

4. These social obligations include coaching services (suburban and non-suburban passenger traffic, parcels, luggage, etc.) transport of low rated commodities (foodgrains, salt, fodder, charcoal, fire wood, vegetables, fruits, etc.) and freight concessions and relief measures.

Table VII.11 : Developmental Expenditure of Railways

(Rs. Crores)					
Items	1975-76 (Actuals)	1976-77 (Actuals)	1977-78 (Actuals)	1978-79 (Revised Estimates)	1979-80 (Budget Estimates)
1	2	3	4	5	6
1. Rolling Stock	200.6	202.0	217.1	238.5	288.7
2. Traffic Facilities	52.4	63.1	59.2	81.0	97.1
3. Track Renewals	54.0	60.2	62.6	72.7	88.4
4. Electrification	20.2	16.6	24.4	27.5	28.4
5. New Lines	16.7	18.7	22.2	31.4	41.6
6. Signalling and Interlocking Works, etc. ..	14.8	13.8	15.6	18.9	20.4
7. Staff Quarters	4.2	6.6	7.6	9.9	9.1
8. Plant and Machinery	10.3	8.8	7.3	7.8	15.0
9. Others	26.5	—47.1	13.1	66.0	65.2
Of which : Metropolitan Transport Projects	6.9	9.2	10.1	14.9	18.0
Total	399.7	342.7@	429.1	553.7†	653.9††

@Including Rs. 1.80 crores for financing export orders.

†Including Rs. 1.08 crores for financing export orders.

††Including Rs. 3.92 crores for financing export orders.

was a reduction of Rs. 3.7 crores (or 5.3 per cent) in the loss on low-rated freight traffic from Rs. 69.4 crores in 1977-78 to Rs. 65.7 crores in 1978-79.

Budget Estimates: 1979-80

The budget estimates for 1979-80 place both the receipts and the expenditure at higher level than in 1978-79. Total receipts have been estimated to rise over the year by Rs. 291.4 crores (or 13.4 per cent) to Rs. 2,467.1 crores⁵ as against Rs. 2,175.7 crores in 1978-79 (R.E.). The major part of increase—Rs. 195.1 crores (or 67.0 per cent)—would be on account of goods traffic which is expected to fetch Rs. 1,554.3 crores as compared to Rs. 1,359.2 crores in 1978-79. The originating revenue earning freight traffic⁶ is estimated to increase in 1979-

80 by 17 million tonnes to 222 million tonnes as against 205 million tonnes in the revised estimates for 1978-79. The budget estimates of goods earnings also include the anticipated additional earnings from the proposed adjustments in freight rates involving withdrawal of exemption from surcharge on certain commodities and levy of fresh surcharge. Passenger earnings have also been assessed higher by Rs. 93.5 crores (or 14.1 per cent) at Rs. 756.5 crores in 1979-80 as compared to Rs. 663.0 crores in the preceding year. The revision in passenger fares and the anticipated growth (6 per cent) in passenger traffic are likely to contribute to such an increase in passenger earnings.

Total expenditure in 1979-80 is expected to increase over the year by Rs. 215.7 crores (or 11.2 per cent) to Rs. 2,133.2 crores as compared to Rs. 1,917.5 crores in 1978-79. The major portion of the increase of Rs. 67.2 crores (or 31.2 per cent) would be on account of fuel costs which have been estimated to cost Rs. 376.3 crores as against Rs. 309.1 crores in 1978-79. Repairs and

5. As a result of post-budget concessions in season ticket fares, total receipts would stand reduced by Rs. 18.0 crores to Rs. 2,449.1 crores.

6. Represents traffic for the transportation of which railways are paid by either the consignor or the consignee but excludes traffic conveyed free by rail for the working of railways.

maintenance work is also expected to cost Rs. 47.7 crores (or 7.4 per cent) more at Rs. 691.4 crores in 1979-80 as against Rs. 643.7 crores in the previous year. Appropriation to Depreciation Reserve Fund is budgeted at Rs. 200.0 crores, Rs. 55.0 crores (or 37.9 per cent) more than the revised estimates of Rs. 145.0 crores for 1978-79.

Net revenue at Rs. 333.9 crores in 1979-80 works out to 6.1 per cent of capital-at-charge⁷ as against 5.0 per cent in 1978-79. After paying Rs. 245.4 crores as dividend to General Revenues as against Rs. 230.5 crores in 1978-79, the year 1979-80 is expected to close with a surplus of Rs. 88.5 crores. Out of this, Rs. 36.9 crores will be appropriated to the Development Fund and the balance of Rs. 51.6 crores to the Railways Revenue Reserve Fund. Consequently, the Railway's indebtedness to the General Revenues would come down from Rs. 346.4 crores at the end of 1978-79 to Rs. 304.3 crores by the end of 1979-80. This is likely to go down further to Rs. 208.0 crores, if the recommendations of the Expert Group on Capital Structure are accepted by the Railway Convention Committee and approved by the Parliament.

Revision in Fares and Freight Rate Structure

In the last few years, increases in the cost of materials consumed by the railways have been quite considerable. But the railway fares and freight rates have been maintained at the same level for the last four years in respect of passenger fares and for three years in respect of goods freight, resulting in less development and continued use of overaged stock. Therefore, to bridge the gap between receipts and expenditure and to provide budgetary support for the developmental programme, the fare and freight rate structure has been revised in 1979-80, taking into consideration the recommendations of Rail Tariff Enquiry Committee (1977).

The special fare table for second class (ordinary) passengers valid for distances

upto 50 kilometres has been replaced by a regular second class (ordinary) fare table. The increase in fares per journey ranges between 5 paise to 25 paise depending upon the distance, with no change upto 10 kilometres. This is expected to yield an additional revenue of Rs. 8.4 crores. Upward revision in the monthly season tickets for second class and first class has been devised with first class now costing four times that of second class. The upward revision in both the classes is expected to yield an additional revenue of Rs. 36.1 crores⁸ in 1979-80.

As regards freight rates, exemptions given to certain commodities from the levy of supplementary charge imposed in 1974 and 1976 have been withdrawn in the budget for 1979-80 and this measure is expected to yield an additional revenue of Rs. 25.5 crores. In addition, all goods traffic (except salt), has to bear a fresh supplementary charge of 5 per cent upto 500 kilometres and 10 per cent beyond this distance from 1979-80.

Amenities and Concessions

The railways have decided to make special arrangements to ensure that all important trains will have the arrangement of water supply in the trains, apart from water supply being arranged at stations where the trains halt. In the all Mail and Express trains, drinking water will be provided in earthen pots with the facility of earthen tumblers. This is also expected to provide an incentive to the cottage industry manufacturing potteries. Catering services on all Mail, Express and Super-fast trains would henceforth be departmentalised, as a matter of policy. It has been decided to electrify all railway stations located within a kilometre of an existing power supply line but not electrified so far.

To commemorate "1979—The International Year of the Child" the age limit for free travel of children has been raised from 3 years to 5 years as a regular feature. Kisans

7. Represents book value of the capital assets of railways.

8. Additional revenue would stand reduced by Rs. 18.0 crores to 18.1 crores due to post-budget concessions in season ticket fares.

travelling in small groups of 20 and more will pay concessional fare of 3/4th of the normal fare (2/3rd in case of special trains) when visiting industrial and agricultural exhibitions at national level.

Developmental Expenditure 1979-80

The Planning Commission which set up a Working Group for assessing rail transport requirements during 1978-79 to 1982-83 has completed an assessment of transport requirements upto 1982-83. Accordingly, Annual Plan outlay for railways for 1979-80 at Rs. 653.9 crores, is higher by Rs. 100.2 crores (18.1 per cent) than the revised outlay of Rs. 553.7 crores in 1978-79. The Plan for 1979-80 lays greater emphasis than in the earlier plans on rehabilitation of track, rolling stock, new lines and traffic facilities. Outlay on rolling stock has been raised by Rs. 50.2 crores (or 21.0 per cent) to Rs. 288.7 crores in 1979-80 as compared to Rs. 238.5 crores in 1978-79 (R.E.). Provision for traffic facilities at Rs. 97.1 crores is estimated to be higher by Rs. 16.1 crores (or 19.8 per cent) as compared to Rs. 81.0 crores in 1978-79. The outlay on track renewals is expected to go up over the year by Rs. 15.7 crores (or 21.6 per cent) to Rs. 88.4 crores as compared to Rs. 72.7 crores in the preceding year. The outlay on construction of new lines is estimated to increase by Rs. 10.2 crores (or 32.5 per cent) to Rs. 41.6 crores as compared with Rs. 31.4 crores in 1978-79.

IV. FINANCES OF THE INDIAN POSTS AND TELEGRAPHS DEPARTMENT

Revised Estimates for 1978-79

The financial results of the working of the Posts and Telegraphs Department continued to show improvement, though at a considerably slower pace, in the year 1978-79. The surplus on the revenue account, before making contributions towards capital expenditure and paying dividend to General Revenues was higher by Rs. 16.0 crores (or 7.9 per cent) at Rs. 217.6 crores in 1978-79 (revised estimates) as against the surpluses of Rs. 201.6 crores in 1977-78 (accounts) and Rs. 165.5 crores in 1976-77 (accounts). While the revenue receipts went up by Rs. 76.5 crores

(or 11.4 per cent) to Rs. 744.7 crores, the net working expenses were higher by Rs. 60.5 crores (or 13.0 per cent) to Rs. 527.1 crores (Table VII-12). Postal services accounted for 31.5 per cent of total revenue receipts in 1978-79 (revised estimates) as against 31.0 per cent in 1977-78 (accounts). Correspondingly the share of the telecommunications services in total revenue receipts fell slightly from 69.0 per cent in 1977-78 to 68.5 per cent in 1978-79 (revised estimates). The rise in the revenue receipts in 1978-79 was partly due to the upward revision in postal tariffs with effect from June 1, 1978 and partly to the increased traffic in both postal and communications services.

As regards net working expenses, expenses on Operation at Rs. 289.9 crores were higher by Rs. 28.6 crores (or 10.9 per cent) while 'engineering' expenses were higher by Rs. 14.4 crores (or 12.4 per cent). Provision for depreciation on historical costs was raised by Rs. 8.4 crores (or 18.4 per cent) to Rs. 54.1 crores. The contributions towards capital expenditure were also higher by Rs. 8.3 crores (or 18.6 per cent). At Rs. 31.2 crores, the dividend payment to General Revenues was higher by Rs. 1.2 crores. The surplus after making contributions towards capital expenditure and paying dividend to General Revenues amounted to Rs. 133.5 crores as against a surplus of Rs. 127.0 crores in 1977-78. Of this, Rs. 131.8 crores were appropriated towards Capital Reserve Fund and Rs. 1.7 crores towards Revenue Reserve Fund.

The capital outlay of Posts and Telegraphs Department was raised by Rs. 72.9 crores (or 30.7 per cent) from Rs. 237.0 crores in 1977-78 to Rs. 309.9 crores in 1978-79 (Table VII-13). 'Telecommunications' and 'stores and manufacture suspense' accounted for the major share of the increase i.e. Rs. 70.7 crores, while postal services showed a small rise of Rs. 2.2 crores. The capital outlay on 'stores and manufacture suspense' was stepped up from a negative figure of Rs. 1.0 crore in 1977-78 to Rs. 37.0 crores in 1978-79 (revised estimates). Capital Reserve Fund and receipts and recoveries on capital account financed as much as Rs. 158.3 crores (or 51.1 per cent) of the total capital outlay. The

Table VII-12 : Financial Working of Posts and Telegraphs Department

(Rupees Crores)

Items	1976-77	1977-78	1978-79		1979-80
	(Accounts)	(Accounts)	(B.E.)	(R.E.)	(B.E.)
1.	2.	3.	4.	5.	6.
1. Revenue Receipts	619.3	668.2	778.7	744.7	888.3
2. Working Expenses (net)	453.8	466.6	537.8	527.1	567.2
3. Dividend to General Revenues	28.6	30.0	31.9	31.2	33.5
4. Surplus (+)/Deficit (—) before making contributions towards capital expenditure (1—(2+3))	+136.9	+171.6	+209.0	+186.4	+287.6
<i>Of which : On account of</i>					
(i) Postal Services	—29.9	+0.4	—15.3	+0.1	+7.8
(ii) Telecommunications services	+166.8	+171.2	+224.3	+186.3	+279.8
5. Contributions towards Capital Expenditure	37.3	44.6	54.3	52.9	62.5
6. Surplus(+)/Deficit(—) after making contributions towards capital expenditure(4—5)	+99.6	+127.0	+154.7	+133.5	+225.1
7. Appropriations to (+) or Withdrawals from(—)					
(a) Revenue Reserve Fund	+2.2	+2.0	+1.7	+1.7	+1.5
(b) Capital Reserve Fund	+97.4	+125.0	+153.0	+131.8	+223.6

Sources: (1) Explanatory Memoranda on the Budgets of the Central Government.
(2) Annual Reports of Indian Posts and Telegraphs Department.

capital advanced out of General Revenues was lower by Rs. 1.3 crores at Rs. 19.7 crores.

Budget estimates for 1979-80

The Central Budget for 1979-80 anticipates a sizeable surplus of Rs. 321.1 crores in 1979-80 on revenue account, before making contributions towards capital expenditure and paying dividend to General Revenues for the P & T Department. This represents a substantial improvement of Rs. 103.5 crores (or 47.6 per cent) over the revised estimates 1978-79. Revenue receipts are budgeted to rise further over the year by Rs. 143.6 crores (or 19.3 per cent) to Rs. 888.3 crores. As the unit costs of postal services exceeded the revenue they fetch and large capital investment was necessary for the modernisation of telecommunications services, it was decided to revise tariffs of various postal and telecommunications services with effect from

June 1, 1979. These revisions are estimated to yield an additional revenue of Rs. 48.3 crores in 1979-80 and Rs. 58.0 crores in a full year. Net working expenses are expected to rise by Rs. 40.1 crores (or 7.6 per cent) to Rs. 567.2 crores mainly due to higher operational costs, larger expenditure on engineering and increased provision of depreciation on historical costs. The surplus after making contributions to capital expenditure and paying dividend to General Revenues is estimated at Rs. 225.1 crores as compared to Rs. 133.5 crores in the previous year. The postal services, which were showing deficits continuously since 1965-66, are expected to show for the first time a surplus of Rs. 4.6 crores in 1979-80.

The capital outlay would be stepped up substantially by Rs. 94.0 crores (or 30.3 per cent) from Rs. 309.9 crores in 1978-79 (revised estimates) to Rs. 403.9 crores in 1979-80 (budget estimates). The capital outlays on telecommu-

Table VII-13 : Capital Outlay of Posts and Telegraphs Department

(Rupees Crores)					
Items	1976-77	1977-78	1978-79		1979-80
	(Accounts)	(Accounts)	(B.E.)	(R.E.)	(B.E.)
1.	2.	3.	4.	5.	6.
I. Expenditure :					
(a) Postal	6.6	10.7	9.3	12.9	10.7
(b) Telecommunications	201.5	227.3	305.9	260.0	351.2
(c) Stores and Manufacture suspense	18.3	—1.0	32.2	37.0	42.0
Total Expenditure (a to c)	226.4	237.0	347.4	309.9	403.9
II. Financed from :					
(i) Receipts and Recoveries on Capital Account	3.6	2.1	32.5	30.1	33.1
(ii) Advance Rentals Received under O.Y.T. and Other Schemes	24.6	20.2	25.0	25.0	25.0
(iii) Capital Reserve Fund	97.5	103.4	151.7	128.2	166.7
(iv) Depreciation on Historical Costs Transferred from Revenue	38.0	45.7	55.8	54.0	62.7
(v) Contribution towards Capital Expenditure from Revenue	37.3	44.6	54.3	52.9	62.5
(vi) Capital Advanced from the General Revenues	25.4	21.0	28.1	19.7	53.9
Total (i to vi)	226.4	237.0	347.4	309.9	403.9

Sources : (1) Explanatory Memoranda on the Budgets of the Central Government.
(2) Annual Reports of Indian Posts and Telegraphs Department.

nications services and stores and manufacturing suspense have been stepped up from Rs. 260.0 crores to Rs. 351.2 crores and from Rs. 37.0 crores to Rs. 42.0 crores, respectively. Capital outlay on postal services, however, has been reduced from Rs. 12.9 crores to Rs. 10.7 crores. Capital outlay would be financed from the P & T Department's internal resources to the extent of Rs. 350.0 crores (or 86.7 per cent) and the remaining Rs. 53.9 crores by advances from the General Revenues. The capital outlay during 1978-79 and 1979-80 would amount to Rs. 713.8 crores accounting for 37.0 per cent of the P & T Department's total outlay (including outlay on Indian National Satellite) of Rs. 1,927.5 crores provided in the Draft Five Year Plan (1978-83).

V. PUBLIC DEBT AND OTHER LIABILITIES

The outstanding debt liabilities[@] of the Government of India, at Rs. 43,737 crores, showed a considerably smaller rise of Rs. 3,526 crores (or 8.8 per cent) at the end of March 1979 than that of Rs. 6,603 crores (or 19.6 per cent) in the previous year. This was mainly attributed to treasury bills, which recorded a fall of Rs. 581 crores in 1978-79, as against a rise of Rs. 3,251 crores in the preceding year. In the result, though the public debt continued to account for a major portion of the total liabilities, its share declin-

[@]Including amount due from Pakistan on account of pre-partition debt.

ed slightly from 69.7 per cent at the end-March 1978 to 67.9 per cent at the end-March 1979. (Table VII-14).

Public Debt

The outstanding public debt of the Government of India at Rs. 29,691 crores at the end of March 1979 showed a smaller increase of

Rs. 1,674 crores (or 6.0 per cent) during 1978-79 as against a rise of Rs. 4,949 crores (or 21.5 per cent) during 1977-78 (Table VII-14). As a proportion of national income at current prices, public debt is estimated to have improved slightly from 38.3 per cent in 1977-78 to 38.9 per cent in 1978-79. The internal debt accounted for 76.8 per cent of the increase in public debt in 1978-79 as against 92.4 per cent in 1977-78.

Table VII-14 : Public Debt and Other Liabilities of the Government of India

(Rupees Crores)							
Items	As at the end of March						
	1974	1975	1976	1977	1978	1979 (Revised Estimates)	1980 (Budget Estimates)
1	2	3	4	5	6	7	8
A. Public Debt (1+2)	16,973 (33.5)	18,789 (31.7)	21,387 (34.7)	23,068 (34.7)	28,017 (38.3)	29,691 (38.9)	34,115
1. Internal Debt (i to iv) ..	11,104	12,368	13,898	14,457	19,032	20,318	24,137
(i) Current Market Loans†	5,990	6,415	6,972	7,917	9,219	10,873	12,723
(ii) Others@	—	156	155	155	175	175	168
(iii) Treasury Bills	4,384	5,064	5,810	5,368	8,619	8,038	10,013
(iv) Special Floating Loans††	730	733	961	1,017	1,019	1,232	1,233
2. External Debt	5,869	6,421	7,489	8,611	8,985	9,373	9,978
B. Other Liabilities (1+2)	7,297 (14.4)	8,047 (13.6)	8,763 (14.2)	10,540 (15.8)	12,194 (16.7)	14,046 (18.4)	15,383
1. Unfunded Debt (a to c) ..	4,595	5,043	6,006	7,710	9,140	10,575	11,725
(a) Small Savings	3,276	3,554	3,946	4,359	4,903	5,503	6,154
(b) State Provident Funds	1,115	1,292	1,504	1,677	1,854	2,085	2,316
(c) Other Unfunded Debt£	204	197	556	1,674	2,383	2,987	3,255
2. Reserve Funds and Deposits*	2,702	3,004	2,757	2,830	3,054	3,471	3,658
C. Aggregate Liabilities (A+B) ..	24,270 (47.9)	26,836 (45.2)	30,150 (48.9)	33,608 (50.5)	40,211 (55.0)	43,737 (57.3)	49,498
D. Amount due from Pakistan on account of pre-partition debt ..	300	300	300	300	300	300	300
E. Net Liabilities (C-D)	23,970	26,536	29,850	33,308	39,911	43,437	49,198

†Includes others for 1974.

@Comprises mainly balances of expired loans, Prize Bonds, Premium Prize Bonds, 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.

Note: Figures in brackets represent percentages to the CSO estimates of national income at current prices.

Sources: Finance Accounts of the Union Government for end-March 1974 to 1977 and Explanatory Memorandum on the Budget of the Central Government for 1979-80 for end-March 1978, 1979 and 1980.

External Debt

The external debt of the Government of India, at Rs. 9,373 crores at the end of March 1979 recorded a rise of Rs. 388 crores (or 4.3 per cent) as compared to a rise of Rs. 374 crores (or 4.3 per cent) in the previous year. The gross receipts under external loans during 1979-80 are estimated to be of the order of Rs. 1,000 crores as against Rs. 872 crores in 1978-79.

Internal Debt

The internal debt of the Government of India at Rs. 20,318 crores registered a smaller rise of Rs. 1,286 crores (or 6.8 per cent) as against Rs. 4,575 crores (or 31.6 per cent) during 1977-78. Among the components, current market loans and special floating loans showed increases of Rs. 1,654 crores and Rs. 213 crores, respectively. The treasury bills, however, recorded a decline of Rs. 581 crores. The internal debt is estimated to rise further by Rs. 3,819 crores (or 18.8 per cent) to Rs. 24,137 crores during 1979-80, mainly on account of Treasury bills and current market loans.

Market Borrowings* 1978-79

During 1978-79, the net receipts from the market borrowings of the Central Government at Rs. 1,653 crores were higher by Rs. 470 crores over the previous year. The Centre entered the market on six occasions during the year—thrice directly and thrice indirectly through sales to the Reserve Bank to be released for sale to investors subsequently, raising the gross amount of Rs. 1,833 crores (Table VII-15). The Government of India issued on May 25, 1978 further tranches of three outstanding loans viz., 6 per cent loan 1988 for Rs. 40 crores, $6\frac{1}{4}$ per cent loan 1995 for Rs. 40 crores and $6\frac{3}{4}$ per cent loan 2006 for Rs. 120 crores. This was followed in October 1978, by the issue of further tranche of outstanding $6\frac{3}{4}$ per cent loan 2006 for Rs. 50 crores and in January 1979, by the issue of further tranches of two loans viz., $5\frac{1}{2}$ per cent loan 1984 for Rs. 75 crores and $6\frac{3}{4}$ per cent loan 2007 for Rs. 75 crores.

*Subscription figures are drawn from the Reserve Bank of India records.

All these loans were initially taken by the Reserve Bank which placed them on sale to investors subsequently. In all, such loans privately issued to the Reserve Bank amounted to Rs. 400 crores in 1978-79 as against Rs. 375 crores in 1977-78. The Centre first approached the market on May 15, 1978 by floating three loans—6 per cent loan 1988 (third issue), $6\frac{1}{4}$ per cent loan 1995 and $6\frac{3}{4}$ per cent loan 2006—entirely on a cash basis. A total amount of Rs. 552 crores was raised through this floatation. The Centre approached the market again on July 1, 1978 and issued three loans viz., $6\frac{1}{4}$ per cent loan 1993, $6\frac{1}{4}$ per cent loan 2001 and $6\frac{3}{4}$ per cent loan 2006 (second issue) on a cash-cum-conversion basis, thereby raising an aggregate amount of Rs. 440 crores, of which Rs. 347 crores were in cash. A third approach to the market was made on November 22, 1978, when it floated three loans—6 per cent loan 1989, $6\frac{1}{4}$ per cent loan 1996 (second issue) and $6\frac{3}{4}$ per cent loan 2007—on a cash-cum-conversion basis and raised an aggregate amount of Rs. 441 crores, of which Rs. 405 crores were in cash.

The initial contribution of the Reserve Bank of India to the net market borrowings of the Central Government in 1978-79 was at Rs. 642 crores. Over the financial year the Bank emerged as a net seller through its open market operations. As in the previous year, market loans had longer maturities and higher rates of interest. The monthly average of gross redemption yield on Government of India securities was slightly higher at 5.84 per cent during 1978-79 as compared to 5.82 per cent in preceding year.

1979-80

During 1979-80, as against the budget provision of Rs. 2,148 crores (gross), the Centre has by the end of October 1979 raised Rs. 1,956 crores (gross), the relative net market borrowings figures are Rs. 1,850 crores and Rs. 1,662 crores, respectively. The Government of India created further tranches of the outstanding $6\frac{3}{4}$ per cent loan 2007 twice—once on April 2, 1979 for Rs. 100 crores and again on April 28, 1979 for Rs. 150 crores which were issued to the Reserve Bank of India for subsequent placement on the

Table VII-15 : Market Borrowings of Government of India during 1978-79

(Rupees Crores)								
Date	Loans Floated	Issue price (Rupees per cent)	Offered	Amount		Repay- ment in cash for uncon- verted (Col. 5+6) securities	Net Market Borrow- ings (Col. 5-8)	
				Cash	Conver- sion			
1	2	3	4	5	6	7	8	9
15-5-1978*	6 Per Cent Loan, 1988(Third issue)	100.00	500	100	—	100		
	6½ " " " 1995	100.00		86	—	86		
	6½ " " " 2006	100.00		366	—	366		
				552	—	552	—	552
25-5-1978*	6 Per Cent Loan, 1988	100.10	200	40	—	40		
	6½ " " " 1995	100.15		40	—	40		
	6½ " " " 2006	100.20		120	—	120		
				200	—	200	—	200
1-7-1978@	6½ Per Cent Loan, 1993	100.25	400	41	53	94		
	6½ " " " 2001	100.00		54	40	94		
	6½ " " " 2006(Second Issue)	100.00		252	—	252		
				347	93	440	40	307
30-10-1978*	6½ Per Cent Loan, 2006	100.20	50	50	—	50		
				50	—	50	—	50
22-11-1978@	6 Per Cent Loan, 1989	100.00	400	32	36	68		
	6½ " " " 1996(Second Issue)	100.00		77	—	77		
	6½ " " " 2007	100.00		296	—	296		
				405	36	441	11	394
30-1-1979*	5½ Per Cent Loan, 1984	99.75	150	75	—	75		
	6½ " " " 2007	100.20		75	—	75		
				150	—	150	—	150
Total during 1978-79			1700	1704	129	1833	51	1653

*Offered for cash subscription only.

@Offered on cash-cum-conversion basis.

Source : Reserve Bank of India Records.

market. The Government of India entered the market on May 25, 1979 by issuing three loans viz., 6½ per cent loan 1989, 6½ per cent loan 1995 and 7 per cent loan 2009, entirely on a cash basis and raised Rs. 551 crores.

The Government of India approached the market on July 2, 1979 with three loans viz. 6 per cent loan 1987, 6½ per cent loan 1997 and 7 per cent loan 2009 (second issue) on

a cash-cum-conversion basis and raised an aggregate of Rs. 660 crores of which Rs. 431 crores were by way of cash.

The Government of India approached the market again on October 29, 1979 with the issue of three loans viz., 5½ per cent loan 1984, 6½ per cent loan 1991 and 7 per cent loan 2009 (third issue) entirely on a cash basis. Total subscriptions to these loans amounted to Rs. 495 crores.

National Rural Development Bonds

As mentioned earlier in the Chapter, the Central Budget for 1979-80 withdrew the exemption from income-tax of capital gains accruing from the sale of assets provided the proceeds of such sales were invested/deposited in specified financial assets. However, later in the last week of April, a modified scheme was introduced providing exemption from capital gains tax, if the proceeds from the sales of assets were invested **only** in seven year 7.5 per cent National Rural Development Bonds. The scheme has not been linked with any specific project/projects or plans for rural development. The interest rate on these bonds has been kept deliberately lower than the rate on bank-deposits of comparable maturity, and dividend on the UTI units on the expectations that persons benefitting from appreciation of assets would make sacrifice for rural development.

It was, therefore, decided to issue 7.5 per cent National Rural Development Bonds, with a maturity of seven years, on tap from July 9, 1979. Investment in these bonds by persons transferring assets will entitle them to avail of the exemption of capital gains tax to the extent of net consideration of the long-term capital asset transferred, or any additional compensation or additional consideration received after February 28, 1979. Interest on these bonds together with interest on other government securities and income from approved financial assets will qualify for exemption from income-tax under Section 80L of the Income-tax Act, 1961 subject to a limit of Rs. 3,000/-. The value of these bonds together with the value of other government securities and other approved financial assets will qualify for exemption under Section 5 of the Wealth Tax Act, 1957 subject to a limit of Rs. 1,50,000. As these bonds are outside the administrative purview of National Savings, States are not entitled to get two-thirds of net collections from these as loan.

The transferability of these bonds is restricted in the first three years of the purchase of these bonds because, in terms of the RBI directive of June 23, 1979, to commercial banks, that these bonds are not approved

securities for the purpose of statutory liquidity ratio under Section 24 of the Banking Regulation Act, 1949 and commercial banks cannot acquire these bonds from holders or grant any loans or advances against security of these bonds for a period of three years from the date of their subscription or purchase by borrowers.

Market Borrowings by Local authorities and the institutions sponsored by Central and State Governments

The market borrowings by local authorities and the institutions sponsored by Central and State Governments during 1978-79 at Rs. 781 crores were substantially higher by Rs. 147 crores (or 23.2 per cent) over the previous year's level (Table VII-16). Of the total market borrowings, the net market borrowings of institutions sponsored by the Central Government were substantially higher by Rs. 137 crores (or 48.9 per cent) at Rs. 417 crores, while those of the institutions sponsored by State Governments were slightly higher by Rs. 10 crores (or 3.1 per cent) at Rs. 339 crores. The net market borrowing of Municipal Corporations and metropolitan development authorities remained around the previous year's level of nearly Rs. 25 crores while port trusts have not resorted to any market borrowings since the year 1973.

Maturity Pattern of Rupee Debt

As a result of the larger floatation of long-dated securities during the year, the maturity pattern of the Government of India rupee loans underwent some changes from the position prevailing as at the end of March 1978 (vide Statement No. 89 in Volume II of the Report). Whereas the proportion of long-dated securities (maturing after 10 years and undated) as at the end of March 1979 was higher at 70.3 per cent than of 67.9 per cent prevailing as at the end of March 1978, that of medium-dated securities (maturing between 5 and 10 years) registered a decline from 17.0 per cent as at the end of March 1978 to 15.4 per cent as at the end of March 1979. Short-dated securities (maturing within 5 years) accounted for 14.3 per cent of the total as at the end of March 1979 as against 15.1 per cent as at the end of March 1978, due

Table-VII.16 : Net Market Borrowings of Local Authorities and institutions sponsored by Central and State Governments

Institutions	(Rupees Crores)	
	Years	
	1977-78	1978-79
Local Authorities	24.60	24.92
Municipal Corporations	24.60	24.92
Institutions Sponsored by the Central Government	280.17	417.45
Industrial Finance Corporation of India	43.28	61.89
Agricultural Refinance and Development Corporation	48.12	44.05
Industrial Credit and Investment Corporation of India	31.90	58.03
Industrial Development Bank of India	110.00	192.50
Rural Electrification Corporation	11.00	20.08
Housing Urban Development Corporation	14.97	15.00
Damodar Valley Corporation	5.50	—
National Co-operative Development Corporation	11.00	11.00
Industrial Reconstruction Corporation of India	3.30	2.70
Delhi Development Authority	N.A.	10.00
Economic Development Corporation of Goa	1.10	2.20
Institutions Sponsored by the State Governments	329.23	338.60
State Electricity Boards	187.44	224.90
Housing Boards	9.63	10.18
Industrial Investment Corporations and Industrial Development Corporations	13.13	12.25
State Finance Corporations	38.24	41.50
Land Development Banks	62.91	31.03
Other Institutions	17.88	18.74
Grand Total	634.00	780.97

to the larger repayment of maturing securities.

Treasury Bills

The Government of India's outstanding treasury bills registered a decline of Rs. 1,011 crores (or 11.7 per cent) to Rs. 7,608 crores during 1978-79 as against a rise of Rs. 3,247 crores (60.4 per cent) in 1977-78 (vide Statement No. 79 in Volume II of the Report). The decline during the year was on account of commercial banks (Rs. 1,190 crores) and the Reserve Bank (Rs. 180 crores) while outstandings of State Governments rose by Rs. 350 crores. Of the total outstandings, the Reserve Bank of India accounted for Rs. 3,271 crores (or 43 per cent), commercial banks for Rs. 3,077 crores (or 40.4 per cent) and State Governments for Rs. 1,096 crores (or 14.4 per cent).

Special Floating Loans

Special floating loans representing India's contributions towards share capital of international financial institutions at Rs. 1,232 crores at the end of March 1979 showed a substantial improvement by Rs. 213 crores (or 20.9 per cent) as against a nominal rise of only Rs. 2 crores during the previous year.

Other Liabilities*

The non-marketable debt liabilities of the Government of India which stood at Rs. 14,046 crores showed a sharp rise over the previous year. These liabilities increased by Rs. 1,852 crores (or 15.2 per cent) as against Rs. 1,654 crores (or 15.7 per cent) in the previous year.

Small Savings

Small savings collections were substantially higher in 1978-79 at Rs. 791 crores than Rs. 561 crores in the preceding year (vide Statement No. 91 in Volume II of the Report). During 1978-79, the collections of all the small savings media excepting Post Office Small Savings Bank Deposits increased over the previous year, the noticeable increases being in the case of Post Office Time Deposits and 7-Year National Savings Certificates.

Promotional Measures

During the financial year 1978-79 the Government of India did not introduce any new small savings scheme. The deposits under the Public Provident Fund Scheme, which were earlier accepted at all branches of the State Bank of India are now accepted at all the Head Post Offices with effect from January 1, 1979.

During 1978-79, 16 more post office savings banks were enrolled as sub-members of local clearing houses thereby raising the total number of Post Office Savings Banks admitted to clearing houses to 218.

State Governments' Debt Position

The outstanding debt liabilities of State Governments registered a larger increase

*These liabilities include unfunded debt, Reserve Funds and Deposits of departmental undertakings.

of Rs. 2,579 crores (or 15.7 per cent) during 1978-79 to reach the level of Rs. 18,963 crores at the end of March 1979 as against an increase of Rs. 1,685 crores (or 11.5 per cent) during the previous year. At Rs. 18,963 crores at the end of March 1979, they formed 24.8 per cent of national income during 1978-79 as against 22.4 per cent in 1977-78. States' debt liabilities are expected to show a smaller rise of Rs. 2,070 crores (or 10.9 per cent) during 1978-79 to record the level of Rs. 21,033 crores at the end of March 1980@.

Loans and Advances from the Central Government

The loans and advances from the Central government for plan and non-plan purposes including loans against small savings collections form the major part of State debt. These loans and advances increased by Rs. 2,290 crores (or 19.9 per cent) to Rs. 13,819 crores during 1978-79 as against an increase of Rs. 1,121 crores (or 10.8 per cent) in the previous year while their share in States' Debt was slightly higher at 72.9 per cent at the end of March 1979 as compared to 70.4 per cent at the end of March 1978. The States' indebtedness to the Centre is expected to rise further by Rs. 1,517 crores (or 11 per cent) during 1979-80 to Rs. 15,336 crores at the end of March 1980.

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. increased by Rs. 178 crores (or 7.2 per cent) during 1978-79 (Rs. 182 crores or 7.9 per cent during 1977-78) to Rs. 2,653 crores at the end of March 1979. During 1979-80 they are expected to show a further rise of Rs. 227 crores (or 8.6 per cent) to Rs. 2,880 crores at the end of March 1980.

Market Borrowings* 1978-79

As in the previous year, the State Governments entered the market only once during

1978-79. On September 12, 1978, 20 State Governments issued 6½ per cent 1988, 10 year loans at par which were oversubscribed. As against the notified amount of Rs. 253.50 crores, the total subscriptions amounted to Rs. 282.87 crores of which Rs. 238.72 crores (or 84.4 per cent) represented cash subscription and balance conversion of maturing securities. After repayment of maturing loans amounting to Rs. 97.92 crores, the net loans raised aggregated Rs. 184.95 crores.

The loan floatations of States during 1978-79 had some distinctive features. The loans were issued at par unlike a discount of ½ per cent in the preceding year. The yield at the issue price in 1978-79 was higher at 6.25 per cent as against 6.07 per cent in 1977-78. The monthly average of gross redemption yields on State Governments securities was, however, slightly lower as 5.79 per cent during 1978-79 as against 5.85 per cent in the preceding year.

1979-80

Twenty one State Governments entered the market on September 1, 1979 for raising loans aggregating Rs. 304.43 crores (gross). The total subscriptions received for state loans amounted to Rs. 333.85 crores, of which cash subscriptions were Rs. 287.46 crores (or 86.1 per cent) approximately. All these loan floatations were issued on a cash-cum-conversion basis, having a maturity period of 10 years, bearing 6.50 per cent interest and were issued at par as in the preceding year. Consistent with the practice adopted in the preceding 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. 118.01 crores on account of maturing loans and taking into account the partial allotments made in respect of seven states aggregated Rs. 187.33 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

@For State-wise break-up, please refer to Statement No. 88 of the Report, Vol. II.

* Subscription figures are drawn from Reserve Bank of India records.

overdrafts from the Reserve Bank of India repayable within seven working days declined by a substantial amount of Rs. 236 crores (or 100 per cent) during 1978-79, in contrast to a noticeable rise of Rs. 168 crores (or 247.1 per cent) during 1977-78. Consequent on the introduction of a scheme to regulate States' overdrafts with effect from October 1, 1978, mentioned in the Chapter earlier, the earlier overdrafts were wiped off and the new ones are not expected to arise in 1979-80.

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 State

Governments rose by Rs. 62 crores (or 10.8 per cent) during 1978-79 to Rs. 638 crores at the end of March 1979 as against a decline of Rs. 11 crores (or 1.9 per cent) in the preceding year. A further rise of Rs. 34 crores (or 5.3 per cent) is anticipated during 1979-80 thereby raising these loans to Rs. 672 crores at the end of March 1980.

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. 285 crores (or 18.2 per cent) during 1978-79 (Rs. 225 crores or 16.8 per cent during 1977-78) to reach the level of Rs. 1,853 crores at the end of March 1979. A further rise of Rs. 292 crores (or 15.8 per cent) is expected in these funds during 1979-80 thereby raising their level to Rs. 2,145 crores at the end of March 1980.

Chapter VIII

Industrial Finance

The activity in the capital market, which had shown a slackening tendency during 1978, picked up in the first half of 1979. In 1978, capital consents/acknowledgements of proposals granted by the Controller of Capital Issues to non-Government public limited companies, fresh capital issued by these companies (excluding term-lending institutions) and capital raised by non-Government private and public limited companies amounted to Rs. 258.9 crores, Rs. 68.1 crores and Rs. 170.6 crores, respectively; these were lower than the relative figures of Rs. 383.9 crores, Rs. 84.6 crores and Rs. 243.6 crores for 1977, but in the first half of 1979, the amounts at Rs. 313.7 crores, Rs. 44.4 crores and Rs. 114.2 crores were considerably higher than Rs. 110.6 crores, Rs. 27.1 crores and Rs. 97.0 crores, respectively, in the corresponding period of 1978. Total financial assistance sanctioned and disbursed by term-lending institutions during April 1978-March 1979 at Rs. 1255.1 crores and Rs. 879.1 crores were higher by 13.3 per cent and 36.5 per cent, respectively over 1977-78 (Table VIII-1). During July 1978-June 1979, industrial security prices, although re-

cording some fluctuations, showed a general upward trend. The index of equity prices at 145.5 for the week ended June 30, 1979 recorded a rise of 15.9 per cent over the year, as against a rise of 12.5 per cent in the preceding year.

I. Capital Market

(i) Industrial Securities Market

Industrial security prices on the major stock markets in India passed through four distinct phases during July 1978-June 1979. The first phase from July 1978 to October 1978, was a continuation of uptrend evidenced since December 1977. The all-India Index Number for Ordinary Shares (1970-71=100) moved up from 102.5 in December 1977 to 125.5 in June 1978, and further to 134.7 in October 1978. Reduction in the commercial bank lending rates, curbs on company deposits, tax relief for investment in equity shares of new companies, liberalisation of import and export policy and the raising of the exemption limit for industrial licensing from Rs. 1 crore

Table VIII.1 : Trends in Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions(a)

Year (April-March)	(Rupees Crores)			
	Sanctions		Disbursements	
	Direct Loans (b)	Total Assistance (c)	Direct Loans (b)	Total Assistance (c)
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	996.0 (+17.0)	1108.2 (+24.7)	589.3 (+13.0)	644.2 (+16.6)
1978-79*	1141.7 (+14.6)	1255.1 (+13.3)	821.5 (+39.4)	879.1 (+36.5)

* Provisional.

(a) Covers IDBI, IFCI, ICICI, IRCI, SFCs and SIDCs/SIICs.

(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 SFC's 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.

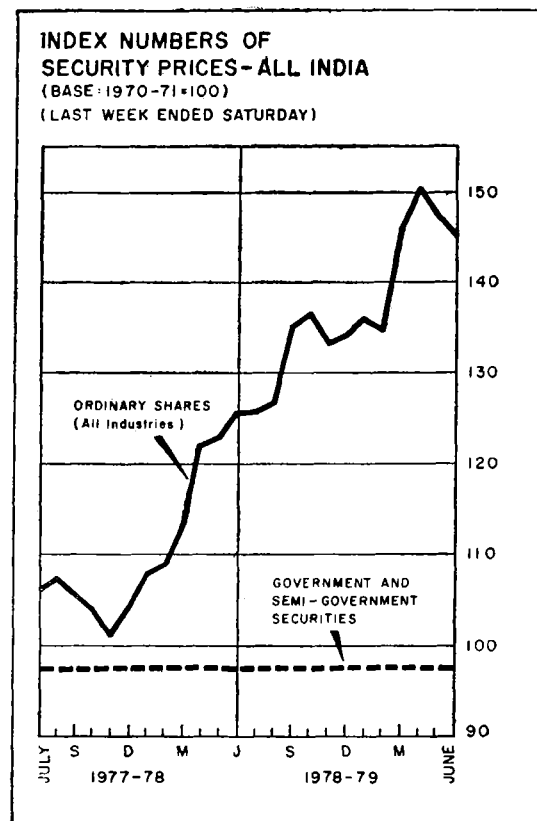
to Rs. 3 crores and similar measures, adopted in the early months of 1978 encouraged a bullish trend. Reports of improved performance of major industries such as engineering, cement, heavy chemicals and automobile ancillaries and bright growth prospects in agriculture as well as industries during 1978-79 also aided the sentiment.

During the second phase, which roughly commenced from November 1978 and lasted till mid-January 1979, equity prices steadily declined. The easiness was attributable to general labour unrest, a nation-wide strike by dock workers, fears of nationalisation of certain industries and prescription of a minimum statutory bonus to employees. Guidelines issued by the Government to financial institutions regarding promoters' participation in new investments and on debt-equity ratio in relation to aggregate project cost provided a further depressing factor.

In the third phase starting from mid-January, equity prices picked up with the market deriving strength from encouraging corporate news. The withdrawal in the Union Budget for 1979-80 of the exemption from income tax on long term capital gains on reinvestment of sale proceeds in certain specified assets led to fears of scarcity of floating stocks.

Imposition of sizeable power cuts in Maharashtra and West Bengal as well as in several other States, along with increasing shortages of other key inputs such as coal, steel and cement coupled with aggravation of transport bottlenecks brought about a reversal towards the end of April 1979. The Reserve Bank's index number for prices of ordinary shares (1970-71=100), which touched an all-time high of 151.4 in the third week of April 1979, thus eased to 145.5 for the week ended June 30, 1979.

Over the year, July 1978—June 1979, the Reserve Bank's index number for prices of ordinary shares recorded a rise of 15.9 per cent, as compared with a rise of 12.5 per cent in the preceding year (Table VIII.2). The annual average indices for ordinary shares and preference shares (1970-71=100) at 136.9 and 81.3 showed increases of 23.8 per cent and 2.8 per cent as compared with that of 5.5 per



cent and 1.1 per cent, respectively during the previous year. The average index of debentures was lower by 0.6 per cent, as against a rise of 1.2 per cent during 1977-78.

Yield on Industrial Securities

The average gross yield on industrial securities, including both ordinary and preference shares, showed a decline during the year under review. The yield on ordinary shares declined from 6.4 per cent in 1977-78 to 5.5 per cent in 1978-79 and that on preference shares declined from 12.6 per cent to 12.3 per cent. With the ceiling rate of dividend on preference shares and debentures prescribed by the Controller of Capital Issues remaining unchanged during the year, the actual rates of dividend offered on different issues of preference shares ranged between 9.5 per cent and 11.0 per cent, and that for debentures was 10.5 per cent (Table VIII.3). However, as per the new guidelines issued by the Government in September 1978, the rate of interest in case of rights debentures issues for the pur-

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
June 25, 1977								90.8 (+ 0.1)	1977-78 79.5 (- 1.1)	111.6 (+ 7.0)
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
December 23, 1978								89.4 (+ 0.2)	1978-79 81.2 (-)	134.1 (+ 6.9)
June 30, 1979								90.1 (+ 0.8)	82.0 (+ 1.0)	145.5 (+ 8.5)
% Variation over the year								(+ 1.0)	(+ 1.0)	(+15.9)
								Annual Average		
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)
1978-79								89.5 (- 0.6)	81.3 (+ 2.8)	136.9 (+23.8)

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

Table VIII.3 : Return on Securities Issued by Non-Government Public Limited Companies

(Per cent per annum)

(Year : July-June)								1975-76	1976-77	1977-78	1978-79
A. Average Gross Yield											
(i) Ordinary Shares								5.7	6.2	6.4	5.5
(ii) Preference Shares								12.1	12.4	12.6	12.3
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*£ 10.0\$	10.5*£ 10.0\$	10.5*£ 10.0\$	10.5*£ 10.0\$
								1975-76			
								Low-est	High-est	Modal	1976-77
								Low-est	High-est	Modal	1977-78
								Low-est	High-est	Modal	1978-79
								Low-est	High-est	Modal	1978-79
C. Actual Dividend/Interest Rates Offered on Public Issues :											
(i) Preference Shares (at par)								11.0	11.0	11.0	11.0
(ii) Debentures (at par)								9.0	10.5	10.5	10.5

* Effective from September 12, 1974.

£ For a term exceeding seven years.

\$ For a term upto seven years.

@ Interest on 'Rights' debentures issued by public limited companies to augment their long-term working capital requirements has been fixed at the rate of 10.5 per cent upto 7 years maturity and 11 per cent on the maturity period from 8 to 12 years as per the guidelines issued by the Government in September 1978.

pose of augmenting long-term working capital was fixed at 11.0 per cent for a term exceeding seven years and 10.5 per cent for a term upto seven years.

(ii) Open Market Operations

The Reserve Bank's open market operations during 1978-79 (July-June) resulted in net sales of securities of the order of Rs. 624 crores as compared with net sales of Rs. 662 crores in the preceding year. Purchases and sales of securities which amounted to Rs. 903 crores and Rs. 1,527 crores, respectively during the year under review were lower by Rs. 23 crores and Rs. 62 crores, respectively over 1977-78. The Reserve Bank's purchase and sales of securities during the last few years are presented in the Table below.

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
1978-79	903.3	1526.9	623.6

Gilt-edged Market

The trends in the gilt-edged market as described in this section are to be viewed in the context of the borrowing programmes of the Central and State Governments for 1978-79 and 1979-80, discussed in Chapter VII on Fiscal Developments. The gilt-edged market displayed a mixed trend during the year under review. The Reserve Bank's All India (combined) price index (Base : 1970-71=100) for Government and semi-Government Securities at 97.7 as of end-June 1978 after coming down to 97.6 by mid-July recovered to 99.7 by March 1979. It rose further by 0.1 point reaching 97.8 in early May at which level it remained till it declined towards end-June 1979 to its initial level for the year (1978-79) of 97.7.

The price index for Central Government securities displayed a subdued trend during

the first half of the year, declining in stages to 96.6 by mid-December 1978 from its end-June 1978 level of 96.9. Thereafter, it rose steadily to 96.9 by end-March 1979 but it declined again to 96.8 by mid-June 1979 and remained at that level for the rest of the period. In respect of State Government securities, the price index at 99.7 as of end-June 1978 recorded a 0.1 point rise by the second week of March 1979 and largely remained steady around that level till end-June 1979, except for the decline to 99.5 on March 24 and April 28; the net rise recorded over the year was 0.1 point. As against this, the price index for semi-Government securities recorded a net decline of 0.1 point over the year, though it rose by 0.1 point to 101.1 between August 1978 and the third week of October 1978 and further to 102.2 between end-October 1978 and the first week of January 1979.

Among Central Government securities, most of the short-dated securities recorded increases in prices ranging from Re. 0.05 to Rs. 1.90, with declines in yields varying from 0.13 percentage point to 1.11 percentage points, the 4 per cent Loan 1980 recorded the largest increase in price (Rs. 1.90) with a decline in yield of 0.64 percentage point followed by 4½ per cent Loan 1980 with a rise in price of Rs. 1.40 and decline in yield of 1.11 percentage points. The only short-dated security that suffered a decline in price (Rs. 1.15) was the 5½ per cent 1982 loan. Prices of most of the medium and long-dated securities recorded declines between Re. 0.05 and Rs. 2.70 with corresponding increases in yields ranging from 0.01 percentage point to 0.37 percentage points. Among medium-dated securities, significant declines in prices with consequent increases in yields were observed in respect of 5½ per cent Loan 1990 (Rs. 2.70 and 0.37 percentage point) and among the long-dated ones 5½ per cent loan 1999 (NDL) (Banks Compensation Bonds) (Rs. 2.05 and 0.22 percentage point), 5½ per cent Loan 2001 (Rs. 1.50 and 0.16 percentage point) and 6½ per cent Loan 2002 (Rs. 1.50 and 0.12 percentage point).

Prices of majority of the State Government securities recorded increases over the year. The short-dated 5¾ per cent Loan 1979 of

Table VIII—4: Prices and Yields of Selected Central Government Securities

Loans	As on				Variations	
	June 29, 1978		June 29, 1979		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						
5½% 1978	100.15	4.83	—	—	—	—
4% 1979	98.80	5.24	—	—	—	—
4½% 1979	99.80	4.95	—	—	—	—
5% 1979	100.20	4.80	—	—	—	—
4½% 1979 (Bk. Com. Bond)	99.15	5.34	—	—	—	—
7% 1980 (Gold Bonds)	106.00	3.29	—	—	—	—
4½% 1980	99.10	5.26	100.50	4.15	+1.40	-1.11
4% 1980	97.35	5.38	99.25	4.74	+1.90	-0.64
4½% 1981	98.60	5.25	99.40	5.06	+0.80	-0.19
4% 1981	95.75	5.53	96.95	5.58	+1.20	+0.05
5% 1981 (N.D.L.)	99.05	5.30	99.60	5.17	+0.55	-0.13
5% 1982	98.45	5.43	98.80	5.43	+0.35	—
5½% 1982	100.85	5.26	99.70	5.61	-1.15	+0.35
5% 1983	97.75	5.51	97.80	5.61	+0.05	+0.10
5 to 10 Years						
5% 1984	97.60	5.48	97.60	5.56	—	+0.08
5½% 1984	100.05	5.49	99.75	5.56	-0.30	+0.07
4½% 1985	93.60	5.62	93.75	5.74	+0.15	+0.12
5½% 1985	99.00	5.67	98.15	5.86	-0.85	+0.19
4½% 1986	92.50	5.70	92.60	5.82	+0.10	+0.12
5½% 1986	97.30	5.67	97.25	5.73	-0.05	+0.06
5½% 1986 (N.D.L.)	97.20	5.67	97.00	5.75	-0.20	+0.08
5½% 1987	96.70	5.72	97.30	5.67	+0.60	-0.05
5½% 1988	95.90	5.80	95.90	5.85	—	+0.05
6% 1988	100.10	5.99	99.50	6.07	-0.60	+0.08
10 to 15 Years						
4½% 1989	90.00	6.02	88.75	6.30	-1.25	+0.28
6½% 1989	—	—	100.75	6.15	—	—
6% 1989	—	—	100.15	5.98	—	—
5½% 1990	96.70	5.89	94.00	6.26	-2.70	+0.37
5½% 1991	96.10	5.93	95.15	6.07	-0.95	+0.14
5½% 1992	95.35	5.99	94.75	6.09	-0.60	+0.10
6% 1993	98.35	6.17	98.90	6.12	+0.55	-0.05
6½% 1993	—	—	98.50	6.41	—	—
15 Years and above						
6% 1994	99.00	6.10	98.65	6.14	-0.35	+0.04
5½% 1995	93.60	6.11	93.60	6.14	—	+0.03
6½% 1995	100.15	6.23	100.45	6.20	+0.30	-0.03
6½% 1995	—	—	100.20	6.48	—	—
6½% 1996	100.30	6.22	100.05	6.24	-0.25	+0.02
6½% 1997	100.10	6.24	100.05	6.24	-0.05	—
6% 1998	97.00	6.27	97.00	6.27	—	—
6½% 1998	100.00	6.25	98.85	6.35	-1.15	+0.10
5½% 1999	90.00	6.37	89.90	6.41	-0.10	+0.04
5½% 1999 (Bk. Com. Bond)	91.05	6.27	89.00	6.49	-2.05	+0.22
5½% 2000	89.00	6.45	89.30	6.44	+0.30	-0.01
6½% 2000	100.65	6.44	100.25	6.48	-0.40	+0.04
5½% 2001	91.00	6.51	91.50	6.48	+0.50	-0.03
5½% 2001 (N.D.L.)	90.75	6.52	89.25	6.68	-1.50	+0.16
6½% 2001	—	—	100.55	6.45	—	—
5½% 2002	92.00	6.41	90.90	6.52	-1.10	+0.11
6½% 2002	100.50	6.46	99.00	6.58	-1.50	+0.12
5½% 2003	90.50	6.53	90.00	6.59	-0.50	+0.06
6½% 2003	100.00	6.50	99.85	6.51	-0.15	+0.01
6½% 2004	99.75	6.52	99.30	6.56	-0.45	+0.04
6½% 2005	99.40	6.55	99.00	6.58	-0.40	+0.03
6½% 2006	100.20	6.73	100.00	6.75	-0.20	+0.02
6½% 2007	—	—	100.05	6.75	—	—
7% 2009	—	—	100.25	6.98	—	—
National Defence Gold Bonds 1980						
Non-Terminable						
3% 1986 (Or later)	60.00	5.00F	61.00	4.92F	+1.00	-0.08F
3% (Government Rupee paper) ..	59.50	5.04F	60.50	4.96F	+1.00	-0.08F

F = Flat Yield.

most of the States recorded increases in prices between Re 0.60 and Rs. 1.55 with declines in yields ranging from 0.93 to 1.95 percentage points. The largest increase in the price, that of Rs. 1.55 was recorded in respect of Maharashtra while Tamil Nadu registered the largest decline in yield of 1.95 percentage points. Notable among other securities that recorded sizeable increases in prices with consequent decline in yields were (a) $5\frac{3}{4}$ per cent Loans 1981 of Maharashtra (Rs. 1.10 and 0.28 percentage point) and Kerala (Re. 1.00 and 0.24 percentage point), (b) $5\frac{3}{4}$ per cent Loans 1980 of Karnataka (Rs. 1.10 and 0.79 percentage point) and Maharashtra (Rs. 1.05 and 0.31 percentage point), and (c) 6 per cent Loans 1985 of Rajasthan (Rs. 1.02 and 0.45 percentage point) and Gujarat (Re. 0.90 and 0.10 percentage point). In contrast price, declines (with consequent increases in yields) occurred in case of a few loans, notable among them being the $5\frac{3}{4}$ per cent Loan 1984 of Uttar Pradesh (Rs. 1.20 and 0.24 percentage point) and the $5\frac{3}{4}$ per cent Loan 1985 of Tamil Nadu (Re. 0.85 and 0.10 percentage point). All other securities recorded only nominal variations in prices and yields.

(iii) New Issue Activity

During the calendar year 1978, there was a marked decline in the new issue activity as compared to the previous year. Fresh capital issued by non-Government public limited companies (excluding term-lending institutions) at Rs. 68.1 crores (153 issues) was lower than that of Rs. 84.6 crores (140 issues) in 1977 (Table VIII-5). In addition, there were 14 issues for Rs. 6.9 crores in the form of offer for sale during the year as against 10 issues for Rs. 5.8 crores in 1977.

While capital issued through prospectuses was substantially lower at Rs. 46.8 crores in 1978 than Rs. 65.9 crores in 1977, issues through rights increased marginally from Rs. 18.7 crores in 1977 to Rs. 21.3 crores in 1978. Issues through prospectuses continued to account for the major portion of the capital issued, but their percentage share in the total amount issued declined from 77.9 in 1977 to 68.7 in 1978. Security-wise, the amount issued declined over the year by 34.8 per cent in the case of equity shares, while the fall was only 8 per cent in preference shares.

The average amount of capital issues through prospectuses worked out much lower at Rs. 45.4 lakhs in 1978 than that of Rs. 66.6 lakhs in 1977. The average amount per equity and preference issues (through prospectuses) stood at Rs. 46.5 lakhs and Rs. 20.0 lakhs in 1978 as against Rs. 76.2 lakhs and Rs. 12.3 lakhs, respectively during 1977. Although the proportion of the amount offered for public subscription in the total amount issued through prospectus increased to 71.4 per cent in 1978 from 69.3 per cent in 1977, the amount so offered at Rs. 33.4 crores was lower by 26.9 per cent than that of Rs. 45.7 crores in 1977. The percentage share of issues of new companies in the total amount issued which had declined in 1977 to 47.3 from 60.4 in 1976 showed a further decline at 36.4 in 1978.

Following the formulation of guidelines by the Government in September 1978 for issue of 'rights' debentures, public limited companies have started to resort to rights debenture issues in order to augment their long-term working capital resources. During 1978 there were 5 rights debenture issues for a total amount of Rs. 10.3 crores, as against none in 1977. In the first half of 1979 also there were eleven such issues for a total amount of Rs. 10.7 crores. During 1978, there was one issue of convertible bonds for Rs. 2 crores through prospectus.

New issue activity picked up during the first half of 1979. The number of issues increased from 69 in January-June 1978 to 72 in the corresponding period of 1979 and the amount issued was higher at Rs. 44.4 crores as compared with Rs. 27.1 crores. Capital issued in the form of offer for sale during January-June 1979 amounted to Rs. 2.1 crores by 8 companies, as against Rs. 0.1 crore by 3 companies during the corresponding period of 1978.

New Issues by FERA Companies

There were 27 public issues for Rs. 18.9 crores (including 7 issues worth Rs. 5.5 crores in the form of offer for sale) by FERA companies diluting their non-resident holdings as required under the Foreign Exchange Regulation Act 1973. A major portion i.e., Rs. 15.5 crores (including convertible bonds of Rs. 2.0

Table VIII. 5 : Fresh 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 Companies	Amount	Issues of Existing Companies	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
January-December																
1976	98	40.1 (87.7)	4.6 (10.1)	1.0 (2.2)	45.7 (100.0)	26	7.4 (73.3)	0.4 (3.9)	2.3 (22.8)	10.0 (100.0)	124	55.8 (100.0)	65	33.7 (60.4)	59	22.1 (39.6)
1977	99	64.0 (97.1)	1.9 (2.9)	—	65.9 (100.0)	41	18.1 (96.8)	0.6 (3.2)	—	18.7 (100.0)	140	84.6 (100.0)	52	40.0 (47.3)	88	44.6 (52.7)
1978	103	42.8 (91.4)	2.0 (4.3)	2.0 (4.3)	46.8 (100.0)	50	10.7 (50.2)	0.3 (1.4)	10.3 (48.4)	21.3 (100.0)	153	68.1 (100.0)	61	24.8 (36.4)	92	43.3 (63.6)
January-June																
1978	50	22.2 (94.5)	1.3 (5.5)	—	23.5 (100.0)	19	3.3 (91.7)	0.3 (8.3)	—	3.6 (100.0)	69	27.1 (100.0)	32	14.2 (52.4)	37	12.9 (47.6)
1979*	46	26.9 (99.3)	0.2 (0.7)	—	27.1 (100.0)	26	6.1 (35.3)	0.5 (2.9)	10.7 (61.8)	17.3 (100.0)	72	44.4 (100.0)	N.A.	N.A.	N.A.	N.A.

* Provisional

N.A. = Not Available.

Notes : 1. Data exclude capital issued by term-lending institutions.

2. Figures in brackets indicate percentages to totals.

Source : Prospectuses/Circulars and replies to our questionnaire received from the companies.

crores) was issued through prospectuses and the balance of Rs. 3.4 crores through rights issues. Out of the total issue through prospectuses, as much as Rs. 12.8 crores or 82.6 per cent was offered for public subscription. The share of FERA companies in the total capital issued (including offer for sale) in 1978 was 25.7 per cent. During January-June 1979, 9 FERA companies entered the market for diluting their non-resident equity holdings for an aggregate amount of Rs. 13.0 crores (including one issue for Rs. 0.7 crore in the form of offer for sale), as against a smaller amount of Rs. 3.0 crores by 4 companies issued during the corresponding period of 1978.

(iv) Consents/Acknowledgements of Proposals.

During 1978, the Controller of Capital Issues accorded capital consents/acknowledgements of proposals for Rs. 258.9 crores to non-Government public limited companies; this amount was 32.6 per cent lower than the consents for Rs. 383.9 crores in the previous year (Table VIII.6).

Consents granted in 1978 for equity shares (Rs. 98.7 crores), bonus shares (Rs. 90.9 crores) and miscellaneous issues (Rs. 13 crores) were respectively, 33.1 per cent, 19.1 per cent and 84.8 per cent lower than in 1977. On the other hand, consents granted for preference shares and debentures at Rs. 7.5 crores and Rs. 48.8 crores were substantially higher by 63 per cent and 44 per cent, respectively. Equity shares accounted for 38.1 per cent of the total consents granted in 1978, fractionally lower than in 1977.

Consents granted to companies diluting their foreign equity holdings under the FERA increased to Rs. 70.5 crores in 1978 from Rs. 24.8 crores in 1977, raising the share of such consents in the total to 27.2 per cent from 6.5 per cent.

Consents/acknowledgement of proposals for Rs. 313.7 crores granted by the Controller of Capital Issues to non-Government public limited companies during the first half of 1979 was not only higher as compared with Rs. 110.6 crores consented during the corres-

ponding period of 1978, but also exceeded the total amount consented during the whole of 1978. Consents for shares (excluding bonus shares) and debentures accounted for Rs. 146.7 crores in the first half of 1979 as against Rs. 72.8 crores in the corresponding period of 1978, while consents to miscellaneous issues (loans, etc.) amounted to Rs. 122.0 crores of which Rs. 90.3 crores related to a single company i.e., The Tata Hydro Electric Power Supply Co. Ltd.

(v) Capital Raised

Total capital raised by Government and non-Government companies including bonus shares and loans aggregated Rs. 223.4 crores during 1978, 21.1 per cent lower than the amount of Rs. 283.2 crores raised in the previous year (Table VIII-7). While the capital of Rs. 52.8 crores raised by Government companies showed a rise of Rs. 13.2 crores, there was a sharp decline of Rs. 73.0 crores in the capital raised by non-Government companies at Rs. 170.6 crores.

The increase in the capital raised by Government companies in 1978 was wholly on account of capitalisation of reserves (bonus issues) to the extent of Rs. 15.4 crores and an increase of Rs. 7.3 crores in debentures. In the case of non-Government companies, capital raised through issues of equity and preference shares and debentures declined over the year by Rs. 30.8 crores or 27.7 per cent, that through issues of bonus shares by Rs. 32.2 crores or 26.9 per cent, and that through loans, etc. by Rs. 10 crores or 76.9 per cent. Non-Government companies, however, raised Rs. 39.5 crores in 1978 through further issues of equity and preference shares, whereas they had similarly raised a lower amount of Rs. 30.1 crores in 1977, but the capital raised through initial issues at Rs. 23.7 crores was less than half the amount of Rs. 51.9 crores raised in 1977.

During the period January-June 1979, total capital raised aggregated Rs. 131.9 crores as against Rs. 129.6 crores during the corresponding period in 1978. Non-Government companies accounted for Rs. 114.2 crores as compared to Rs. 97.0 crores in the first half of 1978. Capital raised through bonus shares at

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									
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 (58.7)	112.3	85.6	383.9
1978	98.7 (63.7)	7.5 (4.8)	48.8 (31.5)	155.0 (100.0)	56.8 (36.6)	98.2 (63.4)	90.9	13.0	258.9
January-June									
1978	37.0	2.1	33.7	72.8	19.9	52.9	32.6	5.2	110.6
1979@	83.9	£	62.8	146.7	47.0	99.7	45.0	122.0	313.7

@ Provisional.

£ Break-up not available.

* 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.

Table VIII.7: Capital Raised (Paid-up) under Consents/Acknowledgement of Proposals

(Rupees Crores)

1	Initial		Further		Debtentures	Total	Bonus	Loans, etc.	Total (7+8+9)
	Equity	Preference	Equity	Preference		(2+3+4+5+6)			
2	3	4	5	6	7	8	9	10	
A. GOVERNMENT COMPANIES (PUBLIC AND PRIVATE)									
January-December									
1976	7.4	0.3	2.0	—	45.0	54.7	13.9	4.6	73.2
1977	3.4	—	5.4	—	24.9	33.7	0.8	5.1	39.6
1978	2.0	—	3.2	—	32.2	37.4	15.4	—	52.8
January-June									
1978	1.4	—	2.2	—	18.0	21.6	11.0	—	32.6
1979	1.5	—	—	—	0.4	1.9	15.8	—	17.7
B. NON-GOVERNMENT COMPANIES (PUBLIC AND PRIVATE)									
January-December									
1976	28.8	1.2	29.3	6.5	40.5	106.3	93.6	66.1	266.0
1977	51.0	0.9	28.9	1.2	29.1	111.1	119.5	13.0	243.6
1978	23.5	0.2	35.3	4.3	17.0	80.3	87.3	3.0	170.6
January-June									
1978	11.8	0.2	18.6	3.0	13.4	47.0	47.7	2.3	97.0
1979	29.1	0.7	15.7	2.5	7.2	55.2	57.8	1.2	114.2
C. TOTAL GOVERNMENT AND NON-GOVERNMENT COMPANIES (PUBLIC AND PRIVATE)									
January-December									
1976	36.2	1.5	31.3	6.5	85.5	161.0	107.5	70.7	339.2
1977	54.5	0.9	34.3	1.1	54.0	144.8	120.3	18.1	283.2
1978	25.5	0.2	38.5	4.2	49.3	117.7	102.7	3.0	223.4
January-June									
1978	13.2	0.2	20.8	3.0	31.4	68.6	58.7	2.3	129.6
1979	30.6	0.7	15.7	2.5	7.6	57.1	73.6	1.2	131.9

Source : Office of the Controller of Capital Issues, Government of India,

Rs. 73.6 crores showed an increase of Rs. 14.9 crores over the corresponding period of 1978, while that of Rs. 57.1 crores raised through shares (excluding bonus shares) and debentures was considerably lower than the amount of Rs. 68.6 crores raised during the same period a year ago; the decline was more pronounced in case of debentures (Rs. 23.8 crores), more than offsetting the increase of Rs. 17.9 crores in the case of initial issues of equity and preference shares.

(vi) Developments in Policy

The Government of India advised the Stock Exchanges in September 1978 that application money for new issues and offer for sale should in no case be allowed to exceed 50 per cent of the issue price including both face value and premium, if any. This direction was issued with a view to enhancing the scope for smaller investors to participate in new issues and offer for sale to the public through prospectuses by companies.

During the same month, guidelines were framed by the Government regarding issue of 'Rights' debentures by public limited companies to their shareholders. The important features of the guidelines are : (a) the company issuing the debentures should be a listed company and its equity shares must have been quoted on the Stock Exchange at or above the par value during the six months prior to the date of the application for the issue of debentures; (b) the total amount of the debenture issue should not exceed (i) 20 per cent of the gross current assets, loans and advances minus the long-term funds presently available for financing working capital or (ii) 20 per cent of the paid-up share capital, including preference capital and free reserves, whichever is lower of the two; (c) the debt-equity ratio, including the proposed debenture issue, should not exceed 1:1; (d) the debentures should carry interest, payable half yearly, at the rate of 10.5 per cent upto 7 years maturity and 11 per cent on the maturity period from 8 to 12 years; (e) non-resident shareholders should not be entitled to the offer; (f) face value of the debentures should be Rs. 100; (g) the debentures should be listed on the Stock Exchanges; and (h) the company should proceed to allot the debentures only after a

minimum subscription of 75 per cent of the amount of the debenture issued has been secured.

The Government of India issued, on December 27, 1978, guidelines to public financial institutions on promoters' contribution, debt-equity ratio, etc., for investments by large houses. The main objective of the new guidelines to financial institutions was to ensure the maximum level of contribution by promoters in determining the financial pattern of new or expansion projects promoted by them. While the normal debt-equity ratio of 2:1 or more was retained for projects with investment of more than Rs. 10 crores, the following new ratios were prescribed for projects with lower investments excluding investments in shipping industry (including trawlers) and export-oriented projects with export obligation of 51 per cent or more promoted by the large houses. The new ratios are : in the range of 1:1 and 1.5:1 in respect of projects costing below Rs. 5 crores and between 1.5:1 and 2:1 for projects costing Rs. 5 crores to Rs. 10 crores. Further, with a view to encouraging non-MRTP companies to enter the fields (listed in Appendix I to the Industrial Policy Statement issued by Government on February 2, 1973) where the large houses are eligible to participate, the Government instructed the financial institutions to reduce the promoters' contribution in case of non-MRTP companies from 20 per cent to 10 per cent for the first Rs. 25 crores of the cost of the project. In respect of non-MRTP companies for amounts above Rs. 25 crores, the promoters' contribution will be at par with the MRTP companies.

Besides raising the surcharge on income-tax in the case of companies from 5 per cent to 7.5 per cent, two measures were included in the Union Budget for 1979-80 which directly affect the capital market. First, the concession of a 'tax holiday' was withdrawn in the case of industrial undertakings engaged in non-priority industries listed in the Eleventh Schedule to the Income-tax Act and going into production after March 31, 1979. Secondly, the exemption from income-tax on long-term capital gains if the sale proceeds were reinvested within six months in certain preferred assets was withdrawn in respect of

transfers made after February 28, 1979. The said exemption was subsequently restored in April 1979 where the sale proceeds were reinvested only in 7-year Rural Development Bonds.

II. Term-Lending Institutions

Financial assistance sanctioned and disbursed by the term-lending institutions (i.e., the IDBI, the IFCI, the ICICI, the IRCI, SFCs and SIDCs/SIICs) aggregated Rs. 1255.1 crores and Rs. 879.1 crores during April 1978-March 1979, as against Rs. 1,108.2 crores and Rs. 644.2 crores, respectively during the preceding year. While the rate of growth in sanctions declined from 24.7 per cent to 13.3 per cent, disbursements increased from 16.6 per cent to 36.5 per cent. Sanctions of rupee loans and foreign currency loans at Rs. 1,127.5 crores and Rs. 72.6 crores, respectively rose by Rs. 123.2 crores and Rs. 35.2 crores, while sanctions towards underwriting of and direct subscriptions to shares and debentures at Rs. 54.9 crores registered a decline of Rs. 11.6 crores. The bulk of the increase in disbursements was accounted for by rupee loans which amounted to Rs. 797.2 crores as against Rs. 556.7 crores during 1977-78. Disbursements of foreign currency loans at Rs. 45.0 crores declined by Rs. 7.9 crores.

The IDBI's sanctions and disbursements (excluding refinance facilities to SFCs, SIDCs/SIICs and subscriptions to share and bonds of other financial institutions) at Rs. 634.4 crores and Rs. 489.4 crores, respectively constituted 50.5 per cent and 55.7 per cent of the total sanctions and disbursements by all term-lending institutions during April 1978-March 1979. Sanctions and disbursements by the IFCI increased by Rs. 28.4 crores or 25.3 per cent and Rs. 16.0 crores or 27.8 per cent, and those by the ICICI by Rs. 77.4 crores or 71.5 per cent and Rs. 19.1 crores or 20.9 per cent, respectively. Investments of the LIC in stock exchange securities and loans increased by Rs. 574.5 crores to Rs. 4,586.9 crores as at the end of March 31, 1979 from Rs. 4,012.4 crores a year ago. During July 1978-June 1979, sales of units by the Unit Trust of India aggregated Rs. 101.5 crores, recording a rise of 38.6 per cent over the year.

Sanctions and disbursements by SFCs at Rs. 195.3 crores and Rs. 135.2 crores during April 1978-March 1979 increased by 17.6 per cent and 25.9 per cent, respectively over 1977-78. The total credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled commercial banks to small-scale industries during April-December 1978 increased by Rs. 453.7 crores to Rs. 2,156.3 crores, as compared to the rise of Rs. 295.9 crores in the corresponding period of the previous year. The guarantees outstanding under the Credit Guarantee Scheme for small-scale industries increased from Rs. 2,439.9 crores as at the end of March 1978 to Rs. 2,874.0 crores as at the end of March 1979.

Direct financial assistance sanctioned to newly established companies by the IDBI, the ICICI, and the IFCI declined in absolute amount as well as in terms of the percentage share in total direct assistance sanctioned. As against Rs. 251.2 crores (or 46.1 per cent of the total assistance) during April 1977-March 1978, the assistance sanctioned amounted to Rs. 217.9 crores (or 36.1 per cent of the total assistance) in 1978-79. In case of the existing companies also, the increase in assistance was mainly on account of expansion of existing capacities, modernisation plans, etc. The assistance for new projects of existing companies showed a marginal increase of Rs. 2.5 crores during the period. (Table VIII-8).

The assistance sanctioned and disbursed by term lending institutions to small-scale industries, to projects in backward districts/areas and to new/small entrepreneurs was higher during April 1978-March 1979 than in the preceding year. Amounts sanctioned and disbursed to small-scale industries by SFCs during 1978-79 rose over the year by Rs. 32.5 crores to Rs. 148.6 crores and by Rs. 25 crores to Rs. 96 crores, respectively. Similarly, the IDBI's refinance of industrial loans (including IDA lines of credit) to the small-scale sector was higher by Rs. 47.9 crores in sanctions and Rs. 29.6 crores in disbursements (Table VIII-9). In the case of projects located in backward districts/areas, sanctions and disbursements by term-lending institutions increased substantially to Rs. 525.5 crores and

Table VIII.8: Direct Financial Assistance Sanctioned and Disbursed by IDBI, IFCI and ICICI.

Year (April-March)	(Rupees Crores)							
	Direct Loans Sanctioned@				Direct Loans Disbursed@			
	Newly Establish- ed Com- panies	Existing Companies		Total (2+3+4)	Newly Establish- ed Com- panies	Existing Companies		Total (6+7+8)
		New Projects	Expan- sion of existing capacity, moderni- sation, etc.			New Projects	Expan- sion of existing capacity, moderni- sation, etc.	
1	2	3	4	5	6	7	8	9
1976-77	224.3 (61.9)	31.1 (8.6)	107.1 (29.5)	362.5 (100.0)	110.3 (56.4)	10.9 (5.6)	74.5 (38.0)	195.7 (100.0)
1977-78	251.2 (46.1)	40.1 (7.4)	253.1 (46.5)	544.4 (100.0)	179.8 (63.7)	22.8 (8.1)	79.5 (28.2)	282.1 (100.0)
1978-79	217.9 (36.1)	42.6 (7.1)	342.3 (56.8)	602.8 (100.0)	253.5 (58.0)	32.5 (7.5)	150.8 (34.5)	436.8 (100.0)

£ Comprising normal direct loan, soft loan and Technical Development Fund.

@ Include foreign currency loans also.

Note : Figures in brackets are percentages to totals.

Rs. 365.6 crores, respectively from Rs. 386.4 crores and Rs. 256.3 crores during the preceding year. The amounts sanctioned and disbursed to new/small entrepreneurs during 1978-79 aggregated Rs. 85.2 crores and Rs. 42.0 crores as compared to Rs. 51.0 crores and Rs. 38.4 crores, respectively during the preceding year (Table VIII-10). While the amounts sanctioned by term-lending institutions during 1978-79 to industrial companies in the co-operative sector and in the public sector at Rs. 32.6 crores and Rs. 126.9 crores were lower by Rs. 21.0 crores and Rs. 9.1 crores, respectively, than in 1977-78, the amounts disbursed to these sectors at Rs. 52.1 crores and Rs. 124.7 crores were higher by Rs. 3.1 crores and Rs. 27.2 crores, respectively (Table VIII-11).

(i) The Industrial Development Bank of India

During July 1978-June 1979, the operations of the Industrial Development Bank of India recorded a sizeable growth. Total sanctions under all the schemes of assistance (excluding guarantees) aggregated Rs. 1,061.2 crores in respect of 30,555 applications, as against Rs. 709.5 crores on 14,212 applications during 1977-78, recording a rise of 49.6 per cent over

Table VIII.9: Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions to Projects in the Small-Scale Industries Sector.

(Year: April-March)		(Rupees Crores)			
Institutions		1977-78		1978-79*	
		Sanc- tioned	Dis- bursed	Sanc- tioned	Dis- bursed
1		2	3	4	5
IDBI@ ..		96.4	55.0	144.3	84.6
IFCI ..		—	—	—	—
ICICI ..		—	—	—	—
IRCI ..		0.2	0.3	0.2	0.3
SFCs ..		116.1	71.0	148.6	96.0
SIDCs ..		—	—	—	—

*Provisional.

@ Includes assistance to small road transport operators under refinance of industrial loans and assistance under IDA line of credit.

— Nil or negligible.

the year. Total disbursements during the year at Rs. 680.0 crores were higher by 43.4 per cent than those of Rs. 474.2 crores during 1977-78 (Table VIII-12). Cumulative sanctions and disbursements by the IDBI since its inception upto end-June 1979 aggregated Rs. 4,130.7 crores (on 82,292 applications) and Rs. 2,776.9 crores, respectively.

Table VIII.10: Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions for Backward Areas and New/Small Entrepreneurs

(Year: April-March)

(Rupees Crores)

Institutions				Backward Districts/Areas						New/Small Entrepreneurs					
				1976-77		1977-78		1978-79*		1976-77		1977-78		1978-79*	
				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
IDBI@	..	..	..	195.6	84.3	165.6	120.6	201.8	165.0	11.5	4.1	8.6	2.1	18.6	1.9
IFCI@@	..	..	..	45.2	27.7	58.0	33.7	69.6	47.3	8.6	4.4	4.4	6.5	9.2	7.8
ICICI ..	..	..	..	44.5	25.7	33.2	28.3	72.0	47.2	16.8	5.1	11.8	13.8	10.2	14.2
IRCI ..	..	..	..	4.7	2.6	1.0	1.1	0.2	1.1	—	—	—	—	—	—
SFCs ..	..	..	..	86.3	43.7£	86.7	46.2£	113.8	67.2	19.0£	8.0£	7.2£	5.8£	13.3*	5.4*
SIDCs	..	..	..	28.3	19.8	41.9	26.4	68.1	37.8	15.2\$	9.5\$	19.0*	10.2*	33.9*	12.7*
Total	..	..	..	404.6	203.8	386.4	256.3	525.5	365.6	71.1	31.1	51.0	38.4	85.2	42.0
LIC ..	..	..	..	19.4	11.1	18.3	16.5	15.9	10.2	35.2	15.2	40.5	23.1	14.6	17.4

* Provisional.

@ Data on assistance to backward districts/areas relate to concessional finance and those to new and small entrepreneurs cover assistance to technician entrepreneurs only.

§ Covers 14 SIDCs/SIICs.

@@ Including Guarantees.

£ Include 16 SFCs.

— Nil or negligible.

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				
	1976-77		1977-78		1978-79*		1976-77		1977-78		1978-79*				
	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		
IDBI@	..	..	..	40.8	18.8	29.3	21.8	19.7	30.6	126.8	62.1	85.8	67.4	74.4	88.8
IFCI	..	..	..	17.0	18.3	13.5	13.8	5.3	9.0	11.5	9.5	23.8	10.9	12.4	7.5
ICICI ..	..	..	..	11.5	2.8	8.3	11.3	6.8	11.1	20.7@@	8.5@@	14.5@@	11.7@@	28.4@@	16.1@@
IRCI ..	..	..	..	—	—	—	—	—	—	2.6**	3.6**	—	—	0.5	—
SFCs ..	..	..	..	2.8*	2.4*	2.5*	2.1*	0.8*	1.4*	3.1*	1.4*	0.8*	0.6*	0.5*	—
SIDCs	..	..	..	—	—	—	—	—	—	5.6	3.0	11.1	6.9	10.7	12.3
Total	..	..	..	72.1	42.3	53.6	49.0	32.6	52.1	170.3	88.1	136.0	97.5	126.9	124.7
L.I.C.	..	..	..	14.5	8.0	3.4	6.4	0.4	2.2	13.8	7.5	6.0	9.8	10.6	5.7

@ Total assistance under all Schemes of IDBI (excluding guarantees and assistance to financial institutions).

@@ Figures include Joint Sector.

* Provisional.

** Projects in Public Sector include units, the management of which is taken over by the Central Government under Industries (D & R) Act special enactment and one coal unit since nationalised. However, data for such units have been shown under private sector for the subsequent years.

Direct assistance (i.e., direct loans other than for exports, and underwriting of and direct subscriptions to shares and debentures of industrial concerns) of Rs. 402.0 crores sanctioned during 1978-79 on 320 applications was 47.8 per cent higher than that of Rs. 271.9 crores sanctioned on 225 applications in the preceding year; and disbursements of direct assistance at Rs. 257.9 crores showed a rise of 42.2 per cent. The most pronounced growth during the year under review was recorded in the assistance under the IDBI's Refinance of Industrial Loans Scheme. Sanctions under this Scheme increased from Rs. 224.2 crores (on 13,031 applications) in 1977-78 to Rs. 417.3 crores (on 29,233 applications) in 1978-79, and disbursements increased from Rs. 145.5 crores to Rs. 255.5 crores. Out of the total refinance of industrial loans assistance, small-scale industries and small road transport operators together accounted for 70.3 per cent (or Rs. 293.4 crores) in sanctions and 72.3 per cent (or Rs. 184.6 crores) in disbursements, showing a marked improvement over the previous year when with sanctions of Rs. 133.1 crores and disbursements of Rs. 96.5 crores this sector had accounted for 59.4 per cent and 66.3 per cent of the respective totals.

The IDBI's assistance under the Rediscounting of Bills Scheme, however, showed only a marginal growth of 4.4 per cent in sanctions and 4.5 per cent in disbursements during the year, the amount sanctioned having increased from Rs. 133.4 crores in 1977-78 to Rs. 139.3 crores in 1978-79 and the amount disbursed from Rs. 99.6 crores to Rs. 104.1 crores.

Total assistance sanctioned and disbursed under the Export Finance Schemes (excluding guarantees) at Rs. 63.6 crores and Rs. 21.2 crores during 1978-79 recorded rises of 34.5 per cent and 9.3 per cent, respectively over 1977-78.

The IDBI continued to strengthen the resources position of other financial institutions during the year by subscribing to their shares and bonds. Sanctions and disbursements under this head during 1978-79 increased by

Rs. 6.3 crores and Rs. 12.9 crores to Rs. 39.0 crores and Rs. 41.3 crores, respectively.

IDBI Assistance to Backward Areas and to Small Scale Sector

During 1978-79, the IDBI sanctioned assistance (including assistance on concessional terms) of Rs. 377.4 crores and disbursed Rs. 313.5 crores to units in the specified backward districts, as against Rs. 298.4 crores sanctioned and Rs. 220.2 crores disbursed during the preceding year. Assistance sanctioned and disbursed to units in these areas on concessional terms during the year aggregated Rs. 272.8 crores and Rs. 176.0 crores, respectively. There has been a substantial increase both in direct assistance and refinance of industrial loans on concessional terms sanctioned to these areas. Sanctions under direct assistance increased from Rs. 60.7 crores in 1977-78 to Rs. 112.7 crores in 1978-79 and that under the refinance scheme from Rs. 88.9 crores to Rs. 160.1 crores (Table VIII-13).

The assistance to the small-scale industries and small road transport operators which the IDBI extends indirectly through State-level institutions and commercial banks by way of refinance of industrial loans showed a sharp increase in 1978-79 over 1977-78. Refinance assistance which constitutes the major portion of total assistance to this sector increased by 120.4 per cent from Rs. 133.1 crores in 1977-78 to Rs. 293.4 crores in 1978-79 (Table VIII-14). Under the Bills Rediscounting Scheme also, assistance to the small-scale sector increased significantly. Bills worth Rs. 16.4 crores were discounted during the year as against Rs. 3.7 crores in 1977-78. This sizeable increase in the assistance to the small-scale sector reflects various policy measures adopted by the IDBI during 1978-79 to ensure adequate and timely flow of assistance to this sector. The measures included the Automatic Refinance Scheme, the Composite Term Loan Scheme, the Special Refinance Facility, sanction of separate limits for small-scale units under the Bills Rediscounting Scheme and the introduction of concessional rates of discount on bills of small-scale industrial units.

Table VIII. 12: Summary of Operations of IDBI

(Year: July-June)

Type of Assistance	Sanctions				Cumulative Sanctions since inception upto end of June 1979	Disbursals		Cumulative disburse- ment since inception upto end of June 1979	Amount out- standing as on 30th June 1979	
	1977-78		1978-79			1977-78	1978-79			
	No. of applica- tions	Amount	No. of applica- tions	Amount		Amount	Amount			
										No. of applica- tions	Amount
1	2	3	4	5	6	7	8	9	10	11
1. Direct loans to industrial concerns (other than for exports)	189	251.8	260	374.6	987	1274.5	169.9	251.6	770.5	670.4
2. Underwriting of & direct subscriptions to shares & debentures of industrial concerns	36	20.1	60	27.4	426	146.1	11.5	6.3	66.1	55.8
3. Refinance of industrial loans	13031	224.2	29233	417.3	76925	1318.6	145.5	255.5	892.1	505.0
4. Rediscounting of bills	920	133.4	951	139.3	3672	920.5	99.6	104.1	721.8	356.8
5. Subscriptions to shares and bonds of financial institutions	18	32.7	20	39.0	31	154.4	28.4	41.3	151.4	133.0
Total Project Assistance (1 to 5)	14194	662.2	30524	997.6	82041	3814.1	454.8	658.8	2601.9	1721.0
6. Direct loans for export	8	18.1	16	12.5	104	132.0	11.0	12.4	95.4	54.0
7. Refinance of export credits	7	6.6	10	8.9	123	67.9	4.0	4.0	54.2	17.5
8. Overseas buyer's credit	1	3.1	1	2.9	9	25.1	3.6	2.0	11.1	14.3
9. Foreign lines of credit	2	19.5	3	36.6	14	89.0	0.7	2.7	14.4	10.3
10. Overseas investment finance	—	—	1	2.6	1	2.6	—	—	—	—
Total (1 to 10)	14212	709.5	30555	1061.2	82292	4130.7	474.2	680.0	2776.9	1817.1
11. Guarantees for loans and deferred pay-ments	—	—	—	—	15	26.7	—	—	19.6	—
12. Export guarantees	42	50.0	107	64.9	174	161.5	51.5*	60.5*	141.8*	—

*Guarantees executed

Notes : 1. The number of applications in respect of item 4 relates to the number of purchasers-users and in respect of item 5 to the number of financial institutions.

2. In case of Bills Rediscounting Scheme, amount sanctioned represents face value of bills rediscounted, while amount utilised indicated the net disbursements after deduction of charges from the face value of the bill.

Table VIII.13: IDBI's Assistance to Backward Areas on Concessional Terms

(Year : July-June)

(Rupees Crores)

Type of assistance		1976-77		1977-78		1978-79		Since inception of the Scheme in July 1970 to June 1979	
		No of appli-cations	Amount	No of appli-cations	Amount	No of appli-cations	Amount		
								No of appli-cations	Amount
1		2	3	4	5	6	7	8	9
1. Direct Assistance	Sanctions	118	104.0	59	60.7	81	112.7	405	397.0
	Disbursements		46.6		74.3		77.0		242.2
2. Refinance of Industrial Loans	Sanctions	2768	83.9	2333	88.9	7393	160.1	18081	455.6
	Disbursements		52.1		53.2		99.0		267.3
Total	Sanctions	2886	187.9	2392	149.6	7474	272.8	18486	852.6
	Disbursements		98.7		127.5		176.0		509.5

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
		Number	Amount	Amount
1		2	3	4
1976-77	.. ..	11421	141.1	88.0
1977-78	.. ..	12090	133.1	96.5
1978-79	.. ..	28243	293.4	184.6

Note : Data include assistance sanctioned under IDA line of credit.

IDBI Soft Loan Scheme

Under the Soft Loan Scheme, the IDBI sanctioned Rs. 112.3 crores during 1978-79 to 98 applicants, as against Rs. 46.0 crores sanctioned to 55 applicants during 1977-78. Disbursals under the Scheme increased from Rs. 9.5 crores in 1977-78 to Rs. 33.7 crores in 1978-79. Total assistance sanctioned under the Scheme by the three participating institutions viz., the IDBI, the IFCI and the ICICI, as on June 30, 1979, aggregated Rs. 373.7 crores covering 235 applications

as against Rs. 175.3 crores covering 132 applications sanctioned till June 30, 1978. During the year, there was a sharp pick up in the disbursements under the Scheme. Of the total assistance sanctioned, disbursements had commenced on 102 loan accounts with sanctions of Rs. 172.4 crores, and the amount disbursed stood at Rs. 78.2 crores as on June 30, 1979 as against Rs. 19.6 crores disbursed by the end of June 1978. Disbursements under the Scheme are tied to the delivery of machinery being financed and as such are influenced by long delivery dates on certain items of machinery, particularly in the case of textile industry; even so the pace of disbursements has quickened after the withdrawal of the convertibility clause in loans sanctioned under the Scheme.

The progress of the Scheme till June 30, 1979 is indicated in Table VIII--15.

With a view to extending the Scheme to more industries, the eligibility criteria for engineering industries for assistance under the Scheme was enlarged in August 1978, to cover agricultural implements, cranes, transformers and H.T. switch gears, jute machinery, non-ferrous castings and grinding wheels, steel rolling mills, wagons and diversification of

Table VIII.15 : Progress of Soft Loan Scheme upto the end of June 1979

Industry	Applications received*		Sanctions		Disbursements	
	No. of applications	Amount (Rs. Crores)	No. of applications	Amount (Rs. Crores)	No. of applications	Amount (Rs. Crores)
Cotton Textiles	187	381.8	146	181.1	63	38.0
Cement	12	75.4	8	53.3	5	12.7
Sugar	20	42.9	19	32.5	10	13.7
Jute	22	66.0	20	39.2	3	1.9
Engineering	58	110.2	42	67.6	21	11.9
TOTAL	299	676.3	235	373.7	102	78.2

* After adjusting proposals rejected/withdrawn/closed.

mini-steel plants. Industrial units set up 10 years ago were also made eligible for soft loan assistance from 1978-79; earlier, only the units set up 15 years ago were eligible. Besides, assistance under the Scheme is now available not only for replacing of machine tools and equipment but also for buying balancing equipment for improving productivity, recovery of material equipment and quality control equipment.

The interest rate structure of the IDBI is set out in Table VIII-16.

(ii) The Industrial Finance Corporation of India

The net financial assistance sanctioned (excluding guarantees for foreign loans) by the Industrial Finance Corporation of India (IFCI), during April 1978-March 1979 aggregated Rs. 141.8 crores in respect of 208 projects, registering an increase of 25.3 per cent over the amount of Rs. 113.4 crores sanctioned in the preceding year. The total sanctions during the year comprised rupee loans of Rs. 122.1 crores, foreign currency loans of Rs. 10.5 crores and underwriting of and direct subscription to shares and debentures of Rs. 9.2 crores, as against Rs. 99.7 crores, Rs. 6.5 crores and Rs. 7.2 crores, respectively during the preceding year.

The total disbursements at Rs. 73.5 crores in 1978-79 were higher by 27.8 per cent than Rs. 57.5 crores disbursed in 1977-78. Of the

total disbursements, rupee loans accounted for Rs. 65.6 crores, underwriting and direct subscriptions Rs. 4.5 crores and foreign currency loans Rs. 3.4 crores as compared to Rs. 50.7 crores, Rs. 3.6 crores and Rs. 3.2 crores, respectively during the previous year.

Although the existing companies continued to account for the major portion of the direct loan assistance sanctioned by the IFCI, sanctions to new companies rose impressively by Rs. 11.1 crores to Rs. 50.3 crores in 1978-79 as against the increase of Rs. 9 crores to Rs. 82.3 crores in the case of sanctions to existing companies. The increase in assistance to existing companies was largely for expansion and modernisation purposes, while sanctions for new projects to these companies remained unchanged at Rs. 15 crores. New and existing companies shared almost equally the direct assistance of Rs. 68.9 crores disbursed by the IFCI during 1978-79. While the amount of Rs. 10.5 crores disbursed for new projects of existing companies and that of Rs. 34.3 crores disbursed for projects of new companies remained more or less at the last year's levels of Rs. 10.8 crores and Rs. 33.3 crores, respectively; the amount disbursed to existing companies for expansion and modernisation purposes showed an increase of 140 per cent from Rs. 10 crores in 1977-78 to Rs. 24 crores in 1978-79.

The financial assistance sanctioned by the IFCI during the year for projects in specified backward districts amounted to Rs. 69.2

crores for 93 projects (including assistance of Rs. 23.8 crores sanctioned on concessional terms) as against Rs. 58.0 crores for 98 projects during 1977-78. Disbursements to these projects amounted to Rs. 47.3 crores as compared to Rs. 33.7 crores during the previous year.

As on March 31, 1979, the IFCI's cumulative net sanctions and disbursements stood at Rs. 864.7 crores and Rs. 651.6 crores, respectively, covering 1,110 projects.

Under the Soft Loan Scheme, the IFCI sanctioned assistance of Rs. 34.5 crores to 64 projects. With this, the total assistance by the IFCI under this Scheme as on March 31, 1979 amounted to Rs. 58.8 crores for 137 projects.

The Risk Capital Foundation sponsored by the IFCI in 1975 sanctioned Rs. 35 lakhs to 11 promoters of 6 projects during the year 1978-79. The total sanctions by the RCF as on March 31, 1979 amounted to Rs. 1.1 crores to 32 promoters of 17 projects and the disbursements stood at Rs. 55 lakhs.

There was no change in the lending rates charged by the IFCI during the year.

The IFCI raised funds during the year, Rs. 68 crores by issue of Bonds in two tranches of Rs. 33 crores in June 1978 and of Rs. 35 crores in December 1978. The total outstanding Bonds as at the end of March 1979 amounted to Rs. 273.0 crores. The Central Government made available to the IFCI Rs. 0.6 crore representing the loan portion of 'Interest Differential Funds' under the KfW line of credit.

The IFCI received a further allocation of DM 10 million from the Kreditanstalt-fur-Wiederaufbau, West Germany, as the seventeenth line of credit under the Inter-Governmental Agreement. The total amount of loans utilised upto March 31, 1979 aggregated DM 159.7 million under the total allocation of DM 202.5 million. The IFCI was granted a further allocation of Sw. Kr. 25 million under the Indo-Swedish Development Corporation Agreement, thus bringing the total allocation made so far to Sw.Kr.50 million. But the disbursement made under this facility

as on March 31, 1979 amounted to only Sw.Kr. 2.1 million.

(iii) **The Industrial Credit and Investment Corporation of India Ltd.**

The Industrial Credit and Investment Corporation of India Ltd. (ICICI), sanctioned and disbursed financial assistance of Rs. 185.7 crores and Rs. 110.7 crores, respectively during the financial year April 1978-March 1979, recording an increase of 71.5 per cent in sanctions and of 20.9 per cent in disbursements over the previous year. Sanctions of rupee loans (including guarantees) increased from Rs. 77.7 crores in 1977-78 to Rs. 120.0 crores in 1978-79, and of foreign currency loans from Rs. 22.5 crores to Rs. 52.1 crores. Disbursements of rupee loans went up from Rs. 38.9 crores to Rs. 66.7 crores, while those of foreign currency loans declined from Rs. 46.3 crores to Rs. 36.5 crores during the same period. Sanctions on account of underwriting of and direct subscriptions to shares and debentures increased from Rs. 8.1 crores to Rs. 13.6 crores and disbursements from Rs. 6.4 crores to Rs. 7.5 crores during the period under review. As at the end of March 1979, the ICICI's cumulative sanctions amounted to Rs. 1,116.8 crores and disbursements to Rs. 812.0 crores.

During 1978-79, the ICICI sanctioned Rs. 35.6 crores and disbursed Rs. 16.0 crores under the Soft Loan Scheme taking the total sanctions and disbursements under this Scheme to Rs. 60.2 crores and Rs. 17.6 crores, respectively as at the end of March 1979.

The ICICI's assistance to projects located in backward areas during 1978-79 showed a remarkable increase over the previous year with sanctions more than doubled to Rs. 72.0 crores and disbursements rising by 66.8 per cent to Rs. 47.2 crores. The total sanctions and disbursements to projects located in backward areas thus amounted to Rs. 293.4 crores and Rs. 189.7 crores, respectively as at the end of March 1979.

In order to augment its rupee resources, the ICICI raised Rs. 58.02 crores through two debenture issues during 1978-79. The ICICI also called up the balance of Rs. 3.75

Table VIII.16: Structure of IDBI's Interest Rates

		(Per cent per annum)	
		IDBI rate	Coiling on primary lenders' rate
1. Direct loans to industrial concerns (other than for exports)			
(a)	Normal	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)	Concessional rate 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 truck operators covered by the guarantee of Credit Guarantee Corporation of India Ltd.	8.00	11.50
(iv)	SRF 1978		
(a)	Loans for amounts to Rs. 25,000	1.00	2.00
		(Service charge)	
(b)	Loans for amounts exceeding Rs. 25,000	6.00	7.50
(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. 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* and to West Bengal State Electricity Board for use in the hill district of Darjeeling			
(a)	6 months to 36 months	7.25	8.25
(b)	Over 36 months and upto 84 months	6.75	7.75
4. Exports Credit			
(a)	Refinance against medium term-export credit	6.50	8.00
(b)	Overseas investment finance	11.00	—
(c)	Participation export credit		

{ The rate on IDBI's portion of the credit is such that after taking into account the participating bank's rate the average rate payable by the exporter/importer on the entire credit is generally 7.50 per cent.

* Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu & Kashmir, Sikkim and Himachal Pradesh and Union territories of Arunachal Pradesh & 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.

crores of its rights issue of shares made in October 1977. In order to further improve its resources position, the ICICI started accepting deposits from the public from October 1978 and till the end of March 1979 it had received deposits amounting to Rs. 1.63 crores. During the year, the ICICI also received, from the IDBI, loans amounting to Rs. 15 crores for disbursing assistance under the Soft Loan Scheme and Rs. 3.5 crores as the balance of counterpart funds against the allocation of £6 million made to the ICICI out of the funds received from the UK Government in 1977-78. The ICICI entered into an agreement with a consortium of international banks in October 1978 for borrowing an amount of US \$ 20 million from the Euro-dollar market.

Repayments to the ICICI during 1978-79 amounting to DM 8.19 million out of KfW sub-loans were deposited in foreign banks and this amount was used for sanctioning foreign currency loan assistance. The total resources (net of cancellations and repayments) available to the ICICI at the end of March 1979 amounted to Rs. 591.25 crores, comprising of Rs. 304.05 crores of foreign currency resources and Rs. 287.2 crores of rupee resources.

The rate of interest charged by the ICICI on rupee and foreign currency loans remained unchanged at 11 per cent per annum. The concessional rate of interest on loans for projects located in backward areas also remained unchanged at 9.5 per cent on rupee loans and 10 per cent on foreign currency loans.

(iv) The Life Insurance Corporation of India

During the financial year April 1978—March 1979, the Life Insurance Corporation of India (LIC) sanctioned financial assistance@ (including guarantees) amounting to Rs. 65.5 crores, as compared with the assistance of Rs. 52.7 crores sanctioned in 1977-78.

@ Sanctions and disbursements relate to investments made by way of grant of term loans to companies, industrial co-operatives, sugar co-operative societies and underwriting of and direct subscriptions to shares and debentures of companies (inclusive of subscriptions to rights shares).

Assistance disbursed at Rs. 31.7 crores was, however, lower by Rs. 11.1 crores.

Loans sanctioned increased over the year by Rs. 10.9 crores to Rs. 52.4 crores, whereas disbursements at Rs. 23.1 crores were lower over the year by Rs. 9.6 crores. Likewise, in regard to underwriting of/direct subscriptions to shares and debentures, while sanctions increased from Rs. 11.2 crores in 1977-78 to 13.1 crores in 1978-79, disbursements declined from Rs. 10.1 crores to Rs. 8.6 crores.

The LIC's sanctioned and disbursed assistance (including guarantees) for the projects located in the specified backward areas were lower at Rs. 15.9 crores and Rs. 10.2 crores in 1978-79 as compared with Rs. 18.3 crores and Rs. 16.5 crores, respectively in the previous year.

The LIC's total investment in stock exchange securities and loans aggregated Rs. 4,586.9 crores as at the end of March 1979, as against Rs. 4,012.4 crores a year ago. Investments in stock exchange securities at Rs. 2,733.8 crores showed a rise of Rs. 316.9 crores, and loans amounting to Rs. 1,853.1 crores recorded a rise of Rs. 257.7 crores during the year. Sector-wise, investment in the public sector at Rs. 3,411.9 crores, forming 74.4 per cent of the total, showed a smaller increase of Rs. 377.9 crores during 1978-79 than that of Rs. 381.1 crores during 1977-78. Investments in all other sectors (co-operative, private and joint sectors) recorded higher increases during 1978-79 than during 1977-78, and stood at Rs. 527.8 crores in the co-operative sector, Rs. 618.1 crores in the private sector and Rs. 29.9 crores in the joint sector at the end of March 1979.

(v) The Unit Trust of India

During July 1978-June 1979, sales of units of the Unit Trust of India aggregated Rs. 101.5 crores, the growth of 38.6 per cent in 1978-79 came on top of a record increase of 112 per cent in the preceding year (Table VIII-17). The most impressive growth was in respect of the Unit Linked Insurance Plan, where the business received during the year exceeded the combined busi-

Table VIII.17 : Trends in Sales of Units by U.T.I. @

(Rupees Crores)

Year (July-June)	Sales of units	Units repurchased (Face Value)	Amounts 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
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	1.6	288.2	9.00
1978-79	101.5	9.5	1.6	402.4	9.00

@ Covers Unit Schemes 1964, 1971 and 1976.

ness received during the previous seven years of the operation of the Plan. During the year, 34,576 applicants joined the Plan for a target amount (amount to be contributed over the ten-year period of the Plan) of Rs. 34.5 crores, as against 29,530 applicants for a target amount of Rs. 26.7 crores during the previous seven years. The sales of units under the Unit Scheme 1964 rose by 35.5 per cent from Rs. 70.9 crores in 1977-78 to Rs. 96.1 crores in 1978-79.

Repurchases of units at Rs. 9.5 crores were lower than the repurchases of Rs. 11.2 crores during the previous year. Thus, the net sales under all the Schemes went up by Rs. 92.1 crores during the year as against Rs. 62.1 crores last year. As on June 30, 1979, units outstanding with the public amounted to Rs. 347.5 crores, of which, about Rs. 330 crores were under the Unit Scheme 1964 (unit holding accounts being about 8.3 lakhs).

As in the last year, a major incentive to sales of units in 1978-79 was provided by the operation, during the major part of the year, of the tax exemption of capital gains on reinvestments of sale proceeds in units. Intensive and systematic sales promotion and publicity programme of the Unit Trust of India played significant role in increasing the sales of units. The withdrawal of tax exemption of capital

gains from March 1, 1979 softened the competitive edge of units over the other media of savings.

Sales of units under Unit Scheme 1976 (Capital Units) continued to remain suspended. The Trust maintained the dividend rate of 9 per cent under the Unit Scheme 1964 and 8 per cent and 3 per cent, respectively, under the Unit Linked Insurance Plan 1971 and the Unit Scheme 1976 (Capital Units).

As at the end of June 1979, total investible funds of the Trust amounted to Rs. 402.4 crores. Of this, investments in equity shares accounted for Rs. 120.3 crores or 29.9 per cent, debentures for Rs. 82.9 crores or 20.6 per cent and preference shares for Rs. 16.6 crores or 4.1 per cent. The remaining amount of Rs. 182.6 crores was invested mainly in call deposits, advance deposits against investment commitments and fixed deposits with banks.

(vi) The Industrial Reconstruction Corporation of India Ltd.

The financial assistance sanctioned (net of guarantees) by the Industrial Reconstruction Corporation of India Ltd. (IRCI) during the financial year April 1978-March 1979 amounted to Rs. 11.2 crores, Rs. 0.5 crore lower than

that of Rs. 11.7 crores sanctioned during last year. However, disbursements at Rs. 12.2 crores showed an increase of Rs. 3.1 crores over the previous year. The total

sanctions and disbursements of the IRCI since its inception stood at Rs. 62.7 crores and Rs. 52.7 crores, respectively as at the end of March 1979 (Table VIII-18).

Table VIII.18: Details of Financial Assistance Sanctioned and Disbursed by Industrial Reconstruction Corporation of India Ltd.

					(Rupees. Crores)				
Year (April-March)					Number of of Units	Amount Sanctioned	Amount Disbursed	Labourers in- volved (disbur- sed cases)	
1					2	3	4	5	
1977-78					37*	11.70	9.08	6421**	
1978-79					42*	11.17	12.18	8953**	
Cumulative Position (effective) as at the end of—									
March 1978					89	52.29	40.54	53593@	
March 1979					94	62.67	52.72	54633@@	

* The number of fresh cases sanctioned during 1977-78 and 1978-79 are 5 and 6 respectively.

** Indicates employment only in fresh units to which assistance was disbursed during the year.

@ Relates to level of employment in 57 operating/reporting units.

@@ Relates to level of employment in 56 operating/reporting units.

Note : Assistance Sanctioned and disbursed are net of guarantees.

The net assistance of Rs. 24 lakhs sanctioned by the IRCI to projects located in specified backward areas was substantially lower than that of Rs. 98 lakhs sanctioned during the previous year. However, disbursements during the year at Rs. 111 lakhs were maintained at the level of last year.

Assistance sanctioned and disbursed to projects in the small-scale industries sector at Rs. 22 lakhs and Rs. 28 lakhs, respectively during 1978-79, registered increases of 15.2 per cent and 8.7 per cent, respectively over the year. The rate of interest charged by the IRCI remained unchanged at 8.5 per cent per annum.

(vii) State Financial Corporations

The operations of State Financial Corporations (SFCs) showed a marked improvement during April 1978-March 1979. The total financial assistance sanctioned and disbursed by the 18 SFCs (including the TIIC) aggregated Rs. 195.3 crores and Rs. 135.2 crores as against Rs. 166.1 crores and

Rs. 107.4 crores, respectively during the preceding year. The rates of increases of 17.6 per cent in sanctions and 25.9 per cent in disbursements during 1978-79 were significantly higher than the rates of 1.7 per cent and 2.0 per cent, respectively recorded during 1977-78. Total loans outstanding amounted to Rs. 643.0 crores as at the end of March 1979, as compared with Rs. 539.3 crores at the end of March 1978.

Assistance to small-scale enterprises, including road transport operators, continued to account for a major portion of the total assistance sanctioned and disbursed by the SFCs. The small-scale sector accounted for 98.6 per cent of the total number of units assisted, 76.1 per cent of the total assistance sanctioned and 71.0 per cent of the total assistance disbursed during 1978-79.

The SFCs' assistance to units located in specified backward areas also showed a considerable increase during the year under review. The concessional assistance in case of 5,401 units located in such areas amounted

to Rs. 113.8 crores or 58.2 per cent of the total assistance sanctioned during 1978-79, as against Rs. 86.7 crores (or 52.2 per cent) sanctioned in respect of 4,057 units during the preceding year. Assistance disbursed to units in these areas during 1978-79 amounted to Rs. 67.2 crores. Under the special scheme for granting liberal assistance to technician entrepreneurs, the assistance sanctioned by the SFCs during 1978-79 at Rs. 11.0 crores in respect of 489 units was slightly higher than the amount of Rs. 10.2 crores sanctioned in respect of 434 units in 1977-78. Under the special capital scheme to provide seed capital assistance to entrepreneurs in the small-scale sector who have requisite skills and experience but not the resources, sanctions amounted to Rs. 1.4 crores in respect of 419 units and disbursements to Rs. 0.4 crore at the end of March 1979.

As at the end of March 1979, 3,556 applications for total assistance of Rs. 98.3 crores were pending with the SFCs.

Capital and Resources

The total paid-up capital of the SFCs increased by Rs. 10.9 crores from Rs. 62.5 crores as on March 31, 1978 to Rs. 73.4 crores as on March 31, 1979. The number of SFCs which have raised special capital remained unchanged at 17, but the amount so raised increased by Rs. 0.1 crore to Rs. 5.8 crores during the year. Outstandings of bonds issued by SFCs also increased from Rs. 230.6 crores to Rs. 271.2 crores. The refinance assistance from the IDBI increased by Rs. 28.6 crores during 1978-79 to Rs. 100.5 crores, as against a decline of Rs. 9 crores during 1977-78 over 1976-77. The increase in the refinance assistance was facilitated by the introduction of Automatic Refinance Scheme with effect from July 1, 1978.

Overdues

Total overdues of the SFCs increased by Rs. 30.6 crores from Rs. 94.4 crores as on March 31, 1978 to Rs. 125.0 crores as on March 31, 1979. The overdues as a percentage of the total outstandings increased over the year in case of all but 4 SFCs (viz., Andhra Pradesh, Madhya Pradesh,

Orissa and Uttar Pradesh). As on March 31, 1979, the overdues as a percentage of total outstandings were highest in the case of Assam (48 per cent), which was closely followed by Orissa (47 per cent), Gujarat (40 per cent) and Haryana (38 per cent). The growth in the overdues has been a matter of concern to the IDBI, which had the problem studied by a Working Group set up by it for the purpose. The effective lending rates of the SFCs on loans under the different schemes remained unchanged during 1978-79.

(viii) The National Small Industries Corporation Ltd.

The National Small Industries Corporation Ltd. (NSIC) recorded noticeable progress in its various schemes of assistance to small-scale industries during the financial year April 1978-March 1979. Under its Hire Purchase Scheme, the NSIC received 1,096 applications for supply of machinery valued at Rs. 9.3 crores, as against 275 applications for Rs. 2.4 crores received during the previous year. The NSIC accepted 627 applications for machinery worth Rs. 4.9 crores and machinery worth Rs. 1.1 crores was delivered to small-scale units under the Scheme during the year, including 72 machines worth Rs. 0.3 crore to units located in backward areas. The total amount due from the hirers of machines under the Scheme stood at Rs. 6.1 crores as at the end of March 1979, Rs. 6.6 crores lower than the total outstanding amount at the end of the previous year. The Marketing Division of the NSIC extended marketing assistance to a number of new products of small-scale units and distributed brass scrap worth Rs. 2.07 crores (including imported brass worth Rs. 1.4 crores) during the year. Further, the NSIC also provided assistance for standardisation, testing, and improvement to technology and quality as a part of its total marketing assistance to small-scale units.

The NSIC participated in the National Small Industries Fair held in November 1978 and the Third Indian Engineering Trade Fair held in February 1979 at New Delhi. Such participation is expected to increase its business by Rs. 2 crores. The NSIC also organised two seminars on 'Science and Technology for Small-scale Industries' and 'Raw Material

for Small-scale Industries'. Under the Central Government Store Purchase Programme, the NSIC secured contracts for small-scale units from the DGS & D worth Rs. 61.1 crores as compared with the contract for Rs. 57.7 crores secured during the previous year. Under the new registration scheme, 650 small-scale units were enlisted with the NSIC during the year bringing the total number of units so registered since inception to 22,870. During the period under review, the NSIC issued 926 competency certificates to the DGS & D and other Government Departments in favour of small-scale units.

Under its training programme, the NSIC imparted training to 662 persons and 493 persons were undergoing training in its four Prototype Development and Training Centres (PDTC). In addition to imparting training, the PDTCs have also started (i) special studies on improving and standardisation of locally made diesel engines besides providing testing facilities and technical assistance in their manufacture, (ii) a special training course for the technicians of the National Thermal Power Corporation, (iii) a special course for the managers of machinery and equipment for the DICs programme, and (iv) the International Co-operation Programme in which the NSIC has been assigned the task of assisting the Government of Tanzania (SIDO) in setting up 48 small-scale units financed out of the credit extended by the IDBI. Under the International Co-operation Programme, special training courses were conducted by the NSIC for Tanzanian entrepreneurs; 31 trainees from Tanzania have so far been trained in India.

III. Financing of Small-Scale Industries by Scheduled Commercial Banks

The total outstanding credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled commercial banks to small-scale industries recorded an appreciable growth of Rs. 453.7 crores during April-December 1978 as against that of Rs. 295.9 crores in the corresponding period of the preceding year. The outstanding credit aggregated Rs. 2,156.3 crores at the end of December 1978 as compared to Rs. 1,702.6 crores at the end of March 1978 (Table VIII-19).

Advances to Small-Scale Industries

The credit limits sanctioned by banks to the small-scale industries sector increased by Rs. 463.4 crores during April-December 1978 to Rs. 2,765.7 crores, the growth compared with that of Rs. 229.0 crores in the corresponding period of 1977. The number of units financed increased from 4.77 lakhs as at the end of December 1977 to 5.58 lakhs at the end of December 1978. The share of small-scale industries in the total outstanding bank credit (excluding food procurement advances) was marginally higher at 14.9 per cent at the end of December 1978 as against 14.2 per cent at the end of December 1977. The average amount of credit sanctioned per unit went up slightly to Rs. 50 thousands from Rs. 48 thousands during the same period.

During the last three quarters of 1978, the outstanding credit extended by the State Bank Group to small-scale industries showed a net rise of Rs. 178.3 crores, as against a rise of Rs. 103.9 crores in the corresponding period of 1977. The share of State Bank Group's credit in the total outstanding bank credit to small-scale industries went up from 34.3 per cent to 35.6 per cent.

The credit extended by the 14 nationalised banks showed a larger increase of Rs. 201.5 crores in the period April-December 1978 as against a rise of Rs. 156.2 crores in the corresponding period of 1977. However, the share of the public sector banks in the total outstanding bank credit to small-scale industries declined marginally from 89.3 per cent to 88.5 per cent in line with a reduction in their shares in total bank credit. The share of other scheduled commercial banks in credit to small-scale industries increased from 10.7 per cent to 11.5 per cent.

Loans and Advances to Craftsmen and Other Qualified Entrepreneurs and Small Road and Water Transport Operators

Loans and advances sanctioned by scheduled commercial banks to craftsmen and other qualified entrepreneurs and to small road and water transport operators amounted to Rs. 116.3 crores (to 95 thousand units) and Rs 511.6 crores (to 235 thousand units), respectively as at the end of December 1978.

Table VIII.19: Advances by Scheduled Commercial Banks to Small-Scale Industries

(Rupees Crores)

Particulars as on the last Friday of	Number of Units				Limits in force				Balance outstanding			
	March 1978	December 1978	Increase (3-2)	Increase between March 1977 and December 1977	March 1978	December 1978	Increase (7-6)	Increase between March 1977 and December 1977	March 1978	December 1978	Increase (11-10)	Increase between March 1977 and December 1977
1	2	3	4	5	6	7	8	9	10	11	12	13
1. State Bank of India & its subsidiaries	244933	276906	31973	30782	742.7	926.9	184.2	79.3	589.7	768.0	178.3	103.9
2. 14 Nationalised Banks ..	237930	258175	20245	18046	1306.4	1509.8	203.4	121.4	938.3	1139.8	201.5	156.2
3. Other Scheduled Commercial Banks	16931	22575	5644	1705	253.2	329.0	75.8	28.3	174.6	248.5	73.9	35.8
Total	499794	557656	57862	50533	2302.3	2765.7	463.4	229.0	1702.6	2156.3	453.7	295.9
Term Loans (including instalment credits) for Small-Scale Industries												
All Scheduled Commercial Banks	96186	107567	11381	8201	337.5	424.5	87.0	44.8	291.2	359.9	68.7	40.0

Notes : 1. Data are provisional

2. Data on scheduled commercial banks' advances cover advances granted to small-scale industrial units and small road and water transport operators having their respective ceiling investment upto Rs. 10 lakhs.

The credit outstanding to craftsmen and other qualified entrepreneurs rose by Rs. 17.7 crores to Rs. 95.3 crores and to small road and water transport operators by Rs. 63.0 crores to Rs. 414.5 crores during the period April-December 1978.

Term Loans

Term loans (including instalment credits) sanctioned by scheduled commercial banks to small-scale industries during April-December 1978 recorded a rise of Rs. 87.0 crores to Rs. 424.5 crores at the end of December 1978 as against an increase of Rs. 44.8 crores during April-December 1977. The outstanding term loans increased substantially from Rs. 291.2 crores in March 1978 to Rs. 359.9 crores in December 1978 covering 107,567 units. The share of outstanding term loans in the total outstanding bank credit to small-scale industries, however, declined marginally from 17.1 per cent in December 1977 to 16.7 per cent at the end of December 1978. Term loans sanctioned by the State Bank Group and the 14 nationalised banks increased by Rs. 17.9 crores and Rs. 59.2 crores, respectively during April-December 1978, as against the increases of Rs. 14.2 crores and Rs. 24.7 crores, respectively during the corresponding period of 1977. The proportion of outstanding term loans of the 14 nationalised banks to their total outstanding credit to small-scale industries rose from 19.9 per cent in March 1978 to 20.4 per cent as at the end of December 1978.

Advances for Setting up of Industrial Estates

Credit limits of Rs. 29.9 crores were sanctioned to 261 units for setting up of industrial estates by 23 commercial banks, including 15 public sector banks and the credit outstanding in the relative accounts was Rs. 27.2 crores as on the last Friday of December 1978. During the period April-December 1978, the limits sanctioned and the amount outstanding rose by Rs. 2.6 crores and Rs. 4.8 crores, respectively.

IV(i) Credit Guarantee Scheme for Small-Scale Industries

During the financial year 1978-79, one scheduled bank, 41 unlicensed primary urban

co-operative banks, 3 Regional Rural Banks and 3 Industrial Development Corporations were added to the list of approved credit institutions under clause 2(c) of the Scheme. The total number of participating credit institutions stood at 291 at the end of March 1979.

The guarantees outstanding increased from Rs. 2,439.9 crores as at the end of March 1978 to Rs. 2,874.0 crores as at the end of March 1979. Since the inception of the Scheme upto the end of March 1979, claims numbering 4,553 for an aggregate amount of Rs. 4.9 crores were paid to the credit institutions.

As at the end of March 1979, accounts reported under default numbered 31,950 in respect of 22,443 units involving an aggregate amount of Rs. 150 crores, as against 26,794 accounts in respect of 18,926 units for Rs. 117 crores, a year ago. The amount of claims pending for settlement increased from Rs. 26.1 crores or 22.3 per cent of the total advances in default at the end of March 1978 to Rs. 37.1 crores or 24.7 per cent at the end of March 1979.

With a view to integrating all credit guarantee schemes under one organisation, the Government of India has constituted a Working Group to consider the modalities of transfer of the Credit Guarantee Scheme for small-scale industries to the Deposit Insurance and Credit Guarantee Corporation and other related issues.

(ii) The Deposit Insurance and Credit Guarantee Corporation

With the merger of the Credit Guarantee Corporation of India Ltd. (CGCI) in the Deposit Insurance Corporation (DIC) with effect from 15th July 1978, the deposit insurance and credit guarantee functions are performed by the new corporation, the Deposit Insurance and Credit Guarantee Corporation (DICGC). All the liabilities and assets of the CGCI, as also its rights and obligations, now rest in the DICGC. To enable the DICGC to meet the establishment and other expenses of the combined unit, its capital was increased from Rs. 2 crores to Rs. 10 crores after obtaining an additional contri-

bution of Rs. 8 crores from the Reserve Bank of India which is its sole shareholder.

Deposit Insurance Function

The number of insured commercial banks remained unchanged at 78, while the total number of insured Regional Rural Banks (RRBs) increased to 56 as on 30th June 1979. As regards co-operative banks, the Deposit Insurance Scheme was extended to the State of Orissa with effect from July 1, 1978 covering 27 eligible co-operative banks, and to the State of Uttar Pradesh with effect from January 1, 1979 covering 71 eligible co-operative banks. The total number of insured co-operative banks thus increased to 978 as at the end of June 1979. The Scheme covered at the end of June 1979 co-operative banks in 11 States and three Union Territories viz., Andhra Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tripura, Uttar Pradesh, West Bengal, Delhi, Goa, Daman and Diu and Pondicherry. Further, the Governments of Gujarat and Tamil Nadu have passed the legislation for enabling the Corporation to extend the Deposit Insurance Scheme to co-operative banks in these States.

The rate of insurance premium at 4 paise per hundred rupees per annum has remained unchanged. From January 1979, the periodicity of payment of insurance premium has been altered from quarterly to half yearly, with a view to reducing the work load on banks in compiling the necessary statements of insured deposits. The total assessable deposits of the banks at Rs. 21,659 crores as at the end of 1978 showed an increase of Rs. 1,767 crores over the year. The proportion of fully protected accounts to total deposit accounts and that of insured deposits to total assessable deposits remained at around 98.3 per cent and 71.0 per cent, respectively.

The total amount of claims paid or provided for by the DICGC since the inception of the DIC stood at Rs. 179.5 lakhs at the end of December 1978. These claims relate to 14 commercial banks and 6 co-operative banks. The DICGC has also received repayments to the extent of Rs. 72.7 lakhs, all in respect of commercial banks, with no repayments in respect of co-operative banks.

Credit Guarantee Function

After taking over all the rights and obligations of the CGCI, the DICGC is continuing the three credit guarantee schemes formulated and operated by the former viz., the Small Loans Guarantee Scheme, the Financial Corporations Guarantee Scheme and the Service Co-operative Societies Guarantee Scheme. The total advances covered by the three Schemes amounting at Rs. 1,716.25 crores at the end of December 1978, recorded a rise of 13.1 per cent over the year.

All the functioning commercial banks numbering 75, and 47 out of 49 RRBs participate in the Small Loans Guarantee Scheme, which alone accounts for 99.5 per cent of the total advances guaranteed by the DICGC. The number of institutions participating in the Financial Corporations Guarantee Scheme remained unchanged at 18. Sixty-one commercial banks, 24 RRBs and 30 co-operative banks have joined the Service Co-operative Societies Guarantee Scheme in which participation is open to all scheduled commercial banks, RRBs and all co-operative banks (other than primary co-operative banks) which are eligible for the deposit insurance cover.

Claims numbering 29,925 for Rs. 8.76 crores were received during 1978 as against 21,638 claims for Rs. 6.69 crores received in all the previous years. During January-April 1979, 12,314 claims for Rs. 3.86 crores were received. Of these, 5,514 claims have already been settled. The DICGC has taken several measures to meet the increasingly large number of claims. The scrutiny procedures and content have been considerably simplified, and a simpler claims format has been introduced since November 1978; an easier settlement procedure and a separate tabular form of claims format are also being introduced for claims of Rs. 1,000 or less. Of the total of 51,563 claims received upto the end of December 1978, 27,033 claims for Rs. 6.64 crores have been disposed of.

With the pronounced increase in the claims paid, the DICGC is devoting particular attention to verification of claim paid accounts and recovery of the amounts due from the

borrowers concerned. The DICGC realised a sum of Rs. 32.84 lakhs as its share of recoveries during 1978, as against an aggregate amount of Rs. 11.73 lakhs realised during all the previous years.

During the period under review, the following amendments were effected in these Schemes by the DICGC so as to enlarge the benefits for the small borrowers. With a view to facilitate liberal grant of rehabilitation finance to flood victims, the claim liability of the DICGC for overdue crop loans to borrowers affected by natural calamities, converted into term loans, has been raised from Rs. 5,000 to Rs. 7,500 so as to cover dues in respect of three agricultural seasons, commencing from 1977 *Kharif*, instead of two seasons as hitherto. This is in addition to the liability upto a maximum of Rs. 2,500 for the fresh crop loan that may be granted to the borrower. Further, in pursuance of the recommendation of the Working Group set up by the Government of India in regard to the operation of the Differential Rates of Interest Scheme, the guarantee cover of the DICGC has been enhanced from 75 per cent to 90 per cent of the amount in default in regard to advances granted under that Scheme on or after January 1, 1979. With effect from April 1979, the overall monetary ceilings under the Small Loans Guarantee Scheme on the DICGC's liability per borrower are applicable in relation to credit facilities granted to him by each bank instead of by the entire banking system. The rate of guarantee fee is $\frac{1}{2}\%$ per annum. However, in respect of Regional Rural Banks it was lowered from $\frac{1}{2}\%$ to $\frac{1}{4}\%$ per annum for a period of three years from July 1, 1979 or from the date of joining the Scheme by the Regional Rural Bank concerned, whichever is later, with a view of giving some relief to the Regional Rural Banks because of the special role assigned to them in providing credit to priority sectors in rural areas.

Credit extended to small-scale industries is presently covered by a separate guarantee scheme of the Government of India which is administered by the Reserve Bank of India. A proposal for the DICGC to undertake the credit guarantee function in respect of this sector also, is under consideration with

a view to integrating all credit guarantee schemes under one organisation.

V. Investment in Private Corporate Sector

Issues of letters of intent, industrial licences, foreign collaboration approvals and import licences to the private sector for capital goods and heavy electrical plants which may broadly reflect investment intentions of the private corporate sector, show a mixed trend. The number of letters of intent and industrial licences issued has been declining for the last few years (Table VIII-20). During 1978, this was considerably lower than that in 1977, but the decline largely reflect to raising of the exemption limit for industrial licensing from Rs. 1 crore to Rs. 3 crores with effect from April 1978. In the first half of 1979, while the number of letters of intent issued was higher at 194 as against 165 during the corresponding period of 1978, the number of industrial licences issued declined by 12 to 164. The number of foreign collaboration approvals, which was higher in 1978 than in 1977, declined by 25 to 108 in the first half of 1979 from 133 during January-June 1978. The value of import licences for capital goods and heavy electrical plants issued to the private sector, which had shown a rise of 22.3 per cent in 1977-78, recorded a further rise of 33.5 per cent at Rs. 227 crores during 1978-79 (Table VIII-21).

Table VIII.20: Trends in Issue of Letters of Intent, Industrial Licences and Foreign Collaboration Approvals

(In Numbers)					
Year		Letters of Intent	Indus- trial Licences	Foreign Colla- boration Approvals	
1		2	3	4	
1975	.. ..	962	1027	271	
1976	.. ..	547	662	277	
1977	.. ..	533	518	267	
1978	.. ..	440	348	307	
January-June					
1978	.. ..	165	176	133	
1979	.. ..	194	164	108	

Source : Ministry of Industry, Government of India.

Table VIII.21: Trends in Import Licences for Capital Goods/Heavy Electrical Plants

(Rupees Crores)

Year (April-March)	Value of Import Licences		
	Government	Private	Total (2+3)
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)
1978-79	334 (-5.1)	227 (+33.5)	561 (+7.5)

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—1978-79

Overall Trends

India's foreign trade during the financial year 1978-79 was marked by a near stagnation in the rate of growth of exports and continued upswing—albeit at a somewhat lower pace—in imports. According to the provisional data released by the DGCI & S for 1978-79, exports (including re-exports) amounted to Rs. 5,717 crores registering a growth of 5.8 per cent over the preceding year's level, as against an increase of 5.0 per cent in 1977-78 and that of 27.3 per cent in 1976-77, while imports amounted to Rs. 6,786 crores recording a rise of 12.6 per cent, as against an increase of 18.7 per cent in 1977-78 and a decline of 3.6 per cent in 1976-77. The trade deficit thus widened from Rs. 621 crores in 1977-78 to Rs. 1,069 crores in 1978-79.

Continued modest growth of output in the industrial countries as a group and the intensification of protectionist measures, among others, in the field of textiles, clothing and steel acted as major constraints to the expansion of India's exports in 1978-79. Further, the prices of primary commodities like tea, coffee and pepper, which contributed substantially to the growth in export values in 1977-78, declined sharply during the year. In addition, fluctuations of the US dollar on the international exchanges and its depreciation in relation to the Indian rupee held down the rupee values of exports during 1978-79. In these circumstances the export performance during the year cannot be considered altogether unsatisfactory in comparison with the growth of 16 per cent in world exports in the calendar year 1978.

Exports

Official commodity-wise data, which are available only upto September 1978, are pre-

sented in Table IX-1. But other information about major export items indicates that for the year as a whole exports of gems & jewellery, leather & leather manufactures, engineering goods, marine products, sugar, spices (other than pepper) and silver increased considerably during the year under review. Exports of gems & jewellery, one of the non-traditional growth items in recent years and which amounted to Rs. 287 crores in 1976-77 and Rs. 546 crores in 1977-78, are reported to have advanced further during 1978-79. Significant growth appears to have been recorded also by export of leather and leather manufactures. The Government took special measures to prop up their exports in the light of their decline in 1977-78. While determining export quotas during 1978-79, a deliberate shift was sought to be secured from exports of semi-finished hides and skins to exports of finished leather and leather manufactures. For increasing production of leather and manufacturing quality goods for export, import duties on items under OGL were reduced from 40 per cent to 25 per cent apart from allowing liberal imports of certain components/accessories. These measures together with a pick up in the external demand assisted the growth from the level of Rs. 273 crores in 1977-78. Exports of engineering goods* are estimated to have risen by about 10 per cent from Rs. 624 crores in 1977-78 to over Rs. 680 crores in 1978-79. Marine product exports which declined marginally from Rs. 181 crores in 1976-77 to Rs. 174 crores in 1977-78 are reported to have risen by about one-third during 1978-79, with Japan and the U.S.A. continuing to be the major buyers of Indian marine products. Sugar exports, which declined from a high of Rs. 475 crores in 1975-76 to Rs. 150 crores in 1976-77 and to a low of Rs. 19 crores in 1977-78 following slump in the international markets, recovered to about Rs. 142 crores

*Based on EEPC data.

in 1978-79, largely as a result of the increase in the quantum of exports with the State Trading Corporation exporting about 7.4 lakh tonnes of sugar during the year inclusive of the 6.5 lakh tonnes allotted under the International Sugar Agreement. Despite a slump in pepper exports following the increased production in Indonesia and Malaysia and the slackness in international demand, Indian exports of spices are estimated to have been larger in 1978-79 than those of Rs. 137 crores

in 1977-78 mainly because of the rise in exports of cardamom and chillies more than offsetting the fall in the exports of pepper. The off-take of chillies by South Korea is reported to have been significantly larger during the year. Exports of silver (bullion bar), which were banned effective February 20, 1979, also rose smartly to over Rs. 100 crores from about Rs. 75 crores in 1977-78 mainly due to the higher international prices during the year.

Table IX—1 India's Commodity-wise Exports

Commodities	(Rs. Crores)									
	1973-74	1974-75	1975-76	1976-77	1977-78	April-September		Increase (+) / Decrease (—) of Col. (7)		Actual Percentage
						1977	1978	(8) over	Col. (7)	
	1	2	3	4	5	6	7	8	9	10
A. Major Non-traditional Items										
Engineering goods	176	299	357	454	531	@	@	—	—	
Iron and steel	61	86	122	398	280	145	118	—27	—18.6	
Iron ore	133	160	214	238	241	105	88	—17	—16.2	
Chemicals and allied products ..	58	104	90	119	125	59	79	+20	+33.9	
Silver (bullion bar)	8	78	174	151	75	@	@	—	—	
Rice	8	21	13	6	11	3	19	+16	+533.3	
Total of 'A'	444	748	970	1366	1263					
B. Other Items										
Jute yarn and manufactures ..	227	296	252	201	243	106	110	+4	+3.7	
Cotton yarn and manufactures ..	251	233	225	362	263	@	@	—	—	
Tea	145	224	237	293	555	287	147	—140	—48.8	
Hides, skins, leather and leather goods including foot-wear ..	187	166	224	295	273	134	144	+10	+7.4	
Cashew kernels	74	118	97	106	150	106	40	—66	—62.3	
Oilcakes	171	96	86	224	133	95	24	—71	—74.7	
Pearls, precious and semi-precious stones unworked/worked ..	107	95	149	287	546	202	259	+57	+28.2	
Spices	55	61	72	75	137	49	37	—12	—24.5	
Fish and fish preparations ..	89	66	127	181	174	@	@	—	—	
Sugar	42	339	475	150	19	12	22	+10	+83.3	
Coffee	46	51	67	126	191	126	77	—49	—38.9	
Manganese ore	9	17	18	19	11	3	6	+3	+100.0	
Tobacco (unmanufactured) ..	68	80	93	97	113	87	39	—48	—55.2	
Cotton raw and waste	37	17	47	39	4	@	@	—	—	
Clothing	100	136	203	333	329	@	@	—	—	
Crude animal and vegetable materials (n.e.s.) £	75	117	88	110	129	55	47	—8	—14.6	
Total of 'B'	1683	2112	2460	2898	3270					
Total of (A+B)	2127	2860	3430	4264	4533					
Total (including others) ..	2523	3329	4036	5142	5374	2714*	2497*	—217	—8.0	

£Includes guar gum, lac, etc.

*Figures as published in the press note of September 1978.

@Comparable data not available in the Ministry of Commerce, Civil Supplies and Co-operation's Report.

Note: Subsequently, the aggregate exports have been revised to Rs. 4,043 crores for 1975-76, Rs. 5,146 crores for 1976-77 and Rs. 5,404 crores for 1977-78. Full commodity-wise details for these revised figures are not available.

Source: DGCI & S and Annual Report 1978-79 of the Ministry of Commerce, Civil Supplies and Co-operation.

On the other hand, exports of tea, coffee, cashew kernels and jute manufactures suffered sharp declines during the year. In the case of tea, world production during 1977 stood at 1,126 million kgs.—108 million kgs. more than in 1976 due to higher output of major producing countries like India, Sri Lanka and Africa. The improvement in the world supply resulted in the average price of Indian tea in the London market easing by about 44 pence to 111 pence per kg. Consequently, tea exports would amount to around Rs. 330 crores during 1978-79, substantially lower than those of Rs. 555 crores in 1977-78. As regards coffee, the world exportable surplus for the 1978-79 season also increased over the year by 5 million bags to 56.5 million bags. The larger world supply brought down the average price of coffee in the London market by £1,155 to £1,605 per tonne in 1978 from £2,760 during 1977. Exports of coffee would be lower by about one-fifth in 1978-79 than those of Rs. 191 crores in 1977-78 because of the fall in unit value. Cashew kernel exports, which were Rs. 150 crores in 1977-78, would be almost halved during 1978-79. Reduced off-take by the USSR on the one hand and the lower availability of raw nuts from the East African countries on the other are the major factors for the decline in the exports. Exports of jute manufactures would be a third lower than those of Rs. 243 crores in 1977-78 mainly as a result of the prolonged bargemen's strike in Calcutta and the jute mill workers' strike in the second half of the year.

Imports

The uptrend in imports registered during 1977-78 continued through 1978-79, largely reflecting the impact of import liberalisation which was initiated in 1976-77 and was carried further in the subsequent years*, in the context of the comfortable foreign exchange position. Aggregate imports which declined by 3.6 per cent to Rs. 5,074 crores in 1976-77, rose by Rs. 951 crores or by 18.7 per cent in 1977-78 and further by Rs. 761 crores or by 12.6 per cent to Rs. 6,786 crores in 1978-79. Major portion of the increase in imports in 1977-78 took place in the second half of the year, whereas during 1978-79 the

rise was more or less evenly distributed as between the two half years.

Commodity-wise details which are now available for the full year of 1977-78 and provisional figures of major items for the first half (April-September) of 1978-79 are set out in Table IX-2.

The overall increase of Rs. 951 crores during 1977-78 was shared by a number of items, but among these edible oils showed the largest increase. With a view to augmenting the domestic availability of this essential consumer item, 1.3 million tonnes of edible oils were imported at a value of Rs. 711 crores, an increase of Rs. 610 crores over the 1976-77 level. Other imports which recorded substantial increases during the year were: rough diamonds (Rs. 150 crores) required wholly to meet the growing demand of the exporters of gems and jewellery, P.O.L. items (Rs. 143 crores), chemicals (other than fertilisers) (Rs. 142 crores), machinery and transport equipment (Rs. 72 crores), fertilisers (Rs. 60 crores), iron and steel (Rs. 41 crores), non-ferrous metals (Rs. 34 crores) and paper and paper board and manufactures thereof (Rs. 20 crores). However, the increase under these items was partly offset by a decline of Rs. 724 crores under foodgrains, following the comfortable domestic stock position facilitated by the increase in production.

During the first half of 1978-79 (April-September 1978) also the increase in imports was shared by items that were required to support the export effort and strengthen the domestic production base. A sizeable increase of Rs. 85 crores in fertiliser imports vis-a-vis those in the corresponding half year of 1977-78 was brought about both by a doubling of the quantity imported from 6 lakh tonnes in April-September 1977 to 12 lakh tonnes in April-September 1978, and the hardening of the international prices of fertilisers. Good prospects for a substantial growth in exports of gems and jewellery assisted by the removal of import duty on rough diamonds led to higher imports of rough diamonds. An increase in domestic demand coupled with a sluggish domestic production resulted in large imports of steel during the period under review. The import bill for

*For details of the import policy, see page 255.

Table IX-2 :—India's Principal Imports

Commodities	(Rs. Crores)									
	1973-74	1974-75	1975-76	1976-77	1977-78	April-September		Increase (+)/Decrease(-) of		
						1977	1978	Col. 8 over Col. 7		
								Actual	Per-	
	1	2	3	4	5	6	7	8	9	centage 10
1. Food (excluding cashewnuts) ..	518	818	1429	956	232	@	@	—	—	
<i>Of which</i>										
Cereals and cereal preparations	473	764	1343	868	122	52	34	—18	—34.6	
2. Raw cotton	52	27	28	130	199	100	19	—81	—81.0	
3. Raw jute and waste	12	4	3	7	Neg.	Neg.	Neg.	—	—	
4. Cashewnuts	29	37	34	18	18	13	—	—13	—100.0	
5. Mineral oils	561	1157	1226	1413	1556	777	785	+8	+1.0	
<i>Of which</i>										
(a) Petroleum crude and partly refined	417	955	1052	1152	1235	@	@	—	—	
(b) Others	144	202	174	261	321	@	@	—	—	
6. Chemicals	357	731	760	443	645	@	@	—	—	
<i>Of which :</i>										
(a) Fertilizers manufactured ..	163	436	469	198	258	51	136	+85	+166.7	
(b) other chemicals	194	295	291	245	387	@	@	—	—	
7. Iron and steel	249	424	312	219	260	100	151	+51	+51.0	
8. Non-ferrous metals	140	179	100	157	191	66	93	+27	+40.9	
9. Crude rubber including synthetic and reclaimed	4	7	7	8	11	5	6	+1	+20.0	
10. Wool and other animal hair ..	21	27	26	28	30	@	@	—	—	
11. Edible oils	60	12	14	101	711	331	319	—12	—3.6	
12. Paper, paperboards and manufactures thereof	29	60	58	62	82	43	57	+14	+32.6	
13. Pearls, precious and semi-precious stones	74	53	84	181	331	150	205	+55	+36.7	
14. Machinery and transport equipment	652	696	935	1048	1120	500	559	+59	+11.8	
<i>Of which</i>										
(a) Machinery other than electric	427	404	577	720	705	348	354	+6	+1.7	
(b) Electrical machinery ..	130	161	201	157	183	76	58	—18	—23.7	
(c) Transport equipment ..	95	131	157	171	232	76	147	+71	+93.4	
15. Others	197	287	249	303	639	@	@	—	—	
Total	2955	4519	5265	5074	6025	2707	3085	+378	+14.0	

@ Comparable data not available in the Commerce Ministry's Report.

Source : DGCI&S and Annual Report, 1978-79 of the Ministry of Commerce, Civil Supplies and Co-operation.

POL items was modestly higher by Rs. 8 crores to Rs. 785 crores during the first half of the year.

For the year 1978-79 as a whole, the import programme is placed higher at 15 million tonnes of crude oil and 4.0 million tonnes of petroleum products, as against the actual imports of 14.4 million tonnes and 2.9 million tonnes, respectively, in 1977-78. Additionally, crude oil prices were also marked up by some 5% effective from January 1979 which would only affect those contracts concluded thereafter and imports made at the higher prices during the last quarter of the year. It would thus appear that imports of

POL items during 1978-79 would be higher by some 10 per cent than the preceding year's level of Rs. 1,556 crores.

The perceptible increase in imports of capital goods was largely accounted for by transport equipment, imports of which rose markedly by 93 per cent to Rs. 147 crores during the first half of 1978-79 over the corresponding period of last year. A wide range of industrial inputs such as chemicals, paper and newsprint, non-ferrous metals, medicinal and pharmaceutical products and cement also showed moderate increases. However, increase in imports under these items was to some extent offset by the decline under other

items. Imports of raw cotton were pruned down sharply from Rs. 100 crores in April-September 1977 to Rs. 19 crores in April-September 1978 following a significant improvement in domestic output. The import of edible oils amounted to Rs. 319 crores during April-September 1978 as against Rs. 331 crores in the corresponding period of 1977, and this decline reflected both a cut-back in the quantum imported and a fall in international prices.

Direction of Trade

On the basis of the country-wise details which are now available for the financial year

1977-78, the directional pattern of India's foreign trade by major groups of countries/regions during the year is set out in Table IX-3. The broad pattern of regional distribution of exports noticed during 1976-77 remained unchanged during 1977-78. In the case of imports, however, the European Common Market (ECM) countries which accounted for more than half of the overall increase of Rs. 951 crores in imports during the year under review, emerged as the largest suppliers replacing the Middle East countries.

The *ECM countries* continued to be the largest market for India's exports, though the relative share of the ECM countries declined

Table IX 3—Regional Pattern of India's Trade

Region	(Rs. Crores)								
	Exports			Imports			Trade Balance		
	1975-76	1976-77	1977-78	1975-76	1976-77	1977-78	1975-76	1976-77	1977-78
1. E.C.M.	853 (21.1)	1393 (27.1)	1390 (25.9)	1097 (20.8)	1008 (19.9)	1518 (25.2)	-244	+385	-128
2. North America	564 (14.0)	616 (12.0)	717 (13.3)	1517 (28.8)	1182 (23.3)	937 (15.6)	-953	-566	-220
3. Middle East Countries	697 (17.3)	803 (15.5)	755 (14.0)	1177 (22.4)	1327 (26.2)	1352 (22.4)	-480	-524	-597
4. E.S.C.A.P.	920 (22.8)	1103 (21.5)	1120 (20.8)	605 (11.5)	676 (13.3)	909 (15.1)	+315	+427	+211
5. East European Countries	689 (17.1)	790 (15.4)	930 (17.3)	577 (11.0)	497 (9.8)	644 (10.7)	+112	+293	+286
6. Africa	170 (4.2)	221 (4.3)	274 (5.1)	95 (1.8)	196 (3.9)	267 (4.4)	+75	+25	+7
7. E.F.T.A.	84 (2.1)	123 (2.4)	99 (1.8)	139 (2.6)	117 (2.3)	177 (2.9)	-55	+6	-78
8. Latin America	12 (0.3)	12 (0.2)	10 (0.3)	34 (0.6)	41 (0.8)	174 (2.9)	-22	-29	-164
9. Others	47 (1.2)	81 (1.6)	79 (1.5)	24 (0.5)	30 (0.6)	47 (0.8)	+23	+51	+32
TOTAL	4036 (100.0)	5142 (100.0)	5374 (100.0)	5265 (100.0)	5074 (100.0)	6025 (100.0)	-1229	+68	-651

Note: 1. Middle East Countries include Saudi Arabia, UAE, Arab Republic of Egypt, Bahrain, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Syria, Yemen Arab Republic, Yemen People's Republic.

2. ESCAP excludes Iran (Formosa & Democratic Republic of Vietnam except for the year 1975-76).

3. Africa excludes Arab Republic of Egypt.

4. Subsequently aggregate exports have been revised to Rs. 4043 crores for 1975-76, 5146 crores for 1976-77 and 5404 crores for 1977-78. Full region-wise details for these revised figures are not available. Figures in brackets represent percentage to totals.

Source : DGCI&S

from 27.1 per cent in 1976-77 to 25.9 per cent in 1977-78. Total exports to these countries at Rs. 1,390 crores in 1977-78 were almost unchanged over the year, in sharp contrast to the sizeable increase of Rs. 540 crores recorded in 1976-77. This stagnation in the offtake of Indian products by this group of countries reflected mainly the sharp decline in the exports of oilseeds and oil cakes, leather and leather goods and miscellaneous manufactured items, which was offset by larger exports of gems and jewellery, tea and coffee in particular. Total imports from the ECM countries increased sharply by Rs. 510 crores to Rs. 1,518 crores raising their share in India's total imports to over one-fourth from that of one-fifth in 1976-77. The increase in imports was accounted for by almost all the major items like capital goods, industrial inputs and rough diamonds.

In the case of *North America*, there was a marked increase of Rs. 101 crores in exports, which was wholly due to a rise of Rs. 105 crores to the USA since exports to Canada showed a decline of Rs. 4 crores. Higher exports of gems and jewellery and spices were responsible for the growth. The share of this region in India's exports declined from 14.0 per cent in 1975-76 to 12.0 per cent in 1976-77 but rose to 13.3 per cent in 1977-78. Imports from this region, which declined from Rs. 1,517 crores in 1975-76 to Rs. 1,182 crores in 1976-77, contracted further by Rs. 245 crores to Rs. 937 crores in 1977-78. In the result, the share of North America in India's imports declined from 28.8 per cent in 1975-76 to 23.3 per cent in 1976-77 and further to 15.6 per cent in 1977-78. This continuous decline emanated from the reduction in imports of foodgrains by Rs. 336 crores in 1976-77 and further by Rs. 552 crores in 1977-78.

The *ESCAP countries* continued to be India's second largest export market. However, the exports to these countries in 1977-78 remained almost at the preceding year's level as in the case of exports to the ECM countries, though they had increased by Rs. 183 crores to Rs. 1,103 crores in 1976-77. The share of these countries in India's exports declined from 21.5 per cent in 1976-77 to 20.8 per cent in 1977-78. Exports to Japan, which account for about half of the total exports to this re-

gion, declined during the year by Rs. 38 crores to Rs. 505 crores, in contrast to an increase of Rs. 111 crores recorded in the preceding year; exports of metallic ores (including iron ore) and marine products largely accounted for the decline. Aggregate imports from the ESCAP countries at Rs. 909 crores in 1977-78 were higher by Rs. 233 crores, as against an increase of Rs. 71 crores in the preceding year. The increase was shared by Japan (Rs. 130 crores) and Malaysia (Rs. 187 crores), reflecting larger imports of capital goods from the former and edible oil from the latter. However, imports from Australia dropped by Rs. 177 crores mainly on account of the reduction in imports of wheat.

The share of the *Middle East countries* in India's total exports declined for the second year in succession from 17.3 per cent in 1975-76 to 15.5 per cent in 1976-77 and further to 14.0 per cent in 1977-78. Exports to these countries which had risen by Rs. 106 crores in 1976-77 declined by Rs. 48 crores during 1977-78, mainly due to the fall in the off-take by Iran, Yemen Arab Republic and UAE. Commodity-wise, the decline in exports to this region was noticed under iron and steel, sugar, cotton textiles and cement. Imports from these countries mainly comprising crude oil and petroleum products increased by Rs. 150 crores in 1976-77 and further by Rs. 25 crores to Rs. 1,352 crores in 1977-78. Nevertheless, their relative share in the total imports dropped from 26.2 per cent in 1976-77 to 22.4 per cent in 1977-78.

Exports to *East European countries* recorded the largest increase of Rs. 140 crores and accounted for more than half of the increase in total exports during 1977-78. In the result their share in India's exports increased during the year to 17.3 per cent from 15.4 per cent in 1976-77. Exports to the USSR recorded a sharp rise of Rs. 203 crores which was mainly accounted for by cashew kernels, tea and coffee. Exports to Poland, on the other hand, were down by Rs. 51 crores due to the fall in the off-take of oilcakes, iron and steel and textiles. Aggregate imports from East European countries after declining by Rs. 80 crores in 1976-77 moved up by Rs. 147 crores to Rs. 644 crores

or 10.7 per cent of the total imports during the year. The increase reflected, among others, the larger supply of crude oil and petroleum products by the USSR.

The share of imports from *Latin America* in total imports rose from less than 1 per cent in 1976-77 to nearly 3 per cent in 1977-78. Imports went up from Rs. 41 crores in 1976-77 to Rs. 174 crores in 1977-78 mainly due to higher imports of soyabean oil from Brazil and rough diamonds from Argentina.

The relative shares of Africa and the EFTA countries in India's exports and imports remained almost unchanged over the year.

Import Licences during 1978-79

While liberalising the import policy for 1978-79, the licensing for imports was confined to the restricted items and at the same time the list of items for imports under OGL was considerably expanded. Reflecting this, the total value of import licences issued during the financial year 1978-79 amounted to Rs. 4,004 crores, as much as Rs. 3,402 crores lower than the value of Rs. 7,406 crores of licences issued during the preceding year during which a much larger list of items was subject to licensing (Table IX-4). Due to the narrowing down of the area of licensing control, the import licensing data for 1978-79 are not comparable with those for the earlier years when imports of most of the items were subject to such controls.

The Government sector and the private sector respectively accounted for Rs. 2,066 crores and Rs. 1,938 crores of the value of import licences issued during 1978-79. The relative share of the Government sector which declined from 68 per cent in 1976-77 to 63 per cent in 1977-78 dropped sharply to 52 per cent in 1978-79, while that of the private sector rose correspondingly from 32 per cent in 1976-77 to 48 per cent in 1978-79.

Category-wise, the Registered Exporters/Export Promotion Schemes accounted for the largest amount of Rs. 1,097 crores or 27 per cent of the total amount reflecting the thrust of the import policy in favour of stimulation of the country's export trade. The rela-

tive shares of other categories were : "Actual Users" (19 per cent), "Raw materials for Scheduled Industries" (18 per cent), "Capital Goods/Heavy Electrical Plants" (14 per cent) and "State Trading Agencies" (12 per cent).

Under the Government sector, about 58 per cent of the value of licences was accounted for by "Actual Users" and State Trading Agencies sharing between them Rs. 734 crores or 35 per cent and Rs. 470 crores or 23 per cent respectively. The bulk of the remaining amount under this sector was shared almost equally by Raw Materials (Rs. 381 crores or 18 per cent) and Capital Goods (Rs. 334 crores or 16 per cent). In the case of the private sector, "Registered Exporters/Export Promotion Schemes" accounted for Rs. 1,047 crores or 54 per cent of the total amount under this category, while Raw Materials accounted for Rs. 321 crores or 16 per cent and Capital Goods Rs. 227 crores or 11 per cent.

Developments in Foreign Trade Policy

India's foreign trade policy for 1978-79 was formulated in the light of the recommendations of the Alexander Panel providing for greater emphasis on augmentation of export earnings and liberalisation of imports. The main features of the policy in respect of exports and imports for 1978-79 are briefly indicated below :

Export Policy: 1978-79

With a view to enlarging export earnings, the policy was directed to step up exports of both primary products and non-traditional items with high export potential. In the case of the primary products, the main plank of the policy was to exercise control in such a way as to encourage exports without adversely affecting the domestic availability of those items which were in short supply. Accordingly, as stated earlier, exports of items which were restricted during 1977-78 were either allowed freely or upto a specified ceiling depending on the domestic supply position. At the same time, exports of items in short supply or of strategic importance were banned or subjected to quota restrictions. The fiscal instrument of export duty was operated either

Table IX 4—Issue of Import Licences — Sector-wise (1976-77 to 1978-79)

(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	1976-77	52	—	—	52	0.9
	1977-78	43	—	—	43	0.6
	1978-79	5	—	—	5	0.1
Actual Users (Non-DGTD Non-SSI)	1976-77	1404	499	8.4	905	15.3
	1977-78	802	762	10.3	40	0.5
	1978-79	780	734	18.3	46	1.2
Raw Materials for Scheduled Industries (DGTD units)	1976-77	547	267	4.5	280	4.7
	1977-78	671	326	4.4	345	4.7
	1978-79	702	381	9.5	321	8.0
Small Scale Industries	1976-77	107	—	—	107	1.8
	1977-78	108	—	—	108	1.5
	1978-79	185	—	—	185	4.6
Registered Exporters/Export Promotion Schemes	1976-77	417	27	0.4	390	6.6
	1977-78	741	25	0.3	716	9.7
	1978-79	1097	50	1.3	1047	26.2
Capital goods/Heavy electrical plants	1976-77	510	371	6.3	139	2.3
	1977-78	521	351	4.7	170	2.3
	1978-79	561	334	8.3	227	5.7
State Trading Agencies	1976-77	1571	1571	26.5	—	—
	1977-78	1670	1670	22.5	—	—
	1978-79	470	470	11.7	—	—
Others@	1976-77	1313	1265	21.4	48	0.8
	1977-78	2850	1539	20.8	1311	17.7
	1978-79	204	97	2.4	107	2.7
Total	1976-77	5921	4000	67.6	1921	32.4
	1977-78	7406	4673	63.1	2733	36.9
	1978-79	4004	2066	51.6	1938	48.4

@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', 'Newcomers', 'Sole Agents' and 'Co-operative Societies'.

Note: The figures for 1978-79 are not comparable with those for the earlier years because of the area of licensing being limited only to the restricted items consequent to the adoption of liberalised import policy for 1978-79. Further, during 1978-79 a large number of items were included under OGL list and the category of Established Importers was abolished.

Source: Chief Controller of Imports & Exports.

to increase the competitiveness of the items in the world market through reduction or abolition of duties as in the case of tea and pepper, or to enhance unit value realisation of exports by imposition or enhancement of duties on items, international prices of which spurted during the year as in the case of Bengal Deshi cotton, turmeric and cardamom (for details see Appendix I-B).

Various export promotion schemes such as cash compensatory support, duty drawback

scheme, duty drawback credit scheme, duty exemption scheme, concessional rates of interest on export credit and facilities for export houses which were introduced in the earlier years were continued during the year under review.

In view of the declining trend in the international prices, the export duty on tea was reduced from Rs. 5 per kg. to Rs. 2 per kg. in September 1978 and was subsequently abolished in February 1979, so as to provide

a competitive edge to Indian tea. It may be recalled that the export duty of Rs. 5 per kg. was imposed on loose tea in April 1977 in the wake of the boom in the international prices with a view to mopping up a part of the windfall profit accruing to the exporters. Similarly, the export duty of Rs. 1,250 per tonne on black pepper which was imposed in June 1966 was abolished in February 1979 in the context of the downtrend in the prices of black pepper and the slackness in external demand. The *ad volorem* duty of 20 per cent on steatite (talc) was abolished in January 1979. In line with the fluctuations in the international prices of coffee during the year, the rate of export duty was first reduced from Rs. 5 per kg. to Rs. 2 per kg. in July 1978, then stepped up to Rs. 4 per kg. in September 1978, and further to Rs. 7.50 per kg. in June 1979 and Rs. 9 per kg. in July 1979, before being reduced to Rs. 7.30 per kg. in August 1979. The export duty on Bengal Deshi cotton was enhanced from Rs. 700 per tonne to Rs. 2,500 per tonne in January 1979. Exports of turmeric which were banned earlier, were allowed to be resumed from June 1978. In January 1979, the export duty of Rs. 2,000 and Rs. 1,500 per tonne was imposed on whole turmeric and turmeric powder, respectively. The export duty on cardamom was raised from Rs. 10 per kg. to Rs. 15 per kg. with effect from August 24, 1979. The ban on exports of wheat seeds was lifted in May 1978, its export being allowed on the production of a quality control certificate issued by the National Seeds Corporation Ltd. Exports of wheat were banned in January 1979, and wheat products viz., maida, rawa, suji, resultant atta and wheat bran were allowed to be exported within a limited ceiling. The export of Basmati rice was allowed subject to a minimum export price. Meat, live buffaloes, live sheep and goats were also allowed to be exported within a limited ceiling and subject to floor prices. Exports of certain products like sesame seeds and niger seeds were canalised through the National Agricultural Co-operative Marketing Federation of India Ltd. (NAFED). The export of de-oiled groundnut cake (extractions) was canalised through the State Trading Corporation in January 1979 while time limit upto March 31, 1979 was given to the Groundnut Extractions Exports Development

Association (GEEDA) for shipments under the export quota allotted for the year 1978 (for details, please see Appendix I-A).

In the case of non-traditional items, the focus of the export policy continued to be on the diversification of the export product-mix so as to step up the value added and also diversification of the markets. Towards these ends several measures were taken during the year under review.

With a view to providing an additional incentive to exporters of gems and jewellery, the Government introduced a new scheme for exporting gold jewellery in August 1978. Under the scheme, the exporters would get replenishment of the gold content of the jewellery at international prices provided the minimum value added was $33\frac{1}{3}$ per cent (subsequently reduced to 20 per cent in November 1978) over the value of the pure gold content. Replenishment of gold content was limited to jewellery made of gold of a purity not less than 0.5833 fineness and would not include studded jewellery. The State Bank of India has been authorised to replenish the gold content under this scheme.

The export of silver bullion, silver sheets and plates was banned in February 1979 with a view to conserve the available stock of this strategic metal. It may be recalled that in February 1974 when the international silver prices were ruling high, the export of silver was permitted under certain conditions in the context of the precarious position of the country's foreign exchange reserves.

The ban on export of soft cotton waste and yellow pickings was lifted in November 1978 and their export allowed within a limited ceiling.

With a view to boost the exports of leather and leather manufactures, a shift in favour of finished leather and leather manufactures was sought to be secured while allocating export quotas and the import duty on certain items of machinery required for leather industry was reduced from 40 per cent to 25 per cent.

In order to enable exporters to plan their export effort on a long-term basis, the Govern-

ment announced the rates of cash assistance to remain valid for a minimum period of 3 years, i.e., from 1979-80 to 1981-82. Some of the major commodity groups which were covered under this long-term scheme are marine products, processed food items, leather and leather goods, engineering goods, sports goods, plastic items, silk and rayon textiles, handicrafts, woollen items, coir products and chemicals. The rates of assistance applicable to these items ranged from 5 per cent to 20 per cent. During the year certain changes were also effected in the rates of cash assistance applicable to a number of items. Thus, the rates on frozen tuna and goat hair patties were increased from 5 per cent to 10 per cent, while those on walnut-in-shell and processed foods (containing not less than 15 per cent proteins) were reduced to 5 per cent each from 15 per cent and 10 per cent, respectively, in 1977-78.

In order to encourage smaller exporters to avail themselves of blanket permit facilities for travel abroad for export promotion, the Reserve Bank reduced the current minimum annual export turnover limits for issue of blanket exchange permits from Rs. 15 lakhs to Rs. 10 lakhs for 'select list' goods, i.e., non-traditional goods, and from Rs. 75 lakhs to Rs. 50 lakhs for other goods. Besides, construction companies and firms were made eligible to obtain blanket exchange facility if their net annual foreign exchange repatriation from overseas contracts was not less than Rs. 10 lakhs. Further, the Reserve Bank raised the minimum foreign exchange allotment to exporters under the blanket permit scheme from Rs. 40,000 to Rs. 75,000. The blanket exchange permit facility given to exporters was also liberalised in that travel could be undertaken for other business purposes, besides export promotion purpose, such as exploring possibilities of technical/financial collaboration, import of equipment/machinery and following up of disputes/arbitration connected with outstanding export bills.

Although the concessional rate of interest on export credits remained unchanged, the maximum post-shipment credit period for which the concessional rate of interest of 11 per cent is charged, was raised from 128

days to 180 days with effect from February 1979.

Import Policy : 1978-79

Import procedures were streamlined by reducing the number of licensing categories and abolition of the category of Established Importers. The coverage of imports under Open General Licence (OGL) was expanded. The area of licensing control was minimised by providing separate lists of "banned" and "restricted" items. Imports of all items outside the banned and restricted lists were allowed freely. Fourteen identified industries were allowed to import capital goods on a global basis. Capital goods under OGL were increased to 253 and the number of canalised items of imports was trimmed by 53. With a view to expediting the disposal of import licence applications, a larger measure of decentralisation was effected by enlarging the powers of regional licensing authorities.

Actual Users (Industrial) were allowed to import all their requirements either under OGL, automatic and supplementary licences, or through allotments from canalising agencies. Actual Users (Non-industrial) could import their requirements — both permissible and non-permissible—under OGL subject to Actual Users' condition being satisfied.

In order to encourage small scale units, the import of items manufactured by them was banned. Their capital goods requirements were permitted wholly against free foreign exchange. While small units in general were given entitlements at concessional prices of the raw materials imported by canalising agencies, small units in backward areas were permitted to hold larger inventories of such raw materials. Small units were also allowed to form consortia with a view to enabling the grant of Export House certificate to them, provided they undertook to increase their exports by Rs. 5 lakhs each year over and above the base figure of Rs. 10 lakhs.

Policy in respect of Registered Exporters was revamped in order to promote exports. To ensure uninterrupted production for export, Registered Exporters were given an advance licence facility (for details refer to pages

236-238 and Appendix II-B of last year's Report).

Foreign Trade Policy : 1979-80

The foreign trade policy for 1979-80 announced on May 3, 1979 maintained the basic framework enunciated in April 1978. The process of liberalisation has been carried further in the policy for 1979-80. The accent, however, continues to be on stimulation of the export efforts and strengthening of the production base of the economy, while providing legitimate and adequate safeguards to domestic industries.

Export Policy

Export policy aims at promoting exports and simultaneously ensuring that domestic supplies are not adversely affected. The items on which export control is exercised cannot be shipped without an export licence, whereas other goods continue to be exported freely.

Import Policy

In order to stimulate export efforts of the predominantly export oriented units, the scheme for imports of essential inputs required by these units has been modified and made broadbased. Project exports have been treated, for the first time, as a separate category and a number of incentives provided to stimulate their exports.

Provision has been made to allow the agents to open letters of credit and make remittances to foreign suppliers on behalf of certain categories of Actual Users. Imports of samples have been considerably liberalised by raising the value limit from Rs. 10,000 to Rs. 20,000. The number of items permitted to be imported under OGL has been increased from 534 in 1978-79 to 702 in 1979-80. The policy in respect of automatic licences has been streamlined to encourage the growth of small scale units and also to induce Actual Users (Industrial) to export at least a part of their production. Actual Users (Industrial) have also been made eligible for supplementary licences upto 50 per cent of the value of their automatic licences provided the f.o.b. value of registered exports in respect of selected

items in 1978-79 was at least 50 per cent of the book value of the production in the same period. They may also import directly certain canalised items for use in export production.

New units coming into existence during 1979-80 will be eligible to get licences for their twelve months' requirements as before in respect of certain items. The maximum value of such licences in the case of small units remains unchanged at Rs. 3 lakhs. When the import of a banned item is necessary to launch the new unit, its import would be allowed provided its value does not exceed 10 per cent of the total value of the licence, and within this limit, a single item does not cost more than Rs. 50,000. In the case of graduates/diploma holders in professional subjects or ex-servicemen/persons belonging to scheduled castes and tribes setting up new units in backward areas, the maximum value of licences shall be Rs. 5 lakhs. Actual Users (Non-industrial) would be permitted to import their requirements under OGL subject to Actual Users' conditions being satisfied. Within certain specified limits, they will also be allowed to import non-permissible spares.

The facility of allowing fourteen identified industries to invite global tenders for their requirements of capital goods irrespective of their indigenous availability is continued. Pending the recommendations of a committee appointed by the Government in December 1978 to review the role and working of the export houses, it has been decided that export products carrying import replenishment rates of more than 50 per cent will not qualify for grant of additional licences to eligible export houses. The limit of Rs. 2 lakhs per item to be imported against additional licences granted to an export house may be raised to Rs. 5 lakhs on request, provided such imports are needed for the manufacture of the export product. Registered Exporters will continue to have the facility of getting import replenishment licences against export items. The procedure for the issue of REP licences to Registered Exporters against exports covered by the Simplified Payment Scheme in respect of Cash Compensatory Support has been simplified in order to avoid delays in the issue of such licences.

The Duty Exemption Scheme (DES) has been made more comprehensive in respect of both export products and raw materials and components. Benefits under DES will now be available for all the imported items provided a minimum value added of 25 per cent is available and the customs duty payable is at least 5 per cent of the f.o.b. value of the product exported. The list of capital goods permitted to be imported under OGL has been enlarged from 252 in 1978-79 to 385 in 1979-80. The policy concerning the import of precision instruments has been rationalised; a clear distinction is now drawn between scientific and measuring instruments, and others such as raw materials, components and tools. The import of some of the precision, scientific and measuring instruments is banned, and some others are allowed upto the extent of $\frac{1}{4}$ per cent of the capital goods installed or in use subject to certain conditions being satisfied.

Actual Users who place orders with indigenous manufacturers of capital goods for at least 90 per cent of their machinery requirements, will be allowed to import the remaining 10 per cent subject to a maximum of Rs. 1 crore without any other pre-conditions. Capital goods licences issued to major projects will be valid even for imports of items not covered by the licence if such items are required for the expeditious completion of the project in the last phase, provided such imports do not exceed 5 per cent of the value of the licence subject to a maximum of Rs. 25 lakhs.

In view of the growing importance of project exports, various types of project exports have been identified for the first time in the new policy. For a quick clearance of proposals for turnkey projects, as also supply of equipment on deferred payment terms, a working group of financial institutions has been set up in the Industrial Development Bank of India (IDBI). Project contractors may buy equipment required for the execution of the projects either from the project country or from any third country. Used equipment is allowed to be re-imported into India after the completion of the project.

Imports of aluminium, natural rubber and cement (including clinker) have been canalised

through public sector agencies. A few items of chemicals and drugs have also been added to the list of canalised items.

Indians returning from abroad to settle at home will be allowed to import capital goods upto Rs. 25 lakhs without indigenous clearance out of their own foreign exchange savings. They will also be allowed to import raw materials and components for meeting one year's requirements, upto a maximum of Rs. 5 lakhs. Import of second-hand capital goods will be permitted if the value of the new machine of more or less the same type and specification is not more than Rs. 25 lakhs.

Specialised Foreign Trade Agencies

The State Trading Corporation of India (STC)

During the year under review, the total trade turnover (exports, imports and inland trade) of the State Trading Corporation of India increased by Rs. 69 crores or by 6.4 per cent to Rs. 1,139 crores from the previous year's level of Rs. 1,070 crores. While there was an increase of 8.1 per cent in exports from Rs. 557 crores to Rs. 602 crores, imports showed a smaller rise of 4.6 per cent to Rs. 525 crores. Nearly two-thirds of the exports were accounted for by the canalised items; these increased by Rs. 87 crores to Rs. 407 crores, whereas exports of non-canalised items declined by Rs. 42 crores. Sugar, silver, castor oil and shellac more than made up the fall arising from the restrictions on exports of items like cement, salt, rubber and semi-processed leather and from decanalisation of exports of basmati rice and footwear. The Corporation exported 7.4 lakh tonnes of sugar during the year valued at about Rs. 142 crores, inclusive of the 6.5 lakh tonnes exported under the International Sugar Agreement; in the preceding year, its sugar exports were a mere Rs. 19 crores. Exports of silver rose by about one-fourth to over Rs. 100 crores* and those of castor oil and extractions by about two-thirds to Rs. 35 crores. Among noncanalised items exports of coffee declined due to a sharp fall in international prices despite an increase of 12 per cent in volume.

*The export of silver was banned effective February 20, 1979.

Exports of jute goods were lower on account of the prolonged strike at Calcutta port by bargemen and port workers and the strike in jute mills. Exports of other non-canalised items increased to Rs. 90 crores from Rs. 76 crores in the preceding year. The Corporation was successful in finding markets for new products such as window sections and hand tools in Iraq, fishing hooks in Hungary, roofing tiles in Sri Lanka, coir blanks in Nepal, boxing gloves in France, garlic flakes in Japan, sorghum seeds in Vietnam, natural stones in Australia, wooden knife handles in New Zealand and cattle feed in Syria. For the first time, new varieties of rice (other than basmati rice) were shipped to Singapore and Aden during the year under review. Also, new markets were found for products like instant coffee (U.K.), gramophone records (Saudi Arabia), walnut kernels (Kuwait and Australia), curry powder and finished leather (Hong Kong), sliced pineapple (Yemen and Hong Kong), mango pulp (Yemen), mango juice (Djibouti), and peanuts (Iraq).

In order to enlarge the supply base and improve the quality of products manufactured by the small scale units, the STC extended its support for product design and development, technical and quality control assistance and for supply of raw materials needed by them. Collaboration arrangements were made with foreign buyers for providing technological development to the small scale sector; these covered development of rugby balls for the Australian market, shoe uppers for the Hungarian market, and rosewood furniture for the Russian, Italian and Danish markets. The Corporation continued its direct trading in products like castor oil and tobacco with a view to assisting primary/small-scale producers. The Corporation engaged five top Italian designers to guide and advise Indian designers in designing high fashion leather garment models acceptable to sophisticated developed markets.

The value of imports handled by the STC rose over the year modestly from Rs. 502 crores to Rs. 525 crores. Edible oils, newsprint, cement and rubber were imported in large volumes to meet the domestic shortages and maintain the prices at reasonable levels. The Corporation maintained supplies of edible oils both to the vanaspati industry and for

direct consumption at prices which were kept constant for a long time. Moreover, to ensure a regular flow of oil to the consumers, storage facilities were further expanded besides opening new distribution centres nearer the consuming centres. These steps helped stabilise the vanaspati and other edible oil prices. Newsprint imports reached a record level of 2.5 lakh tonnes (Rs. 90 crores) as against 1.8 lakh tonnes (Rs. 70 crores) during 1977-78. To meet the acute domestic shortage, the Corporation imported 1.7 million tonnes of cement valued at about Rs. 53 crores, and 14 thousand tonnes of natural rubber valued at Rs. 24 crores.

In addition to continuing its price support policy in respect of seedlac, the STC entered into price support operation for tobacco in 1978 to stabilise domestic prices that were fluctuating due to overproduction.

The State Chemicals and Pharmaceuticals Corporation of India (CPC)

The State Chemicals and Pharmaceuticals Corporation (CPC) was incorporated in January 1976 as a fully owned subsidiary of the STC by transferring in April 1976 the activities of the erstwhile Chemicals, Drugs and Pharmaceuticals Division of the STC. During 1978-79, imports made by the CPC were Rs. 100 crores, 13 per cent lower than those of Rs. 115 crores in 1977-78. The fall in the imports partly reflected the decanalisation, effective April 3, 1978, of 53 items which contributed Rs. 53 crores to the imports in 1977-78.

At Rs. 7 crores, the exports of the CPC during 1978-79 were about the same as in the preceding year. The export level was maintained despite the non-availability of exportable surplus for items such as gum rosin and bitumen, and the sharp drop in exports of detergents resulting from world-wide shortage of a key raw material; the exports of these items were about Rs. 3.6 crores during 1977-78. New items of exports and new markets developed during the year included Xanthotoxin to USA, Sulphadimidine to Italy, Red Phosphorous to Iraq, Urea Formaldehyde Glue to Sri Lanka, and Calcium Metasilicate to West Germany.

The Cashew Corporation of India (CCI)

The Cashew Corporation of India (CCI) incorporated in August 1970 as a wholly owned subsidiary of the STC, was established with a view, among others, to ensuring uninterrupted supplies of imported raw cashew-nuts at fair prices to the export-oriented units in the country. Import of raw nuts was canalised through the CCI from September 1, 1970.

During 1978-79 supplies of imported raw cashew continued to be critical. Mozambique had no exportable surplus for the third year in succession and Kenya could not supply any quantities for the second successive season. Adverse climatic conditions and ecological factors resulted in a setback to the production in Tanzania. An important development during the year was the conclusion of a contract in December 1978 with CATA Tanzania for the first time for supply of their entire exportable surplus of raw cashewnuts from the 1978-79 season. It is expected that a minimum guaranteed shipment of 30,000 mt would be forthcoming during this season and a likely shipment of more than 40,000 mt in future. In fact, part of the supplies against this contract helped to ease the supply position during the financial year 1978-79. The CCI also initiated various measures to tap and develop non-traditional sources of supply of raw nuts, particularly from West Africa. At the same time, it developed and implemented a market strategy by taking a more active and leading role in the country's export effort, particularly in the largest consuming market in the world, namely, the USA. Exports made by the CCI during 1978-79 were Rs. 8 crores as compared with Rs. 4 crores in the preceding year, while imports of raw nuts were Rs. 9 crores as against Rs. 22 crores in 1977-78. The CCI concluded export contracts worth Rs. 11 crores during the year, a record since its inception in 1970. These included contracts of over Rs. 7 crores for exports to the USA market in the face of slack demand.

The Projects and Equipment Corporation (PEC)

The Projects and Equipment Corporation (PEC) incorporated in April 1971 as a Government Company, is a subsidiary of the STC,

with complete autonomy in its marketing and commercial operations. It took over from the STC the latter's Engineering and Railway Equipment Division dealing with the export and import of engineering products including railway equipment.

The exports of the PEC comprised, by and large, capital equipment (railway equipment and engineering equipment) and turnkey projects. Exports during 1978-79 aggregated Rs. 27 crores as compared with those of Rs. 33 crores in the preceding year. Imports amounted to about Rs. 10 crores as against Rs. 5.6 crores in 1977-78. The export order secured by the PEC during 1978-79 amounted to Rs. 66 crores.

The Handicrafts and Handlooms Exports Corporation of India (HHEC)

The Handicrafts and Handlooms Exports Corporation of India (HHEC) came into existence in June 1962 as a fully owned subsidiary of the STC. It undertakes export of handicrafts and handloom goods, besides canalised export of woollen/blended knitwear and goat-hair patties.*

During 1978-79 the turnover of the HHEC (including a small amount of domestic trade) was lower at Rs. 39 crores than that of Rs. 58 crores in 1977-78. Development of new markets and products has received significant attention of the HHEC. Closer collaboration with some departmental stores in West Germany and Switzerland has resulted in developing new qualities of carpets, lamb wool sweaters and shetland sweaters. By maintaining a number of warehouses abroad, the HHEC has helped in ensuring regular supplies to the markets abroad. With the decanalisation during 1978-79 of woollen knitwear and goat hair patties, the HHEC has initiated steps to diversify exports by developing several new items and hitherto unexplored markets. The HHEC finalised a new project, 'Module Project', under which the export of tiles in various materials like brass-inlay wood, mother-of-pearl inlaid wood, papier mache, trellis-work, etc. would be taken up.

*Decanalised during 1978-79.

A fully owned subsidiary of the HHEC is the Central Cottage Industries Corporation of India (CCIC) whose total turnover at Rs. 5 crores during 1978-79 remained more or less unchanged from that in 1977-78. Of the total turnover during 1978-79, exports accounted for Rs. 57 lakhs, Rs. 18 lakhs lower than in the preceding year.

Taking the STC and its subsidiaries together, exports aggregated Rs. 683 crores and imports Rs. 644 crores during 1978-79. The group's exports showed a rise of only 3.6 per cent over the exports in the preceding year, and their share in the country's total exports eased from 12.2 per cent in 1977-78 to 11.9 per cent during 1978-79. The group's imports remained unchanged at the last year's level, and their share in the country's total imports declined from 10.7 per cent in 1977-78 to 9.5 per cent in 1978-79.

The Minerals and Metals Trading Corporation (MMTC)

The total trade turnover (including domestic trade) of the Minerals and Metals Trading Corporation (MMTC) amounted to about Rs. 1,163 crores during 1978-79 which was some 24 per cent higher than that of Rs. 939 crores during 1977-78. Imports comprising mainly fertilizers, non-ferrous metals, stainless steel, industrial raw materials went up over the year by 31 per cent, from Rs. 558 crores to Rs. 732 crores, and accounted for about three-fifths of the Corporation's trade turnover in 1978-79.

Iron ore, manganese ore and coal were the principal exports of the MMTC. A quantity of 13.6 million tonnes of iron ore, valued at Rs. 163.2 crores, was exported during 1978-79 as compared with 12.3 million tonnes worth Rs. 162.4 crores in 1977-78. Iron ore exports in volume terms went up over the year by about 11 per cent mainly due to larger off-take by Rumania and South Korea and partly because of the development of new markets such as China and Abu Dhabi; but in value terms the rise was only nominal following the decline in international prices induced by the continuing recession in the world steel industry.

Exports of manganese ore went up over the year from 0.55 million tonnes valued at

Rs. 13.1 crores to 0.67 million tonnes valued at Rs. 16.4 crores. On the other hand, exports of coal during 1978-79 stood lower at 0.25 million tonnes valued at Rs. 5.3 crores, as compared with 0.61 million tonnes worth Rs. 12.5 crores in the preceding year. The cut-back in coal exports was the combined result of a series of factors such as a drop in coal production consequent upon the inundation of several collieries due to floods in West Bengal, transport bottlenecks and increased domestic demand. Exports of chrome ore and concentrates were canalised through the MMTC since August 1978 and the Corporation entered into contracts for 1.65 lakh tonnes for export to different destinations by end-March 1979. The Corporation also made a beginning in exporting finished products made out of imported raw materials such as copper, zinc, stainless steel, etc. supplied by the Corporation.

The Mica Trading Corporation of India (MITCO)

The Mica Trading Corporation was formed to handle exports of mica which until January 1972 were canalised through the MMTC. It started functioning from June 1974. During 1978-79, the MITCO exported about 14.7 thousand tonnes of mica valued at Rs. 19.4 crores as against the exports of about 15.7 thousand tonnes worth Rs. 19.2 crores during the preceding year. With a view to diversifying the mica industry and trade, the MITCO has proposals on hand to set up plants for the manufacture of micronised mica powder, wet ground mica powder and mica paper and paper-based products.

The Tea Trading Corporation of India (TTCI)

The Tea Trading Corporation of India was incorporated as a Central Government undertaking in December 1971 with the primary object of exporting value added tea. It also undertakes domestic sales and operates some tea gardens and tea warehouses. The domestic trade includes supplies to defence services and a few other Government Undertakings/Departments. The total turnover of the TTCI during 1978-79 is estimated at around Rs. 20 crores as compared to Rs. 13 crores during the preceding year. Exports

of the TTCI during the first ten months (April-January) of 1978-79 amounted to about Rs. 11 crores, as compared with exports of Rs. 8 crores during the whole of 1977-78. In order to make tea available to the domestic consumers at reasonable prices, it had increased its outlets from a little over 100 to 255 by the end of 1978 and its turnover in the internal market is placed around Rs. 4 crores.

The Trade Development Authority (TDA)

The TDA, set up in July 1970 to act as a catalyst between the Indian exporters and the foreign buyers in target markets, provides intensive export services to its exporting members right from the stage of intention to the actual export so as to enable them to execute the export orders effectively. The TDA, essentially a service organisation, adopts a micro-approach aiming at specific clients, and focusses on specific products and specific buyers. During 1978-79, the new markets were identified in the South-East Asia and the Middle East such as ASEAN (Thailand, Indonesia, Singapore, Malaysia and Philippines), Hong Kong, South Korea, Saudi Arabia, Iran, Kuwait and Iraq. The focus during the year was on the involvement of the small scale units to promote their exports. New products added to the list during the year were : mechanical handling equipment, telecommunication equipment, pumps and centrifuges, tubes, pipes of iron and steel, heating and cooling equipment, householdware including kitchenware, garden tools, garden furniture, basketry, gloves, carpets, scooters and mopeds.

Prompted by the success of earlier Buyer-Seller Meets, the TDA organised similar meets in Cologne and Copenhagen in Europe which were visited by over 3,800 buyers from all over the Western Europe. Orders worth Rs. 76 million were booked and firm enquiries worth over Rs. 250 million were received. The TDA also continued its India Promotion Campaigns in collaboration with the foreign Departmental Stores. It participated in the trade fairs of Automechanica, Frankfurt and Electronica, Munich at which enquiries worth Rs. 81 million and orders worth Rs. 84 million were received. In order to strengthen the

market thrust in Japan, the TDA organised an India Garment Fair and realised on-the-spot orders for Rs. 14 million.

The TDA continued to pay attention to product adaptation and development. Over 50 different samples of industrial fasteners, hand cutting tools, industrial and fashion gloves, electronic assemblies, scientific instruments, bicycle parts, castings and forgings were obtained from the overseas sources for product development and adaptation. Under the TDA/SIDA (Swedish International Development Agency) bilateral project on Export Development and Product Adaptation, two seminars and one training course on preventive maintenance were organised during 1978 with a view to acquainting Indian manufacturers with the techniques being adopted by developed countries. The second phase of this project which commenced in July 1978, covered such products as industrial fasteners, builders' hardware, sports goods, hand (small and cutting) tools, and home furnishing including carpets and jewellery. In order to give a boost to electronics exports, the TDA arranged for the appointment of CIL Bangalore as an Indian counterpart of the Swedish Military Electronics Laboratory (FTL, Stockholm) for the purpose of certifying the quality of Indian electronic components and equipment, thus obviating the necessity of sending samples to Stockholm for certification.

Under its Package Servicing Plan, the TDA continued to assist Indian entrepreneurs in creating new capacity, procuring import licences, importing samples and test equipment, and getting technical assistance for upgradation of quality. It assisted a number of clients for procuring advance import licences. The value of raw materials imported against these licences was about Rs. 1.2 crores against an expected export of Rs. 3 crores. Besides, 24 applications were sponsored for priority allocation of steel materials to TDA clients for the manufacture of industrial fasteners, bicycle components, automobile ancillaries, hand tools etc.; the value of overseas orders to be processed against these allotments was over Rs. 3 crores. Twenty-six proposals for business collaboration were sponsored by the foreign offices of the TDA; these re-

lated to transfer of know-how, transfer of plant, setting up of export oriented projects and sub-contracting for products like motorised bi-wheeler, country car, meat processing and poultry farming, co-axial micro-wave switches, electronic components, etc.

During the year, the TDA enrolled 74 new clients while 69 clients were de-enrolled. The total number of clients at the end of March 1979 stood at 630, of which 425 or about two-thirds were small scale units. About 1,036 new associate members were enrolled during the year, bringing the total associate membership to 1,330. With a view to extending its services to small scale and rural units more effectively, the TDA introduced a new scheme of enrolling consortia of small scale units; two such consortia were registered with TDA during the year 1978-79.

The Electronic Export Processing Zone (EEPZ), Santacruz, Bombay

The Electronic Export Processing Zone continued to show further improvement in its production and export performance. The total value of exports from the EEPZ during the year 1978 went up by Rs. 1.5 crores to Rs. 5.6 crores.

During 1978, 41 applications were approved for setting up units in the EEPZ, as against 36 in the previous year. As at the end of 1978, there were 26 units in production in the EEPZ. The units in the EEPZ continued to produce 100 per cent export oriented electronic equipments, components and consumable items such as radio, T. V. sets, integrated circuits, hybrid micro circuits, a wide range of semi-conductors, remote control X-ray equipment, etc., during the year.

The Kandla Free Trade Zone (KFTZ)

Sustained and concerted efforts made by the Government resulted in the steady progress of the Kandla Free Trade Zone (KFTZ), India's first and to-date the only multi-product export processing zone. Total exports from the KFTZ during the calendar year 1978 amounted to Rs. 6.0 crores, an increase of 35 per cent over the previous year's level of Rs. 4.4 crores.

Incentives and facilities extended by the Government to the KFTZ during the year include introduction of OGL for import of capital goods, raw materials, components, spares, consumables, packaging materials, tools, jigs, fixtures and gauges, concessional finance at a low rate of interest of 6.25 per cent upto Rs. 5 lakhs and 7.75 per cent above Rs. 5 lakhs; and exemption from Gujarat Sales Tax on sales made within the zone. The Gujarat Housing Board has also allotted 92 tenements to the industrialists for catering to the needs of the KFTZ. The number of units in the KFTZ went up by 6 to 39 during the year and the number of industrial sheds rose to 80 from 64. Besides, construction of 36 more sheds is in progress and tenders have been invited for 12 more sheds.

Trade Agreements and Economic Co-operation with other countries

Trade agreements and trade and payments arrangements remained an integral part of India's foreign trade with other countries. The emphasis continues to be on switching over to convertible currency arrangements from the non-convertible rupee payment arrangements. The agreements concluded during 1978-79 with various countries reflected relatively greater emphasis on expanding the production base, collaborative arrangements in production and marketing, and setting up of joint ventures in third countries.

Trade Agreements and Trade & Payments Arrangements

During the financial year 1978-79 (April-March), India concluded fresh trade agreements with Afghanistan, Bulgaria, Indonesia, Libya and the Syrian Arab Republic. Besides, protocols of annual trade plans for 1979 were signed with Czechoslovakia, the German Democratic Republic and Rumania in terms of the existing long-term trade and payments agreements with each of these countries. While all the new agreements provide for according the Most Favoured Nation (MFN) treatment by partner countries to each other, and diversification of the commodity coverage of trade between the partner countries, an important feature of the new agreements with Afghanistan and Bulgaria is the provi-

sion for multilateralisation of all payments in freely convertible currencies replacing the earlier bilateral payments arrangement. Consequently, the number of countries with which India continues to have bilateral payments arrangements in non-convertible Indian rupees has been reduced from 7 to 5.*

The Agreement with *Afghanistan*, which was signed on June 24, 1978, replaced the earlier 3-year bilateral trade and payments arrangements agreed to in September 1975. The new agreement came into force provisionally from the date of signing and formally on exchange of confirmatory notes by the two governments.** It would remain valid initially for a period of one year, and includes a provision for automatic extension by one year at a time unless either of the partner countries decided to terminate it. Under this agreement, settlement of all transactions would be made in freely convertible and transferable currencies. Under the earlier arrangements, the trade was conducted on a dual basis; while imports of specified items like fresh and dry fruits, cummin seeds, asafoetida and hides and skins from Afghanistan into India were settled on a barter basis by counterbalancing exports of equal value of goods specified in schedules (B & BI)@ attached to the agreement, other exports from India were to be settled in free foreign exchange. Further, the current agreement provides that the two Governments will co-operate in preventing infringement and circumvention of the foreign exchange and foreign trade rules of either country and also to keep each other informed of developments relating to their import and export policies. In order to promote the aims of the agreement, the two Governments are to establish a joint committee which will meet at least once every year alternatively in India and Afghanistan. This committee will review the implementa-

tion of the provisions of the agreement, examine and recommend measures for solution of problems that may arise in implementing them or in the course of the development of mutual trade and consider proposals made by either Government for further expansion and diversification of mutual trade.

On expiry of the bilateral trade and payments agreement of March 1974, a fresh trade agreement was signed with *Bulgaria* on December 5, 1978, which came into force from January 1, 1979. The agreement would initially remain valid for three years, and includes a provision for automatic extension by a year at a time. The two countries agreed to switch over from bilateral payments arrangement in non-convertible Indian rupees to multilateral payments in freely convertible currencies in respect of all trade and payments transactions. They also agreed to promote collaboration between industrial and trading enterprises of their countries with a view to pooling of resources for joint marketing in third countries and also for meeting the needs of industrial development programmes in third countries.

A new agreement with *Indonesia* was signed on June 3, 1978. This would provisionally be valid for a year but could be automatically extended by one year each time with the concurrence of both the parties. All payments under this agreement are to be made in freely convertible currencies. Any issues relating to trade under this agreement shall be settled in the consultative meeting attended by the representatives of both the Governments.

A fresh agreement was concluded with *Libya* on July 19, 1978*, valid for one year and renewable automatically for further periods of a year at a time until either of the parties decided otherwise. Trade between the two countries, unless otherwise agreed to between them, is to be conducted through normal trade channels. All payments arising out of the transactions under the agreement are to be settled in freely convertible currencies. The two parties also agreed to explore possibilities of establishing joint ventures for the mutual benefit of both the countries.

*These five countries are : Czechoslovakia, the German Democratic Republic, Poland, Rumania and the U.S.S.R.

**Notes confirming the approval were exchanged on August 15, 1979.

@Schedule 'B' consisted mostly of traditional Indian exports like tea, coffee, cotton yarns and threads, tobacco, jute manufactures, coir and coir products etc. Schedule 'BI' included products like fabrics, engineering goods, chemicals, medicines, drugs, food and agricultural products, household requirements, building materials, hardware, etc.

*This agreement is yet to become effective.

The agreement with the *Syrian Arab Republic* was concluded on April 20, 1978 and came into effect on March 5, 1979, initially for a period of one year. It replaces the earlier Trade Agreement of October 1969. The 1978 agreement provides, as did the previous one, that all payments transactions between the two countries will be settled in freely convertible currencies. The two countries also agreed to explore possibilities of establishing joint ventures for their mutual benefit.

Protocols on annual trade plans were signed during 1978-79 with *Czechoslovakia*, the *German Democratic Republic* and *Rumania* in terms of the existing long-term trade and payments arrangements with these countries. According to these plans, it was agreed that the partners would endeavour to reach a trade turnover of Rs. 1,850 million in the case of the Indo-Czechoslovak trade, Rs. 1,630 million in the case of the Indo-GDR trade and Rs. 1,800 million in the case of the Indo-Rumanian trade.

Economic and Technical Co-operation

Co-operation in the field of production, joint ventures and third country projects is sought to be encouraged through agreements relating to economic and technical co-operation. This mode of co-operation was initially confined to the bilateral rupee account countries of East Europe, and is now extended to a number of other countries.

German Democratic Republic (GDR)

India and the GDR signed on January 9, 1979 an agreement valid upto December 31, 1985 covering industrial projects, transfer of technology and joint ventures. The agreement recognises the need for setting up of joint ventures in third countries as a promising form of expanding economic relations between the two countries. It underlines the need to expand and diversify exchange of goods and services between the two countries. It also aims at strengthening the existing regular liner shipping service, by stipulating that the two countries will respect the principle of parity in lifting national cargo and freight earnings and provides for an in-built preference for each other's national cargo.

Indonesia

Under an agreement signed between India and Indonesia on February 15, 1979, a task force will be immediately created to finalise areas of economic co-operation between the two countries so as to ensure maximum utilisation of natural resources for mutual advantage. Under the agreement, Indonesia will use Indian expertise for construction, development and expansion of iron and steel as well as non-ferrous metal industries. India will supply alumina to Indonesia for conversion into aluminium metal, and help Indonesia develop its cement industry. Indonesia, on its part, would sell India sponge iron, pulp for paper-making, nickel, tin and other non-ferrous metals.

Malaysia

India and Malaysia signed an agreement on January 24, 1979 to encourage and enhance the already existing economic and technical co-operation between the two countries in the fields of industry, science and technology, agriculture, etc. The agreement contemplates the setting up of a joint committee to oversee the implementation of individual agreements and to consider ways and means of promoting economic and technical co-operation between the respective countries.

Mauritius

The agreement signed on March 14, 1978 providing for establishing a joint commission on economic, technical education and cultural co-operation between India and Mauritius came into force consequent on the exchange of instruments of ratification by the two Governments in January, 1979. Annual meetings of the joint commission are to be held alternately in the two countries. India is to help in setting up industries in Mauritius for production of sophisticated electronic items and in marketing their products.

Sweden

India and Sweden signed an agreement on January 4, 1979 on the terms and procedures relating to the Indo-Swedish development co-operation programme, extending the gene-

ral technical co-operation agreement signed in November 1972 which expired on December 31, 1978. Under the agreement, Sweden will continue to give technical aid to India for various development sectors and provide for supplies of equipment and scholarships to Indian experts. The agreement will remain valid upto June 30, 1983.

Turkey

India and Turkey signed on July 13, 1978 an agreement on economic and technical co-operation providing for exchange of experts in various fields, such as industry and agriculture, for rendering technical and training facilities. The agreement also envisages the establishment of joint ventures and other forms of collaboration, as also consultancy services. In terms of the agreement, a joint committee for economic, industrial and technical co-operation is to be set up with the aim of adopting measures to implement the agreement, which would be valid initially for 5 years and would be automatically renewable thereafter for one year at a time.

U.S.S.R.

On March 6, 1979, India and the Soviet Union signed five protocols/agreements identifying various areas where the two countries could co-operate for mutual benefit. These cover medical sciences and public health, cultural exchange programmes, gift of agricultural machinery and motor vehicles to the Suratgarh State Farm, supply of 6 lakh tonnes of crude petroleum by the Soviet Union at OPEC prices before end-December 1979 in exchange for rice from India of equal value and a doubling of bilateral trade turnover by 1985 from the expected level of Rs. 1,500 crores in 1980. One of the agreements provides, *inter alia*, for expansion of the annual steel production capacity of Bhilai and Bokaro steel plants to 4 million tonnes each, and setting up of petroleum refineries in Mathura. In this connection two working groups, one to prepare a long-term economic programme and another to chalk out a trade plan for the period 1981-85 have been set-up.

Tripartite Agreement

The Tripartite Agreement between India, Egypt and Yugoslavia, which was originally concluded in April 1968, was extended for a further period of 5 years from April 1, 1978. The renewed agreement is expected to further strengthen the trade and economic co-operation among the participants. About 134 items in each of these countries gain from preferential entry into the partner country at 50 per cent of the effective MFN rate of customs duties.

INTERNATIONAL TRADE NEGOTIATIONS

Tokyo Round of Multilateral Trade Negotiations (MTNs)

The Tokyo Round of the Multilateral Trade Negotiations (MTNs) were launched in September 1973 at the meeting of ministers in Tokyo with the objective of achieving liberalisation and expansion of world trade and for improving international framework for the conduct of world trade as well as for securing additional benefits for the international trade of developing countries. These negotiations, in which forty-one nations (including 19 developing countries) accounting for more than 90 per cent of world trade participated, were concluded in April 1979 with agreements reached on most of the elements of the negotiations.

The negotiations in the field of tariffs have been completed. The industrialised countries have agreed to reduce, mostly over the eight-year period beginning with January 1980, their import duties on several products, the more important tariff cuts being concentrated on non-electrical machinery, wood products, chemicals and transport equipment, etc. However, many important products of interest to developing countries have either been completely excluded or subject to insignificant tariff cuts. Like-wise, quantitative restrictions in textiles and leather sectors, the sectors of vital importance to developing countries, could not be eliminated. A distinguishing feature of the Tokyo Round is the negotiation of multilateral agreements and codes of conduct to eliminate, reduce or bring

under effective international discipline various non-tariff barriers affecting world trade. In short, agreements have been drawn up on opening up government purchasing to foreign suppliers, on import licensing procedures, on the application of subsidies and countervailing duties, on the reduction of technical barriers to trade and on customs valuation practices.

The Tokyo Round Negotiations provided an opportunity to review and improve the working of some of the fundamental provisions to the GATT, to keep it abreast of the great shifts that have taken place in international trade in recent years. Mention may be made of the package of multilateral agreements concluded for improving the framework for the conduct of world trade. One element of the package is the agreement on a so-called 'enabling clause' giving permanent legal standing to the trade preferences granted by developed to the developing countries and by developing countries to one another. Other agreements cover the use of trade measures for balance of payments purposes, the use of safeguard measures to help develop and to improve the GATT procedures on notification, consultation, dispute settlement and surveillance. Since all these agreements affect the rules of the GATT itself, these will have to be considered formally by a session of the GATT contracting parties who will be called upon to consider the matter later in the year.

The negotiations on the drawing up of 'safeguards code' i.e. redefining the rules of safeguard measures when imports cause or threaten market disruption, which issue is of vital interest to the developing countries, broke down at the MTNs level and negotiations on this subject are to be carried further at a Committee to be constituted for this purpose. The Tokyo Round Negotiations have led to agreements on important ground rules for international trade.

UNCTAD-V

The fifth session of the United Nations Conference on Trade and Development (UNCTAD-V) was held at Manila from May 6 to June 2, 1979. More than 150 delegations, representing countries with varying political systems and at different stages of

economic development discussed ways and means of bringing about greater equity in the global economic order. The Conference decided without dissent to launch a comprehensive new programme of action for the least developed countries and called for the provision of much larger flows of assistance to such countries. It called for doubling, as early as possible, the target of official aid from the developed countries to the least developed ones from 0.7 per cent of the gross national income of the former to 1.4 per cent. It also urged all donor countries to increase effectively and substantially their official aid flows towards the United Nations target of 0.7 per cent of the gross national income. The Conference reaffirmed the importance of structural adjustment for the containment of protectionism, for an effective international division of labour and for enabling the developing countries to attain an increased share of world production as well as of world trade in manufactures. It also called for continued resistance to protectionist pressures and urged developed countries to implement fully the standstill provisions. A decision was taken to entrust the Trade and Development Board of the UNCTAD with organising annual reviews on production and trade patterns which would take into account not only the available information but general policies with a view to identifying elements or problems in the light of the dynamics of comparative advantage in attainment of these objectives. National governments of developed countries would take into account such reviews and general recommendations flowing from them in framing policies which would encourage domestic factors of production to move progressively away from less competitive lines of production. The Conference also recommended the GATT to examine, in an appropriate body, any case of future protective action by developed countries. The Conference called upon the Trade and Development Board to make a global evaluation of multilateral trade negotiations on the basis of a report by the Secretary-General of the UNCTAD.

As for the Integrated Programme for Commodities, since an agreement was already reached on the fundamental elements of a Common Fund for Commodities at an

UNCTAD meeting in March 1979, this Conference focussed attention on issues securing support for the second window of the Common Fund and various aspects of the implementation of the Integrated Programme for Commodities. The resolution adopted provides for the continuation of the existing programme on individual commodities and for the establishment of a framework of international co-operation in the field of processing, marketing and exports of developing countries' commodities. In the final plenary, 13 countries (including India with its contribution of \$ 5 million) announced contributions totalling \$ 87 million to the "second window" of the Common Fund. The second window with planned assets of \$ 350 million is intended to help finance measures other than buffer stocking, such as commodity research and development.

The Conference could not reach agreement on a major agenda item, namely, on the world trade and economic situation and structural changes in the world economy, and consequently the Conference acted to transmit this question for further consideration by the

Trade and Development Board, the executive body of the UNCTAD. Similarly, in the absence of any agreement, many other issues like evaluation of Multilateral Trade Negotiations recently held in Geneva under the auspices of the GATT, expansion of export trade of developing countries in manufactures and semi-manufactures, East-West and East-South trade, Debt and International Financial Co-operation were remitted to the Trade and Development Board for further consideration.

For developing countries, the real gains at the UNCTAD-V were achieved outside the Conference when the developing countries realised forcefully the need to increase co-operation among themselves, in the face of the negative positions of developed countries on various issues. On the initiative taken by India, Philippines and a few other countries, the developing countries decided to set up a Committee of 18 to work out the modalities for such multilateral economic co-operation among themselves and to monitor the implementation of the programme.

Chapter X

Balance of Payments and International Monetary Developments

I. Balance of Payments and Trends in Reserves

The improvement in the country's external payments position which was quite marked particularly in the two years 1976-77 and 1977-78, slackened during the fiscal 1978-79. At end-March 1979, the country's foreign exchange reserves consisted of SDR 365 million in SDR holdings, Rs. 220 crores in gold and Rs. 5,220 crores in foreign currency assets, as against SDR 162 million in SDR holdings, Rs. 193 crores in gold and Rs. 4,500 crores in foreign currency assets at the end of March 1978. Apart from the acquisition of SDR 96 million under the Fund's designation plans, the large rise in SDR holdings of SDR 203 million during 1978-79 resulted from the allocation of SDRs by the Fund of SDR 119 million in January 1979 being the first instalment of the new allocations agreed for the three-year period 1979-81. The increase of Rs. 27 crores in gold holdings, on the other hand, was mainly on account of gold purchased under the non-competitive bid at the IMF's gold auction* and partly as a result of restitution of gold by the IMF. The foreign currency assets, the main component of the country's exchange reserves, increased over the year by Rs. 720 crores, which was less than one-half the rise of Rs. 1,637 crores recorded in the previous financial year. Transactions with the IMF involved net payments of the order of Rs. 387 crores during 1978-79 (payments of Rs. 207 crores towards repurchase of the drawing under the 1975 Oil Facility which was the only credit outstanding

to the Fund, Rs. 123 crores for gold purchased as stated above and Rs. 100 crores against SDRs accepted under the Fund's designation plans as against receipts of Rs. 35 crores of profits from gold sales by the Fund distributed among developing countries and Rs. 8 crores of interest subsidy on 1975 Oil Facility drawings), while net payments for similar transactions to the Fund in 1977-78 were lower (Rs. 282 crores). Excluding the above transactions with the Fund and ignoring the net depreciation booked in the rupee values of the foreign currency holdings as a result of exchange rate changes during the year, as against net appreciation booked on this account in the previous year, the accretion to the foreign exchange assets this year would have been of the order of Rs. 1,146 crores as compared with a rise of Rs. 1,848 crores in 1977-78.

Detailed balance of payments statistics, to explain the movements in reserves during the year, are not available. However, according to the DGCI & S data, the deficit on merchandise trade widened significantly to Rs. 1,069 crores in 1978-79 from Rs. 621 crores in the preceding year. On the other hand, both the net inflow of aid and the net surplus from current invisibles were probably about the same as in the previous year resulting in a comparatively small rise in reserves during the year.

At end-June 1979, the country's foreign exchange reserves stood at SDR 332 million in SDR holdings, Rs. 220 crores in gold and Rs. 5,346 crores in foreign exchange. While there was no change in gold holdings, SDR holdings fell by SDR 33 million in April-June 1979. This was the net result of the use of SDR 60 million in repurchases of the excess rupees held by the Fund from transactions other than drawings and payment of charges to the Fund of SDR 5 million for net use of SDRs and additions of SDR 32 million to SDR holdings under the designation plans. Foreign currency holdings recorded an in-

*As indicated in the last year's Report, the Reserve Bank purchased 25 million grammes of gold from the IMF on June 7, 1978 under India's entitlement in respect of profits from sales of the Fund's gold for the benefit of developing countries. Though this involved payment in foreign currencies of Rs. 123 crores to the Fund, the gold acquired is held by the Reserve Bank for the value of Rs. 21 crores under the statutory provisions relating to gold holdings. In addition, on December 26, 1978 the Reserve Bank acquired gold from the Fund under its restitution plan, which involved a payment of Rs. 7 crores, and is shown in the Reserve Bank's books at Rs. 6 crores in accordance with the statutory provisions.

Table X-2 : Loans Authorised and Utilised during 1977-78 and 1978-79
(Fiscal Years)

(Rupees Crores)

Country/ Institution	Authorisations								Utilisation							
	1977-78				1978-79				1977-78				1978-79			
	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. ..	820 (939)	—	—	820 (939)	1,372 (1,505)	—	—	1,372 (1,505)	361 (413)	5 (6)	—	366 (419)	379 (416)	1 (1)	—	380 (417)
2. Canada	1 (1)	29 (33)	—	30 (34)	10 (10)	—	—	10 (10)	1 (1)	24 (28)	—	25 (29)	11 (11)	8 (8)	—	19 (19)
3. France	—	—	4 (5)	4 (5)	—	—	—	—	12 (16)	15 (20)	4 (5)	31 (41)	11 (15)	17 (24)	—	28 (39)
4. West Germany ..	48 (90)	20 (38)	6 (11)	74 (139)	51 (105)	21 (43)	—	72 (148)	26 (49)	8 (15)	6 (11)	40 (75)	29 (60)	32 (66)	—	61 (126)
5. Italy	—	—	—	—	—	—	—	—	—	3 (2)	19 (16)	22 (18)	—	1 (1)	—	1 (1)
6. Japan	39 (56)	42 (60)	—	81 (116)	—	13 (25)	—	13 (25)	7 (10)	35 (51)	—	42 (61)	12 (23)	37 (71)	—	49 (94)
7. Netherlands ..	—	36 (63)	3 (5)	39 (68)	—	43 (81)	—	43 (81)	—	26 (46)	3 (5)	29 (51)	—	33 (62)	—	33 (62)
8. Switzerland ..	—	—	—	—	—	—	—	—	—	—	—	—	1 (3)	—	—	1 (3)
9. U.K.	—	—	—	—	—	—	—	—	15 (13)	—	—	15 (13)	14 (12)	—	—	14 (12)
10. U.S.A.	—	20 (23)	—	20 (23)	44 (48)	—	—	44 (48)	—	19 (22)	—	19 (22)	—	20 (22)	—	20 (22)
11. O.P.E.C.*	69 (80)	97 (111)	—	166 (191)	20 (29)	3 (3)	—	23 (32)	66 (77)	113 (129)	—	179 (206)	87 (99)	3 (3)	—	90 (102)
12. U.S.S.R.	208 (208)	—	—	208 (208)	—	—	—	—	24 (24)	—	—	24 (24)	22 (22)	—	—	22 (22)
13. Czechoslovakia ..	—	—	—	—	—	—	—	—	4 (4)	1 (1)	—	5 (5)	—	—	—	—
14. Hungary	—	—	—	—	—	—	—	—	5 (5)	—	—	5 (5)	1 (1)	—	—	1 (1)
15. Others	—	3 (5)	2 (3)	5 (8)	—	5 (9)	—	5 (9)	—	6 (10)	2 (3)	8 (13)	—	8 (14)	—	8 (14)
Total	1,185 (1,374)	247 (333)	15 (24)	1,447 (1,731)	1,497 (1,697)	85 (161)	—	1,582 (1,858)	521 (612)	255 (330)	34 (40)	810 (982)	567 (662)	160 (272)	—	727 (934)

Note: Figures in brackets indicate the rupee values at the current rates of exchange during respective years.
* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and O.P.E.C. Special Fund.

first time, the former for Rs. 10 crores and the latter for Rs. 14 crores, representing the conversion of the loans outstanding to grants.

Aid-terms

As noted in our earlier reports, there has been a general softening of the terms of assistance by the donor countries in recent years. While there were no changes in the terms of assistance by most countries, Japan in 1978-79, reduced the rate of interest for its commodity loan to 3 per cent from the earlier $3\frac{1}{2}$ per cent. The assistance from Norway, Sweden and the U.K. continued to be in the form of grants.

Debt Relief

India has been urging, along with other developing countries, for substantial relief from debt service burden. However, on the plea of the growth in India's foreign exchange reserves, debt relief assistance to India was on a reduced scale in 1977-78. Such assistance, which had ranged from Rs. 100 crores to Rs. 115 crores a year during 1974-75 to 1976-77, dropped to a meagre Rs. 26 crores in 1977-78 (Table X-4). However, thanks to debt relief grants by Sweden and Switzerland which treated their entire loan obligations as grants and the assistance provided by the U.K., debt relief during 1978-79 increased to Rs. 136 crores. During the year only two other countries provided some debt relief.

Table X-3: Grants@ Authorised and Utilised during 1977-78 and 1978-79
(Fiscal Years)

Country/Institution	(Rupees Crores)			
	Authorisations		Utilisation	
	1977-78	1978-79	1977-78	1978-79
1	2	3	4	5
1. Belgium	1 (1)	—	1 (1)	—
2. Canada	15 (17)	4 (4)	15 (17)	4 (4)
3. Denmark	1 (1)	1 (2)	1 (1)	1 (2)
4. West Germany	—	1 (2)	—	1 (2)
5. Japan	—	10 (19)	—	—
6. Netherlands	11 (19)	5 (10)	11 (19)	3 (6)
7. Sweden	12 (16)	109 (139)	37 (48)	108 (138)
8. Switzerland	—	14 (37)	—	12 (31)
9. U.K.	264 (226)	297 (263)	170 (146)	222 (197)
10. U.S.A. (Other than PL480/665)	—	1 (1)	—	—
11. U.N.E.O.	1 (1)	—	1 (1)	—
12. E.E.C.	48 (55)	10 (11)	30 (34)	16 (18)
TOTAL	353 (336)	452 (488)	266 (267)	367 (398)

Note : Figures in brackets indicate the rupee values at the current rates of exchange during respective years.
@Including Debt Relief.

Table X-4 : Debt Relief Assistance
(Fiscal Years)

(Rupees Lakhs)

Country/Institution	Authorisations						Utilisation					
	1966-74	1974-75	1975-76	1976-77	1977-78	1978-79	1966-74	1974-75	1975-76	1976-77	1977-78	1978-79
1	2	3	4	5	6	7	8	9	10	11	12	13
A. By way of refinancing cash credits												
1. Austria	7,74	1,54	1,59	1,35	—	—	7,68	75	1,54	1,44	75	—
2. Belgium	5,87	1,50	2,25	3,00	1,35	—	5,87	1,50	2,25	3,00	1,35	—
3. France	25,85	9,35	8,24	8,24	4,12	—	25,85	9,35	8,24	8,24	4,12	—
4. West Germany	98,29	26,64	28,69	28,69	6,15	—	98,88	26,64	28,69	28,69	6,15	—
5. Italy	31,99	—	—	6,30	—	—	15,15	—	—	4,20	18,90	—
6. U.K.	124,80	16,92	—	—	—	—	124,42	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	338,41	89,70	40,77	49,20	14,58	—	321,72	88,91	40,72	47,19	34,23	—
B. By way of postponement of payments												
1. I.B.R.D.	45,00	—	—	—	—	—	45,00	—	—	—	—	—
2. U.S.A.	26,12	—	—	—	—	—	26,12	—	—	—	—	—
3. Canada	5,17	—	—	—	—	—	5,16	—	—	—	—	—
Total B	76,29	—	—	—	—	—	76,28	—	—	—	—	—
C. By way of rescheduling of payments												
Japan	124,06	25,30	25,53	25,50	—	—	124,06	25,30	25,53	25,50	—	—
Total C	124,06	25,30	25,53	25,50	—	—	124,06	25,30	25,53	25,50	—	—
D. By way of grants												
1. Austria	1,12	—	—	—	—	—	1,12	—	—	—	—	—
2. Canada	8,40	—	59	—	—	—	8,40	—	59	—	—	—
3. West Germany	24,11	—	—	—	—	—	24,26	—	—	—	—	—
4. Netherlands	2,93	—	5,37	3,68	2,81	—	2,93	—	5,37	3,68	2,81	—
5. Sweden	77	51	70	82	93	78,77	77	47	70	82	93	76,95
6. Denmark	10	20	57	76	76	75	10	20	57	76	76	75
7. Norway	17	—	—	—	—	—	17	—	—	—	—	—
8. U.K.	—	—	20,16	21,78	7,20	36,16	—	—	20,16	21,78	7,20	12,83
9. Japan	—	—	—	—	—	6,04	—	—	—	—	—	—
10. Switzerland	—	—	—	—	—	14,03	—	—	—	—	—	11,86
Total D	37,60	71	27,39	27,04	11,70	135,75	37,75	67	27,39	27,04	11,70	102,39
Grand Total	576,36	115,71	93,69	101,74	26,28	135,75	559,81	114,88	93,64	99,73	45,93	102,39

Trends in Utilisation

Total aid available for utilisation during 1978-79—aid in the pipeline of Rs. 3,415 crores at the commencement of the year plus fresh aid authorised of Rs. 2,034 crores—amounted to Rs. 5,449 crores, of which Rs. 4,290 crores (79 per cent) represented project assistance and the balance of Rs. 1,159 crores non-project assistance, including grants of Rs. 832 crores. The aid utilised during the year at Rs. 1,094 crores was only marginally higher than in 1977-78. While utilisation of loans fell by Rs. 83 crores to Rs. 727 crores, that of grants at Rs. 367 crores was higher by Rs. 101 crores. The utilisation of project loans, which amounted to Rs. 567 crores during the year, was only Rs. 46 crores or 9 per cent higher than in 1977-78 (Table X-2). Because of the low level of non-project loans—largely the result of absence of fresh commitments particularly from the OPEC group—utilisation of non-project loans fell from Rs. 255 crores in 1977-78 to Rs. 160 crores in 1978-79. Utilisation of grants was higher by Rs. 101 crores mainly because of larger amounts utilised against grants extended by the U.K., and the treatment of the outstanding loan obligations to Sweden and Switzerland as grants. Thus, a somewhat larger utilisation of project loans and grants made good the fall in utilisation of non-project loans, resulting in a small rise in utilisation.

Debt Servicing

Debt service payments (amortisation and interest payments) which have been continuously increasing, rose by Rs. 30 crores to Rs. 697 crores during the year, absorbing as much as 64 per cent of the gross aid receipts (Table X-5). As a per cent of exports, these payments formed 12 per cent or about the same as in the previous year.

Cumulative Assistance

Total external assistance authorised to India from August 15, 1947 to end-March 1979 amounted to Rs. 23,342 crores, of which 79 per cent was in the form of loans (Table X-6). With sizeable quantum of grants, particularly since 1975-76, the share of grants in cumulative assistance increased progressi-

vely and reached a level of 11 per cent at end-March 1979. Assistance utilised upto the end of March 1979 aggregated to Rs. 19,107 crores or 82 per cent of the total authorised.

The combined authorisations by the IBRD and the IDA rose from Rs. 5,233 crores at end-March 1978 to Rs. 6,604 crores at end-March 1979 and raised their share in total authorisations to 28 per cent (Table X-7). Similarly, total utilisation of assistance provided by these institutions increased from Rs. 3,638 crores to Rs. 4,020 crores and formed 21 per cent of total aid utilised as at end-March 1979.

Despite very little assistance authorised by the USA in recent years, the USA still topped the list of countries offering bilateral aid in terms of cumulative aid authorisations and utilisation. Its shares in total authorised and utilised aid declined to 26 per cent and 33 per cent, respectively, at end-March 1979. All other countries and the OPEC group more or less maintained their relative shares, both in respect of authorisations and utilisation, around the previous year's level.

At the end of March 1979, total assistance comprising loans and grants available in the pipeline was of the order of Rs. 4,347 crores—Rs. 877 crores higher than at the commencement of the year. Of this, Rs. 3,727 crores or 86 per cent represented project assistance.

Aid Prospects for 1979-80

At the Aid-India Consortium meeting in June 1979 members were encouraged by the prospects for growth of the Indian economy. The members attached particular importance to aid requirements of India in the context of the long-term growth needs and promising outlook of the economy and recognised the usefulness of higher quantum of aid. The adverse impact on India's external payments position, of increases in oil prices till that time with strong indications of more price increases to come, was also an important consideration in assessing the aid needs of India. India's plea for free foreign exchange to enable it to buy oil and industrial equipment, if prices went up, was also noted. Taking into account these various factors

Table X-5: Inflow of Foreign Assistance—Gross & Net
(Fiscal Years)

						(Rupees Crores)				
Year						Gross aid utilisation	Amortisation payments	Interest payments	Total debt services (3+4)	Net Inflow of aid (2-5)
1						2	3	4	5	6
1968-69	..	..	..	..	..	913	207	137	344	569
1969-70	..	..	..	..	..	837	238	142	380	457
1970-71	..	..	..	..	..	780	254	158	412	368
1971-72	..	..	..	..	..	821	271	175	446	375
1972-73	..	..	..	..	..	605	302	177	479	126
1973-74	..	..	..	..	..	803 (891)	300 (355)	184 (196)	484 (551)	319 (340)
1974-75	..	..	..	..	..	968 (1087)	331 (368)	181 (201)	512 (569)	456 (518)
1975-76	..	..	..	..	..	1436 (1739)	335 (427)	174 (224)	509 (651)	927 (1088)
1976-77	..	..	..	..	..	1248 (1529)	383 (471)	187 (242)	570 (713)	678 (816)
1977-78	..	..	..	..	..	1076 (1249)	464 (561)	203 (260)	667 (821)	409 (428)
1978-79	..	..	..	..	..	1094 (1332)	479 (600)	218 (286)	697 (886)	397 (446)

Notes: 1. Gross aid utilisation includes debt relief provided in the form of refinancing credits and grants. Debt service payments in these cases are covered in columns (3) and (4).

2. Figures in brackets indicate the rupee values at the current rates of exchange during respective years.

3. Both amortisation and interest payments exclude payments which are either postponed or rescheduled as under:

												(Rupees Crores)	
Country/Institution			1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Japan	..	..	13	14	19	15	25	31	25	26	25	—	—
I.B.R.D.	..	..	11	11	11	—	—	—	—	—	—	—	—
U. S. A.	..	..	7	7	7	7	—	—	—	—	—	—	—
Canada	..	..	1	1	1	1	1	—	—	—	—	—	—
Total	..	..	32	33	38	23	26	32 (44)	25 (32)	26 (36)	25 (36)	—	—

Table X-6: Aggregate External Assistance
(Fiscal Years)

					(Rupees Crores)			
Period					Loans	Grants	P.L. 480/665 Aid and Third country currency assistance	Total
1					2	3	4	5
Authorisations:								
1.	Upto March 1966	..	..	..	5,952	617	1,511	8,080
2.	Upto March 1969	..	..	..	8,197	784	2,133	11,114
3.	Upto March 1974	..	..	..	12,010	981	2,165	15,156
4.	Authorisations during							
(a)	1974-75	..	..	..	1,135	128	—	1,263
(b)	1975-76	..	..	..	1,761	373	—	2,134
(c)	1976-77	..	..	..	647	308	—	955
(d)	1977-78	..	..	..	1,447	353	—	1,800
(e)	1978-79	..	..	..	1,582	452	—	2,034
Total (upto March 1979)					18,582	2,595	2,165@	23,342
Utilisation:								
1.	Upto March 1966	..	..	..	4,346	531	1,403	6,280
2.	Upto March 1969	..	..	..	6,581	759	2,122	9,462
3.	Upto March 1974	..	..	..	10,091	917	2,277	13,285
4.	Utilisation during							
(a)	1974-75	..	..	..	897	71	—	968
(b)	1975-76	..	..	..	1,171	265	—	1,436
(c)	1976-77	..	..	..	1,002	246	—	1,248
(d)	1977-78	..	..	..	810	266	—	1,076
(e)	1978-79	..	..	..	727	367	—	1,094
Total (upto March 1979)					14,698	2,132	2,277	19,107

Note: Refer to Notes to Table X-1.

@P.L. 480 authorisations were fully utilised by the end of 1971-72. The difference between rupee values of the total authorisations and total utilisation is attributable to the devaluation of rupee on June 6, 1966.

Table X-7: Aggregate External Assistance—Source-wise
(Upto March 1979)

(Rupees Crores)

Country/Institution	Authorisations				Utilisation			
	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
IBRD/IDA	6,604	—	—	6,604 (28.3)	4,020	—	—	4,020 (21.0)
U.S.A.	3,703	287	2,165	6,155 (26.4)	3,657	277	2,277	6,211 (32.5)
U.S.S.R.	1,431	12	—	1,443 (6.2)	1,022	11	—	1,033 (5.4)
U.K.	1,419	1,015	—	2,434 (10.4)	1,399	636	—	2,035 (10.7)
West Germany	1,474	43	—	1,517 (6.5)	1,344	40	—	1,384 (7.2)
Japan	704	11	—	715 (3.1)	661	1	—	662 (3.5)
O.P.E.C.*	1,271	—	—	1,271 (5.4)	906	—	—	906 (4.7)
Others	1,976	1,227	—	3,203 (13.7)	1,689	1,167	—	2,856 (15.0)
Total	18,582	2,595	2,165	23,342 (100.0)	14,698	2,132	2,277	19,107 (100.0)

Notes: 1. Please refer to notes to Table X-1.

2. Figures in brackets represent percentage to the total.

*Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.

the Consortium pledged aid of the order of U.S. \$ 3 billion — an increase of approximately 22 per cent over the previous year's pledges. This amount excluded assistance from the U.K. and Canada, as they did not make any specific commitments. Of the above aid commitment, the share of the World Bank would be about U.S. \$ 1.8 billion. The USA stepped up its commitments from U.S. \$90 million to U.S. \$135 million and Japan from U.S. \$ 125 million to U.S. \$ 154 million. West Germany's commitment increased from U.S. \$ 178 million to U.S. \$ 193 million.

III. India's External Assistance to Other Countries

Authorisations

India continued to extend assistance to other developing countries. Assistance authorised by India during 1978-79 amounted to

Rs. 104 crores, which was about 10 per cent more than in 1977-78 (Table X-8). Bulk of the aid authorised was to Bhutan and Vietnam. Aid authorised to Bhutan at Rs. 43 crores, most of it in the form of grants, was Rs. 15 crores higher than that in the preceding year. Vietnam was extended loans of the order of Rs. 41 crores — Rs. 19 crores more than those in 1977-78. Mauritius which was extended loans amounting to Rs. 10 crores in 1977-78 was not authorised any loan in 1978-79. Loan assistance to Sri Lanka this year at Rs. 5 crores was about one-half of that in the previous year. The assistance to Nepal which was in the form of grants remained around the preceding year's level of about Rs. 10 crores.

Utilisation

Assistance utilised by the beneficiary countries during the year amounted to Rs. 110

Table X-8 : Assistance Extended by India to Other Countries
(Fiscal Years)

		(Rupees Crores)											
Country		Authorisations						Utilisation					
		1977-78			1978-79			1977-78			1978-79		
		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	..	—	—	—	—	—	—	2.1	1.4	3.5	0.2	0.2	0.4
2. Bhutan	..	2.9	24.8	27.7	7.2	36.2	43.4	2.9	24.5	27.4	7.2	36.2	43.4
3. Mauritius	..	10.0	—	10.0	—	—	—	0.7	—	0.7	1.0	—	1.0
4. Nepal	..	—	9.6	9.6	—	9.4	9.4	0.1	8.2	8.3	0.1	8.4	8.5
5. Sri Lanka	..	10.0	—	10.0	4.8	—	4.8	5.4	—	5.4	15.8	—	15.8
6. Tanzania	..	—	—	—	2.0	—	2.0	—	—	—	5.0	—	5.0
7. Vietnam	..	22.5	—	22.5	41.2	—	41.2	1.6	—	1.6	27.5	—	27.5
8. Afghanistan	..	6.2	—	6.2	—	—	—	—	—	—	5.0	—	5.0
9. Assistance under ITEC Programme@	..	—	6.7	6.7	—	3.0	3.0	—	6.7	6.7	—	3.0	3.0
Total	..	51.6	41.1	92.7	55.2	48.6	103.8	12.8	40.8	53.6	61.8	47.8	109.6

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.

@Country-wise details are not available.

crores or more than double in the preceding year. Bhutan utilised the entire amount authorised while Sri Lanka utilised credit to the extent of Rs. 16 crores which was nearly three times of its utilisation in 1977-78.

Cumulative Assistance Granted

Upto the end of March 1979, total aid authorisations by India amounted to Rs. 811

crores, of which three-fifths were in the form of grants (Table X-9). Though Bangladesh was not extended any assistance in the last three years, it remained the top beneficiary, receiving 28 per cent of the total assistance extended, followed by Nepal and Bhutan each sharing about 23 per cent of the assistance. By end-March 1979, aid utilised by the recipient countries amounted to Rs. 687 crores or 84 per cent of the aid authorised.

Table X-9: Aggregate Assistance Extended by India to Other Countries

(Upto March 1979)

(Rupees Crores)

Country	Authorisations			Utilisation			Amount undisbursed as at the end of March 1979		
	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	62.6	130.6	193.2	24.4	14.8	39.2
2. Bhutan	15.2	171.9	187.1	15.2	171.6	186.8	—	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	1.9	—	1.9	13.1	—	13.1
6. Nepal	31.5	157.2	188.7	21.5	145.8	167.3	10.0	11.4	21.4
7. Sri Lanka	59.3	—	59.3	46.9	—	46.9	12.4	—	12.4
8. Tanzania	7.0	—	7.0	5.0	—	5.0	2.0	—	2.0
9. Vietnam	63.7	—	63.7	29.1	—	29.1	34.6	—	34.6
10. Afghanistan	6.2	—	6.2	5.0	—	5.0	1.2	—	1.2
11. Assistance under ITEC Programme	—	21.4	21.4	—	21.4	21.4	—	—	—
Total	314.9	495.9	810.8	217.2	469.4	686.6	97.7	26.5	124.2

Note : Refer to notes to Table X-8.

IV. Foreign Investment Policy

In terms of the Industrial Policy Statement laid on the table of Parliament on December 23, 1977, a reference to which was made in last year's Report, the Government had prepared, for the guidance of entrepreneurs, a revised illustrative list of industries where no foreign collaboration, technical or financial, was considered necessary due to the development of indigenous technology in these industries. The list was released by the Government for the guidance of entrepreneurs as an annexure to their Press Note dated December 28, 1978 issued by the Ministry of Industry. This list includes industries such as metallurgical industries, miscellaneous mechanical and engineering industries, rubber industries, chemicals (other than fertilisers), drugs and pharmaceuticals, etc. The Ad-

ministrative Ministries/Foreign Investment Board are, however, authorised to consider import of technology even in these fields if indigenous technology for items developed or exported is too closely held and is not available for use by new entrepreneurs on competitive terms. Further, if technology is required for updating of existing technology in India to meet efficiently domestic requirements or to become competitive in the export market, import of technology may be considered. Also, if such import is required for manufacture of items with substantial exports backed by buy-back guarantees, Government may consider import of technology.

For streamlining the procedures for securing approvals relating to foreign collaboration proposals, the Government has delegated additional powers to the Administrative Ministries

to accord approvals subject to the following conditions :

1. There is no foreign equity participation in the proposals;
2. The applicant is not a company with existing foreign equity investment;
3. The item proposed to be manufactured is consistent with the priorities set out in the Industrial Policy Statement;
4. The foreign exchange outgo in each case on lumpsum, if any, and royalty together should not exceed Rs. 50 lakhs in the aggregate.

The Government has also indicated that there will be no change in the procedure for obtaining foreign investment and/or collaboration approvals. Such applications will continue to be made to the Secretariat of Industrial Approvals (S.I.A.) in the Department of Industrial Development.

The total amount of consents granted by the Controller of Capital Issues to joint-stock companies for non-resident participation, which had declined from Rs. 145.5 crores in 1976-77 to Rs. 88.9 crores in 1977-78, increased significantly to Rs. 157.4 crores in 1978-79 (all fiscal years). The increase was mainly accounted for by loans, consents for which, after having sharply declined from Rs. 104.1 crores in 1976-77 to Rs. 41.4 crores in 1977-78, jumped to Rs. 96.2 crores in 1978-79. Consents for bonus issues during the year were lower at Rs. 30.3 crores, as against Rs. 37.8 crores during the previous year. Consents for initial issues, however, were substantially higher at Rs. 24.3 crores as compared with Rs. 7.6 crores during 1977-78. The consents for further issues, were also higher at Rs. 6.5 crores during 1978-79 as compared with those for Rs. 2 crores during 1977-78.

Approvals granted for financial/technical collaboration agreement were higher during the financial year 1978-79. These numbered 308 in 1978-79 as compared with 268 approvals during the financial year 1977-78.

V. Developments in Exchange Control

Last year's report covered important developments in the field of exchange control, generally upto July 1978. Subsequent changes are described below.

Exchange Rate for Rupee

The exchange rate for the rupee continued to be determined with reference to a basket of a selected number of major international currencies, with pound sterling as the intervention currency. Since the exchange rates of currencies in the basket fluctuate, the value of rupee as determined by the basket is likely to vary. Prior to January 30, 1979 the rupee rate was being maintained within a margin of 2.25 per cent on either side of the middle rate in terms of the multi-currency basket. In the light of the developments in the currency markets which had been characterised by large and erratic fluctuations, it was decided, effective January 30, 1979, to maintain the exchange rate within a wider band, not exceeding five per cent on either side of the middle rate. The change, it was felt, would help in fixing of more appropriate exchange rate for the rupee and in imparting a measure of stability to that rate. Accordingly, the exchange rate of the rupee in terms of pound sterling was revised from time to time between August 1978 and September 1979, as shown on p. 279.

The cover for forward purchase of US dollars was so far provided by the Reserve Bank to authorised dealers for a maximum period of six months. With a view to facilitating authorised dealers to provide forward cover in U.S. dollars for a longer period at reasonable rates to their customers, effective September 1, 1978, the Reserve Bank commenced purchasing US dollars from authorised dealers upto twelve months instead of upto six months earlier. Simultaneously, in order to make the forward margins more realistic in the context of the prevailing conditions in the foreign exchange markets, the forward margin charged by the Bank on its forward purchases of Pound Sterling was raised from £ 0.0050 per Rs. 100 per month to £ 0.0060 per Rs. 100 per month. The procedure for working out the rates for purchase of US dollars, Deutsche marks and Japanese yen would continue to be

RBI's Spot Rates for Purchase and Sale of Pound Sterling

Date	Buying Rate	Selling Rate	Middle Rate
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
18-10-1978	£ 6.2696 per Rs. 100 (corresponding to Rs. 15.95 per £ 1)	£ 6.2305 per Rs. 100 (corresponding to Rs. 16.05 per £ 1)	Rs. 16.00 per £ 1
30-10-1978	£ 6.1350 per Rs. 100 (corresponding to Rs. 16.30 per £ 1)	£ 6.0976 per Rs. 100 (corresponding to Rs. 16.40 per £ 1)	Rs. 16.35 per £ 1
18-11-1978	£ 6.2112 per Rs. 100 (corresponding to Rs. 16.10 per £ 1)	£ 6.1728 per Rs. 100 (corresponding to Rs. 16.20 per £ 1)	Rs. 16.15 per £ 1
20-12-1978	£ 6.0750 per Rs. 100 (corresponding to Rs. 16.45 per £ 1)	£ 6.0423 per Rs. 100 (corresponding to Rs. 16.55 per £ 1)	Rs. 16.50 per £ 1
13- 3-1979	£ 5.9701 per Rs. 100 (corresponding to Rs. 16.75 per £ 1)	£ 5.9347 per Rs. 100 (corresponding to Rs. 16.85 per £ 1)	Rs. 16.80 per £ 1
9- 4-1979	£ 5.8479 per Rs. 100 (corresponding to Rs. 17.10 per £ 1)	£ 5.8139 per Rs. 100 (corresponding to Rs. 17.20 per £ 1)	Rs. 17.15 per £ 1
15- 5-1979	£ 5.9347 per Rs. 100 (corresponding to Rs. 16.85 per £ 1)	£ 5.8997 per Rs. 100 (corresponding to Rs. 16.95 per £ 1)	Rs. 16.90 per £ 1
15- 6-1979	£ 5.8651 per Rs. 100 (corresponding to Rs. 17.05 per £ 1)	£ 5.8309 per Rs. 100 (corresponding to Rs. 17.15 per £ 1)	Rs. 17.10 per £ 1
22- 6-1979	£ 5.7803 per Rs. 100 (corresponding to Rs. 17.30 per £ 1)	£ 5.7471 per Rs. 100 (corresponding to Rs. 17.40 per £ 1)	Rs. 17.35 per £ 1
2- 7-1979	£ 5.7143 per Rs. 100 (corresponding to Rs. 17.50 per £ 1)	£ 5.6818 per Rs. 100 (corresponding to Rs. 17.60 per £ 1)	Rs. 17.55 per £ 1
6- 7-1979	£ 5.6497 per Rs. 100 (corresponding to Rs. 17.70 per £ 1)	£ 5.6180 per Rs. 100 (corresponding to Rs. 17.80 per £ 1)	Rs. 17.75 per £ 1
19- 7-1979	£ 5.5710 per Rs. 100 (corresponding to Rs. 17.95 per £ 1)	£ 5.5402 per Rs. 100 (corresponding to Rs. 18.05 per £ 1)	Rs. 18.00 per £ 1
15- 9-1979	£ 5.6497 per Rs. 100 (corresponding to Rs. 17.70 per £ 1)	£ 5.6180 per Rs. 100 (corresponding to Rs. 17.80 per £ 1)	Rs. 17.75 per £ 1

the same as hitherto, but for this purpose, the above change in the margin for pound sterling purchases would be taken into account.

Exchange Variation/Protective Clause in Indo-USSR contracts

The Government of India and the U.S.S.R. signed a protocol, establishing a rate of Rouble 1 = Rs. 10, effective 25th November 1978, in place of the earlier rate of Rouble 1 = Rs. 8.333. The rouble-rupee rate would be subject to revision from time to time. The new rate would be applicable to all contracts concluded after this date, as also to the outstanding contract values or outstanding payment obligations as on that date. Similar

provisions would apply to outstanding contract values as well as outstanding payment obligations in the event of further revision of the rupee-rouble exchange rate. As regards future commercial contracts, the existing practice of the contracts being denominated in Indian rupees or third country currencies or roubles would continue. Accordingly, in contracts where period of implementation is one year or less, no rouble-rupee or any other exchange variation/protective clause would be provided and the prices would be expressed only in Indian rupees. Where the period of implementation is more than a year and where the contract price is designated in Indian rupees and related to the exchange rate between the rouble and the rupee, the quantum

of payment to be made has to be adjusted in proportion to the change in the exchange rate between the rouble and the rupee, if the exchange rate on the date of payment is different from the one obtained on the date of conclusion of the contract.

Export of Gold Jewellery under Gold Jewellery Export Replenishment Scheme

The Government of India introduced with effect from August 21, 1978, a new scheme for export of gold jewellery with a facility of replenishment by imported gold. Under this, exports of jewellery (other than studded jewellery) made of gold of purity of not less than 0.5833 fineness (equivalent to 14 carats) would be entitled to replenishment benefit, provided the 'value added' and other requirements of the Scheme were met. The exports are subject to compliance with the normal G. R. form procedure. The entitlement to replenishment of gold would however arise, only after realisation of the export proceeds in foreign exchange through an authorised dealer. Gold will be imported by the State Bank of India for supply to the exporters against the Release Orders issued by the appropriate Licensing Authorities at prices notified by Government.

National Defence Remittance Scheme Special Accounts

Authorised dealers have been advised to redesignate all the NDRS Special Accounts maintained with them as Ordinary Non-resident Accounts, effective April 2, 1979. The operations on the redesignated accounts will now be governed by the rules applicable to Ordinary Non-resident Accounts. Even after the redesignation, the balances and investments made in the past from NDRS Special Accounts will continue to be non-repatriable in regard to both income and capital and proceeds of investments as well as income earned thereon will have to be credited to the ordinary non-resident accounts of the holders.

Holding Immovable Property by Foreign Nationals of Indian Origin

Foreign citizens of Indian origin, who could not declare the immovable property held by

them as on January 1, 1974 in terms of Section 31 of FERA 1973 within the prescribed time limit due to lack of knowledge or other reasons, have been given time to make the necessary declarations by December 31, 1979. Similarly, non-resident Indians who have acquired immovable property during the period January 1, 1974 to May 31, 1979 without prior approval of the Reserve Bank are also permitted to submit applications before December 31, 1979. Prior approval of the Bank will have to be taken as required under the regulation for any immovable property to be acquired after May 31, 1979 by foreign citizens of Indian origin. In order to facilitate collection of rents on properties held by non-residents, it will also now be permissible for residents to collect rent on behalf of non-resident property owners provided the rents so collected are credited to the non-resident account within two months. Authorised dealers are also permitted to maintain such accounts as a joint account with a resident who is a first degree relative of the non-resident property-owner. Rentals on properties of any kind held by a non-resident may be credited freely to the non-resident account of the property-owner without the intervention of the Reserve Bank.

Remittance of Dividends to Non-resident Share-holders

The authorised dealers have been permitted with effect from June 20, 1979 to allow remittances of equity dividends without prior approval of Reserve Bank, in cases where the equity shares, on which dividend has become payable, do not exceed Rs. 5 lakhs in face value or 25 per cent of the total issued equity capital of the concerned company, whichever is less. The earlier limits were Rs. 25,000 in face value or 10 per cent of issued capital, respectively. The prior approval of the Reserve Bank is however necessary in respect of remittances of dividends paid by foreign companies in which non-resident interest exceeds 40 per cent as on the last date of the accounting year for which the dividends are payable.

Payment of Hotel Bills by Foreign Tourists

Effective March 2, 1979, hotels possessing restricted money changing licences issued by

the Reserve Bank are free to accept payment of hotel bills from foreign tourists in rupee currency also, provided the tourists produce the necessary bank certificate for encashment of foreign currency.

Blanket Exchange Permits—Multi-unit Export Firms

Multi-unit export firms can now avail of the facility of blanket exchange permits at different centres, where their units are functioning. Subsidiary blanket permits will be issued to the concerned units by a corresponding reduction in the main blanket permits issued to head offices. This has been done with a view to facilitating travel by sales/technical representatives attached to the units located in different parts of the country.

Surrender of Foreign Exchange to Authorised Dealers

The period prescribed in the Exchange Control Manual, within which persons returning to India have to repatriate foreign currency balances to India or to declare foreign currency balances and securities to Reserve Bank, has been revised to three months, as against one month before.

Asian Clearing Union

Effective November 1, 1978, all authorised dealers undertaking foreign exchange business have been treated as designated banks for the purpose of channelling transactions through the Asian Clearing Union. Settlement of transactions with the authorised dealers under ACU arrangements will be handled at the Reserve Bank's offices at Bangalore, Bombay, Calcutta, Kanpur, Madras and New Delhi. Thus, settlement through the Union is facilitated by the Reserve Bank by treating all authorised dealers as designated banks and by increasing the number of offices of the Bank at which settlement can be made.

Trade with Pakistan

The restriction imposed on opening of a letter of credit in convertible currency in connection with trade between Pakistan and India has been relaxed. Effective October 5,

1978, any authorised dealer in foreign exchange in India may open letters of credit in a convertible currency against imports from Pakistan to India or advise letters of credit opened in convertible currency against exports from India, subject to exchange control regulations.

Trade with Tibet Region of China

Government of India has issued a notification on October 26, 1978 under the Imports and Exports (Control) Act, 1947, rescinding the prohibition on import and export trade with Tibet region of China. However, border trade (frontier trade) between India and Tibet region of China is not allowed. The Exchange Control Regulations relating to export/import trade between India and Tibet region of China and remittances from/to that region would be the same as applicable to China.

Trade between India and Bulgaria

With effect from January 1, 1979 all transactions of commercial nature between India and Bulgaria will be settled in free convertible currency. Consequently, Bulgaria has ceased to be a country in the Bilateral Group from that date.

Mauritius Travel Scheme (MTS)

Effective January 1, 1979, a resident in India is eligible for availing of MTS in alternate years, if he has not travelled to Mauritius and/or Seychelles since the commencement of the previous calendar year. With this change, the Mauritius Travel Scheme was brought on par with Foreign Travel Scheme which was liberalised last year. The MTS facility is in addition to the FTS facility available to a resident in India.

Royalty on Reprint of Foreign Books in India

In the interest of quick publication of essential foreign books and literature in India and speedy settlement of royalty dues, the Reserve Bank has permitted, with effect from August 18, 1978, Indian publishers to conclude agreements for reprint of foreign books and other copyright literature in India, without prior approval, provided the books/literature are not on the proscribed or banned list and the

rate of royalty does not exceed 15 per cent of the Indian published price. However, prior approval of the Reserve Bank is required before conclusion of the agreement if a higher rate of royalty is to be paid. The publishing houses are allowed to remit royalty, as and when due, without prior approval, provided all royalty remittances in respect of any particular agreement are made through the same bank. Where the gross amount of royalty exceeds Rs. 1,000/- the declaration has to be certified by a firm of Chartered Accountants.

Remittances of Consular Fees by Foreign Diplomatic Missions in India

With effect from April 24, 1979, applications by foreign diplomatic missions in India for remittances of visa fees and other consular collections are approved by the Reserve Bank on their furnishing a simple certificate in a prescribed form.

Other Developments

An office of the Exchange Control Department was opened at Chandigarh on September 1, 1978, with jurisdiction covering States of Haryana (excluding districts of Faridabad, Gurgaon and Sonapat), Himachal Pradesh, Punjab and the Union Territory of Chandigarh. The districts of Faridabad, Gurgaon and Sonapat of the State of Haryana would continue to be linked to the New Delhi Office.

The Exchange Control Cell of the Hyderabad Office of the Bank has been upgraded as a full-fledged office with effect from December 1, 1978 and would deal with applications relating to all matters of exchange control on account of persons, firms and companies residing/functioning within the State of Andhra Pradesh.

A completely revised edition of the Exchange Control Manual covering the developments in exchange control regulations since the publication of the sixth edition of the Manual in 1971, and more particularly after the enactment of Foreign Exchange Regulation Act 1973, was brought out. The edition incorporates all the directions of standing nature issued to authorised dealers in foreign exchange upto the end of May 1978, as also directions issued to full-fledged money-changers, restricted money-changers, airlines/shipping companies,

travel agents and insurance companies. The revised edition came into force effective 14th September 1978.

VI. International Monetary Developments

World Economic Outlook

Though the pattern of international payments among the important industrial countries improved, international economic developments in 1978 resembled those in 1977 in many respects. For major country groups, the rates of growth were generally maintained. There was no significant change in inflationary pressures and in the unemployment situation, nor indeed in respect of exchange rate instability. Recessionary trends in the industrial world and almost universal acceleration of inflationary pressures along with the increases in oil prices are expected to widen the payments imbalances of different groups of countries during 1979. Balance of payments deficits of non-oil developing countries would further deteriorate sharply in the context of the continued fall in their terms of trade and their growing debt service burden.

The overall tempo of world economic activity was maintained in 1978 with real output expansion in the industrial countries as a group placed at 4.0 per cent — the same as that in 1977. The distribution of payments imbalances among the industrial countries improved over the year as the differences in the growth rates of individual economies narrowed and exchange rate adjustments took place. But the relatively greater convergence of growth rates within the industrial world came about as a result of a slowing down in the U.S.A. alongside a modest quickening in industrial Western Europe and Canada, whereas broader world interests required convergence at a much higher level of economic activity and under conditions of more orderly exchange rate movements.

In the first half of 1979, the industrial countries as a group recorded an overall growth of output at an annual rate of less than 3 per cent, while the rate of inflation accelerated to 8.0 per cent from 6.6 per cent in the first half of 1978. Increases in oil price during the year are expected to further exacerbate the inflationary situation and depress activity. The

growth of GNP of industrial countries is estimated at close to 2 per cent for the year as a whole and lower still in 1980. For the calendar year 1979 and for early 1980, the international economic outlook is thus distinctly depressing and would involve aggravation of the difficulties of the poorer developing countries, significantly weakening their development process.

In the U.S.A., the rate of growth of real GNP, which decelerated from 5.3 per cent in 1977 to 4.4 per cent in 1978, is now anticipated to decline further markedly, during 1979. The economic slowdown stemming from a cutback in consumer spending on durables, in construction activity and in business investment is attributable partly to autonomous cyclical forces and partly to the official economic policies including anti-inflationary programmes and measures to strengthen the dollar externally. The recent escalation of oil prices would accentuate the situation further.

In West Germany, the upturn in economic activity which commenced in the second quarter of 1978, is expected to gather some strength during 1979, despite the weakening in the first quarter of the year because of the exceptionally bad weather and the strike in the steel industry. Expectations are that the real output which had risen by 2.6 per cent in 1977 and by 3.4 per cent in 1978—quite close to the targets set out for the year, might improve further in 1979. The expansionary fiscal policy with increased government spending and tax reliefs provided the main motive force for a pick-up in domestic demand particularly in consumption expenditure and private investment.

In Japan, the export-led growth of real GNP during the year 1978 is placed at 5.6 per cent, marginally higher than that of 5.4 per cent during 1977. In the context of the deceleration of U.S. economic activity, it was expected earlier that Japan would not be able to rely during 1979 on the expansion of exports for anything more than a modest support for its domestic economic growth. However, on account of expansionary fiscal policy, as reflected in a package of comprehensive measures adopted by the Government to stimulate demand, coupled with the rapid pick-up of

private investment, the real GNP growth is expected to remain around 1978 level in 1979 as well.

In the U.K., the economic recovery which began in the second half of 1977 continued through a larger part of 1978, but weakened towards the end of the year partly due to industrial disputes. The smart advance in income growth from 1.7 per cent in 1977 to 3.3 per cent in 1978 is attributed to a strong upsurge in private consumption and investment. However, with the restrictive fiscal policy pursued by the new Government, the expansion might be expected to slow down considerably in 1979.

Among the *OPEC group*, the rapid economic growth of the past few years gave way to more moderate expansion of 6.2 per cent in 1977, which declined sharply to 2.6 per cent in 1978. The expectations for 1979, based on the presumption that these countries would maintain relatively restrained demand management policies in order to avoid a resurgence of inflation, are for a real output expansion of under 2 per cent.

The performance of the *non-oil developing countries* in regard to output at over 5 per cent was relatively satisfactory during 1978. In the face of the generally disheartening economic situation all around, it would be extremely difficult for this group of countries to maintain their income growth even at 1978 rate.

Unemployment continues to be a major problem with the industrial world. In the OECD countries as a group, unemployed formed 5.3 per cent of total labour force in 1978 and this ratio is expected to move up slightly in 1979. The unemployment rate is expected to worsen further in the U.S., Canada, France, and the U.K. during the year.

The inflation rate, as measured by the consumer price index, showed a modest decline during 1978, in a majority of industrial countries, and more particularly in the U.K., Japan and Italy, although the rates of inflation still remain too high to be considered acceptable. On the other hand, in the U.S.A. prices rose marginally. For the industrial countries as a group the increase in consumer prices is placed at 6.8 per cent in 1978, as against 7.9

per cent during 1977. The data for the first two quarters of 1979 clearly point to renewed pressures on prices. The OPEC had decided in December 1978 to mark up crude oil prices by 14.5 per cent in four quarterly instalments between January 1, and October 1, 1979, but at the March 1979 meeting, the increases planned for July and October were also made effective on April 1, 1979 itself and an additional escalation was effected at the June 1979 meeting of the OPEC. As a result, oil prices would now be around 60 per cent above the average for 1978. A widespread acceleration of inflation is thus a near certainty for the year as a whole.

Fears of further strengthening of inflationary pressures were already reflected in the restrained economic policies of the industrial countries. The rising oil prices would narrow down further the scope for adopting expansionary measures and thus affect adversely their economic growth. Consequent dampening of the prospects for their exports in addition to the higher oil import costs would result in the deterioration of terms of trade of non-oil developing countries on top of a decline of over 4 per cent therein, in 1978.

While it is true that the difficulties arising from instability in exchange rates affected all economies, the instability has particularly adverse impact on developing countries because this group of countries is generally ill-equipped to handle it. Large fluctuations in exchange rates hinder new exports from developing countries. They render the terms of trade more unpredictable and result in uncertainties relating to debt service payments. As a consequence, the management of domestic policies becomes more difficult for the developing countries and the management of their reserves, themselves built up at considerable cost, becomes more complicated. From time to time, leading economies tried to restrain the disorderliness in exchange markets, with varying degrees of success. Though it is recognised that under conditions of widely differing performances of the major economies it would be futile to expect and try for exchange rate stability, the destabilising speculative activity in exchange markets should be sought to be reduced by effective co-ordination of intervention and other policies.

International Trade and Balance of Payments

In 1978, the expansion in world trade in terms of volume, remained unchanged at 1977 rate of 5 per cent. In terms of value in US dollars, however, the world trade expanded by over 15 per cent in 1978 compared with the rise of about 14 per cent during 1977. The variance between volume and value rates of growth reflected wide-spread inflation and the weakness of the US dollar during the year.

Despite sluggish expansion of their economies, the import demand of the major industrialised countries increased in 1978. Their import growth accelerated from 5 per cent in 1977 to 6 per cent in 1978. Moreover, the pick-up was more evenly spread between different countries than in 1977, when the import growth was largely influenced by the rise of 12.8 per cent in the U.S. imports while imports of the principal surplus countries of Japan and West Germany increased by 3.7 per cent and 5.1 per cent, respectively; in 1978, the U.S. imports rose by 7.3 per cent and those of Japan and West Germany by 9.5 per cent and 8.4 per cent, respectively. Changes in exchange rates since the last quarter of 1977 materially assisted the increase in West German and Japanese imports.

The import demand from the oil-exporting countries was highly subdued in 1978. Their real import growth dropped from 15 per cent in 1977 to a meagre 5 per cent in 1978, because of the decline in the growth rate of income from over 6 per cent to below 3 per cent, the adoption of more restrictive domestic policies, and the political upheaval in Iran.

On the other hand, the pursuit of more growth-oriented policies marked an accelerated import growth of the non-oil developing countries as a group from 5 per cent in 1977 to as much as 9 per cent in 1978.

Exports from industrial countries expanded by about 5 per cent in 1977 as well as in 1978, though there was a pronounced variation in the export performance of individual countries. While exports from the U.S. rose markedly by 7.7 per cent, the Japanese exports declined by one per cent reflecting impact of the Yen's appreciation and of the direct controls imposed on exports by the Japanese

Government. On the other hand, exports from the major oil exporting countries, after showing no change in 1977, fell by 4.5 per cent in 1978 as a result of the disruption in Iranian oil production and regulation of output by other producers. As for the non-oil developing countries, the rate of growth of exports improved from 5 per cent in 1977 to 8 per cent in 1978.

The terms of trade developments during 1978 for different country groups marked a sharp break. Those of the major oil exporters declined by 10.5 per cent mainly because of the interaction of three factors viz., absence of any perceptible change in the dollar price of oil on an average, the OPEC policy of pricing their oil exports in terms of US dollar which depreciated, and marked rise in prices of manufactures partially offset by decline in prices of primary commodities. The terms of trade of non-oil developing countries after a strong recovery in 1976 and 1977, also recorded a substantial deterioration of 4.5 per cent during 1978 that emanated from the general weakness of prices for primary commodities other than oil, as also from the high rates of inflation in the industrial world. On the other hand, the terms of trade of the industrial countries, improved by 3 per cent during 1978, precisely for the same reasons.

Reflecting these trade developments, the aggregate trade balance of industrial countries as a group, witnessed a sharp turn around from a deficit of US \$7.3 billion in 1977 to a surplus of US \$16.7 billion in 1978, despite further deterioration of the U.S. trade deficit from US \$ 30.9 billion to US \$ 34.2 billion over the year. The turn around could be attributed mainly to the substantial improvement in trade surpluses of Japan and West Germany in the range of US \$ 6 to 8 billion each, reaching the high levels of over US \$ 25 billion each, as also to the contraction of trade deficits for most other industrial countries including the U.K.

The current account (excluding official transfers) surplus of the industrial countries shot up to over US \$ 34 billion during 1978 from barely US \$ 3.5 billion in 1977 owing mainly to developments on the trade side and weakness of dollar. The U.S. continued to have a sizeable deficit, which amounted to US \$ 9.2

billion in 1978—almost the same as in 1977. On the other hand, West Germany and Japan recorded striking improvements, adding US \$ 4.6 billion, and US \$ 6.6 billion, respectively, to their 1977 surpluses and raised them to the heights unprecedented in dollar terms of US \$ 13.2 billion and US \$ 17.7 billion, respectively, in 1978. However, in the context of uncertain outlook for the U.S. economy as also due to the oil price hike by the major oil exporters amounting to about 60 per cent in the first half of the year alone, these surpluses are expected to contract in 1979. The current accounts of most other industrial countries such as those of the U.K., France, Italy, Switzerland, etc., which indicated a marked improvement in 1978, are also likely to be dampened in 1979. The IMF's projection for the current account deficit of industrial countries in 1979 is down to US \$ 10 billion, as against an estimated surplus of US \$ 34 billion in 1978.

For the major oil exporting countries there has been a progressive reduction in the current account surplus from about US \$ 40 billion in 1976 to US \$ 6 billion in 1978 mainly on account of the deterioration of their terms of trade, regulation of oil production and expansion in their imports. However, in the context of the large escalations in oil export prices effected in the first half of 1979, their surplus is expected to shoot up again in 1979 and may amount to about US \$ 43 billion.

As for the non-oil developing countries, despite an increase in the volume of exports in 1978, the current account deficit widened from US \$ 21 billion in 1977 to US \$ 31 billion in 1978, largely as a result of the deterioration of terms of trade. This development was reinforced further by the policy of maintaining the rising level of imports in order to keep up the momentum of development. The current account deficit is expected to substantially deteriorate further in 1979, to around US \$ 43 billion, since their export prices are not likely to keep pace with the prices of imported manufactured goods, much less with the price of oil. In fact, since the group of non-oil developing countries as defined by the IMF includes some countries exporting oil on small scale, such as Bahamas, Ecuador, Gabon, Malaysia, Netherlands Antilles, Syrian Arab Republic, Trinidad and Tobago, etc.

in the context of the recent developments on the international oil front, the extent of worsening of the terms of trade and the resultant widening of the current account deficit for the oil-importing developing countries is going to be even more formidable than that of the non-oil developing countries.

World Reserves

Aggregate global reserves comprising gold (valued at SDR 35 per ounce), foreign exchange, SDR holdings and reserve positions in the Fund increased during the year under review viz., July 1978-June 1979, by SDRs 23.3 billion or 8.8 per cent, as against the rise of SDRs 28.2 billion or 11.8 per cent in the preceding year. The rate of expansion in reserves, however, was smaller than that in value of world trade.

Component-wise, the major thrust of the rise in the world reserves, as in the recent period, came from foreign exchange. Foreign exchange holdings increased during the year by as much as SDRs 25.8 billion, compared with the rise of SDRs 31.0 billion during the preceding year, raising its share in the total reserves to over 80 per cent at the end of June 1979. Fresh allocation of SDRs by the Fund of more than 4 billion on January 1, 1979, after a lapse of seven years, increased the share of SDRs in total reserves marginally to only 4.3 per cent by end-June 1979. The level of the other Fund related asset viz., members' reserve positions in the Fund, however, continued to decline for the third year in succession—reaching the level of SDRs 12.9 billion by end-June 1979, compared with SDRs 16.8 billion at the end of June 1978; as a result, its share in total reserves declined from 6.3 per cent to 4.5 per cent over the period. The gold component of reserves which had remained almost unchanged at SDRs 35.5 billion upto the last year, declined during the year by SDRs 2.9 billion. The decrease reflects mainly the deposit by the eight countries, participating in the European Monetary System, of 20 per cent of their gold holdings with the European Monetary Cooperation Fund. The European Currency Units (ECUs) issued in return for these deposits are shown as part of the country's official foreign exchange holdings. Consequently, the share of gold in total reserves

declined from 13.3 per cent at end-June 1978 to 11.2 per cent by end-June 1979.

Country group-wise, the rise in reserves accrued mainly to the industrial and to some extent to non-oil developing countries. In fact, the industrial countries as a group recorded a rise of SDRs 23.6 billion, marginally higher than the overall rise in world reserves. By end-June 1979, reserves of industrial countries at SDRs 166.8 billion, formed 57.5 per cent of world reserves and rose by 3.8 percentage points over the year. Non-oil developing countries further added SDRs 7.1 billion as against SDRs 9.1 billion during the preceding year, and thereby raised their share in the global reserves from 17.1 per cent to 19.5 per cent over the year ended June 1979. Region-wise, while the developing countries of the Latin America, Middle East and Asia added to their reserves SDRs 5.3 billion, SDRs 0.7 billion and SDRs 1.0 billion, respectively, reserves of African countries, remained almost unchanged over the year.

The reserves of oil exporting countries which dropped by SDRs 4.3 billion during 1977-78, partly due to exclusion by some countries of gold maintained as a backing for currency issued from their reserves, witnessed a further decline of SDRs 11.3 billion during the year. The decline was particularly marked for Venezuela, Saudi Arabia, and Libya.

Review of Members' Quotas at the IMF

The last year's Report referred to quota increases under the Sixth General Review of quotas, whereunder total quotas of members were raised from SDRs 29.2 billion to SDRs 39 billion. The Seventh General Review of quotas which was under consideration for sometime was completed in December 1978 with the adoption by the Board of Governors of the Fund, the necessary resolution in this regard. It has also been agreed that under normal circumstances the next General quota increase would not be considered till the end of 1983.

The Seventh quota review resolution provides for an overall increase in members' quotas by 50 per cent together with selective increases totalling SDRs 388 million for 11

developing members viz., Iran, Saudi Arabia, Kuwait, Libya, Korea, Iraq, United Arab Emirates, Singapore, Qatar, Oman and Lebanon, leading to an increase in the total quotas from SDRs 39 billion at present to SDRs 58.6 billion, if all members accept their individual increases as proposed. India could raise her present quota in the Fund from SDRs 1,145 million upto SDRs 1,717.5 million, under the Seventh quota review.

Under this resolution, the members are required to consent to their increases in quotas by November 1980. The increases will actually become effective as soon as consents are received from members having at least 75 per cent of total quotas on November 1, 1978 and when the Fund receives the increased subscription from members which have consented to quota increases. Twenty five per cent of the quota increase is to be paid by participants in the SDR Department in SDRs, while non-participants will pay that proportion in foreign exchange of equivalent value. The balance can be paid by all members in their own currencies.

Allocation and use of SDRs

In conformity with one of the major objectives of the Second Amendment to the Articles of the Agreement of the IMF, to promote the SDR as the principal reserve asset in the international monetary system, a number of decisions were taken by the Fund during the period under Review. Taking into account the provisions of the Articles of Agreement and the level of reserves, it was decided to allocate SDRs 4 billion as of January 1 each year in 1979, 1980 and 1981. Accordingly, allocation of SDRs 4 billion was made to 137 participants on January 1, 1979. Besides, to improve the characteristics and attractiveness of SDRs, the interest rate on SDR holdings was raised from 60 per cent to 80 per cent of the combined market interest rate of short-term money market rates in the five countries with the largest Fund quotas. The yield on the SDRs is thus made more competitive with yields on other international reserve assets. By reducing the minimum level of average SDR holdings that participants are required to maintain in relation to their net cumulative allocations from 30 per cent to 15 per cent, a step was taken in the direction of making

SDRs closer to other forms of international reserves. This amendment would enable participants to maintain lower levels of SDR holdings from day to day and thereby increase their ability to use SDRs. It was also decided to widen the usability of SDRs by permitting their use in (a) settling financial obligations other than donations, (b) making loans of SDRs by agreement between participants, and (c) giving a security for the discharge of financial obligations other than donations. The Fund is examining possibilities of further broadening of the use of SDRs.

In addition, the Fund has begun to explore with a number of official institutions the possibility of enlisting them as 'other holders' of SDRs so that they would be able to acquire, hold and use SDRs in certain transactions and operations.

For sometime the Fund is actively examining the creation of a Substitution Account which would promote the development of the SDR as the principal reserve asset. Under various schemes that are now being looked into, the underlying idea seems to be to replace a portion of dollar holdings of members with SDR denominated bonds issued by the Fund.

Supplementary Financing Facility

The decision to establish the Supplementary Financing Facility (SFF) also referred to as the Witteveen Facility was taken by the IMF in August 1977. Its objective is to provide supplementary financing in conjunction with use of the Fund's ordinary resources to members facing serious payments imbalances that are large in relation to their quotas. The Facility is designed so as to assist those members which, because of the seriousness of their payments problems, can be expected to need resources in large amounts and for longer periods than could be available to them under regular credit tranches. The Facility became operational on February 23, 1979 when the precondition relating to conclusion of agreements between the Fund and lenders for an aggregate amount of SDRs 7.75 billion was fulfilled. By the end of June 1979, 14 lenders signed agreements with the Fund to provide in the aggregate SDRs 7.78 billion for the facility.

On May 4, 1979, the Fund approved a request from the Government of Sudan to make purchases upto the equivalent of SDRs 200 million over the next three years under the Fund's Extended Facility. Thereunder for the first time, purchases will be financed in part from the Supplementary Financing Facility. On June 30, 1979, total purchases by three members financed with resources available under the Supplementary Financing Facility amounted to SDRs 47.1 million.

The scope and continuation of the Facility will be reviewed by the Executive Board of the Fund within two years of its becoming operational (i.e., before February 23, 1981) or earlier if the resolution on the Seventh General Review of quotas becomes effective.

Compensatory Financing Facility*

Under the Compensatory Financing Facility in operation since February 1963, the IMF provides financial assistance to members, especially primary producing countries, encountering payments difficulties on account of shortfalls in their export earnings, attributable to circumstances beyond their control. During the period July 1, 1978 to June 30, 1979, members' drawings under this Facility amounted to SDRs 619 million as against those of SDRs 359 million during the preceding twelve months. Despite this rise, the drawings were still far short of the record high of SDRs 2,693 million during the year ending June 1977. The relatively smaller drawings under this Facility in recent years compared with the July 1976-June 1977 peak, partly reflect absence of shortfalls in export earnings following recovery in prices of primary products, and were partly because of the operation of ceiling under the Facility. Following repurchases of earlier drawings, the outstanding purchases under the facility increased over the year by SDRs 332 million to SDRs 2,980 million as on June 30, 1979.

Trust Fund

The Trust Fund was established by the IMF in May 1976, for the purpose of providing additional balance of payments assistance

on concessional terms to eligible members from developing world during the two periods of two years each; the first period ended on June 30, 1978 and the second period is upto June 30, 1980. The number of eligible members for the second period (July 1978 to June 1980) has been reduced to 59. India is among the eligible countries but her balance of payments situation has precluded her so far from approaching the Fund for a loan from the Trust Fund.

As profits from gold agreed to be sold by the Fund constitute the main sources of funds for the Trust Fund, it is expected that total loans to qualifying members during the second period would substantially exceed SDRs 841 million loans disbursed during the first period as gold prices during the second period have remained much above those during the first period. By the end of July 1979, 27 members had qualified themselves to get loans from the Trust Fund, and loans amounting to SDRs 350 million were disbursed to them. Further disbursements would follow. Under a recent decision of the Fund, an eligible member can qualify itself for a loan under the Trust Fund, in support of balance of payments programmes of twelve-months that are to begin not later than May 1, 1980.

Subsidy Account

As mentioned in the last year's Report, the Subsidy Account was set up by the Fund on August 1, 1975 to assist the poor members from developing world most seriously affected (MSA) by the higher oil prices by providing subsidy so as to reduce the effective cost of using the resources made available to them under the 1975 Oil Facility. Contributions to the Subsidy Account were solicited from all the members other than the MSA. Twenty-four members and Switzerland agreed to provide contributions amounting to SDRs 160.5 million by April 30, 1983; the actual contributions received by June-end 1979 amounted to SDRs 132.8 million.

The United Nation's list of countries most seriously affected (MSA) included 39 Fund members, of which 18 made purchases under

* In August 1979, the Compensatory Financing Facility was further liberalized by providing optional inclusion of receipts from travel and workers' remittances in the calculation of export shortfalls, authorizing drawings upto 100 per cent in place of the existing 75 per cent of the quota and eliminating the existing ceiling of 50 per cent of quota on drawings during any 12 month period.

the 1975 Oil Facility to the extent of SDRs 551 million, including an amount of SDRs 201.3 million purchased by India. In November 1978 as referred to in 1977-78 Report, the list of beneficiaries was extended to include seven more members. A subsidy at the rate of 5 per cent per annum was granted for the fiscal years (ending April 30) 1976 through 1979. This reduced the average cost of using the resources under the Oil Facility to original beneficiaries from 7.71 per cent to 2.71 per cent per annum. The new beneficiaries, depending on the availability of funds would receive the subsidy at a rate not exceeding 5 per cent, after the original beneficiaries are paid the subsidy at the rate of 5 per cent.

In absolute terms, the MSA countries received subsidy equivalent to SDRs 13.8 million for the fiscal years (ending April 30), 1976 SDRs 27.5 million for 1977, and SDRs 25.0 million for 1978, of which, India's share was SDRs 7.23 million, SDRs 10.07 million, and SDRs 7.47 million during the respective years. For the fiscal year (ending April 30), 1979, the total subsidy payments amounted to SDRs 19.1 million of which India received SDRs 2.2 million. The reduction in the amount of subsidy reflects the decline in outstanding purchases under the Facility, following the repurchases made by members.

Development Assistance

According to preliminary data released by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), the total net flow of resources into developing countries from all sources was US \$ 77 billion during 1978, compared with the revised figures of US \$ 65 billion for 1977. Of this, the DAC countries contributed about US \$ 57 billion or roughly three-fourths, and the official sector of the OPEC around US \$ 6.6 billion—about US \$ 1 billion less than the revised 1977 level. The decline in the OPEC assistance was owing mainly to a reduction in the flow of aid from Iran and a fall in disbursements to the Gulf Organisation for the development of Egypt. The assistance from the centrally planned economies amounted to US \$ 0.8 billion in 1978.

The net flow of resources to developing countries during 1978 from the 17 members of the DAC at US \$ 57 billion was higher by about US \$ 7 billion over the revised 1977 level. Expressed as a proportion of DAC members' combined GNP, however, it declined marginally from the 1977 level of 0.93 per cent.

Component-wise, the volume of 'Official Development Assistance' (ODA) showed an increase of US \$ 3.6 billion or 24 per cent from the 1977 level to reach US \$ 18.3 billion in 1978. However, in the context of sustained high rates of inflation and the depreciation of the U.S. dollar, this rise is modest. Further, as a share of combined GNP of DAC members, this showed only a marginal recovery from 0.31 per cent in 1977 to 0.32 per cent in 1978, as against the target of 0.7 per cent set for the Development Decade and accepted by members of the DAC. It is also noteworthy that out of the 17 members of the DAC, only four, Denmark, the Netherlands, Norway and Sweden provided assistance exceeding the target of 0.7 per cent of their GNP, their respective proportions being 0.75 per cent, 0.82 per cent, 0.90 per cent and 0.90 per cent. The terms of ODA commitments which had been already relatively concessional, were further softened. As far as other components of financial flow from DAC countries are concerned, 'other official flows' and 'grants by private voluntary agencies' improved moderately in 1978, reaching US \$ 4 billion and US \$ 1.5 billion, respectively. Aggregate 'private flows' also improved from US \$ 30 billion in 1977 to US \$ 32.8 billion in 1978. In particular, net private export credits increased from US \$ 8.1 billion to US \$ 10 billion, and net private direct investment from US \$ 8.8 billion to US \$ 9.5 billion. Bilateral portfolio investment also improved somewhat, while the multilateral portfolio investment declined over the same period.

Exchange Rates

As in the preceding year, the foreign exchange markets witnessed considerable unrest and uncertainty during the period under review, viz., July 1978—June 1979, despite some convergence in the rates of growth of major industrial countries and the inflation rates and a better pattern of external payments

imbalances among industrial countries. A major destabilising factor appeared to be the lack of market conviction regarding the various policy measures introduced or promised by leading economies to substantially reduce their balance of payments imbalances, without significantly affecting the growth performance of the U.S.A. 'Strong' currencies such as the Deutsche mark and the Swiss franc became stronger at the expense of the U.S. dollar; the Japanese yen, however, lost ground against the U. S. dollar. The pound sterling which had staged a recovery against the U.S. dollar last year, continued to gain further strength. Besides concerted intervention policies, authorities of major currencies introduced some measures to control exchange rate instability. Another important development aimed at promotion of greater exchange rate stability was the creation of the European Monetary System (EMS) which became operative in March 1979.

The U. S. dollar, after a short span of comparative stability during the last quarter of the previous year came again under heavy pressure in the second half of July and declined against leading currencies. In the first half of August, the dollar's depreciation accelerated sharply, reflecting uncertainty about the timing and impact of the U. S. energy legislation and pessimistic expectations of the market with regard to the U.S. inflation and balance of payments prospects. Following the U.S. President's expression of deep concern regarding the position of dollar on August 16, the trend was reversed. This recovery was subsequently aided by the announcement of various support measures by the U.S. authorities, which included a rise in the Federal Reserve discount rate from 7.25 per cent to 7.75 per cent and an increase in the amount of gold offered at monthly gold auctions of the U.S. Treasury from 0.3 million ounces to 0.75 million ounces during the period November 1978—February 1979. At the end of the month, however, the currency came under renewed pressure as a result of a sharp widening of the trade deficit from U.S. \$ 1.6 billion in June to US \$ 2.99 billion in July. The dollar remained fairly steady in September, supported partly by favourable economic indicators for August which depicted narrowing down of trade deficit to US \$ 1.62 billion a marginal decline of wholesale prices, for

the first time in the preceding two years and partly in response to tightening of monetary policy and raising of the discount rate to 8.0 per cent. On the whole, during the quarter July-September 1978, the U.S. dollar depreciated against the Deutsche mark, the Yen, the pound sterling and the Swiss franc by 6.4 per cent, 7.3 per cent, 6.2 per cent and 16.4 per cent, respectively.

The continued widespread pessimism about the U.S. inflation and the balance of payments situation, however, soon over-shadowed favourable development such as the final passage of the energy bill by the U.S. Congress and tightening of monetary policy and the pressure on dollar again intensified in October. By October 30, the U.S. dollar reached a record low level since September 1975 in terms of most major currencies, and was quoted at £ 0.4768, DM 1.7229, Yen 177.35 and SF 1.4708 per U. S. dollar. This led to announcement on November 1 of a comprehensive package of dollar support measures by the U.S. authorities. Thereunder the resources directly available to the U. S. for interventions in the foreign exchange markets were to be considerably enlarged through

- (1) an increase in the then existing *swap* facilities with the central banks of West Germany, Japan and Switzerland by US \$ 7.6 billion to a total of US \$ 15 billion,
- (2) issue of foreign currency loans in the capital markets of West Germany, Japan and Switzerland upto a total equivalent of US \$ 10 billion, and
- (3) utilisation of the reserve position of the U.S. with the I.M.F. totalling about US \$ 3 billion and sale of SDRs equivalent to US \$ 2 billion.

It was also decided to double the amount of gold offered at the monthly gold auctions of the U.S. Government to 1.5 million ounces each.

These steps were interpreted by the market as an indication of the determination of the U.S. authorities to support the dollar and as a result the dollar strengthened sharply. Although renewed pressure on the currency tended to develop in the second week of November, this was countered by massive and concerted intervention by central banks. The firming trend for the dollar continued during the remainder of the month. The U.S. dollar, however, again came under pressure in December and declined sharply against all major currencies, except the Canadian dollar, despite substantial official intervention and further increases in the domestic interest rates. Major factors which appeared to have contributed to the dollar's weakness, were the political situation in Iran and the OPEC decision to raise oil prices by 14.5 per cent. Although a rise in crude oil prices was expected, actual increase was larger than what was widely anticipated.

Since the turn of the year 1979, the U.S. dollar tended to steady during the months of January and February, punctuated occasionally by periods of heavy pressures. In March, dollar strengthened against most leading currencies, especially against the Japanese yen, but it depreciated against the pound sterling and the Canadian dollar. This marked turnabout in confidence in the U.S. dollar was attributed partly to the restrictive monetary and fiscal policies of the U.S. authorities, sizeable inflow of short-term capital attracted by relatively high domestic interest rate in the U.S. and to favourable trade data as reflected in the narrowing of the trade deficit from US \$ 3.1 billion in January to US \$ 1.3 billion in February.

The U.S. dollar continued to firm up in the second quarter of 1979 supported by interest rate differential and expectation of an improvement in the US current account balance in 1979 on account of the projected slow down of the economy. Following a marked recovery in April stemming, *inter alia*, from a narrowing of trade deficit from US \$ 1.3 billion in February to US \$ 0.8 billion in March, the currency strengthened further in May, although at a slower pace than during the preceding month. The market sentiment in favour of the US dollar was also supported

by increased overseas demand for dollars to finance the higher cost of oil, the relatively weaker energy position of most other industrial countries, and the apprehension of oil supply shortage. The currency, however, again witnessed a set back in June when it declined against most major currencies. By the end of June 1979, the U.S. dollar was quoted at £ 0.4585, DM 1.8370, S. F. 1.6506 and Japanese yen 217.40, as against £ 0.5376, DM 2.0720, S. F. 1.8503 and Japanese yen 203.63 at end-June 1978. Thus over the year the dollar depreciated by 17.3 per cent, 11.3 per cent and 10.8 per cent against the pound sterling, the Deutsche mark, and the Swiss franc, respectively, but appreciated by 6.8 per cent vis-a-vis the Japanese yen.

The *Pound Sterling*, after a significant recovery last year, weakened during the quarter ended June 1978. It, however, picked up again in July 1978 owing mainly to the announcement of various new policy measures in June curbing monetary expansion. Sizeable foreign investment in British Government securities induced by higher interest rates also contributed to sterling's strength against major currencies. The favourable market sentiment was foastered in August and September by indications of a stronger balance of payments reflected in the trade surplus of £ 58 million of August as against the deficit of £ 132 million of July, as well as by the possibility of sterling's participation in the proposed new European Monetary System. The pound sterling remained relatively steady in early October but dipped thereafter with the announcement of the trade deficit of £ 57 million in September. In the last week of October, however, the currency rose sharply along with other major currencies against the U.S. dollar. The pound sterling weakened again in November due to capital outflows induced by rising interest rates on U.S. dollar denominated assets as also due to growing concern about industrial unrest in the U.K. and the size of pay claims being made in various sectors. The currency, however, again resumed its upward trend in December and maintained it through the year end.

With the turn of the year 1979, the uptrend was accentuated due partly to capital inflows attracted by high interest rates in the UK and

partly by the widespread belief that regarding oil supplies and the impact of future oil price increases, the U.K., due to the North Sea Oil, was much better placed vis-a-vis other industrialised countries. Thus, through the quarter ended March 1979, the pound sterling gained against other major currencies in spite of the Bank of England's interventions at times, to limit the appreciation. The currency continued to strengthen at the beginning of April, but tended to ease in the latter half of the month due to the speculative pressures developed on account of May 3, general elections, and the Bank of England had to intervene to stabilise the rates. During May and June, the pound sterling exhibited a mixed trend as a result of conflicting forces such as the buoyancy provided by the strong energy position and the downward pressure exerted by accelerating inflation. Over the year ended June 1979, the pound sterling appreciated by 25.2 per cent, 17.3 per cent, 4.6 per cent, and 4.0 per cent against the Japanese yen, the U.S. dollar, the Swiss franc and the Deutsche mark, respectively.

The upward pressure on the *Deutsche mark* seen during most part of the last year continued during this year also, largely due to rise in German trade surpluses, and the weakness of the U.S. dollar. The firmness of the Deutsche mark was pronounced particularly in relation to the Japanese yen and the U.S. dollar.

Following the declaration of the summit meeting of seven major industrial nations in Bonn, the German authorities announced a package of measures to stimulate the economy. These measures accompanied by the favourable price developments had a strengthening effect on the Deutsche mark during the quarter July-September 1978. A general expectation in the market that there would be intra-snake parity adjustments before the proposed European Monetary System (EMS) became operative, also helped the Deutsche mark. With the result, during the quarter July-September 1978, the Deutsche mark appreciated by 6.4 per cent against the U.S. dollar and by 0.6 per cent against the pound sterling but depreciated by 1.0 per cent against the Japanese yen.

Intra-'snake' tensions started growing from the middle of August, partly as a result of the dollar's precipitous decline against the Deutsche mark and partly due to speculation about a further 'snake' realignment before the EMS could be implemented. This necessitated substantial central bank interventions to maintain agreed margins between the Deutsche mark at the top of the band and the other 'snake' currencies which clustered together at the bottom. Despite this, the Deutsche mark reached a new high of U.S. \$ 0.5718 at the end of October 1978. Following the full support given by the German authorities to the U.S. measures of November 1, the Deutsche mark drifted down to U.S. \$ 0.5185 by end-November 1978, despite the release of favourable price statistics and a slight rise in Germany's October trade surplus. Sharp fluctuations occurred again among major currencies on the exchange markets in December, despite frequent and often substantial intervention by European central banks to moderate movements. During the quarter October-December 1978 the Deutsche mark appreciated by 6.1 per cent, 3.0 per cent and 9.2 per cent against the U.S. dollar, the pound sterling and the Japanese yen, respectively.

The Bundesbank raised the discount rate at the end-March from 3 per cent to 4 per cent and the Lombard rate from 4 per cent to 5 per cent to curb excessive credit expansion and to compensate for substantial loss of bank liquidity resulting from large foreign exchange outflows in recent months. Thereafter the Deutsche mark depreciated by 2.8 per cent against the U.S. dollar mainly because of short-term capital movements into dollar denominated assets. It depreciated more against the pound sterling but appreciated by 5.6 per cent in relation to Yen.

The U.S. dollar continued to strengthen vis-a-vis Deutsche mark in the months of April and May and the Bundesbank intervened at times to limit the U.S. dollar's appreciation. The Bundesbank raised the Lombard rate again from 5 per cent to 5.5 per cent on June 1, 1979. With the reporting of higher West German trade surplus of DM 3.4 billion and DM 3.3 billion in March and April, the Deutsche mark appreciated by 1.8

per cent against the U.S. dollar over the previous quarter (January-March 1979) and by 5.4 per cent against the Japanese yen. However, it depreciated by 3.8 per cent against the pound sterling mainly because of firming of the pound sterling.

Between end-June 1978 and end-June 1979, the Deutsche mark appreciated by 11.3 per cent against the U.S. dollar, by 20.4 per cent against the Japanese yen and by 0.6 per cent against the Swiss franc, but depreciated by 4.0 per cent against the pound sterling.

The *Japanese yen* displayed a weakening tendency against the U.S. dollar during the major part of the year and the Bank of Japan had to act on a number of occasions to stabilize the Yen. The upward pressure on the Japanese yen noticed in May 1978 continued during the months of June and July 1978 largely due to Japan's continuing large trade and current account surpluses and the Bank of Japan had to resume its dollar support purchases on a larger scale. However, Yen eased marginally against the U.S. dollar in August and remained stable in September 1978. The Yen's easier tone in August was attributed partly to anticipation about the Government's economic policy package which was aimed at boosting domestic demand and reducing Japan's trade surplus over the remainder of the year. During the quarter July-September 1978, Yen appreciated by 1.5 per cent, 7.3 per cent and 1.0 per cent against the pound sterling, the U.S. dollar and the Deutsche mark, respectively.

The Japanese yen showed firmness in October as a result of widening trade and current account surpluses and despite large-scale dollar support purchases by the Bank of Japan. Because of various measures taken by the U.S. authorities in November 1978 to strengthen the U.S. dollar, and despite heavy intervention at times by the Bank of Japan to stabilize the Yen, the Japanese yen weakened. The major factor for weakness appeared to be prepayment in October of \$1.2 billion for "emergency imports" of enriched uranium and crude oil for stockpiling. Yen remained stable against the U.S. dollar in December 1978, mainly due to increase in trade surplus

in November. During the quarter October-December 1978 as a whole, the Japanese yen depreciated by 6.0 per cent against the pound sterling, 2.5 per cent against the U.S. dollar and 9.2 per cent against the Deutsche mark.

The Yen weakened further in February 1979 and the Bank of Japan had to intervene at times to limit the depreciation. Sizeable capital outflows and the concomitant easier tone of the Yen on the exchanges enabled the authorities to take further measures towards relaxation of restrictions on capital inflows. Despite massive intervention by the Bank of Japan to limit the decline, the Yen continued to fall in March 1979, reflecting heavy capital outflows. Thus, during the quarter January-March 1979, the Japanese yen depreciated further by 9.7 per cent, 8.5 per cent and 5.6 per cent against the pound sterling, the U.S. dollar and the Deutsche mark, respectively.

The Bank of Japan raised the discount rate from 3.5 per cent to 4.25 per cent in April 1979, the first change in the rate since December 1973. During the April-June quarter, Yen weakened further as market operators continued to switch out of Yen denominated assets. The market sentiment was adversely affected also because of its concern about Japan's heavy dependence on oil imports and indications of acceleration in inflation. At end-June 1979, the Yen was quoted at Y217.40 per U.S. dollar, Y474.15 per pound sterling and Y118.34 per Deutsche mark, recording depreciation, over the year, of 6.8 per cent, 25.2 per cent and 20.4 per cent against the U.S. dollar, the pound sterling and the Deutsche mark, respectively.

The European Monetary System

The establishment of the European Monetary System is considered as an important step towards the European monetary integration. No doubt the instability in exchange rates during 1978 made it possible to conclude the agreement, perhaps sooner than expected. The formation of the EMS was endorsed at the April 1978 meeting of the European Council held in Copenhagen and finally concrete shape to the scheme was given through the December 1978 decision of the Council.

The main objectives of the EMS are to establish a zone of monetary stability in Europe and to achieve a greater 'convergence' of financial and economic policies among participating countries. Under the exchange rate and intervention provisions, participating members of the EMS are required to limit exchange rate fluctuations through concerted intervention policies. In order to enable the members to intervene effectively, credit facilities available to them for the purpose have been substantially enlarged. The European Currency Unit (ECU), a composite of EEC currencies identical with the European Unit of Account would play a central role in the system, as a standard of reference for central exchange rates and a common denominator of claims and liabilities arising from official interventions in EEC currencies. In addition, ECUs would be used as a means of settlement among EEC Central banks. After a two year transitional period, the European Monetary Fund (EMF) would take over the functions of the European Monetary Co-operation Fund (EMCF) and form the central institution of the system. The EMS became operative on March 13, 1979, replacing the European joint float arrangement (the 'snake') set up in 1972, with participation of all the member countries of the EEC. The United Kingdom although a member of the system, has not joined the intervention arrangements for the time being.

Gold in International Market

During the year ended June 1979, the international gold market continued to rule distinctly buoyant. The gold price advanced steadily, excepting occasional respites, and scaled unprecedented heights. Most of the year the price remained above U.S. \$ 200 per ounce. The London market final fixing for gold at end-June 1979, at US \$277.50 per ounce was higher by US \$94.45 or 52 per cent compared with the final fixing at end-June 1978. The increase in the preceding twelve months ending June 1978 of US\$ 40.05 or 28 per cent was also large. Gold prices in other international markets also moved by and large, in tune with the trend exhibited by the London market.

The gold prices generally showed a rising trend during the year except for a short-lived

set-back in October 1978. The price per ounce increased from US \$183.05 at June-end 1978 to US \$ 242.60 at October-end 1978 mainly because of pessimistic outlook of the U.S. economy reflecting in weakness of the U.S. dollar. However, after the U.S. authorities announced a comprehensive package of dollar support measures on November 1, 1978, gold price dropped by as much as US\$16 to US \$223 per ounce on the same day. But the downward trend gave way quickly and the uptrend reasserted with a renewed vigour from December onward.

Movement in gold prices is discussed below in somewhat greater detail. From the beginning of July, 1978 the gold price firmed up sharply reaching a record of US\$215.90 an ounce on August 16. The upsurge stemmed mainly from the strong speculative demand, which was fostered by continued concern about the sinking U.S. dollar and the pessimistic outlook for the balance of payments and inflation in the U.S. The gold price, however, eased abruptly in the second half of August, consequent upon the U.S. authorities' announcement on August 22, of measures to support the U.S. dollar, including a decision to increase the amount of gold to be offered for sale at each monthly auction from 0.3 million ounces to 0.75 million ounces. This announcement triggered sizeable liquidations in gold positions and led to a fall of about US \$9 per ounce on the day following the announcement. With the recovery of the U.S. dollar, there was a dip in the gold price to US \$198.0 per ounce on August 25. However, the recovery of the U.S. dollar proved to be short-lived and with the renewed weakness therein towards the end-August, the gold price resumed the upward movement again. During September and October the gold price firmed up continuously under the pressure of strong industrial demand and speculative activity bolstered by the weakness of the U.S. dollar. The price advanced from US \$198.0 per ounce on August 25, to US \$217.10 per ounce at end-September, and the rise continued unabated in October. Thus, by the end-October when the U.S. dollar reached its lowest level since September 1975, the gold price reached an unprecedented height of US \$242.60 per ounce.

In November, the uptrend reversed following the announcement by the U.S. authorities on November 1, of a broad package to buoy up the dollar. The package influenced both the demand for and supply of gold in the international markets. Because of strengthening of the U.S. dollar and higher yields on dollar denominated assets, the relative attractiveness of gold as a store of value and as an investment asset declined. Thus, on one hand it arrested the speculative demand pressure on gold, on the other, it enhanced supply of gold through the unwinding of speculative positions built-up earlier during the period of the declining trend of the U.S. dollar. In addition, the step-up in the U.S. Treasury sales of gold as a part of the package, from 0.75 million ounces to at least 1.5 million ounces each month, directly augmented the supply of gold. As a result, the gold price dropped from about US \$239 per ounce before the announcement on the morning of November 1, to US \$223 per ounce by the close of the day—a decline of US \$16 per ounce. The price continued to fall thereafter and by the end of November it reached US \$193.40 per ounce registering a decline of about US \$49, over the month.

Subsequently, however, following the announcement after the December meeting of the OPEC to mark up the crude oil prices by 14.5 per cent between January 1, and October 1, 1979, the market apprehensions of acceleration of inflation in the major industrial countries strengthened and created a widespread sentiment in favour of gold as a hedge against future inflation. The bullish sentiment in the gold markets reasserted itself and pushed

the price to US \$226.0 per ounce by end-December.

With the turn of the year, the gold price rose amidst speculative demand by about 11.2 per cent from US \$226 at end-December to US \$251.30 at the end-February 1979. During early March, however, the price fell reaching a monthly low of US \$238.15 on March 5, largely in association with a sharp decline in prices of other precious metals, particularly silver, and in view of reports of more optimistic developments regarding the Middle East peace negotiations and the supply of oil from Iran. The prospect of further strengthening of the US dollar also contributed to the weakening in the price. Thus by end-March, the gold price stood at US \$240.10 per ounce. The easing of gold price continued till mid-April, reaching a low of US \$231.75 on April 17. However, with the U.S. Treasury's announcement of April 18, that the amount of gold offered at its monthly auction would be reduced to 0.75 million ounces, the price firmed up to US \$245.30 by end-April. The upward trend gathered further strength in May, on account of continuing strong demand for gold and record prices of other precious metals, such as silver and platinum. Increasing market expectations of accelerating inflation in the major industrial countries as a result of higher prices of oil and other basic commodities appeared to have helped create a stronger and more widespread sentiment in favour of gold. The gold price shot up by US \$29.30 in May to US \$274.60 per ounce. During June, the gold price fluctuated in the range of US \$274 and US \$284 per ounce, finally closed at US \$277.50 at end-June 1979.

APPENDIX—I

IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS APRIL 1978—MARCH 1979

A. CHANGES IN EXPORT CONTROL

Sr. No.	Item	Month of Announcement	Details
1	2	3	
1.	Arms and ammunition	January 1979	Export of arms, ammunition and military stores other than sharp-edge weapons, viz., khukries, kirpans, kris, hunting knives, swords, etc. would be allowed "on merit" in consultation with the Ministry of Commerce, Ministry of Defence, Ministry of Home Affairs and Ministry of External Affairs. In case of muzzle loading weapons and breach loading or bolt action weapons such as shot guns, rifles, revolvers and pistols, export would be allowed on production of (i) licence under the Arms Act, 1959, and (ii) certificate from the Archaeological Survey of India to the effect that the arms to be exported are not antiques and/or rare specimens.
2.	Barley malt	June 1978	During the licensing period 1978-79, export of barley malt would be allowed within a limited ceiling on first-come, first-served basis. Export will be allowed by issuing an export licence with a validity period of 45 days from the date of issue.
3.	Barytes	June 1978 and February 1979	It was decided that export of barytes (lumps and powder) other than white/snow-white would be allowed to (i) MMTC, and (ii) Mine owners holding leases as on 31-3-1978 to an extent not exceeding their own production and subject to a minimum price. Export of white and snow-white barytes would be permitted on the basis of clearance from the Department of Commerce for each shipment.
4.	Bauxite	April 1978	For the licensing year 1978-79 the policy for export of bauxite 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. Export of bauxite with alumina content above 50 % (including calcined bauxite) would be allowed within a limited ceiling on first-come, first-served basis.
5.	Buffaloes	April, November 1978 and January 1979	During the licensing year 1978-79, 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. The same policy will be continued for 1979-80.
6.	Cattle for breeding	April 1978	Export of the following breeds of cattle would be allowed : Haryana, Ongole, Gir, Kankrej and buffaloes (all breeds). Export would be permitted (i) only for breeding purposes (ii) within a limited ceiling and (iii) through the Dairy Corporation.
7.	Chrome ore and concentrates	August and December 1978	Export of chrome ore and concentrates of specified grades would be permitted only through the Minerals and Metals Trading Corporation.
8.	Coir and coir products	June 1978	It was decided that export of coir yarn in non-baled form (various categories) would be allowed on production of a certificate from the Coir Board that the f.o.b. value is not less than the floor price fixed by the Ministry of Commerce.

Sr. No.	Item	Month of Announcement	Details
1	2	3	
9.	Cotton waste and yellow pickings	November, December 1978 and March 1979	With effect from November 21, 1978, the ban on export of soft cotton waste and yellow pickings was removed and export was allowed within a limited ceiling on first-come, first-served basis. On December 14, 1978, the ceiling for yellow pickings was exhausted and so further export was banned with effect from that date. Similarly, on March 26, 1979, the ceiling for soft cotton waste was exhausted and further export of this item was banned from March 26, 1979.
10.	Cotton yarn	January 1979	Export of cotton yarn of all types and counts of 6s and above and tyre cord yarn would be permitted within a specified ceiling to all destinations upto December 31, 1979. Only contracts registered with the Cotton Textile Export Promotion Council would be allowed. However, exports of cotton yarn of all types in counts of 5s and below excluding tyre cord yarn would not be allowed.
11.	Crushed bones	April, May, September 1978, January and February 1979	Export of crushed bones would be allowed within the port-wise ceiling on first-come, first-served basis. However, the export was suspended for a short period from January 1, 1979 to February 16, 1979 as the ceiling was exhausted and again reallocated the un-utilised portion of the ceiling of crushed bones from February 17, 1979.
12.	Cummin seeds and turmeric	May, June, July, August 1978, January and February 1979	Export of cummin seeds and turmeric was banned in March 1978, but pre-ban commitments were permitted to be honoured. It was decided in June 1978 to allow export of (i) alleppey turmeric powder, (ii) turmeric powder in consumer packs, and (iii) cummin seeds powder in consumer packs (packs of a net weight of one kilogramme or less) within a limited ceiling. A minimum export price would be fixed at Rs. 16 per kg. f.o.b. for cummin seed powder in consumer pack. Later it was decided to allow export of turmeric and cummin seeds in all forms, and to all permissible destinations.
13.	De-oiled groundnut cake (extractions)	June 1978, January and March 1979	Export of de-oiled groundnut cake (extractions) has been canalised through the State Trading Corporation with effect from January 16, 1979. In respect of shipments to be made regarding quota allotted for the year 1978, Groundnut Extractions Development Association was given the time limit upto March 31, 1979.
14.	De-oiled rice bran	April 1978	During April 1978-March 1979 export of de-oiled rice bran would continue to be canalised through the Solvent Extractors Association of India.
15.	Ethyl alcohol and molasses	December 1978 and March 1979	Export of molasses and ethyl alcohol or rectified spirit of any proof or degree, whether denatured or not would be allowed on production of a clearance certificate issued by the State in which the product to be exported has been produced.
16.	Fertilizers	April, May, June, July and October 1978	It was decided to ban export of cattle dung during 1978-79. Fish meal with protein contents of 60% or above would be allowed for export freely without any quantitative restriction. Fish meal with protein content between 50% to 60% would be allowed within a limited ceiling on first-come, first-served basis. Export of bone meal would be permitted within a limited ceiling on first-come, first-served basis subject to the condition that no individual exporter would be allowed to avail of more than 20% of the quota.
17.	Footwear	April and May 1978	Export of specified types of footwear would be allowed subject to minimum export price restrictions. Export of closed leather shoes at prices below the minimum floor price would be canalised through the State Trading Corporation.
18.	Ginger	February 1979	Fresh ginger would be allowed for export against either an irrevocable letter of credit or an advance payment in full.
19.	Guar meal	June, August and December 1978 and February 1979	Export of guar meal would be allowed only by manufacturer-exporters of guar gum. The ceiling for guar meal and un-utilised ceiling has been exhausted and no further export would be allowed from February 8, 1979.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
20.	Gur	April, December 1978 and January 1979	During 1978-79, export of gur would be permitted without any quantitative restriction to all permissible destinations.
21.	Handkerchief	April 1978	Under the export policy 1978-79, export of real Madras Handkerchiefs to Cotonou, Lome and Accra would be permissible only under irrevocable letter of credit.
22.	Hides and skins semi-processed	April 1978	Export policy for semi-processed hides and skins including crust leather and ready-to-finish leather for the year 1978-79 would be as follows : Quotas for the year 1978-79 to individual exporters would be based on the average annual exports actually effected by them during the last three years, viz., 1975-76, 1976-77 and 1977-78. A cut of 5 % would be imposed on the average figure in case of sheep and goat skins, while a cut of 10 % would be imposed on the average export of cow calf skins, buffalo calf skins, cow hide and buffalo hide. Quota cuts would not apply to small tanners whose quota allotments for 1977-78 did not exceed the following prescribed limits. buffalo and cow calf skin 8,250 pcs, cow and buffalo hides 5,500 pcs. and sheep and goat skins 27,500 pcs.
23.	HPS groundnuts	December 1978	It was decided to canalise export of HPS groundnuts (both in shell and kernels) through the National Agricultural Co-operative Marketing Federation of India Ltd.
24.	Human skeletons	March 1979	Export of human skeletons would be allowed by the Port Licensing Authorities on production of certificates from (i) police authorities not below the rank of the Officer-in-Charge of the Police station concerned regarding the source of procurement and (ii) foreign buyer that human skeletons are required for biological and medical purposes only. Export of other skeletons would be allowed on merits in consultation with the Ministry of Commerce and Ministry of Agriculture.
25.	Iron and Steel	July 1978	Export of CR coils/sheets/strips would be permissible only through the SAIL International Ltd. Export of pressed steel, sleepers and fishplates would be allowed without being canalised. Export of electrode quality carbon steel wire rods would be banned.
26.	Jewellery	August 1978	Gold jewellery would be allowed for exports in accordance with the provisions of the "Gold Jewellery Export Replenishment Scheme."
27.	Knitwear	April and June 1978	Export of knitwear (woollen and mixed) other than olive green shade would be decanalised and permitted against contracts registered with the Wool and Woollen Export Promotion Council.
28.	Mango juice	November 1978	Under the export policy 1978-79, export of mango juice would be allowed subject to the price announced by the Central Government.
29.	Marine products	November 1978, February and March 1979	Export of fresh and frozen pomfrets would be allowed within a limited ceiling. Pomfrets, dried, salted and unsalted Bombay duck would be exported only from the following port offices : Bombay, Ahmedabad, Madras, Cochin, Calcutta and Bangalore.
30.	Meat	May, July and November 1978	It was announced that export of meat (meat of Indian sheep and goats) would be allowed within a limited ceiling on first-come, first-served basis during the licensing period 1978-79. The minimum export price would be Rs. 12.50 per kg.
31.	Mustard seed/rape seed/mustard oil	November 1978	During 1978-79, mustard seed/rape seed and mustard oil would be released for export within a limited ceiling subject to the condition that export would be permitted to those parties whose demand is genuine and for small quantity, and is for personal consumption and not for commercial sale.

Sr. No.	Item	Month of Announcement	Details
1	2	3	
32.	Niger seed and niger seed oil	June 1978	With effect from May 27, 1978, the ban on export of niger seed was withdrawn and export was allowed through National Agricultural Co-operative Marketing Federation (NAFED) within a limited ceiling at the minimum f.o.b. export price of Rs. 6,000 per tonne.
33.	Nux vomica seeds and bark	April 1978	During 1978-79, export of nux vomica seeds and bark would be permitted 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. Nux vomica leaves, roots and powder thereof would not be allowed for export.
34.	Peacock tail feathers	January and February 1979	Export of peacock tail feathers and articles made therefrom would be allowed within a limited ceiling to the following categories of exporters: (i) established exporters, (ii) State Forest Corporations and other State agencies, and (iii) exporters of manufactured articles in which peacock tail feathers have been used; they would not be allowed to export peacock tail feathers alone. Crest feathers and any other part or portion of peacock would not be allowed. No certificate of legal procurement would be necessary. The ceiling for exporters of manufactured articles in which peacock tail feathers are used was exhausted and so their export was banned from February 20, 1979.
35.	Peanuts	June 1978	Under the export policy 1978-79, export of roasted and blanched/roasted and salted peanuts would be permitted within a limited ceiling on first-come, first-served basis. A minimum export price of Rs. 10,000 per metric tonne was fixed which was withdrawn from June 20, 1978.
36.	Pearl barley	May 1978	It was decided to allow export of pearl barley within a limited ceiling on first-come, first-served basis by all categories of exporters to all permissible destinations.
37.	Potato/potato seeds	May 1978, and February 1979	During the licensing period 1978-79, export of potato seeds of 'kufri sinduri,' 'kufri chandramukhi', 'Up-to-date' and 'kufri-Jyoti' varieties was allowed within a limited ceiling. With effect from February 7, 1979, export of potatoes was decanalised.
38.	Pure milk ghee	April 1978	The State Trading Corporation was permitted to export pure milk ghee in a limited quantity.
39.	Quinine, quinine products and cinchona alkaloids	July and November 1978	With effect from July 24, 1978, export of quinine, quinine products and cinchona alkaloids was banned while quinine sulphate would be allowed for export on production of a 'no objection' certificate from the Drugs Controller. The policy was revised in November 1978 and it was decided to allow export of quinine and quinine products, cinchona mixed alkaloids and cinchona salts within a limited ceiling on the recommendation of the Director of Chinchona of Tamil Nadu/ West Bengal, as the case may be.
40.	Rice	August 1978	Export of the following varieties of Basmati rice would be allowed subject to minimum export price : (i) polished Basmati rice—Rs. 5,500 per tonne, (ii) dehusked non-polished rice—Rs. 5,000 per tonne, (iii) paddy rice—Rs. 4000 per tonne.
41.	Samo seeds and kodari seeds	April 1978	It was announced that export of samo seeds and kodari seeds would be allowed within a limited ceiling on first-come, first-served basis, subject to the conditions that the exporter holds genuine order and is eligible to receive export licence. No exporter was allowed to export more than two tonnes each of samo seeds and kodari seeds in one month.

Sr. No.	Item	Month of Announcement	Details
1	2	3	
42.	Sesame seeds	September 1978	Export of sesame seed was canalised through the National Agricultural Co-operative Marketing Federation (NAFED).
43.	Sheep and goats	May, August, November 1978 and January 1979	Export of live sheep and goat was 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 whethers (i.e. castrated male) and culled female stock would be permitted. Sheep procured from temperate zone of Jammu & Kashmir/Himachal Pradesh/Hill areas of Uttar Pradesh/Arunachal Pradesh/Bannur and Mandya of Karnataka were not allowed for export. In case of goats, 3 milch breeds, viz., Jamnapari, Beetal and barbari and one mutton type, viz., Black Bengal was not to be permitted for exports. A minimum export price was fixed at Rs. 6/- per kg. f.o.b. of live weight.
44.	Silk waste	January 1979	In case of export of mulberry silk waste including cleaned and degummed silk waste of South Indian origin, the supplier was allowed to export 100 kg. of processed silk waste against the supply of 30 kg. of processed silk waste to Government Spun Silk Mills.
45.	Sillimanite	August 1978	The policy for export of sillimanite during 1978-79 would be as follows: Khasi sillimanite and sillimanite of Maharashtra origin would be released for export within a limited ceiling by MMTC only. 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.
46.	Silver	February 1979	With effect from February 20, 1979, a ban was imposed on export of silver bullion, silver sheets and plates which have not undergone any process of manufacture subsequent to rolling.
47.	Staple cotton	November 1978	Export of staple cotton would be permitted on production of (i) allocation and registration certificate issued by the Textile Commissioner and (ii) certificate regarding quality/quantity of staple cotton intended for export issued by the Textile Commissioner's Appeal Committee.
48.	Sugar	April 1978, January and March 1979	During 1978-79, export of sugar was allowed by the State Trading Corporation, and the sugar factories themselves from their production subject to the condition that the relevant contracts were registered by them with the State Trading Corporation.
49.	Tobacco	February 1979	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.
50.	Vanaspati ghee	January 1979	It was decided to release vanaspati ghee (hydrogenated oil) for export within a limited ceiling on production of a certificate of pre-shipment inspection and permission from the Directorate of Vanaspati Vegetable Oils and Fats.
51.	Wheat, wheat seeds and wheat products	May 1978, January and February 1979	The ban on export of wheat seeds was lifted with effect from May 1, 1978 and export would be allowed on production of a quality control certificate issued by the National Seeds Corporation Ltd.: Export of wheat was banned in January 1979, but wheat products viz., maida, rawa, suji, resultant atta and wheat bran would be allowed within a limited ceiling on first-come, first-served basis.
52.	Wollastonite	May 1978	During 1978-79 export of wollastonite would be licensed freely.
53.	Wool, raw	October 1978	The quota system for export of raw wool was abolished with effect from October 1978. Raw wool upto 40 counts would be permitted within a limited ceiling on first-come, first-served basis. Raw wool above 40 counts would not be allowed for exports.

APPENDIX—B : COMMODITIES SUBJECT TO EXPORT DUTY DURING 1978-79*

Sr. No.	Item	Rate of duty as on March 31, 1979	Changes during the year		Effective date
			From	To	
1.	Coffee	Rs. 4 per kg.	Rs. 5 per Kg. Rs. 2 per kg.	Rs. 2 per Kg. Rs. 4 per Kg.	July 31, 1978 September 7, 1978
2.	Tea	Nil	Rs. 5 per Kg. Rs. 2 per kg.	Rs. 2 per Kg. Nil	September 7, 1978 February 14, 1979
3.	Cardamom††	Rs. 10 per Kg.	No change		February 24, 1977
4.	Black pepper (excluding light and pinhead black pepper)	Nil	Rs. 1250 per tonne	Nil	February 16, 1979
5.	Turmeric				
	(i) Whole turmeric	Rs. 2000 per tonne	Nil	Rs. 2000 per tonne	January 20, 1979
	(ii) Turmeric powder	Rs. 1500 per tonne	Nil	Rs. 1500 per tonne	January 20, 1979
6.	Tobacco unmanufactured	20 per cent <i>ad valorem</i> or 75 paise per kg. whichever is less		No change	June 6, 1966
7.	Raw Cotton**				
	(i) Assam/Comilla cotton, yellow pickings and Zoda cotton pickings and sweepings	Rs. 550 per tonne	No change		October 14, 1966
	(ii) Bengal Deshi	Rs. 2500 per tonne	Rs. 700 per tonne	Rs. 2500 per tonne	January 9, 1979
	(iii) Cotton linters	25 per cent <i>ad valorem</i>	No change		October 14, 1966
8.	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
9.	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
10.	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

Sr. No.	Item	Rate of duty as on March 31, 1979	Changes during the year		Effective date
			From	To	
11.	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
12.	Oilcakes				
	(i) De-oiled groundnut oil- cake	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
13.	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 con- tent	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
14.	Manganese dioxide ..	20 per cent <i>ad valorem</i>	No change		August 2, 1966
15.	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 (com- monly 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			
	(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
16.	Sillimanite	20 per cent <i>ad valorem</i>	No change		August 2, 1966
17.	Steatite (talc)	Nil	20 per cent <i>ad valorem</i>	Nil	January 27, 1979

Sr. No.	Item	Rate of duty as on March 31, 1979	Changes during the year		Effective date
			From	To	
18.	Kyanite	Rs. 40 per tonne		No change	August 2, 1966
19.	Chrome Concentrates ..	Rs. 15 per tonne		No change	August 2, 1966
20.	Chromite@				
	(i) High grade fines and concentrates with Cr ₂ O ₃ content 47 per cent and above	Rs. 200 per tonne			
	(ii) Medium grade fines and concentrates with Cr ₂ O ₃ content 35 per cent and above but below 47 per cent	Rs. 150 per tonne			
	(iii) Lumpy ore with Cr ₂ O ₃ content 35 per cent and above but below 42 per cent	Rs. 75 per tonne			
	(iv) Low-grade lumpy ore or fines or concentrates with Cr ₂ O ₃ content below 35 per cent and FeO content above 23 per cent	Rs. 50 per tonne			
				No change	May 12, 1977
21.	Barytes	Rs. 50 per tonne	Nil	Rs. 50 per tonne	September 2, 1978

*Relates to the period April 1978 to March 1979.

**Export duty on raw cotton of staple length 24.5 mm. and above was abolished with effect from May 15, 1975.

@Chromite concentrates produced by beneficiation of low-grade chromite ore, has been exempted from new duty to encourage export of every low-grade chromite in the form of concentrates produced through this process.

£Export duty was raised to Rs. 7.50 per kg with effect from June 18, 1979 and further to Rs. 9 per kg. with effect from July 6, 1979. However, the duty was reduced to Rs. 7.30 per kg. with effect from August 4, 1979.

††Export duty was raised to Rs. 15 per kg. with effect from August 24, 1979.

APPENDIX—II

A —IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY

APRIL 1978 — MARCH 1979

Item	Month of Announcement	Details
1	2	3
Open General Licence No. 9	April 1978	General permission was granted for the import of machinery, raw materials, components, spare parts of machinery, consumables, tools, jigs, gauges and fixtures, packaging materials, prototypes, office equipment, consumables for office equipment and technical trade samples for total value not exceeding Rs. 10,000/- during 1978-79, unless such samples were supplied free of charge, from any country into Kandla Free Trade Zone and Santacruz Electronics Export Processing Zone, Bombay, subject to the condition that the import shall be (i) only by an actual user situated in the Free Trade Zone, (ii) for use in his own industrial unit and (iii) exclusively for export production.
Open General Licence Nos. 1, 2 and 3	April 1978	General permission was granted for import of capital goods and permissible spares specified in the schedule attached to the notification and not included in the banned or restricted list of items, by Actual Users (industrial and non-industrial) and the import of raw materials and components (not covered by any of the lists of banned, restricted and canalised items) by Actual Users (industrial) from any permissible country.
Open General Licence No. 4	April 1978	Imports of (1) free gift of trade catalogues and circulars upto the value of Rs. 1,000/-, (2) blue prints, drawings (including micro films), relating to machinery and plant sites, work and building research data, supplied free of charge having, no commercial value, (3) bonafide technical and trade samples supplied free of charge not exceeding Rs. 10,000/- in c.i.f. value (excepting vegetable seeds, bees, tea and new drugs) in one consignment, (4) bonafide advertising materials supplied free of charge not exceeding Rs. 1000/- in c.i.f. value in one consignment and (5) goods supplied free of charge by foreign suppliers, imported against insurance (marine) claims in replacement of goods previously imported but found defective or otherwise unfit for use by the importers themselves and not for sale, were allowed under Open General Licence from any permissible country in the world. This order replaced the earlier one on the subject issued in February 1961.
Open General Licence No. 5	April 1978	General permission was granted for the import of a wide range of specified goods (specified in an attached schedule) by Public Sector Agencies from any permissible country of the world.
Open General Licence No. 6	April 1978	General permission was granted to import into India, from any permissible country, petroleum products by Indian Oil Corporation, fertilizers by Minerals and Metals Trading Corporation and drugs by State Chemicals and Pharmaceuticals Corporation as specified in an attached schedule.
Open General Licence No. 7	April 1978	Imports of raw materials, components, consumable spares, technical equipment required by any research institution, hospital and institution of higher education, etc. were allowed under Open General Licence from any permissible country.
Personal baggage	May 1978	Non-tourist passengers from any country other than Pakistan or Nepal and officers and members of the crew of foreign going vessels at the time of their final pay off or termination of their engagement were allowed to import without any import licence but on payment of customs duty, items of personal or household effects, except television set, air-conditioner, refrigerator and deep freeze for their own

Item	Month of Announcement	Details
1	2	3
		use or for the use of their family upto a total value of Rs. 2,000/-. A non-tourist engaged in his profession abroad for over three months was however allowed to import, without licence, but on payment of customs duty, personal/household effects upto the value of Rs. 5,000/- for the use of himself or his family provided that the air conditioner, refrigerator and deep freeze were allowed to be imported on payment of duty including additional duty equivalent to the central excise duty payable on a like article produced in India. A tourist of Indian origin, whether holding an Indian or a foreign passport, who is normally resident abroad was also similarly allowed to import, without import licence but on payment of customs duty, in convertible foreign currency, items of personal or household effects except fire-arm, television set, air conditioner, refrigerator and deep freeze for presentation as gifts or souvenirs to friends and relatives up to a value of Rs. 5,000/-. The value limits will, however, not be applicable where a passenger imports a single article other than a fire-arm. In addition, the order also permits import of one dog and other domestic pets in a limited number without import trade control restrictions on furnishing necessary health certificates by non-tourist passengers.
Open General Licence No. 8	May 1978	On a review, it was decided to allow import of rock salt under Open General Licence by all persons.
Raw Jute	June 1978	On a review of the position, it was decided to canalise the import of raw jute through the Jute Corporation of India, Calcutta.
Open General Licence No. 10	June 1978	General Permission was granted to Air India, Indian Airlines and other Airlines who are members of IATA, for import of spares, consumables (excluding greases and lubricants), aircraft tyres and tubes, manuals, technical drawings, illustrations and other technical literature pertaining to the fleet of aircraft operated and maintained by them and the associated test and training equipments subject to the actual user condition.
Cellulosic/Non-Cellulosic fibres/yarns	June 1978	It was decided that co-operative societies and Associations of Actual Users in the Small Scale (including cottage) sectors that had participated in the scheme administered by the Textile Commissioner for the distribution of indigenously made art silk yarn to their own members, be allowed to import those varieties of cellulosic/non-cellulosic fibres/yarns which were under Open General Licence in the Import Policy 1978-79 without following the detailed procedure laid down in this connection.
Open General Licence No. 11	July 1978	General permission was given for import by integrated steel plants, mini steel plants and electric arc furnaces of stopper head and nozzles and copper moulds for continuous billet casting from any permissible country, subject to the actual user condition.
Spares for motor vehicles and agricultural tractors	July 1978	It was decided that registered Associations and Co-operative Societies having owners of imported motor vehicles or agricultural tractors as their members, would be allowed to import spares on behalf of such members upto a c.i.f. value of Rs. 2,500/- per vehicle/tractor in a financial year for their own use.
Open General Licence No. 12	July 1978	General permission was given for the import of machinery, equipment, testing apparatus, tools and implements specified in an annexure, required for gems and jewellery industry by registered exporters of gem and jewellery and Cooperative Societies of Goldsmiths and artisans from any permissible country.
Open General Licence No. 13	July 1978	General permission was given for the import of X-ray films (medical), industrial X-ray films, Aerographic films, drawing reproduction films, microfilm films, infra-red and ultraviolet films, Graphic art films, Intra uterine Contraceptive devices (other than Lippe's loop and Cu-T 200), coloured condoms, diaphragms, jelly and foam tablets by all persons from any permissible country.

Item	Month of Announcement	Details
1	2	3
Fresh fruits	July 1978	It was decided to canalise the import of fresh fruits through the National Agricultural Cooperative Marketing Federation of India Ltd. The goods could be sold by the canalising agency before their importation into India and in such cases clearance of the goods through customs could be claimed by the purchaser on the basis of an authority by the canalising agency.
Soda Ash	August 1978	It was decided to canalise the import of soda ash through the State Chemicals and Pharmaceuticals Corporation of India.
Gold Jewellery Export Replenishment Scheme	August 1978	It was decided to canalise the import of gold through the State Bank of India for supply of gold to jewellers under the Gold Jewellery Export Replenishment Scheme announced on August 17, 1978. This Scheme relates to exports of gold jewellery of purity not less than 0.5833 fineness and not including studded jewellery. The minimum gold content would correspond to 14 carats. The Scheme provides for the replenishment of pure gold to the extent of the quantity/value admissible thereunder against exports made in accordance with it. The Government would notify separately from time to time, the place and price at which the gold would be sold to the holders of release orders. Such replenishment would be arranged through State Bank of India. A minimum value added of 33½ per cent over the value of the pure gold content would be insisted upon in respect of the exports made under the Scheme and for the purpose of replenishment of gold. The added value would be calculated by relating the value of the pure gold content in the jewellery exported at the price notified as ruling on the date on which the relevant shipping bill was endorsed by the licencing authority to the f.o.b. price of the items exported.
Soda Ash	September 1978	On a review of the position it was decided to allow import of soda ash by Actual Users who have entered into firm contracts/commitments with overseas suppliers before August 1, 1978 without obtaining clearance certificate from the State Chemicals and Pharmaceuticals Corporation of India.
Poultry Vaccine	September 1978	It was decided to permit the import, on an ad hoc basis, of gumbaro disease vaccine for vaccinating only the parent/grand parent stock under Actual User condition by hatcheries requiring it.
Refined, bleached and deodorised Palm Oil	September 1978	On a review of the position, it was decided to allow the import of refined, bleached and deodorised (RBD) palm oil under Open General Licence by all persons.
Edible oils	September 1978	It was clarified that in the case of edible oils, import under Open General Licence would be allowed only against firm contracts which provide for delivery of goods within 60 days from the respective dates of their execution.
Raw materials, components, consumable stores, spares and capital goods	October 1978	As a measure of assistance to the industrial units affected by floods during 1978-79, it was decided to grant special licences for import of raw materials, components, consumable stores, spares and capital goods in replacement of such goods actually damaged/destroyed by the floods in 1978-79.
Trade with Tibet region of China	October 1978	The order prohibiting trade with Tibet region of China was rescinded by the Government. While import/export trade would be regulated according to normal trade policy and procedure, border trade (i.e. frontier trade) between India and Tibet region of China would however not be allowed.
Edible oils/seeds	December 1978	On a review of the position it was decided to canalise the import of all edible oils/seeds through the State Trading Corporation of India.

Item	Month of Announcement	Details
1	2	3
Gold Jewellery Export Replenishment Scheme	January 1979	The Scheme was further amended and would be applied only to the export of gold ornaments and articles including studded items (other than coin) as defined in the Gold (Control) Act, 1968. In the case of studded items, the value of pure gold, stones or gems or pearls as well as other precious metal, if any, used in the manufacture, should be Rs. 83.33 or less. The replenishment of gold would be limited to 80 % of the pure gold content of the item exported as assessed by Customs.
Soda Ash	January 1979	On a review of the situation, it was decided to de-canalise the import of soda ash and allow its import by Actual Users (Industrial) under Open General Licence.
Polyester filament yarn (Base flat-first quality)	January 1979	It was decided to de-canalise the import of polyester filament yarn and allow its import under Open General Licence, by (1) Actual Users (Industrial), (2) State Chemicals & Pharmaceuticals Corporation of India and (3) Associations and Co-operative Societies of Actual Users.
PVC Resins	February 1979	On a review of the situation, it was decided to allow the imports of PVC Resins by Actual Users (Industrial) under Open General Licence.
Poultry Vaccine (all types)	February 1979	Import of Poultry Vaccine (all types) was allowed under Open General Licence by poultry firms/hatcheries (Actual User condition) from any permissible country.
Ferrous melting scrap	March 1979	It was decided to allow the direct import of ferrous melting scrap by Actual Users upto 25 % of their licensed capacity on production of a 'No objection' certificate, issued by the canalising agency—'Metal and Scrap Trading Corporation'.

B. CHANGES IN IMPORT DUTIES

Item	Month of Announcement	Details
1	2	3
Union budget for 1979-80	March 1979	Changes in import duties made in the Central Government budget for 1979-80. (a) Levy of import duty at the rate of 12.5 per cent <i>ad valorem</i> on certain specified edible oils and exemption from additional (countervailing) duty on these oils wherever leviable. (b) Increase in the import duty (basic and auxiliary) on camphor from 75 per cent <i>ad valorem</i> to 120 per cent <i>ad valorem</i>. (c) Reduction in the import duty (basic and auxiliary) on specified drug intermediates from 75 per cent <i>ad valorem</i> to 25 per cent <i>ad valorem</i>. (d) Complete exemption to certain specified bulk drugs used in the manufacture of life-saving drugs and medicines from the import duty (basic and auxiliary) of 75 per cent <i>ad valorem</i>. (e) Complete exemption from the present rate of 40 per cent <i>ad valorem</i> import duty on power tillers.

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