FOREWORD

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

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

Mumbai
April 1, 2009

(Rakesh Mohan)
Deputy Governor
Reserve Bank of India

REPORT ON CURRENCY AND FINANCE





VOLUME I
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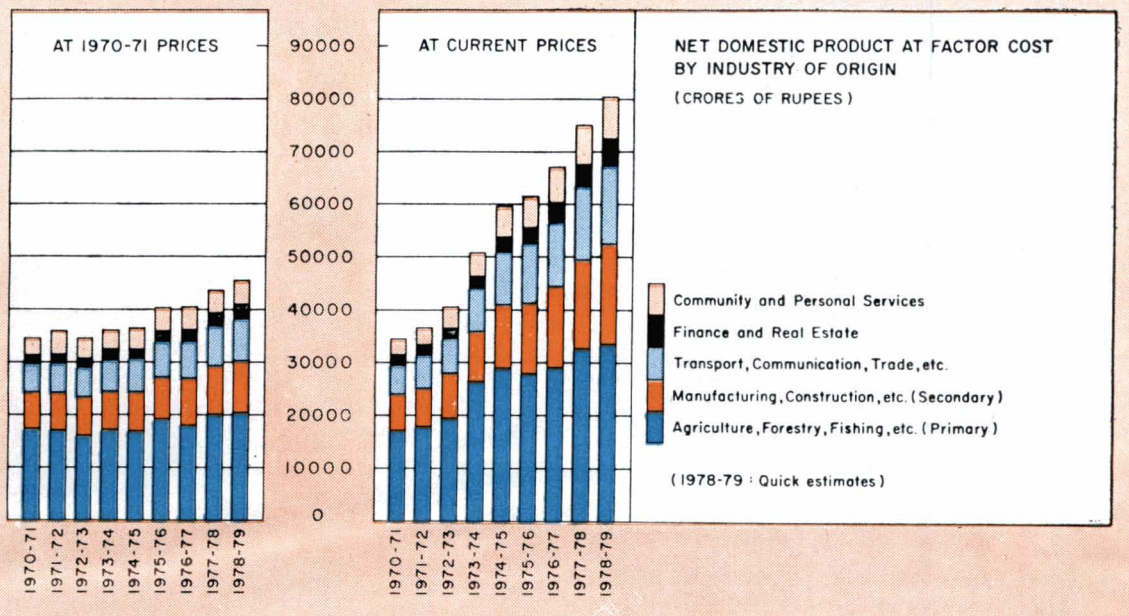
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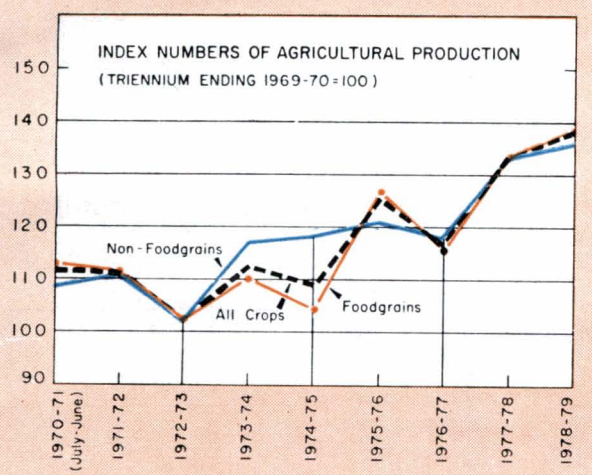
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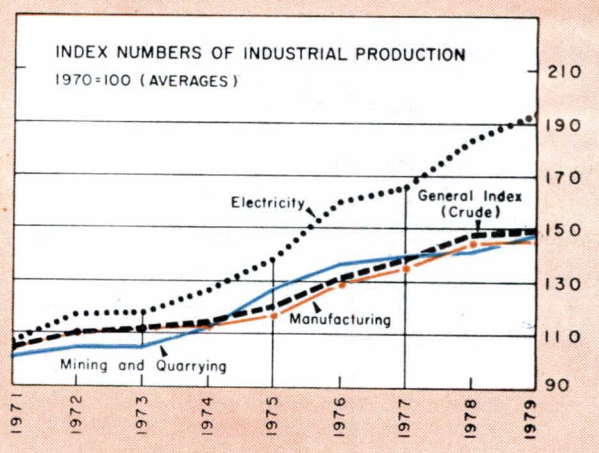
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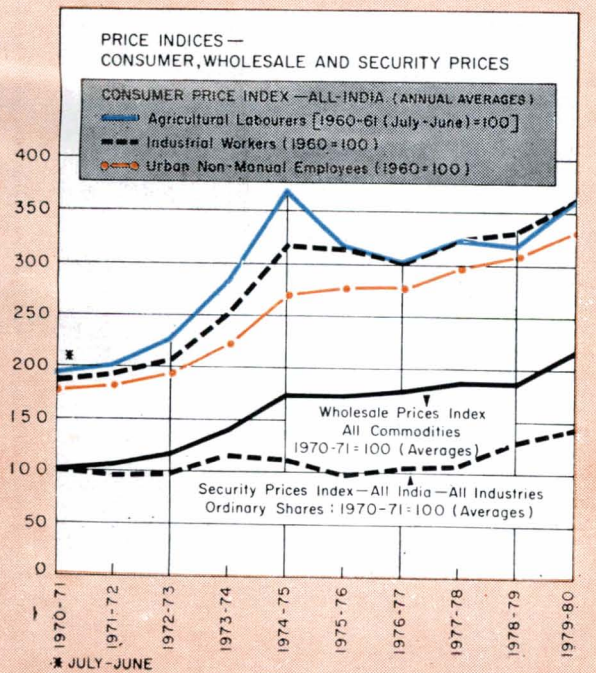
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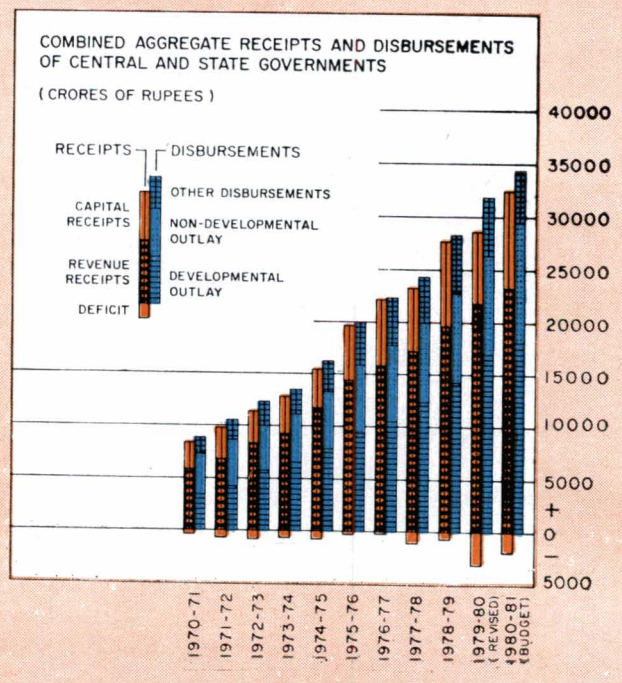
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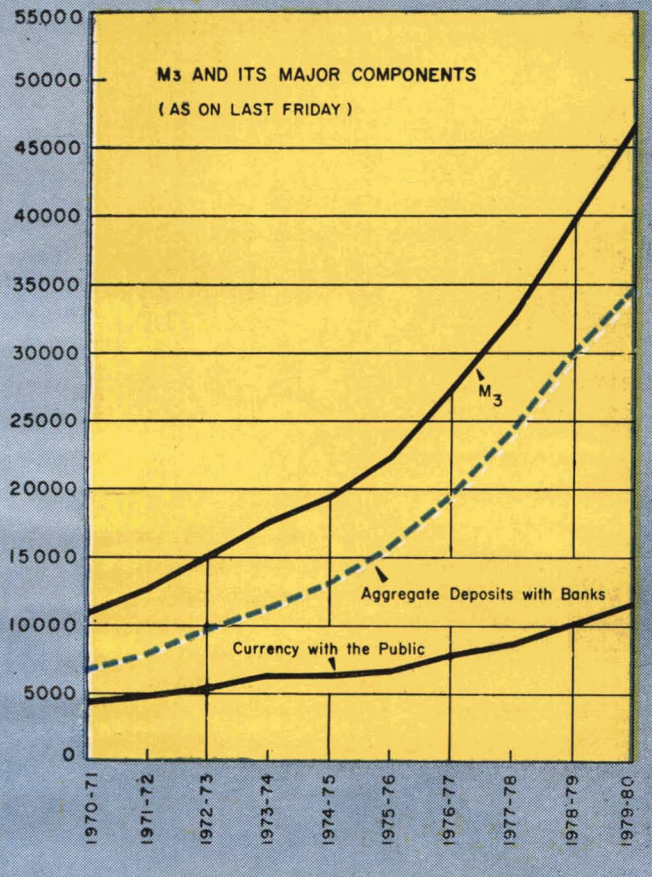


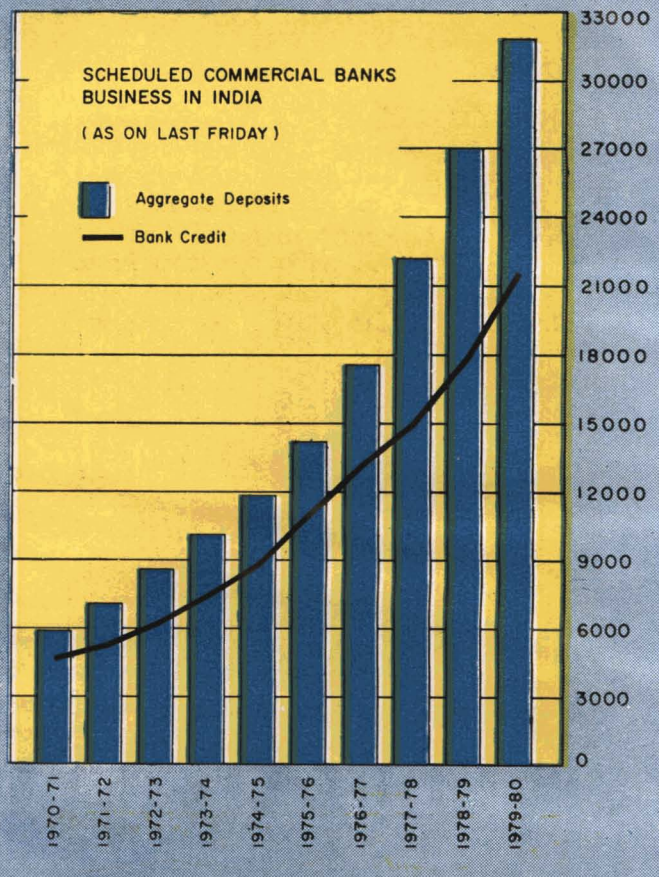


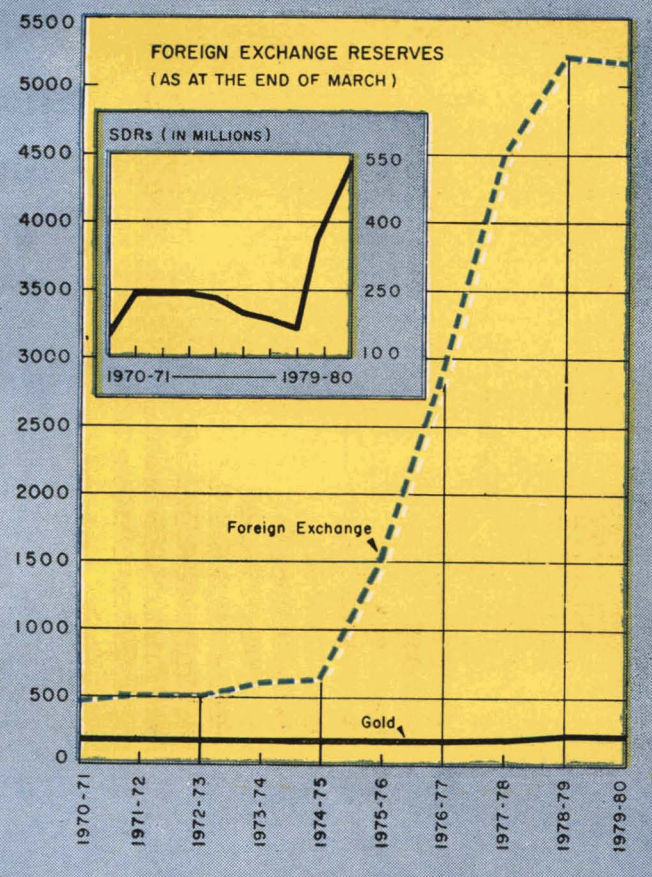


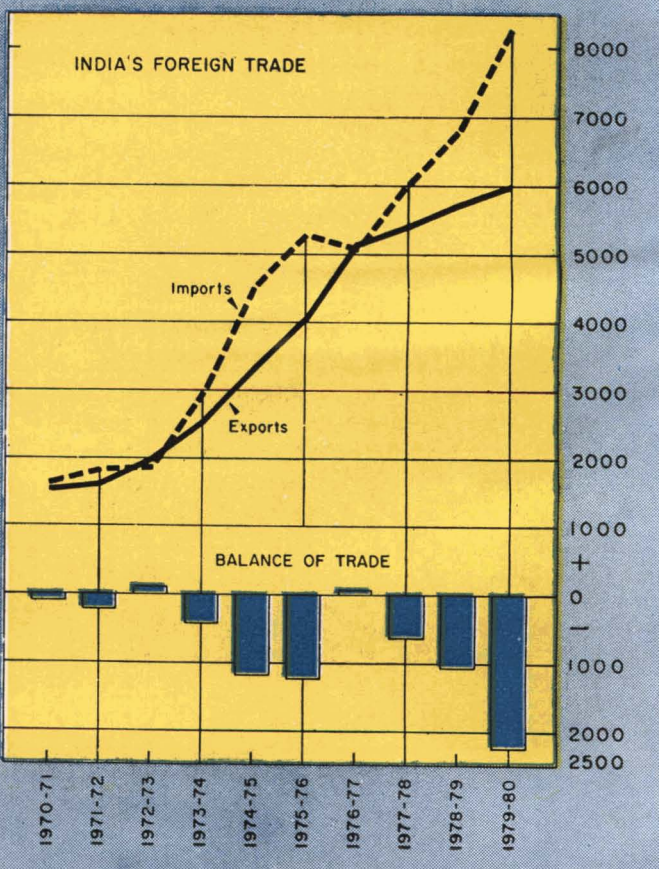
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Chapter I

Review and Outlook

This volume deals, in some detail in the chapters that follow, with the developments in the different sectors of the economy during the period July 1979 to June 1980. Viewing these developments as a whole, the economic situation appears to have deteriorated considerably during the year, with adverse movements in output, prices and external trade.

The series of good-to-excellent harvests since 1976-77, which had virtually eliminated food imports and enabled the building up of a sizeable stock of foodgrains, ended with the failure of the south-west monsoon during the year. The output of *kharif* foodgrains declined by about 16 million tonnes and the *rabi* was lower by about 7 million tonnes than that in 1978-79. The imbalance in the supply and demand position in respect of sugar was accentuated with a fall in sugarcane production. Nonetheless, the effect of the widespread drought on output was not as severe as it might have been. It is clear that the extent of vulnerability of the agricultural sector to weather factors has been significantly reduced over the years as a result of sustained developmental efforts. At the same time, the availability of sizeable foodstocks, and an increase in the off-take from the public distribution system, reduced the effect of a 17.4 per cent decline in production on the price of foodgrains.

There was, however, an area in which no mitigating influence muted the impact of the drought; this was in respect of power generation. While poor rainfall restricted hydel power generation, the demand for electricity from agriculturalists rose because of the increased use of electric pumpsets to utilise underground water resources. With the generation of power from thermal plants already affected by numerous snags, the power position deteriorated further during the year, and most of the States resorted to severe power cuts. At the same time, the output of coal continued to stagnate at around the 1977-level and difficulties in the availability and movement of railway wagons persisted. In sum, the infrastructural constraints hampering industrial production became more pronounced during the year. The index of industrial production which was stagnant in the second and third quarters of the calendar year 1979, recorded a decline in the last quarter, which trend continued in the first six months of 1980.

As a result of these adverse developments in the primary and secondary sectors, the national income declined during 1979-80, according to tentative estimates, by at least 3 per cent in real terms. This fall also involved a break in the rising trend in the ratio of domestic saving to national income, witnessed since 1975-76. The saving-income ratio is estimated to have declined, in 1979-80, by 1.9 percentage points from the peak of 20.8 per cent recorded in the previous year.

Perhaps the development during the year with the most pronounced overall impact was the sharp rise in prices. Between end-June 1979 and end-June 1980, the wholesale price index rose by 23 per cent, two and a half times the rise of 9.7 per cent over the corresponding points of 1978-79. Actually, this inflationary phase set in earlier, in February 1979, prior to which date, the price level had maintained remarkable stability for a period of 23 months. While the spurt in prices during the year was widespread, with a large number of commodities contributing to the overall rise, the most significant inflationary impulses originated from a few commodities, notably the crude oil, petroleum products and the sugar, *khandsari* and *gur* groups. The combined weighted contribution of these groups to the total price rise over the year was as much as 54 per cent. With one-half of this contribution coming from crude oil and petroleum products, the role of the 'imported element' in the current

inflation has acquired a particular significance during the year.

During 1979-80, the oil price rise had a conspicuous impact on the external payments position. The trade deficit widened to more than twice the size of the deficit of the previous year and nearly four times that of 1977-78. In consequence of the enlarged trade deficit, the country's foreign currency assets, which had increased by Rs. 720 crores in the fiscal year 1978-79, recorded a decline of Rs. 56 crores during 1979-80. This was a reversal of the trend of sustained increase in exchange reserves since 1975-76.

The deterioration in the balance of trade occurred entirely due to a sharp rise in imports of 26 per cent as against 13 per cent in 1978-79, according to the preliminary merchandise trade data of the DGCI & S, with the growth of exports at 10.8 per cent, though higher than in the past two years, providing only a minor offset. The spurt in imports was mainly on account of the higher payments for petroleum crude and products and related commodities such as fertilisers. The share of the petroleum, oil and lubricant (POL) group in total import which was just 10.9 per cent in 1972-73 on the eve of the first hike in crude prices, moved up to 36.7 per cent in the year under review. The rising burden of the oil bill is even more dramatically illustrated when seen in relation to export earnings : POL items claimed one half of the total export earnings in 1979-80 as against 29.3 per cent in the previous year and only 10.4 per cent in 1972-73.

Over the past few years, additions to liquidity, *i.e.*, in M_3, have been of a higher order, averaging at an annual rate of 21 per cent over the three-year period, July 1976 to June 1979. The Reserve Bank adopted a number of policy measures during the year under review to restrict monetary expansion, and the growth rate decelerated during the year, with broad money, M_3 increasing by 14.2 per cent, as against 22.0 per cent in the previous year. High liquidity, however, remains for the monetary authorities a major element of concern in the current situation, because, over the four fiscal years, 1976-77 to 1979-80, gross national product in real terms has increased at an annual average of only 2.6 per cent, while the annual increase in broad money has averaged about 20.4 per cent.

A favourable feature in the economic situation for 1980-81, however, is the improvement in agricultural production, consequent on good monsoon conditions. Although it would seem that the improvement is not very evenly spread from the point of view of regional balance, latest estimates place the current *kharif* output of foodgrains at 79.5 million tonnes, which would be considerably higher than the last *kharif* production of 62.8 million tonnes, and a shade higher than the record *kharif* output of 78.7 million tonnes in 1978-79. In the major *rabi* areas, winter rains have so far been satisfactory, and the ensuing *rabi* output may be expected to be at least at the same level as in the 1978-79 *rabi* season. Foodgrains output in 1980-81 would thus amount to slightly over 132 million tonnes—24 million tonnes more than the previous year and a shade higher than the bumper output of 1978-79.

Industrial production in the first six months has remained stationary, the average index for the period at 145.2 being the same as in the corresponding period of the previous year. It is, however, significant to note that between July and September 1980, the index rose at an average of 1.9 per cent per month. Phosphatic fertiliser output has been higher in the first half of 1980-81 by about 10.9 per cent than the level in the corresponding period of 1979-80. Pig iron production has in fact been higher by about 60 per cent throughout 1980 as compared to 1979. Railway wagon industry has shown a growth rate of about 19.0 per cent in April-September 1980 compared with 8.0 per cent in the corresponding period of the previous year. Some of the other important industries which showed higher growth rates in April-September 1980 were : power transformers, commercial vehicles, coal (including lignite), cotton yarn, cotton and jute textiles, tea, diesel engines and machine tools. In more recent months, output in many other sectors of industrial activity is reported to have risen considerably. Latest official estimates show that production of saleable steel and nitrogenous fertilisers have shown an improvement from October 1980. More importantly, there was a substantial

improvement in power generation since October 1980. Coal production is expected to be higher by about 10 per cent than the level of the previous year.

On the whole, it is clear that real national income in 1980-81 would record a significant rise largely because of agricultural growth, the prospects of which have been indicated earlier. The extent to which the industrial sector would grow during the later half of 1980-81 would further bolster the overall growth of the economy.

The improved prospects for overall agricultural output have already had some favourable impact on price movements. Though the price increases have persisted, the rate of increase since June (upto December 13, 1980) works out to 2.2 per cent or almost one-fifth of that of 11.1 per cent recorded over the corresponding dates of 1979. Thus, while there is a definite deceleration in the rate of inflation, the significant dependence on imported oil, in a situation of rising international prices of crude, has necessarily built into the price scene a bullish element. An equally important problem which looms large is the growing impact of oil prices on the balance of payments situation. On present reckoning, the trade deficit in 1980-81 seems likely to be at least twice that of the previous year. Receipts from the International Monetary Fund, on account of a Trust Fund Loan and a Compensatory Financing Facility helped the foreign currency assets to record a small rise in the first half of the fiscal year 1980-81. For the year as a whole, however, there is likely to be a draw-down in foreign currency reserves to a substantial extent. The rising influence of external factors on the domestic economic situation would suggest the need for the formulation of policies with a long-term perspective and their effective and early implementation.

Chapter II

National Income, Saving and Investment

1. Trends in National Income

The Central Statistical Organisation's quick estimates for 1978-79 place the growth in *real* Net National Product (NNP) at factor cost at 4.0 per cent which followed a growth of 8.2 per cent achieved in 1977-78. At current prices, NNP rose by 7.1 per cent, implying a rise of about 3 per cent in the national income deflator. The national income *per capita* registered a rise of 2.2 per cent and 5.0 per cent, respectively in *real* and *nominal* terms during 1978-79; in 1977-78, the rise in *real* terms was 5.9 per cent while at current prices it was 9.5 per cent (Table II.1).

Though the achievement of 4.0 per cent growth rate in 1978-79 compared favourably with the long-term rate of about 3.6 per cent per annum*, the phenomenal growth of 1977-78 obviously could not be sustained because the agricultural sector, which recording a rise of 11.6 per cent was the principal contributor to the high growth in that year, registered a nominal growth of only 1.6 per cent in 1978-79. Also unsatisfactory were the relative growth rates in 'construction' (2.5 per cent against 6.8 per cent in 1977-78), 'transport, storage and communication' (1.5 per cent as against 5.0 per cent) and 'trade, hotels and restaurants' (6.4 per cent against 7.2 per cent). Despite the deceleration in the growth rates of these sectors, the NNP growth of about 4.0 per cent was made possible by an improvement in the growth rate of all other sectors; notable among them were 'manufacturing' (7.5 per cent against 6.2 per cent in 1977-78), 'electricity, gas and water supply' (11.4 per cent compared with 2.7 per cent) and 'banking and insurance' (17.0 per cent against 12.1 per cent).

No official estimate of national income for 1979-80 is yet available. However, tentative

* Compound growth rate over a span of about 27 years from 1950-51 to 1977-78. See Planning Commission (Government of India), **Revised Draft Five Year Plan, 1978-83, p 1.**

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

(Fiscal Years)

	1975-76	1976-77	1977-78	1978-79	1979-80
National Income (Rupees Crores)					
At 1970-71 Prices	40,011	40,534	43,857	45,637	44,268
	(9.9)	(1.3)	(8.2)	(4.0)	(—3.0)
At Current Prices	61,644	66,885	74,794	80,090	88,099
	(4.3)	(8.5)	(11.8)	(7.1)	(10.0)
Per Capita Income (Rupees)					
At 1970-71 Prices	662	658	697	712	679
	(7.5)	(—0.6)	(5.9)	(2.2)	(—4.8)
At Current Prices	1,021	1,086	1,189	1,250	1,349
	(2.1)	(6.4)	(9.5)	(5.0)	(8.0)

Sources and Notes : 1. Estimates upto 1978-79 are as those published by the Central Statistical Organisation (CSO), Government of India; the same are provisional for 1976-77 and 1977-78 and quick estimates for 1978-79

2. Figures for 1979-80 are tentative estimates.

Figures within brackets represent percentage increases over the previous year.

estimates indicate a fall of at least 3 per cent** in *real* national income during 1979-80; farm output is estimated to have declined by 10 per cent and industrial production fell by 1.4 per cent.

2. Aggregate Domestic Saving

As discussed in the last year's Report, the aggregate domestic saving had registered a substantial improvement during 1978-79 as a result of which the ratio of saving to national income at current market prices had touched the record level of 20.8 per cent (revised). With an allround setback to *real* economic activity during 1979-80, this momentum in domestic saving could not be sustained. The total net domestic saving during 1979-80 is estimated to have risen marginally by Rs. 84 crores to Rs. 18,884 crores as against a sharp rise of Rs. 3,016 crores in 1978-79. The saving-income ratio for 1979-80 works out to 18.9 per cent only, i.e., a drop of about 1.9 percentage points over the peak of 20.8 per cent attained in the previous year (Table II.2).

** With the recent downward revision of the estimates of foodgrains output from 116 million tonnes to about 109 million tonnes for 1979-80, the decline in national income would be more pronounced.

The deterioration in the rate of saving in the economy followed partly from the sizeable decline in output of industrial and agricultural sectors; the persistence of a high level of inflation throughout the year was another factor, which might have adversely affected the saving capacity of the household sector, as also the surplus generating capacity of the public sector including Government administration. The private corporate sector, on the other hand, improved its saving both in absolute terms as well as in relation to NNP at market prices, as explained in subsequent paragraphs.

For the purpose of estimation of domestic saving, the economy has been divided into three broad institutional sectors, viz., (*a*) the household sector comprising, apart from individuals, all non-Government non-corporate enterprises like sole proprietorships, partnerships and non-profit institutions like trusts, charitable and religious institutions, (*b*) the public sector comprising the Central and State Governments, departmental and non-departmental undertakings and local bodies, and (*c*) the domestic private corporate sector consisting of non-Government financial and non-financial companies and co-operative institutions.

Table II-2 : Estimates of Net Domestic Saving

(Rupees crores at current prices)

Sector	Financial Year (April-March)		
	1977-78	1978-79*	1979-80*
1. Public Sector	3,513 (22.3)	3,951 (21.0)	3,125 (16.6)
Per cent of Net National Product at Market prices	4.2	4.4	3.1
2. Domestic Private Corporate Sector (including Co-operatives)	350 (2.2)	452 (2.4)	781 (4.1)
Per cent of Net National Product at market prices	0.4	0.5	0.8
3. Household Sector	11,921 (75.5)	14,397 (76.6)	14,978 (79.3)
Per cent of Net National Products at market prices	14.2	15.9	15.0
4. Total Domestic Saving (1+2+3)	15,784 (100.0)	18,800 (100.0)	18,884 (100.0)
Per cent of Net National Product at market prices	18.8	20.8	18.9

* Provisional.

Note : (*a*) The rates of saving presented here are not comparable with those presented in the RBI's Annual Report for 1979-80 as the estimates have undergone revision due to the availability of fresh data for certain sectors.

(*b*) Figures in brackets are percentages to total.

3. Saving of the Household Sector

The aggregate saving of the household sector takes the form of additions to financial and physical assets; to arrive at the net saving, however, this has to be offset by the increase in financial liabilities incurred by the sector. While in absolute terms, the household saving (net) rose somewhat from Rs. 14,397 crores in 1978-79 to Rs. 14,978 crores in 1979-80, as a ratio of national income, the same declined from the peak of 15.9 per cent reached in 1978-79 to 15.0 per cent in the year under review. This was the result of a drop in the ratio of saving in the form of gross financial assets.

(*a*) *Financial assets*

The accretions to the financial assets (gross) held by the households registered a nominal increase of Rs. 13 crores from Rs. 9,635 crores to Rs. 9,648 crores; as a proportion of NNP at market prices, these are estimated to have declined from 10.6 per cent in 1978-79 to 9.7 per cent in 1979-80 (Tables II.3 and II.4). This occurred because accretion to all predominant and voluntary forms of financial saving such as currency and deposits were lower in 1979-80 than those in 1978-79. On the other hand, contractual saving such as insurance and provident funds improved over the year. Another component of financial assets to record a rise was the 'claims on Government' following lower net repayments of Compulsary Deposits.

(*i*) Currency

Addition to currency held by the household sector in 1979-80 amounted to Rs. 1,398 crores—a figure which was Rs. 127 crores less than the record level of Rs. 1,525 crores added during 1978-79. The share of currency in total financial assets fell *albeit* nominally from 15.8 per cent to 14.5 per cent. Even so, incremental currency holdings for the two successive years appear to be quite large. In the search for factors which may provide a possible explanation to such sizeable additions to currency holdings in the past two years, two or three factors may be mentioned: first, the sizeable procurement of foodgrains by the public sector agencies, and secondly, the inflow of foreign remittances from Indians working abroad. During 1979-80, while the size of inflow of foreign remittances may have remained the same as in the previous year, the quantum of public procurement of

Table II-3 : Saving of the Household Sector

(Rs. crores at current prices)

	Item	Financial Year (April-March)		
		1977-78	1978-79*	1979-80*
1	Financial Assets (Gross)	7,072 (59.3)	9,635 (66.9)	9,648 (64.4)
	Per cent of Net National Product at Market Prices	8.4	10.6	9.7
2.	Physical Assets	6,478 (54.3)	7,455 (51.8)	8,181 (54.6)
	Per cent of Net National Product at Market Prices	7.7	8.2	8.2
3.	Financial Liabilities	1,629 (13.6)	2,693 (18.7)	2,851 (19.0)
	Per cent of Net National Product at Market Prices	1.9	3.0	2.9
4.	Total Net Savings (Net of Financial Liabilities i.e. 1+2—3) ..	11,921 (100.0)	14,397 (100.0)	14,978 (100.0)
	Per cent of Net National Product at Market Prices	14.2	15.9	15.0

Note : Figures in brackets are percentages to total.
* Provisional.

Table II-4 : Composition of Saving of the Household Sector in the form of Financial Assets

(Rs. crores at current prices)

Item	Financial Year (April-March)		
	1977-78	1978-79*	1979-80*
Total Financial Assets (1 to 8)	7,072 (100.0)	9,635 (100.0)	9,648 (100.0)
Per cent of Net National Product at Market Prices	8.4	10.6	9.7
1. Currency	703 (9.9)	1,525 (15.8)	1,398 (14.5)
Per cent of Net National Product at Market Prices	0.8	1.7	1.4
2. Deposits	3,666 (51.8)	4,900 (50.9)	4,774 (49.5)
Per cent of Net National Product at Market Prices	4.4	5.4	4.8
3. Insurance	592 (8.4)	680 (7.1)	765 (7.9)
Per cent of Net National Product at Market Prices	0.7	0.7	0.7
4. Provident Fund	1,316 (18.6)	1,593 (16.5)	1,875 (19.4)
Per cent of Net National Product at Market Prices	1.5	1.8	1.9
5. Claims on Govrenment	325 (4.6)	216 (2.3)	304 (3.1)
Per cent of Net National Product at Market Prices	0.4	0.2	0.3
6. Investment in Corporate and Co-operative Shares/Debentures including units of UTI	235 (3.3)	321 (3.3)	267 (2.8)
Per cent of Net National Product at Market Prices	0.3	0.4	0.3
7. Trade Credit (Net)	223 (3.2)	407 (4.2)	260 (2.7)
Per cent of Net National Product at Market Prices	0.3	0.4	0.3
8. Other Assets	12 (0.2)	—7 (—0.1)	5 (0.1)
Per cent of Net National Product at Market Prices	—	—	—

Note : Figures in brackets are percentages to total.
* Provisional

foodgrains was significantly lower. Furthermore, the year 1979-80 saw an unprecedented level of deficit financing by the Government which, accompanied by high level of inflation, might have contributed to sizeable currency holdings.

(*ii*) DEPOSITS

Growth in deposits with commercial and co-operative banks as also with non-banking companies, which together constitute the largest component of financial saving, was also lower during the year. At about Rs. 4,774 crores, the accretion to these deposits was lower by about Rs. 126 crores over the accretion in 1978-79. Growth of deposits with commercial and co-operative banks, which form a significant proportion of these deposits, decelerated during 1979-80.@ The share of 'deposits' in the gross financial assets of the household sector slipped from 50.9 per cent in 1978-79 to 49.5 per cent in 1979-80. In relation to NNP at market prices also, 'deposits' formed 4.8 per cent in 1979-80 as compared with 5.4 per cent in the previous year.

@ The aggregate deposits with Commercial Banks including those held by non-households, for instance, increased by Rs. 4,987 crores or 18.3 per cent as compared with Rs. 5,042 crores or 22.7 per cent in 1978-79.

(*iii*) PROVIDENT FUNDS

Investment in provident funds constitutes an important financial asset held by the household sector, next only to 'deposits'. By its very nature, there is a steady growth in this form of saving. Employees' Provident Funds (including Pension Funds), Government (Central and State) Provident Funds, Public Provident Fund and provident funds belonging to the RBI and commercial banks, to the Assam Tea Plantations and the Coal Mines, are the important categories included under this head. About one-half of the total accruals to provident funds is accounted for by the Employees' Provident Funds. Addition to total provident funds aggregated Rs. 1,875 crores in 1979-80 as compared with Rs. 1,593 crores in 1978-79 and its share in total financial saving of the household sector advanced to 19.4 per cent from 16.5 per cent.

(*iv*) INSURANCE

Changes in the Life Fund of the Life Insurance Corporation of India (LIC) and in State Insurance Funds and Postal Insurance represent mainly the saving of households through this medium. During the year, the Life Fund is estimated to have gone up by about Rs. 702 crores (against Rs. 619 crores in the previous year) following a record increase of 33 per cent reported in the LIC's new business. But other forms of insurance showed moderate decline. As a result, the proportion of saving by way of 'insurance' to total financial assets rose nominally by about 0.8 percentage point to 7.9 per cent in 1979-80.

(*v*) CLAIMS ON GOVERNMENT

Major components of this form of saving are Small Savings, deposits collected under the Compulsory Deposit Schemes and investments by households (particularly trusts) in Government securities. Put together, their contribution to the total accruals to financial assets improved to Rs. 304 crores or 3.1 per cent from Rs. 216 crores or 2.3 per cent in 1978-79. Net collection under Small Savings (adjusted for the share of provident funds and others) was lower at Rs. 518 crores as compared with the revised estimates for 1978-79 (Rs. 533 crores). As expected, there was again an absolute reduction of Rs. 207 crores in the net accumulation under various Compulsory Deposit Schemes as a result of repayments, but this was much less than the net repayment of Rs. 316 crores in the previous year; net repayments of Compulsory Deposits (Additional Emoluments) scheme amounted to Rs. 318 crores (Rs. 420 crores in 1978-79) while the net accretion under the Income tax Payers' Scheme was Rs. 111 crores (Rs. 104 crores during 1978-79).

(*vi*) OTHER FINANCIAL ASSETS

These assets comprise investment in corporate and co-operative shares and debentures, units of the Unit Trust of India (UTI) and trade credit extended by the household sector to the corporate sector. Net subscriptions to the shares and debentures and net investments in units of the UTI together estimated at Rs. 267 crrores were lower by Rs. 54 crores than the addition to such assets in 1978-79. This has occurred mainly as a result of lower order of trade credit extended by the household sector (Rs. 260 crores and as against Rs. 407 crores) and decline in the purchase of units by the sector (Rs. 55 crores as compared with Rs. 78 crores).

(*b*) *Saving in Physical Assets*

Capital formation in the household sector takes the form of additions to such assets as construction, machinery and equipment and inventories. The C.S.O.'s estimates for 1979-80 are not yet available. However, for the purpose of this exercise, it is assumed that as a proportion of NNP at market prices, such saving would have remained unchanged at the 1978-79 level.

(*c*) *Financial Liabilities*

These represent borrowings from commercial banks and co-operative institutions and loans from the Life Insurance Corporation of India (LIC), from term-lending institutions and from the Union and State Governments. Adjustments are also made in respect of net change in trade transactions with the corporate sector, if the household sector is a net borrower. During 1979-80, the net addition to financial liabilities is estimated at Rs. 2,851

crores, i.e., higher by Rs. 158 crores over the addition in 1978-79, primarily on account of larger lendings by commercial and co-operative banks to the household sector.

4. Saving of the Public Sector

The public sector comprises the Union Government, State Governments, local bodies, departmental financial and non-financial undertakings; the public sector recorded a steep fall in its net saving from Rs. 3,951 crores in 1978-79 to Rs. 3,125 crores in 1979-80. The share of the sector in total domestic saving consequently contracted from 21.0 per cent in 1978-79 to 16.6 per cent in 1979-80. As proportion of NNP at market prices, the public sector saving has dropped from 4.4 per cent to 3.1 per cent. The principal reason for the decline was that there was a negative saving in respect of the Central Government to the extent of Rs. 482 crores in 1979-80 (revised estimates) as against a positive contribution to the saving pool, of Rs. 696 crores in the preceding year (Accounts). The fall in the saving of departmental undertakings and the larger losses suffered by non-departmental undertakings, a major part of which was incurred by the Coal India Ltd., also served to depress the level of saving of this sector. The segments of the public sector which showed improvement in saving over the year included the State Governments, the financial corporations, the Reserve Bank of India and the public sector commercial banks (Tab. II.5)

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

(Rupees crores at current prices)

Item	Financial Year (April-March)		
	1977-78	1978-79*	1979-80*
1. Central Government (including Departmental Undertakings)	886	983	—241
2. State Governments and Local Authorities	2,376	2,603	3,019
3. Non-Departmental Financial and Non-Financial Undertakings	251	365	347
4. **Total (1+2+3)**	**3,513**	**3,951**	**3,125**
Per cent of Net National Product at market prices	(4.2)	(4.4)	(3.1)

*Provisional.

5. Saving of the Domestic Private Corporate Sector

In contrast to the perceptible fall in the savings of the household and public sectors, the net saving of the non-Government corporate sector inclusive of co-operatives, showed remarkable improvement during the year, mainly because of a jump in the retained earnings of the private sector companies by Rs. 544 crores following a spill over of profits from the previous year's higher production and higher product prices.

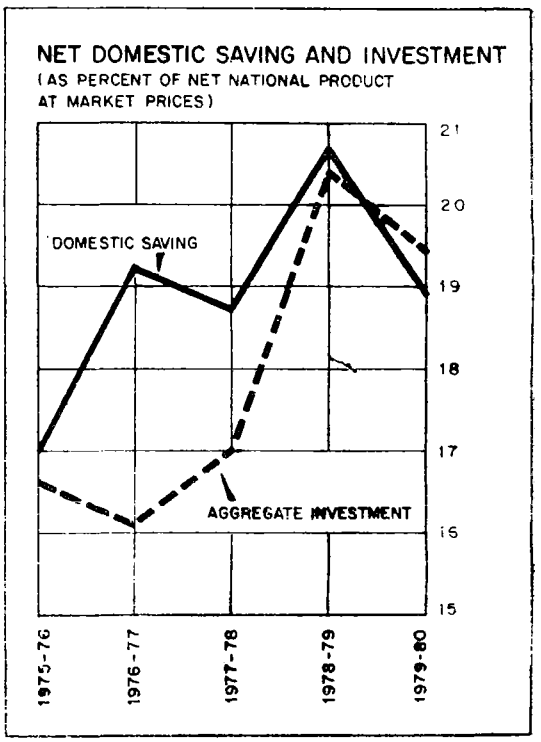
The sector's share in the total saving pool at 4.1 per cent registered significant improvement as compared with 2.2 per cent in 1977-78 and 2.4 per cent in 1978-79 (Table II.2). The saving to national income ratio for the sector was also higher at 0.8 per cent than the ratios 0.5 per cent and 0.4 per cent in 1978-79 and 1977-78 respectively.

6. Aggregate Investment in the Economy

Aggregate net investment in the economy is measured in terms of total domestic saving and net inflow£ of resources from the rest of the world. Although there was a perceptible fall in the rate of saving during 1979-80, it did not greatly affect the rate of capital

£ Net inflow of foreign resources comprises net current account deficit on balance of payments excluding net official transfer payments plus retained earnings and non-cash inflow foreign controlled rupee companies and net transactions on account of branches of foreign companies.

formation. This was because, for the first time in four years, there was a net inflow of foreign resources, although marginal, at 0.5 percentage point in relation to NNP at market prices. This compensated to some extent for the decline in domestic saving. For four successive years 1975-76 through 1978-79$, the economy experienced an outflow of resources ranging from 0.2 to 1.8 percentage points in relation to NNP, which implied that the rate of saving outpaced the rate of domestic capital formation. Because of the additive role that the foreign resources inflow played in the investment activity during 1979-80, the fall in the rate of capital formation (1.0 percentage point) was much less than the fall in the rate of saving (1.9 percentage points) (Table II.6).



Details concerning the nature of domestic investment are not available. However, available indicators suggest that the fall in the aggregate investment may be attributable to a shrinkage both in inventory accumulation and net fixed assets formation. The accumulation of inventories which, in relation to NNP at market prices, showed a steady decline from 6 per cent in 1974-75 to 2 per cent in 1978-79, could have shown a further decline in the context of a setback to agricultural and industrial production. Similarly, available indirect evidence on the overall supply of investment goods suggests that fixed assets formation in *real* terms would have been lower than that in the previous year.

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

	1977-78	1978-79*	1979-80*
1. Domestic Saving	18.8	20.8	18.9
2. Inflow of Foreign Resources (Net)	—1.8	—0.4	+0.5
3. Aggregate Investment (Net) (1+2)	17.0	20.4	19.4

*Provisional.

Sectoral Investment

Due to inadequate information, it is not possible at this stage to give a detailed account of the sectoral or asset-wise break-down of capital formation in the economy. However, based on partial information, some broad trends in this regard are discussed with respect to some sub-sectors.

(*a*) *Public Sector*

Of the estimated aggregate investment in the economy at 20.4 per cent of NNP at market prices in 1978-79, the public sector

$ In the last year's Report on Currency and Finance, the reversal of this trend of outflow of resources was mentioned as having taken place in 1978-79. Subsequent information suggests that the outflow of resources continued even in that year.

had accounted for 9.1 per cent of NNP (or 44 per cent of aggregate investment) as compared with 8.0 percentage points out of a total investment of 17 per cent of NNP in 1977-78 (or 47 per cent of the aggregate). There appeared to have occurred a further decline in 1979-80 in the share of public sector in total domestic investment. Capital formation through the budget of the Central Government assumes a significant proportion of total investment in the public sector. Direct gross fixed capital formation through the Central Government budget is estimated to have risen to Rs. 1,514 crores during 1979-80, from Rs. 1,242 crores in 1978-79. But net fixed assets formation, *i.e.*, gross assets net of the expenditure on renewals and replacements, was higher by a relatively smaller amount at Rs. 1,284 crores as compared with Rs. 1109 crores in 1978-79. The Union Government, besides spending on direct investment, also provides financial assistance through grants, loans and investment in share capital to the State Governments and Union territories and to the non-departmental commercial undertakings. Such assistance for investment amounted to Rs. 5,807 crores which was only about Rs. 200 crores more than that in the year 1978-79, when it was stepped up over the previous year by Rs. 1,000 crores. Even this meagre rise in 1979-80 was only on account of higher assistance rendered to the non-departmental undertakings which received Rs. 2,368 crores as against Rs. 2,105 crores in 1978-79 (Table II.7). In contrast, the States and Union Territories together obtained a lower quantum of assistance of Rs. 3,240 as against Rs. 3,302 crores in 1978-79.

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

(Rs. crores)

	1977-78	1978-79*	1979-80*
1. Gross Direct Fixed Capital Formation	1,119	1,242	1,514
2. Variation in Inventories	—11	59	38
3. Net Capital Formation (i. e. gross direct fixed capital formation minus expenditure on renewals and replacements plus increase in inventories)	942	1,109	1,284
4. Financial Assistance for Capital Formation	4,579	5,612	5,807
(a) To States, Union Territories	2,221	3,302	3,240
(b) To non-departmental commercial undertakings	2,156	2,105	2,368
(i) Financial Concerns	327	345	450
(ii) Others	1,829	1,760	1,918
(c) Other parties	202	205	199
5. Investments in Central Government's Non-Departmental Industrial and Commercial Undertakings ..	2,015	1,495	N.A.
(i) Gross Fixed Assets	2,098	711	N.A.
(ii) Variation in Inventories	—83	784	N.A.

*Provisional

Gross capital formation in non-departmental commercial undertakings which had declined from Rs. 2,283 crores in 1976-77 to Rs. 2,015 crores in the following year, slipped down further to Rs. 1,495 crores in 1978-79. The decline was wholly reflected in the lower rate of fixed assets formation, with the inventory accumulation showing a steep rise over the year as against a decumulation witnessed during 1977-78. No firm data are available for estimating gross capital formation in these undertakings during 1979-80. However, in view of the relatively lower increase in financial assistance obtained from the Central Government and the poor financial performance of these companies during the year, compensated, to some extent by an estimated rise in loans from other sources, the rate of capital formation during 1979-80, could have been at best maintained at the previous year's level.

(b) Private Corporate Sector

It is possible at this stage to provide only a rough indication of the quantum of investment in the private corporate sector on the basis of identifiable sources of funds flowing into the sector. Estimates of sources and uses of funds are given in Table II. 8. It may be seen therefrom that there was a significant increase in retained earnings as well as in borrowings from commercial banks and term-lending institutions by this sector. The reliance on net trade credit during the year is also estimated to be significant. Taken as a whole, it seems very likely that there was an improvement in the gross capital formation in the private corporate sector during 1979-80 (Table II.8).

Table II. 8—Investment—Private Non-Financial Corporate Sector

(Rs. Crores at Current Prices)

Sources	Financial Year (April-March)			Uses	Financial Year (April-March)		
	1977-78	1978-79*	1979-80*		1977-78	1978-79*	1979-80*
1. Capital Raised (including debentures)	111	143	132	1. Cash and Bank Balances and Investments	231	38	133
2. Retained Profits	242	381	544				
3. Tax Provision	25	—9	137	2. Gross Fixed Assets and Inventories ..	1,908	2,245	2,648
4. Borrowings	565	659	887				
5. Sundry Creditors (Net) ..	425	273	176				
6. Depreciation Provision ..	771	836	905				
7. **Total**	**2,139**	**2,283**	**2,781**	**Total**	**2,139**	**2,233**	**2,781**

*Provisional.

Chapter III

Agricultural and Industrial Output

I. Agricultural Output

After two successive bumper harvests, the South-West monsoon in 1979-80 was distinctly unfavourable, resulting in heavy losses in agricultural production. The severe setback in foodgrains production as a result of the failure of South-West monsoon was reflected in the large loss of 23 million tonnes, comprising 15·9 million tonnes of *Kharif* and 7.1 million tonnes of *rabi* crops. Among cash crops, sugarcane and oilseeds were the worst affected. The decline in cotton and jute output was somewhat modest. The index number of agricultural production for 1979-80 is not yet available; however, on the basis of available data, the fall in overall agricultural production would be substantial.

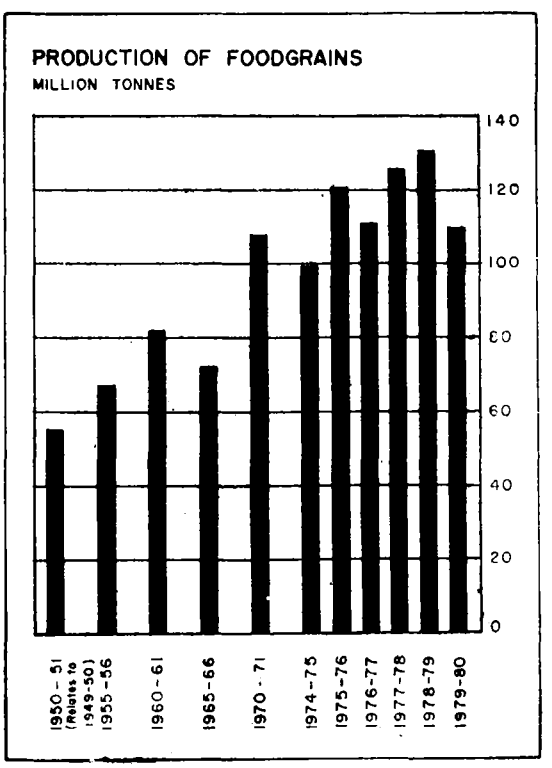
Foodgrains

PRODUCTION AND DISTRIBUTION

The total foodgrains production in 1979-80 is estimated at 108.9 million tonnes, reflecting a substantial decline over last year's production of 131.9 million tonnes. Both *kharif* and *rabi* foodgrains production are estimated to be lower at 62.8 million tonnes and 46·1 million tonnes, respectively, as against 78.7 million tonnes and 53.2 million tonnes last year.

The overall net availability of foodgrains which had increased from 109.7 million tonnes in 1978 to 114.2 million tonnes in 1979, is expected to be smaller during 1980 (Table III.1). As a result, the per capita daily availability of foodgrains, which had increased from 470.9 grammes in 1978 to 478.5 grammes in 1979 is expected to show a decline during 1980.

The substantial fall in foodgrains production during the year led to increased offtake from the public distribution system. Offtake from the public distribution system including issues for Food-for-Work Programme increased from 10.2 million tonnes in 1978 to 11.6 million tonnes in 1979. The offtake during January-October 1980 too was higher at 12.7 million tonnes compared to 8.9 million tonnes during the corresponding period of 1979. Other factors accentuating the decline in the stocks of foodgrains were:—(1) the return of a substantial portion of the Soviet wheat loan to that country during the year, (2) export of 2 lakh tonnes of rice to USSR on a barter basis against import of 6 lakh tonnes of crude oil, (3) export of small quantities of wheat on commodity loan basis to Afghanistan, Vietnam and Bangladesh, and (4) export of rice to Bangladesh on commodity loan basis and to Indonesia and Mauritius on commercial basis.



RATIONING—STATUTORY AND INFORMAL

There was no change in the policy in regard to foodgrains movements and statutory rationing as in the previous year; the population covered under the statutory rationing

thus remained around 9.5 million. Besides, foodgrains were also supplied through fair price/ration shops in other parts of the country. The total number of fair price/ ration shops functioning in the country by the end of 1979 was somewhat lower at 2.41 lakhs as against 2.42 lakhs in 1978.

PROCUREMENT AND BUFFER STOCKS

Procurement of rice during the 1979-80 *kharif* marketing season was significantly lower at 3.8 million tonnes as against 6.2 million tonnes procured in the last season. Similarly, procurement of wheat between April 1 and November 29, 1980 aggregated 5·9 million tonnes only as against 8.0 million tonnes during the corresponding period of the last season. *Kharif* coarse grains procured by the Central and State Government agencies under the price support scheme totalled 1.1 lakh tonnes (upto end-October 1980), i.e. around the same level as in the corresponding period last year.

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

(Million tonnes)

Year	Gross@ output	Net@ output	Net import	Change in Government stocks	Net availability	Per capita net availability per day (In gms)			Procurement	Public distribution
						All foodgrains	Cereals	Pulses		
1	2	3	4	5	6	7	8	9	10	11
1974 ..	104.7	91.6	4.8	—0.4	96.8	450.8	410.1	40.7	5.6	10.8
1975 ..	99.8	87.4	7.4	+5.6	89.2	406.6	366.7	39.9	9.6	11.3
1976 ..	121.0	105.9	6.4	+10.7	101.6	452.7	401.9	50.8	12.9	9.2
1977 ..	111.2	97.3	0.4	—1.6	99.3	434.7	391.2	43.5	10.0	11.7
1978 ..	126.4	110.6	—1.0	—0.1	109.7	470.9	426.6	44.3	11.1	10.2+
1979 ..	131.9	115.4	—0.9	+0.3	114.2	478.5	433.7	44.8	13.7	11.6+
1980 ..	108.9	95.3	—0.3	—5.8$	100.8	..	..	..	..	12.7+$

@For the agricultural year July-June. ..Not available.
$At the end of October 1980. +Includes quantities released for Food-for-Work programme.
Note : (1) Net availability = Net output+Net 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, 1979-80, Government of India.

As at end- October 1980, the total stocks of foodgrains with the Central and State Governments were lower at 12.0 million tonnes (including 5.5 million tonnes of rice and 6.4 million tonnes of wheat) as against 18.9 million tonnes (including 8.5 million tonnes of rice and 10.3 million tonnes of wheat) a year ago. The decline in foodgrains stocks was due to a shortfall in foodgrains procurement and increased offtake through the public distribution system and under the Food-for-Work Programme as also on account of exports.

Commodity-wise review

RICE

Rice production during 1979-80 was severely affected by drought. Production is estimated substantially lower by 11.6 million tonnes at 42·2 million tonnes as compared to the record level of 53·8 million tonnes in 1978-79 (Table III.2).

The Agricultural Prices Commission (APC) had recommended, under the *kharif* policy

for the 1979-80 season, an increase of Rs. 5 in the procurement price of paddy to Rs. 90 per quintal. However, the increase in procurement price allowed by the Government was Rs. 10, raising the procurement price to Rs. 95 per quintal. The procurement price of superfine paddy was maintained at last year's level of Rs. 103 per quintal. As for the issue prices, the classification of rice into standard and coarse varieties followed upto the 1978-79 *kharif* marketing season was given up. Instead, a new classification into common, fine and superfine varieties has been adopted with effect from 1979-80 marketing season based on the recommendations of the Balasubramaniam Committee on "Classification of Paddy/Rice". Based on this re-classification, issue price of raw rice from the Central pool has been raised to Rs. 150 per quintal for the common varieties, to Rs. 162 per quintal for fine varieties and to Rs. 172 per quintal for superfine varieties.@

Procurement of rice during the 1979-80 *kharif* marketing season was lower at 3.8 million tonnes as against 6.2 million tonnes procured in the last season. In 1979, 3.9 million tonnes of rice was distributed through the public distribution system (including issues for Food-for-Work Programme) as against 3.3 million tonnes in 1978. During 1980 up to October, an aggregate of 4.9 million tonnes of rice was distributed, as against 3.0 million tonnes during the corresponding period of 1979.

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
1975-76 ..	48.7	28.8	30.4	6.3	6.6	0.3	0.1	5.8	0.5	3.6	5.0	5.6	12.3	0.7
1976-77 ..	41.9	29.0	28.9	4.4	5.2	0.2	0.08	0.5	—	4.7	6.4	5.6	11.5	0.2
1977-78 ..	52.7	31.8	30.0	4.8	5.5	0.02	—	—	—	3.3$	6.7$	8.1	9.3	0.1
1978-79 ..	53.8	35.5	30.4	6.2	8.0	0.01	—	—	—	3.9$	7.5$	9.1	8.5	0.1
1979-80 ..	42.2+	31.6+	26.7+	3.8@	5.8@	0.1@	—	—	—	4.9$†	7.8$†	5.5†	6.4†	0.1†

@ Provisional subject to revision
\+ Final Estimate.
$ Includes quantities released under the Food-for-Work Programme.
† Upto October 1980.
Note : Production figures relate to agricultural year.
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, Ministry of Agriculture.
2) Bulletin on Food Statistics, Government of India.

During 1979, India exported 1.29 lakh tonnes of rice to Bangladesh on a commodity loan basis. The exports of rice to Bangladesh during 1980 (upto March) aggregated 23,000 tonnes. Besides, 24,000 tonnes of rice during 1979 and 36,000 tonnes during 1980 (upto May) were exported to Mauritius on a commercial basis. In addition to this, 2 lakh tonnes of rice was exported to USSR upto March 1980 as part payment towards the cost of imports of 6 lakh tonnes of crude oil from that country.

Besides the decanalisation of export of *Basmati* rice, export of some other fine/superfine varieties of rice was also decanalised

@As per Government of India Notification dated September 22, 1979.

with effect from July 25, 1979. The State Governments, the National Agricultural Co-operative Marketing Federation (NAFED) and the National Consumers Co-operative Federation were allowed to export limited quantities of rice. Further, the Union Government announced on July 19, 1980, its decision to allow the export of *Basmati* rice under the Open General Licence (OGL) subject to a minimum export price of Rs. 5,500 per tonne.

WHEAT

Wheat production in 1979-80 is estimated to be lower by 3.9 million tonnes over the 1978-79 production of 35.5 million tonnes.

Under the procurement policy for wheat, the procurement price for the 1980-81 (April-March) *rabi* season has been raised by Rs. 2 to Rs. 117 per quintal as recommended by the APC. The procurement of wheat has been in the nature of price support operations. The Central issue price of wheat for distribution through the public distribution system has, however, remained unchanged at Rs. 130 per quintal.

During the 1980-81 marketing season, the procurement of wheat by the Government till November 29, 1980 aggregated 5.9 million tonnes as against 8.0 million tonnes procured during the corresponding period of the last season.

In 1979, 7.5 million tonnes of wheat (including issues under the Food-for-Work Programme) was distributed through the public distribution system as against 6.7 million tonnes distributed in 1978. During January-October 1980, public distribution of wheat was higher at 7.8 million tonnes as against 5.8 million tonnes during the corresponding period of 1979.

During 1979, India exported 2.19 lakh tonnes of wheat to Vietnam, Afghanistan and Bangladesh on a commodity loan basis. During the first five months of 1980 (upto May), nearly 67,000 tonnes of wheat was exported. Besides, India had returned in kind 14.96 lakh tonnes of wheat to USSR out of the 14.98 lakh tonnes of wheat loan taken from that country in 1973.

COARSE GRAINS

The output of coarse grains for the year 1979-80 is estimated lower at 26.7 million tonnes as against 30.4 million tonnes in 1978-79 The support price of coarse grains for 1979-80 *kharif* marketing season was raised by Rs. 10 to Rs. 95 per quintal. As a price support measure, the Government purchased 1.12 lakh tonnes of coarse grains in 1979-80 *kharif* marketing season. Issues through the public distribution system were lower at 1.09 lakh tonnes in 1979 as against 1.20 lakh tonnes in 1978. During January-October 1980, issues through public distribution system totalled only 91,000 tonnes as against 95,000 tonnes during the corresponding period of the previous year.

PULSES

Production of pulses during 1979-80 showed a sharp decline to 8.4 million tonnes as against 12.2 million tonnes in the preceding year due to lack of rain in *kharif* season and prolonged dry spell during the *rabi* season.

The support price for gram was raised further to Rs. 145 per quintal for 1980-81 *rabi* marketing season from Rs. 140 per quintal in the last season.

The steps initiated in earlier years to increase pulses production were continued during the year with greater vigour. Central assistance was provided under two schemes viz., the Centrally Sponsored Scheme for development of pulses and the Central Sector Scheme for quality seed production of pulses. The limit of 25 per cent subsidy on plant protection chemicals was raised from Rs. 15 to Rs. 30 per hectare during the year 1979-80. Microbiological laboratories in the States were strengthened in order to produce large quantities of rhizobial culture. Short duration varieties of *moong*, *urad*, *cowpea* and *arhar* were introduced as mixed crop/inter-crop or catch crop in *kharif* season. Vigorous efforts were made to bring more areas under pulses in the *rabi* season particularly at the tail ends of canals under irrigated conditions in Northern States. *Moong* cultivation as a catch crop in summer season has been popular with extension efforts. The summer *moong*

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

(Rupees per quintal)

Commodity	1976-77			1977-78			1978-79			1979-80		
	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			77.00			85.00			95.00	
Rice (Standard Variety)		117.00	135.00—			135.00—			135.00—			150.00—
(Coarse Variety)		127.00	172.00			172.00			172.00			172.00@@
Wheat*		110.00	125.00		112.50	125.00£ 130.00££		115.00	130.00		117.00	130.00
Jowar		74.00			74.00			85.00			95.00	
Bajra		74.00			74.00	86.00		85.00			95.00	
Maize		74.00	86.00		74.00			85.00	86.00		95.00	96.00
Ragi		74.00			74.00			85.00			95.00	
Barley*	65.00			67.00			67.00					
Gram*	95.00			125.00			140.00			145.00		
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.
@@ Represents the prices for common and superfine varieties.
Source : Department of Food, Ministry of Agriculture and Irrigation, Government of India.

Table III. 4 : Procurement of Rice and Wheat £

(Thousand tonnes)

State	1975-76		1976-77		1977-78		1978-79		1979-80		1980-81	
	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	1380	—	483	—	612	—	970	—	469	—	21	—
Assam	257	—	155	1	21	—	32	—	10	—	—	—
Bihar	60	51	42	101	7	11	12	29	—	88	—	9
Gujarat	27	17	32	137	—	—	—	—	—	—	—	—
Haryana	480	433	646	907	740	908	887	933	556	1389	354	1002
Jammu and Kashmir ..	41	19	33	15	49	8	58	13	50	22	40	28
Karnataka	265	—	65	—	50	—	106	—	79	—	—	—
Kerala	32	—	20	—	15	—	1	—	1	—	—	—
Madhya Pradesh	292	138	175	274	180	11	303	20	90	100	4	—
Maharashtra	52	55	37	21	1	7	31	—	2	—	5	—
Orissa	234	—	118	—	80	—	54	—	26	—	—	—
Punjab	1201	2361	1534	2942	2190	3234	2725	3206	2279	4192	2046	4269
Rajasthan	26	185	39	474	—	122	16	78	—	301	—	17
Tamil Nadu	888	—	173	—	93	—	54	—	133	—	54	—
Uttar Pradesh	762	790	691	1711	566	853	837	1164	71	1883	250	522
West Bengal	301	—	171	18	245	—	144	16	67	3	—	—
Others	24	—	16	1	6	11	6	19	1	14	—	5
Total	**6322**	**4049**	**4431**	**6602**	**4855**	**5165**	**6236**	**5478**	**3834**	**7992**	**2774**	**5852**

£ Except in the case of the Punjab 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.

@Up to November 29, 1980

Sources : Bulletin on Food Statistics, Government of India.

in this manner is now cultivated in Uttar Pradesh, Bihar, Haryana, the Punjab and Rajasthan. Besides, the State Governments were advised to popularise *arhar* varieties under irrigated conditions in *arhar*—wheat rotation as *arhar* is the most important *kharif* crop. In addition to this, a short-term loan of Rs. 5 crores was provided to the Uttar Pradesh Co-operative Federation Limited to enable them to purchase improved varieties of pulses for supply to other State Governments.

COTTON

The all-India final estimate of cotton for 1979-80 has placed the area at 80.78 lakh hectares and production at 76.98 lakh bales as compared to the revised estimates of 81.19 lakh hectares and 79.58 lakh bales, respectively, for 1978-79, registering a decline of 0.41 lakh hectares (0.5 per cent) and 2.60 lakh bales (3.3 per cent). The decline in production was on account of drought conditions that prevailed in some of the cotton growing areas. However, the Cotton Advisory Board (CAB), had estimated cotton production during 1979-80 at 80.20 lakh bales as compared with 79.27 lakh bales during 1978-79 (Table III.5). The supply-demand situation given below is based on CAB's estimate.

The CAB placed opening stock of cotton for 1979-80 (September-August) at 27.27 lakh bales, 8.85 lakh bales more than the opening stock position a year ago. Alongwith production of 80.20 lakh bales, aggregate availability worked out to 107.47 lakh bales. The anticipated shift in demand from man-made fibres to cotton, consequent on the increase in the excise duty on the former by Rs. 1.55 per kg., effective from October 30, 1979, was expected to push up mill consumption of raw cotton by 2.5 lakh bales to 73.00 lakh bales during the season. To this may be added the extra-factory consumption of 2.50 lakh bales as also actual exports of 5.31 lakh bales. The cumulative demand for raw cotton was thus estimated at 80.81 lakh bales which would leave a closing stock of 26.66 lakh bales at the end of the year as against 27.27 lakh bales at the end of 1978-79 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 Consumption	Stocks as at the end of the season
1974-75	7156	161	115	97	7111	1208
1975-76	5950	138	166	427	7545	1318
1976-77	5839	144	818(P)	N.A.	6752	991
1977-78	7243	157	343(P)	25(P)	6616	1173
1978-79	7927 (7958)*	167	0.31	290	7050	2210 (2727)£
1979-80 .. .. (Latest CAB estimates)	8028 (7698)@	N.A.	—	531	7300	2666

* Revised Official estimate.
@ Final Official estimate.
N.A. Not Available.
P Provisional.
$ Stocks with mills only.
£ Estimated by the Committee appointed by the Textile Commissioner.
Sources: Directorate of Cotton Development for 1974-75 to 1977-78 and the Cotton Advisory Board for the years 1978-79 and 1979-80.

The strategy adopted for increasing production during 1979-80 consisted of (*i*) raising the per hectare productivity of irrigated as well as unirrigated land under cotton through intensive cultivation measures on a district-wise basis, (*ii*) bringing more area under irrigation by fully exploiting the potential under new irrigation projects and (*iii*) accelerating the spread of high yielding hybrid cotton to their maximum potential area. A comprehensive Centrally sponsored Intensive Cotton District Programme (ICDP) incorporating the above strategy was implemented in all the important cotton growing States. The ICDP was also extended to non-traditional areas and to areas covered by new irrigation projects. Other measures taken for raising the per hectare productivity under cotton included (*i*) programme of aerial spraying on cotton plant, (*ii*) production of hybrid cotton and cotton seeds, (*iii*) production of Nucleus and Foundation (N & F) seed of improved varieties of cotton and (*iv*) establishment of a centre for grading of *kapas*. In addition, some of the State Governments also sponsored package programmes from their own resources to increase productivity under cotton. The total area expected to be covered under the ICDP by the end of 1979-80 season was 17.3 lakh hectares—the same as in the preceding season.

The Agricultural Prices Commission had recommended support price for *kapas* at Rs. 265 per quintal for the 1979-80 season. However, the Government of India fixed the support price at Rs. 275 per quintal for the fair average quality of 320-F, 414-F and J-34 varieties as against Rs. 255 per quintal for the fair average quality of Punjab American 320-F during the 1978-79 season. The corresponding prices for other varieties would be fixed on the basis of the normal price differentials between these categories and the other varieties.

With a view to stabilizing cotton prices by the avoidance of undue fluctuations, the Cotton Corporation of India (CCI) continued to make commercial purchases during the 1979-80 season also and has made aggregate purchases of 11.10 lakh bales of cotton till end-July 1980 as against a target of 15 lakh bales. Total purchases during 1978-79 and 1977-78 were 10.42 lakh bales and 6.62 lakh bales, respectively.

The Maharashtra Raw Cotton (Procurement, Processing and Marketing) Act, 1971, which was reintroduced by the Maharashtra Government on December 16, 1978, was amended providing for payment in lump sum rather than in instalments as in previous years of guarantee price paid for *kapas* procured. The guarantee prices for different varieties of *kapas* procured were also raised by the State Government by Rs. 5 to Rs. 25 per quintal.

The Maharashtra State Co-operative Marketing Federation (MSCMF) procured 17.36 lakh bales of cotton during 1979-80 as against 9.74 lakh bales in 1978-79.

RAW JUTE AND MESTA

Official final estimates place the production of raw jute during 1979-80 lower at 61.20 lakh bales (of 180 kgs. each) as compared with 64.70 lakh bales during the preceding year; however, production of mesta is estimated higher at 19.08 lakh bales as against 18.63 lakh bales during the last season. Aggregate production of raw jute and mesta at 80.28 lakh bales this year is placed lower by 3.05 lakh bales over that of the previous year (Table III.6). During the 1979-80 season, the Centrally Sponsored 'Intensive Jute District Programme', was implemented on 364 thousand hectares, comprising 314 thousand hectares and 50 thousand hectares of jute and mesta, respectively, against the total target of 445 thousand hectares. Besides, about 11 per cent of the total jute area was brought under irrigation. Subsidy provided on certified improved seeds of jute and mesta, weedicide, transport and storage charges for inputs was yet another step taken by the Government for increasing production. Total subsidy sanctioned during 1979-80 together with pay and allowances of staff and package demonstrations aggregated Rs. 144.28 lakhs.

For 1980-81, a production target of 82.5 lakh bales, comprising 66.3 lakh bales of raw jute and 16.2 lakh bales of mesta, has been fixed.

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

('000 bales of 180 kgs. each)

Year	Production	Imports	Exports	Consumption£	Closing Stock $	Availability
1	2	3	4	5	6	7
1973-74	7676	98	197	6442	2361	8698
1974-75	5834	136	399	6520	1650	8331
1975-76	5808	292	121	7723	963	7750
1976-77	7099	37	17	7042	942(S)	8099
1977-78	7154	—	18	7055	664(S)	8096
1978-79	8333	—	28	6479	2848(S)	8997
1979-80	8028(F)	—	..	8181	3252+(S)	10876

£ Includes village level consumption of 2.0 lakh bales upto 1974-75 and 2.5 lakh bales thereafter.
$ Estimated stocks with mills, the JCI and other stockists at the end of the season.
(S) Including stocks in transit and undelivered balance of purchases.
F Final estimate .. Negligible + Provisional
Source : Directorate of Jute Development, Ministry of Agriculture, Government of India

The estimated opening stock of raw jute and mesta for 1979-80 season was placed substantially higher at 28.48 lakh bales as compared with 6.64 lakh bales in 1978-79. For the third year in succession, there was no import of raw jute during the year. The total availability of raw jute and mesta during 1979-80 was much higher at 108.76 lakh bales as against 89.97 lakh bales in the preceding year. Consumption of raw jute by mills during 1979-80 season was placed higher at 79.31 lakh bales as against 62.29 lakh bales during the last season, as the industry was generally free from industrial strife. With village level consumption placed at 2.50 lakh bales and with negligible exports, the closing stock of raw jute and mesta at the end of the 1979-80 season worked out to 32.52 lakh bales.

The minimum support price of raw jute for the 1979-80 season was raised from Rs. 150 in 1978-79 to Rs. 155 per quintal for W-5 variety in Assam by the Union Government as recommended by the APC. As a price support measure, the Jute Corporation of India (JCI) purchased 8.67 lakh bales of raw jute during 1979-80 as compared with 8.31 lakh bales during the previous year.

For 1980-81 season, the Government has fixed the support price at Rs. 160 per quintal for Assam (W-5 variety) as recommended by the APC.

For the second successive year, raw jute prices in the 1979-80 season recorded a decline due to comfortable supply position with the mills on the one hand and heavy power cuts in West Bengal on the other. In many of the primary markets of North Bengal and Bihar, raw jute prices especially of the inferior varieties had dropped below the statutory minimum levels due to slackness in demand from mills and the failure of the JCI to step up procurement on account of prolonged agitation by its own staff. The superior grade fibres which were in short supply, however, commanded good demand. With a view to reversing the declining trend in raw jute prices, the Jute Commissioner fixed on October 17, 1979, under the Jute (Licensing and Control) Order, 1961, floor prices for raw jute of the grade W-5 ex-West Bengal and ex-other States at Rs. 200 and Rs. 206 per quintal, respectively, for ready delivery at Calcutta. For forward delivery contracts involving payments beyond 11 days, it was stipulated under the above Order that over and above the minimum floor price, interest rate at 17.5 per cent would be charged. In addition to the above steps, the Jute Commissioner directed all jute mills on November 9 to buy a specific minimum quantity of raw jute every week

(exclusive of their purchases from the JCI) during the period November 9 to December 31, 1979. Under this directive, mills having a raw jute inventory at or above their 10 weeks' consumption level were required to make a weekly purchase of a minimum quantity of upto one week's consumption; for mills maintaining lower inventory (below 10 weeks' consumption) the minimum compulsory purchase per week was stipulated at 1.5 weeks' consumption. It was additionally stipulated that not less than 50 per cent of their purchases should be on ready delivery basis. As a result of these measures, the jute mills had to maintain raw jute stocks of about 19 lakh bales at the end of December 1979, *i. e.*, equivalent to their 3 months' consumption.

As for jute goods, with effect from August 17, 1979 the Union Government reduced the cash subsidy on carpet backing from 10 per cent to 5 per cent and also withdrew with effect from the same date, the 5 per cent cash subsidy on hessian introduced on April 1, 1979, in view of the higher unit-value realised by these items in the international market. The cash subsidy for woolpack was reduced from 15 per cent to 10 per cent effective October 6, 1979 and that in respect of carpet backing was completely withdrawn from October 30, 1979. From February 18, 1980, the export duty on hessian clothes and bags at the rate of Rs. 1,000 per tonne was reimposed. However, carpet backing and sacking continued to be exempted from export duty. Export duty on jute decoratives and specialities made of hessian charged from April 1, 1980 at the rate of Rs. 1,000 per tonne was scrapped with effect from July 3, 1980.

OILSEEDS

The all-India final estimates for 1979-80 place aggregate production of the five major oilseeds* at 80.8 lakh tonnes, reflecting a sharp decline of 13.6 per cent over the preceding season's production of 93.5 lakh tonnes (Table III.7), due mainly to a decline in acreage and yield. Oilseed-wise, production of groundnut declined by 7.0 per cent to 57.7 lakh tonnes in 1979-80 season. Rapeseed/mustard and sesamum also showed substantial declines of 23.0 per cent and 27.8 per cent to 14.3 lakh tonnes and 3.7 lakh tonnes, respectively. In the case of linseed, the decline was a record of 49.5 per cent to 2.7 lakh tonnes. Castorseed alone showed a marginal increase of 1.7 per cent to 2.3 lakh tonnes. For the year 1980-81, the Union Government has fixed a production target of 11 million tonnes for the major oilseeds.

For the development of different oilseeds, the following Centrally sponsored schemes continued to operate during the year:-

(1) The Intensive Oilseeds Development Programme implemented in 10 different States covered in all, an area of 24.5 lakh hectares during 1979-80 (compared with the target of 29.6 lakh hectares) at an estimated cost of Rs. 330.71 lakhs. The targeted area could not be entirely covered due to the prevalence of wide-spread drought conditions. During the year, rapeseed/mustard crops grown in Gujarat, Bihar, Orissa and West Bengal too were brought under the Intensive Oilseeds Development Programme at a total cost of Rs. 5.15 lakhs, (2) The scheme for extension of oilseeds to new irrigated areas, which is in operation since 1975-76, covered an area of 6.06 lakh hectares in 1979-80 in Andhra Pradesh, Karnataka, Orissa and Rajasthan, against the target of 5·84 lakh hectares, (3) The scheme for the development of sunflower for augmenting the edible oil supplies in the country, which is in operation in seven States, viz., Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Orissa, Uttar Pradesh and West Bengal, covered 1.35 lakh hectares in 1979-80 as against the target of 4.56 lakh hectares, and (4) The scheme for development of soyabean in Madhya Pradesh, Uttar Pradesh, Karnataka, Himachal Pradesh and Bihar covered an area of 4.92 lakh hectares during the year against the target of 5.47 lakh hectares.

The sharing of expenditure on an equal basis between the Centre and the States in respect of the Centrally sponsored schemes for production and distribution of certified seeds and plant protection measures, in vogue till 1979-80, has been replaced by a more liberal scheme, with 100 per cent Central assistance.

* Groundnut-in-shell, rapeseed/mustard, sesamum, linseed and castorseed.

In the State sector, the Package Programme and the Integrated Oilseeds Development Scheme, which were introduced for bringing about an increase in the production of oilseeds through encouragement of the use of improved seeds and fertilisers, adoption of plant protection measures and improved agronomic practices, were continued during 1979-80 also.

To maintain supplies of edible oils for manufacture of vanaspati, without adversely affecting the availability of indigenously produced edible oils of mass consumption like groundnut and rapeseed/mustard, the Government of India imports certain edible oils (like soyabean, palmoleine, etc.) and forbids the use of edible oils like groundnut and rapeseed/mustard in the manufacture of vanaspati. This is brought about by fixing, from time to time, the minimum limits of different oils used in the vanaspati manufacture. With effect from August 29, 1979, the minimum limit of imported vegetable oils supplied through STC and indigenous cottonseed oil and minor oils to be used in the manufacture of vanaspati was fixed at 95 per cent. The remaining 5 per cent could be refined sesamum oil (as liquid oil).

With a view to providing maximum encouragement to intensive cultivation, the support prices for the 1979-80 season were announced, well in advance of the sowing season and not at the time of the harvesting season in March as was the practice earlier. The Government of India raised the support price for groundnut by Rs. 15 to Rs. 190 per quintal but that of soyabean and sunflower seeds was retained at the previous year's level of Rs. 175 per quintal.

With a view to checking the rising prices of oilseeds and edible oils, a series of measures were taken by the Government which included in the main (*i*) the import of 12* lakh tonnes of edible oils during the period November 1979 —October 1980, (as compared with only 10 lakh tonnes during the corresponding period of last year) for supply to vanaspati manufacturers and distribution under the public distribution scheme launched on July 1, 1979, (*ii*) advice to the State Governments to enforce strictly the provisions of the Pulses, Oilseeds and Edible Oils (Storage) Control Order 1977 in regard to stock holding, and (*iii*) ban on export of all varieties of expeller cakes, compound cattle feeds and poultry feeds in view of the need for preserving the available cattle feed under acute drought conditions.

The imports of edible oils and oilseeds have been placed under OGL, but these would continue to be handled by the State Trading Corporation (STC) on the basis of foreign exchange released by the Government in this regard. The processing and distribution of imported oils would be done in accordance with Government's regulations.

As per the new export policy for 1980-81, the exports of oilseeds/oils/oilcakes would be canalised as follows:

Oilseeds	*Canalising Agency*
HPS Groundnut and Nigerseed	National Agricultural Co-operative Marketing Federation
Castor oil and deoiled groundnut cake	State Trading Corporation
Deoiled rice bran	Solvent Extraction Association of India
Solvent extracted cottonseed cakes (decorticated and undecorticated).	All-India Cottonseed Crushers' Association, Bombay

The oilseeds and vegetable oil project of the National Dairy Development Board (NDDB) is designed to integrate production, processing and marketing of oilseeds and vegetable oils through a two-tier co-operative structure—growers' co-operatives at the village level and the oilseeds growers' federations at the state level. Oilseeds procured from grower members will be processed at the plants managed by the federations which in turn will market the final products. Besides the above services, the federations also provide fertilizers, high yielding variety seeds and technical guidance to the farmers.

The NDDB concluded an agreement with the Co-operative League of the U.S.A. (CLUSA) in 1978 for the supply of 160,000 tonnes of oil

* Including 2 lakh tonnes imported by the private trade.

over a seven year period 1979-86. Besides this, import of 90,000 tonnes of oils from some other friendly countries also was arranged, making an aggregate import of 2,50,000 tonnes of oil. Total sale proceeds of the oil would amount to Rs. 150 crores of which the share of CLUSA donated oil would be Rs. 96 crores. The funds thus generated would be invested in projects designed to augment oilseeds production. Upto July 31, 1980, an amount of Rs. 22.05 crores has been generated out of which Rs. 3.56 crores have been utilised on various projects. The extension programme undertaken in the district of Bhavnagar consisted mainly of the formation of 76 village level growers' societies with a total membership of 2,717. It has also acquired 4 demonstration plots and trained 168 farmers in improved farm technology. So far, it has supplied 73.25 tonnes of improved seeds and 12 kgs. of pesticides. Mobile teams have been sent to Amreli and Junagadh districts to initiate formation of co-operatives. In Bhopal, a mobile team is operating to form growers' societies. Besides Gujarat and Madhya Pradesh, Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka have also shown interest in the programmes of the NDDB.

Table III.7 : Trends in Non-foodgrains Commodities

Commodity years as indicated	Oilseeds@ (November-October)		Tea@@@ (Million kgs.)		Coffee ('000 tonnes)		Sugarcane++ (Nov.-Oct)		Tobacco (March-February)
	Production (Million tonnes)	Yield per hectare (kgs.)	Production	Exports	Production@@	Exports	Internal consumption@@@	Production (Million tonnes)	Production (Million kgs.)
1	2	3	4	5	6	7	8	9	10
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	242.4	102.2	50.6	37.7	15.8	419
1977-78 ..	9.0	585	556.3	221.5£	125.0+	55.8**	44.1	18.0	494
1978-79 ..	9.3	588	571.3	177.3£	110.5†	66.4**	46.0	16.0	451
1979-80 ..	8.1	532	547.6	210.6£	150.0+++	62.0**	49.6	13.0$	N..A

@ Five major oilseeds, viz., groundnut (nut-in-shell), sesamum seed, rapeseed/mustard, linseed and castorseed.
N.A: Not available.
** Provisional
\+ Final estimate. †= Revised estimate
£ Figures relate to financial year +++ Blossom estimate.
@@ Figures relate to October-September. ++ In terms of gur.
@@@ Figures relate to calendar year. $ Press Reports.
Sources : Ministry of Agriculture and Irrigation, Tea Board, Coffee Board and Directorate of Tobacco Development, Government of India.

SUGARCANE

According to the all-India second estimate for 1979-80, the area under sugarcane is placed lower at 25.60 lakh hectares showing a fall of 4.32 lakh hectares or 14.4 per cent over the corresponding estimate of 29.92 lakh hectares for the previous year. Uttar Pradesh recorded the largest decline in terms of acreage (2.66 lakh hectares), followed by Haryana (0.62 lakh hectares), Punjab (0.27 lakh hectares) and Maharashtra (0.24 lakh hectares). The decline was mainly on account of the adverse price factors relating to sugar and gur in the preceding year. The production of sugarcane in 1979-80 is expected to be lower at 13.0 million tonnes (in terms of *gur*) as compared to the previous year's production of 16.0 million tonnes (Table III.7). The setback to sugarcane output resulted from the fall in cane acreage as also from the severe drought conditions in the Northern States.

The Centrally sponsored scheme for sugarbeet development was continued in Rajasthan. Area under sugarbeet cultivation increased from 645 hectares in 1978-79 to 743 hectares in 1979-80. However, beet production came down from 19,103 tonnes in 1978-79 to 13,106 tonnes in 1979-80 due to a decline in yield rate. As a result, beet sugar production too came down from 2,153 tonnes in 1978-79 to 1,510 tonnes in 1979-80. During 1980-81, an area of 800 hectares is proposed to be brought under sugarbeet cultivation.

The minimum price of sugarcane payable by factories to canegrowers during 1979-80 season was raised by Rs. 2.50 to Rs. 12.50 per quintal for the basic recovery of 8.5 per cent with a premium of 14.71 paise for every increase of 0.1 per cent above the basic recovery level.

TEA

Production of tea registered a decline of 23.7 million kgs. to 547.6 million kgs. in 1979, reversing the consistent rise witnessed since 1976. Divergent trends were observed in the North Indian and the South Indian tea production; while the former declined by 32.6 million kgs. to 408.2 million kgs., the latter improved by 8.9 million kgs. to 139.4 million kgs. The shortfall in production in North India during the year was due to the prevalence of continuous drought conditions in the tea growing regions.

For the year 1980, bright production prospects have been forecast for the North Indian tea due to favourable weather conditions with production during the first nine months (January-September) being estimated substantially higher at 335.0 million kgs. as compared to 295.2 million kgs. during the corresponding period last year. Production of South Indian tea during this period, however, is estimated lower at 91.4 million kgs. as against 102.2 million kgs. in the corresponding period of last year. The target of production for the year 1980-81 has been fixed at 640 million kgs.

Despite the decline in overall production, exports of tea during the year 1979-80 showed a substantial increase over the preceding year, both quantitatively and in terms of value. Quantity-wise, exports during 1979-80 aggregated 210.6 million kgs., reflecting an increase of 33.2 million kgs., or 18.8 per cent over the preceding year. In terms of value, exports during the year amounted to Rs. 369.44 crores accounting for an increase of Rs. 10.32 crores or 2.9 per cent over the previous year. The increase in exports was due to increased offtake consequent on the abolition of export duty on tea with effect from February 14, 1979. The unit value realised abroad had, however, recorded a decline from Rs. 20.25 per kg., in 1978-79 to Rs. 17.54 per kg., during 1979-80.

COFFEE

According to the provisional data, production of coffee at 150 thousand tonnes in 1979-80 registered a substantial increase of 35.7 per cent over the previous year's production of 110.5 thousand tonnes (Table III-7), due mainly to an increase of 33.1 thousand tonnes in the production of Robusta coffee. Production of Arabica coffee increased by 6.4 thousand tonnes only.

The quantity released for internal consumption during the calendar year 1979 aggregated 49.6 thousand tonnes as compared with 46 thousand tonnes released in 1978. Exports during the fiscal year 1979-80 were placed at 62 thousand tonnes, 2 thousand tonnes more than the target fixed for the year; however, as compared to the previous year's exports, they were lower by 4.5 thousand tonnes. Export earnings from coffee, however, showed a rise of Rs. 20.7 crores from Rs. 158.3 crores in 1978-79 to Rs. 179.0 crores in 1979-80 due to increase in unit value abroad. To keep in line with the movement of coffee prices in the international market, the Government of India enhanced the export duty on coffee from Rs. 750 to Rs. 900 per quintal on July 6, 1979. The export duty, however, was brought down in stages to Rs. 730 per quintal effective August 4, 1979 and to Rs. 570 per quintal from February 1, 1980 with the fall in international prices. Effective May 28, 1980, the export duty was again revised upwards to Rs. 700* per quintal as coffee prices had started climbing up in the international markets.

*On July 17 and August 14, 1980 the duty was reduced further to Rs. 500 and Rs. 260 per quintal, respectively.

TOBACCO

The production of tobacco in 1978-79 at 451.2 million kgs. reflected a drop of 8.7 per cent over production in the preceding year, due mainly to a sharp shrinkage in area by 18.5 per cent to 411 thousand hectares. The sharp fall in area under this crop was due to difficulties experienced by growers of virginia tobacco in Andhra Pradesh and *bidi* tobacco in Gujarat in marketing their 1978 crop. The net decline in production in Andhra Pradesh alone was 73.3 million kgs. which was partly offset by the increase in production of 28.3 million kgs. in Gujarat, despite a decline in acreage, thus reducing the overall deficit in production to 43 million kgs.

The all-India third estimate has placed the area under tobacco in 1979-80 at the same level of 1978-79. The estimate of production for the year 1979-80 is not yet available. However, the cyclone which adversely affected the Andhra Pradesh crop in May 1979 and the deliberate reduction of the acreage under tobacco in Andhra Pradesh in view of the large carry-over stocks are factors indicative of a fall in production as compared to 1978-79. Production of virginia tobacco is expected to be around 100 million kgs. only, Andhra Pradesh accounting for the bulk of it (75-90 million kgs.). Last year, production of virginia tobacco was placed at 137.3 million kgs.

During 1980-81, area under Virginia Flue Cured (VFC) in Andhra Pradesh is proposed to be restricted to 1.3 lakh hectares. To dissuade cultivators from growing tobacco in saline areas, the Government of Andhra Pradesh has planned to educate the farmers on growing alternative crops like cotton and chillies and provide subsidies at the rate of (i) Rs. 525 per hectare for replacing tobacco with cotton and (ii) Rs. 270 per hectare for replacing tobacco with chillies in 1,000 hectares each.

Data in respect of raw tobacco cleared for domestic consumption for the full year 1978-79 are not yet available. Exports of unmanufactured tobacco during 1978-79 totalled 78.6 million kgs. valued at Rs. 110.7 crores, reflecting a fall of 10.8 million kgs. in terms of volume and Rs. 2.5 crores in terms of value over the year 1977-78. Export of VFC tobacco at 62.7 million kgs. and valued at Rs. 98.6 crores accounted for 79.8 per cent and 89.1 per cent, respectively, of the total tobacco exports in volume and value terms.

The State Trading Corporation (STC) which was directed to purchase 15 million kgs. of VFC tobacco in 1979-80 (5 million kgs. each from growers, co-operatives and small packers), as a price support measure, is reported to have procured 6.46 million kgs. by the end of November 1979.

On the development side, the Centrally Sponsored Scheme, started in 1966-67 for improving the production of exportable variety of tobacco in light soil areas, has been transferred to the State sector in 1979-80 according to the decision taken by the National Development Council. By end 1978-79, 64.4 thousand hectares had been covered under this scheme. An additional area of 9.3 thousand hectares was covered in 1979-80 (against the target of 12.0 thousand hectares set for the year), bringing the total coverage to 73.7 thousand hectares. Besides this, schemes for production and distribution of pure seed and seedlings of improved varieties are also being implemented as non-plan schemes in the Central sector. Under these schemes, about 14,981 kgs. of seeds and about 30.68 lakh seedlings were sold to tobacco growers in Andhra Pradesh, Gujarat and Haryana during 1979-80. The Tobacco Research Station at Dinhata (West Bengal) and the Gujarat Agricultural University are training farmers in improved methods of cultivation, as also in handling, curing and grading of tobacco.

At State level, non-plan tobacco extension service schemes are being implemented with a view to improving productivity and quality. Under these schemes, growers receive technical guidance and inputs like seeds, fertilisers, pesticides, etc. in time. These schemes are in progress in six States, namely, Andhra Pradesh, Karnataka, Uttar Pradesh, Gujarat, Tamil Nadu and Bihar.

Production Strategy and Measures Undertaken

HIGH YIELDING VARIETIES PROGRAMME

The High Yielding Varieties Programme (HYV) in 1978-79 covered 41.10 million hectares out of the targeted 42 million hectares

(Table III.8). The target for 1979-80 was fixed at 43 million hectares; however, actual area covered may fall short of the target on account of the widespread drought. The Mini-kits Programme for rice, wheat, maize, jowar, bajra and *ragi* was continued during 1979-80 in order to enable the farmers to choose the newly evolved right type of varieties. The Community Nurseries Programme continued to be implemented during the year also to help timely sowing of paddy crop in the major rice growing States at an estimated cost of Rs. 1.72 crores and covering 17,000 hectares. 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 1979-80 *rabi* season too and rust—resistant varieties of wheat seeds were supplied to farmers as in the past.

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

(Million hectares)

Commodity	1975-76	1976-77	1977-78	1978-79	1979-80	1979-80
		(Actuals)			Targets	Anticipated achievement
Rice	12.4	13.3	15.6	16.9	17.6	13.6
Wheat	13.5	14.5	15.5	16.1	17.2	13.5
Jowar	2.0	2.4	3.1	3.1	3.7	3.0
Bajra	2.9	2.3	2.6	2.9	3.2	3.1
Maize	1.1	1.1	1.2	2.1	1.3	2.0
Total	**31.9**	**33.6**	**38.0**	**41.1**	**43.0**	**35.2**

Source : Economic Survey, 1979-80 (Government of India).

QUALITY SEEDS

The State Farms Corporation of India and the National Seeds Corporation were set up by the Government of India during 1979-80 to look after the production and distribution of the foundation seeds, certified seeds and breeder seeds with a view to supplementing the efforts of the States and the Union Territories. Production of foundation seeds, breeder seeds and certified seeds during 1979-80 was 91,632 quintals, 6,477 quintals and 7,41,116 quintals, respectively, as against the last year's production of 40,908 quintals, 7,863 quintals and 3,45,779 quintals.

IRRIGATION

During the year 1979-80, aggregate irrigation potential created through major, medium and minor irrigation projects increased by 2.3 million hectares (4.2 per cent) to 56.9 million hectares (Table III.9). Of this, the increase under minor irrigation projects was 1.4 million hectares, (4.8 per cent) contributed by ground water schemes (1.14 million hectares) and surface water schemes (0.26 million hectares).

The additional irrigation potential was created through the construction of 1.75 lakh dug-wells, 2.10 lakh private tubewells, 3,100 public tubewells and energisation of 3.5 lakh electric pump-sets. A Plan outlay of Rs. 260 crores was allocated for minor irrigation programme during the year 1979-80 as compared to Rs. 237 crores allocated for the previous year. Institutional investment of about Rs. 250 crores was provided during 1979-80 over and above the Plan outlay as against such investment of Rs. 225 crores in 1978-79. Additionally, a sum of Rs. 80 lakhs was also provided to the States on a matching basis for strengthening of State Surface Water and Ground Water Organisation. The Central Ground Water Board, a unified agency at the national level for investigation, development, assessment and management of ground water resources conti-

nued to provide vital support to the planning and implementation of ground water schemes by undertaking systematic hydrogeological investigations, deep exploratory drilling and by keeping a check on ground water development through monitoring.

Table III 9: Development of Irrigation Potential (Million hectares)

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80*
I. Surface Water						
(a) Major and Medium ..	0.80	1.02	1.01	1.46	1.04	0.88
(b) Minor	0.09	0.13	0.13	0.15	0.25	0.26
II. Ground Water	0.71	0.77	0.87	0.95	1.05	1.14
Total	1.60	1.92	2.01	2.56	2.34	2.28

*Anticipated

COMMAND AREA DEVELOPMENT PROGRAMME

Under the Command Area Development Programme (CAD) introduced for raising and stabilising agricultural production through extension of irrigation facilities, 43 CAD authorities covering 76 irrigation projects—(having an ultimate irrigation potential of 14.66 million hectares) are functioning. Progress achieved upto the beginning of the year 1979-80 included planning and designing in 23 lakh hectares, construction of field channels in 23.2 lakh hectares, and land levelling/shaping in 8.7 lakh hectares. During 1979-80, it was expected to complete planning and designing in an additional area of 6.6 lakh hectares, construction of field irrigation channels in 5 lakh hectares and land levelling/shaping operations in 2 lakh hectares.

A sum of Rs. 24.86 crores was spent during 1979-80 from Central Sector on CAD programme. In addition, a sum of Rs. 10 crores was expected to come from institutional sources for execution of On Farm Development (OFD) of works during the year.

FERTILISERS AND MANURES

In spite of the acute drought during 1979-80, which had affected some of the major States, fertiliser consumption had made satisfactory progress.

The consumption of fertiliser increased from 51.2 lakh tonnes in 1978-79 to 53.6 lakh tonnes in 1979-80, showing a 4.8 per cent increase (Table III·10). The consumption of nitrogenous and phosphatic fertilisers increased by 5.4 per cent and 5.8 per cent, respectively, while that of potassic fertilisers declined marginally by 0.9 per cent. Imports during 1979-80 were expected to be 20.1 lakh tonnes as against 19.9 lakh tonnes in the previous year.

With a view to encouraging consumption of fertilisers, the Union budget for 1979-80 had provided for a reduction in duties on fertilisers. Besides, the rationalisation of fertiliser prices effected on March 10, 1979 led to a reduction of fertiliser prices ranging between Rs. 10 and 300 per tonne.

The policy of encouraging greater use of organic manure and bio-fertilisers in conjunction with chemical fertilisers was continued. A national project on the development and use of bio-fertilisers was formulated with the objective of exploiting the nitrogen fixing potential of organisms such as Rhizobium, Blue-green algae and Azolla.

PLANT PROTECTION MEASURES

During 1979-80, total area expected to be covered under plant protection measures was 80 million hectares. Central assistance of Rs. 153 lakhs was provided to the States for the control of pests and weed in endemic areas, spread over an area of 11 lakh hectares. In the timely monitoring of pest build-up, support was provided to the State Governments by the

Table III. 10 : Consumption of Fertilisers

(Lakh tonnes)

Year (April-March)	Nitrogenous (N)	Phosphatic (P_2O_5)	Potassic (K2O)	Total
1	2	3	4	5
1975-76	21.5	4.7	2.8	29.0
1976-77	24.5	6.5	3.3	34.3
1977-78	29.1	8.6	5.1	42.8
1978-79	34.2	11.1	5.9	51.2
1979-80	36.0	11.7	5.9	53.6

Sources : (*i*) Economic Survey, 1979-80 for the data relating to 1975-76 to 1978-79.
(*ii*) Annual Report of the Ministry of Agriculture (Deptt. of Agriculture and Cooperation) Government of India, for figures relating to 1979-80.

nine Central plant protection stations, 19 Central surveillance stations and the locust warning organisation with its 34 field stations. In addition to the above, aerial spraying of pesticides was undertaken by the Directorate of Agricultural Aviation over an area of 2.85 lakh acres in Rajasthan (Suratgarh), Jammu and Kashmir and Madhya Pradesh. Further, on an experimental basis, free aerial spraying of mustard aphid was done in the States of Rajasthan, Haryana and Madhya Pradesh covering an area of 59,676 acres.

AGRICULTURAL MACHINERY AND IMPLEMENTS

State Governments were provided with assistance for the supply of improved implements. The Indian Standards Institute finalised 7 standards for the manufacture of agricultural machinery and implements. Work on finalisation of 22 other standards was in progress.

SCHEME FOR SMALL FARMERS

Upto January 1980, 168 schemes in Small Farmers Development Agency (SFDA) project areas were in operation. The number of participants identified increased from 163.23 lakh in 1978-79 to 165.58 lakhs in 1979-80 (upto January 1980) (Table III.11). Of the total participants, 71.28 lakhs were enrolled as members of the co-operatives. The finance released upto end-January 1980 aggregated Rs. 209.53 crores, while the amount utilised was Rs. 215.72 crores. The number of beneficiaries under improved agriculture programme increased to 59.68 lakhs at the end of January 1980.

INTEGRATED RURAL DEVELOPMENT PROGRAMME

The Integrated Rural Development (IRD) Programme implemented in a modified form with effect from April 1, 1978 with the family as the base unit, was continued during 1979-80. This programme which is financed partly by subsidy and partly by bank finance offers assistance for financing a variety of economic activities in the field of agriculture, animal husbandry, soil conservation, minor irrigation, forestry, etc., and is in operation in 2,000 blocks in the SFDA, DPAP and CAD areas and 600 blocks outside the operation of these agencies. By 1983, about 3,500 blocks out of the total of 5,000 blocks in the country would be covered by the programme. The basic objective of the programme is to accelerate the policy of redistribution of income by making the benefits of rural investment accrue exclusively to the poorer sections of the rural population and bring about improvements in their standard of living.

During the year 1979-80, the Central share of allocation under IRD programme (as at end-December 1979) stood at Rs. 84.30 crores. Actual disbursement, however, aggregated Rs. 53.3 crores. The families benefiting from the scheme numbered 518 lakhs (as at end 1979).

Table—III. 11 : Cumulative Progress Under SFDA Programme Since Inception

Item	Progress upto		
	March 1978	March 1979	January 1980$
1. Number of project areas	168	168	168
2. Number of participants identified (in lakhs)	146.64	163.23	165.58
3. Number enrolled as members of co-operatives (in lakhs)..	62.18	70.32	71.28
4. Finance released (since inception) to agencies (Rs. in crores)	157.75	198.39	209.53
5. Funds utilised (Rs. in crores)	152.13	196.33	215.72
6. Physical results@			
(*i*) Number of beneficiaries under minor irrigation (in lakhs)*	6.59	7.96	8.57
(*ii*) Milch cattle (in lakhs)	3.81	5.12	
(*iii*) Poultry (in lakhs)	0.16	0.19	8.41
(*iv*) Other animal husbandry** (in lakhs)	1.77	2.28	
(*v*) Improved agriculture (in lakhs)	44.89	55.35	59.68

@ Relate to co-operative year.
* Includes sprinklers, rahats, irrigation channels, boring and renovation of wells.
** Includes piggery, fisheries, goat and sheep rearing, bee-keeping, sericulture and duck rearing.
$ Data are provisional.

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

AGRO-INDUSTRIES CORPORATION

The 17 Agro-Industries Corporations continued to make useful contribution to agricultural growth by assisting in modernisation of agricultural operations, supply of inputs and promotion of agro-based industries. The scheme of Agro-Service Centres, set up in 1971-72 to provide employment to educated unemployed technical personnel and to provide service and inputs to the farmers at their doorsteps at reasonable rates was continued. Nearly 3,164 centres were set up from the inception upto March 31, 1980; of these, 128 centres were added during the year 1979-80. This scheme was transferred to the State sector with effect from April 1, 1979 in accordance with the recommendations of the National Development Council. Consequently, the scheme of equity participation in the State Agro-Industries Corporations was discontinued and, therefore, no additional share capital was released by the Union Government to the Corporations during 1979-80.

DESERT DEVELOPMENT PROGRAMME

The Desert Development Programme, taken up jointly by Central and State Governments in 1977-78 continued during 1979-80 also; the total Central assistance expected to be granted for this scheme during 1979-80 was Rs. 900 lakhs as compared to Rs. 907.50 lakhs actually granted during the previous year; the original allocation for this purpose was Rs. 1,600 lakhs for 1978-79.

The major activities under this programme are (*i*) afforestation, grassland developments and dune stabilisation, (*ii*) ground-water development and utilisation, (*iii*) construction of water harvesting structures, (*iv*) rural electrification and (*v*) development of agriculture/horticulture/animal husbandry.

DROUGHT PRONE AREAS PROGRAMME

The Drought Prone Areas Programme (DPAP), launched during the Fifth Plan, was

continued during the year. The programme envisages: (*i*) development and management of irrigation resources, (*ii*) soil and water conservation and afforestation, (*iii*) restructuring of the cropping pattern, (*iv*) change in agronomic practices, (*v*) livestock development and (*vi*) development of small and marginal farmers and agricultural labourers. An estimated 43.89 lakh people had benefited under the scheme during the period 1974-79 and generated employment of about 180 million man-days.

During 1979-80, Central assistance of Rs. 44.44 crores was envisaged for the programme which is in operation in 74 districts of 13 States.

FOOD-FOR-WORK PROGRAMME

The Food-for-Work Programme now renamed as the National Rural Employment Programme has been in operation since April 1977 to utilise the country's available foodstocks for mitigating the condition of economically handicapped section of the rural community and for strengthening the rural infrastructure in order to speed up the conversion of national endowments into durable assets. Under the scheme, wages for works undertaken were given predominantly in the form of wheat besides rice and coarse grains. Owing to the depletion of wheat stocks, the Food Department of the Union Government suggested the release of more and more of rice and coarse grains in the place of wheat under this programme. To prevent the irregularities and malpractices under the scheme, payment of wages to workers is proposed to be restricted to three kgs. each per day.

During 1978-79 total allocation of foodgrains under the scheme amounted to 14 lakh tonnes, of which 12.50 lakh tonnes were utilised. Additional employment generated exceeded 3,700 lakh man-days. For 1979-80, total allocation was 15 lakh tonnes under the regular scheme and 13 lakh tonnes under the special programme launched during the year, accounting for an aggregate allocation of 28 lakh tonnes. Out of the total 28 lakh tonnes allocated, 23 lakh tonnes were utilised in 1979-80. For the year 1980-81, 21 lakh tonnes of foodgrains which include a carry-over of seven lakh tonnes from the previous years have been allocated.

SUGAR

During the 1979-80 season, sugar production is estimated to have declined steeply to 38.95 lakh tonnes, reflecting a substantial fall of 33.4 per cent over the previous year's production of 58.44 lakh tonnes (Table on p. 32). With the opening stock of 21.18 lakh tonnes and imports of 1.80 lakh tonnes, the total availability of sugar for the season was 61.93 lakh tonnes as against 91.80 lakh tonnes (inclusive of the opening stock of 33.36 lakh tonnes) in the previous season. The off-take for internal consumption and exports amounted to 51.75 lakh tonnes and 2.30 lakh tonnes, respectively, during 1979-80 as against 62.26 lakh tonnes and 8.36 lakh tonnes, respectively, during the 1978-79 season.

Under the International Sugar Agreement (ISA), India was allotted a basic export quota (raw value) of 6.72 lakh tonnes or 6.22 lakh tonnes in terms of white crystal sugar for the year 1979, which was subsequently enhanced by another 9,000 tonnes to 6.31 lakh tonnes due to reallocation of shortfalls declared by other exporting member countries in the last quarter of 1979. In addition to the above, the Indo/EEC Agreement conferred on India an export quota amounting to 25,000 tonnes, thus making a total export quota of 6.56 lakh tonnes. The entire quota of 6.56 lakh tonnes was exported during 1979. The basic export quota (raw value) for 1980 has been enhanced to 8.32 lakh tonnes but became inoperative in terms of the ISA because the international sugar prices crossed the ceiling of 15 cents per pound. Exports by STC during 1980 (January-April 1980) amounted to only 0.50 lakh tonnes as production during the season had declined substantially. There was no export of sugar after April.

With the decontrol of sugar by the Government of India in August 1978, in the context of a record increase in production, sugar prices had registered a steady decline till February 1979. According to the Indian Sugar Mills Association, sugar prices had declined to unremunerative levels and, therefore, the Association resorted to voluntary control on monthly releases of sugar for domestic

Availability and Consumption of Sugar

(In lakh tonnes)

Year (October-September)	Opening Stock	Production	Imports	Exports	Consumption
	1	2	3	4	5
1975-76	12.94	42.64	—	10.21	36.91
1976-77	8.46	48.43	—	3.12	37.53
1977-78	16.24*	64.62	—	2.02	45.48
1978-79P	33.36*	58.44	—	8.36	62.26
1979-80P	21.18*	38.95@	1.80	2.30	51.75

* Inclusive of stocks at port.
@ Based on press reports.
P: Provisional.
Source: Ministry of Agriculture, Government of India.

consumption from March 1979 to arrest further decline in sugar prices. The manipulation of sugar releases by the mills accompanied by speculative hoarding by the trade affected supplies, resulting in a spurt in prices. This necessitated Governmental intervention in the form of regulatory control over monthly releases with effect from June 1979 with a view to maintaining prices at reasonable levels. Further, to ensure an even flow of sugar throughout the month, the Government decided to enforce strictly the Order, effective July 1, 1979, requiring the mills to despatch at least one-fifth of their month's quota for weekly sale in the domestic market. The defaulting factories were to be penalised. Additionally, the Government imposed on July 19, 1979 limits on stock holding by recognised dealers which were further revised downward on September 6, 1979. These measures did not have the desired impact on prices and, therefore, statutory control on sugar prices was imposed on September 12, 1979 under the Sugar (Prices Control) Order, 1979. Under this Order, the maximum ex-factory prices of sugar were fixed in the range of Rs. 260 to Rs. 270 per quintal for the four zones. The maximum retail prices too were fixed to range from Rs. 2.90 to Rs. 3.00 per kg. for different States and Union Territories. However, sugar factories found it unremunerative to sell sugar at the controlled prices since the statutory minimum sugarcane price payable by them in 1979-80 season was raised from Rs. 10 to Rs. 12.50 per quintal in October 1979. The factories were reported to have demanded from wholesalers premium over the controlled prices. This affected the availability of sugar in the market. The Government, therefore, revised the statutory prices upwards on December 1, 1979. The revised statutory ex-factory prices were in the range of Rs. 290 — 315 per quintal. The retail prices were so fixed as to range between Rs. 3.10 and Rs. 3.35 per kg. However, no sugar was available even at the revised statutory prices. Unofficially, sugar was quoted at Rs. 400-450 per quintal and the quantity offered even at these prices was too small. Government, therefore, was compelled to reintroduce partial control on distribution of sugar with effect from December 17, 1979.

With the introduction of partial control on sugar, the Sugar Price Control Order of 1979 stood rescinded and the dual price mechanism that had existed before August 16, 1978 came into force once again. Under this policy, a major portion of sugar produced is procured from the factories as levy sugar at controlled prices and the balance is allowed to be sold by the factories in the open market. The ratio of levy to free sale sugar was maintained at 65:35. The uniform issue price of levy sugar, to be sold to consumers all over the country through fair price shops, was fixed at Rs. 2.85 per kg. Restrictions were also imposed on inter-State movement of sugar on trade account.

As regards excise duty on sugar, after the decontrol of sugar on August 16, 1978, the duty on free sale and levy sugar had been averaged out and fixed at 18.075 per cent *ad valorem*. With the reintroduction of partial control on December 17, 1979, excise duty was levied separately on free sale sugar and levy sugar, the duty fixed on the former being 23.775 per cent and on the latter 13.175 per cent *ad valorem*. The excise duty on free-sale sugar was reduced to 19.05 per cent from Mareh 1, 1980 and further to 15.9 per cent from June 1, 1980.

The assessable value of levy sugar for purposes of excise duty is the ex-factory price fixed under the Essential Commodities Act and for non-levy sugar, it is the tariff value. The ex-factory prices for levy sugar were fixed by the Government with effect from December 17, 1979. The tariff value for the purposes of assessment of excise duty on free sale sugar, the rates of excise duty and the actual duty payable during the year were as given in table below.

Even after the reintroduction of partial control, prices of free sale sugar continued to rise and with a view to controlling this unabated rise in prices, it was found necessary to further lower the limits on stock holding by recognised dealers. As stated earlier, the stock limits, imposed on recognised dealers on July 19, 1979, had already been reduced further

Month	Tariff Value (Rs. per quintal)	Rate of Excise Duty (Basic + additional) (% ad valorem)	Excise Duty (Rs. per quintal)
June 1, 1979	205	18.075 (12.075 + 6.0)	37.05
August 1, 1979	215	18.075 (12.075 + 6.0)	38.86
September 1, 1979	225	18.075 (12.075 + 6.0)	40.67
November 30, 1979	225	31.462 (25.462 + 6.0)	70.79
December 17, 1979	307	23.775 (16.275 + 7.5)	72.99
March 1, 1980	383	19.05 (11.55 + 7.5)	72.96
April 1, 1980	430	19.05 (11.55 + 7.5)	81.92
June 1, 1980	480	15.90 (8.4 + 7.5)	76.32

with effect from September 6, 1979. These limits were again lowered in two stages on February 26, 1980 and July 14, 1980. The revised limits are as follows:

(In quintals)

Population	Stock limits imposed on July 19, 1979	Stock limits effective September 6, 1979	Stock limits effective February 26, 1980	Stock limits effective July 14, 1980
15 lakhs and above	1500	1000	500	250
5 lakhs to 15 lakhs			400	
1 lakh to 5 lakhs	750	500	250	
Less than 1 lakh	375	250	100	100
For Calcutta and Extended Areas				
(*i*) Recognised dealers importing sugar from outside West Bengal	7500	7500	3500	3500
(*ii*) Other recognised dealers	1500	1000	500	250

On May 17, 1980, Government prohibited recognised sugar dealers from holding stocks for more than 10 days from the date of receipt.

Restrictions were also imposed on stocks held by recognised dealers in *khandsari* with effect from July 1, 1979. *Khandsari* stocks in excess of 2,500 quintals were not allowed to be kept by these dealers with effect from the above date. The limit was lowered to 1,000 quintals on August 18, 1979 and further, in two stages, to 500 quintals on February 26, 1980 and 250 quintals on July 14, 1980. The restriction prescribing the period not exceeding 10 days from the date of receipt for the disposal of stock imposed on recognised dealers in sugar was extended to the *khandsari* dealers too on July 14, 1980. Simultaneously, the producers of *khandsari* were also ordered to declare their stocks and dispose of such stocks as well as the stocks that would be produced till end-September 1980, by October 31, 1980, selling not less than 20 per cent of the total quantity each month.

A sum of Rs. 0.23 crore was credited to the Levy Sugar Price Equalisation Fund @ during the year, bringing the total amount credited since the commencement of the Act in April 1976 to Rs. 5.28 crores. The Food Corporation of India (FCI) has been specially permitted by the Allahabad High Court to recover the excess prices paid by them to various sugar factories. Such recoveries effected by the FCI are retained by them and not credited into the Levy Sugar Price Equalisation Fund. During the year, FCI collected Rs. 0.36 crore, the total amount recovered by it so far being Rs. 10.95 crores.

INDUSTRIAL SECTOR

Trends in Industrial Production during 1979

Overall Trends

The rate of growth of industrial production suffered a sharp setback in 1979 and was the lowest for a calendar year since 1956, barring the two years 1966 and 1967 during which the industrial production declined. The monthly average of general index of industrial production (Base : 1970=100) at 149.5 in 1979, recorded an increase only of 1.2 per cent as against the rise of 6.9 per cent in 1978 (Table III.12). Compared to the corresponding quarters of 1978, the industrial production was 6.5 per cent higher in first quarter of 1979, nearly stagnant in the subsequent two quarters and 1.8 per cent lower in the last quarter.

The sluggishness in industrial production during 1979 was mainly attributable to the poor performance of the infrastructure, particularly power, coal and the Railways. Generation of electricity increased by only 5.1 per cent or by less than half the rise of 11.0 per cent in 1978. Hydel power generation increased only modestly following insufficient rainfall; and despite additions to generating capacities, the output of thermal power stations could increase by only 5.7 per cent because of inadequate supply of coal and its poor quality, poor maintenance of plants and consequent breakdowns and labour unrest in some State Electricity Boards. The gap between power demand and actual supply thus widened from 11.1 per cent in 1978 to 13.6 per cent in 1979. Coal production stagnated largely due to inadequate power supply to the mines from the Damodar Valley Corporation (DVC) and deteriorating law and order situation in the coal mining areas of Bihar and Bengal, while inadequate availability of railway wagons interfered with the movement of the coal produced to the user industries. Total revenue earning traffic carried by railways declined by 3.3 per cent in 1979-80. Inability of the railways to move coal and other essential industrial inputs in sufficient measure, coupled with port congestion, adversely affected not only power generation, but also output of other basic industries such as cement, steel, non-ferrous metals, and industrial production in general. The year under review also witnessed further deterioration in industrial relations. The number of man-days lost due to strikes and lock-outs increased from 28.34 million in 1978 to 43.87 million in 1979; only in 1974 during which there was a major railway strike, a higher figure of man-days lost was recorded.

@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).

Table III. 12 : Trends in Industrial Production—Group-wise

(Based on C. S. O.'s Index (1970=100) of Industrial Production)

Group	Weight	Increase(+)/Decrease(—) over the previous year (Per cent)		
		1977	1978	1979 (Provisional)
1	2	3	4	5
General Index (Crude)	**100.00**	**+ 5.3**	**+ 6.9**	**+ 1.2**
A. Use-based Classification :				
1. Basic Industries	32.28	+ 5.1	+ 4.8	+ 2.3
2. Capital Goods Industries	15.25	+ 5.5	+ 3.4	+ 2.7
3. Intermediate Goods Industries	20.95	+ 2.9	+ 7.9	+ 2.8
4. Consumer Goods Industries	31.52	+ 6.4	+ 9.8	— 2.3
(*a*) Durables	3.41	+14.2	+ 8.0	+ 6.0
(*b*) Non-durables	28.11	+ 5.4	+10.0	— 3.4
B. Input-based Classification :				
1. Agro-based Industries	33.68	+ 2.3	+ 8.4	— 2.3
2. Metal-based Industries	21.93	+ 6.9	+ 6.6	+ 2.2
3. Chemical-based Industries	12.86	+ 6.9	+10.2	+ 3.0
C. Sectoral Indicators : ..				
1. Transport Equipment and Allied Industries	10.79	— 1.3	+ 0.8	+ 1.9
2. Electricity and Allied Industries	14.53	+ 7.0	+ 8.5	+ 6.1
3. Energy Output@	18.51	+ 3.3	+ 7.7	+ 5.2

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

Industries accounting for a weight of only 53.41 per cent in the general index of industrial production recorded increases in output in 1979, compared to industries with a total weight of 74.03 per cent in 1978, while industries accounting for only 9.19 per cent weight in the general index showed production increases exceeding 10 per cent, whereas in 1978 such industries accounted for a weight of 35.35 per cent (Table III. 13).

Industry-Group-wise Analysis

The setback to industrial growth during 1979 was widespread and shared by all the four broad industry groups. While the output of 'Consumer Goods' industries group declined, that of 'Basic', 'Capital Goods' and 'Intermediate Goods' industries groups recorded lower growth rates.

The rate of growth of production in the 'Basic' industries group (weight:32.28 per cent), the single largest among the four major groups in the index in terms of weight, halved to 2.3 per cent in 1979, from that of 4.8 per cent in 1978. The lower growth in this vital sector reflected mainly the absolute declines in the output of heavy chemicals, cement and iron and steel. The output of heavy chemicals and cement declined and the growth rate of electricity generation decelerated despite additions to installed capacities for producing sulphuric acid, cement and thermal power. However, sizeable improvements were recorded in the output of mining and quarrying, fertilisers and non-ferrous metals, partly due to creation of additional capacities.

The performance of the 'Consumer Goods' industries group (weight : 31.52 per cent), the second highest among the major groups in the index in terms of weight, was the poorest among the four groups. The output of industries in this group registered an overall decline of 2.3 per cent in 1979 in contrast to an impressive

Table III. 13 : Classification of Industries by their Growth Rates

Range of growth rates	In terms of Weights in the General Index of Industrial Production (Base : 1970=100)	
	1978	1979 (Povisional)
1	2	3
A. Increase		
1. Moderate : Less than 5%	26.99	26.52
2. Marked : 5% and above	47.04	26.89
Of which :		
10% and above	35.35	9.19
3. Total Weights (1 + 2)	74.03	53.41
B. Decline		
4. Moderate : Less than 5%	17.08	32.53
5. Marked : 5% and above	6.26	11.43
Of which :		
10% and above	3.46	7.11
6. Total Weights (4+5)	23.34	43.96
Total (A + B)	**97.37**	**97.37**

growth of 9.8 per cent in 1978. Within this group, the output of consumer non-durables (weight : 28.11 per cent) declined by 3.4 per cent, while that of consumer durables (weight : 3.41 per cent) increased by 6.0 per cent. In the case of consumer durables, increases in output were particularly marked in respect of sewing and knitting machines, electrical fans and watches and clocks. Production of motor cars, however, recorded a steeper decline of 16.8 per cent in 1979, than that of 9.2 per cent in 1978. Among the non-durable consumer goods, the output of sugar, after recording a sharp increase of 42.3 per cent in 1978, dropped by 14.2 per cent in 1979. Cotton weaving in the mill sector, which accounts for a weight of 5.34 per cent, after rising by 3.0 per cent in 1978, declined by 2.2 per cent in 1979. Other consumer goods industries with significant weights in general index recording a fall in output were wheat flour, tea, vanaspati, beverages and drugs and pharmaceuticals. Output of soaps and matches, which had increased by 14.0 per cent and 9.8 per cent, respectively in 1978, declined by 6.9 per cent and 10.1 per cent in 1979. Output of paper and paper products increased only marginally despite sizeable additions to capacities. However, improved performance was recorded by industries such as baby food (mainly due to creation of new capacities), bakery products, cigarettes, razor blades, perfumes, cosmetics and other toilet preparations and photographic and optical goods.

The output of industries in the 'Intermediate Goods' industries group (weight: 20.95 per cent) increased during 1979 by only 2.8 per cent, or by less than half the increase of 7.9 per cent in 1978. In this group, the output of blended yarn, jute goods, tyres and tubes, man-made fibres, explosives, paints and varnishes and glue and gelatine, which had increased sizeably in 1978, declined in 1979.

In the case of 'Capital Goods' industries group (weight : 15.25 per cent), the growth rate declined marginally to 2.7 per cent from 3.4 per cent in 1978. In this group, industries accounting for a weight of only 3.2 per cent

showed improvement in their growth rates over the previous year. The value of machine tools output increased at an impressive rate of 34.8 per cent in 1979 as compared to a rise of 9.2 per cent in 1978. Output of electrical machinery, apparatus and appliances increased by 28.6 per cent in contrast to a decline of 14.3 per cent in 1978. On the other hand, the output of internal combustion engines, specialised equipments, general items of machinery, weighing machines, electrical motors, ship building and repairing, rail road equipments and automobile ancillaries declined during the year.

Industrial Growth : 1980 (January-June)

The declining trend in industrial production recorded in the last quarter of 1979 continued during the first six months of 1980 for which provisional data are available. The monthly average of index during January-June 1980 was 2.8 per cent lower than a year ago, in contrast to an increase of 3.3 per cent in the corresponding period of 1979 on a similar basis. All the three sectors *viz.*, 'mining and quarrying', 'manufacturing' and 'electricity' contributed to this decline. On account of the disruption in crude petroleum production in Assam, the index for the 'mining and quarrying' sector registered over the year a steeper decline of 5.2 per cent in the first six months of 1980 as against an over the year increase of 6.2 per cent in the corresponding period of 1979.

The over the year decline of 2.4 per cent in the output of 'manufacturing' sector in the first half of 1980 in contrast to over the year rise of 2.3 per cent in the corresponding period of 1979 was due to severe power shortage, inadequate availability of coal and raw materials and transport bottlenecks.

'Electricity' generation during the first half of 1980 was 3.6 per cent lower over the year, as against an over the year increase of 7.6 per cent in the corresponding period of 1979 due to a sharp decline of 16.2 per cent in hydro-electric generation compared to a rise of 8.9 per cent a year ago. Thermal generation, however, increased by 7.4 per cent compared to a rise of 4.3 per cent in the corresponding period of 1979.

Capacity Utilisation

Information on capacity utilisation in 1979 is available for industries accounting for a total weight of 40.45 per cent in the general index of industrial production. For these industries the ratio of monthly average production to monthly average installed capacity was only fractionally higher in 1979 than in 1978.

Compared to the previous year, while capacity utilisation ratios improved in the case of 24 industries during 1979 and declined in respect of other 24 industries, they remained unchanged in case of remaining three industries (Table III. 14). The increase in capacity utilisation ratio ranged between 0.4 per cent in case of electric motors and 34.8 per cent in case of machine tools. Decline in capacity utilisation also varied widely between 0.3 per cent in case of penicillin and 29.8 per cent in case of typewriters.

In the 'Basic' industries group, there was a sharp decline in the capacity utilisation ratios of saleable steel, cement, sulphuric acid, ingot steel, soda ash and phosphatic and nitrogenous fertilisers. However, improvement in capacity utilisation ratios was reported in respect of aluminium sheets and circles, aluminium (virgin metal) and steel castings.

In contrast to a decline in 1978, industries producing machine tools, electric motors and power transformers in the 'Capital Goods' industries group improved the capacity utilisation in 1979.

For the 10 industries in the 'Intermediate Goods' industries group for which capacity information is available, the capacity utilisation ratio slipped during 1979 after improving in 1978 in respect of 6 industries. Only three industries, *viz*, automobile tyres, dry cells and storage batteries, within this category, bettered their capacity utilisation ratios in 1979 compared to 1978.

Capacity utilisation ratio in the 'Consumer Goods' industries group recorded further improvement in 1979 over that in 1978. Within this group, the capacity utilisation ratio in respect of durable consumer goods industries

Table III. 14 : Production, Installed Capacity and Capacity Utilisation Ratios of Selected Industries

Group/Industry	Accounting Unit	1977 (Monthly Average)			1978 (Monthly Average)			1979 (Provisional) (Monthly Average)			Percentage variation between 8 & 5	Percentage variation between 11 & 8
		Production	Installed capacity	Ratio	Production	Installed capacity	Ratio	Production	Installed capacity	Ratio		
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Basic Industries												
1. Cement (Hydraulic)	'000 Tonnes	1597.5	1806.0	88.5	1635.4	1857.0	88.1	1515.6	2008.0	75.5	—0.5	—14.3
2. Steel Castings	,,	6.0	13.3	45.1	5.8	13.3	43.6	6.1	13.8	44.2	— 3.3	+ 1.4
3. Saleable Steel	,,	549.1	—	90.0	559.1	—	82.0	527.0	—	69.0	— 8.9	—15.9
4. Ingot Steel	,,	732.1	—	84.0	689.6	—	77.0	689.2	—	70.0	— 8.3	- 9.1
5. Aluminium (Virgin Metal)	,,	15.3	18.4	83.2	17.3	27.1	63.8	17.6	27.1	64.9	—23.3	+ 1.7
6. Aluminium Sheets & Circles	,,	4.1	5.6	73.2	3.8	6.3	60.3	4.7	6.3	74.6	—17.6	+23.7
7. Caustic Soda	,,	43.2	58.0	74.5	45.7	58.0	78.8	46.8	61.6	76.0	+ 5.8	— 3.6
8. Soda Ash	,,	47.3	51.5	91.8	48.9	51.5	95.0	45.3	51.5	88.0	+ 3.5	— 7.4
9. Nitrogenous Fertilisers (N Content)	,,	164.4	252.0	65.2	169.5	271.6	62.4	189.5	324.3	58.4	— 4.3	— 6.4
10. Phosphatic Fertilisers (P_2O_5)	,,	51.4	66.0	77.9	59.2	90.0	65.8	63.3	102.5	61.8	—15.5	— 6.1
11. Sulphuric Acid	,,	168.5	264.7	63.7	184.8	270.1	68.4	182.8	310.2	58.9	+ 7.4	—13.9
II. Capital Goods Industries												
1. Commercial Vehicles(Buses & Trucks)	'000 Nos.	3.0	5.8	51.7	4.0	6.6	60.6	4.9	6.6	74.2	+17.2	+22.4
2. Railway Wagons (in terms of 4 Wheelers)	,,	1.1	2.1	52.4	0.9	2.1	42.9	0.9	2.1	42.9	—18.1	Nil
3. Agricultural Tractors		2.9	4.5	64.4	4.4	5.0	88.0	5.0	5.2	96.2	+36.6	+ 9.3
4. Power Transformers	'000 KVA	1471.5	1849.0	79.6	1512.6	2224.0	68.0	1605.2	1956.0	82.1	—14.6	+20.7
5. Electric Motors	'000 H.P.	329.2	472.6	69.7	313.3	560.7	55.9	314.8	560.7	56.1	—19.8	+ 0.4
6. Machine Tools	Lakh Rupees	951.0	1010.0	94.2	1038.1	1380.0	75.2	1398.8	1380.0	101.4	—20.2	+34.8
7. Ball and Roller Bearings	Lakh Nos.	24.1	26.6	90.6	25.1	26.2	95.8	23.8	26.2	90.8	+ 5.7	— 5.2
III. Intermediate Goods Industries												
1. Tyres—Automobiles	'000 Nos.	444.0	459.4	96.6	497.8	459.4	108.4	500.3	459.4	108.9	+12.2	+ 0.5
2. Tyres—Cycles	,,	1930.0	2883.0	66.9	2587.1	2883.0	89.7	2350.9	2883.0	81.5	+34.1	— 9.1
3. Tubes—Automobiles	,,	400.7	431.8	92.8	432.5	431.8	100.2	400.8	431.8	92.8	+ 8.0	— 7.4
4. Tubes—Cycles	,,	1247.6	2709.0	46.1	1388.2	2709.0	51.2	1297.3	2709.0	47.9	+11.1	— 6.4
5. Storage Batteries	,,	123.8	129.0	96.0	135.6	129.0	105.1	136.6	129.0	105.9	+ 9.5	+ 0.8
6. Dry Cells	Lakh Nos.	531.2	1011.0	52.5	686.2	1011.0	67.9	710.6	1011.0	70.3	+29.3	+ 3.5
7. Paints and Varnishes	'000 Tonnes	6.3	9.1	69.2	7.3	9.1	80.2	6.7	9.0	74.4	+15.9	— 7.2
8. Ceramics (Refractories)	,,	67.8	125.0	54.2	69.8	126.0	55.4	56.1	136.7	41.0	+ 2.2	—26.0
9. Cotton Spinning*	—	—	—	75.5	—	—	79.7	—	—	78.9	+ 5.6	— 1.0
10. Newsprint	'000 Tonnes	4.7	6.3	74.6	4.1	6.3	65.1	4.1	6.3	65.1	—12.7	Nil

Table III. 14 : Production, Installed Capacity and Capacity Utilisation Ratios of Selected Industries—*Contd.*

Group/Industry	Accounting Unit	1977 (Monthly Average)			1978 (Monthly Average)			1979 (Provisional) (Monthly Average)			Percentage variation between 8 & 5	Percentage variation between 11 & 8
		Production	Installed capacity	Ratio	Production	Installed capacity	Ratio	Production	Installed capacity	Ratio		
1	2	3	4	5	6	7	8	9	10	11	12	13
IV. Consumer Goods Industries												
(*a*) *Durables :*												
1. Hurricane Lanterns	'000 Nos.	201.0	319.0	63.0	189.3	319.0	59.3	184.1	319.0	57.7	— 5.9	— 2.7
2. Electric Fans	,,	275.7	232.0	118.8	251.9	246.0	102.4	306.1	257.0	119.1	—13.8	+16.3
3. Bicycles	,,	256.7	335.0	76.6	291.7	317.3	91.9	337.6	317.3	106.4	+20.0	+15.8
4. Clocks	,,	18.2	55.7	32.7	21.9	49.9	43.9	25.5	50.1	50.9	+34.3	+15.9
5. Typewriters	,,	5.5	7.5	73.3	6.9	7.5	92.0	7.3	11.3	64.6	+25.5	—29.8
6. Domestic Refrigerators	,,	11.8	15.3	77.1	14.8	15.3	96.7	17.8	15.3	116.3	+25.4	+20.3
7. Sewing Machines	,,	31.5	46.3	68.0	21.2	46.3	45.8	25.8	46.3	55.7	—32.6	+21.6
8. Radio Receivers	,,	149.9	239.0	62.7	160.9	202.0	79.7	164.3	202.0	81.3	+27.1	+ 2.0
(*b*) *Non-Durables :*												
1. Vanaspati	'000 Tonnes	48.6	107.5	45.2	54.4	107.5	50.6	54.2	107.5	50.4	+11.9	— 0.4
2. Soaps	,,	24.4	18.8	129.8	27.8	18.8	147.9	25.7	18.8	136.7	+13.9	— 7.6
3. Matches	Million Sticks	16444.0	20800.0	79.1	17920.4	20833.0	86.0	16107.1	20833.0	77.3	+ 8.7	—10.1
4. Leather Footwear (Western Type)	Lakh Pairs	7.0	11.3	61.9	4.8	11.7	41.0	6.4	11.7	54.7	—33.8	+33.4
5. Leather Footwear (Indian Type)	,,	4.8	7.9	60.8	4.7	7.9	59.5	4.7	7.9	59.5	— 2.1	Nil
6. Rubber Footwear	,,	37.3	46.5	80.2	34.6	46.5	74.4	35.0	46.5	75.3	— 7.2	+ 1.2
7. Baby Food	Tonnes	2493.0	2498.0	99.8	2568.0	2215.0	115.9	3132.6	3631.0	86.3	+16.1	—25.5
8. Cotton Weaving (Mill Sector)*	—	—	—	76.3	—	—	78.4	—	—	78.9	+ 2.8	+ 0.6
9. Paper and Paper Boards (excl. Newsprint)	'000 Tonnes	76.6	94.8	80.8	83.4	105.4	79.1	84.1	115.0	73.1	— 2.1	— 7.6
10. Cigarettes	Million Nos.	5616.3	6292.0	89.3	5902.3	8040.0	73.4	6554.3	8040.0	81.5	—17.8	+11.0
11. Penicillin	M.M.U.	26.0	30.3	85.8	27.3	30.3	90.1	27.2	30.3	89.8	+ 5.0	— 0.3
12. Streptomycin	Tonnes	17.4	21.4	81.3	20.1	21.4	93.9	18.1	21.4	84.6	+15.5	— 9.9
13. Glass and Glassware (Sheet Glass)	Lakh Sq. Mtrs.	16.0	22.1	72.4	16.6	20.7	80.2	22.7	22.5	100.9	+10.8	+25.8
14. Razor Blades	Million Nos.	82.2	100.0	82.2	102.6	100.0	102.6	136.2	100.0	136.2	+24.8	+32.7
15. Electric Lamps (Incandescent Filament)	,,	13.3	15.3	86.9	15.1	15.7	96.2	16.5	15.7	105.1	+10.7	+ 9.3

*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. 15 : Trends in Capacity Utilisation of Selected Industries

Range of Capacity Utilisation Ratio in 1979	Industry	Capacity Utilisation Ratio			Percentage Variation in	
		1979	1978	1977	1979 over 1978	1978 over 1977
1	2	3	4	5	6	7
	A. Basic Industries					
Above 80	1. Soda Ash	88.0	95.0	91.8	— 7.4	+ 3.5
Between 70 to 80	2. Caustic Soda	76.0	78.8	74.5	— 3.6	+ 5.8
	3. Cement (Hydraulic)	75.5	88.1	88.5	—14.3	— 0.5
	4. Aluminium Sheets & Circles	74.6	60.3	73.2	+23.7	—17.6
	5. Ingot steel	70.0	77.0	84.0	— 9.1	— 8.3
Between 60 to 70	6. Saleable Steel	69.0	82.0	90.0	—15.9	— 8.9
	7. Aluminium (Virgin Metal)	64.9	63.8	83.2	+ 1.7	—23.3
	8. Phosphatic Fertilisers (P_2O_5)	61.8	65.8	77.9	— 6.1	—15.5
Below 60						
	9. Sulphuric Acid	58.9	68.4	63.7	—13.9	+ 7.4
	10. Nitrogenous Fertilisers (N Content)	58.4	62.4	65.2	— 6.4	— 4.3
	11. Steel Castings	44.2	43.6	45.1	+ 1.4	— 3.3
	B. Capital Goods Industries					
Above 80	1. Machine Tools	101.4	75.2	94.2	+34.8	—20.2
	2. Agricultural Tractors	96.2	88.0	64.4	+ 9.3	+36.6
	3. Ball and Roller Bearings	90.8	95.8	90.6	— 5.2	+ 5.7
	4. Power Transformers	82.1	68.0	79.6	+20.7	—14.6
Between 70 to 80	5. Commercial Vehicles (Buses and Trucks)	74.2	60.6	51.7	+22.4	+17.2
Below 70	6. Electric Motors	56.1	55.9	69.7	+ 0.4	—19.8
	7. Railway Wagons	42.9	42.9	52.4	Nil	—18.1
	C. Intermediate Goods Industries					
Above 80	1. Tyres—Automobiles	108.9	108.4	96.6	+ 0.5	+12.2
	2. Storage Batteries	105.9	105.1	96.0	+ 0.8	+ 9.5
	3. Tubes—Automobiles	92.8	100.2	92.8	— 7.4	+ 8.0
	4. Tyres—Cycles	81.5	89.7	66.9	— 9.1	+34.1
Between 70 to 80	5. Cotton Spinning	78.9	79.7	75.5	— 1.0	+ 5.6
	6. Paints and Varnishes	74.4	80.2	69.2	— 7.2	+15.9
	7. Dry Cells	70.3	67.9	52.5	+ 3.5	+29.3
Between 60 to 70						
	8. Newsprint	65.1	65.1	74.6	Nil	—12.7
Below 60	9. Tubes—Cycles	47.9	51.2	46.1	— 6.4	+11.1
	10. Ceramics (Refractories)	41.0	55.4	54.2	—26.0	+ 2.2
	D. Consumer Goods Industries					
	(*a*) *Durables :*					
Above 80	1. Electric Fans	119.1	102.4	118.8	+16.3	—13.8
	2. Domestic Refrigerators	116.3	96.7	77.1	+20.3	+25.4
	3. Bicycles	106.4	91.9	76.6	+15.8	+20.0
	4. Radio Receivers	81.3	79.7	62.7	+ 2.0	+27.1
Below 80						
	5. Typewriters	64.6	92.0	73.3	—29.8	+25.5
	6. Hurricane Lanterns	57.7	59.3	63.0	— 2.7	— 5.9
	7. Sewing Machines	55.7	45.8	68.0	+21.6	—32.6
	8. Clocks	50.9	43.9	32.7	+15.9	+34.3
	(*b*) *Non-durables :*					
Above 80	1. Soaps	136.7	147.9	129.8	— 7.6	+13.9
	2. Razor Blades	136.2	102.6	82.2	+32.7	+24.8
	3. Electric Lamps (Incandescent Filament)	105.1	96.2	86.9	+ 9.3	+10.7
	4. Glass and Glassware (Sheet Glass)	100.9	80.2	72.4	+25.8	+10.8
	5. Penicillin	89.8	90.1	85.8	— 0.3	+ 5.0
	6. Baby Food	86.3	115.9	99.8	—25.5	+16.1
	7. Streptomycin	84.6	93.9	81.3	— 9.9	+15.5
	8. Cigarettes	81.5	73.4	89.3	+11.0	—17.8
Between 70 to 80	9. Cotton Weaving (Mill Sector)	78.9	78.4	76.3	+ 0.6	+ 2.8
	10. Matches	77.3	86.0	79.1	—10.1	+ 8.7
	11. Rubber Footwear	75.3	74.4	80.2	+ 1.2	— 7.2
	12. Paper and Paper Boards (excluding Newsprint)	73.1	79.1	80.8	— 7.6	— 2.1
Below 70	13. Leather Footwear (Indian Type)	59.5	59.5	60.8	Nil	— 2.1
	14. Leather Footwear (Western Type)	54.7	41.0	61.9	+33.4	—33.8
	15. Vanaspati	50.4	50.6	45.2	— 0.4	+11.9

such as electric fans, domestic refrigerators, bicycles, clocks and sewing machines was more than 10 per cent higher than the previous year's ratio. Out of 15 industries covered in the non-durables group, while 7 industries showed a lower capacity utilisation, razor blades, glass and glassware (sheet glass), cigarettes and leather footwear (western type) recorded substantially higher capacity utilisation over the year.

The frequency distribution of the 51 industries reviewed in this section, according to capacity utilisation ratios (Table III. 15), indicates that the number of industries with more than 80 per cent of capacity utilisation ratio declined to 21 from 22 in 1978.

Since the infrastructural difficulties were a major factor in the under-utilisation of installed capacities in 1979, the Government constituted a Cabinet Committee on Infrastructure to monitor the situation continuously and to take appropriate steps to mitigate shortages of coal, power and railway wagons in consultation with the concerned Ministries.

Small-Scale Industries

Small-scale industries play a pivotal role in the Indian economy in terms of employment and growth. During the last decade this sector has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronic control systems, micro-wave components, electromedical equipments, T. V. sets, etc. Data on the number of units in the sector, its production, employment and export performance since 1976-77 are presented in Table III. 16 and its progress during 1979-80 is reviewed below.

Table III. 16 : Performance of Small-Scale Sector*

Item	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5
Number of units (Lakh nos.)	5.86	6.63	7.23	7.99
Production (Rs. crores)	12400	14000	15790	20934
Employment (Lakh nos.)	55.6	58.9	63.8	69.8
Exports (Rs. crores)	766	845	942	1050

* Figures are subject to revision.
Source : Office of the Development Commissioner (Small-Scale Industries).

The value of output of the small-scale sector in 1979-80 was 32.6 per cent higher than in 1978-79. The performance is noteworthy in the context of the sluggishness in the overall industrial production during the year. The total number of small-scale units increased by 10.5 per cent from 7.23 lakhs in 1978-79 to 7.99 lakhs at the end of 1979-80 and total employment in the sector by 9 .4 per cent from 63.8 lakhs to 69.8 lakhs. The value of exports of this sector also rose over the year from Rs. 942 crores to a new peak of Rs. 1,050 crores.

The new Industrial Policy of the Government, which came into force from August 1, 1980, provides further boost to the small-scale sector. Under the new policy, the small-scale industry unit has been redefined as one having an investment upto Rs. 20 lakhs in plant and machinery, twice the earlier maximum of Rs. 10 lakhs stipulated in 1974. In respect of an ancillary unit, the investment limit has been raised from Rs. 15 lakhs to Rs 25 lakhs. Simultaneously, the limit of investment has been raised from Rs. 1 lakh to Rs. 2 lakhs in case of tiny units. Among other things the policy also envisages: (1) ensuring of the flow of credit to the small-scale units in the decentralised sector at the right time and on appropriate terms; (2) setting up of nucleus plants in industrially backward districts to generate ancillary industries; (3) creation of buffer stock of critical inputs generally

required by small-scale units; (4) continued marketing support and reservation of items for small-scale industries, and (5) greater attention to the promotion of handlooms, handicrafts, *khadi* and other village industries.

District Industries Centres (DICs)

The programme of District Industries Centres (DICs) to promote small, cottage and village industries particularly in non-metropolitan areas, initiated in May 1978, continued during 1979-80. By the end of December 1979, 372 DICs had been sanctioned for 382 districts. Available progress reports from 228 DICs indicate that during 1978-79, they had identified and assisted 96,013 entrepreneurs, the bulk of them being rural artisans in the decentralised sector. A total of 2.75 lakh persons had been provided with additional employment opportunities through ventures mooted by these assisted entrepreneurs/artisans. In respect of the reporting DICs, a total credit assistance of Rs. 86.58 crores had flown from financial institutions to small and decentralised units. DICs also initiated the programme of assisting small sick units, 1,113 such units being assisted in 1978-79.

According to the information available from the State Governments, as many as 1.37 lakh units including over 98,000 artisan-based ones were to be set up during 1979-80 with an investment of Rs. 346.7 crores. The gross value of the annual production of these units is expected to be Rs. 674.1 crores. These units are likely to provide employment opportunities to 5.42 lakh persons. The anticipated flow of funds to the small-scale and decentralised units assisted by DICs would be of the order of Rs. 360 crores, of which Rs. 235 crores would come from financial institutions. The DIC scheme is currently under review by the Government of India.

Industrial Sickness

Though the data for full calendar year are not yet available, indications are that there was further increase in the industrial sickness during 1979 due to stringent infrastructural constraints and disturbed industrial relations.

The number of large and medium industrial units availing bank credit of Rs. 1 crore and above and identified by the banks as sick, rose to 345 at the end of June 1979, from 325 a year before (Table III.17).

Table III. 17 : Sick Industrial Units and Outstanding Bank Credit to them

(Rs. Crores)

Industry	End-June 1979		End-June 1978	
	No. of Units	Amount of outstanding Bank Credit	No. of Units	Amount of outstanding Bank Credit
1	2	3	4	5
1. Engineering (including Iron & Steel) ..	115	337.25	112	286.18
2. Cotton Textiles	84	287.71	78	263.65
3. Chemicals	23	135.04	21	117.95
4. Sugar	35	100.95	31	79.48
5. Jute Textiles	33	89.75	31	76.58
6. Rubber	7	34.07	5	25.17
7. Cement	4	13.21	4	13.69
8. Miscellaneous	44	103.74	43	93.38
Total	**345**	**1101.72**	**325**	**956.08**

The outstanding bank credit to these sick units also increased over the year by Rs. 145.64 crores to Rs. 1,101.72 crores. Nearly two-thirds of the increase in bank credit was accounted for by sick units in the engineering, cotton textiles and sugar industries. State-wise, the incidence of industrial sickness was the highest in West Bengal (with 84 units having outstanding bank credit of Rs. 267.13 crores), followed by Maharashtra (71 units with bank credit of Rs. 253.44 crores), Tamil Nadu (36 units with bank credit of Rs. 155.36 crores) and Uttar Pradesh (36 units with bank credit of Rs. 95.51 crores).

As at the end of June 1979, the banks had completed viability studies in respect of 182 units out of the 345 units identified as sick, and found 155 units with outstanding bank credit of Rs. 604.54 crores to be viable.

The data on defaults in repayment by small-scale units and claims made by various credit institutions under the credit guarantee scheme for small scale industries (for details, please see Chapter VIII), suggest growing incidence of industrial sickness in the small-scale sector. The Reserve Bank of India, therefore, sought information from the commercial banks in January 1979 relating to the number of small-scale units identified as sick, the amount of advances to such units, viability or non-viability of these units, etc. According to the information thus supplied by the banks, the number of small-scale units identified as sick and amount of advances to them were 16,805 units and Rs. 181.71 crores, respectively, at the end of June 1979. Out of these, 3,738 units involving bank credit to the extent of Rs. 80.67 crores were considered by the banks as potentially viable.

During 1979, the Government of India in the Department of Industrial Development considered 18 new applications in addition to the pending applications for merger of sick units with healthy units under Section 72-A of the Income-Tax Act 1961, of which 7 applications were approved. The Government has decided to liberalise the existing tax concessions under the said Section with a view to encouraging the merger of sick units with healthy units. Under the Government's new industrial policy, sick units will be taken over in future only in exceptional circumstances and in appropriate cases. Further, the Government propose to introduce an early warning system to identify symptoms of sickness.

New Industrial Policy

The New Industrial Policy, announced by the Government on July 23, 1980, aims at achieving fuller utilisation of industrial capacity by removing infrastructural constraints. Under it, efficiency of public sector units is proposed to be revived by examining them unit by unit and by taking corrective actions in terms of time-bound programmes. Secondly, in respect of capacity utilisation and expansion, Government will: (*a*) endorse the capacity increases in certain selected industries resulting from improvement in technology or labour productivity, (*b*) permit automatic expansion of 5 per cent per annum in production capacities for all industries in Appendix I of the Industries (Development and Regulation) Act, and (*c*) give sympathetic consideration to requests for setting up of 100 per cent export-oriented units or capacity expansion of existing units exclusively for purposes of export. Thirdly, as mentioned earlier, for the development of backward areas, a few 'nucleus' plants would be set up in each backward district to generate ancillaries and small and cottage units and the development of the small-scale sector, the coverage of which has been expanded, would be assisted through measures in the field of credit and marketing. Fourthly, import of technology will be allowed particularly to (*a*) improve the competitiveness of industry abroad and (*b*) help conservation/optimum utilisation of energy. Further rationalisation and simplification of the system of industrial licensing will also be undertaken.

Prior to the announcement of New Industrial Policy, the Union Government made some important changes during May 1980 in its industrial licensing policy, which included: (*i*) reservation of 27 additional items for manufacture by the small-scale sector, raising the number of items from 807 to 834 and (*ii*) requiring all roller flour mills, including those with 30 tonnes per day capacity exempted earlier, to obtain an industrial licence.

Selected Industries: A Review

The performance of certain selected industries under the four broad groups, *viz.*, *basic*, *capital goods*, *intermediate goods* and *consumer goods*, is reviewed briefly in this sub-section.

A. Basic Industries

(*a*) COAL

Output of coal (including lignite), at 106.5 million tonnes in 1979, recorded a marginal increase of 1.6 per cent over the previous year's level of 104.8 million tonnes (Table III.18). The continued stagnation since 1977 has been largely attributed to the drop in production in the Bengal-Bihar coalfields due to inadequate power supply resulting from a poor performance of the Damodar Valley Corporation (DVC) and the Bihar State Electricity Board, shortages of inputs such as explosives and diesel, and labour trouble and absenteeism. In 1979, there was also inadequate allotment of railway wagons for coal loading mainly because of a rise in the wagon turn-round time which, in turn, followed from the detention of wagons at terminals, loading delays and staff trouble in the Eastern section of the Railways.

Table III. 18 : Performance of Coal, Iron Ore and Cement Industries

(Million Tonnes)

Industry	1977	1978	1979 (Provisional)
1	2	3	4
A. Coal (including lignite)			
(*i*) Production	103.9 (—1.0)	104.8 (+0.9)	106.5 (+1.6)
Of which :			
Coking Coal	29.9 (+1.0)	29.5 (—1.3)	29.4 (—0.3)
(*ii*) Despatches	97.6 (+6.5)	96.3 (—1.3)	97.7 (+1.5)
(*iii*) Exports	0.7	0.4	0.1
(*iv*) Year-end Stocks (at pit-heads)	9.8	10.7	10.3
B. Iron Ore			
(*i*) Production	42.6 (—3.2)	38.8 (—8.9)	39.5 (+1.8)
(*ii*) Despatches for Exports	25.5 (—1.5)	21.8 (—14.5)	24.4 (+11.9)
(*iii*) Year-end Stocks	4.9	5.8	5.9
C. Cement			
(*i*) Production	19.2 (+2.7)	19.6 (+2.1)	18.2 (—7.1)
(*ii*) Imports	Nil	1.31	1.39
(*iii*) Exports	0.81	0.13	0.05
(*iv*) Year-end Stocks	0.25	0.32	0.24

Notes : 1. Figures in brackets represent percentage variations over the preceding year.
2. Figures of year-end stocks cannot be arrived at on the basis of other figures in the Table, as figures relating to exports of coal represent actual exports and not despatches for exports; in the case of iron ore and cement also year-end stocks cannot be arrived at, as despatches for domestic consumption are not given.

Sources : Coal : Office of the Coal Controller.
Iron Ore : Indian Bureau of Mines.
Cement : C.S.O. and Cement Manufacturers' Association.

The overall position of despatches was better during 1979, with an increase of 1.4 million tonnes over the despatch of 96.3 million tonnes in 1978, though supply to vital sectors such as the Railways and steel plants decreased somewhat. There was some improvement in both coal production and movement in the last quarter of 1979 (October-December), compared to the two preceding quarters. As a result of the various measures initiated by the Government, the output of coal (including lignite) at the level of 59.2 million tonnes during the period January-June 1980 increased by 6.3 per cent compared to 55.7 million tonnes in the corresponding period of 1979.

Supply of coking coal to steel plants was erratic in 1979 resulting in loss of steel production. Hence 1.2 million tonnes of coking coal were imported during 1979-80 to augment the indigenous supply placed at 13.0 million tonnes, as against a requirement of 16.4 million tonnes. According to the Department of Coal, Government of India, the domestic availability of coking coal in 1980-81 would be 15.5 million tonnes compared to the estimated demand of 17 million tonnes necessitating the continuance of the import of coking coal in 1980-81 also.

With effect from July 17, 1979, the Government revised the coal prices upward in order to offset the losses incurred by coal companies due to escalation in cost of production since the last price revision in July 1975 (for details please see the last year's Report).

To meet the rising demand, a production target of 113.5 million tonnes has been set for 1980-81 with an investment of over Rs. 380 crores in respect of public sector coal companies against Rs. 276 crores during 1979-80. With a view to increasing the output and streamlining the distribution, the Government has initiated various measures such as (*i*) improved power supply to coal mines in the Eastern region through better generation of power by the Damodar Valley Corporation, (*ii*) increased supply of diesel, (*iii*) import of explosives to meet the shortfall in indigenous supply, (*iv*) constant liaison with the Railways to maximise the movement of coal to various consumers, and (*v*) setting up of coal dumps at important consuming centres. Captive generation plants in coalfields are also being considered. A cell has been constituted by the Ministry of Home Affairs to review and co-ordinate measures necessary to deal with law and order situation in the areas of coalfields. Besides, a large number of schemes to reconstruct existing mines and to construct new mines are under implementation. Moreover, in 1979-80 eighteen new schemes were approved with an estimated cost of Rs. 314 crores, which when completed, would raise the annual production capacity by 22.8 million tonnes.

(*b*) IRON ORE

In contrast to sizeable declines in the preceding two years, the output of iron ore at 39.5 million tonnes increased in 1979, though by a very moderate 1.8 per cent (Table III. 18). The iron ore mines in the public sector accounted for a lower share of 46 per cent of the total production than that of 51 per cent in the preceding year, as the ore production of the National Mineral Development Corporation (NMDC) declined by 30 per cent from 7.8 million tonnes in 1978 to 5.5 million tonnes in 1979. Lower demand from Japanese steel mills due to international recessionary conditions and the 46-day strike in Bailadille mines in November-December 1979 were responsible for the drop in ore production of the NMDC, which brought down its share in total iron ore production from 20 per cent to 14 per cent.

Despatches of iron ore to steel plants in India, which had declined from 16.3 million tonnes in 1977 to 16.1 million tonnes in 1978, dropped further to 15.1 million tonnes in 1979, reflecting a setback in steel output. Despatches for exports, however, increased during the year by 11.9 per cent to 24.4 million tonnes in contrast to the decline of 14.5 per cent to 21.8 million tonnes in 1978 from 25.5 million tonnes in 1977. The mine-head stocks of 5.9 million tonnes of iron ore at the end of 1979 were 1.7 per cent higher than the stock of 5.8 million tonnes a year ago.

The Kudremukh Iron Ore Project, work on which started in 1975, was commissioned on August 23, 1980, one month ahead of the scheduled date. The project was undertaken, with a credit of U.S. $ 630 million from the Government of Iran; in return, the Govern-

ment of India signed contract under which Government stipulated supplies to Iranian steel plants of 150 million tonnes of iron ore concentrates of the specified quality produced by the Kudremukh plant for a period of 21 years at the average rate of 7.5 million tonnes per annum. As the present Government of Iran has expressed its unwillingness to lift the agreed quantity of iron ore concentrates, the Government of India have set up a high-powered Committee to find alternative uses and buyers for the Kudremukh product.

(*c*) CEMENT

The production of cement at 18.2 million tonnes in 1979 declined over the year by 7.1 per cent in contrast to an increase of 2.1 per cent in 1978 (Table III.18). During the first half of 1979, production showed a drop of 3.76 lakh tonnes over the corresponding period of previous year; in the second half a further fall of 10.62 lakh tonnes or 10.9 per cent over the second half of 1978 took place. This setback ocurred despite 18.2 lakh tonnes of additional capacity that went on stream in 1979. In common with other industries, power cuts in most parts of the country, particularly in the States where cement industry is concentrated, poor quality and short supply of coal and inadequate supplies of wagons were the major constraints on cement production in 1979, and brought down drastically the utilisation of installed capacity from 88.1 per cent in 1978 to 75.5 per cent in 1979. The position further deteriorated in the first half of 1980 when the output amounted only to 8.3 million tonnes (69.2 per cent of installed capacity), compared to 9.7 million tonnes (79.0 per cent of installed capacity) in the corresponding period of 1979.

To help bridge the gap between demand and supply, 1.39 million tonnes of cement were imported in 1979. The imports, however, failed to bring about the expected relief because of transport bottlenecks and port congestion.

The stocks with the cement factories declined from 3.16 lakh tonnes in 1978 to 2.43 lakh tonnes in 1979. The ban on exports of cement imposed in 1977 continued during 1978 and 1979 also, except for irrevocable contractual obligations.

As a part of an annual exercise to review the retention prices of cement, first introduced in May 1979, the Union Government on August 29, 1980 announced an increase of Rs. 13.65 per tonne in retention price with retrospective effect from May 3, 1980 to compensate the producers for escalations in the cost of essential inputs like coal, freight, power tariff, stores and spares and wages.

In addition to the existing installed capacity of 24.1 million tonnes, the Government has approved the creation of new capacities to the extent of 27.5 million tonnes. Besides, 63 schemes for setting up of mini-cement plants with a total capacity of 2.35 million tonnes have been registered with Directorate General of Technical Development. Additional capacity that is likely to come up during the three years 1980-81, 1981-82 and 1982-83 is estimated at 3.56 million tonnes, 3.13 million tonnes and 5.31 million tonnes, respectively.

(*d*) IRON & STEEL

The steel industry was adversely affected during 1979-80 by acute shortage of power and coking coal, labour unrest and transport bottlenecks. The steel plants were particularly hit by shortfalls, frequent interruptions and fluctuations in power supply during the second half of the year. Inadequate supply of power to the coal sector as well, adversely affected the raising of coking coal. Inadequate availability of coking coal, coupled with its poor quality, necessitated imports of 1.2 million tonnes of coking coal during the year. According to the SAIL authorities, estimated loss of production of saleable steel and pig iron due to shortage of power and coking coal during 1979-80, was of the order of 1.3 million tonnes and 0.65 million tonne, respectively. The production of steel ingots in the integrated steel plants declined by 2.5 per cent to 8.0 million tonnes during 1979-80, on the top of a fall of 3.2 per cent in the previous year (Table III.19). At 6.1 million tonnes, the output of saleable steel was 7.6 per cent lower than in the previous year, during which it had declined by 4.4 per cent. After lowering by 7 to 8 percentage points to 77 per cent for ingot steel and 82 per cent for saleable steel in 1978-79, the rates of capacity utilisation in the integrated steel plants further dropped to 70 per cent and 69 per cent, respectively in 1979-80.

Table III. 19: Production of Steel

(Thousand Tonnes)

Year	Bhilai	Durga-pur	Rour-kela	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										
1976-77	2302	1092	1503	956	1908	667	8428	137	95	232
1977-78	2371	1092	1409	933	1968	651	8424	103	97	200
1978-79	2200	945	1319	1195	1866	628	8153	113	97	210
1979-80 (Provisional)	2108	882	1268	1426	1779	565	8028	118	77	195
Production of Saleable Steel										
1976-77	2019	901	1174	736	1550	542	6922	81	52	133
1977-78	1930	865	1178	815	1601	506	6895	73	49	122
1978-79	1846	776	1042	931	1516	481	6592	84	49	133
1979-80 (Provisional)	1706	604	1045	849	1447	430	6081	93	46	139
Production of Finished Steel										
1976-77	1673	501	1146	660	1006	369	5355	—	—	—
1977-78	1632	555	1160	731	967	319	5364	—	—	—
1978-79	1590	539	1029	894	961	315	5328	—	—	—
1979-80 (Provisional)	1404	326	1030	846	740	278	4624	—	—	—

Source : Steel Authority of India Ltd.

At the Alloy Steel Plant (ASP), Durgapur and at the Visvesvarayya Iron and Steel Ltd. (VISL), Bhadravati, production of alloy steels (ingots and saleable steel) showed divergent trends during the year. While the production of ingots at the ASP declined by 20.6 per cent and that of saleable steel by 6.1 per cent, that at the VISL increased by 4.4 per cent and 10.7 per cent, respectively.

Out of 145 mini-steel units, with an installed capacity of 3.32 million tonnes, 132 units with the total capacity of 3 million tonnes were functioning as on 1st December 1979. Their production during 1979-80, which was affected mainly due to power shortages and inadequate availability of inputs, has been estimated by Government at 1.62 million tonnes as against 1.66 million tonnes in 1978-79, indicating the average capacity utilisation of about 54 per cent; in 1978-79 their capacity utilisation was 58 per cent.

Though the growth in the construction sector and Plan outlays on power projects offset to an extent the adverse impact of the slow down in industrial activity on the demand, the consumption of steel recorded a modest growth rate of 5 per cent during 1979-80, compared to a rise of 16 per cent a year before. In spite of the lower rate of growth in demand, shortages of many steel items developed during the year, which necessitated an increase in imports from 8 lakh tonnes in 1978-79 to 1.3 million tonnes and confining of exports only to the past commitments.

The basic objective of steel distribution policy followed during the year was to ensure an equitable distribution to different groups, giving priority to the important sectors of the economy like defence, coal, railways, power projects, irrigation projects and engineering goods exports. During 1979-80, distribution procedures were streamlined with a view to meeting the requirements of small house builders, co-operative societies, hospitals, etc. Committees were set up at all branches of the producers' stockyards for supplying the material at stockyard prices to house builders and as an emergency measure, 50,000 tonnes of steel bars and rods were earmarked for them. Keeping in view the important role of the rural sector in the economy, a new scheme of distributing steel in rural areas was evolved with the intention of stimulating steel consumption in these areas. Certain categories of steel like hot and cold rolled coils, plates, GP/GC sheets were made available to selected rural distribution centres opened by the Government in blocks

identified by the Government of India for intensive fertiliser promotion campaign. A price concession of Rs. 40/- per tonne on the ruling stockyard prices of these steel items and free transport from the stockyard to the rural distribution centre, subject to a certain maximum, were two important features of the scheme.

As stated in the last year's Report, the base prices of all saleable steel items (except railway items) were revised upwards with effect from 7th April 1979 by 15 per cent and an additional surcharge of Rs. 100 per tonne was imposed to equalise the prices of indigenous and imported materials.

The Government has, at present on hand, a number of important schemes for expansion and modernisation of existing steel plants and for setting up of new plants. The major among them are : (1) The expansion of installed capacity of Bokaro Steel Plant to 4 million tonnes scheduled for completion by December 1981, except the Cold Rolling Mill which will be ready by March 1983; (2) Expansion of Bhilai Steel Plant to 4 million tonnes scheduled for completion by June 1983; (3) Production of cold rolled sheets at Rourkela scheduled to commence in the first quarter of 1982; (4) Cold rolling facilities at Salem Steel Plant scheduled for completion by September 1981; (5) Modernisation of the Hot Strip Mill at Rourkela to be completed by the second quarter of 1980-81; and (6) Establishment of a steel plant at Visakhapatnam with an installed capacity of 3 million tonnes to be completed within the next 6 years.

(*c*) ELECTRICITY

A major constraint on the industrial production during the year under review was the poor performance of the power sector. Though the total generation of electricity improved from 101.0 billion kwh in 1978 to 106.1 billion kwh in 1979, the rate of increase in power generation more than halved over the year from 11.0 per cent to 5.1 per cent. In the first two quarters of 1980 the position deteriorated sharply with generation at 51.4 billion kwh, 3.6 per cent lower than that of 53.3 billion kwh generated in the corresponding period of 1979.

Thermal power generation increased in 1979 by 5.7 per cent, more than four times the growth rate of 1.3 per cent in the previous year, but this was more than offset by a sharp deceleration in the growth rate of hydel power generation from 27.5 per cent in 1978 to a mere 2.6 per cent in 1979 because of low water levels in hydel reservoirs as a result of the failure of the monsoon. Nuclear power generation increased by 41.6 per cent, in contrast to a decline of 18.4 per cent in 1978 (Table III.20). During the first half of 1980, though thermal power generation improved by 7.4 per cent over the year in the wake of increased coal supplies made available to thermal power stations, hydel power generation recorded a decline of 16.2 per cent over the corresponding period of 1979.

Table III. 20 : Power Generation

(Million Kwh)

Category	1977	1978	1979	1979 (January-June)	1980 (January-June)
1	2	3	4	5	6
Thermal	52143 (+4.5)	52828 (+1.3)	55850 (+5.7)	28475 (+4.3)	30582 (+7.4)
Nuclear	2778 (—13.1)	2266 (—18.4)	3208 (+41.6)	1560 (+75.1)	1296 (—16.9)
Hydel	36008 (+2.8)	45905 (+27.5)	47086 (+2.6)	23243 (+8.9)	19475 (—16.2)
Total	**90929 (+3.2)**	**100999 (+11.0)**	**106144 (+5.1)**	**53278 (+7.6)**	**51353 (—3.6)**

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

Source : Central Electricity Authority.

The availability of power in 1979 fell short of demand. The failure of the monsoon also added to the demand for power in 1979 in a number of States and Union Territories, as agriculturists increasingly resorted to electric pumpsets to offset the effects of drought. Region-wise requirements of power and actual supplies during 1978, 1979 and January-June 1980 are shown in Table III. 21. In the circumstances, a number of States imposed power cuts during 1979. The magnitude of such cuts ranged between 10 and 25 per cent

Table III. 21 : Power Supply Position—Requirement and Actual Supply

(Million Kwh/day)

Region	1978			1979			1980 (January-June)		
	Require-ment	Actual supply	% Deficit	Require-ment	Actual supply	% Deficit	Require-ment	Actual supply	% Deficit
1	2	3	4	5	6	7	8	9	10
Northern Region	956.87	839.21	—12.3	1063.37	936.43	—11.9	608.68	435.31	—28.5
Western Region	1034.47	950.73	—8.1	1141.57	992.15	—13.1	622.10	522.24	—16.1
Southern Region	900.19	818.55	—9.1	972.75	855.67	—12.0	516.25	402.27	—22.1
Eastern Region	581.51	488.43	—16.0	599.02	483.53	—19.3	315.36	211.31	—33.0
North Eastern Region	39.60	27.05	—31.7	40.54	31.08	—23.3	20.29	12.85	—36.7
Total (all Regions) ..	**3512.64**	**3123.97**	**—11.1**	**3817.25**	**3298.86**	**—13.6**	**2082.68**	**1583.98**	**—23.9**

Source : Central Electricity Authority.

in the North-Eastern and Southern Regions and between 8 and 25 per cent in the Western Region, while it was 30 per cent in the Northern Region. West Bengal was one of the most severely affected states where power cuts, load shedding and frequent power trippings continued almost throughout the year. The State imposed severe power cuts on high tension industries along with the peak period restrictions for consumers getting supply of 3.3 K.V. and above. In Uttar Pradesh, 100 per cent power cut was imposed throughout the year on continuous process industries getting supply of 33 K.V. and above and having captive generation equal to 50 per cent or more of their demand. In Madhya Pradesh, peak period restrictions were in force throughout the year along with 10 to 25 per cent power cuts. In West Bengal and Maharashtra, industries had to shut down for about a week in April and June 1979, respectively because of non-availability of power.

The power supply position has steadily deteriorated during the last two years despite increases in installed power generation capacity (Table III.22).

Reservoir water levels which depend on the monsoon determine utilisation of hydro-power

Table III. 22 : Installed Plant Capacity

(MW)

Year	Hydel	Thermal	Gas Turbine and Diesel	Nuclear	Total
1	2	3	4	5	6
1976-77	9025	11433	371	640	21469 (+6.7)
1977-78	10020	12681	327	640	23668 (+10.2)
1978-79	10833	14887	322	640	26682 (+12.7)

Source : Economic Survey, Government of India, 1979-80.

generation capacity. The increase in the installed hydel generation capacity could not thus be exploited because of the failure of the monsoon in 1979. In respect of thermal generation, the average annual increase in installed capacity was 12.1 per cent, but the average annual increase in actual generation was only 7.9 per cent, capacity utilisation declining from 51.5 per cent in 1977-78 to 48.6 per cent in 1978-79 and further to 45.0 per cent in 1979-80. Inadequate coal supplies and poor quality of the supplies to thermal stations, which reduced their efficiency, teething troubles of newly installed plants, development of technical faults in some units, poor maintenance of plants, mounting transmission losses and poor industrial relations were responsible for the under-utilisation of thermal power generation capacity. In case of diesel generation capacity, in addition to the 1.5 per cent reduction in installed capacity during the year, shortages of diesel had to be contended with.

B. *Capital Goods Industries*

(*a*) ENGINEERING INDUSTRIES

For engineering units, 1979-80 was a year of poor performance ; output of engineering goods increased by 3.0 per cent whereas it had grown by 15.0 per cent in the previous year. The deceleration in the growth rate was largely on account of inadequate availability of basic inputs such as steel, pig iron, coal/coke, shortage of power and diesel and strained industrial relations in some engineering units. Even as imports of steel and other raw materials were liberalised in order to meet the requirements of engineering industries, restrictions were imposed on exports of important items such as steel pipes and tubes, bright bars, aluminium conductors, etc., with a view to improving their domestic availability. Recessionary developments and growing protectionist tendencies in the industrial world, shipping difficulties at Calcutta and Bombay ports and export restrictions led to the decline in the exports of engineering goods, from Rs. 717 crores in 1978-79 to Rs. 650 crores in 1979-80. With a view to promoting production and exports of engineering goods, the Government has assigned diesel quotas for each State for distribution to the engineering units through oil companies, and increased the steel and pig iron quota for 1980-81 to export-oriented engineering units. In the case of engineering units exporting 27 engineering items such as steel pipes, hand tools, bicycle parts, electric fasteners and agricultural implements, the period of pre-shipment credit has also been extended from 90 days to 180 days.

The performance of more important engineering goods industries is briefly reviewed below under three broad groups, viz. (*i*) heavy mechanical engineering, (*ii*) light mechanical engineering and (*iii*) electrical engineering industries.

(*i*) *Heavy Mechanical Engineering Industries:* The growth of output of the automobile industry as a whole dropped from 12.1 per cent in 1978 to 6.8 per cent in 1979, mainly on account of shortage of power, irregular supply of automobile components and labour unrest (Table III. 23). The output of *passenger cars*, declined by 16.8 per cent to 28,800 in 1979 on top of the previous year's decline of 9.2 per cent, due to labour trouble in some of the manufacturing units as well as in response to the fall in demand following the sharp rise in petrol prices. The production of *jeeps and land-rovers*, on the other hand, increased by 20.5 per cent to 13,500 in 1979, compared to a rise of 16.7 per cent in 1978. Thanks to the demand for movement of raw materials and other essential goods by road in view of the inability of the Railways to cope with the traffic, the output of *commercial vehicles* also continued to grow, though the rate of growth came down from 33.2 per cent in 1978 to 20.4 per cent in 1979 with 58,400 vehicles produced during the year. As demand for commercial vehicles is estimated to grow by 20 per cent per annum, the Government has allowed existing units to expand their capacities substantially. In the case of *scooters*, the output declined by 7.8 per cent to 153,200 in 1979 against an increase of 6.7 per cent in the previous year. During the first half of 1980, the output of passenger cars at 14,500 recorded a substantial growth of 23.1 per cent over the same period of 1979, despite the closure of one manufacturing unit following disturbed industrial relations. Production of commercial vehicles at 30,000, however, recorded a decline of 1.5 per cent from the level in the corresponding period of 1979.

Table III. 23 : Output of Selected Heavy Mechanical Engineering Industries

Item	Unit	1977	1978	1979 (Provisional)
1	2	3	4	5
1. Automobiles (Total i+ii+iii)	'000 Nos.	84.1	94.3	100.7
		(+3.8)	(+12.1)	(+6.8)
(*i*) Passenger Cars	,,	38.1 (+20.2)	34.6 (—9.2)	28.8 (—16.8)
(*ii*) Commercial Vehicles	,,	36.4 (—14.2)	48.5 (+33.2)	58.4 (+20.4)
(*iii*) Jeeps and Land-rovers	,,	9.6 (+39.1)	11.2 (+16.7)	13.5 (+20.5)
2. Scooters	,,	155.8 (+2.4)	166.2 (+6.7)	153.2 (—7.8)
3. Light, Medium and Heavy Structurals ..	'000 Tonnes	129.9 (+4.8)	136.1 (+4.8)	142.3 (+4.6)
4. Steel Castings (including ferro alloys) ..	,,	303 (—6.5)	359 (+18.5)	323 (—10.0)
5. Diesel Engines (Stationary)	'000 Nos.	130.4 (+22.3)	136.5 (+4.7)	138.9 (+1.8)
6. Railway Wagons (in terms of 4 wheelers)	,,	12.7 (+12.4)	10.7 (—15.7)	11.3 (+5.6)
7. Road Rollers	Nos.	502 (+120.2)	767 (+52.8)	818 (+6.6)
8. Machine Tools	Rs. Crores	114.1 (—10.9)	124.6 (+9.2)	167.9 (+34.8)

Note: Figures in brackets are percentage variations over the previous year.
Source: Central Statistical Organisation (CSO).

The growth in output of *diesel engines (stationary)* decelerated for the second year in succession in the wake of rising prices and shortages of diesel; their output increased over the year by only 1.8 per cent to 138,900 in 1979. The trend was, however, reversed during January-June 1980, when the output of 78,700 was 12.7 per cent higher than that in the corresponding period of 1979. Compared to a sharp decline of 15.7 per cent in 1978, the output of *railway wagons* increased by 5.6 per cent to 11,300 in 1979. The higher output was facilitated by the improvement in the availability of wheelsets through imports. The output of 6,700 during January-June 1980 showed an increase of 4.7 per cent over the level in the corresponding period of 1979. The increase in production is in response to higher orders for wagons placed by the Railways to relieve domestic shortage thereof. At Rs. 167.9 crores, the value of the output of *machine tools* increased substantially by 34.8 per cent in 1979, compared to a rise of 9.2 per cent in 1978, partly reflecting the escalation in manufacturing costs. The industry, however, experienced shortages of metal required for the manufacture of castings. During January-June 1980, the output of machine tools, valued at Rs. 88.8 crores, showed an increase of 15.8 per cent over the level in the corresponding half of the preceding year.

(*ii*) *Light Mechanical Engineering Industries* : Among the important industries in this group, the production of *razor blades*, *stoves (pressure type)* and *bicycles* increased appreciably in 1979, the order of increase ranging between 15 and 32 per cent compared to increases between 14 and 30 per cent in 1978. The production of *sewing machines* also

registered a sizeable increase of 21.8 per cent in contrast to a decline of 32.8 per cent in 1978 (Table III.24). During the first half of 1980, while the output of sewing machines, at 180,200 was 25.7 per cent higher than in the corresponding half of 1979, that of razor blades at 629.5 million was 6.1 per cent lower and that of bicycles at 1.8 million was 15.5 per cent lower. Other items in this group showed either the deceleration of growth or fall in production. The output of *typewriters* increased by only 6.5 per cent to 88,100 in 1979, compared with the substantial growth of 25.7 per cent in 1978, and experienced during January-June 1980 an actual decline in output of 0.5 per cent to 45,900 from that in the same period of 1979. The output of *bolts, nuts, rivets* and *dogspikes*, at 28,000 tonnes, remained more or less stagnant in 1979, at the preceding year's level. The production of *ball* and *roller bearings*, at 28.6 million in 1979, declined by 5.3 per cent in contrast to an increase of 4.1 per cent in 1978, but recovered considerably during January-June 1980 when the production of 16 million was 27.3 per cent higher than in the first half of 1979. The output of *hurricane lanterns* which had declined by 5.8 per cent in 1978 dropped further by 2.7 per cent in 1979, but the output of 1.2 million during January-June 1980 was 6.4 per cent higher than in the same period of 1979.

(*iii*) *Electrical Engineering Industries:* Major industries under this group reported increases in production in 1979 (Table III.25). Among the light electrical engineering industries, the output of *electric fans* increased by an impressive 21.5 per cent to 3.7 million in contrast to a decline of 8.6 per cent in 1978, following the increased demand associated with a revival in building construction activities and improvement in product efficiency arising from greater automation. The production of 2.1 million fans in the first half of 1980 was 12.0 per cent higher than in the corresponding period of 1979. The output of *domestic refrigerators* at 213,900 rose by 20.4 per cent in 1979 on the top of an increase of 25.9 per cent in 1978, but at 138,800 in the first half of 1980, it was as much as 26.8 per cent lower than in the comparable period of 1979. While the production

Table III. 24 : Output of Selected Light Mechanical Engineering Industries

Item	Unit	1977	1978	1979 (Provisional)
1	2	3	4	5
1. Ball and Roller Bearings	Million Nos.	29.0 (+5.8)	30.2 (+4.1)	28.6 (—5.3)
2. Typewriters	'000 Nos.	65.8 (+9.7)	82.7 (+25.7)	88.1 (+6.5)
3. Rubber Ply Transmission and Conveyor Beltings	Tonnes	5977 (—16.0)	6839 (+14.4)	6822 (—0.2)
4. Bicycles	'000 Nos.	3081 (+16.5)	3500 (+13.6)	4052 (+15.8)
5. Sewing Machines	,,	378.0 (+4.3)	253.9 (—32.8)	309.2 (+21.8)
6. Hurricane Lanterns	,,	2412 (+7.8)	2271 (—5.8)	2209 (—2.7)
7. Razor Blades	Million Nos.	986 (+7.8)	1231 (+24.8)	1634 (+32.7)
8. Stoves (Pressure Type)	'000 Nos.	2.0 (—47.4)	2.6 (+30.0)	3.2 (+23.1)
9. Bolts, Nuts, Rivets and Dogspikes ..	'000 Tonnes	27.7 (+3.4)	27.8 (+0.4)	28.0 (+0.7)

Note : Figures in brackets are percentage variations over the previous year.
Source: Central Statistical Organisation (CSO).

of *fluorescent lamps*, at 23 million, increased by 12.2 per cent in 1979 compared to the rise of 16.5 per cent in 1978, that of *GLS lamps*, at 187.3 million, showed a higher growth rate of 9.7 per cent than that of 7.2 per cent in the previous year.

Certain industries in this group did not fare as well in 1979 as in the preceding year. For instance, the output of *radio receivers* increased by 2.1 per cent, of *storage batteries* by 0.7 per cent and of *dry cells* by 3.6 per cent, compared to significant increases of 7.3

Table III. 25 : Output of Electrical Engineering Industries

Item	Unit	1977	1978	1979 (Provisional)
1	2	3	4	5
A. Light Electrical Engineering				
1. Electrical Lamps				
(*i*) GLS and Others	Million Nos.	159.3 (—4.8)	170.8 (+7.2)	187.3 (+9.7)
(*ii*) Fluorescent	,,	17.6 (+4.1)	20.5 (+16.5)	23.0 (+12.2)
2. Electric Fans	'000 Nos.	3309 (+13.9)	3023 (—8.6)	3674 (+21.5)
3. Radio Receivers	,,	1799 (+7.3)	1931 (+7.3)	1972 (+2.1)
4. Storage Batteries	,,	1486 (+6.1)	1627 (+9.5)	1639 (+0.7)
5. Dry Cells	Million Nos.	637.5 (+6.4)	823.4 (+29.2)	852.7 (+3.6)
6. Domestic Refrigerators	'000 Nos.	141.1 (+29.7)	177.7 (+25.9)	213.9 (+20.4)
B. Heavy Electrical Engineering				
1. Power Transformers	'000 KVA	17659 (+24.9)	18151 (+2.8)	19262 (+6.1)
2. Electric Motors	'000 HP	3951 (+13.9)	3760 (—4.8)	3778 (+0.5)

Note: Figures in brackets are percentage variations over the previous year.
Source: Central Statistical Organisation (CSO).

per cent, 9.5 per cent and 29.2 per cent, respectively in 1978. During January-June 1980, the output of radio receivers at 1 million and that of storage batteries at 0.8 million was actually 1.6 per cent and 5.3 per cent, respectively lower than in the first half of 1979. The production of dry cells at 461 million was, however, 3.6 per cent higher.

In the heavy electrical engineering industries group, the output of *electric motors* increased nominally by 0.5 per cent in 1979, as against the decline of 4.8 per cent in 1978. The output of *power transformers* also registered a higher increase of 6.1 per cent than that of 2.8 per cent in the previous year. The output of power transformers and electric motors during January-June 1980, at 10.1 million KVA and 1.9 million HP, respectively was 2.5 per cent and 1.1 per cent higher than in the corresponding period a year ago.

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

Non-ferrous Metals :

Among the major virgin metals, the output of *aluminium*, at 211.6 thousand tonnes,increased in 1979 only by 2.0 per cent, or by one sixth of

the growth rate of 12.9 per cent in 1978 (Table III 26). Larger power cuts imposed on smelters as well as labour unrest resulting in closure of some of the smelters over long periods were the major factors responsible for the significantly lower growth during the year. Consequently, there was only a marginal increase in the utilisation of installed capacity from 63.8 per cent in 1978 to 64.9 per cent in 1979. However, during January-June 1980 output of aluminium, at 76.7 thousand tonnes, declined sharply by 33.1 per cent over the corresponding period of 1979. In view of the growing domestic demand, imports of aluminium increased from 9,000 tonnes in 1977-78 to 33,000 tonnes in 1978-79 and further to 76,000 tonnes in 1979-80.

As regards prices, it had been the policy of the Government to make imported aluminium available at the price of indigenous metal by waiving the customs duty and countervailing duty on imported metal till the value of imported aluminium was equal to or higher than the price of locally produced metal. As difficulties arose in enforcing this policy due to the rising trend in the international prices of the metal, the Government announced on October 4, 1979 pooled prices for the metal by amending Aluminium (Control) Orders, 1979. The price for EC grade aluminium was raised by Rs. 1689 per tonne and for CG grade by Rs. 1560 per tonne. As the cost of power had increased since the last price revision in October 1979, the retention prices for the indigenous producers were further raised in July 1980 by Rs. 1778 per tonne for EC grade aluminium and by Rs. 2005 per tonne for CG grade aluminium.

Table III 26 : Output of Metallurgical Industries

(Other than Iron and Steel)

(Thousand Tonnes)

Item	1977	1978	1979 (Provisional)
1	2	3	4
Virgin Metals			
Aluminium	183.8 (—13.3)	207.5 (+12.9)	211.6 (+2.0)
Copper	21.7 (+1.9)	20.9 (—3.7)	21.9 (+4.8)
Lead	7.7 (+42.6)	10.0 (+29.9)	9.5 (—5.0)
Zinc	36.0 (+34.3)	58.7 (+63.1)	63.3 (+7.8)
Semi-manufactures			
Aluminium Sheets and Circles	49.4 (+30.0)	45.2 (—8.5)	55.9 (+23.7)
Aluminium Wire Rods for ACSR	39.6 (—34.4)	20.1 (—49.2)	24.2 (+20.4)
Copper Sheets and Circles, including Strips	2.7 (+22.7)	2.1 (—22.2)	1.7 (—19.0)
Brass Sheets and Circles, including Strips	12.3 (+7.0)	10.8 (—12.2)	12.4 (+14.8)
Zinc Sheets and Strips	7.3 (+2.8)	9.4 (+28.8)	10.0 (+6.4)

Note: Figures in brackets are percentage variations over the previous year.
Sources: C.S.O. and D.G.T.D.

The output of *copper* by the Hindustan Copper Ltd., the only producer of the metal in the country, increased over the year by 4.8 per cent to 21,900 tonnes in 1979. The operations were affected by the prolonged shut-down of the Khetri Smelter from August to October 1979 for the annual overhaul, shortages of concentrates owing to strike at Mosaboni mines in March-April 1979 and unsatisfactory power supply throughout the year. The short supply of power and depletion of stocks of concentrates continued to affect adversely copper production during the first half of 1980 also, when the output amounted to 11,700 tonnes, 5.6 per cent lower than in the corresponding half of 1979. Due to the short-fall in indigenous production in relation to demand, copper imports of 41,000 tonnes were arranged during 1979-80 and those of 55,000-60,000 tonnes are planned for 1980-81.

Output of *lead* declined by 5.0 per cent to 9.5 thousand tonnes in contrast to an increase of 29.9 per cent in 1978; while the production of *zinc*, after rising by a phenomenal 63.1 per cent in 1978 increased at a lower rate of 7.8 per cent to 63,300 tonnes. Severe power shortages and interruptions and inadequate supply of imported zinc concentrates were the principal constraints on lead and zinc industry during 1979. During January-June 1980, while lead output at 7,000 tonnes increased by 45.8 per cent over the corresponding period of the previous year, that of zinc at 19,400 tonnes showed a sharp fall of 45.2 per cent.

Imports of 55,000 tonnes each of zinc and lead were made during the year. In order to reduce the imports, the Government is considering the setting up of one smelter each for zinc and lead with a capacity of 100,000 tonnes and 35,000 tonnes per annum, respectively, and the Hindustan Zinc Ltd. has undertaken a project to open up the lead-zinc ore deposits in Rajasthan, which project is expected to be completed by 1981-82.

Non-ferrous Semi-manufactures :

Semi-manufactures, based on non-ferrous metals, suffered during the year from such constraints as inadequate availability of base metals and power shortages. Among the semi-manufactures, copper sheets and circles experienced further decline in their output by 19.0 per cent in 1979 over a decline of 22.2 per cent in 1978. The production of aluminium and brass sheets and circles, however, increased substantially in 1979 over the levels of the preceding year. Production of aluminium wire rods for ACSR, which had declined in both 1977 and 1978, registered a smart recovery in 1979.

During the first half of 1980, output of aluminium sheets and circles and copper/brass sheets and circles, at 19.2 thousand tonnes and 6.2 thousand tonnes, was respectively 23.8 per cent and 18.4 per cent lower than in the corresponding period of 1979.

C. *Intermediate Goods Industries*

(a) JUTE TEXTILES

The output of jute textiles at 11.51 lakh tonnes in 1979 recorded a decline of 4.8 per cent mainly due to the 50-day long strike in the jute industry during January-February 1979 and erratic power supply in West Bengal, as against an increase of 2.0 per cent during 1978. The decline in production of hessian and carpet backing was of the order of 8.3 per cent and 9.2 per cent, respectively; in 1978 also the production of hessian had declined by 1.8 per cent and that of carpet backing by 9.4 per cent. Production of sacking also fell by 1.2 per cent in contrast to a rise of 4.9 per cent in 1978 (Table III. 27). During January-June 1980, however, the production of jute goods at 6.70 lakh tonnes was as much as 42.0 per cent higher than that of 4.72 lakh tonnes during the corresponding period of 1979. Installation of captive diesel generating sets by most of the jute mills in West Bengal enabled them to maintain normalp roduction levels during 1980 despite power shortage in the State.

Despatches of jute textiles for domestic consumption declined over the year by 3.7 per cent to 7.33 lakh tonnes in 1979 mainly because of reduced off-take of jute bags by cement, sugar and other end-users following the decline in their output. In the first six months of 1980, the home demand improved due to increased off-take by the DGS&D, and despatches of jute goods for internal consumption aggregated 4.17 lakh tonnes or

Table III. 27 : Jute Textiles

(Thousand Tonnes)

Item	Year	Hessian	Sacking	Carpet Backing	Total@
1	2	3	4	5	6
Production	1977	349.6 (+10.3)	548.3 (—12.8)	142.9 (+18.9)	1184.7 (— 0.5)
	1978	343.3 (— 1.8)	575.3 (+ 4.9)	129.4 (— 9.4)	1208.8 (+ 2.0)
	1979 (Provisional)	314.7 (— 8.3)	568.4 (— 1.2)	117.5 (— 9.2)	1150.6 (— 4.8)
Exports	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)
	1979 (Provisional)	190.7 (— 8.3)	43.2 (—17.6)	97.8 (— 5.2)	354.1 (—11.3)
Domestic Consumption+	1977	93.6 (+ 1.2)	459.7 (—19.7)	—	659.8 (—13.5)
	1978	104.2 (+11.3)	531.4 (+15.6)	—	761.2 (+15.4)
	1979 (Provisional)	89.3 (—14.3)	517.7 (— 2.6)	—	733.0 (— 3.7)
Stocks (as at end-December) ..	1977	30.7 (—25.3)	59.1 (+13.4)	9.3 (—36.7)	114.3 (— 6.9)
	1978	60.7 (+97.7)	39.3 (—33.5)	26.9 (+189.2)	144.0 (+26.0)
	1979 (Provisional)	43.3 (—28.7)	29.2 (—25.7)	11.0 (—59.1)	96.3 (—33.1)

@ Inclusive of 'Others'.
\+ Figures represent despatches for internal consumption.
Note : 1. Figures within brackets represent percentage variations over the preceding year.
2. Figures of year-end stocks cannot be arrived at on the basis of other figures in the Table as figures relating to exports represent actual exports and *not* despatches for exports.
Source : Ministry of Commerce (Office of the Jute Commissioner).

33 per cent higher than during the corresponding period of 1979.

Exports of jute goods declined from 3.99 lakh tonnes in 1978 to 3.54 lakh tonnes in 1979, due to the prolonged strike in the jute industry and the disruption in the working of the Calcutta port. Exports of hessian were 8.3 per cent lower over the year, those of carpet backing cloth 5.2 per cent and those of sacking as much as 17.6 per cent. During January-March 1980, exports of jute goods at 77.9 thousand tonnes were more than double those of 35.7 thousand tonnes in the corresponding period of 1979.

In the context of the buoyancy in export demand, the Government reimposed export duty at the rate of Rs. 1000 per tonne on all shipments of hessian and cloth bags (including narrow batching cloth) with effect from February 18, 1980 in order to mop up a part of the windfall profits being earned on jute exports,* and cash assistance on all items of jute goods, except on cotton bagging, was withdrawn with effect from April 2, 1980. The Government also decided to allow export of raw jute without restrictions through the Jute Corporation of India (JCI) in view of the bumper crop

* The export duty was withdrawn with effect from September 9, 1980.

and to enable the JCI to clear the large accumulated stocks lying with it.

Reflecting the setback to production, stocks of jute goods with the mills depleted to 0.96 lakh tonnes at the end of December 1979, from those of 1.44 lakh tonnes at the end of December 1978. Since the beginning of 1980, however, stocks have grown steadily due to higher production, and at 1.0 lakh tonnes at end-June 1980 were much higher than those of 0.69 lakh tonnes a year ago.

In order to meet urgent packaging requirements of the priority sector of industries at a reasonable price, Government issued orders to jute mills to produce specified quantities of jute bags under the Jute (Licensing and Control) Order, 1961, for supply on DGS&D account at the ex-factory maximum price notified by the Jute Commissioner under the said order beginning from September 1979.

It may be recalled that during 1978-79, the Government had taken over the management of four sick jute mills (for details please see last year's Report) under the provisions of the IDR Act. The Central Government entrusted the management of these mills to the National Jute Manufacturers' Corporation, a public sector undertaking set up during the year.

(*b*) Rubber and Rubber Manufactures

The output of natural rubber increased from 133,000 tonnes in 1978 to 147,200 tonnes in 1979 and that of synthetic rubber from 28,100 tonnes to 32,100 tonnes (Table III.28). The production growth in 1979 contrasted with a sharp decline in the output of natural rubber in 1978 from the previous year's level. At the same time, in order to meet growing demand, imports of natural and synthetic rubber doubled from 24,100 tonnes in 1978 to 48,000 tonnes in 1979. With higher output and larger imports, the year-end stocks of natural and synthetic rubber more than recovered the decline in 1978 which had taken place in the context of the drop in domestic output of natural rubber.

Table III. 28 : Rubber

(Thousand Tonnes)

Item	1977	1978	1979
1	2	3	4
Production			
Natural	151.6	133.0	147.2
	(+ 2.6)	(—12.3)	(+10.7)
Synthetic	27.3	28.1	32.1
	(+17.2)	(+2.9)	(+14.2)
Reclaimed	22.1	23.7	22.9
	(+ 9.4)	(+7.2)	(— 3.4)
Imports			
Natural	—	14.8	32.2
		(—)	(+117.6)
Synthetic	8.8	9.3	15.8
	(+35.4)	(+5.7)	(+69.9)
Reclaimed	—	—	—
Consumption			
Natural	142.8	158.2	167.7
	(+ 7.0)	(+10.8)	(+ 6.0)
Synthetic	34.5	37.5	38.4
	(+ 3.3)	(+8.7)	(+ 2.4)
Reclaimed	21.3	23.8	22.9
	(+ 2.4)	(+11.7)	(— 3.8)
Stocks at the end of the period			
Natural	57.3	42.9	54.6
	(— 4.8)	(—25.1)	(+27.3)
Synthetic	9.8	9.4	17.4
	(+15.3)	(— 4.1)	(+85.1)
Reclaimed	2.5	2.4	2.4
	(+47.1)	(— 4.0)	(—)

Note : Figures in brackets represent percentage variations over the preceding year.
Source : Rubber Board, Government of India.

The output of natural rubber continued to rise during January-June 1980 also, the production at 66,290 tonnes being 4.0 per cent higher than in the corresponding period of 1979. In the case of synthetic rubber, however, the output declined over the same period by 27.1 per cent to 10,957 tonnes.

The main consumers of natural and synthetic rubber are the industries producing bicycle tyres, automobile tyres, footwears, conveyor belts, hoses, etc. Except for footwear, production of rubber manufactures recorded a sizeable increase in 1978. During 1979, while production of automobile tyres went up nominally, and that of footwears marginally, output of automobile and cycle tubes, and cycle tyres declined by 7.3 per cent, 6.5 per cent and 9.1 per cent, respectively (Table III.29).

(c) Chemicals and Chemical Products

During 1979, the output of chemicals and chemical products registered a growth of 2.6 per cent only compared to that of 9.7 per cent in the previous year. Heavy power cuts, shortages of vital inputs and labour unrest were largely responsible for the deceleration.

Table III. 29 : Production of Tyres, Tubes and Footwears

(Lakh Numbers)

Year	Tyres (Automobiles)		Tubes (Automobiles)	Tyres (Cycles)	Tubes (Cycles)	Rubber Footwears (Pairs)
	Total	Of which Giant				
1	2	3	4	5	6	7
1977	53.3 (+ 4.1)	30.7 (+12.6)	48.1 (+ 4.6)	231.6 (— 0.9)	149.7 (— 8.7)	447.5 (+ 6.2)
1978	59.7 (+12.0)	34.1 (+11.1)	51.9 (+ 7.9)	310.5 (+34.1)	166.6 (+11.3)	414.9 (— 7.3)
1979 .. .. (Provisional)	60.0 (+ 0.5)	34.7 (+ 1.8)	48.1 (— 7.3)	282.1 (— 9.1)	155.7 (— 6.5)	419.8 (+ 1.2)

Note : Figures in brackets represent percentage variations over the preceding year.
Source : C.S.O.

Among the major chemical products, the output of *nitrogenous fertilisers* amounted to 2.3 million tonnes (in terms of N content) in 1979 (Table III.30). It increased over the year by 11.7 per cent, compared to a rise of only 3.1 per cent in 1978 largely due to additions to capacities during the year which made it possible to offset the adverse impact of constraints on the availability of power, inputs such as coal, sulphur, fuel oil and coke oven gas and equipment failures in certain fertiliser plants. At 759,000 tonnes, the production of *phosphatic fertilisers* increased in 1979 by 6.9 per cent, compared to the substantial growth of 15.1 per cent in the preceding year. Inadequate availability of imported phosphoric acid for the Madras and Kandla plants, which are the two major manufacturers of phosphatic fertilisers, was largely responsible for the lower growth in 1979. During the period January—June 1980, the output of nitrogenous and phosphatic fertilisers at 969,000 tonnes and 377,000 tonnes was 8.2 per cent and 1.3 per cent lower, respectively, than in the corresponding period of 1979.

Due to various problems, particularly power cuts and constraints on availability and movement of inputs faced by the fertiliser industry, capacity utilisation of nitrogenous fertiliser plants declined during 1979-80 (April-March) to 66.2 per cent and that of phosphatic fertiliser plants to 67.3 per cent, compared to 71.2 per cent and 80.5 per cent, respectively in 1978-79. Addition of new capacities and time lag in their full utilisation also contributed to the declining trend. Efforts are being continuously made to improve capacity utilisation of the industry as a whole. Extensive modifications have been carried out at Cochin I plant, and similar

Table III.30 : Production of Major Chemicals and Chemical Products

(Thousand Tonnes)

Item	1977	1978	1979 (Provisional)
1	2	3	4
1. Sulphuric Acid			
Production	2023 (+20.3)	2218 (+ 9.6)	2194 (— 1.1)
2. Caustic Soda			
Production	519 (+ 3.2)	549 (+ 5.8)	561 (+ 2.2)
Year-end Stocks	21	4	12
3. Soda Ash			
Production	568 (+0.5)	586 (+ 3.2)	544 (— 7.2)
Year-end Stocks	31	4	12
4. Nitrogenous Fertilisers (N Content)			
Production	1973 (+10.9)	2035 (+ 3.1)	2274 (+11.7)
5. Phosphatic Fertilisers (P_2O_5)			
Production	617 (+42.8)	710 (+15.1)	759 (+ 6.9)
6. Paints and Varnishes (Organised Sector)			
Production	76 (+ 4.1)	88 (+15.8)	80 (— 9.1)
Year-end Stocks	7	8	9
7. Soaps (Organised Sector)			
Production	293 (+ 9.7)	333 (+13.7)	308 (— 7.5)

Note : Figures in brackets represent percentage variations over the preceding year.
Source : C.S.O.

programmes are being carried out in the fertiliser plants at Barauni, Namrup and Durgapur. These modifications aim at removing the present constraints on achieving higher level of output.

Total consumption of nitrogenous and phosphatic fertilisers, at 46.5 lakh tonnes during 1979-80, showed a rise of only 2.7 per cent compared to 19.7 per cent in 1978-79. The drop in the overall rate of growth of fertiliser consumption during 1979-80 was largely attributable to severe drought conditions in many parts of the country and inadequate fertiliser distribution in some areas.

There was no increase in the prices of major fertilisers during 1979-80 (April-March). With effect from June 8, 1980, however, maximum selling prices of all the fertilisers, excepting single super phosphate (SSP), ammonium sulphate and calcium ammonium nitrate

(CAN), were raised by 38-40 per cent in view of the sharp increases in prices of essential inputs and costs of imports. Simultaneously, central excise duty on all fertilisers, except ammonium sulphate and CAN was withdrawn, and the prices of ammonium sulphate and CAN were decontrolled.

Among the basic heavy inorganic chemicals, production of *sulphuric acid* declined by 1.1 per cent to 2.2 million tonnes, as against the substantial increase of 9.6 per cent in 1978, largely due to inadequate availability of sulphur. Incidentally, about 60 per cent of sulphuric acid manufactured in the country is consumed by the fertiliser industry. A review of the sulphuric acid industry was undertaken by the Government during 1979, on the basis of which an additional capacity of 9.31 lakh tonnes was approved for licensing including 3.96 lakh tonnes for captive use in the production of fertilisers.

Production of *caustic soda*, another important inorganic chemical, increased by 2.2 per cent to 561,000 tonnes in 1979, compared to a growth of 5.8 per cent in 1978. The deceleration in growth during 1979 was largely on account of power cuts in various States. During January—June 1980, the output of caustic soda, at 247,000 tonnes, was 13.8 per cent lower than that of 287,000 tonnes in the corresponding period of 1979. *Soda ash* output recorded a sharp decline of 7.2 per cent to 544,000 tonnes in 1979, in contrast to an increase of 3.2 per cent in the preceding year, largely on account of unprecedented rains in Kutch and Saurashtra regions, which wiped out nearly 50 per cent of the salt produced, and inadequate availabilities of coal due to transport bottlenecks. During January-June 1980, production of soda ash, at 291,000 tonnes, was more or less at the same level as in the corresponding period of 1979. In order to meet the shortfall in supplies of caustic soda and soda ash, Government allowed imports of 20,000 tonnes each during the year through the State Chemicals and Pharmaceuticals Corporation (SCPC), in addition to private imports.

Production of *soap* in the organised sector, comprising 45 large scale units with an installed capacity of 226 thousand tonnes, declined in 1979 by 7.5 per cent to 308,000 tonnes as against an increase of 13.7 per cent in the previous year. The existing units in the organised sector recorded capacity utilisation of 136.7 per cent in 1979. There was no increase in the installed capacity of the organised sector of the large scale industry, as all growth in the laundry soap industry is reserved for the small scale sector at present comprising about 5,200 units. As regards synthetic detergents, there are 12 units in the organised sector with an installed capacity of about 200,000 tonnes whose output increased from 122,000 tonnes in 1978 to 142,000 tonnes in 1979.

Output of *paints and varnishes* in the organised sector received a setback in 1979, declining by 9.1 per cent to 80,000 tonnes in contrast to the impressive growth of 15.8 per cent in 1978. The performance of the industry was adversely affected during the year due to a sharp rise in the costs of raw materials such as synthetic resins, solvents and pigments.

Drugs and pharmaceutical units recorded sustained growth in 1979-80 and the total output of bulk drugs was valued at Rs. 220 crores and that of formulations at Rs.1,150 crores compared to Rs. 200 crores and Rs. 1,050 crores, respectively in 1978-79. Shortages of power, raw materials and packing material, and labour unrest held down the growth in output. As the output of several essential drugs like antibiotics, sulpha drugs and vitamins increased over the previous year's level, the quantity of bulk drugs imported from abroad declined as compared to 1978-79. Export of drugs (including fine chemicals) also rose from Rs. 69.02 crores in 1978-79 to Rs. 71.16 crores in 1979-80.

Further progress was made during 1979-80 in implementing the decisions taken by the Government on the recommendations made by the Hathi Committee on drugs and pharmaceuticals industry. Seven companies engaged in the manufacture of only formulations were directed to reduce their foreign equity to 40 per cent and four of them have since diluted their foreign equity and three are in the process of doing so. Besides, sole selling

agencies for drugs and formulations and brand names of five drugs (Analgin, Aspirin, Chloropromazine, Ferrous Sulphate, and Piperazine and its salts were abolished.

Formulation plants of Indian Drugs and Pharmaceuticals Ltd. (IDPL) at Gurgaon and Madras and a joint venture unit in Uttar Pradesh started commercial production during 1979-80.

D. Consumer Goods Industries

(*a*) TEXTILES—COTTON AND SYNTHETIC

During 1979, total output of yarn (cotton, blended and 100 per cent man-mades pun yarn) at 1,238 million kgs. was 3 million kgs. lower than that of 1,241 million kgs. in 1978 (Table III. 31), as the increase of 40 million kgs. in the production of cotton yarn fell short of decline of 38 million kgs. in the output of blended yarn and that of 5 million kgs. in the output of 100 per cent non-cotton spun yarn. Severe power cuts and the escalation in prices of the petroleum based raw materials from which man-made fibre spun yarn is produced were largely responsible for the near stagnation in overall yarn output in 1979. The total yarn output of 605.2 million kgs. during January-June 1980 was 0.9 per cent lower than in the corresponding period of 1979, with the output of cotton yarn was 12.3 per cent higher, that of blended and 100 per cent man-made fibre spun yarn a sharp 43.7 per cent lower. The unsold stocks of all yarn which declined from 14 million kgs. at end-December 1978 to 10.6 million kgs. at end-June 1979 steadily rose in the second half of the year to 17 million kgs. by end-December 1979. The Government, therefore, authorised exports of 25 million kgs. of cotton yarn in 1979 and as the actual export in 1979 was only 10 million kgs., the remaining quota of 15 million kgs. was allowed to be carried forward to 1980.

Table III. 31 : Production, Consumption and Exports of Yarn (Cotton and Man-Made)

(Million Kgs.)

Item	1977	1978	1979 (Provisional)
1	2	3	4
A. Production (i+ii+iii)	1122 (+ 2.2)	1241 (+10.6)	1238 (— 0.2)
(*i*) Cotton Yarn	846 (—15.9)	912 (+ 7.8)	952 (+ 4.4)
(*ii*) Blended Yarn	188 (+150.7)	225 (+19.7)	187 (—16.9)
(*iii*) 100 per cent man-made fibre spun yarn	88 (+33.3)	104 (+18.2)	99 (— 4.8)
B. Exports (all yarn) (Rs. crores)	35	14	15
C. Domestic Consumption (all yarn) (i+ii)	1071	1218	1220
(*i*) Weaving (mill sector)	513	575	548
(*ii*) Other purposes (decentralised sector)	558	643	672
D. Year-end Stocks (unsold) (all yarn)	9*	14	17

*Relates to cotton yarn only.

Note : Figures of yarn exclude filament yarn.

Source : Office of the Textile Commissioner.

At the end of 1979, besides units manufacturing cellulosic and non-cellulosic man-made fibres and yarns with an installed capacity of 222 million kgs., the 367 spinning and 291 composite cotton textile mills in the organised sector (which also spin staple fibre) had 20.38 million spindless. The weaving capacity is, however, shared by the organised sector, with its 1.07 lakh looms, with the decentralised sector consisting about 38.90 lakh handlooms, a large number of which are organised as cooperatives, and about 3.47 lakh registered powerlooms. To ensure distribution of cotton yarn and hank yarn to powerlooms and handlooms at reasonable prices, Government pegged, effective September 23, 1979, the prices of yarn and hank yarn upto and including 60s at 10 per cent and 15 per cent, respectively below the invoice prices prevailing during the first week of September 1979. Utilisation of old spindle of the spinning units, which were replaced under modernisation programme, was allowed for a further period of six months ending September 30, 1980.

Though the total output of yarn was nominally lower in 1979 than in 1978, the total consumption of all types of fibres by mills increased over the year by 1.6 per cent; the fibre consumption had increased by 5·9 per cent in 1978.

With a carry-over stock of 27.27 lakh bales (of 170 kgs. each) from the 1978-79 cotton season (September-August) and an estimated crop of 78.50 lakh bales in the 1979-80 season, cotton availability was comfortable during 1979. The consumption of cotton by mills during the year at 70.38 lakh bales was higher than that of 68.78 lakh bales in 1978, as the statutory obligation on textile units imposed in 1977 to consume man-made fibres to the extent of not less than 10 per cent of their total fibre requirements was lifted in February 1979 in view of the improved cotton position and high import prices of man-made fibre raw materials. Increases in January and October 1979 in the excise duty on viscose fibre, and rising prices of petroleum-based raw materials such as, caprolactum, etc. also contributed to the smaller rise of one thousand bales in the consumption of non-cotton fibres comprising viscose staple fibre, acetate fibre/yarn, viscose filament yarn, nylon filament yarn, polyester fibre/yarn and acrylic fibre compared to the rise of 1.67 lakh bales in 1978.

The total output of cloth (cotton, blended and 100 per cent man-made fibre fabrics), increased by 2.0 per cent to 10,631 million metres in 1979; it had increased by 9.4 per cent in 1978 (Table III.32). Sector-wise, the output of the decentralised sector increased by 305 million metres while the production in the mill sector declined by 92 million metres. Among the different varieties of cloth produced, cotton fabrics and 100 per cent man-made fibre fabrics increased by 2.8 per cent and 6.0 per cent, respectively, while the output of blended fabrics declined by 3.8 per cent. During the first half of 1980 (January-June), the output in the mill sector, at 2054 million metres, was 1.6 per cent lower than in the first half of 1979. Inadequate supply of power and coal affected the mill output in 1979 and in the first half of 1980. Handloom and powerloom weavers experienced shortage of blended yarn in the wake of spinning units cutting down the intake of viscose fibre.

At Rs. 618 crores, exports of cloth of all types in 1979 recorded a substantial increase of 28.2 per cent over the depressed level of 1978, largely as the European Economic Community (EEC) countries and the USSR increased their offtake. After moving erratically during the year, the unsold stocks of cloth declined to 153 million metres at end-December 1979 from the level of 168 million metres a year ago.

While the installed capacity of spindles and looms in the mill sector remained almost unchanged over the previous year, the capacity utilisation of spindles declined from 79.7 per cent in 1978 to 78.9 per cent in 1979 and that of looms marginally increased from 78.4 per cent to 78.9 per cent.

During 1979, the National Textile Corporation (NTC) continued to operate with 109 textile mills, out of the total of 111 mills taken over upto 1978. Production of yarn and cloth by NTC mills in 1979-80 decreased over the year by 7.1 per cent and 10.3 per cent to 65 million kgs. and 843 million metres, respectively. Nearly 98 per cent of the cloth produced by NTC mills comprised coarse and

Table III. 32 : Production, Consumption and Exports of Cotton and Man-Made Textiles

(Million Metres)

Item	1977	1978	1979*
1	2	3	4
A. Production	9,526 (—)	10,418 (+ 9.4)	10,631 (+ 2.0)
(*i*) Mill Sector (a+b+c)	4,121 (— 2.5)	4,246 (+ 3.0)	4,154 (— 2.2)
(*a*) Cotton Fabrics	3,223 (—17.0)	3,251 (+ 0.9)	3,206 (— 1.4)
(*b*) Blended/Mixed Fabrics	891 (+159.8)	983 (+10.3)	942 (— 4.2)
(*c*) 100 per cent man-made fibre fabrics	7 (+600.0)	12 (+71.4)	6 (—50.0)
(*ii*) Decentralised Sector (a+b+c)	5,405 (+ 1.9)	6,172 (+14.2)	6,477 (+ 4.9)
(*a*) Cotton Fabrics	3,678 (+ 9.5)	4,074 (+10.8)	4,326 (+ 6.2)
(*b*) Blended/Mixed Fabrics	567 (+123.2)	765 (+34.9)	731 (— 4.4)
(*c*) 100 per cent man-made fibre fabrics	1,160 (+17.5)	1,333 (+14.9)	1,420 (+ 6.5)
B. Exports (all cloth) (Rs. crores)	627	482	618
C. Domestic Consumption (all cloth)	8,361	9,023*	8,961
D. Year-end Stocks (unsold) (all cloth)+	151	168	153

* Provisional
\+ Relate to mill sector only. Figure relating to 1977 represents cotton fabrics only.
Source : Office of the Textile Commissioner.

medium varieties, used mainly by weaker sections of the society and supplied at reasonable prices. The NTC envisages its mills producing 70 million kgs. of yarn and 1,000 million metres of cloth during 1980-81.

A new policy was announced by the Government of India on August 30, 1979 for the production of cheap cloth in order to provide cloth to the people at reasonable prices. This replaced the price roll-back scheme introduced in May 1979, referred in the last year's Report, which was allowed to lapse by end-August 1979. The main features of the new policy were as follows:

(*i*) The private sector and the N.T.C. mills would manufacture on an annual basis either 500 million metres each or 1000 million metres together of cheaper varieties of cotton and cotton-viscose cloth (in which cotton is not less than 40 per cent) upto the ex-mill price range of Rs. 4.75 per metre. Such production would be in addition to that of 400 million metres of the controlled cloth being produced in the mill sector.

(*ii*) In order to ensure that cheaper varieties of cotton/viscose cloth are made available to the common man at uniform prices throughout the country, (*a*) trade margins and incidence of freight, octroi, etc. on all varieties of cloth whose maximum ex-mill price did not exceed Rs. 4.75 per metre were brought down to 25 per cent from the level of 40 per cent and above earlier and (*b*) these varieties of cloth were to be made available to consumers within the all inclusive price of Rs. 6.36 per

metre throughout the country, with the all inclusive maximum consumer price being stamped on the cloth.

(*iii*) The ex-mill price stamping would continue in the case of fabrics whose maximum retail price exceeded Rs. 6.36 per metre.

(*iv*) The handloom sector was asked to expand its production of Janata cloth, for which purpose, Government (*a*) increased the subsidy payable to handloom weavers from Re. 1.00 to Rs. 1.25 per square metre and (*b*) decided to make available an advance to the extent of 25 per cent to the State agencies (*viz.* State Handloom Corporations/Apex Co-operatives) to enable them to undertake the production of Janata cloth.

(*b*) PAPER, PAPER BOARDS AND NEWSPRINT

The production of paper recorded a nominal increase in 1979 over the 1978 level, while that of newsprint stagnated. In the context of the rising demand larger imports of paper and newsprint were made.

(*i*) *Paper and Paper Products*

At 10.10 lakh tonnes, the production of paper and paper boards in 1979 showed a meagre increase of 1.0 per cent over the year as compared to the substantial growth of 8.8 per cent in 1978 (Table III·33). Like other industries, the paper industry was adversely affected by inadequate availability of vital inputs like coal and electricity, transport bottlenecks and scarcity of basic raw materials, and the capacity utilisation ratio for the industry as a whole declined from 79·1 per cent in 1978 to 73.1 per cent.

Variety-wise, the output of paper boards increased marginally from 1.69 lakh tonnes in 1978 to 1.72 lakh tonnes in 1979 and that of special varieties of paper from 3,754 tonnes to 3,830 tonnes. The output of wrapping paper, however, declined from 2.38 lakh tonnes to 2.36 lakh tonnes. In order to augment the domestic availability of paper, imports of 58 thousand tonnes were effected in 1979 compared to 44 thousand tonnes in the previous year.

Table III. 33 : Paper, Paper Boards and Newsprint

(Thousand Tonnes)

Year	No. of units	Installed Capacity (as on 1st January)	Production	Year-end Stocks	Capacity Utilisation Ratio (Per cent)
1	2	3	4	5	6
A. Paper and Paper Boards					
1977	75	1137	919 (+4.4)	37	81
1978	86	1265	1000 (+ 8.8)	35	79
1979 (Provisional)	106	1380	1010 (+ 1.0)	N.A.	73
B. Newsprint					
1977	1	75	57 (—)	N.A.	76
1978	1	75	49 (—14.0)	N.A.	65
1979 (Provisional)	1	75	49 (—)	N.A.	65

Note : Figures in brackets represent percentage changes over the previous year.
Source : C.S.O. and Ministry of Industry, Government of India.

During January-June 1980, the production of paper and paper boards at 5.0 lakh tonnes was 2.6 per cent higher than in the corresponding period of the previous year.

With a view to preventing malpractices in the paper distribution system and ensuring the availability of cultural varieties of paper at reasonable prices, Government had announced on June 30, 1979 an increase in the ex-factory prices of white printing paper by Rs. 250 to Rs. 3000 per tonne taking into account the higher costs of inputs (for details please see the Report for last year). In view of further increases in production costs since then, the Bureau of Industrial Costs and Prices was asked to undertake a fresh examination of the industry's production costs and report on it.

There was an addition of nearly 10 per cent in the installed capacity for the manufacture of paper and paper boards during 1979. As on January 1, 1980, there were 117 units manufacturing paper and paper boards with an installed capacity of 15.10 lakh tonnes, as compared to 106 units with an installed capacity of 13.80 lakh tonnes a year ago. In view of the continuing shortage of paper, Government encourages additions to capacity through both the setting up of new manufacturing units and expansion of the existing units. To facilitate such expansion and to increase the production, (*i*) import of second-hand paper plants has been allowed upto a capacity of 30 tonnes per day; (*ii*) import of pulp has been liberalised; (*iii*) import duty on waste paper used for paper making has been waived; (*iv*) the setting up of paper mills based on secondary and non-traditional raw materials, such as rice-straw, rags, etc. is encouraged and (*v*) excise rebates have been allowed to small paper mills for the use of unconventional raw materials.

(*ii*) *Newsprint*

At 49,000 tonnes, the output of newsprint by the National Newsprint and Paper Mills (NEPA), which is the only existing newsprint mill in the country, remained in 1979 at almost the same level as in 1978. In order to bridge the gap between domestic production and demand, Government arranged imports of 2.86 lakh tonnes of newsprint in 1979. In the first half of 1980, output was 8.1 per cent lower than in the corresponding period of 1979.

The poor performance is largely accounted for by the imbalance between the pulping and newsprint manufacturing capacity of the NEPA mills, operational problems and shortage of power. The NEPA mills has undertaken a balancing-cum-renovation scheme for achieving better utilisation of installed capacity. Further, the Hindustan Paper Corporation and Mysore Paper Mills are implementing newsprint projects with a capacity of 80 thousand tonnes and 75 thousand tonnes in Kerala and Karnataka States, respectively.

Chapter IV

Price Trends and Price Policy

Price Trends : The Main Features

There was a sharp and widespread rise in prices during the year under review (July 1979—June 1980). The 'all commodities' wholesale price index (1970-71 = 100) went up by 23.0 per cent from 204.1 as on June 30, 1979 to 251.1 as on June 28, 1980. Between the corresponding dates of 1978-79, the index increased by 9.7 per cent.

The sharp rise in prices during the year was a continuation of the trend that began in the last week of February 1979. Between that date and end-June 1979, the general index rose by 10.4 per cent. In the course of the year under review there were some intermittent pauses and down-turns in the price movements but they were relatively short and weak as compared to the phases of upward price movements, whose influence predominated. The month-wise changes in the 'all-commodities' price index are given in Table IV. 1. The rate of increase in the price level declined from the high of 4.6 per cent in July 1979 upto October 1979. For the first time after a lapse of eight months, the index declined by 0.1 per cent in November 1979. From December onwards, prices have resumed the rise, with the rates of inflation recording 2.5 per cent and 2.0 per cent respectively in May and June 1980.

Table IV—1 : Month-wise Percentage Variations in the All Commodities Index

(1970-71=100)

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
1978-79	+ 1.1	+ 0.1	— 0.2	+ 0.5	Nil	—1.1	+ 0.1	— 0.5	+ 2.4	+ 3.4	+ 1.5	+ 2.0
1979-80	+ 4.6	+ 3.2	+ 1.2	+ 0.5	— 0.1	+ 2.3	+0.3	+ 1.6	+ 0.6	+ 0.6	+ 2.5	+ 2.0

Except for five commodities/commodity sub-groups *viz.*, fruits, milk and milk products, fish, condiments and spices, and jute textiles, prices of all the commodities included in the wholesale price index increased during the year under review. However, the price increase was especially sharp in the case of only a few commodities. From Table IV. 2 (a, b and c) it may be seen that eighteen commodities (rice, seven types of vegetables, petroleum crude, coal, petrol, aviation spirit, diesel oil, furnace oil, sugar, khandsari, gur and nitrogenous fertilisers) with a weight of 20.76 per cent in the total weight, accounted for a weighted contribution of 63.78 per cent to the rise in the general price index. The rest, *i. e.*, 343 commodities with a total weight of 79.24 per cent, had weighted contribution of only 36.22 per cent to the rise in the general price index.

The principal contributory factors in the inflationary situation during the year were the sharp hikes in the price of imported crude and petroleum products, shortfalls in the production of essential agricultural commodities such as sugarcane and oilseeds, and the increases allowed by the Government in the prices of certain industrial commodities such as fertilisers following increase in production costs. The rate of monetary expansion was lower over the year, but followed the substantial increase that had already taken place over the past two years.

Commodity-Group-wise Price Behaviour

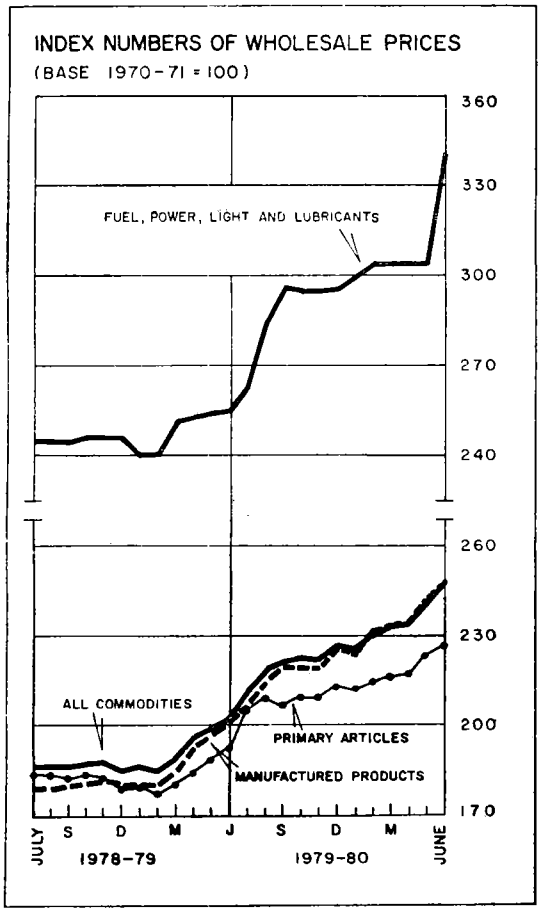
Among the major groups in the general index, 'manufactured products' recorded an increase of 24.6 per cent in 1979-80, and contributed, in view of its relatively large

Table IV—2 (a) : Index Numbers of Wholesale Prices

(1970-71 = 100)

Items	Weight	End-June 1978	End-June 1979	End-June 1980	Percentage variation		Weighted contribution to the change in the All Commodities Index	
					Col. (3) over col. (2)	Col. (4) over col. (3)	1978-79	1979-80
	1	2	3	4	5	6	7	8
ALL COMMODITIES	**1000.00**	**186.0**	**204.1**	**251.1**	**+ 9.7**	**+ 23.0**		
I. PRIMARY ARTICLES	**416.67**	**183.8**	**195.6**	**229.0**	**+ 6.4**	**+ 17.1**	**27.16**	**29.61**
A FOOD ARTICLES	**297.99**	**176.6**	**185.2**	**201.5**	**+ 4.9**	**+ 8.8**	**14.16**	**10.33**
Food Grains	129.22	172.9	173.8	207.2	+ 0.5	+ 19.2	0.64	9.18
(i) CEREALS	107.43	159.2	161.6	191.8	+ 1.5	+ 18.7	1.42	6.90
Rice	51.31	163.8	171.5	207.3	+ 4.7	+ 20.9	2.18	3.92
Wheat	34.17	148.4	150.9	165.8	+ 1.7	+ 9.9	0.47	1.08
Jowar	8.39	163.5	160.2	187.0	— 2.0	+ 16.7	— 0.15	0.48
Bajra	5.64	156.7	140.5	193.8	— 10.3	+ 37.9	— 0.59	0.75
(ii) PULSES	21.79	240.6	234.1	283.4	— 2.7	+ 21.1	— 0.78	2.29
Gram	10.39	206.6	210.6	307.0	+ 1.9	+ 45.8	0.12	1.07
(iii) FRUITS & VEGETABLES	61.32	173.0	203.8	206.5	+ 17.8	+ 1.3	10.43	0.35
Vegetables	24.86	139.7	160.8	198.6	+ 15.1	+ 23.5	2.90	2.00
Fruits	36.46	195.7	233.1	211.9	+ 19.1	— 9.1	7.53	— 1.65
(iv) MILK & MILK PRODUCTS	61.50	167.5	176.1	176.7	+ 5.1	+ 0.3	2.92	0.09
(v) EGGS, FISH & MEAT	18.97	215.9	241.0	260.8	+ 11.6	+ 8.2	2.63	0.80
Fish	6.31	234.9	287.1	258.7	+ 22.2	— 9.9	1.82	— 0.38
Meat	8.46	236.6	255.2	317.6	+ 7.9	+ 24.5	0.87	1.12
(vi) CONDIMENTS & SPICES	10.94	187.0	138.7	121.0	— 25.8	— 12.8	— 2.92	— 0.41
(vii) OTHER FOOD ARTICLES	16.04	201.1	206.2	215.6	+ 2.5	+ 4.6	0.45	0.32
Tea	11.49	233.4	229.5	239.1	— 1.7	+ 4.2	— 0.25	0.23
Coffee	1.61	120.0	127.9	121.5	+ 6.6	— 5.0	0.07	— 0.02
B. NON-FOOD ARTICLES	**106.21**	**168.8**	**181.2**	**208.5**	**+ 7.3**	**+ 15.1**	**7.28**	**6.17**
(i) FIBRES	31.73	173.5	165.6	166.1	— 4.6	+ 0.3	— 1.38	0.34
Raw Cotton	22.46	173.6	160.9	164.2	— 7.3	+ 2.1	— 1.38	0.16
Raw Jute	4.29	160.0	144.2	127.7	— 9.9	— 11.4	— 0.37	0.15
(ii) OIL SEEDS	42.01	165.2	168.9	218.3	+ 2.2	+ 29.2	0.86	4.42
Groundnut	18.21	154.6	170.9	204.1	+ 10.5	+ 19.4	1.64	1.29
Rape & Mustard seed	8.22	206.1	185.7	260.8	— 9.9	+ 40.4	— 0.93	1.31
Copra	4.49	168.4	153.7	204.1	— 9.7	+ 32.8	— 0.36	0.48
(iii) OTHER NON-FOOD ARTICLES	32.47	168.7	212.2	237.1	+ 25.8	+ 11.7	7.80	1.72
Sugar Cane	16.42	124.9	147.5	184.5	+ 18.1	+ 25.1	2.05	1.29
Rubber	1.28	206.6	212.3	228.0	+ 2.8	+ 7.4	0.04	0.04
Logs, Timber & Bamboo	3.34	266.5	350.5	392.2	+ 31.5	+ 11.9	1.55	0.30
Raw Tobacco	8.07	140.2	138.5	149.6	— 1.2	+ 8.0	0.08	— 0.19
C MINERALS	**12.47**	**485.1**	**566.5**	**1061.2**	**+ 16.8**	**+ 87.3**	**5.61**	**13.13**
(i) METALLIC MINERALS	2.29	202.4	207.9	231.8	+ 2.7	+ 11.5	0.70	0.12
Iron Ore	1.56	190.6	190.6	213.5	—	+ 12.0	—	0.08
Lime Stone	2.30	200.1	207.0	228.2	+ 3.4	+ 10.2	0.09	0.10
(ii) OTHER MINERALS	4.16	194.5	203.2	238.3	+ 4.5	+ 17.3	0.20	0.31
(iii) PETROLEUM CRUDE/ NATURAL GAS	6.02	793.9	954.7	1947.0	+ 20.3	+ 103.9	5.35	12.71

weight in the index, as much as 52.85 per cent of the rise in the overall price level. The price index of 'primary articles' went up by 17.1 per cent over the year, its weighted contribution to the rise in the general index being 29.61 per cent. The index for 'fuel, power, light and lubricants' major group, went up by 38.1 per cent, contributing about 17.60 per cent to the rise in the general price level, in view of its lower weight in the index; the weighted contribution of the group to the overall price rise was only 5.19 per cent in 1978-79. The variation in this group does not reflect the full impact of the crude oil price increase, as 'petroleum, crude and natural gas' is a component of the 'primary articles', a major group in the general index (See Table IV: 2a, b, and c).



Primary Articles

In the 'primary articles' major group, sharp increases were recorded by petroleum crude/ natural gas, oilseeds, sugarcane, raw tobacco, rice, wheat, jowar, bajra, pulses and tea (Table IV: 2a). Petroleum crude price index went up by 103.9 per cent during the year as compared with the rise of only 20.3 per cent in 1978-79, following the repeated hikes in the prices of petroleum crude effected by the oil exporting countries which resulted in the enhancement of the average price of crude to $32 per barrel effective July 1, 1980 from $20 per barrel in August 1979. Oilseeds' prices rose by 29.2 per cent compared with a relatively small rise of 2.2 per cent in 1978-79, mainly on account of the fall in the production of oilseeds, in particular of groundnuts, which widened further the gap between the demand for and supply of edible oils. The prices of sugarcane and of raw tobacco increased by 25.1 per cent and 8.0 per cent respectively. A sharp drop in production as well as increase ranging from 22 to 30 per cent effected in the minimum average price of sugarcane by different states were the principal reasons behind the increase in sugarcane price. In the case of raw tobacco, the increase in the price was a result of lower output.

The large decline in agricultural production following the failure of the South-West monsoon in 1979 caused a spurt in the prices of cereals and pulses; the prices of rice rose by 20.9 per cent, wheat by 9.9 per cent, jowar by 16.7 per cent, bajra by 37.9 per cent and pulses by 21.1 per cent. The minimum support price for gram was increased from Rs. 140/- per quintal in the 1979-80 *rabi* marketing season to Rs. 145/- per quintal in 1980-81 *rabi* marketing season. The minimum procurement price of paddy was raised from Rs. 85/- per quintal in the 1978-79 *kharif* marketing season to Rs. 95/- per quintal in the 1979-80 *kharif* marketing season, while that of wheat was enhanced from Rs. 115/- per quintal in the 1979-80 *rabi* marketing season to Rs. 117/- per quintal in the 1980-81 *rabi* marketing season. The price of tea rose by 4.2 per cent on account of fall in production in 1979 coupled with the increased volume of exports. Among the fibres, the raw cotton price index rose by 2.1 per cent owing to the pressure of demand in the wake of rising prices of synthetics and man-made fibres.

The primary articles that showed a decline in prices over the year under review were:

raw jute, coffee and fruits (Table 2a). Following a good raw jute crop in 1979-80, and a lower demand from mills, raw jute availability improved and prices declined by 11.4 per cent. The decline of 5.0 per cent in coffee prices was essentially a reflection of the crash in international prices following the record world coffee output. The decline of 9.1 per cent in the prices of fruits was nominal considering their very high levels in July and August 1979.

Fuel, Power, Light and Lubricants

All the commodities in this major group recorded price rises during the year (Table IV: 2b). The increase in coal and coke prices granted by the Government in July 1979 was reflected in the 55.0 per cent rise in the price index of coal mining (consisting of coal, coke and lignite). Among the mineral oils, the prices of which as a group rose by 49.8 per cent owing to the increases allowed by the Government in August 1979, furnace oil price went up by 109.1 per cent, and high-speed diesel oil and aviation spirit prices increased by 61.8 per cent and 66.7 per cent, respectively during 1979-80.

Manufactured Products

While all the constituent groups of this major group recorded price increases over the year, the main pressure emerged from the 'food products' group (Table IV: 2c). Sugar, with a price rise of 39.0 per cent, khandsari with an increase of 129.1 per cent and gur with a 102.4 per cent increase reflected the sharp fall in sugarcane production. The rise of 23.0 per cent in edible oils' prices may be attributed to lower domestic output, delays in import arrivals and the limitations of the public distribution arrangements. The rise of 11.6 per cent in vanaspati prices reflected partly the increase effected by the State Trading Corporation in the prices of imported oils, which are a significant input in vanaspati output and partly by the tight domestic supply position of edible oils.

Constraints on production imposed by severe power cuts and prolonged strikes in the spinning units in Southern India in the face of high domestic demand for cotton cloth were the main reasons leading to the rise of 14.3 per cent and 10·4 per cent respectively in the prices of cotton yarn and cotton cloth (mills) over the year under review.

The increases allowed by the Government in the domestic prices of urea, caprolactum, soda ash and caustic soda in August 1979 brought about a rise of 56.0 per cent in fertiliser prices and 40.3 per cent in basic industrial chemicals prices. Similarly, the increases granted by the Government in the prices of aluminium and other non-ferrous metals in October 1979 and March 1980 gave an upward thrust to prices of non-ferrous metals and their alloys by 16.6 per cent.

Barring jute manufactures, prices of which declined by 4.0 per cent owing to slackness in international demand arising out of recessionary tendencies in the United States and severe competition from Bangladesh, all the other groups among the manufactured products recorded increases in their price indices mainly on account of rising production costs.

Consumer Price Indices

The All-India Consumer Price Index for Industrial Workers (1960=100) went up from 345 in June 1979 to 386 in June 1980, recording thus an increase of 11.9 per cent over the year under review. In 1978-79, the index showed a relatively small rise of 5.5 per cent (Table IV: 3).

Increases were recorded at all the important centres. The highest rise was recorded in Coimbatore (14.4 per cent), followed by Saharanpur (14.9 per cent), Bombay (13.1 per cent), Bangalore (13.4 per cent), Hyderabad (12.8 per cent), Nagpur (12.7 per cent), Madras (11.1 per cent), Asansol (9.5 per cent), Ahmedabad (9.3 per cent), Sholapur (9.3 per cent), Delhi (9.0 per cent) and Calcutta (8.4 per cent).

The Consumer Price Index for Urban Non-Manual Employees (1960=100) stood at 355 in June 1980 against 318 in June 1979, thus showing a rise of 11.6 per cent. The increase in the last year was of a relatively lower order at 5.0 per cent. All the important centres showed increases in the index, with the highest recorded at Jaipur (14.0 per cent)

Table IV—2(b): Index Numbers of Wholesale Prices

(1970-71=100)

Items	Weight	End-June 1978	End-June 1979	End-June 1980	Percentage variation		Weighted contribution	
					Col. 3 over col. 2	Col. 4 over col. 3	1978-79	1979-80
	1	2	3	4	5	6	7	8
FUEL, POWER, LIGHT & LUBRICANTS	**84.59**	**243.9**	**255.0**	**352.8**	**+ 4.6**	**+38.1**	**5.19**	**17.60**
A. COAL MINING	11.47	211.3	212.1	328.8	+ 0.4	+55.0	0.05	2.85
Coal	10.39	212.2	212.2	335.5	—	+58.1	—	2.73
Coke	0.75	224.3	224.3	278.7	—	+24.3	—	0.09
B. MINERAL OILS	49.12	271.2	279.3	418.5	+ 3.0	+49.8	2.20	14.55
Kerosene	8.35	233.5	252.1	272.8	+ 8.0	+ 8.2	0.86	0.37
Petrol	8.56	295.3	340.8	434.6	+15.4	+27.5	2.15	1.71
Aviation spirit	4.55	306.1	348.1	580.3	+13.7	+66.7	1.06	2.25
Diesel oil*	17.18	216.4	195.3	340.7	— 9.8	+74.4	—2.00	5.31
Light Diesel oil	3.44	NA	269.9	560.6	—	+107.7	—	2.13
High Speed Diesel oil	13.74	NA	176.6	285.7	—	+61.8	—	3.19
Lubricating oil	6.48	309.3	312.7	377.8	+ 1.1	+20.8	0.12	0.90
Furnace oil	4.00	431.1	432.6	904.6	+ 0.3	+109.1	0.03	4.02
C. ELECTRICITY	24.00	203.7	225.7	229.7	+ 10.8	+1.8	2.92	0.20

* Composite index of Light Diesel Oil and High Speed Diesel Oil.

Table IV—2(c): Index Numbers of Wholesale Prices

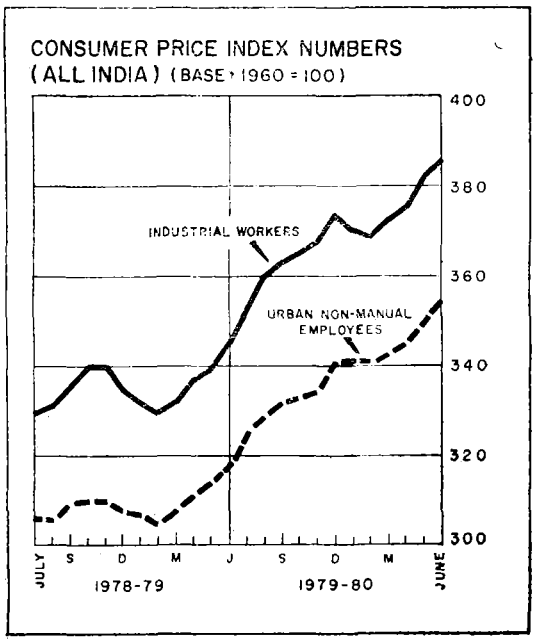
(1970-71 = 100)

Items	Weight	End-June 1978	End-June 1979	End-June 1980	Percentage variation		Weighted contribution	
					Col. 3 over col. 2	Col. 4 over col. 2	1978-79	1979-80
	1	2	3	4	5	6	7	8
MANUFACTURED PRODUCTS	**498.74**	**178.0**	**202.5**	**252.3**	**+13.8**	**+24.6**	**67.51**	**52.85**
A. FOOD PRODUCTS	133.22	160.7	188.6	299.2	+17.4	+58.6	20.54	31.35
(a) SUGAR, KHANDSARI AND GUR	72.41	150.9	196.5	369.6	+30.2	+88.1	18.24	26.67
Sugar	21.91	153.2	161.1	223.9	+ 5.2	+39.0	0.96	2.93
Khandsari	4.92	155.2	156.4	358.3	+ 0.8	+129.1	0.03	2.01
Gur	45.58	149.5	217.8	440.8	+45.7	+102.4	17.20	21.63
(b) MISCELLANEOUS FOOD PRODUCTS	**49.16**	**170.8**	**178.0**	**219.1**	**+ 4.2**	**+23.1**	**1.96**	**4.30**
(i) EDIBLE OILS	37.16	161.6	175.3	215.6	+ 8.5	+23.0	2.81	2.40
Vanaspati	7.52	162.3	184.7	206.2	+13.8	+11.6	0.93	0.34
Groundnut oil	14.15	146.0	172.4	206.4	+18.1	+19.7	2.06	1.02
B. BEVERAGES, TOBACCO & TOBACCO PRODUCTS	27.08	177.6	184.6	209.6	+ 3.9	+13.5	1.05	1.44
C. TEXTILES	110.26	174.2	194.0	211.2	+11.4	+ 8.9	12.06	4.04
(i) COTTON TEXTILES	81.02	177.2	191.2	209.9	+ 7.9	+ 9.8	6.27	3.22
Cotton Yarn	13.82	195.0	212.3	242.6	+ 8.9	+14.3	1.32	0.89
Cotton Cloth (Mills)	38.04	182.3	184.5	203.7	+ 1.2	+10.4	0.46	1.55
(ii) JUTE, HEMP & MESTA TEXTILES	12.14	147.2	204.1	195.9	+38.7	— 4.0	3.82	—0.21
D. PAPER & PAPER PRODUCTS	8.51	190.4	223.2	259.8	+17.2	+16.4	1.54	0.66
E. LEATHER & LEATHER PRODUCTS	3.85	250.7	337.7	377.8	+34.7	+11.9	1.85	0.33
F. RUBBER & RUBBER PRODUCTS	12.07	169.8	202.3	240.4	+19.1	+18.8	2.17	0.98
G. CHEMICALS & CHEMICAL PRODUCTS	55.48	175.8	184.3	242.2	+ 4.8	+31.4	2.61	6.83
(a) BASIC INDUSTRIAL CHEMICALS	7.26	204.6	241.6	338.9	+18.1	+40.3	1.48	1.50
(b) FERTILISERS	12.52	176.0	165.0	257.4	— 6.2	+56.0	—0.76	2.46
Nitrogenous	8.37	179.1	171.7	273.9	— 4.1	+59.5	—0.34	1.82
Phosphatic	3.52	173.6	152.3	226.8	—12.3	+48.9	—0.41	0.56
H. NON-METALLIC MINERAL PRODUCTS	14.15	206.9	239.4	267.5	+15.7	+11.7	2.54	0.85
(a) CEMENT, LIME & PLASTER	7.07	187.6	226.3	233.0	+20.6	+ 3.0	1.51	0.10
Cement	7.03	187.8	226.7	233.4	+20.7	+ 3.0	1.51	0.10
I. BASIC METALS, ALLOYS & METAL PRODUCTS	59.74	211.0	245.8	265.6	+ 16.5	+ 8.1	11.49	2.52
IRON, STEEL & FERRO ALLOYS	34.73	214.8	256.2	266.2	+ 19.3	+ 3.9	7.94	0.74
Pig Iron	1.67	189.0	211.0	211.8	+ 11.6	+ 0.4	0.20	—
Structurals	4.72	178.0	220.8	222.3	+ 24.0	+ 0.7	1.12	0.02
Steel Plates & Sheets	5.97	183.4	225.0	226.5	+ 22.7	+ 0.7	1.37	0.02
Bars & Rods	7.31	248.8	315.1	317.0	+ 26.6	+ 0.6	2.68	0.03
(b) NON-FERROUS METALS & THEIR ALLOYS	11.78	216.5	236.8	276.2	+ 9.4	+ 16.6	1.32	0.99
Aluminium	4.29	247.8	236.3	287.8	— 4.6	+ 21.8	— 0.27	0.47
(c) METAL PRODUCTS	13.23	196.2	226.7	254.7	+ 15.5	+ 12.4	2.23	0.79
J. MACHINERY & TRANSPORT EQUIPMENTS	67.18	180.5	209.2	234.1	+ 15.9	+ 11.9	10.65	3.56
(a) NON-ELECTRICAL MACHINERY	30.91	186.0	211.8	238.9	+ 13.9	+ 12.8	4.41	1.78
(b) ELECTRICAL MACHINERY	19.54	169.4	196.7	207.4	+ 16.1	+ 5.4	2.95	0.44
(c) TRANPORT EQUIPMENT	16.73	183.4	218.8	256.4	+ 19.3	+ 17.2	3.27	1.34
K. MISCELLANEOUS PRODUCTS	7.20	181.2	204.3	222.5	+ 12.7	+ 8.9	0.92	0.28

Table IV — 3: Consumer Price Indices

	June		
	1977-78	1978-79	1979-80
1. Consumer Price Index for Industrial Workers (1960=100)	327	345	386
2. Per cent Variation in (1)	+ 2.2	+ 5.5	+ 11.9
3. Consumer Price Index for Urban Non-Manual Employees (1960=100)	303	318	355
4. Per cent Variation in (3)	+ 4.1	+ 5.0	+ 11.6

followed by Bangalore (13.3 per cent), Madras (11.7 per cent), Hyderabad (11.3 per cent), Patna (11.1 per cent), Lucknow (10.9 per cent), Bombay (10.8 per cent), Ahmedabad (10.1 per cent), Delhi (8.0 per cent) and Calcutta (7.5 per cent). The rise during the year in the consumer price index was almost a third lower than in the wholesale price index, reflecting the substantial differences in the composition and in the weightage pattern of the two indices.



Price Policies

The regulatory measures taken in 1979-80 in respect of agricultural commodities have been reviewed in the chapter on Agricultural and Industrial Output. In this chapter, a brief account of some of the important policies affecting the prices of major industrial commodities is given.

In view of the continually rising prices of sugar, the Union Government reintroduced from June 1979, the scheme of monthly releases of sugar. In July 1979, the Government imposed restrictions on the holding of sugar stocks by recognised dealers, with the stock limit fixed at 1,500 quintals for a dealer in cities with population of five lakhs and more; at 750 quintals for places with a population of one lakh to 5 lakhs, and at 375 quintals for towns with a population of less than one lakh. As this measure did not have the desired effect on sugar prices, the above stock holding limits were further reduced in September 1979 to 1,000 quintals, 500 quintals and 250 quintals, respectively. Simultaneously, the Government resorted to sugar price control both at the factory and the retail levels. The factories were divided into four zones, and ex-factory prices ranging from Rs. 260 to Rs. 270 per quintal were fixed for the various zones. The states were also grouped for the purpose of fixing maximum retail prices which ranged from Rs. 2.90 to Rs. 3.00 per kg. The price stability thus induced, however, lasted only for a few weeks and from the first week of November, sugar prices resumed the rise. Therefore, dual control on the distribution of sugar with 65 per cent levy and 35 per cent free-sale sugar was introduced in December 1979. Also, interstate movement of sugar on trade account was restricted. Consequent on the introduction of the dual pricing of sugar, the rates of both basic and additional excise duties were revised with immediate effect, though

no change was made in the rates of special excise duty. On levy sugar, the revised rates were 8.5 per cent *ad valorem* for the basic and 4.25 per cent for the additional excise duty. The revised rates of non-levy sugar were 15.5 per cent for the basic duty and 7.5 per cent for the additional duty. No change, however, was made in the rates of special excise duty. Notwithstanding the dual pricing, there was a continued firmness in the sugar markets. The Government, therefore, imposed, in February 1980, a reduction in the limits of sugar and khandsari stocks that may be held by the wholesale dealers. The stock holding limits of 1,000, 500 and 250 quintals announced in September 1979 were thus reduced to 500/400, 250 and 100 quintals, respectively for these norms of population. Additionally, effective March 1, 1980, the basic duty of excise on non-levy sugar was reduced from 15.5 per cent *ad valorem* to 11.0 per cent *ad valorem*. The rate of additional excise duty on non-levy sugar was, however, kept unchanged at 7.5 per cent.

As the sugar prices continued to rise, the Government took further measures in May 1980. They included import of two lakh tonnes of sugar, resumption of licensing of new sugar units and grant of excise incentives for promoting early start of the crushing season which usually commences in October. The excise duty payable was reduced from Rs. 83.52 per quintal to Rs. 76.32 per quintal with effect from June 1, 1980. Under a revised order in July 1980, the maximum quantity of sugar and khandsari that could be held by a recognised dealer was fixed at 250 quintals in cities and towns with a population of one lakh and more, against the earlier limit of 500 quintals in the case of cities with a population of 15 lakhs and more, 400 quintals in the case of cities and towns with a population of 5 lakhs but less than 15 lakhs, and 250 quintals in the case of cities and towns with a population of one lakh to 5 lakhs; in towns with a population of less than one lakh, the limit of 100 quintals in vogue was left unchanged.

In respect of cotton textiles, the Union Government made an announcement in August 1979 reducing the prices of cheaper and controlled varieties of cloth with a view to bringing down the cloth prices by about 30 per cent. This was sought to be done by reducing the trade margin from 40 to 25 per cent. A uniform retail price all over the country, stamping of retail prices and stepping up the production of these varieties by about 54 million metres over and above the existing 120 million metres were the other measures announced.

The prices of a number of 'administered' commodities were revised upwards during the period under review. Coal India Limited was allowed to raise its prices by an average of Rs. 31.07 per tonne or by about 48 per cent net of the excise duty in July 1979. This was felt necessary after the wages in the coal industry were increased effective January 7, 1979.

Steep increases in aluminium prices were announced in October 1979 because of increased cost of production due to higher electricity charges and high cost of imports of aluminium. These increases were of the order of Rs. 1,794/- per tonne for electric conductor (EC) wire rods, Rs. 1,689/- per tonne for EC ingots and Rs. 1,457/- per tonne for commercial grade (CG) ingots. In view of the shortage of aluminium in the country and its high prices abroad, the Union Government, in April 1980, decided totally to exempt aluminium wire rods and ingots from customs duty.

Under a revised scheme announced by the Government in April 1980, the allocation of aluminium would be made to each unit requiring EC grade aluminium for six months from April to September 1980. The Government also decided to reduce the customs duty on aluminium scrap from the existing 56.6 per cent *ad valorem* to 35 per cent.

The Government again revised upward the aluminium prices on July 15, 1980 with a view to neutralising the effect of the increase in the power tariff rates and the increased prices of imported aluminium. The revised prices inclusive of excise duty per tonne of aluminium of different specifications, with the prevailing rates in brackets, are: CG ingots Rs. 15,723/- (Rs. 13, 718/-), EC ingots Rs. 15,867/- (Rs. 14,089/-) and wire rods Rs. 15,349/- (Rs. 14,669/-).

The Union Government raised the maximum retail price of urea from Rs. 1,450/- to Rs. 2,000/ per tonne in June 1980. Prices of other types of fertilisers were also increased, the increase ranging from Rs. 500/- to Rs. 800/- per tonne depending on the variety.

Effective July 1, 1979, the Union Government brought the price and distribution of white printing paper under statutory control as part of a package of measures to ease shortage. The ex-factory prices of white printing and cream-laid or woven paper were fixed at Rs. 3,000/- and Rs. 3,785 per tonne, respectively.

Rising import costs had also contributed to the increase in prices of some of the imported commodities during the year under review. The selling price of imported cold-rolled stainless steel sheets of 28 guage was raised by Rs. 2,000/- per tonne with effect from April 2, 1980 from the existing price of Rs. 66,000/- per tonne, following an increase in the international prices.

In view of the rising prices of newsprint in the international markets, the State Trading Corporation revised the prices of imported newsprint upward for the quarters beginning October 1979, January, April and July 1980. As a result, the price index of newsprint went up by 16.7 per cent in 1979-80.

Rising prices of non-ferrous metals (other than aluminium) in the international markets led to periodical increases in their domestic prices. When the international prices declined in June, the Minerals and Metals Trading Corporation (MMTC) reduced the selling prices of copper and pig lead by Rs. 3,000/- and Rs. 4,500/- per tonne respectively with effect from July 1, 1980. It had raised the prices of tin and nickel by Rs. 8,000/- and Rs. 3,000/- per tonne, respectively with effect from July 1, 1980.

Additional excise duties on kerosene, high speed diesel oil (HSD), motor spirit and LPG were levied in the Union Budget for 1979-80 as an alternative to an increase in the base prices. When crude prices were raised by the OPEC countries in July 1979, prices of petroleum products were revised upward with effect from August 16, 1979. While the additional excise duties on kerosene, HSD, motor spirit and LPG levied in the Budget were treated as part of the basic price so as to compensate the refineries, the prices to consumers were raised by 17 paise per litre in the case of kerosene and HSD and 35 paise per litre in the case of motor spirit. Naphtha, used by the fertiliser industry, was spared the hike. As a result of the new prices, the mineral oil price index went up to 326.2 by the third week of August 1979, from 279.3 in June 1979, kerosene and HSD prices were reduced by 7 paise per litre, through a corresponding reduction in excise duty. This was reflected in a slight decline in the mineral oil index to 320.9 by September 15, 1979. But owing to increase in prices of aviation spirit by 34 per cent, the mineral oils prices recorded a rise once again in the third week of January 1980, this time of 4.2 per cent.

In view of the frequent hikes in the international prices of crude, the Government of India had, with effect from June 8, 1980, increased the prices of all the petroleum products except kerosene and cooking gas. The basic prices of petrol, HSD and light diesel oil were increased by 65 paise per litre. The prices of lubricants were increased by about Rs. 1.10 per litre, the exact amount varying for different grades.

Chapter V

Monetary Developments

The Overall Trends

During the year 1979-80 (July-June), the rate of monetary expansion was lower than in the preceding year. Money supply in the broad sense *i.e.*, M_3 (currency with the public, aggregate deposits with commercial and co-operative banks, and 'other' deposits with the Reserve Bank of India), went up by Rs. 6,051 crores or 14.2 per cent in 1979-80 against a rise of Rs. 7,664 crores or 22.0 per cent in the previous year. Money supply in the narrow sense, *viz.*, M_1 as published (currency with the public, demand deposits with commercial and co-operative banks, and 'other' deposits with the Reserve Bank), the figures for which for the year under review are not comparable with the data for the previous years for reasons explained later in this Chapter, showed a rise of Rs. 857 crores or 3.7 per cent over the year†. M_2 (M_1 plus post office savings bank deposits) suffers from the same disadvantage as M_1. M_4 (M_3 plus total post office deposits) increased by lower order in both absolute and percentage terms than in 1978-79 (Table V.1).

The deceleration in the order of monetary expansion is seen in both primary (or reserve) money and secondary (or bank) money and time deposits. Reserve money showed a rise of Rs. 1,658 crores or 11.1 per cent in the year under review against the increase of Rs. 2,626 crores or 21.5 per cent in 1978-79. Secondary or bank money and time deposits went up by Rs. 4,853 crores or 15.5 per cent on top of an increase of Rs. 5,860 crores or 23.0 per cent in the preceding year.

Money Supply

The increase in M_3 of Rs. 6,051 crores comprised of the growth of Rs. 4,853 crores in aggregate deposits of the public with the banks and that of Rs. 1,104 crores in currency

†We have, however, made an attempt to give a comparable series of M_1 changes for 1978-79 and 1979-80 by making the necessary adjustments in the data in the annexure to this Chapter.

Table V.1: Money Supply and Its Components

(Rupees crores)

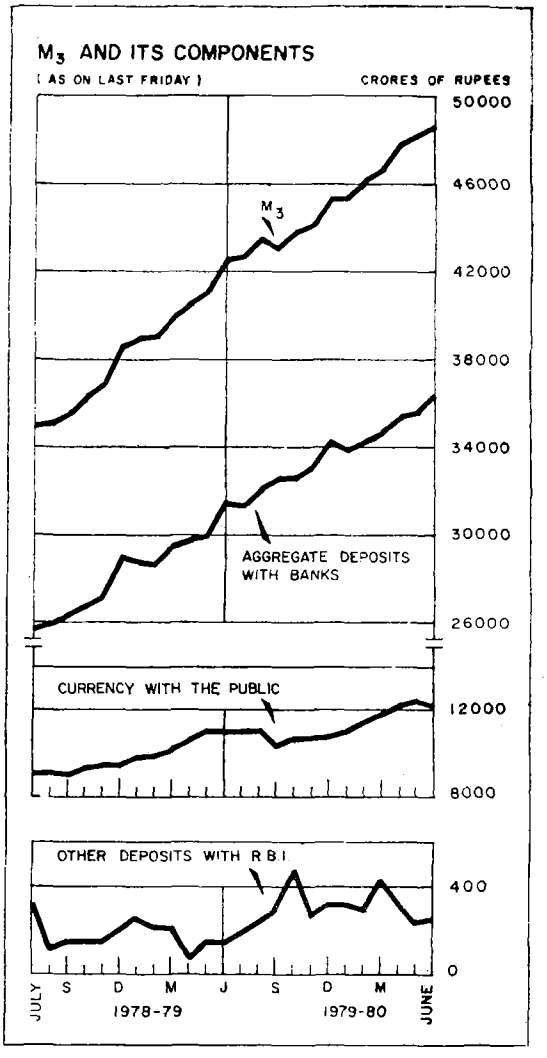
	Outstandings as on Last Friday of			Variations during	
	June 1978	June 1979	June 1980*	1978-79	1979-80*
M_1 (a+b+c) @	19481	23323	24180	+3842 (+19.7)	+ 857 (+3.7)
(*a*) Currency with the Public ..	9228	10994	12098	+1766 (+19.1)	+1104 (+10.0)
(*b*) Demand Deposits with Banks@	10146	12184	11842	+2038 (+20.1)	— 342 (—2.8)
(*c*) Other Deposits with R.B.I. ..	107	145	240	+38 (+35.5)	+ 95 (+65.5)
M_2 (M_1+Post Office Savings Bank Deposits)	21104	25143	26213	+4039 (+19.1)	+1070 (+4.3)
M_3 (M_1 + Time Deposits with Banks)@	34857	42521	48572	+7664 (+22.0)	+6051 (+14.2)
M_4 (M_3 + Total Post Office Deposits) ..	39016	47367	54302	+8351 (+21.4)	+6935 (+14.6)

Note: Figures within brackets represent percentage variations.
* Provisional/Partially revised.
@ On various dates starting from January 1978, a number of scheduled commercial banks have classified a larger proportion of their savings deposits as time liabilities and a lower proportion as demand liabilities. Consequently, figures for M_1 since January 1978 are not strictly comparable.

with the public. Changes in money supply were discussed in the Reports hitherto in terms of M_1. In this Report, however, they are presented in terms of M_3, because the figures of M_1 available since are not comparable with those for the earlier period on account of a statistical factor related to the classification of savings deposits into demand and time components.* The switch-over to the revised procedure of classification of savings deposits into demand and time liability components by a large number of scheduled commercial banks on various dates during 1979-80 has thus rendered the data of demand deposits, time deposits and M_1 for the year under review not comparable with those for the previous years.

Table V.2 gives details of sources of change in M_3 in 1979-80 and 1978-79. The net credit extended by the Reserve Bank to the Union and State Governments increased by Rs. 2,674 crores during 1979-80, as against the rise of Rs. 1,519 crores during the preceding year. The credit extended by all the commercial and co-operative banks to the Government rose by Rs. 1,641 crores in 1979-80 on top of the increase of Rs. 1,418 crores in the previous year. As a result, the net credit to Government by the banking sector (including the Reserve Bank) increased by Rs. 4,315 crores in 1979-80 and by Rs. 2,937 crores in 1978-79, with the rate of increase rising to 25.6 per cent from that of 21.1 per cent over the year. The net bank credit to Government was the major source of increase in M_3 during the year under review.

The increase in bank credit to the commercial sector, inclusive of participation certificates (PCs) issued by scheduled commercial banks to other banks as well as to other financial institutions, was lower than in the previous year, both in absolute amount and in percentage terms. It amounted to



Rs. 4,223 crores or 15.5 per cent in 1979-80, against Rs. 4,624 crores or 20.5 per cent in the preceding year. The rise in credit of all commercial and co-operative banks to the commercial sector (including all the PCs) was of the order of only Rs. 3,879 crores or 14.9 per cent in 1979-80 against Rs. 4,471 crores or 20.8 per cent in 1978-79.

Net foreign exchange assets of the banking sector declined by Rs. 676 crores or 12.2 per cent in contrast to the rise of Rs. 1,071 crores or 23.9 per cent in the previous year. Net non-monetary liabilities of the banking sector (other than time deposits with the banks) increased by Rs. 1,795 crores or 23.3 per cent as against Rs. 963 crores or 14.3

*As indicated in the last year's Report, the provisions of Regulation 7 of the Scheduled Banks' Regulations, 1951, were amended by the Bank in 1978, 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. The amended regulation came into force with effect from August 16, 1978, but the new procedure is yet to be adopted by all banks and the banks who have adopted it have done so on different dates.

Table V.2 : Sources of Change in Money Supply

(Rupees crores)

	Outstandings as on Last Friday of			Variations	
	June 1978	June 1979	June 1980*	June 1979 over June 1978	June 1980* over June 1979
Sources of Change in M_3 (i+ii+iii+iv—v)					
I. Net Bank Credit to Government (A+B)	**13915**	**16852**	**21167**	**+2937 (+21.1)**	**+4315 (+25.6)**
A. R.B.I.'s Net Credit to Goverment. (a—b) ..	8229	9748	12422	+1519	+2674
(*a*) Claims on Government (*i+ii*)	8624	11886	14332	+3262	+2446
(*i*) Central Government	8499	11721	14004	+3222	+2283
(*ii*) State Governments (i.e. Loans and Advances to State Governments)..	125	165	328	+40	+ 163
(*b*) Government Deposits with R.B.I. (*i+ii*) ..	395	2138	1910	+1743	— 228
(*i*) Central Government	377	2114	1898	+1737	— 216
(*ii*) State Governments	18	24	12	+ 6	— 12
B. Other Banks' Credit to Government	5686	7104	8745	+1418	+1641
II. Bank Credit to Commercial Sector (A+B)	**22582**	**27206**	**31429**	**+4624 (+20.5)**	**+4223 (+15.5)**
A. R.B.I.'s Credit to Commercial Sector	1067	1220	1563	+ 153	+ 343
B. Other Banks' Credit to Commercial Sector (*i+ii+iii*) £	21516	25987	29866	+4471	+3879
(*i*) Bank Credit by Commercial Banks ..	16073	19693	22058	+3620	+2365
(*ii*) Bank Credit by Co-operative Banks ..	3073	3464	4084	+391	+ 620
(*iii*) Investments by Commercial and Co-operative Banks in Other Securities ..	2369	2830	3724	+ 461	+ 894
III. Net Foreign Exchange Assets of the Banking Sector (A+B)	**4485**	**5556**	**4880**	**+1071 (+23.9)**	**— 676 (—12.2)**
A. Net Foreign Exchange Assets of R. B. I. (a—b)	4572	5643	4967	+1071	—676
(*a*) Gross Foreign Assets	4733	5643	4967	+910	— 676
(*b*) Non-monetary Foreign Liabilities	160	—	—	— 160	—
B. Other Banks' Net Foreign Exchange Assets ..	— 87	— 87	— 87	—	—
IV. Government's Currency Liabilities to the Public ..	**613**	**608**	**593**	**— 5 (— 0.8)**	**— 15 (— 2.5)**
V. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**6738**	**7701**	**9496**	**+ 963 (+14.3)**	**+1795 (+23.3)**
A. Net Non-monetary Liabilities of R.B.I.	3056	3387	3856	+ 331	+ 469
B. Other Net Non-monetary Liabilities of Banks (derived)	3682	4314	5640	+ 632	+1326

Note : Figures in brackets indicate percentage variations.

* Provisional/Partially revised data

£ Inclusive of PCs issued by scheduled commercial banks to financial institutions.

per cent in 1978-79. Thus the deceleration in the growth of M_3 was largely an outcome of a decline in net foreign exchange assets during the year under review.

Seasonal changes in M_3 along with the uses and sources of M_3 during the last two slack and busy seasons are given in Table V.3. In the slack season of 1979, M_3 expanded by a larger order than in the slack season of 1978. This was mainly on account of an increase in the banking sector's domestic credit and a decline in its net non-monetary liabilities. During the busy season of 1979-80, expansion in M_3 was lower than that in the busy season of 1978-79 mainly due to a decline in the banking sector's net foreign exchange assets and a sharp rise in that sector's net non-monetary liabilities. In the two months between end-April and end-June 1980, M_3 expanded at a very low rate compared with the rate in the corresponding period of 1979, as the net bank credit to the Government and the bank credit to the commercial sector showed small increases; net foreign exchange assets of the banking sector declined significantly while net non-monetary liabilities of the banking sector increased.

Reserve Money

Currency with the public continued to dominate the reserve money changes. Of the reserve money increase of Rs. 1,658 crores in 1979-80, the currency with the public accounted for an increase of Rs. 1,104 crores. Bank reserves (i.e., cash on hand and banks' balances with the Reserve Bank) showed a rise of Rs. 459 crores (Table V.4).

The rise in reserve money during the year was mainly on account of the increase in the Reserve Bank's net credit to the Union and State Governments. The rise of Rs. 2,674 crores in net RBI claims on the Government in 1979-80 was higher than that of Rs. 1,519 crores in the previous year: the net Reserve Bank credit to Government thus increased by 27.4 per cent, as against 18.5 per cent in 1978-79.

The other element in the rise in the reserve money during 1979-80 was provided by Reserve Bank's loans to developmental institutions such as the IDBI and the ARDC. The claims on the IDBI increased by Rs. 230 crores and those on the ARDC by Rs. 120 crores, against the rise of Rs. 182 crores and the fall of Rs. 4 crores, respectively, in 1978-79.

All the other sources of reserve money had accounted for a fall in the reserve money during the year under review. Reserve Bank's loans to scheduled commercial banks declined by Rs. 171 crores in contrast to the increase of Rs. 324 crores in the preceding year. This had occurred mainly owing to a decline of Rs. 395 crores in the refinance for food procurement, which had shown a rise of Rs. 308 crores in 1978-79. Reserve Bank's loans to state co-operative banks also declined during the year under review, though by a lower amount of Rs. 27 crores than that of Rs. 107 crores in the previous year. The Reserve Bank's claims on other financial institutions showed a decline of Rs. 6 crores as compared to that of Rs. 1 crore during the previous year. Reserve Bank's holdings of internal bills purchased and discounted showed a decline of Rs. 1 crore, whereas these holdings had declined by Rs. 24 crores in 1978-79.

To sum up, the Reserve Bank's assistance to state co-operative banks, co-operative sector and the ARDC taken together showed a rise of Rs. 87 crores in 1979-80 in contrast to the decline of Rs. 116 crores in 1978-79. During the year under review, the Reserve Bank's refinance for food procurement had declined by Rs. 395 crores against the rise of Rs. 308 crores in the preceding year. Reserve Bank's assistance to the IDBI, SFCs, the IFCI, the UTI and the DICGC, in the form of loans and investments in shares and bonds put together rose by Rs. 230 crores in 1979-80. In 1978-79, the Reserve Bank's assistance to all these institutions showed a rise of Rs. 186 crores. This assistance has been rising steadily over the last five years.

Net foreign exchange assets of the Reserve Bank increased continuously for four years from 1975-76 to 1978-79. They showed increases of Rs. 971 crores in 1975-76, Rs. 2,032 crores in 1976-77, Rs. 1,260 crores in 1977-78 and Rs. 1,071 crores in 1978-79. In the year under review, however, these assets declined by Rs. 676 crores mainly in the wake of a

Table V. 3 : Money Supply Variations

(Rupees crores)

	Variations during					
	Slack Season		April 1979 to June 1979	April 1980 to June 1980*	Busy Season	
	1978	1979			1978-79	1979-80*
	1	2	3	4	5	6
I. M_3 A+B+C+D	**+2645**	**+3339**	**+2071**	**+ 788**	**+4237**	**+3997**
	(+ 7.9)	**(+ 8.3)**	**(+ 5.1)**	**(+ 1.6)**	**(+11.7)**	**(+ 9.1)**
A. Currency with the Public	+ 315	+ 48	+ 310	— 52	+1332	+1418
	(+ 3.5)	(+ 0.5)	(+ 2.9)	(—0.4)	(+14.2)	(+13.2)
B. Demand Deposits with Banks@	+ 337	+1011	+ 919	— 546	+1331	+ 112
	(+ 3.5)	(+ 9.0)	(+ 8.2)	(— 4.4)	(+13.4)	(+ 0.9)
C. Time Deposits with Banks@	+1904	+1884	+ 775	+1461	+1645	+2625
	(+12.8)	(+10.2)	(+ 4.2)	(+ 6.4)	(+ 9.8)	(+12.9)
D. Other Deposits with RBI	+ 89	+ 395	+ 67	— 76	— 71	— 157
	(+148.3)	(+506.4)	(+85.9)	(—24.1)	(—47.6)	(—33.2)
II. Sources of Change in M_3 (1+2+3+4—5)						
1. Net Bank Credit to Government (A+B)	**+ 141**	**+ 335**	**+ 638**	**+ 344**	**+2007**	**+4274**
	(+ 1.0)	**(+ 2.1)**	**(+ 3.9)**	**(+1.6)**	**(+14.1)**	**(+25.8)**
A. RBI's Net Credit to Government (a—b)	— 360	+ 159	+ 906	— 35	+1201	+3456
(*a*) Claims on Government (*i*+*ii*)	—2696	—1886	+ 843	+ 396	+2114	+4778
(*i*) Central Government	—2142	—1933	+ 885	+ 472	+2059	+4629
(*ii*) State Governments	— 555	+ 46	— 43	— 76	+ 56	+ 150
(*b*) Government Deposits with RBI (*i*+*ii*)	—2336	—2045	— 63	+ 431	+ 913	+1323
(*i*) Central Government	—2345	—2041	— 71	+ 436	+ 914	+1318
(*ii*) State Governments	+ 9	— 4	+ 8	— 5	— 1	+ 5
B. Other Banks' Credit to Government	+ 502	+ 176	— 268	+ 379	+ 805	+ 818
2. Bank Credit to Commercial Sector (A+B)	**+2110**	**+2254**	**+1329**	**+ 695**	**+2369**	**+2604**
	(+ 9.9)	**(+8.7)**	**(+ 5.1)**	**(+2.2)**	**(+10.1)**	**(+9.3)**
A. RBI's Credit to Commercial Sector	+ 180	+ 153	— 8	+ 59	+ 148	+ 123
B. Other Banks' Credit to Commercial Sector (*i*+*ii*+*iii*)£	+1929	+2100	+1338	+ 635	+2222	+2482
(*i*) Bank Credit by Commercial Banks	+1498	+1592	+1328	+ 462	+1754	+1639
(*ii*) Bank Credit by Co-operative Banks	+ 192	+ 127	+ 8	—	+ 195	+ 501
(*iii*) Investments by Commercial & Co-operative Banks in Other Securities	+ 238	+ 381	+ 1	+ 172	+ 274	+ 343
3. Net Foreign Exchange Assets of Banking Sector (A+B)	**+ 248**	**+ 50**	**— 35**	**— 125**	**+ 749**	**— 636**
	(+ 5.4)	**(+ 0.9)**	**(— 0.6)**	**(— 2.5)**	**(+15.5)**	**(—11.3)**
A. RBI's Net Foreign Exchange Assets (*i*—*ii*)	+ 248	+ 50	— 35	— 124	+ 749	— 637
(*i*) Gross Foreign Assets	+ 87	+ 42	— 43	— 125	+ 757	— 637
(*ii*) Non-monetary Foreign Liabilities	— 160	— 8	— 8	—	+ 8	—
B. Other Banks' Net Foreign Exchange Assets	—	—	—	—	—	—
4. Government's Currency Liabilities to the public	**+ 7**	**— 11**	**+ 3**	**+ 3**	**+ 1**	**— 4**
	(+ 1.2)	**(— 1.8)**	**(+ 0.5)**	**(+ 0.5)**	**(+ 0.2)**	**(— 0.7)**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**— 140**	**— 712**	**— 135**	**+ 128**	**+ 890**	**+2241**
	(— 2.0)	**(— 9.1)**	**(— 1.9)**	**(+ 1.3)**	**(+12.8)**	**(+31.5)**
A. Net Non-monetary Liabilities of RBI	— 269	— 688	+ 494	+ 186	— 34	+1465
B. Other Net Non-monetary Liabilities of Banks (derived)	+ 129	— 24	— 629	— 58	+ 924	+ 776

Notes : (1) Figures within brackets indicate percentage variations.
(2) Data available for July to December 1979 do not represent correctly all the transactions actually put through the Reserve Bank of India during the period.
£ Inclusive of PCs issued by scheduled commercial banks to financial institutions.
@ On various dates starting from January 1978, a number of scheduled commercial banks have classified a larger proportion of their savings deposits as time deposits and a lower proportion as demand deposits.
* Provisional/Partially revised.

Table V. 4 : Sources of Change in Reserve Money

(Rupees. crores)

	Out-standings as on the last Friday of June 1975	Variations					Out-standings as on the last Friday of June 1980*
		1975-76	1976-77	1977-78	1978-79	1979-80*	
Reserve Money (1+2+3+4) ..	**7666**	**+ 686 (+ 9.0)**	**+1649 (+19.7)**	**+2236 (+12.4)**	**+2626 (+21.5)**	**+1658 (+11.1)**	**16521**
1. Currency with the Public ..	6662	+ 573	+1063	+ 930	+1766	+1104	12098
2. Other Deposits with RBI ..	65	— 19	+ 7	+ 54	+ 39	+ 95	240
3. Cash with Banks	433	— 19	+ 71	+ 204	+ 124	+ 5	818
4. Bankers' Deposits with RBI ..	507	+ 150	+ 508	+1049	+ 697	+ 454	3365
Sources of Change in Reserve Money (1+2+3—4)							
1. Reserve Bank's Claims on :							
(*a*) Government (Net)	7510	— 263 (— 3.5)	+ 682 (+ 9.4)	+ 300 (+ 3.8)	+1519 (+18.5)	+2674 (+27.4)	12422
(*b*) Scheduled Commercial Banks	274	+ 486	— 197	— 228	+ 324	— 171	488
(*c*) State Co-operative Banks ..	359	— 132	+ 140	+ 112	— 107	— 27	345
(*d*) Financial Institutions (i+ii+iii)	**493**	**+ 104 (+21.1)**	**+ 127 (+21.3)**	**+ 242 (+33.4)**	**+ 177 (+18.3)**	**+ 343 (+30.0)**	**1486**
(*i*) ARDC	91	+ 36	+ 31	+ 85	— 4	+ 120	359
(*ii*) IDBI	315	+ 73	+ 139	+ 162	+ 182	+ 230	1101
(*iii*) Others	87	— 5	— 43	— 5	— 1	— 6	26
(*e*) Internal Bills Purchased and Discounted	132	+ 12	— 28	— 15	— 24	— 1	76
2. Net Foreign Exchange Assets of RBI	**309**	**+ 971 (+314.2)**	**+2032 (+158.8)**	**+1260 (+38.0)**	**+1071 (+23.4)**	**— 676 (—12.0)**	**4967**
3. Government's Currency Liabilities to the Public	**554**	**+ 1 (+ 0.2)**	**+ 28 (+ 5.0)**	**+ 30 (+ 5.1)**	**— 5 (— 0.8)**	**— 15 (— 2.5)**	**593**
4. Net Non-monetary Liabilities of RBI	**1964**	**+ 494 (+25.2)**	**+1135 (+46.2)**	**— 537 (—14.9)**	**+ 331 (+10.8)**	**+ 469 (+13.8)**	**3856**

Notes : 1. Figures within brackets represent percentage variations.

2. Constituent items may not add up to totals due to rounding off.

3. Data available for July to Decmber 1979 do not represent correctly all the transactions actually put through the Reserve Bank of India during the period.

* Data are provisional/Partially revised.

large deficit under the trade account. Net non-monetary liabilities of the Reserve Bank went up by Rs. 469 crores largely due to the rise of Rs. 390 crores in the contributions to the National Agricultural Credit (Long-term Operations) Fund, the National Agricultural Credit (Stabilisation) Fund and the National Industrial Credit (Long-term Operations) Fund and that of Rs. 338 crores in other liabilities, off-set by the decline of Rs. 147 crores in compulsory deposit amounts held with the Reserve Bank and an increase of Rs. 202 crores in other assets. In the previous year, net non-monetary liabilities showed a lower order of increase of Rs. 331 crores.

Currency and Currency-Deposit Ratios

The ratio of currency with the public to M_3 (the currency ratio) was 30.1 per cent in 1975-76, 28.5 per cent in 1976-77 and 26.5 per cent in 1977-78 and declined further from 25.9 per cent in 1978-79 to 24.9 per cent in 1979-80. In incremental terms, this ratio dropped from 23.0 per cent in 1978-79 to 18.2 per cent in 1979-80 (Table V.5).

Table V.5 : Monetary Ratios and Money Multiplier

(As on last Friday of June)

	1975-76	1976-77	1977-78	1978-79	1979-80
Monetary Ratios					
(*a*) Currency/Aggregate Deposits Ratio	43.2	40.0	36.2	35.0	33.4
(*b*) Currency/M_3	30.1	28.5	26.5	25.9	24.9
Incremental					
(*a*) Currency/Aggregate Deposits Ratio	19.8	26.5	19.5	30.1	22.7
(*b*) Currency/M_3	16.6	20.9	16.2	23.0	18.2
Money Multiplier					
M_3/RM	2.876	2.910	2.848	2.861	2.940
Incremental					
M_3/RM	5.020	3.086	2.572	2.918	3.649

The ratio of currency with public to the aggregate deposits with commercial and co-operative banks (currency-deposit ratio) has also shown a consistent decline over the years: from 43.2 per cent in 1975-76, it slipped to 33.4 per cent in 1979-80. The incremental currency-deposit ratio declined in 1979-80, indicating a relative marginal preference for deposits as against currency. Among other factors, spread of banking opportunities and habit has contributed to this trend.

Money Multiplier

The decline in currency-deposit ratio mainly accounted for an increase in the ratio of M_3 to reserve money (the money multiplier) from 2.861 as on the last Friday of June 1979 to 2.940 as on the last Friday of June 1980 (Table V.5). The marginal money multiplier was at 3.649 in 1979-80 as against 2.918 in 1978-79.

Income Velocity of Money

National income (at factor cost) at current prices in the fiscal year 1979-80 was estimated to have been about 10 per cent higher than in the previous year. The average of last Friday figures of M_3 for the twelve months of the fiscal 1979-80 showed a rise of 20 per cent over the average M_3 for the preceding fiscal year. In view of the larger rise in the average M_3 than in nominal national income, the income velocity of M_3 (i.e., ratio of national income at factor cost at current prices to M_3) declined to 2.0 per cent in 1979-80 from 2.2 per cent in 1978-79 (Table V.6).

Table V-6: Income Velocity of Money

(Rupees crores)

Financial Year (April—March)	National Income at factor cost (at Current Prices)		M_3		Income Velocity of
	Amount	Annual Percentage Increase	Amount*	Annual Percentage Increase	M_3
1	2	3	4	5	6
1975-76	61644	4.3	21036 P	12.4	2.9
1976-77	66885	8.5	25196 P	19.8	2.7
1977-78	74794	11.8	30262 P	20.1	2.5
1978-79	80090@	7.1	36432 P	20.4	2.2
1979-80	88099†	10.0	43730 P	20.0	2.0

Source: Data of national income upto 1978-79 are taken from Table 1.1 of the *Economic Survey*, 1979-80.
* Average of outstanding as on last Friday of every month (April to March).
@ Provisional
P: Provisional/Partially revised.
† Quick Estimates.

Currency and Coinage

For the second fiscal year in succession 1979-80, there was a perceptible expansion of Rs. 1,538 crores or 14.2 per cent in currency; currency had increased by Rs. 1,675 crores or 18.3 per cent during the preceding year. Notes in circulation, the major constituent of currency, increased by Rs. 1,553 crores (15.2 per cent) as against an increase of Rs. 1,665 crores (19.4 per cent) recorded in 1978-79. Circulation of rupee coins declined by Rs. 26 crores to Rs. 324 crores, while that of small coins went up marginally by Rs. 11 crores to Rs. 264 crores. Continuing the long-term trend, the share of notes in total currency in circulation moved up to 95.3 per cent as on the last Friday of March 1980 from 94·4 per cent as at the end of March 1979, with the proportion of rupee coins declining to 2.6 per cent from 3.2 per cent and that of small coins to 2.1 per cent from 2.4 per cent (Table V.7).

Circulation of all denomination notes rose over the year. Notes in circulation in the denominations of hundred rupees and ten rupees increased by Rs. 582 crores and Rs. 166 crores, respectively, as against the increases of Rs. 1,067 crores and Rs. 132 crores in 1978-79. Together they constituted 65.2 per cent of the currency against 67.4 per cent in the preceding year. At Rs. 1,983 crores as at the end of March 1980, circulation of fifty-rupee notes recorded a striking expansion of Rs. 543 crores and formed 16 per cent of the total currency; this was on top of an increase of Rs. 445 crores during 1978-79 when it accounted for 13.2 per cent of the total currency in circulation. The circulation of notes of Rs. 2/- and Rs. 20/- denominations went up both in absolute and relative terms. On the other hand, circulation of five rupee notes, although growing steadily from year to year, accounted for 4.7 per cent of the total currency in circulation against 5.3 per cent in 1978-79. Thus, the relative shares of notes in the denominations of Rs. 50/-, Rs. 20/- and Rs. 2/- have gained during the fiscal 1979-80 at the expense of the notes in the denominations of Rs. 100/-, Rs. 10/- and Rs. 5/-. (Statement 115 of Vol. II)

Demonetised High Denomination Notes

The data in respect of the demonetisation of high denomination notes, *viz*; Rs. 1,000, Rs. 5,000 and Rs. 10,000 with effect from January 16, 1978 (mentioned in the Reports on Currency and Finance, 1977-78 and 1978-

Table V. 7 : 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-stand-ings	Varia-tion over the previous year	Out-stand-ings	Varia-tion over the previous year	Out-stand-ings	Varia-tion over the previous year	Out-stand-ings	Varia-tion over the previous year	Out-stand-ings	Varia-tion over the previous year
1	2	3	4	5	6	7	8	9	10	11
1977-78	8,559 (93.5)	+ 859	353 (3.9)	+ 18	240 (2.6)	+ 7	9,152 (100.0)	+ 884	521	+ 126
1978-79	10,224 (94.4)	+1,665	350 (3.2)	— 3	253 (2.4)	+ 13	10,827 (100.0)	+1,675	615	+ 94
1979-80*	11,777 (95.3)	+1,553	324 (2.6)	— 26	264 (2.1)	+ 11	12,365 (100.0)	+1,538	678	+ 63

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

Table V. 8 : Percentage Share of Rs. 10/-, Rs. 20/-, Rs. 50/- and Rs. 100/- notes in total Currency in Circulation*

End of March	Percentage Share				Total (1 to 4)
	Rs. 10/-	Rs. 20/-	Rs. 50/-	Rs. 100/-	
	1	2	3	4	5
1978	20.0	7.6	10.9	47.3	85.9
1979	18.0	7.2	13.2	49.4	87.8
1980	17.1	7.8	16.0	48.0	89.0

*Inclusive of circulation of small coins.

79) have not yet been finalised. Of the high denomination notes of Rs. 145.42 crores in circulation at the time of demonetisation, notes worth Rs. 125.07 crores (including notes amounting to Rs. 64.94 crores declared by banks and Government treasuries) were tendered for conversion to the Reserve Bank as per the latest data available. The value of notes passed by the Bank for exchange into lower denomination notes was of the order of Rs. 118. 93 crores, of which Rs. 61.59 crores represented notes declared by banks and Government treasuries.

Mintage

Decimal coins of various denominations valued at Rs. 3.9 crores were minted in 1979-80. Since the introduction of decimal coinage in 1956-57, the mintage of decimal coins amounted to Rs. 284.6 crores till the end of March 1980. (Statement 117 of Vol. II)

New Series of Note Issue

During the year under review, a new series of Rs. 100/- notes with a different colour scheme, was issued with effect from January 1, 1980. A novel feature of these notes is that the words " सत्यमेव जयते " (Satyameva Jayathe) have been incorporated below the Asoka Pillar.

Lost, Destroyed and Mutilated Notes

The number of claims in respect of lost, destroyed and mutilated notes received during the fiscal year 1979-80 was lower at 1.85

lakh for 81.92 lakh pieces than 1.93 lakh claims for 68.70 lakh pieces in 1978-79. However, in terms of value, such claims were higher at Rs. 5.27 crores than those for Rs. 4.74 crores in fiscal 1978-79. During the year, claims approved for payment aggregated Rs. 4.82 crores and the payment against approved claims including those admitted during the previous years, amounted to Rs. 4.18 crores; in the fiscal 1978-79, claims approved and the amount paid against claims totalled Rs. 4.60 crores and Rs. 5.19 crores, respectively (statement 120 of Vol. II).

Note Forgeries

The total number of forged notes including one rupee notes received by the Bank during the fiscal 1979-80 declined to 5,811 pieces from 6,121 pieces in 1978-79. (Statement 121 of Vol. II).

Trends in Gold & Silver Prices

Gold

During the period under review (July 1979 to June 1980), the price of gold in the London market increased sharply from $ 276.45 per fine ounce as at the end of June 1979 to $662.50 per fine ounce at the end of June 1980. Rising oil prices, persistent weakening of dollar resulting in flight of dollar resources into gold, deterioration in the world political situation particularly reflected in the tensions surrounding the Iranian and Afghanistan crises, and accelerating world-wide inflationary trends brought about a sustained investment and speculative demand for the yellow metal and despite the sale of gold by the IMF amounting to 4.88 million ounces till May 1980 and by US Treasury 4.25 million ounces till November 1979, the price maintained the steeply rising trend. Towards the end of the year, the upswing was reinforced by expectations of a reduction in supply on account of the possibility of reduction in gold sales by South Africa and the USSR on top of the completion of the sales programmes of the IMF and absence of auctions by US Treasury after November 1979. The trends in the price of gold in the international markets are discussed in detail in Chapter X of the Report.

Domestic Market

The domestic price of gold depicted a firm trend during the year 1979-80 (July-June) bu tthe firmness was more subdued than in the international price. The gold price in the Bombay market recorded a net increase of Rs. 370 or 38 per cent from the end-June 1979 level of Rs. 975 per ten grammes to Rs. 1,345 on June 30, 1980 as compared with a rise of US $386.05 per fine ounce or 140 per cent in the London market. During the corresponding period of the preceding year, the increases in the two markets were much closer: Rs. 295 or 43 per cent in the Bombay market and U. S. $93.25 per fine ounce or 51 per cent in the London market. The peak price during the year under review was touched in the Bombay market on January 4, 1980 when at Rs. 1700 per ten grammes it was 74 per cent higher than the price at the end of the previous year, and in London was recorded on January 21, 1980 when at $843 per fine ounce it was as much as 205 per cent higher than at the end of June 1979. The lowest price of the year, Rs. 965 in Bombay and $281.80 in London were both touched at the two centres on the same day, *i. e.*, on July 3, 1979.

The price of gold in the Bombay market, which receded to Rs. 966 on July 2 from Rs. 975 per 10 grammes on June 30, moved within the range of Rs. 965 to Rs. 999 till July 20, but crossed the Rs. 1,000-mark and touched the month's peak at Rs. 1,010 on July 28 due partly to firm tendency overseas and partly to reduced supplies; it closed the month slightly lower at Rs. 1,007 on July 31. Speculative demand and purchases by exporters of jewellery and ornament manufacturers pushed up the price to the following month's high of Rs. 1,180 on August 24. The price shot up further to Rs. 1,205 on September 22 under the impetus of the phenomenal rise in the London market triggered by the rush for gold particularly from petroleum exporting countries. Continuing the firm trend, the price touched the October peak at Rs. 1,245 on October 4. Thereafter, it moved within the range of Rs. 1,190 to Rs. 1,240 and closed the month on an easier note at Rs. 1,192 on October 31, in line with some easing in the international markets.

The price moved up from Rs. 1,172 on November 2 to the month's peak of Rs. 1,203 on November 12 and ruled steady thereafter closing for the month at Rs. 1,188. It ranged between Rs. 1,177 and Rs. 1,197 till December 18 before spurting to the month's and the calendar year's peak at Rs. 1,315 on December 28, 1979 but closed a shade lower at Rs. 1,308 on December 31. With the unprecedented rise in the London price, the usual relationship between the Bombay and the London prices was reversed and for the first time the price of gold in the Bombay market was lower than in London on December 13.

In the wake of the Afghanistan conflict, there was a sharp rise in the domestic and international prices of gold. The price in the Bombay market soared to Rs. 1,700 on January 4, the highest ever reached so far. On lack of buying support at higher levels, increased official raids and expectations of other drastic measures, it then eased to close the month at Rs. 1,355 on January 31. The price moved up to Rs. 1,400 on February 18 in the context of encouraging overseas advices and paucity of stocks but again eased to close for the month at Rs. 1,360 on February 29. The market was subdued in March, with the price fluctuating between Rs. 1,320 and Rs. 1,370 and closing for the month at Rs. 1,330 on March 31. After moving within the narrow range of Rs. 1,330 to Rs. 1,390 during the first fortnight of April, the price rose to Rs. 1,440 on April 21, on shortage of floating stocks and expectations of a rise in the festival demand. It moved down to Rs. 1,390 on May 2 and after notching the month's peak of Rs. 1,400 on May 3, to the month's lowest level of Rs. 1,305 on May 13 due largely to increased offerings while buyers seemed to be reluctant to support higher levels. Thereafter, the price fluctuated between Rs. 1,307 and Rs. 1,355 till May 26 and closed the month at Rs. 1,320 on May 30, on reportedly improved arrivals of gold ornaments particularly from drought affected areas. The bearish trend continued and the price eased to Rs.1,310 by June 4, with the tapering off of seasonal demand. Fluctuating within a narrow range of Rs. 1,320 to Rs. 1,345 till June 27, it rose to the month's peak of Rs. 1,351 on June 28 but eased somewhat to Rs. 1,345 by June 30, 1980. Reduction in the permitted value of gold content in the export of gold jewellery from 40 per cent to 10 per cent so as to conserve gold stocks in the country and reported recommendations of the Gold Policy Review Committee to impose ceiling on individual/family jewellery holdings, ban on making of ornaments of 22 carats, etc., depressed the sentiment.

The Spread Between Indian & International Prices

As indicated earlier, while both international and domestic prices of gold rose substantially during the year under review, the rise in the international price was conspicuously larger. In July 1979, on an average gold was selling in the Bombay market at a premium of about 33 per cent over the London price; the average premium widened further to 37 per cent in August but thereafter it eroded steadily to just 1.2 per cent in December 1979 (vide Table V.9) as the London price rose more steeply. The premium gave way to a discount in the middle of December 1979 and the discount ruled continuously till March 1980. Between December 1979 and February 1980, the monthly average price in London went up by over 41 per cent while the Bombay price increased by less than 12 per cent (see Statement 26 in Vol. II of this Report). With a sharp retreat in the speculative positions in the London market, the premium for the price in Bombay was restored in April and continued in May 1980. However, in June 1980, with the spurt in price in overseas markets, the average price in the Bombay market was again dipped about 12 per cent below the London price; at the end of June 1980, the discount in the Bombay price over the London price in fact, worked out to nearly 19 per cent.

Gold Jewellery Export Replenishment Scheme

In view of the high level of international gold prices the Gold Jewellery Export Replenishment Scheme effective from August 21, 1978@ was suspended with effect from January 17, 1980. The price fixed by the Government of India under the Scheme for release of gold by the State Bank of India to release-order holders was gradually raised from Rs. 800

@For details see Report on Currency and Finance, 1978-79 Pp. 83-84.

Table V. 9 : Gold Prices in London and Bombay during 1979-80

(Monthly averages)

(Rs. per 10 grammes)

Month	London price (morning fixing)	Bombay price (closing)	Spread between Bombay and London prices	
			Absolute	Percentage
June 1979	726.09	978.20	+252.11	+ 34.72
July 1979	747.97	994.64	+246.67	+ 32.98
August 1979	778.11	1066.54	+288.43	+ 37.07
September 1979	926.81	1157.30	+230.49	+ 24.87
October 1979	1035.86	1217.14	+181.28	+ 17.50
November 1979	1025.60	1185.65	+160.05	+ 15.61
December 1979	1205.06	1219.96	+ 14.90	+ 1.24
January 1980	1707.86	1418.60	—289.26	— 16.94
February 1980	1701.37	1362.26	—339.11	— 19.93
March 1980	1463.82	1348.48	—115.34	— 7.88
April 1980	1336.24	1379.33	+ 43.09	+ 3.22
May 1980	1303.20	1345.08	+ 41.88	+ 3.21
June 1980	1516.91	1333.35	—183.56	— 12.10

per 10 grammes in July 1979 to Rs. 1,125 in December 1979. The quantum of gold replenished by the State Bank since the inception of the Scheme aggregated 987.37 kgs. in Bombay, 101.73 kgs. in New Delhi, 5.14 kgs. in Madras and 3.25 kgs. in Calcutta (Table V·10A).

The quantities of gold supplied to exporters of jewellery during 1979-80 under the Gold Replenishment Scheme along with the prices are given in Table V.10B.

SILVER

International Market

By and large closely following the behaviour of gold prices, the international prices of silver displayed a firm trend during the period 1979-80 (July-June), recording over the year a sizeable increase of 790 cents per ounce or of 92.1 per cent from 858 cents as at end June 1979 to 1648 cents at end June 1980 in the New York market and 315.75 pence per ounce or of 80.2 per cent from 393.65 pence to 709.40 pence in the London market. During the preceding year, the increase recorded was 331.50 cents or 63.0 per cent in New York, and 109.95 pence or 38.8 per cent in London. The peaks for the year under review were touched at the all-time high of 2165.05 pence in London on January 18 and 4800 cents in New York on January 21, 1980.

In the New York market, the price of silver which was 858.00 cents per ounce as at end-June 1979, drifted on July 2 to 854.60 cents, the lowest level during the period under review. It firmed up thereafter, to touch the month's peak at 956.00 cents on July 23 but eased to 873.50 cents on August 6. Crossing the 1,000.00 cents-mark for the first time during the year in August, it soared to the month's peak of 1,047.90 cents on August 31, because of the persistent weakness of the U. S. Dollar in international exchange markets, the rise in the price of gold and the increase in the industrial demand for silver.

Table V. 10 : Quantity released and price fixed under Gold Replenishment Scheme.

A- Centre-wise quantity of gold released by the SBI for sale under the Gold Jewellery Export Replenishment Scheme

Centre	Quantity (in Kgs.)	Value (Rs. lakhs)
Bombay	987.37	871.61
New Delhi	101.73	100.10
Madras	5.14	4.40
Calcutta	3.25	2.68
Total	**1097.49**	**978.79**

B. Month-wise quantity of gold released in Bombay since July 1979

Month	Quantity released (Kgs.)	Rs. per 10 grammes
July 1979	136.50	800
August 1979	112.72	825
September 1979	142.93	900
October 1979	13.50	1100
November 1979	109.03	1100
December 1979	185.59	1125

The firm trend continued during September and the price surged forward to 1,800.00 cents on October 1, and after moving both ways during the month closed on a subdued note at 1,640.00 cents on October 31. It eased further to 1,587.00 cents on November 15, when the trend was reversed and moved up to 1,877.00 cents on November 30. Crossing the 2,000.00 cents mark on December 13, and scaling successive peaks, silver soared to an all-time high of 4,800.00 cents on January 21 in line with the gold prices, but climbed down to 3,400.00 cents on January 31. Fluctuating widely, the price declined to 3,100.00 cents on February 20 but recovered to 3,520.00 cents on February 29. Following the reported failure of a prominent group of speculators, Hunt Brothers, to sustain their operations, the price crashed to 1,110.00 cents on March 27, but recovered to attain the month's peak at 1,640.00 cents on April 8. Moving hesitantly thereafter, the silver price receded to 1,080.00 cents by May 22, the possibility of sale of silver by the Hunt Brothers to meet their commitments influencing the sentiment. There was an improvement towards the end of the month and the price reached the month's peak of 1,355.00 cents on May 30. It advanced further to 1,765.00 cents on June 9 and finally closed a little lower at 1,648.00 cents on June 30, 1980.

The white metal's spot price in the London market began the year under review with a closing quotation of 393.65 pence per ounce on June 29, 1979 and moved within a narrow range of 390.20 pence and 417.65 pence till August 21. It then firmed up sharply and touched 850.50 pence on September 18 and moving erratically thereafter closed the month at 739.40 pence on September 28. After recovering to 825.00 pence on October 2, it dropped to 682.55 pence on October 4 but moved up to 799.20 pence on October 31 and further to 865.60 pence on November 30. Following the trend in New York, the London price of silver surged to 1,446.85 pence on December 31.

In line with the gold price, the silver price registered a sharp upswing in January and soared to the peak of 2,165.05 pence on January 18 but closed lower at 1,554.20 pence on January 31. As the bullish fervour subsided, it slid down further to 1,316.95 pence on February 20. Thereafter, it rose to 1,622.10 pence on March 5 and as in New York then drifted lower and crashed to 622.40 pence on March 31. Touching the month's peak at 805.50 pence on April 9, it dropped further to 599.80 pence on April 28. The set-back continued in May and the price declined to 467.80 pence on May 22. It firmed up in the early part of June, touching 758.90 pence on June 9 but closed on an easy note at 709.40 pence on June 30.

Domestic Market

The price of silver in the Bombay market moved generally in line with the international markets during the major part of the period under review. It registered a sharp rise of Rs. 1,014 or 63.7 per cent over the year from Rs. 1,593 per Kg. on June 30, 1979 to Rs. 2,607 on June 30, 1980, as against a modest rise of Rs. 228 or 16.7 per cent during the preceding year.

From Rs. 1,593 per Kg. on June 30, the price of silver in the Bombay market eased to Rs. 1,584 per Kg. on July 2, the lowest during the period under review. It advanced to Rs. 1,778 by July 18, as a result of uncertain political developments and sustained speculative support, but dipped to close the month at Rs. 1,681 on July 31. With continuous buying by speculators, dealers, etc., in the expectation of a withdrawal of the ban on silver exports, it firmed up in August to touch the month's peak at Rs. 1,820 on August 29, and rose to a high of Rs. 2,300 on September 20, but closed the month on an easy note at Rs. 2,093 on September 29. In line with New York and London markets, the Bombay silver price moved up in October to touch the month's peak of Rs. 2,320 on October 25. The following month's peak of Rs. 2,325 was recorded on November 6, and largely due to weaker overseas advices and seizures by customs, the price eased to close the month at Rs. 2,261 on November 30. Sharply reacting to the bullish overseas trend, it reached Rs. 5,350 on January 4 in line with gold. Fluctuating widely thereafter, it closed at Rs. 3,225 per Kg. on January 31. The price recorded the following month's peak of Rs. 3,525 on February 7, and dropped to Rs. 3,078 on February 20. On encouraging advices the price again moved up to a high of Rs. 3,270 on March 4, but thereafter receded to Rs. 2,350 on March 28 following the steep fall in international markets. After recovering to Rs. 2,740 on April 2, it drifted to Rs. 2,347 on April 24 and further to Rs. 2,047 on May 20 on account of persistently weaker advices. The price turned firm thereafter to touch Rs. 2,430 on May 28 on expectations of a Government announcement permitting exports of silver. It declined to Rs. 2,340 on June 4 but recovered subsequently to Rs. 2,771 by June 14 and closed the month lower at Rs. 2,607 on June 30.

The Spread between Indian and International Prices

The price of silver in the Bombay market continued to be lower than in overseas market. The margin between the monthly average prices of silver in the London and the Bombay markets, which was about 37 per cent in July 1979, increased to 96 per cent in October 1979, and was only marginally lower at 93 per cent in November 1979. With the upsurge in the overseas price, the margin increased to 164 per cent in January 1980 and to 177 per cent in February 1980. As the subdued tendency set in the international markets, it got slashed to 40 per cent in May 1980 but moved up to 55 per cent in June 1980. The trend in the margin between the New York and the Bombay prices was more or less similar to that between London and Bombay prices, the margin being the highest at 173 per cent in February 1980.

ANNEXURE

The published figures of demand and time deposits during 1979-80 do not throw any light on their relative growth owing to changes effected in the classification of saving deposits of scheduled banks in 1978.

Under the 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 these Regulations, if the Savings Bank rules of the bank specified 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 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, therefore, amended by the Reserve Bank in 1978 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. Thus, what is included under 'demand' deposits is the portion of savings deposits that is actually drawn upon by the depositors, while that portion which remains with the banks earning interest is being included under 'time' deposits.

Not all the banks have adopted the amended procedure. Some large banks, however, have switched over to the revised classification on different dates since January 1978. As a result, published data on demand and time deposits, and on M_1 during the years 1978-79 and 1979-80 are not comparable with those of the previous years.

In order to present the data for 1978-79 and 1979-80 on a comparable basis, the published figures of demand and time deposits are adjusted for the changes made by some large banks and given below :

Table A. 1 : Adjusted Data of Demand and Time Deposits 1 (All banks)

(Rs. crores)

	Variation in July-June	
	1978-79	1979-80 (Partially revised)
Demand Deposits	+2,159 (+25.0)	+1,018 (+ 9.4)
Time Deposits	+3,699 (+21.9)	+3,835 (+18.7)
Aggregate Deposits	+5,858 (+23.0)	+4,853 (+15.5)

Figures in brackets represent percentage variations.
1. Adjusted on the assumption that the banks which had adpoted the new classification in 1978-79 and 1979-80 had done so from June 1978.

The data show that demand deposits with banks rose by Rs. 2,159 crores or 25.0 per cent in 1978-79 and by Rs. 1,018 crores or 9.4 per cent in 1979-80, while time deposits with banks increased by Rs. 3,699 crores or 21.9 per cent and Rs. 3,835 crores or 18.7 per cent respectively in 1978-79 and 1979-80. Putting together this information the variations in the components of M_1 and M_3 were worked out for the years 1978-79 and 1979-80 as in Table A-2:

Table : A. 2 : Adjusted Data of M_1

(Rs. crores)

	Variation in July-June 1978-79	1979-80
1. Currency with the Public	+1,766 (+19.1)	+1,104 (+10.0)
2. Demand deposits with banks*	+2,159 (+25.0)	+1,018 (+ 9.4)
3. Other deposits with RBI	+ 38 (+35.5)	+95 (+65.5)
4. M_1	+3,963 (+22.0)	+2,217 (+10.1)
5. Time deposits with banks*	+3,699 (+22.0)	+3,835 (+18.7)
6. M_3	+7,663 (+22.0)	+6,052 (+14.2)

* Partially revised.
Figures in brackets represent percentage changes.

From this table, it is clear that M_1 had gone up by Rs. 3,963 crores or 22.0 per cent in 1978-79 and by Rs. 2,217 crores or 10.1 per cent in 1979-80.

Chapter VI

Banking Developments

INTRODUCTION

A significant deceleration in both deposit and credit growth, and use of a wide range of instruments aimed at both reducing availability of credit and raising its cost were the highlights of the developments in the banking field during 1979-80 (July-June). Further progress was made by the banking sector towards the attainment of the two national targets relating to advances to priority sectors and credit-deposit ratio in the rural and the semi-urban areas.

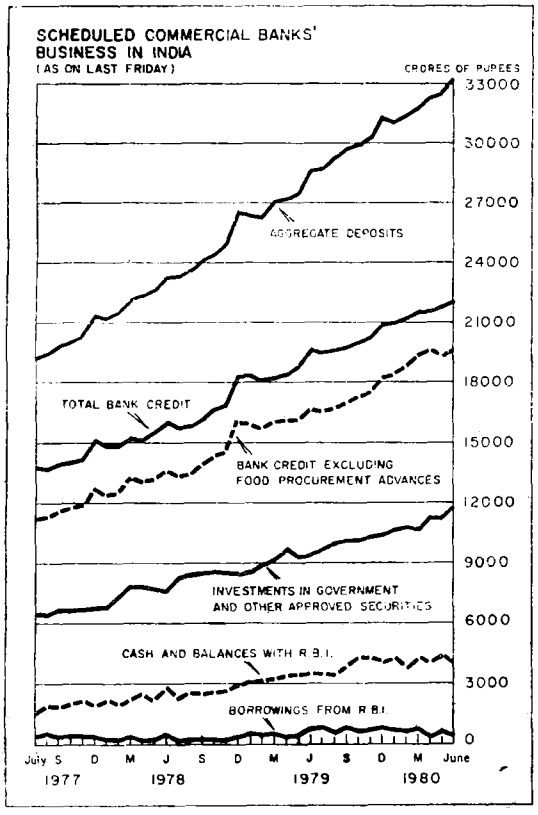
Aggregate deposits registered a much smaller increase of Rs. 4,612 crores or 16.1 per cent during 1979-80 as against Rs. 5,359 crores or 23.0 per cent during the preceding year. The deceleration in deposit growth was particularly marked in the closing month of the year. While for the first eleven months of 1979-80, accretion to aggregate deposits at Rs. 3,962 crores was only Rs. 168 crores less than in the corresponding eleven-month period in 1978-79, the increase in aggregate deposits was only Rs. 650 crores in June 1980 as against as much as Rs. 1,229 crores in June 1979. This sharp increase in deposits of Rs. 1,229 crores in a month contributed in part to the high growth rate in 1978-79 and also inflated the base figure for 1979-80.

The expansion in bank credit in 1979-80 at Rs. 2,366 crores or 12.0 per cent was also very much less than the expansion of Rs. 3,621 crores or 22.5 per cent in 1978-79. The expansion of Rs. 2,366 crores in 1979-80 was the net result of an increase of Rs. 2,952 crores or 17.7 per cent in non-food credit, offset partially by a sharp decline of Rs. 586 crores in food credit. In 1978-79, both food and non-food credit had contributed to the expansion in bank credit, food credit rising by Rs. 471 crores or 18.7 per cent and non-food credit by Rs. 3,150 crores or 23.3 per cent. The incremental non-food credit-deposit ratio for 1979-80, however, worked out higher at 63.9 per cent as against 58.8 per cent in 1978-79.

In the first four months of the 1980 slack season (end-April 1980 to end-August 1980), accretion to aggregate deposits at Rs. 1,658 crores or 5.1 per cent and expansion in bank credit at only Rs. 418 crores or 1.9 per cent were much lower than the expansion of Rs. 2,231 crores or 8.2 per cent in deposits and of Rs. 1,256 crores or 6.8 per cent in bank credit in the corresponding period of the 1979 slack season. The smaller expansion in bank credit was mainly due to the smaller increase of Rs. 34 crores in food credit this year as against Rs. 674 crores last year; non-food credit expansion was also less this year at Rs. 384 crores or 2.0 per cent, as against Rs. 582 crores or 3.6 per cent in the corresponding period of the 1979 slack season. A feature of the slack season of 1980 was heavy augmentation of banks' investments portfolio by as much as Rs. 1,268 crores as against only Rs. 303 crores during the previous year, the investment-deposit ratio at the end of August 1980 working out to 36.9 per cent, as against 34.0 per cent a year ago.

In the context of persistent inflationary pressures in the economy and a decline in national income, the Reserve Bank of India's credit policy continued to be restrictive throughout 1979-80. The Bank employed a variety of instruments to restrain credit expansion such as qualitative and quantitative credit controls, raising of the cost of credit, tightening refinance facilities, bringing Participation Certificates (PCs) under the purview of cash reserve ratio (CRR) and statutory liquidity ratio (SLR) etc.

The banks had been set two national targets to be achieved by March 1979, namely (*a*) advances to priority sectors should reach a level of not less than 33⅓ per cent of total credit, and (*b*) 60 per cent of the deposits mobilised



in the rural and semi-urban areas were to be deployed in the respective areas. During 1979-80, further progress was made by banks in these spheres, although the targets could not be achieved. At the end of June 1980, priority sector advances of major banks which account for 95 per cent of gross bank credit constituted 31.6 per cent of the total net bank credit as against 28.8 per cent a year earlier.*

At the end of June 1979, the credit-deposit ratios for rural and semi-urban offices of both public and private sector banks together worked out to 54.4 per cent and 47.2 per cent, respectively. Data on frequency distribution of districts based on credit-deposit ratios for rural and semi-urban bank offices show that rural offices achieved over 60 per cent ratio in 164 out of 392 districts at the end of June 1979 as against 148 out of 388 districts at the end of June 1978. The semi-urban offices achieved over 60 per cent ratio in 98 districts out of a total of 347 districts in June 1979.

Two important policy decisions, relating to deployment of credit were made during the year. First, public sector banks should strive to raise the proportion of advances to priority sectors from the present target of 33⅓ per cent to 40 per cent by 1985. Secondly, banks should actively provide financial support to the implementation of the 20-Point Programme, which aims at improving the lot of the weaker sections of the population.

A notable development during the year was the nationalisation in April 1980 of six private sector banks with total demand and time liabilities of not less than Rs. 200 crores each, thus extending further the area of public control over the country's banking system.

CREDIT POLICY

As in 1978-79, the thrust of the Reserve Bank of India's credit policy throughout 1979-80 was on restraining credit expansion. The need for the pursuit of such a restrictive policy arose from the overhang of primary money due to the monetary expansion of the preceding three years, the strong inflationary pressures in the economy and prospects of a decline in gross national product. The prevailing situation necessitated frequent adjustments in credit policy and the use of a wide range of policy instruments such as quantitative and qualitative credit controls, raising cost of credit, tightening of refinance facilities and moral suasion. These measures were, however, sought to be implemented in such a manner that genuine needs of production and distribution were met and some relief was afforded to priority sectors.

The action taken by the Bank between November 30, 1978 and end-June 1979 included: (*i*) the raising of the statutory liquidity ratio from 33 per cent to 34 per cent from December 1, 1978; (*ii*) the stipulation that the *incremental* gross non-food credit-deposit ratio of banks since December 1, 1978 should not exceed 40 per cent; (*iii*) the refusal to provide refinance/rediscount accommodation from the RBI, effective March 30, 1979 to banks which were in default in respect of CRR/SLR, until they

*At the time the policy target of 33⅓ per cent was prescribed, Participation Certificates were not included in the figures of bank credit. Excluding PCs from figures of bank credit, the percentage of priority sector advances to bank credit would work out higher at 32.1 per cent in June 1980, as against 29.7 per cent in June 1979.

made good such deficiencies and the decision to charge in respect of such defaulting banks which had already utilised refinance/rediscount accommodation, 3 per cent additional interest on the portion of refinance/rediscount accommodation equivalent to the shortfall, and (*iv*) the decision on June 21, 1979 to subject, from the last Friday of July 1979, outstanding PCs to SLR and CRR.

The more important measures taken by the RBI in 1979-80 included: (*a*) instructions to banks to limit the effective drawing power under the limits for cash credit and inland bills in respect of accounts of borrowers enjoying credit limits of Rs. 25 lakhs and above, (*b*) raising the interest rate on short-term advances of banks, and (*c*) further tightening of refinance facilities available from the Reserve Bank.

August 1979 Measures

Despite the Reserve Bank's advice to banks in early June 1979 to restrict non-food credit expansion in the following months, non-food credit registered a sharp expansion over the two-month period end-May to end-July 1979. The Bank therefore, urged banks on August 7, 1979 to ensure that (*i*) non-food credit expansion was strictly restricted so that total credit expansion during the financial year 1979-80 would be significantly less than in the preceding year in absolute terms, (*ii*) advances to traders and manufacturers utilising stocks of sensitive and scarce commodities were strictly restricted, and no new credit limits were given to traders/manufacturers against sensitive commodities where speculative tendencies were clearly in evidence, (*iii*) granting of clean loans and loans against shares, securities or real estate was severely curtailed, and (*iv*) authorised credit limits were not exceeded and margins were not relaxed.

The Reserve Bank followed this up by taking additional measures on August 24, 1979. Banks were advised that in case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above, 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, to ensure that this method of refixing drawing power did not result in raising the cash credit limit above August 22, 1979 level. Banks were given discretionary powers to grant, at a level higher than the branch office, in case of parties not covered by Credit Authorisation Scheme (CAS), additional credit upto 10 per cent of the effective drawing power if justified in terms of production increases in physical terms and/or market dislocations beyond the control of the concerned units. Where, in respect of cash credit and inland bill limits of Rs. 25 lakhs to Rs. 2 crores, additional accommodation required exceeded 10 per cent of the effective drawing power, the same could be granted, if approved by a Committee of Executives of the bank constituted for this purpose. In respect of all credit limits subject to CAS, the Reserve Bank's prior approval was however required for any additional credit.

The Reserve Bank also made some changes in the refinance arrangement with a view to reducing recourse to central bank credit. The extent of refinance available from the Reserve Bank at 9 per cent in respect of food credit was reduced, effective September 28, 1979, from 50 per cent of the increase in such credit over Rs. 2,000 crores to 30 per cent. In respect of refinance under "Small Farmers' Window", the refinance was limited to 50 per cent of the increase over the level as on December 29, 1978 instead of January 1, 1978.

Despite the Reserve Bank subjecting, effective July 27, 1979, outstanding PCs to SLR and CRR, banks continued to have recourse to this type of borrowing. The Reserve Bank, therefore, instructed banks to bring outstanding PCs down to July 27, 1979 level by the last Friday of September 1979, and if they were already below July 27 level, they were not to be raised.

September 1979 Measures

In continuation of the measures taken in August 1979, the Reserve Bank announced on September 13, 1979 changes in the structure of interest rates relating to deposits and loans/advances/cash credit/overdrafts or discount

usance bills, by scheduled commercial banks.

Lending Rates.—Except for certain specified categories, the ceiling rates on short-term advances were raised by 3 percentage points from 15 per cent to 18 per cent in respect of scheduled commercial banks with demand and time liabilities of Rs. 25 crores and above and from 16 per cent to 19 per cent for other banks. The enhanced rates were not applicable to priority sector advances, pre-shipment and post-shipment export credit, credit to sick units under the agreed nursing programmes, credit to Food Corporation of India and to State Governments and their agencies for public procurement and distribution of foodgrains and credit to specified public sector agencies for procurement/distribution of other commodities. The minimum lending rates under selective credit controls were also raised.

Banks were required to raise the rate of interest charged by them on short-term advances (*a*) to trading sector by 3 percentage points in respect of advances of Rs. 10 lakhs and above, and by 2 percentage points on advances below Rs. 10 lakhs, and (*b*) to other borrowers by 3 percentage points on advances of Rs. 2 crores and above and by 2 percentage points on advances between Rs. 50 lakhs and Rs. 2 crores; no change was stipulated in interest rates on advances below Rs. 50 lakhs. The general minimum lending rate on advances against commodities subject to selective credit controls was raised from 15 per cent to 18 per cent. For term loans of not less than 3 years' maturity, the ceiling rates were continued unchanged— at 12.5 per cent for capital investment in priority sectors and 14.0 per cent for other purposes. The general minimum lending rate on advances continued to be 12.5 per cent, except for preferred categories, as specified from time to time.

Deposit Rates.—Effective October 1, 1979, the rate of interest payable on savings deposits was raised by ½ percentage point to 5 per cent. The rates of interest payable on term deposits accepted/renewed after September 13, 1979 were also raised by ½ percentage point in respect of deposits of 9 months to 1 year and by 1 percentage point in respect of deposits of 1 year and above. The revised interest rates on deposits are given below:

(Per cent per annum)

Deposit Category	Old Rates (since 1-3-78)	New Rates (since 13-9-79)
Current Deposits	Nil	Nil
Savings Deposits	4.5	5 (from 1-10-79)
Fixed Deposits :		
Maturity of		
15 to 45 days	2.5	2.5
46 to 90 days	3	3
91 days to less than 6 months ..	4	4
6 months to less than 9 months	4.5	4.5
9 months to less than 1 year ..	5	5.5
1 year to 3 years	6	7
Over 3 years and up to 5 years ..	7.5	8.5
Above 5 years	9	10

Note : On fixed deposits upto and inclusive of 5 years and on savings deposits, scheduled commercial banks with DTL below Rs. 25 crores may, at their discretion pay an additional interest of 0.25 per cent and Regional Rural Banks 0.50 per cent.

Other Modifications. — On September 1, 1979, the Reserve Bank advised banks that they could grant, in respect of sick units, additional credit (beyond 80 per cent of actual peak-level utilisation) under the discretion vested in them or refer such proposals to the Reserve Bank for authorisation, wherever necessary, on the basis of a realistic assessment of the genuine minimum requirement of the concerned units. Banks could also grant additional credit to borrowers for export purposes or to the other priority sectors provided they were satisfied about the genuine needs of the borrowers. Exemptions granted in regard to allowing of temporary working capital limits by banks to borrowers covered by the CAS were withdrawn. Banks were also advised to evolve specific schemes of credit assistance to meet the needs of small vendors/petty traders and small peddlers who require only a limited amount of credit especially in urban and metropolitan centres.

November 1979 Measures

In the absence of any seasonal fall in commodity prices and in the context of a slowdown in agricultural and industrial output, it was considered necessary to continue in the 1979-80 busy season, the existing regime of strict credit discipline which included: (*i*) the existing CRR and SLR, (*ii*) incremental non-food credit-deposit ratio of 40 per cent and (*iii*) the stipulation that non-food credit expansion in 1979-80 was to be less than in 1978-79 in both absolute and percentage terms. The August 1979 measure requiring banks to restrict the effective drawing power under the limits for cash credit and bills to 80 per cent of peak level of actual utilisation was also extended upto end-March 1980. The Reserve Bank further urged the banks (*i*) to keep credit expansion within their own resources and to limit recourse to Reserve Bank's refinance facilities to only very special cases of needs, (*ii*) to make necessary adjustments in their existing commitments to accommodate genuine seasonal requirements, (*iii*) to refrain from giving guarantees for private placement of deposits with companies by financial institutions and non-banking institutions, (*iv*) to reduce their reliance on PCs, (*v*) to avoid accepting special deposits at preferential rates from financial institutions and others, since such acceptance would be tantamount to circumventing the policy of reducing their reliance on PCs, and (*vi*) to raise the advances rates to the permitted maximum, especially in respect of large accounts and avoid rate competition among themselves. Inter-bank transfers of large accounts were not to be on the basis of rate concessions.

March 1980 Measures

By March 1980, the overall economic situation had significantly deteriorated. While national income in 1979-80 was expected to be lower than in 1978-79, wholesale price index had risen sharply by as much as 21 per cent. External payments situation was expected to be sharply adverse. The Reserve Bank, therefore, announced on March 28, further stringent credit measures.

Banks were asked to ensure that the absolute non-food credit (net)* expansion during the 15-month period end-March 1979 to end-June 1980 should not exceed that during the period end-March 1978 to end-June 1979. Food refinance entitlement at 9 per cent was further restricted from April 25, 1980 to 30 per cent of the increase in food credit over Rs. 2,200 crores against Rs. 2,000 crores earlier. Export credit refinance at 10 per cent was to be for 50 per cent of the increase in export credit over the monthly average for 1978 instead of the monthly average for 1977 earlier. The existing restriction on the effective drawing power under the limits for cash credit and inland bills was extended upto end-June 1980. The Reserve Bank again urged banks to bring about a significant and lasting reduction in their recourse to PCs.

Priority Sector Lending and Twenty-Point Programme

The Reserve Bank constituted a Working Group, with Dr. K. S. Krishnaswamy, Deputy Governor as Chairman, to work out the modalities of implementation of two important decisions taken at the March 6, 1980 meeting of the Finance Minister with the Chief Executives of public sector banks. The two decisions were: (*i*) public sector banks should aim at raising the proportion of their advances to priority sectors from 33⅓ per cent to 40 per cent by 1985, and (*ii*) the banks should actively promote implementation of the 20-Point Programme. The two distinct objectives of the 20-Point Programme are: (*a*) improving the economic well being of the weaker sections with a view to reducing economic inequality and (*b*) ensuring efficient production and equitable distribution of essential commodities, particularly those in short supply. It was urged on the banks that the emphasis should be not only on priority sectors, but on the weaker and underprivileged groups within each sector. In pursuance of the recommendations made by the Working Group, which were generally accepted by the Government and the Reserve Bank, the latter indicated to banks on October 29, 1980 the action to be taken by them.

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* Excluding bills rediscounted with Reserve Bank of India, but inclusive of Participation Certificates.

Operational Modifications

While the overall credit policy continued to be restrictive, the Reserve Bank reviewed and modified from time to time, the restriction imposed in August 1979 on the effective drawing power under the limits for cash credit and inland bills in respect of borrowers enjoying credit limits of Rs. 25 lakhs and above, so as to vest in banks more discretionary power to grant additional credit. Thus, in December 1979, it was decided that whenever an application was made to the Reserve Bank for authorising an increase in packing credit limits, banks would have the discretion to release, pending Reserve Bank's authorisation, an amount upto 10 per cent of the authorised packing credit limits subject to a maximum of Rs. 25 lakhs. Further, banks could also allow for a period not exceeding three months, temporary excess drawings in these packing credit limits or enhance them without prior authorisation upto 10 per cent of the limits (later raised to 15 per cent) or Rs. 25 lakhs whichever was less. Similar discretionary powers were granted under further liberalisation in March 1980 in respect of (*i*) additional working capital facilities urgently required for a new manufacturing unit established by an existing company and (*ii*) in emergent cases such as when essential imports have to be cleared or where new items have to be taken up for distribution on an urgent basis by public distribution agencies, or for purchase of power generating equipment. The Reserve Bank also vested in banks in February 1980 the discretion to allow, in respect of borrowers covered by CAS, additional credit over the redefined credit limits but not beyond the sanctioned limits obtaining on August 22, 1979. Earlier such additional credit could be allowed only with the Reserve Bank's prior approval. The proposals for such increases were to be examined in the bank by a Committee of Executives.

Another operational modification made during the year related to valuation of Government securities. In terms of sub-section (2A) of Section 24 of the Banking Regulation Act, the unencumbered investments in approved securities which can be taken into account as eligible assets for the purpose of SLR have to be valued at a price not exceeding current market price. In view of the upward adjustments made in the yields of Government securities and the consequent impact on their market prices, the Reserve Bank decided to give some relief to banks which might find it difficult to comply with the SLR requirements mentioned above. The banks were, therefore, advised on May 2, 1980 that in cases where the percentage of eligible assets maintained in various forms fell short of the stepped up liquidity requirements of 34 per cent by reason of a bank valuing its investments at current market price, the bank would be deemed to have complied with the stipulation if it maintained (*i*) a liquidity ratio of not less than 25 per cent (as required in terms of Section 24 of the Banking Regulation Act), the securities taken into account for this purpose being valued at rates not exceeding the current market prices, and (*b*) an additional liquidity ratio of 9 per cent, the securities taken into account being valued at book value, less so much of the provision, if any, made by the bank for depreciation in the value of its investments, as is not in excess of the depreciation in the market value of the said securities. This concession was to be available only upto end-November 1980 and banks were advised to make all efforts to replenish their investments.

June 1980 Measures

Though the general outlook for 1980-81 seemed to be one of recovery in economic activity and growth in real output, the Reserve Bank reiterated at the end of June 1980, the need for continued caution on the monetary front and persistent efforts to ensure a reduction in the rate of monetary and credit expansion. The continuance of the restrictive credit policy was necessitated by the strong inflationary pressures together with the overhang of excessive primary money creation from the previous two years and the difficult balance of payments position. As increased demand for credit was anticipated in the busy season from sectors leading the economic recovery, the Reserve Bank advised banks to undertake corrective measures in the slack season itself to augment their deposit resources, to keep their lending within their own resources and to avoid recourse to refinance or rediscount from

the Reserve Bank. With the continuance of the SLR and CRR and the continued requirement of lending for food procurement, the banks would not have more than 40 per cent of their additional deposits to lend for non-food purposes during the rest of the 1980 slack season and they were asked to live within this resource constraint and restrict their credit expansion. Within this broad framework, the following measures were announced.

(*i*) The CRR of 6 per cent of net demand and time liabilities and 10 per cent of incremental net demand and time liabilities accruing since January 14, 1977,* and the SLR of 34 per cent of total demand and time liabilities were kept unchanged.

(*ii*) The refinance rates for food credit and export credit and the minimum interest rate charged on discretionary refinance were also kept unchanged at 9 per cent, 10 per cent and 11 per cent, respectively. Discretionary refinance, however, was to be made available only in exceptional circumstances.

(*iii*) Effective July 1, 1980 the rate on stand-by refinance facility mainly intended for clearing purposes was raised from 9 per cent to 11 per cent. The rate on rediscounting of bills was also raised from 9 per cent to 11 per cent for the first tranche; subsequent tranches were to carry higher rates of interest.

(*iv*) The scheme for refinance against advances to farmers under Small Farmers' Window was discontinued from July 1, 1980. However, banks were not to alter, on this account the rates charged to the borrowers. They were also advised on August 6, 1980, that they were to repay the refinance obtained under the scheme in a phased manner by September 30, 1980.

(*v*) The scheme of refinance for import of capital goods was terminated with effect from July 1, 1980.

(*vi*) The special scheme for refinance against shipping loans was also to be terminated as soon as the commitments reached the limit of Rs. 500 crores.

The need for improving the procedures of banks for examining cash credit and other working capital requirements was emphasised, and banks were asked to review all credit limits once a year and also determine, in respect of credit limits of Rs. 1 crore and above, likely drawals for each ensuing quarter on the basis of quarterly operating statements and the funds flow statements obtained from borrowing units.

Banks were also advised that the incidence of the 7 per cent interest tax introduced in the Budget for 1980-81 was to be passed on to the borrowers on a *pro rata* basis and banks were to follow uniform procedures in implementing this measure. Subsequently on August 7, 1980, the Reserve Bank of India issued a circular letter to all scheduled commercial banks (excluding Regional Rural Banks) advising them of the revised minimum lending rates, the ceiling rate on advances and the rates of interest in respect of special categories of advances/borrowers—all rates inclusive of interest tax—which were to be charged from July 1, 1980.

Although the regional rural banks (RRBs) have been exempt from the interest tax, in order to maintain parity in the lending rates of all credit institutions operating in the rural sector, the Reserve Bank issued a circular letter to RRBs advising them of the higher (ceiling) rates of interest to be adopted by them from July 1, 1980.

One important objective of nationalisation of banks in 1969 was that the banking system should help removing regional imbalances in economic development by so arranging their lending portfolio that more credit would be deployed in the backward States and districts of the country. Banks were therefore asked

* Such of the banks which were maintaining on October 31, 1980 the SLR and CRR as stipulated, were exempted by the Reserve Bank on November 1, 1980, from the requirement to maintain the additional cash reserve of 10 per cent of the incremental net demand and time liabilities, subject to the condition that the additional balances so maintained by those banks were not to be withdrawn. Banks which had not maintained the stipulated CRR and SLR ratios as on October 31, 1980 were not to get the exemption till they made up the shortfall; they were required to make good the shortfall within two weeks.

to achieve a credit-deposit ratio of 60 per cent in respect of their rural and semi-urban branches separately on an all-India basis. The Reserve Bank clarified in June 1980 that while it was not necessary to achieve this ratio separately branch-wise, district-wise or region-wise, banks should ensure that wide disparity in the ratios between different States/regions was avoided in order to minimise regional imbalances in credit deployment. Banks were asked to review their performance in such districts where the credit-deposit ratio was very low.

BANKING TRENDS

Annual Trends, 1979-80

A significant deceleration in the rate of growth of both deposits and bank credit and a substantial augmentation of the banks' investments portfolio highlighted the scheduled commercial banks' operations during 1979-80 (July-June). Accretion to aggregate deposits at Rs. 4,612 crores or 16.1 per cent was smaller than the accretion of Rs. 5,359 crores or 23.0 per cent in 1978-79 (Table VI. 1). The deceleration in growth rate was even sharper in bank credit; the increase in bank credit in 1979-80 was very much lower at Rs. 2,366 crores or 12.0 per cent, as against Rs. 3,621 crores or 22.5 per cent last year. As against this, the expansion in the banks' investments portfolio in 1979-80 at Rs. 2,436 crores was substantially larger than in 1978-79 (Rs. 1,837 crores).

Deposit Growth

The deceleration in deposit growth in part reflected the impact of (*i*) the measures taken by the Reserve Bank to restrain credit expansion and (*ii*) the slowing down in the pace of primary money creation, particularly in the later part of 1979-80. It is to be noted that the increase of 16.1 per cent in aggregate deposits was notwithstanding the decline of about 3 per cent in national income, and this, in part reflected the impact of a substantial rise in nominal or money incomes.

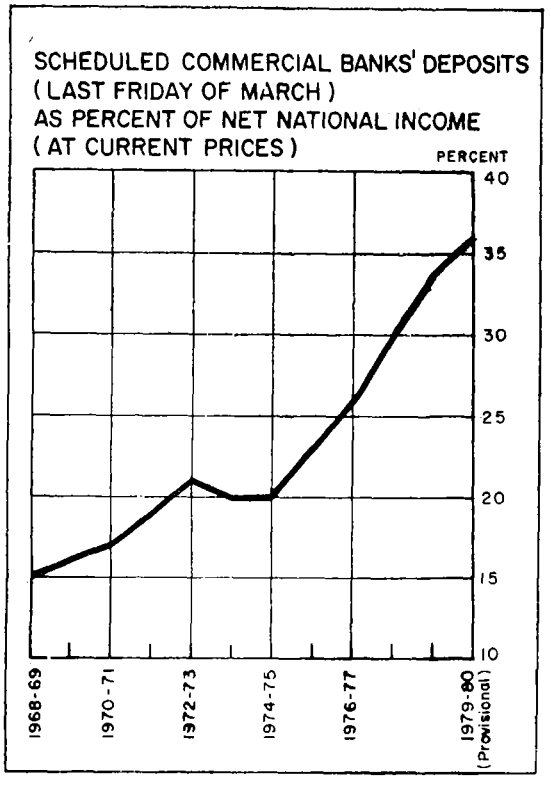
Table VI. 1 : Variations in Scheduled Commercial Banks' Data (Seasonal and Annual)

(Rupees crores)

Items	Seasonal Variations						Annual Variations (July—June)	
	Slack Season 1978	Busy Season 1978-79	Slack Season 1979	Busy Season 1979-80@	Slack Season 1979 (Upto Aug. 31, 1979)	Slack Season 1980 (Upto Aug. 29, 1980)@	1978-79	1979-80@
	1	2	3	4	5	6	7	8
1. Aggregate Deposits	+1990	+2708	+2820	+2413	+2231	+1658	+5359	+4612
(*a*) Demand	+ 237	+1199	+ 966	— 1	+ 728	— 731	+1831	— 419
(*b*) Time	+1753	+1509	+1854	+2414	+1503	+2389	+3527	+5031
2. Borrowings from the RBI	+ 90	+ 142	+ 293	— 260	+ 204	+ 57	+ 324	— 171
3. Cash and Balances with the RBI	+ 88	+ 838	+ 901	— 106	— 16	+ 112	+ 827	+ 469
4. Money at call and short notice	— 7	— 47	— 5	— 33	+ 13	+ 23	— 160	— 30
5. Investments in Government and Other Approved Securities	+ 725	+1075	+ 503	+1095	+ 303	+1268	+1837	+2436
(*a*) Government Securities	+ 479	+ 803	+ 139	+ 776	+ 86	+ 996	+1378	+1586
(*b*) Other Approved Securities	+ 246	+ 272	+ 364	+ 319	+ 217	+ 272	+ 458	+ 851
6. Bank Credit*	+1498	+1751	+1615	+1620	+1256	+ 418	+3621	+2366
(*a*) Food procurement advances	+ 219	+ 14	+ 457	— 691	+ 674	+ 34	+ 471	— 586
(*b*) Other advances*	+1279	+1737	+1158	+2311	+ 582	+ 384	+3150	+2952
7. Bills Rediscounted with the RBI	— 17	+ 35	+ 5	— 24	— 9	— 60	— 30	+ 4
8. Gross Bank Credit* (6 + 7)	+1481	+1786	+1620	+1596	+1247	+ 358	+3591	+2370

@Partially revised.
*Inclusive of credit extended through recourse to participation certificates.
Note : The seasonal variations are based on outstandings on the last Friday of April and October and annual variations on the last Friday of June.
Source : Weekly returns submitted by banks under Sec. 42(2) of the Reserve Bank of India Act, 1934.

The deceleration in deposit growth was particularly pronounced in the closing month of the year. While during the eleven-month period, end-June 1979 to end-May 1980, accretion to aggregate deposits at Rs. 3,962 crores was only slightly lower than the accretion of Rs. 4,129 crores during the corresponding period in 1978-79, in the closing month of the year, i.e. June 1980, deposit accretion at Rs. 650 crores was only about half of the accretion of Rs. 1,229 crores in June 1979. Of this increase of Rs. 1,229 crores, Rs. 840 crores was in the last week of June 1979, and this inflated the deposit growth rate in 1978-79 and also raised substantially the base figure for 1979-80. It may also be noted that the accretion to aggregate deposits in 1979-80 based on partially revised data is being compared to the accretion in 1978-79 based on final figures. If past experience is any guide, the final figure of aggregate deposits for June 1980 might work out higher than the partially revised figure and the disparity at present between growth rates of 23.0 per cent in 1978-79 and 16.1 per cent in 1979-80 might narrow down.



The increase of Rs. 4,612 crores in aggregate deposits was the net result of a large rise of Rs. 5,031 crores in time deposits and a small decline of Rs. 419 crores in demand deposits. In the preceding year, both time deposits and demand deposits had registered increases of Rs. 3,527 crores and Rs. 1,831 crores, respectively. As mentioned in last year's Report, a part of the variations in demand and time deposits in 1977-78, 1978-79 and 1979-80 is statistical and is due to the adoption by some banks of the new method* of classification of savings deposits into demand and time for reporting figures of total demand deposits and time deposits. While in terms of the old procedure, a substantial portion or even the entire amount of savings deposits in case of some banks was classified as demand deposits, under the revised procedure, a substantial portion of savings deposits is being classified as time deposits and a smaller proportion as demand deposits. On various dates starting from January 1978, some scheduled commercial banks have adopted the new procedure, and the result is that the published data of demand deposits and time deposits for 1979-80 have become non-comparable with those for 1978-79; the aggregate deposit figures are not affected by the revised demand/time classification.

To present comparable data in respect of demand and time deposits, the published figures of demand and time deposits have been adjusted for the changes made by some large banks in classification of savings deposits and the variations based on the two sets of data are given in Table VI.2.

*Under the procedure outlined in Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations 1951, before it was amended on August 16, 1978, if the Savings Banks Rules of the bank specify a maximum amount that could be withdrawn from an account without prior 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 was to be regarded as demand liability and the excess over the maximum amount as time liability. In terms of the revised procedure outlined in the amendment to Regulation 7 which became effective from August 16, 1978, the average of the monthly minimum balances which is arrived at for crediting half yearly interest on savings banks accounts should be treated as amount representing time liability portion of a savings account and the sum of such average monthly minimum balances when deducted from the average of the total weekly savings accounts balances for the branch/bank as a whole would represent demand liability portion.

Table VI. 2 : Demand and Time Deposits Variations according to Published and Adjusted* data.

(Rupees crores)

(July-June)	Variations over the year based on			
	Published Data		Adjusted* Data	
	1978-79	1979-80@	1978-79	1979-80@
	1	2	3	4
Demand Deposits	+1831 (+19.9)	— 419 (— 3.8)	+1953 (+25.2)	+ 941 (+ 9.7)
Time Deposits	+3527 (+25.0)	+5031 (+28.6)	+3405 (+ 21.9)	+3671 (+19.3)
Aggregate Deposits	+5359 (+23.1)	+4612 (+16.1)	+5359 (+23.0)	+4612 (+16.1)

@Partially revised.

*Adjusted for changes in the classification of savings deposits, on the assumption that those large banks which had adopted the new classification in 1978-79 and 1979-80 had done so from June 1978.

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

It will be seen that according to the published data, demand deposits *declined* by Rs. 419 crores or 3.8 per cent in 1979-80, as against an increase of Rs. 1,831 crores or 19.9 per cent in 1978-79; according to the adjusted data, demand deposits registered an increase of Rs. 941 crores or 9.7 per cent in 1979-80, which was smaller than the increase of Rs. 1,953 crores or 25.2 per cent in 1978-79. As regards time deposits, the published figures showed a substantial increase of Rs. 5,031 crores or 28.6 per cent in 1979-80, as against an increase of Rs. 3,527 crores or 25.0 per cent in 1978-79; according to the adjusted data, time deposits showed an increase of Rs. 3,671 crores in 1979-80 which was only a little larger in absolute terms than the increase of Rs. 3,405 crores in 1978-79, but the rate of increase at 19.3 per cent was lower than the increase of 21.9 per cent in 1978-79.

Bank Credit Expansion

As mentioned earlier, the deceleration in the growth rate in bank credit in 1979-80 was even sharper than the deceleration in deposit growth; bank credit registered an increase of Rs. 2,366 crores or 12.0 per cent in 1979-80, as against Rs. 3,621 crores or 22.5 per cent in 1978-79. The slowing down of the pace of growth in bank credit was the combined result of substantial decline of Rs. 586 crores in food credit in 1979-80 as against an increase of Rs. 471 crores in 1978-79, and a smaller expansion of Rs. 2,952 crores or 17.7 per cent in non-food credit, as against an expansion of Rs. 3,150 crores or 23.3 per cent in 1978-79. The deceleration in bank credit growth in 1979-80 is to be viewed in the context of a decline in national income.

Except for declines of around Rs. 175 crores in July 1979 and again in May 1980, non-food credit registered a steady increase every month; the largest monthly increase was in March 1980 of Rs. 684 crores. In 1978-79, the largest monthly increase in non-food credit was in December 1978 of Rs. 1,423 crores. While the incremental credit-deposit ratio for 1979-80 worked out lower at 51.3 per cent as against 67.6 per cent for 1978-79, the incremental non-food credit-deposit ratio for 1979-80 worked out higher at 64.0 per cent, as against 58.8 per cent for 1978-79.

Other items of Assets/Liabilities

While aggregate deposits and bank credit showed smaller increases in 1979-80 than in 1978-79, the expansion of Rs. 2,436 crores or 25.9 per cent in banks' investments portfolio was considerably higher than the expansion of Rs. 1,837 crores or 24.3 per cent in 1978-79, The investment-deposit ratio on June 2.7 1980 stood much higher at 35.5 per cent as

against 32.7 per cent a year ago. The incremental investment-deposit ratio worked out as high as 52.8 per cent, as against 34.3 per cent in the previous year. The banks increased their cash in hand and balances with the Reserve Bank by Rs. 469 crores as against Rs. 827 crores in 1978-79. Their borrowings from the Reserve Bank declined over the year by Rs. 171 crores as against an increase of Rs. 324 crores in 1978-79. At the end of June 1980, food refinance at Rs. 18 crores constituted only 3.7 per cent of the banks' outstanding bortowings; a year ago food refinance amounted to Rs. 413 crores and accounted for as much as 62.7 per cent of the banks' total borrowings.

Credit Targets and Performance

As mentioned earlier, the Reserve Bank had impressed on banks that (*i*) the expansion in non-food bank credit in 1979-80 (April-March) as a whole, should be less than in the previous year, in both absolute and percentage terms, and (*ii*) the incremental non-food credit-deposit ratio should be well within 40 per cent. The banks were not able to comply with these requirements fully. During April 1979 to March 1980, non-food credit expansion including PCs, at Rs. 3,371 crores was higher in absolute amount than the expansion of Rs. 2,813 crores in the previous year, but the rate of increase at 21.0 per cent was marginally lower than that of 21.2 per cent in 1978-79. The incremental non-food credit-deposit ratio for 1979-80 (April-March) worked out to as high as 70.7 per cent, as against 40 per cent stipulated by the Reserve Bank.

Since banks were not able to confine non-food credit expansion within the limits indicated by the Reserve Bank, the guideline that the non-food credit expansion in 1979-80 should not exceed that in 1978-79 was extended in March 1980 to cover the next three months—April to June 1980. Non-food credit expansion during the fifteen-month period April 1979 to June 1980 at Rs. 3,568 crores was only a little higher in amount than the expansion of Rs. 3,429 crores during the fifteen months end-March 1978 to end-June 1979. The rate of growth during the fifteen-month period in 1979-80 at 22.2 per cent was, however, lower than the rate of increase of 25.9 per cent in the fifteen-month period in 1978-79. Judged in the light of special factors like higher level of financing of petroleum companies, the performance of the banking system vis-a-vis the guidelines could be considered as satisfactory.

Slack Season, 1979

In the slack season of 1979 (last Friday of April 1979 to last Friday of October 1979), while accretion to aggregate deposits was substantially larger in absolute terms and was also at a faster rate than in the previous slack season, the expansion in bank credit was a little larger in absolute amount but the rate of increase was lower than that in the 1978 slack season. Banks' cash in hand and balances with the Reserve Bank registered a sharp rise in the 1979 slack season, as against only a nominal increase in the slack season of 1978.

Aggregate deposits rose sharply by Rs. 2,820 crores or 10.4 per cent, as compared to a rise of Rs. 1,990 crores or 8.9 per cent in the slack season of 1978. The expansion in bank credit was also higher at Rs. 1,615 crores in the 1979 slack season, as against Rs. 1,498 crores in the preceding slack season, but the rate of increase at 8.8 per cent was lower than the increase of 9.9 per cent in the previous slack season. The increase in bank credit was shared by both food and non-food credit in both the slack seasons, but the magnitude of the increases varied. While the increase in food credit at Rs. 457 crores or 20.5 per cent in the 1979 slack season was double the increase of Rs. 219 crores or 11.0 per cent in the slack season of 1978, the expansion in non-food credit at Rs. 1,158 crores or 7.2 per cent in the 1979 slack season was lower than the previous slack season expansion of Rs. 1,279 crores or 9.8 per cent. The incremental credit-deposit ratio for the 1979 slack season was much lower at 57.3 per cent, than 75.3 per cent for the previous slack season. The credit-deposit ratio at the close of the 1979 slack season worked out to 66.7 per cent, as against 68.0 per cent a year ago.

Scheduled commercial banks' cash in hand and balances with the Reserve Bank registered a substantial rise of Rs. 901 crores, as against only a nominal increase of Rs. 88 crores in

the 1978 slack season. Banks augmented their investment portfolio to the extent of Rs. 503 crores, as against a larger increase of Rs. 725 crores in the previous slack season. The investment-deposit ratio at the close of the 1979 slack season worked out lower at 34.0 per cent, than 35.2 per cent a year ago. The banks' borrowings from the Reserve Bank rose from Rs. 387 crores at end-April to Rs. 874 crores by end-September, but declined to Rs. 680 crores by end-October—a net increase of Rs. 293 crores over the season. In the 1978 slack season, borrowings had moved narrowly between Rs. 196 crores and Rs. 335 crores and showed a net rise of Rs. 90 crores over the slack season. Of the total borrowings of Rs. 680 crores outstanding at the end of October 1979, food refinance accounted for Rs. 191 crores or 28.1 per cent, as against only Rs. 17 crores or 6.9 per cent of total outstanding borrowings of Rs. 245 crores on October 27, 1978.

Busy Season, 1979-80

A slowing down of deposit growth and a much faster rate of expansion in non-food credit were the salient features of the operations of scheduled commercial banks in the 1979-80 busy season (last Friday of October 1979 to last Friday of April 1980), as compared to the preceding busy season. Cash in hand and balances with the Reserve Bank registered a moderate decline, in contrast to a substantial increase in the 1978-79 busy season. Banks liquidated a portion of their borrowings from the Reserve Bank as against a moderate increase in the preceding busy season.

Accretion to aggregate deposits during the 1979-80 busy season at Rs. 2,413 crores (8.1 per cent) was less, in both absolute amount and percentage terms, than that of Rs. 2,708 crores (11.1 per cent) in the 1978-79 busy season. The largest monthly rise in both the years was in December, but the rise in December 1979 was lower at Rs. 1,160 crores, as against Rs. 1,638 crores in December 1978.

As against a deceleration in deposit growth, non-food credit expansion in the 1979-80 busy season recorded a steady increase every month and was substantially larger at Rs. 2,311 crores (13.4 per cent), than Rs. 1,737 crores (12.1 per cent) in the preceding busy season. Food credit showed a sharp fall of Rs. 691 crores in the busy season of 1979-80, in contrast to a marginal increase of Rs. 14 crores in the 1978-79 busy season. Owing to the sharp decline in food credit, the expansion in total bank credit during the 1979-80 busy season worked out lower at Rs. 1,620 crores (8.1 per cent) than Rs. 1,751 crores (10.5 per cent) in the preceding busy season. While incremental credit-deposit ratio for the busy season of 1979-80 worked out only slightly higher at 67.1 per cent as against 64.7 per cent for the previous busy season, the incremental non-food credit-deposit ratio for the 1979-80 busy season was substantially higher at 95.8 per cent, as against 64.1 per cent for the 1978-79 busy season.

Banks' cash in hand and balances with the Reserve Bank declined by Rs. 106 crores over the busy season of 1979-80, in marked contrast to a steep increase of Rs. 838 crores in this item in the preceding busy season. Their investments portfolio went up by Rs. 1,095 crores, as compared to an increase of Rs. 1,075 crores in the 1978-79 busy season. The investment-deposit ratio worked out to 34.8 per cent on April 25, 1980, as against 35.7 per cent a year ago.

Banks liquidated their borrowings from the Reserve Bank to the extent of Rs. 260 crores, in contrast to an increase of Rs. 142 crores in borrowings in the previous busy season. Food refinance accounted for only 0.2 per cent of the total borrowings at the close of the 1979-80 busy season, as against 11.1 per cent at the close of the preceding busy season.

Slack Season, 1980

In the slack season of 1980 so far(end-April 1980 to end-August 1980), both accretion to aggregate deposits and expansion in bank credit were substantially less than in the corresponding period of the preceding slack season. Banks' investments registered a substantial increase and their cash in hand and balances with the Reserve Bank, a small increase in the slack season (upto end-August, 1980) as against a moderate increase in investments and a marginal decline in cash in hand

and balances with the Reserve Bank in the same period of the preceding slack season.

Between end-April 1980 and end-August 1980, aggregate deposits rose by Rs. 1,658 crores or by 5.1 per cent as against a much larger increase of Rs. 2,231 crores or by 8.2 per cent in the corresponding period of the 1979 slack season. The increase in bank credit this year was only Rs. 418 crores or 1.9 per cent i.e., about one-third of the increase of Rs. 1,256 crores or 6.8 per cent in the same period in the preceding slack season. The deceleration in the growth rate in bank credit was shared by both non-food and food credit, particularly the latter; food credit showed only a small increase of Rs. 34 crores or 1.7 per cent this season, as against a rise of as much as Rs. 674 crores or 30.3 per cent in the last season; the increase in non-food credit at Rs. 384 crores or 2.0 per cent was smaller than Rs. 582 crores or 3.6 per cent in the same period of the 1979 slack season. While the incremental non-food credit-deposit ratio was only marginally lower at 23.2 per cent, than 26.1 per cent in the same period last year, the incremental credit-deposit ratio worked out to only 25.2 per cent as against 56.3 per cent in the corresponding period of 1979. Consequently, banks augmented their investments portfolio substantially by as much as Rs. 1,268 crores or 11.2 per cent, as against a moderate increase of only Rs. 303 crores or 3.1 per cent in the preceding year. The investment-deposit ratio on August 29, 1980 worked out much higher at 36.9 per cent, as against 34.0 per cent a year ago. The incremental investment-deposit ratio worked out to as high as 76.5 per cent as against only 13.6 per cent last year. Banks' cash in hand and balances with the Reserve Bank rose by Rs. 112 crores, as against a marginal decline of Rs. 16 crores last year. Banks' borrowings from the Reserve Bank increased by Rs. 57 crores only, as against a substantial increase in such borrowings of Rs. 204 crores in the 1979 slack season. While refinance for food procurement accounted for Rs. 163 crores or 27.6 per cent of total borrowings at the end of August 1979, it was nil at the end of August 1980; outstanding food credit on August 29, 1980 was only Rs. 2,028 crores, i.e., below the level of Rs. 2,200 crores at which food refinance would become available from the Reserve Bank. Another salient feature of the operations of scheduled banks during the slack season, was the sharp fall in outstanding bills rediscounted under the Bills Rediscounting Scheme from Rs. 74.9 crores at the end of June 1980 to only Rs. 8.3 crores by end-August 1980, which again presumably reflected the raising, effective July 1, 1980 of the interest rate charged by the Reserve Bank for rediscounting bills.

Call Money Market

In the call money market, an important development during the year was the raising, by the Indian Banks' Association, effective April 14, 1980 of the ceiling rate of interest on inter-bank call money including notice money for periods upto 14 days' notice from 8.5 per cent to 10 per cent. The interest rates on inter-bank deposits/ loans for periods beyond 14 days and upto 60 days were also stepped up by 1.5 percentage points over the respective old ceiling rates. The raising of the ceiling rate was in the context of the upward revision by the Reserve Bank in September 1979 of the interest rate on deposits of commercial banks. The previous change in the inter-bank call money ceiling rate was on March 9, 1978, when the rate was lowered from 10 per cent to 8.5 per cent following the lowering, from March 1, 1978 of interest rates on deposits of commercial banks.

In the Bombay money market, except for a temporary easiness in the latter part of August and then again occasionally in the last quarter of the year, *i. e.* April-June 1980, firm conditions prevailed during 1979-80. The inter-bank call money rate ruled at the then ceiling level of 8.5 per cent during July and the first three weeks of August and after easing temporarily to 5-7 per cent in the last week of August, firmed up and was quoted at 8.5 per cent till the first week of April 1980. The rate moved at lower level, 4-7 per cent for about a month — *i. e.* till May 9. During the rest of May and the whole of June, the rate was quoted generally at the ceiling level of 10 per cent, but eased occasionally, for instance, to 6-8 per cent in the fourth week of May and to 4-5 per cent in the last week of June.

In the Calcutta market, the call money rate ruled at 8.5 per cent from July 1979 to mid-April 1980, but declined to 5-6 per cent in the latter part of April. During May and June, the rate was quoted throughout at the ceiling level of 10 per cent.

SELECTIVE CREDIT CONTROL

The existing Selective Credit Control measures in respect of advances against sensitive commodities continued to operate during the year with certain modifications.

The general rise in prices during the year was quite substantial. What is more, in the case of some sensitive commodities, despite the relatively comfortable supply position, prices began to rise. In this context, 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. Specific instructions issued in relation to advances against these sensitive commodities are discussed here.

(*i*) *Sugar*

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 the scheme of public distribution organised by Government were, however, exempted from this requirement. In the context of the 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 on June 29, 1979. The revised margins were (*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 had left the factory or mill premises and on which excise duty had 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 had left the factory and on which excise duty had been paid.

On October 19, 1979 the RBI advised scheduled commercial banks that, taking into account the difficulties experienced by some sugar mills to meet the expenses necessary for off-season repairs and other essential purposes, it had been decided to permit the granting of temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 25 lakhs in the case of each such unit, without prior reference to the RBI, but subject to certain conditions. The clean loans were to be repaid as soon as possible after the commencement of the 1979-80 season but in any case not later than March 31, 1980.

On a representation made by some of the sugar mills that they had not been able to avail of the clean loan facility for meeting expenses necessary for off-season repairs and other essential purposes by the stipulated date, *viz.*, November 30, 1979, the Reserve Bank allowed certain relaxations in this regard. Accordingly on December 12, 1979, the Bank (1) extended the period for allowing clean loans up to December 31, 1979 in respect of only those sugar mills which were expected to commence crushing in January 1980 or thereafter, subject to certain conditions, (2) extended the deadline for repayment of these loans from March 31, 1980 to May 31, 1980 and (3) allowed clean loans also to those mills which had not been able to fully liquidate outstandings in respect of such loans granted during 1978 provided these outstandings did not exceed 10 per cent of the required amount of loans. The old outstandings in such cases were to be adjusted from the proceeds of fresh loans. Consequent upon the reintroduction of dual pricing policy for sugar by the Government, the Reserve Bank advised the banks on January 8, 1980 that stocks of levy sugar might be valued at the levy price fixed by the Government and stocks of free sale sugar at the tariff value fixed by the Government or at the market value, whichever was lower. For financing sugar mills during 1979-80 crushing season, banks were

advised in February 1980 that they might sanction credit limits on merits to individual sugar mills enjoying aggregate credit limits of Rs. 25 lakhs and above, up to the extent of 80 per cent of peak levels of actual utilisation reached during the two-year period ended June 1979. Where the credit requirements of the mills, based on the quantum of cane to be crushed in the 1979-80 season so justified, the banks were allowed to sanction additional credit limits without the RBI's prior authorisation, in such a manner that the enhanced limits did not exceed the maximum amount availed in the previous season. The limits fixed for the current season in the above manner were required to be reported to the RBI together with the prescribed return. Banks were advised that increase in credit limits beyond the maximum availment in the previous season, if sought by individual units covered by the CAS, will require prior authorisation and such proposals should be submitted to the Bank with all the necessary data. Banks were further reminded of the earlier instructions issued in 1971 in regard to the importance of mills making adequate provision for the payment of cane dues to the cane growers, out of the credit limits made available by them against the security of stocks of sugar charged to them. In the case of mills which had proved to be habitual defaulters in making payment to the cane growers, banks were advised to monitor data on cane dues, preferably once a week.

In view of the fact that some of the sugar mills might find it difficult to meet the expenses necessary for off-season repairs and other essential purposes and also might require assistance from banks to tide over their temporary difficulties, the Reserve Bank decided on July 22, 1980 to permit the granting of temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 25 lakhs in the case of each such unit, but repayable in instalments by March 31, 1981, without prior reference to the Reserve Bank but subject to certain conditions.

The Reserve Bank also allowed certain relaxations to sugar mills, which due to certain exceptional circumstances, had not been able to liquidate the clean loans already granted to them in the past. Thus, the banks were asked to consider the request for a fresh loan from sugar mills if they were satisfied that the non-payment was due to circumstances beyond the control of the unit where the arrears of the previous years' loans did not exceed 10 per cent of the loan amount as on May 31, 1980. However, if such arrears exceeded the level of 10 per cent, the banks should refer request for such loans to the Reserve Bank for prior approval furnishing full particulars of the proposal.

(ii) Pulses, Oils and Oilseeds

Scheduled commercial banks were advised on June 29, 1979 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.

(iii) Gur and Khandsari

In view of the steep rise in the prices of gur and khandsari it was decided to increase the minimum margin on advances against gur and khandsari from 35 per cent to 50 per cent for manufacturers of these commodities and from 45 per cent to 60 per cent in respect of others, effective March 1, 1980. The minimum margin for advances against warehouse receipts was increased from 30 per cent to 45 per cent.

Hike in Minimum Interest Rates

Reference has already been made to the fact that as part of the measures taken on September 13, 1979 for regulating further expansion of bank credit the minimum interest rates under Selective Credit Control were also raised. Sugar advances to factories, which had attracted only the general minimum

lending rate of 12.5 per cent, were made subject to a minimum lending rate of 15.5 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 (*i*) 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 three, four or four and a half months' consumption as the case may be and (*ii*) mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton and *kapas* of four and a half 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 RBI, continued.

Consequent to the imposition of tax on interest income of banks in the Union Budget for 1980-81, the banks were further advised on August 7, 1980 to raise the minimum lending rates as mentioned below, effective July 1, 1980.

(*a*) On sugar advances to factories in respect of all stocks .... 16.70 per cent

(*b*) Advances to cotton textile mills in respect of which lower margins of 20 to 25 per cent are prescribed on stocks of cotton and *kapas* of three, four or four and a half months' consumption, as the case may be, and mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton/*kapas* of four and a half months' consumption ..... 18.35 per cent

(*c*) On other advances against commodities subject to Selective Credit Control .... 19.40 per cent.

Level of Credit

In the general credit control measures announced on August 24, 1979, referred to earlier, it was indicated that when the drawing limit, as stipulated in the measures, was lower than the ceilings, if any, prescribed in the concerned Selective Credit Control directive, such lower drawing limit would be effective.

Advances against Warehouse Receipts

On an examination of the recommendations of the Working Group on Additional Storage Facilities in Rural Areas set up by the GOI to formulate a scheme for the construction of rural godowns in selected villages to provide to the producers adequate storage facilities for foodgrains, the RBI decided that banks may grant advances against warehouse receipts issued by rural godowns at the same margins and rate of interest as are applicable to advances against warehouse receipts issued by Central and State Warehousing Corporations in the case of such agricultural commodities as are covered by the existing directives provided, however, the godowns are staffed with trained personnel and maintained to the standards of godowns of the Central and State Warehousing Corporations. Banks were also advised on June 11, 1980 that in respect of small advances up to Rs. 5,000 against warehouse receipts covering commodities for which support prices were announced, and in respect of which procurement arrangements by State or Central Government agencies existed, the existing relaxation of 10 percentage points in minimum margin for advances against warehouse receipts issued by Warehousing Corporations, as compared with the minimum margin for advances against stocks, should be increased to 30 percentage points. This had the effect of reducing minimum margins on advances against warehouse receipts from the existing 40 per cent to a fixed margin of 20 per cent in the case of paddy and other foodgrains, from 50 per cent to a fixed margin of 30 per cent in the case of pulses, cotton and *kapas* and from 60 per cent to a fixed margin of 40 per cent in the case of oilseeds. As regards the rate of interest on advances up to Rs. 5,000, banks, keeping in view the object of the advance, might fix a rate, as close as they might find feasible, to the general minimum lending rate of 12.5 per cent per annum (raised subsequently to 13.5 per cent per annum). Banks were also

Table VI. 3 : Selective Credit Control : Summary of the Provisions of the Directives to Scheduled Commercial Banks on Advances against Selected Commodities† Position as on October 14, 1980

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. (*ii*) DBOD. No. Dir. BC. 106/C. 218-77 dated 20th August 1977. (*iii*) DBOD. No. Dir. BC. 98/C. 218-79 dated 29th June 1979. (*iv*) DBOD. No. Dir. BC. 131/218 (*a*)-79 dated 7th September 1979. (*v*) DBOD. No. Dir. BC. 140/C. 218 (*a*)-79 dated 13th September 1979. (*vi*) DBOD. No. Dir. BC. 58/C. 218 (*a*)-80 dated 11th June 1980. (*vii*) DBOD. No. Dir. BC. 92/C. 218 (*a*)-80 dated 6th August 1980 and (*viii*) DBOD. No. BP. BC. 94/C. 469(I)-80 dated 7th August 1980	*Paddy/Rice:* (1) 35% on advances against stocks to rice mills. (2) 40% on advances against warehouse receipts covering stocks.$ (3) 50% on all other advances. *Pulses:* (1) 45% on advances against stocks of pulses to processing units. (2) 60% on advances against stocks of pulses to parties other than processing units. (3) 40% on advances to processing units against warehouse receipts covering stocks of pulses. (4) 50% on advances to parties other than processing units against warehouse receipts covering stocks of pulses. *Other foodgrains:* (1) 35% on advances against stocks of foodgrains (used as raw materials) other than paddy and rice to foodgrain 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 covering stocks. (4) 50% on all other advances. *Small advances up to Rs. 5000/- against rural warehouse receipts* Fixed margin of 30% covering stocks of pulses and 20% covering stocks of paddy and other foodgrains. *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	19.40% per annum for all parties on loans/advances/cash credits/overdrafts. On advances against rural warehouse receipts up to Rs. 5000/-, banks are advised to fix a rate as close to the general minimum lending rate of 13.50% per annum as they might find feasible.	(A) In respect of each party, 100% of the peak level of credit maintained by the party in any of the three years (November-October) 1975-76, 1974-75 and 1973-74 (separately in respect of advances against (*i*) paddy & rice and (*ii*) 'other foodgrains' i.e., wheat and foodgrains other than paddy and rice but including coarse grains and pulses). *Note:* Credit limits granted to any party against wheat at any time during the 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. (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 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. 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	*States:* (*i*) Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. *Public Procurement, Storage and Distribution Agencies:* (*ii*) Advances to the Food Corporation of India and State Governments. (*iii*) Advances to Co-operative Marketing Federations, Central or State Warehousing Corporations and such other agencies duly appointed as agents for the purpose of food procurement/distribution by the Food Corporation of India/Central or State Governments to the extent of the stock held by them as such agents. (*iv*) Advances to rice millers against pledge/hypothecation of paddy and rice held to the extent they act as Government agents, provided the stock is held separately on producers' levy account. (*v*) Advances against rationed foodgrains granted to wholesale and retail dealers appointed/licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories. (*vi*) Advances granted to wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives. *Others :* (*vii*) Advances against the security of maize and barley to manufacturing units (i.e. industrial users) and against the security of soji (rawa), flour (atta) and maida to biscuit manufacturers.

DICGC@/ 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 DICGC, subject to a maximum of Rs. 50,000/- for each such trader, provided he undertakes to borrow against foodgrains from only one bank.

population of 1 lakh or below for granting advances up to Rs. 1 lakh per branch to new parties.

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 DICGC, 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 DICGC/ Credit Guarantee Organisation, subject to a maximum of Rs. 50,000/- for each such manufacturing unit/borrower, provided it/he undertakes to borrow against foodgrains from only one bank.

(*iv*) Advances against foodgrains to foodgrain processing units

(*v*) Advances granted against the security of warehouse receipts, 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.

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

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

$ Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns set up under a Government Scheme.

@Deposit Insurance and Credit Guarantee Corporation.

B. Oilseeds (Indigenous and Imported Groundnut, Rapeseed/Mustardseed, 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 (*ii*) DBOD. No. Dir. BC. 131/218 (*a*)-79 dated 7th September 1979 (*iii*) DBOD. No. Dir. BC. 140/C. 218 (*a*)-79 dated 13th September 1979 (*iv*) DBOD. No. Dir. BC. 58/C. 218 (*a*)-80 dated 11th June 1980 (*v*) DBOD. No. Dir. BC. 92/C. 218 (*a*)-80 dated 6th August 1980 and (*vi*) DBOD. No. Dir. BP. BC. 94/C. 469 (I)-80 dated 7th August 1980	A. *Indigenous and imported oilseeds, i.e., groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed* B. *All other imported oilseeds* (Other than groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed) 1. 70% on advances against stocks of groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed. 2. 60% on advances against warehouse receipts covering stocks of groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed. 3. 60% on advances against stocks of rapeseed/mustardseed 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/mustardseed, equivalent to two months' consumption of each oil mill in Rajasthan, U.P., M.P., West Bengal and Bihar. 5. 60% on advances against imported oilseeds other than groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed after a period of 8 weeks from the arrival of the goods in India. *Small advances up to Rs. 5,000/- against rural warehouse receipts* Fixed margin of 40% covering stocks of oilseeds.	19.40% per annum for all parties on loans/advances/cash credits/overdrafts against groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed. On advances against rural warehouse receipts up to Rs.5,000/-, banks are advised to fix a rate as close to the general minimum lending rate of 13.50% per annum as they might find feasible.	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 years (November-October), viz. 1975-76, 1974-75 and 1973-74. B. In the case of all accounts of borrowers enjoying aggregate credit limit of Rs. 25 lakhs and above from banks, the effective drawing power under the limits for cash credit and inland bills 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. *Exemptions :* (*i*) Advances against the security of oilseeds grown in India to registered oil mills* and vanaspati manufacturers. (*ii*) Advances to traders wholly or partly against the security of oilseeds which are covered by a guarantee scheme of the DICGC, subject to a maximum of Rs. 25,000/- for each trader, provided he undertakes to borrow against oilseeds from only one bank. (*iii*) Advances to manufacturing units and other borrowers, wholly or partly against the	*States :* (*i*) Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. *Public Procurement, Storage and Distribution Agencies:* (*ii*) Advances to the Food Corporation of India and the State Trading Corporation against stocks of oilseeds. (*iii*) 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. (*iv*) Advances to the Wholesale Consumers' Co-operative Stores and the State and National Federations of Consumers' Co-operatives. *Exports :* (*v*) 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. (*vi*) 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 the such advances to the extent of

Exemptions :

(*i*) Advances to traders wholly or partly against the security of oilseeds which are covered by a guarantee scheme of the DICGC, subject to a maximum of Rs. 25,000/- for each trader provided he undertakes to borrow against oilseeds from only one bank.

(*ii*) Advances to manufacturing units and other borrowers, wholly or partly against the security of oilseeds, which are covered by a guarantee scheme of the DICGC/ Credit Guarantee Organisation, subject to a maximum of Rs. 25,000/- for each unit/borrower, provided it/he undertakes to borrow against oilseeds from only one bank.

(*iii*) 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.

(*iv*) Advances against all imported oilseeds for a period not exceeding eight weeks after arrival of the goods in India.

Letter DBOD. No. Dir. BC. 97/C. 218-79 dated 29th June 1979

Banks should refrain from granting additional limits against oilseeds to parties other than Government and Government-supported organisations; even in the case of such organisations, a strict scrutiny on drawals should be maintained.

security of oilseeds, which are covered by a guarantee scheme of DICGC/Credit Guarantee Organisation subject to a maximum of Rs. 25000/- for each unit/borrower, provided it/he undertakes to borrow against oilseeds from only one bank.

(*iv*) 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.

(*v*) Advances against warehouse receipts provided that the amount does not exceed Rs. 25,000/- per borrower.

(*vi*) Advances against imported oilseeds.

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

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

Others :

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

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

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

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
1	2	3	4	5
(*i*) DBOD. No. Dir. BC. 63/C. 218 (H)-77 dated 31st May 1977 (*ii*) DBOD. No. Dir. BC. 131/218(*a*) -79 dated 7th September 1979 (*iii*) DBOD. No. Dir. BC. 140/C. 218 (*a*)-79 dated 13th September 1979 and (*iv*) DBOD. No. BP. BC 94/C. 469 (I)-80 dated 7th August 1980	*Indigenous and imported oils* 1.(*a*) 85% on advances against stocks of groundnut oil, cottonseed oil, rapeseed/mustard oil, vanaspati, castor oil and linseed oil. *Imported edible oils* (*b*) 60% on advances against imported oils (other than those mentioned at 1(*a*)), after a period of four weeks from the arrival of the goods in India. 2. 75% on advances against warehouse receipts covering stocks of groundnut oil, cottonseed oil, rapeseed/mustard oil, vanaspati, castor oil and linseed oil. 3. *On advances against vanaspati to vanaspati manufacturers—* (*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 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' consump-	19.40% 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 years (November-October), viz., 1975-76, 1974-75 and 1973-74. B. In the case of all accounts of borrowers enjoying credit limits of Rs. 25 lakhs and above from banks, the effective drawing power under the limits for cash credit and inland bills 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. *Exemptions :* (*i*) Advances against vegetable oils and vanaspati (manufactured in India) to vanaspati manufacturers and registered oil mills. (*ii*) Advances to consumers' co-operatives in respect of stocks held under the Centrally-Sponsored Scheme for distribution of essential consumer articles. (*iii*) Advances to traders wholly or partly against the security of vegetable oils (including vanaspati) which are covered by a guarantee scheme of the DICGC subject to a maximum of Rs. 25,000/- for	*States :* (*i*) Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. *Public Procurement, Storage and Distribution Agencies :* (*ii*) Advances to the Food Corporation of India & the State Trading Corporation against the stocks of vegetable oils and vanaspati. (*iii*) 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. (*iv*) Advances against stocks of oil processed from linseed oil and castor oil for use as industrial raw material by factories. (*v*) 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

tion of each factory located in Eastern Zone.

(*b*) 60% on advances against stocks of such oil used as raw material equivalent to 6 weeks' consumption of each factory located in Northern Zone and

(*c*) 60% on advances against stocks of such oils used as raw materials equivalent to 4 weeks' consumption of each factory in Southern and Western Zones.

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

For new vanaspati factories :
The basis is the average actual weekly consumption from the date of establishment, and
For vanaspati units likely to start production in future :

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

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

Exemptions :

(*i*) Advances to consumers' co-operatives in respect of stocks held each such trader, provided he undertakes to borrow against vegetable oils (including vanaspati) from only one bank.

(*iv*) 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 DICGC/ 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.

(*v*) Advances against warehouse receipts provided the amount does not exceed Rs. 25,000/- per borrower.

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

into or to be enteled into with the said Organisation by the said manufacturers.

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

Exports :

(*vii*) 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 :

Such advances to the extent of the value of by-product oil shall be adjusted by the sale proceeds of the by-product oil or in cash as soon as the oil is extracted but within a period not exceeding 15 days from the date of advance and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bills, and 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.

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

Others :

(*ix*) Advances granted to processing/ manufacturing units covered under

C. Vegetable Oils (Indigenous And Imported Groundnut Oil, Cottonseed Oil, Rapeseed/Mustard Oil, Castor Oil, Linseed Oil, Vanaspati And Other Imported Edible Oils) *(Contd)*

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
1	2	3	4	5
	under the Centrally Sponsored Scheme for the distribution of essential consumer articles.			the Rural Industries Projects up to Rs. 25,000/- per unit.
	(*ii*) Advances to traders wholly or partly against the security of vegetable oils (including vanaspati) which are covered by a guarantee scheme of the DICGC 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.			(*x*) Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.
	(*iii*) 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 DICGC/ Credit Guarantee Organisation subject to a maximum of Rs. 25,000/- for each such unit/borrower, provided it/he undertakes to borrow against vegetable oils (including vanaspati) from only one bank.			
	(*iv*) Advances to vanaspati manufacturers against cottonseed oil.			
	(*v*) Advances against all imported vegetable oils *for a period not exceeding 4 weeks* after arrival of the goods in India.			
DBOD. No. Dir. BC. 42/C. 218(H)-78 dated 15th March 1978	(*vi*) Advances granted to vanaspati manufacturers against the security of imported oils used as raw materials by them in the manufacture of vanaspati.			

No. and Date of Directive	Minimum Margin	Minimum Rate of Interest	Level of Credit	Complete Exemption
1	2	3	4	5
DBOD. No. Dir. BC. 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.			
Letter DBOD. No. Dir. BC. 97/C. 218-79 dated 29th June 1979	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 a strict scrutiny on drawals should be maintained.			

(*Contd*)

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 29th March 1979 (*ii*) DBOD. No. Dir. BC. 131/218(*a*)-79 dated 7th September 1979 (*iii*) DBOD. No. Dir. BC. 140/C. 218(*a*)-79 dated 13th September 1979 (*iv*) DBOD No. Dir. BC. 58/C. 218 (*a*)-80 dated 11th June 1980 (*v*) DBOD. No. Dir. BC. 92/C. 218 (*a*)-80 dated 6th August 1980 and (*vi*) DBOD No.BP.BC. 94/C. 469(I)-80 dated 7th August 1980	1. *Mills under National Textile Corporation* (*a*) 20% for stocks of 4 months' consumption. (*b*) 35% for stocks in excess of 4 months' consumption. 2. *Other mills* For mills other than those in Bombay, Ahmedabad and in States of Bihar and West Bengal. (*a*) 25% for stocks of 4 months' consumption. (*b*) 45% for stocks in excess of 4 months' consumption. 3. *For Mills in Bombay and Ahmedabad* (*a*) 25% for stocks of 3 months' consumption. (*b*) 45% for stocks in excess of 3 months' consumption. (4) *For mills in Bihar and West Bengal* (*a*) 20% for stocks of 4 1/2 months' consumption. (*b*) 40% for stocks in excess of 4 1/2 months' consumption. 5. *For mills solely engaged in spinning yarn* (*a*) 20% for stocks of 4 months' consumption. (*b*) 35% for stocks in excess of 4 months' consumption. 6. *To others (parties other than cotton mills) :* (*a*) 45% for stocks of new and/or long-staple varieties of cotton grown in India, viz.. Hybrid 4 and 5 (Shankar-4 and 5), Gujarat 67 (LSC-67), MCU-4, 5 and 8, Sujatha, Sea Island Andrews, Hampi, Varalaxmi, Maljhari, Narmada A-51/9, Khandwa-1 and 2, Suvin, Vishnu and Bad-	On loans/advances/cash credits/overdrafts (*i*) 18.35% per annum for cotton mills in respect of raw cotton stocks or kapas of 3, 4 or 4 1/2 months' consumption for which they are entitled for a lower margin of 20 per cent or 25 per cent as specified in the directive. (*ii*) 18.35% per annum for mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton and kapas equivalent to 4 1/2 months' consumption. (*iii*) 19.40% per annum for other stocks of raw cotton held by the mills. (*iv*) 19.40% per annum for parties other than mills (*v*) On advances against rural warehouse receipts up to Rs. 5000/- banks are advised to fix a rate as close to the general minimum lending rate of 13.50% per annum as they might find feasible.	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. 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 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. *Exemptions :* (*i*) 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. (*ii*) Advances against the security of stocks of (*a*) imported cotton and (*b*) new and/or long-staple varieties of cotton grown in India, viz., Hybrid 4 and 5 (Shankar-4 and 5), Gujarat 67 (LSC-67), MCU 4, 5 and 8, Sujatha, Sea Island Andrews, Hampi, Varalaxmi, Maljhari, Narmada A-51/9, Khandwa 1 and 2, Suvin, Vishnu and Badnavar-1, 320-F, Bengal Deshi, J-34, 205 and	*States :* (*i*) Advances to all parties in Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. *Exports :* (*ii*) Advances in respect of pre-shipment credit for cotton exports, provided the advances are made in respect of firm export order and repaid on negotiation of the relevant export bills on shipment. (*iii*) 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 the merchant exporters are registered with Cotton Textiles Export Promotion Council and other requirements of the pre-shipment finance are complied with. (*iv*) Advances against the security of, or by way of purchase or discount of export bills relating to export of cotton from India. *Others :* (*v*) Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of cotton and kapas. (*vi*) Advances granted to processing/manufacturing units covered under the Rural Industries Projects, up to Rs. 25,000/- per unit.

navar-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.

(*b*) 25% for stocks of imported cotton.

(*c*) 60% for stocks of other varieties of cotton.

(*d*) 50% for stocks covered by warehouse receipts.

7. *Small advances up to Rs.* 5000 *against rural warehouse receipts:* Fixed margin of 30% covering stocks of cotton and kapas.

Exemptions :

(*i*) 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.

(*ii*) 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.

(*iii*) Advances granted to mills against the security of imported cotton.

H-14,Bikaneri-Narma, R.S. 89, Jawahar Kapas, Sujay, SRT.-1, Jyoti, Mahalakshmi, NH-12, Bhagya(GS-23), CBS-156 and Giza-7.

(*iii*) Advances against warehouse receipts, provided that the amount does not exceed Rs. 25,000-/ per borrower.

(*Contd.*)

E. Sugar, Gur and Khandsari

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. (*ii*) DBOD. No. Dir. BC.33/C. 218(J)-78 dated 3rd March 1978. (*iii*) DBOD. No. Dir. BC. 142/C. 218(J)-78 dated 14th October 1978. (*iv*) DBOD. No.Dir.BC.99/C. 218(J)-79 dated 29th June 1979. (*v*) DBOD. No. Dir. BC. 140/C. 218(*a*)-79 dated 13th September 1979. (*vi*) DBOD.No.Dir. BC.33/C. 218(J)-80 dated 1st March 1980. (*vii*) DBOD. No. BP. BC. 94/C. 469(I)-80 dated 7th August 1980 and (*viii*) DBOD. No. Dir. BC. 116/C. 218(J)-80 dated 13th October 1980. DBOD. No. Dir. BC. 118A/C. 218 (J)-80 dated 14th October 1980.	1. *To sugar factories* (*a*) 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. (*b*) 25% on advances to parties manufacturing sugar against stocks of sugar other than those referred to in (*a*) above. 2. *Manufacturers of gur and khandsari* 65% on advances against stocks of gur/khandsari. 3. *To others* 75% on advances against stocks of sugar and 75% on advances against stocks of gur and khandsari. 4. *Warehouse receipts* (*a*) 65% on advances against warehouse receipts covering stocks of sugar. (*b*) 55% on advances against warehouse receipts covering stocks of gur and khandsari. *Exemption:* Advances to consumers' co-operatives in respect of stocks held under schemes of public distribution organised by Government. The requirement of minimum margin of 25 per cent to be maintained by every scheduled commercial bank in respect of credit provided under each credit limit against the security of sugar to parties manufacturing sugar shall stand relaxed to the extent of the deficit in the margin arising out of: (*i*) Government of India's decision to acquire 1.5 lakh tonnes of free sale sugar as levy sugar out of the current year's production, for public distribution during the months of October and November 1980, and (*ii*) Consequential irregularity in the borrowal accounts of sugar mills due to difference in valuation of sugar stocks at tariff and levy rates, respectively. The sugar stocks referred to here are those which have not been released for sale by Government and have not left the factory/mill premises and on which excise duty has not been paid. The relaxation in margin so permitted shall stand revoked after 31st December 1980.	On loans/advances/cash credits/overdrafts. *Sugar* (*i*) *For sugar factories in respect of all stocks:* 16.70% per annum. (*ii*) *For parties other than sugar factories:* 19.40% per annum. *Gur and Khandsari* 19.40% per annum.	*Public Procurement, Storage and Distribution Agencies* (*i*) Advances to Food Corporation of India. (*ii*) Advances to wholesale consumers' co-operative stores or State and National Federations of Consumers' Co-operatives. *Exports* (*iii*) Advances granted in respect of stocks of sugar pledged/hypothecated with banks which are intended for export out of India. *Others* (*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 the Government.

Note: Stocks of levy sugar may be valued at the levy price fixed by Government and stocks of free-sale sugar at the tariff value fixed by Government, or at market value, whichever is lower. (Ref. DBOD. No. Dir. BC. 8/C.218(J)-80 dated January 8, 1980).

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. (*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 and (*iv*) DBOD. No. BP. BC. 94/C.469 (I)-80 dated 7th August 1980.	*For traders, dealers and agents:* 30%	19.40% per annum for traders, dealers and agents on loans/advances/ cash credits/overdrafts.	*Exports:* (*i*) Advances in respect of pre-shipment credit for exports of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres provided the advance is made in respect of firm export order and is repaid on negotiation of relevant export bills on shipment. (*ii*) Advances against the security of or by way of purchase or discount of export bills relating to export of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres, from India. *Others:* (*iii*) Advances to traders wholly or partly against the security of cotton textiles including cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres which are covered by a guarantee scheme of the DICGC 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, powerloom and hand-woven cotton cloth. (*vi*) Advances against controlled cloth. (*vii*) Advances to co-operatives and nominees of State Governments handling these commodities. (*viii*) Industrial users such as those manufacturing ready-made garments, sewing threads, umbrella cloth, etc.

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

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

(Amount in rupees lakhs)

	As on last Friday of								
	June 1975			June 1979			June 1980*		
	Amount	Percentage to total of 1 to 6	Percentage to total Bank Credit	Amount	Percentage to total of 1 to 6	Percentage to total Bank Credit	Amount	Percentage to total of 1 to 6	Percentage to total Bank Credit
	1	2	3	4	5	6	7	8	9
1. Foodgrains (excluding food procurement advances) ..	**4742**	**9.4**	**0.5**	**10983**	**12.1**	**0.5**	**12154**	**16.1**	**0.6**
(*a*) Paddy and rice ..	1658	3.3	0.2	4699	5.2	0.2	6698	8.9	0.3
(*b*) Wheat	1012	2.0	0.1	2006	2.2	0.1	1451	1.9	0.1
(*c*) Other foodgrains ..	2072	4.1	0.2	4278	4.7	0.2	4005	5.3	0.2
2. Sugar (including khandsari)	**21648**	**42.8**	**2.4**	**30329**	**33.5**	**1.6**	**14621**	**19.5**	**0.7**
3. Oilseeds	**1559**	**3.1**	**0.2**	**1328**	**1.5**	**0.1**	**1668**	**2.2**	**0.1**
(*a*) Groundnut	751	1.5	0.1	601	0.7	—	1054	1.4	—
(*b*) Rapeseed/mustard seed	691	1.4	0.1	605	0.7	—	504	0.7	—
(*c*) Linseed	64	0.1	—	81	0.1	—	69	0.1	—
(*d*) Castorseed	53	0.1	—	41	—	—	41	—	—
4. Vegetable oils	**1173**	**2.3**	**0.1**	**2490**	**2.8**	**0.1**	**2091**	**2.8**	**0.1**
(*a*) Groundnut oil ..	583	1.2	0.1	766	0.9	—	676	0.9	—
(*b*) Rapeseed/mustard oil	305	0.6	—	788	0.9	—	804	1.1	—
(*c*) Castor oil	207	0.4	—	900	1.0	—	576	0.8	—
(*d*) Linseed oil	78	0.2	—	36	—	—	35	—	—
5. Vanaspati	**703**	**1.4**	**0.1**	**975**	**1.1**	—	**1188**	**1.6**	**0.1**
6. Cotton and kapas@ ..	**20805**	**41.1**	**2.3**	**44359**	**49.0**	**2.3**	**43436**	**57.8**	**2.0**
(*a*) Indigenous	17965	35.5	2.0	36723	40.6	1.9	40937	54.5	1.9
(*b*) Imported	2840	5.6	0.3	7636	8.4	0.4	2499	3.3	0.1
7. Total of 1 to 6 ..	**50630**	**100.0**	**5.6**	**90464**	**100.0**	**4.6**	**75158**	**100.0**	**3.4**
8. Raw jute **£	**4737**		**0.5**	**7050**		**0.4**	**10050**		**0.5**
9. Total of 7 and 8	**55367**		**6.1**	**97514**		**5.0**	**85208**		**3.9**
Total Bank Credit+ ..	**895451**		**100.0**	**1968709**		**100.0**	**2205279**		**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 scheduled 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.

advised to ensure that the concessional advances would be confined to one advance per borrower in respect of stocks held in one rural godown and to evolve a suitable procedure to make sure that the concessional facility intended mainly to assist the small farmer was not extended to others.

Chart on Selective Credit Control

Table VI.3 indicates the position of Selective Credit Control as on October 14, 1980.

Advances against Sensitive Commodities

Scheduled commercial banks' outstanding advances against selected commodities at Rs. 852 crores at end-June 1980 showed a decline of Rs. 123 crores over the year (Table VI. 4). Excluding Rs. 100 crores outstanding against raw jute (which is not covered by Selective Credit Control) the outstanding advances amounted to Rs. 752 crores indicating a larger decline of Rs. 153 crores. Of the total outstanding amount of Rs. 752 crores, advances against cotton and *kapas*, sugar (including khandsari) and foodgrains accounted for Rs. 434 crores (57.8 per cent), Rs. 146 crores (19.5 per cent) and Rs. 122 crores (16.1 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 from 4.6 per cent to 3.4 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 55 per cent of total advances against these commodities at end-June 1980 as compared to 65 per cent at end-June 1979 (Table VI.5).

Commodity-wise, this proportion was very high at end-June 1980 in the case of sugar (97.5 per cent), vanaspati (88.2 per cent) and groundnut oil (85.3 per cent) but was considerably low for raw jute (35.7 per cent) and groundnut (29.5 per cent). In the case of advances against castorseed, the entire amount was accounted for by mills/factories and industrial users at the end of April 1980.

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 1980	June 1979
1	2	3
1. Castorseed	100.0	75.0
2. Sugar (including Khandsari)	97.5	97.9
3. Vanaspati	88.2	79.4
4. Groundnut oil	85.3	74.0
5. Paddy and rice	80.4	81.9
6. Castor oil	79.3	88.9
7. Linseed oil	75.0	75.0
8. Rapeseed/mustard oil ..	58.8	89.9
9. Linseed	57.1	37.5
10. Wheat	51.7	60.5
11. Rapeseed/mustard seed ..	50.0	61.7
12. Other foodgrains	46.3	41.6
13. Cotton and kapas	40.9	43.7
14. Raw jute	35.7	51.3
15. Groundnut	29.5	58.3
All selected commodities ..	55.0	64.8

Source: Basic Statistical Return 3.

WORKING OF DIFFERENT SCHEMES

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

(a) Credit Authorisation Scheme

The Credit Authorisation Scheme (CAS) which has been in operation since 1965 is 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 credit allocation based on the borrowers' production requirements. To restrain credit expansion, the Reserve Bank advised commercial banks to undertake a review of the need-based credit requirements of their borrowers, more strictly than they had been doing so far. The discretion vested in banks to increase credit limits over the redefined drawing limits in case of CAS parties has already been mentioned in the section on 'Credit Policy'.

Changes in CAS

The CAS is reviewed by the Reserve Bank from time to time with a view to introducing an element of flexibility in its operation. The changes made/clarifications issued subsequent to the last Report are mentioned below :

(*i*) *Letters of Credit.*—Letters of credit limits for acquisition of capital assets, as also for other purposes sanctioned by the banks to borrowers covered by the CAS were brought under the purview of the Scheme in August 1978, except in specified circumstances. Such limits sanctioned by banks to Government agencies, as also other agencies engaged in distribution of fertilisers were exempted from the requirement of Reserve Bank's prior authorisation from March 24, 1980. Banks were also advised, that while sanctioning limits for opening L/Cs they should ensure that the obligations under these facilities were met by the borrowers out of their own resources and/ or by drawing on the cash credit accounts within the existing limits.

(*ii*) *Scheme for Rupee Finance to cover import of capital goods.*—(*a*) The Scheme of rupee finance to cover import of capital goods was introduced by the Government of India in April 1978 with a view to ensuring that non-availability of rupee finance would not hold up implementation of worthwhile projects for which Government was willing to allocate foreign exchange. This Scheme was, as a special case, (as a one-time exception) made applicable to State Electricity Boards (SEBs) for import of gas turbine generating sets. The banks would be entitled to refinance from the Reserve Bank in respect of the loans granted by them under this scheme to SEBs to the extent of the foreign exchange component only.

(*b*) Term loans allowed under the Scheme which did not require RBI's prior authorisation under CAS before June 1979, were brought under the purview of CAS; this, however, was not to apply to the loans which otherwise fall under the exempted category.

The refinance facility under the above scheme was discontinued with effect from July 1, 1980.

(*iii*) *Term loan proposals.*—The banks were advised in May 1978 that all individual term loan proposals for amounts exceeding Rs. 50 lakhs were normally to be made in consultation with if not in association with IDBI or other concerned term lending institutions. It was decided during the year that only such of the term loan proposals (except for those under the scheme for Rupee Finance to cover import of capital goods) where aggregate rupee assistance sought from term lending institutions and banks exceeded Rs. 1 crore were to be referred to IDBI for prior clearance of financing pattern of the project.

(*iv*) *IDBI Bills Rediscounting Scheme.*—Limits sanctioned by banks for financing deferred receivables pertaining to domestic sales under IDBI Bills Rediscounting Scheme do not require RBI's prior authorisation under CAS. Under the above Scheme the maximum amount for rediscounting bills/promissory notes pertaining to a single buyer has been fixed at Rs. 100 lakhs (face value of bills over a limit year (July to June); Rs. 200 lakhs in the case of SEBs. Sanction of acceptance limits by banks on behalf of buyers under the Scheme also does not require prior authorisation. Both the exemptions mentioned above are also available to borrowers outside the Scheme provided the terms and conditions are in conformity with those prescribed under the Scheme.

Working of the Scheme

The number of parties covered under the CAS, which had increased from 979 at the end of June 1978 to 1,059 by end-June 1979, increased further to 1,093 by end-June 1980. Of these, 192 were public sector units, as against 187 such units covered at the end of June 1979. The total limits in force showed a smaller increase of Rs. 1,058 crores from Rs. 11,968 crores in June 1979 to Rs. 13,026 crores by June 1980, as against an increase of Rs. 1,327 crores in 1978-79. The limits in respect of public sector units showed an increase of Rs. 684 crores from Rs. 6,447 crores to Rs. 7,131 crores, as against an increase of Rs. 670 crores in 1978-79. The limits in respect of private sector units, in contrast, registered an increase of only Rs. 374 crores in 1979-80, as against an increase of Rs. 657

crores in 1978-79. The pattern of purpose-wise distribution of total limits in force did not show any appreciable change, over last year, working capital accounting for 88.2 per cent, term finance for 8.8 per cent, and sale of machinery on deferred payment basis for 3.0 per cent (Table VI.6).

Occupation-wise distribution of total limits in force as on June 30, 1980 show that indus-

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

(Amount in rupees crores)

Type of Credit	As on June 30, 1978		As on June 30, 1979		As on June 30, 1980	
	Total	Of which public sector units	Total	Of which public sector units	Total	Of which public sector units
	1	2	3	4	5	6
1. Working capital *	9496 (89.2)	5401 (93.5)	10553 (88.2)	5951 (92.3)	11495 (88.2)	6564 (92.1)
Of which :						
(*a*) Bills purchased and discounted	859 (8.1)	168 (2.9)	957 (8.0)	186 (2.9)	1068 (8.2)	247 (3.5)
(*b*) Export finance	642 (6.0)	64 (1.1)	749 (6.3)	68 (1.1)	859 (6.6)	123 (1.7)
2. Sales of machinery on deferred payments basis	346 (3.3)	61 (1.1)	378 (3.1)	81 (1.3)	390 (3.0)	82 (1.1)
3. Term finance	799 (7.5)	315 (5.4)	1037 (8.7)	415 (6.4)	1141 (8.8)	485 (6.8)
Total limits in force	**10,641** (100.0)	**5,777** (100.0)	**11,968** (100.0)	**6,447** (100.0)	**13,026** (100.0)	**7,131** (100.0)
Number of parties	**979**	**178**	**1059**	**187**	**1093**	**192**

* Includes cash credits and overdrafts, bills purchased and discounted and export finance.
Note : Figures in brackets indicate percentages to total limits in force.

try's share was the largest at Rs. 7,480 crores or 57.4 per cent, followed by trade Rs. 4,625 crores or 35.5 per cent (Table VI.7). As against this, of the limits in force in respect of public sector units, industry's share was 33.3 per cent, while trade's share was as much as 58.5 per cent; food procurement accounted for 40.7 per cent of the total limits outstanding in respect of public sector units.

Applications received for the Reserve Bank's authorisation increased from 840 in 1978-79 to 917 in 1979-80; this included 186 applications from public sector units, as against 137 applications last year. Applications approved numbered 437 including 97 from public sector units and the amount for which authorisations were granted, was Rs. 1,461 crores (including Rs. 1,131 crores for public sector units). Applications rejected/withdrawn numbered 59, and the amount involved was Rs. 60 crores (Table VI.8 and VI. 9).

Committee of Direction

The Committee of Direction (consisting of senior representatives of the Reserve Bank, State Bank of India and some of the nationalised banks) constituted by the Reserve Bank in 1975 for an on-going review of the lending norms recommended by the Tandon Study Group has been serving as a useful means to maintain flexibility in the operation of the new lending policies.

During the year under review, the Committee of Direction held four meetings and discussed a number of issues in regard to application/modification of lending norms as also other matters referred to it. The Reserve

Table VI. 7 : Occupation-wise Distribution of Total Limits in Force
(As on June 30, 1980)

(Rupees crores)

Industry	Total limits in force		Of which public sector units	
	Amount	Percent to total	Amount	Percent to total
	1	2	3	4
I. AGRICULTURE AND ALLIED ACTIVITIES	**415.97**	**3.2**	**281.37**	**3.9**
1. **Agriculture**	245.37	1.9	204.32	2.8
(*i*) Direct finance	45.75	0.4	21.30	0.3
(*ii*) Indirect finance of which				
(*a*) Distribution of fertilisers	187.30	1.4	170.70	2.3
(*b*) Others	12.32	0.1	12.32	0.2
2. **Plantations**	**170.60**	**1.3**	**77.05**	**1.1**
(*i*) Tea	135.17	1.0	42.05	0.6
(*ii*) Others	35.43	0.2	35.00	0.5
II. INDUSTRY	**7479.83**	**57.4**	**2373.10**	**33.3**
A. **Mining & Quarrying**	210.04	1.6	181.14	2.5
(*i*) Coal Mining	128.34	1.0	128.34	1.8
(*ii*) Iron ore	11.12	0.1	3.75	—
(*iii*) Others	70.58	0.5	49.05	0.7
B. **Manufacturing**	**7269.79**	**55.8**	**2191.96**	**30.7**
1. Sugar	455.96	3.5	47.75	0.6
2. Edible Oils & Vanaspati	116.86	0.9	6.29	0.1
3. Tobacco Processing & tobacco products manufacturing	105.14	0.8	4.50	0.1
4. Cotton Textiles	868.81	6.7	98.55	1.4
5. Jute Textiles	184.75	1.4	2.35	—
6. Silk & Synthetic Fibres	245.26	1.9	21.00	0.3
7. Wool & Woollen Textiles	33.68	0.3	—	—
8. Other Textiles	5.05	—	—	—
9. Paper & Paper products	131.43	1.0	—	—
10. Leather & Leather products	42.79	0.3	—	—
11. Rubber & Rubber products	173.95	1.3	—	—
12. Manufacture of chemicals and chemical products				
(*a*) Heavy industrial chemicals	218.66	1.7	49.68	0.7
(*b*) Fertiliser (Production)	434.91	3.3	190.27	2.6
(*c*) Drugs & Pharmaceuticals	124.53	1.0	11.46	0.2
(*d*) Plastic & Plastic Products	9.95	0.1	—	—
(*e*) Others	156.92	1.2	4.25	0.1
13. Petroleum	328.16	2.5	319.85	4.5
14. Cement	78.39	0.6	4.90	0.1
15. Basic metal and metal products				
(*i*) Iron & Steel	399.13	3.1	251.93	3.5
(*ii*) Others	83.34	0.6	13.75	0.2
16. Engineering (Except Transport Equipment)				
(*a*) Heavy Engineering				
(*i*) Machinery except electrical machinery	824.73	6.4	246.59	3.4
(*ii*) Electrical machinery	581.60	4.5	334.07	4.7
(*b*) Light Engineering (including light metal products)	637.98	4.9	52.61	0.7
17. Manufacture of transport equipment				
(*i*) Railway equipment industry	162.14	1.2	69.96	1.0
(*ii*) Others	290.40	2.2	72.63	1.0
18. Others (Manufacture)	168.85	1.3	20.00	0.3
19. Electricity generation and distribution	406.57	3.1	369.57	5.2
III. TRADE	**4624.93**	**35.5**	**4170.35**	**58.5**
(*a*) Foodgrains	2902.93	22.3	2902.93	40.7
(*b*) Fertilisers	568.22	4.4	568.22	8.0
(*c*) Mineral oils	35.69	0.3	5.50	0.1
(*d*) Raw cotton	352.49	2.7	314.60	4.4
(*e*) Raw jute	59.29	0.4	55.00	0.8
(*f*) Others	706.31	5.4	324.10	4.5
IV. ALL OTHERS	**505.05**	**3.9**	**306.05**	**4.3**
TOTAL	**13025.78**	**100.0**	**7130.87**	**100.0**

Table VI. 8 : Particulars of Applications received, approved, rejected/withdrawn and cases reported under Credit Authorisation Scheme during the period July 1979-June 1980

Particulars	July-September 1979	October-December 1979	January-March 1980	April-June 1980	Total
	1	2	3	4	5
1. Applications received@	156 (35)	265 (44)	270 (61)	226 (46)	197 (186)
2. Applications approved	66 (16)	104 (19)	137 (37)	130 (25)	437 (97)
3. Applications rejected/withdrawn ..	32 (7)	17 (4)	4 (—)	6 (—)	59 (11)
4. Reporting cases	129 (22)	135 (22)	194 (34)	153 (22)	611 (100)

@ Excluding number of applications received for the extensions of period, authorisation for letters of credit or deferred payment guarantees, restoration, conversion of limits, etc.

Note : Figures in brackets relate to public sector.

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

(Amount in rupees crores)

Particulars	July-September 1979	October-December 1979	January-March 1980	April-June 1980	Total
	1	2	3	4	5
1. Authorisations granted by Reserve Bank of India	159.47 (133.33)	95.90 (44.49)	701.47 (574.23)	503.92 (379.01)	1460.76 (1131.06)
2. Amounts involved in applications rejected/withdrawn	19.45 (5.56)	31.58 (21.75)	5.44 (—)	3.75 (—)	60.22 (27.31)
3. Limits reported by banks	9.17 (—24.70)	—5.02 (—8.52)	—403.59 (—392.96)	—3.93 (—20.60)	—403.37 (—446.78)

Note: Figures in brackets relate to public sector.

Bank examined the views given by the Committee on the various issues and, where necessary, advised banks suitably, to enable them to further improve the operational flexibility and develop better understanding of the new lending system. Some of the major issues discussed by the Committee, decisions taken and guidelines/instructions issued to banks are given below.

(*i*) In November 1978, the Reserve Bank had issued certain broad guidelines to banks in regard to consortium advances. While these guidelines were helpful to some extent in removing the operational problems relating to consortium lending, there were still complaints from borrowers about inconvenience and undue delay in obtaining sanctions/decisions from banks. The Reserve Bank further examined the issues and modified the guidelines in December 1979. The modified guidelines, *inter alia*, provide that multiple banking arrangement may be put on formal consortium basis and that the bank which is the largest lender should take the initiative to form the consortium. Guidelines have also been provided in respect of sharing of ancillary business among the financing banks, uniformity in documentation and terms and conditions of the advances, regulation of drawings

from the accounts from all the consortium members on an agreed ratio, responsibility of the consortium leader to arrange for obtaining the credit authorisation from RBI, wherever necessary, need to act concertedly on unsatisfactory advances etc. In terms of the existing guidelines issued to banks, as recommended by the Lakshminarayan Committee, a bank is normally required to share with other banks on a consortium basis, credit limits sanctioned to any single borrower in excess of 1.5 per cent of its deposits. The problems, if any, faced by banks in this behalf and whether any change in the norm is called for was discussed by the Committee of Direction. In the light of the views expressed during the discussion and also after obtaining certain information from banks regarding their larger advances, the question whether any revision in the existing norm is called for would be reviewed.

(*ii*) The question of continuance or otherwise of the several types of facilities which are exempt from the CAS was considered in the context of the changed method of appraisal of working capital limits following the acceptance of the recommendations of the Tandon Study Group and it was decided that the issue might be further examined by the Reserve Bank in the light of the views expressed by the Committee.

(*iii*) The Reserve Bank had earlier advised banks the need to relate additional accommodation strictly to increases in output or in permitted inventories. The present CAS forms in which the borrowers are required to furnish data to their banker in support of their requests for credit limits, do not provide for information on production/sales in physical terms etc. The issue was discussed in the Committee of Direction. The Reserve Bank considered the matter and the banks were advised to obtain from their larger borrowers information in regard to the physical quantity of goods produced/to be produced, their unit price etc. in the format drawn up by the Reserve Bank. The information is to be furnished to the Reserve Bank along with other CAS forms when applying for RBI's authorisation, under the Credit Authorisation Scheme.

(*iv*) The relaxations from inventory norms allowed for the fertilizer industry were reviewed. It was decided that as the level of inventory holdings differed from unit to unit, there was no need to continue general relaxation for the industry as a whole and that relaxation from the prescribed norms might be considered on a case to case basis.

(*v*) The question of allowing relaxations from the inventory norms in respect of engineering-automobiles and ancillaries industries was discussed and it was decided that such relaxation might be considered on merits of individual cases.

(*vi*) The desirability of introducing uniform format in which loan proposals could be put up by banks to their Boards was discussed. The Reserve Bank has invited comments/suggestions on the format. The format is being revised on the basis of the comments received and it would be referred to the Committee of Direction for its views before its finalisation.

(*vii*) The issue regarding problems faced by banks in lending to diamond industry as also whether any norms/guidelines could be evolved in the matter of financing this industry, was discussed by the Committee. While noting the special characteristics of financing this industry it was felt that although some norms of lending for this industry were desirable, time was not opportune for evolving any such norms for this industry.

Margin on bank guarantees issued on behalf of sugar mills

Following the dual pricing policy announced by the Government of India, some of the sugar mills filed writ petitions in High Courts challenging the price of levy sugar fixed by Government. The courts allowed, on an ad hoc basis, the Mills' request for higher price, provided they furnished bank guarantees for the amount of differential in favour of procurement agencies nominated by the Government for distribution of levy sugar. On a representation made by Indian Sugar Mills Association that the sugar mills were not in a position to provide 100 per cent margin for issue of such guarantees which the banks were insisting on, and with a view to ensuring that the public distribution system/agencies were

not handicapped due to non-availability of levy sugar from the mills for want of such bank guarantees, the Reserve Bank advised banks to consider as a special case, issue of guarantees subject to the condition that the differential price allowed by the courts would be deposited by the mills as margin money in a special margin account at the time of disbursement of payment by the procurement agency. The amount so held in the margin accounts would be released to the mill companies only after the final disposal of the writ petitions pending in the High Courts or their reaching an agreement with Government in respect of the levy price.

(b) Differential Rate of Interest Scheme

The Differential Rate of Interest (DRI) Scheme, which is operative since 1972 was further amended by the Government of India in February 1980. The amendment enables operating banks to grant advances upto Rs. 6,500 by way of composite loan, in the case of small-scale industrialists, village artisans etc. in the decentralised sector, without making any distinction between working capital and term loans.

As at the end of December 1979, public sector banks had extended advances amounting to Rs. 139.49 crores covering 20.72 lakh accounts, as against Rs. 90.00 crores covering 16.20 lakh accounts as at the end of December 1978. The advances made by banks under the Scheme constituted 0.9 per cent of their total advances as at the end of 1979 as against the target of 1 per cent (Table VI.10). Of the total DRI advances as at the end of December 1979, Rs. 60.51 crores or 43.4 per cent went to members of scheduled castes/scheduled tribes exceeding the present requirement of 40 per cent. The percentage of overdues to demand under the Scheme worked out to 70.4 per cent for the public sector banks as at the end of December 1979. The private sector banks have also initiated steps for extending credit under the scheme and such credit extended by them aggregated Rs. 2.74 crores covering 25,371 accounts as at the end of December 1979 (provisional).

Table VI.10: Progress of lending by the Public Sector Banks under the Scheme of Differential Rate of Interest

As at the end of December	No. of borrowal accounts (Lakhs)	Amount outstanding (Rs. crores)	% of DRI advances to total advances of the previous year
	1	2	3
1972	0.26	0.87	0.02
1973	2.30	10.06	0.22
1974	3.13	13.35	0.23
1975	4.65	20.99	0.31
1976	10.05	47.24	0.56
1977	13.92	67.99	0.61
1978	16.20	90.00	0.74
1979*	20.72	139.49	0.92

* Provisional.

(c) Participation Certificates Scheme

There was no change in the number of banks and institutions permitted to enter into participation arrangement. The maximum rate of interest on PCs continued to be 10 per cent per annum. The total amount of participation certificates issued and outstanding rose sharply from Rs. 455 crores at the end of December 1978 to Rs. 646 crores by end-May 1979 and after declining to Rs. 606 crores by end-June, increased again to Rs. 637 crores by end-July 1979. Thereafter, outstanding PCs declined more or less steadily to Rs. 445 crores by end-December 1979 and further to Rs. 306 crores by end-June 1980. The sharp

fall in outstanding PCs since July 1979 could be due to the Reserve Bank* bringing PCs under the purview of CRR and SLR in stages over the period end-July 1979 to end-September 1979 and also to the Reserve Bank's circular letter to banks (*a*) first in August 1979 requesting them to bring down their issue of outstanding PCs to the level as on July 27, 1979, and not to increase them if they were already below July 27, 1979 level and (*b*) again in March 1980 asking them to bring about a significant and lasting reduction in their recourse to PCs.

It was mentioned in the last year's Report that the Reserve Bank had advised banks on June 21, 1979 that from the last Friday of July 1979 and thereafter, outstanding PCs issued by banks would have to be treated as deposits and such deposits would have to be reported in the weekly Section 42(2) 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. In May 1980, the Reserve Bank advised banks that in their balance sheet, banks should show outstanding PCs as deposits under item 3, viz., "Deposits and other Accounts" on the "Capital and Liabilities" side separately as "PC deposits", classifying the same "From banks," and "From others", depending on whether PCs were issued to banks or other financial institutions.

(d) Lead Bank Scheme

The High Power Committee (HPC) constituted in the Reserve Bank of India for the purpose of keeping the progress of the Lead Bank Scheme under constant review and for issuing policy guidelines for its effective implementation, met twice during the year. The important issues considered by the Committee at these meetings are mentioned below :

*The Reserve Bank had advised scheduled commercial banks on June 21, 1979 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 were 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.

(*i*) *Preparation of the District Credit Plans (DCPs) for 1980-82 and annual action plans for 1980.*—It was mentioned in the last year's Report that the lead banks had been advised to formulate new District Credit Plans for a uniform period of three years, January 1980 to December 1982 and also annual action plans in December each year so that these plans would synchronize more or less with the Five-Year Plan of Government. Detailed guidelines indicating, among others, the objectives, contents, approach to estimation of credit outlays for different purposes, methodology to be followed, identification and fixation of responsibilities for different items of work necessary for the preparation of the District Credit Plans were issued to the lead banks in March 1979.

The new District Credit Plan (DCP) is to be of a comprehensive nature and is to indicate credit targets for institutional credit agencies in the district on a blockwise, sectorwise, schemewise and bankwise basis. One of the innovative features of the preparation of the new District Credit Plans is the introduction of the participative planning by constitution of a district level Task Force comprising representatives of the district central co-operative bank, one or two commercial banks having larger number of branches in the district, the district plan official, and the district convener of the lead bank for the preparation of the plan. The draft DCPs are to be finalised at the District Consultative Committee (DCC) meetings after circulation to all concerned agencies.

According to the time bound programme given to the lead banks, the entire work of preparation of the DCPs was to be completed in nine consecutive stages by December 1979. However, owing to various constraints, for instance, the non-availability of Sixth Plan data and district development schemes, and the inadequate organisational set-up of the lead banks at the district level, for the preparation of DCPs, the time schedule could not be strictly adhered to. The HPC, therefore, extended the period for preparation of the perspective DCPs upto March 1980, but insisted that the annual action plans for 1980 should at least be launched for implementation by the end of January 1980. So far, DCPs in

respect of 357 districts out of 398, have been prepared.

(*ii*) *Appointment of Lead Bank Officers by the lead banks in each district.*—Since the absence of a proper set-up at the district level was one of the major constraints in the preparation and implementation of the district credit plans, lead banks were advised to appoint in each of their lead districts a responsible officer with necessary authority as Lead Bank Officer and attach to him adequate supporting staff for the preparation and implementation of the DCPs.

(*iii*) *Monitoring the preparation and implementation of District Credit Plans by Reserve Bank.*—To ensure effective implementation of the Lead Bank Scheme, it was decided that officers of the Reserve Bank of India would monitor the preparation and implementation of the district credit plans more closely. The officers entrusted with this responsibility, designated as Lead District Officers, have been allotted 4 to 5 contiguous districts each, for intensive monitoring. It was also decided to set up Development Wings at the Regional Offices of DBOD and the Lead District Officers are required to monitor the overall developmental role which banks are required to play. The Lead District Officers would maintain active liaison among all the participating financial institutions and the Government functionaries so as to make the Lead Bank Scheme a success.

(*iv*) *Standing Committee of the District Consultative Committees.*—As the DCC by virtue of its constitution and functioning, might not be in a position to exercise supervision over the working of the Lead Bank Scheme on an ongoing basis and attend to details of procedure, lead banks were advised to constitute a Standing Committee of the DCC which would meet at least once a month. The 'Task Force' referred to earlier was continued as a Standing Committee of the DCC, the district co-operation officer and the Lead District Officer from Reserve Bank also being members of the Standing Committee. Thus, those involved in the preparation of the credit plans are also concerned with its implementation.

(*v*) *Reporting by banks to their Boards regarding the fulfilment of the allocated shares.*—All commercial banks were advised that their Head Offices should evolve a procedure to oversee whether their branches in the various districts were fulfilling the share allocated to them in the district credit plans, and should pursue the matter effectively with such of the branches as were found to be lacking in their efforts in this behalf. The banks were also advised to evolve a procedure of reporting to their Board of Directors every half-year about their performance vis-a-vis their share in the credit plans of the various districts in the country.

(*vi*) *District-level and State-level Workshops on Lead Bank Scheme.*—Lead Banks were earlier advised to organise district level workshops in their lead districts, by end-December 1979. Those lead banks which were not able to adhere to the time schedule were asked to expedite. Further, the National Institute of Bank Management in association with the convener banks for the State-level Bankers' Committees, organised State-level Workshops in all the States. Implementation of the decisions arrived at the State-level Workshops was being pursued with the State Governments and the lead banks concerned.

(*vii*) *New Information System under the Lead Bank Scheme.*—In view of the difficulties experienced by the banks in the submission of data in the existing three formats prescribed by the Government of India/Reserve Bank, the information system was reviewed by the Reserve Bank and two new formats were introduced for submission every quarter/year as detailed below :

(*a*) Quarterly return for monitoring the implementation of the district credit plan, commencing from the quarter ended March 1980.

(*b*) Annual return for monitoring the performance in the recovery of advances commencing from the year ending June 1980.

Further, in view of the difficulties experienced in the flow of data, the data required both at the District/State level would now be consoli-

dated by the Regional Offices of the Department of Banking Operations and Development (DBOD) of the Reserve Bank.

Seminars for Lead District Officers

With a view to explaining to RBI's Lead District Officers in greater detail the implications of their extended role and to furnish to them clarifications on any point they would wish to seek, the DBOD of the Reserve Bank arranged four seminars at Calcutta, Madras, New Delhi and Bombay where RBI officers from the neighbouring offices were also invited to participate.

Allotment of lead responsibility in respect of new districts

The lead responsibility in respect of the new district of Periyar carved out of the existing Coimbatore district in Tamil Nadu was entrusted to the Canara Bank which was the lead bank for the composite Coimbatore district. The Andhra Pradesh Government formed two new districts named Vizianagaram and K. V. Ranga Reddy, and the lead responsibility in respect of the former was entrusted to the State Bank of India and the latter to the State Bank of Hyderabad. The lead responsibility in respect of the newly created Faridabad district in Haryana State was entrusted to the Syndicate Bank and in respect of the four new districts of Jammu and Kashmir State *viz.* Badgam, Pulwama, Kupwara and Kargil to the State Bank of India.

(e) Export Credit

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

In view of the recessionary trends in the diamond export trade and socio-economic repercussions thereof, banks were advised to review the credit needs of diamond exporters and ensure that, wherever necessary, increased finance was made available to the exporters on merits to meet their genuine credit requirements.

In respect of exports to certain countries, *viz.*, Nigeria, Ghana, Israel, Sudan, Syria, Taiwan, Turkey, Vietnam, Yemen Arab Republic, Zaire and Zambia, exporters were experiencing delays in obtaining repatriation of export proceeds owing to foreign exchange difficulties prevalent there. With a view to affording relief to the exporters, the banks were advised to charge a concessive rate of interest on post-shipment credit till the date of receipt of proceeds of export bills in India or payment by ECGC, whichever was earlier, subject to the maximum period of 180 days, provided certain conditions specified by the Reserve Bank were fulfilled. The relaxation was allowed upto the end of March 1980 and the position in this regard is being reviewed.

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

The Scheme, which provides for compensating the banks extending export credit at concessive rate of interest, to make up partially for their losses in interest earnings, has been in operation for over a decade. 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 claims at the various branches of banks are being examined in consultation with the Government. A proposal to increase the total period of pre-shipment credit at concessive rates of interest from 135 days to 180 days in respect of certain goods is also awaiting Government's approval.

The claims for interest subsidy amounting to Rs. 14.78 crores received from 60 eligible banks were settled during the year under review (July-June). Of this, subsidy towards pre-shipment credit accounted for Rs. 8.28 crores, and subsidy towards post-shipment credit for Rs. 6.50 crores. The total amount of subsidy disbursed since the inception of the Scheme upto June 30, 1980 aggregated Rs. 87.06 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 1979-80 (July-June) amounted to Rs. 80.20 lakhs (Rs. 23.55 lakhs at 1½ per cent and Rs. 56.65 lakhs at 3 per cent). Besides, interest subsidy amounting to Rs. 6.36 lakhs at 1½ per cent each from the Marketing Development Fund as also the funds released by the Ministry of External Affairs was paid on the commercial credits of Rs. 5 crores extended by IDBI and the Punjab National Bank to Bangladesh on normal export terms (Rs. 1 crore for agricultural machinery and Rs. 4 crores for textile machinery). The Ministry of External Affairs has also agreed to pay interest subsidy to IDBI/eligible banks on two more credits, *viz.*, Rs. 2 crores for power equipment and Rs. 10 crores for capital goods, to be extended to Bangladesh for imports from India, at 1½ per cent and 2 per cent, respectively.

(g) Duty Drawback Credit Scheme, 1976

The Scheme is intended to benefit exporters who can avail of interest-free advances from banks upto 90 days against provisional entitlement orders issued by the Customs Authorities for refund of import and excise duties. The financing banks, in turn, are eligible to obtain interest-free refinance from the RBI pending final settlement of duty drawback claims of the exporters.

Till June 30, 1980, limits aggregating Rs. 17.20 crores valid upto October 31, 1980 were sanctioned to 27 banks. The refinance availed of by banks during the period November 1, 1979 to June 30, 1980 amounted to Rs. 11.54 crores. The amount outstanding as on June 30, 1980 was Rs. 4.69 crores.

(h) Refinance for Import of Capital Goods

In April 1978, the Reserve Bank had introduced a scheme under which the RBI extends refinance facility to banks granting rupee term loans upto 10 years covering foreign exchange cost of imported capital goods. While the banks were required to charge interest on their loans at 11 per cent per annum, the refinance was available at the Bank Rate, *viz.*, 9 per cent per annum. Since the inception of the scheme in April 1978 till June 30, 1980, a sum of Rs. 117.41 crores was disbursed by way of refinance to 24 banks. Outstanding refinance as on June 30, 1980 amounted to Rs. 52.18 crores. The refinance facility was discontinued with effect from July 1, 1980. However, the existing commitments made under the scheme would be eligible for refinance.

(i) Sick Industrial Undertakings Cell

The Sick Industrial Undertakings Cell created by the Reserve Bank of India in the DBOD continued to monitor banks' performance in identifying sick industrial units and taking remedial action with a view to nursing them back to health. In order to check industrial sickness in the interest of production, employment and safety of banks' funds, the Cell issues suitable instructions/guidelines to banks whenever found necessary and calls for various statements/reports from them. It functions not only as a clearing house for exchange of information relating to industrial sickness, but also as a co-ordinating agency between banks, financial institutions, Government and other agencies in solving the various problems faced by sick industries.

In pursuance of the recommendations of the High Power Committee on the problems of sick units, presided over by the then Finance Minister, the State Level Inter-Institutional Committees (SLIICs) have been constituted at centres where regional offices of DBOD are located and these Committees have started functioning. The Cell co-ordinates the activities of these committees, which, besides providing a useful forum for exchange of information and discussion on the problems faced by the small and medium-scale industrial units and small entrepreneurs, are expected to deal with the problems relating to (*a*) co-ordination between banks and financial institutions, (*b*) provision of adequate infrastructural facilities to industrial units and (*c*) general problems relating to grant of credit to such units.

While approving credit proposals as part of rehabilitation programmes for large sick units, including amalgamation/merger with healthy

ones, it was observed that, in certain cases, banks entered into commitments, involving undue sacrifice on their part. If rehabilitation programme had to be taken up mainly on socio-economic considerations, it was necessary that equitable sacrifice was made by each bank/financial institution as also by the owners of the units, other creditors, Government, labour, etc. Banks were, therefore, advised suitably in the matter in August 1979, and were also instructed to obtain the RBI's prior clearance if the rehabilitation package envisaged some concessions like reduction in interest rates below the minimum stipulated by the Reserve Bank, etc.

The Cell undertakes studies of the organisational set-up and monitoring machinery established by banks for tackling the problems of sick industrial units financed by them. Such studies in respect of three banks *viz.*, Bank of India, Bank of Baroda, and Central Bank of India have been completed.

Banks have been submitting to the Reserve Bank quarterly progress reports in regard to the implementation of the decisions of the High Power Committee in so far as action is required to be taken by them. The information contained in the progress report for the quarter ended September 1979 revealed that there were 16,947* sick units in the small-scale sector, involving aggregate bank finance of Rs. 181.06 crores. Out of these 16,947 units, 4,142 units were considered by banks as potentially viable and 7,671 units as non-viable. The banks had still to decide on the viability of the remaining 5,134 units.

In terms of the Reserve Bank's instructions, banks are submitting quarterly statements relating to sick industrial undertakings enjoying aggregate bank finance of Rs. 1 crore and above. According to the information contained in the statements for the quarter ended June 1979, the number of sick units increased to 345 involving aggregate bank credit of Rs. 1,101.72 crores from 334 units involving bank finance of Rs. 983.33 crores at the end of September 1978. (Table VI. 11).

*Excluding information from one public sector bank.

(j) Bills Rediscounting Scheme

The bills rediscounting facilities to scheduled commercial banks continued to be extended on discretionary basis. The rediscounting limits under the scheme sanctioned as on the last Friday of June 1980 amounted to Rs. 95.2 crores as against Rs. 118.2 crores a year ago. The average amount sanctioned during the year 1979-80 (July-June) at Rs. 130.8 crores was also lower than in the preceding year (Rs. 151.3 crores). The outstanding amount of bills rediscounted with RBI as at the end of June 1980 was, however, slightly higher at Rs. 76.3 crores as against Rs. 72.4 crores a year ago.

Effective July 1, 1980, the minimum rate of rediscount of 9 per cent was raised to 11 per cent for the first tranche; subsequent tranches, if any, would carry higher rates of rediscount. There was no change during the year in the ceiling rate of 10 per cent on the bills rediscounted by banks with other commercial banks as well as with certain approved financial institutions.

QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION

Sectoral Deployment of Credit

Data on sectoral deployment of credit show that over the year ended June 1980, the share of priority sectors in total outstanding gross bank credit increased from 29.3 per cent to 32.1 per cent, that of industry (medium and large) from 37.7 per cent to 38.2 per cent, and of wholesale trade from 8.3 per cent to 8.6 per cent. As against these increases, the share of public food procurement advances fell sharply from 15.5 per cent to 11.1 per cent (Table VI.12). At the end of March 1968, of the scheduled commercial banks' total outstanding advances, 60.6 per cent were in respect of large and medium industries, and 14.2 per cent were in respect of wholesale trade, while food procurement accounted for only 3.5 per cent (Table VI.13).

Over the year ended June 1980, the increase in gross non-food credit at Rs. 2,988 crores was marginally higher than the increase of Rs. 2,912

Table VI.11: Bank Credit to sick industrial undertakings enjoying aggregate credit limits of Rs. 1 crore and above as at the end of June 1979—State-wise and Industry-wise

(Amount in rupees crores)

States	Engineering and Electricals		Iron and Steel		Textiles		Jute		Chemicals	
	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding
	1	2	3	4	5	6	7	8	9	10
West Bengal	21	88.74	6	20.37	5	7.75	31	86.60	5	11.88
Maharashtra	23	83.03	6	8.47	30	134.97	—	—	5	9.57
Karnataka	6	15.02	—	—	2	2.17	—	—	2	21.73
Gujarat	5	15.74	6	8.89	21	54.44	—	—	—	—
Tamil Nadu	9	16.43	2	1.31	9	39.81	—	—	5	76.46
Andhra Pradesh ..	3	4.93	3	9.86	1	1.71	1	1.36	1	2.81
Bihar	1	7.13	2	3.66	—	—	—	—	—	—
Haryana	4	7.78	—	—	—	—	—	—	1	0.58
Rajasthan	1	3.60	—	—	1	4.35	—	—	—	—
Madhya Pradesh ..	4	7.27	2	2.24	6	11.48	—	—	—	—
Orissa	2	8.01	—	—	1	9.07	—	—	1	1.34
Uttar Pradesh	1	7.81	5	8.40	6	17.34	1	1.79	—	—
Kerala	1	2.33	1	1.92	—	—	—	—	1	7.46
Punjab	—	—	—	—	—	—	—	—	—	—
Assam	—	—	—	—	—	—	—	—	1	1.44
New Delhi	1	4.31	—	—	2	4.62	—	—	—	—
Pondicherry	—	—	—	—	—	—	—	—	1	1.77
Goa	—	—	—	—	—	—	—	—	—	—
Total	**82**	**272.13**	**33**	**65.12**	**84**	**287.71**	**33**	**89.75**	**23**	**135.04**

States	Cement		Rubber		Sugar		Miscellaneous		Total	
	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding
	11	12	13	14	15	16	17	18	19	20
West Bengal	—	—	2	16.91	1	1.75	13	33.13	84	267.13
Maharashtra	—	—	1	5.05	1	1.15	5	11.20	71	253.44
Karnataka	—	—	1	1.10	2	21.65	1	1.28	14	62.95
Gujarat	—	—	—	—	—	—	3	9.01	35	88.08
Tamil Nadu	—	—	1	1.64	6	10.95	4	8.76	36	155.36
Andhra Pradesh ..	—	—	—	—	1	4.09	3	4.58	13	29.34
Bihar	3	5.33	—	—	2	6.25	4	14.99	12	37.36
Haryana	—	—	—	—	—	—	—	—	5	8.36
Rajasthan	1	7.88	—	—	1	0.47	—	—	4	16.30
Madhya Pradesh ..	—	—	—	—	1	1.19	—	—	13	22.18
Orissa	—	—	—	—	—	—	—	—	4	18.42
Uttar Pradesh	—	—	—	—	20	53.45	3	6.72	36	95.51
Kerala	—	—	2	9.37	—	—	3	6.41	8	27.49
Punjab	—	—	—	—	—	—	1	1.70	1	1.70
Assam	—	—	—	—	—	—	1	0.85	2	2.29
New Delhi	—	—	—	—	—	—	—	—	3	8.93
Pondicherry	—	—	—	—	—	—	—	—	1	1.77
Goa	—	—	—	—	—	—	3	5.11	3	5.11
Total	**4**	**13.21**	**7**	**34.07**	**35**	**100.95**	**44**	**103.74**	**345**	**1101.72**

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

(Rupees crores)

Item	Outstanding		Variation over the year	Outstanding-June 1980*	Variation over the year
	June 1978	June 1979*			
	1	2	3	4	5
I. Public Food Procurement Credit	**2,525** (*15.8*)	**2,996** (*15.5*)	**+ 471**	**2,414** (*11.1*)	**—582**
II. (a) Priority Sectors	**4,334** (*27.2*)	**5,677** (*29.3*)	**+1,343**	**6,974** (*32.1*)	**+1,297**
(*i*) Agriculture	1,726 (10.8)	2,288 (11.8)	+ 562	2,911 (*13.4*)	+ 623
(*ii*) Small-Scale Industries ..	1,756 (11.0)	2,252 (11.6)	+ 496	2,711 (*12.5*)	+ 459
(*iii*) Other Priority Sectors	852 (*5.3*)	1,137 (*5.9*)	+ 285	1,352 (*6.2*)	+ 215
(*b*) Industry (medium and large)	6,249 (39.2)	7,291 (37.7)	+1,042	8,310 (*38.2*)	+1,019
(*c*) Wholesale Trade (other than food procurement)	1,424 (*8.9*)	1,612 (*8.3*)	+ 188	1,863 (*8.6*)	+ 251
(*d*) Other Sectors	1,428 (8.9)	1,767 (9.1)	+ 339	2,188 (*10.1*)	+ 421
III. Non-food Gross Bank Credit (a+b+c+d) ..	**13,435** (*84.2*)	**16,347** (*84.5*)	**+2,912**	**19,335** (*88.9*)	**+2,988**
Export Credit (included under item III) ..	1,142 (*7.2*)	1,449 (*7.5*)	+ 307	1,628 (*7.5*)	+ 179
IV. Gross Bank Credit (I+III)	**15,960** (*100.0*)	**19,343** (*100.0*)	**+3,383**	**21,749** (*100.0*)	**+2,406**

*Provisional.

Note: (1) Data relate to major banks which account for about 95% 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.

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

Source: Credit Planning and Banking Development Cell, RBI

crores in 1978-79; food credit, in contrast, registered a sharp fall of Rs. 582 crores over the year, as against an increase of Rs. 471 crores in 1978-79. The net result was a much smaller expansion in gross bank credit of Rs. 2,406 crores over the year end-June 1979 to end-June 1980, as against an expansion of Rs. 3,383 crores during the year ended June 1979. The marginally larger non-food credit expansion in 1979-80 was mainly due to a sharp increase in the credit extended to oil companies to enable them to bridge the resources gap caused by the increase in the international prices of crude and to some extent, the reduction in the suppliers' credit, and larger credit provided to public sector corporations to make payments for the import of essential commodities and raw materials.

Over the year, advances to priority sectors showed a smaller increase of Rs. 1,297 crores, as against a rise of Rs. 1,343 crores in 1978-79, their share in total incremental non-food gross bank credit working out lower at 43.4 per cent, as against 46.1 per cent in the previous year, At the end of June 1980, priority sector advances constituted 31.6 per cent of total net bank credit, as against 28.8 per cent a year earlier.* Among priority sectors, advances to agriculture showed a larger increase of Rs. 623 crores, as against an increase of Rs. 562 crores during 1978-79, their share in incremental

*The data relate to priority sector advances of major banks which constitute 95 per cent of gross bank credit, as per cent of total bank credit of scheduled commercial banks, including PCs, but exclusive of bills rediscounted. At the time the policy target of 33⅓ per cent of total credit was prescribed, PCs were not included in the figures of bank credit. The ratio of priority sector advances of major banks to total bank credit of scheduled commercial banks would work out to 29.7 per cent in June 1979 and 32.1 per cent in June 1980 if PCs are excluded from figures of bank credit.

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

(Rupees crores)

Sector	Outstanding as on											
	March 31, 1968		June 28, 1974		June 27, 1975		June 25, 1976		June 24, 1977		June 30, 1978	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Industry	**2,068**	**67.5**	**4,555**	**56.9**	**5,095**	**56.5**	**5,713**	**48.9**	**6,241**	**46.4**	**7,610**	**47.7**
(*a*) Large and Medium Industries	1,857	60.6	3,550	44.4	3,977	44.1	4,462	38.2	4,779	35.5	5,762	36.1
(*b*) Small-Scale Industries	211	6.9	1,005	12.5	1,118	12.4	1,251	10.7	1,462	10.9	1,848	11.6
II. Agriculture and Allied Activities	**67**	**2.2**	**709**	**8.9**	**969**	**10.8**	**1,214**	**10.4**	**1,400**	**10.4**	**1,961**	**12.3**
Of which:												
(*a*) Direct Finance	..	..	404	5.1	522	5.8	738	6.3	949	7.1 }	**1,405**	8.8
(*b*) Plantations	58	1.9	133	1.7	136	1.5	151	1.3	150	1.1 }		
III. Internal Trade	**588**	**19.2**	**1,396**	**17.5**	**1,500**	**16.7**	**3,115**	**26.7**	**3,828**	**28.4**	**4,198**	**26.3**
(*a*) Wholesale Trade	541	17.7	1,180	14.8	1,266	14.1	2,822	24.2	3,485	25.9	3,734	23.4
Of which:												
Food Procurement	109	3.5	523	3.5	795	8.8	2,192	18.8	2,536	18.8	2,525	15.8
(*b*) Retail Trade	47	1.5	216	2.7	234	2.6	293	2.5	343	2.5	464	2.9
IV. Services	..	..	**461**	**5.7**	**539**	**6.0**	**664**	**5.7**	**831**	**6.2**	**892**	**5.6**
V. Personal Loans	..	..	**289**	**3.6**	**319**	**3.5**	**356**	**3.0**	**401**	**3.0**	**486**	**3.0**
VI. All Others	**341***	**11.1**	**589**	**7.4**	**589**	**6.5**	**616**	**5.3**	**756**	**5.6**	**814**	**5.1**
VII. TOTAL	**3,064**	**100.0**	**7,999**	**100.0**	**9,011**	**100.0**	**11,678**	**100.0**	**13,457**	**100.0**	**15,961**	**100.0**

.. Not available. * Includes 'Services and personal loans'.

Note: Consequent upon the revision of Handbook of Instructions for Basic Statistical Returns with effect from December 1977 survey, 'development loans to plantations' are merged with 'Direct finance' and 'Electricity generation, transmission and distribution' and 'Construction' which were part of 'Services' are now included in 'Industry'.

Source : Data for March 31, 1968 are based on 'Survey of Advances of Scheduled Commercial Banks According to Purpose'. Data for 1973 to 1978 are based on Basic Statistical Returns.

(non-food) gross bank credit working out higher at 20.9 per cent, as against 19.3 per cent last year. Advances to small-scale industries showed a smaller increase of Rs. 459 crores during 1979-80, as against Rs. 496 crores last year, their share in incremental non-food gross bank credit working out much lower at 15.4 per cent, as against 17.0 per cent last year. In the non-food non-priority sector, advances to industry (medium and large) increased by Rs. 1019 crores as against Rs. 1042 crores in 1978-79, their share in incremental non-food gross bank credit declining from 35.8 per cent in 1978-79 to 34.1 per cent in 1979-80. Advances to wholesale trade, in contrast, showed a larger increase of Rs. 251 crores in 1979-80, as against Rs. 188 crores last year, and constituted 8.4 per cent of the incremental non-food gross bank credit, as against 6.5 per cent in 1978-79.

Industry-wise Deployment of Credit

Bank credit to industry (large, medium and small-scale) increased from Rs. 9,543 crores at the end of June 1979 to Rs. 11,021 crores by end-June 1980, i.e., by Rs. 1,478 crores, as against a larger increase of Rs. 1,538 crores in 1978-79. (Table VI. 14). The share of credit to industry in total outstanding gross bank credit, however, increased over the year, from 49.3 per cent at the end of June 1979 to 50.7 per cent by end-June 1980.

Of the increase of Rs. 1,478 crores in credit to industry during the year, the share of engineering was Rs. 447 crores or 30.2 per cent, that of chemicals, dyes, paints, drugs and pharmaceuticals Rs. 230 crores or 15.6 per cent, and of iron and steel Rs. 150 crores or 10.1 per cent. Outstanding credit to sugar industry, in contrast, declined by as much as Rs. 168 crores, its share in total outstanding credit to industry falling from 4.2 per cent at the end of June 1979 to 2.1 per cent by June 1980. Outstanding credit to coal, vegetable oils, and leather and leather products also declined over the year though only marginally.

As at the end of June 1980, of the total outstanding credit of Rs. 11,021 crores to industry, Rs. 2,981 crores or 27.0 per cent was in respect of engineering, Rs. 1,264 crores or 11.5 per cent was in respect of chemicals, dyes, etc., Rs. 1,019 crores or 9.2 per cent was to cotton textiles, Rs. 650 crores or 5.9 per cent to iron and steel and Rs. 585 crores or 5.3 per cent to other textiles. At the other end, important industries in respect of which outstanding bank credit was less than Rs. 100 crores were coal (Rs. 67 crores), and cement (Rs. 82 crores); the share of these industries in total outstanding credit to industry worked out to only 0.6 per cent, and 0.7 per cent, respectively. Table VI.15 shows the percentage share of different industries in total outstanding bank credit as at the close of June 1974 to June 1978 and March 1968.

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 percentage of inventories to sales in respect of large public limited companies rose from 30.6 per cent in 1972-73 to 33.1 per cent by 1974-75 but declined steadily thereafter to 27.1 per cent by 1977-78; it increased again, though marginally to 27.6 per cent in 1978-79. Short-term bank borrowings as percentage of inventories declined sharply from 55.8 per cent in 1970-71 to 41.2 per cent by 1974-75, and after rising to 49.2 per cent by 1976-77, receded again to 47.5 per cent by 1978-79. Total bank borrowings as percentage of total inventories showed a similar trend, but the range of variations was wider; the percentage dropped from 69.9 per cent in 1970-71 to 44.1 per cent by 1974-75; it rose to 53.9 per cent by 1976-77, but declined again to 52.4 per cent by 1978-79.

Advances to Priority Sectors

Bank credit to priority sectors, i.e. agriculture, small-scale sector, and other priority sectors (comprising retail trade and small business, professional and self-employed persons and education) which had increased from Rs. 505 crores at the end of June 1969 to Rs. 4,515 crores by June 1978 rose to Rs. 5,908 crores by June 1979—an increase of Rs. 1,393 crores or 30.9 per cent over the year. The share of priority sector advances in total outstanding bank credit rose from 14.0 per cent in June 1969 to 28.8 per cent in June 1978 and further to 30.9 per cent in June 1979. Of the total outstanding advances to priority sectors

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

(Rupees crores)

Industry	Outstanding		Variation over the year	Outstanding	Variation over the year
	June 1978	June 1979@		June 1980@	
	1	2	3	4	5
1. Coal	80 (0.5)	69 (0.4)	— 11	67 (0.3)	— 2
2. Iron and Steel	425 (2.7)	500 (2.6)	+ 75	650 (3.0)	+ 150
3. Other Metals & Metal Products	256 (1.6)	319 (1.6)	+ 63	375 (1.7)	+ 56
4. All Engineering	2057 (12.9)	2534 (13.1)	+ 477	2981 (13.7)	+ 447
5. Electricity (Gen. & Tran.)	79 (0.5)	74 (0.4)	— 5	100 (0.5)	+ 26
6. Cotton Textiles	915 (5.7)	959 (5.0)	+ 44	1019 (4.7)	+ 60
7. Jute Textiles	107 (0.7)	132 (0.7)	+ 25	136 (0.6)	+ 4
8. Other Textiles	414 (2.6)	492 (2.5)	+ 78	585 (2.7)	+ 93
9. Sugar	401 (2.5)	400 (2.1)	— 1	232 (1.1)	— 168
10. Tea	115 (0.7)	166 (0.9)	+ 51	197 (0.9)	+ 31
11. Vegetable Oils (Incl. Vanaspati)	104 (0.7)	150 (0.8)	+ 46	143 (0.7)	— 7
12. Tobacco & Tobacco Products	111 (0.7)	110 (0.6)	— 1	120 (0.6)	+ 10
13. Paper and Paper Products	169 (1.1)	212 (1.1)	+ 43	248 (1.1)	+ 36
14. Rubber and Rubber Products	151 (0.9)	188 (1.0)	+ 37	224 (1.0)	+ 36
15. Chemicals, Dyes, Paints, Drugs and Pharmaceuticals	875 (5.5)	1,034 (5.3)	+ 159	1,264 (5.8)	+ 230
Of which—Fertiliser	157 (1.0)	197 (1.0)	+ 40	215 (1.0)	+ 18
16. Cement	45 (0.3)	62 (0.3)	+ 17	82 (0.4)	+ 20
17. Leather & Leather Products	121 (0.8)	178 (0.9)	+ 57	175 (0.8)	— 3
18. Construction	81 (0.5)	105 (0.5)	+ 24	110 (0.5)	+ 5
19. Other Industries	1499 (9.4)	1,859 (9.6)	+ 360	2,313 (10.6)	+ 454
TOTAL CREDIT TO INDUSTRY	**8,005 (50.2)**	**9,543 (49.3)**	**+1,538**	**11,021 (50.7)**	**+1,478**
Total Gross Bank Credit	**15,960 (*100.0*)**	**19,343 (*100.0*)**	**+3,383**	**21,749 (*100.0*)**	**+2,406**

@ 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	As on					
	March 31, 1968	June 28, 1974	June 27, 1975	June 25, 1976	June 24, 1977	June 30, 1978
1	2	3	4	5	6	7
1. Basic metals & metal products ..	N.A.	6.5	7.2	6.3	5.7	5.6
Of which :						
Iron & Steel	3.7	3.7	4.4	4.0	3.5	3.2
2. Beverage and tobacco	N.A.	1.3	1.2	0.8	1.0	0.9
3. Cement	1.3	0.5	0.4	0.5	0.4	0.4
4. Chemicals & chemical products	6.0	5.6	5.8	5.7	5.3	5.6
Of which :						
(*a*) Heavy industrial chemicals	N.A.	0.7	0.6	0.5	0.6	0.9
(*b*) Drugs and pharmaceuticals	N.A.	1.3	1.3	1.1	1.0	1.2
(*c*) Fertilisers	N.A.	0.9	1.3	1.5	1.2	1.0
5. Coal	0.8	0.6	0.4	0.4	0.4	0.4
6. Edible oils & vanaspati	1.4	1.2	1.0	0.8	0.8	0.7
7. Engineering*	15.7	10.8	11.2	10.6	8.8	9.3
(*a*) Heavy engineering	8.9	7.3	7.8	7.1	5.5	4.7
(*b*) Light engineering	6.8	3.5	3.4	3.5	3.3	2.7
(*c*) Others	..	..	..	..	..	1.9
8. Leather and leather products	N.A.	0.8	0.7	0.7	0.7	0.8
9. Manufacture of basic minerals	N.A.	1.0	0.8	0.4	0.3	0.4
10. Paper, paper products and printing ..	1.6	1.7	1.7	1.6	1.5	1.5
11. Rice mills, flour and dal mills	N.A.	0.6	0.5	0.6	0.4	0.6
12. Rubber and rubber products	0.7	0.7	0.9	1.0	1.1	1.0
13. Sugar	5.3	2.1	2.6	1.7	1.9	2.4
14. Textiles	15.5	12.2	11.0	9.8	9.8	9.6
Of which :						
(*a*) Cotton textiles	10.3	7.3	6.5	6.1	5.9	5.7
(*b*) Jute textiles	3.1	1.7	1.3	0.7	0.9	0.7
15. Vehicles, vehicle parts and transport equipments	N.A.	2.7	2.9	2.3	2.1	2.3
16. Other industries	17.6	8.6	8.2	5.7	6.2	6.2
**TOTAL CREDIT TO INDUSTRY .. ..

Table VI. 16 : Ratio of Inventories to Sales and Bank Borrowings to Inventories (Public limited companies in the Private Sector)

Year	Total inventories as percentage of sales@	Inventories in the form of raw materials components, etc. as percentage of total inventories	Short-term bank borrowings as percentage of total inventories	Total bank borrowings as percentage of total inventories
1	2	3	4	5
Medium and Large Public Limited Companies*				
1650 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
1720 Companies 1975-76	30.6	30.2	49.1	53.7
1976-77	27.4	30.2	52.4	57.7
1977-78	26.6	30.5	52.8	58.4
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
421 Companies 1975-76	31.1	31.5	46.2	50.2
1976-77	27.7	31.4	49.2	53.9
1977-78	27.1	31.6	48.6	53.4
1978-79	27.6	32.6	47.5	52.4

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

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

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

Source : Reserve Bank of India Studies on Company Finances.

of Rs. 5,908 crores at the end of June 1979, agriculture accounted for Rs. 2,459 crores or 41.6 per cent, small-scale sector Rs. 2,820 crores or 47.7 per cent and other priority sectors Rs. 629 crores or 10.7 per cent. At the end of June 1978, agriculture and other priority sectors' share was marginally lower at 41.0 per cent and 10.1 per cent, respectively, while that of small-scale industry's share was marginally higher at 48.9 per cent. The proportion of priority sector advances in total non-food credit worked out to 36.7 per cent at the end of June 1979, as against 34.3 per cent a year ago and 15.0 per cent in June 1969 (Table VI. 17).

Small-Scale Sector.- Advances to small-scale sector rose from Rs. 2,210 crores at the end of

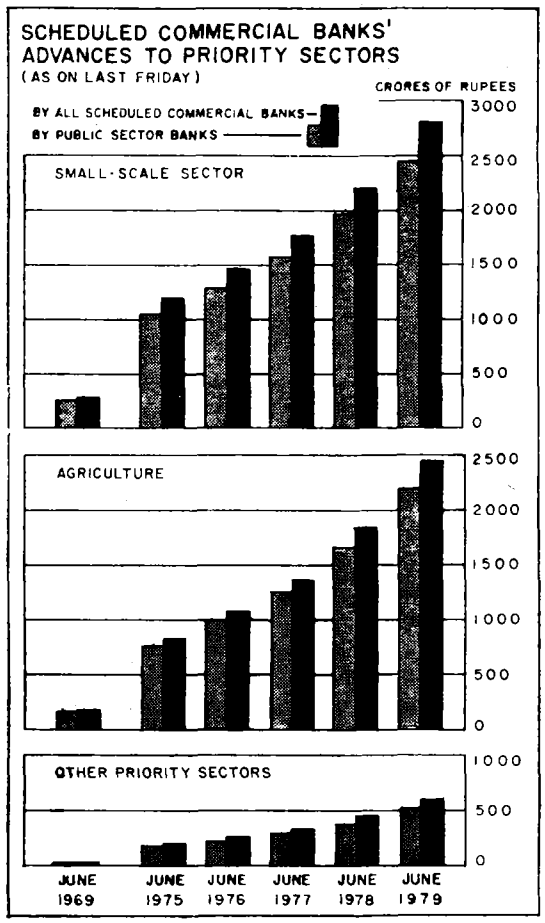
Table VI. 17 : Scheduled Commercial Banks' Advances* to Priority Sectors

(No. of Accounts in thousands)
(Amount in rupees crores)

Sector	As on the last Friday of	Public Sector Banks		All Scheduled Commercial Banks	
		No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
1	2	3	4	5	6
1. Agriculture	June 1969	165	162	268	188
	June 1978	5375	1660	6013	1851
	June 1979	6871	2221	7548	2459
Of which :					
(*i*) Direct Finance	June 1969	160	40	257	54
	June 1978	4701	1235	5216	1340
	June 1979	5932	1678	6550	1825
(*ii*) Indirect Finance	June 1969	5	122	11	134
	June 1978	674	425	797	511
	June 1979	939	543	998	634
2. Small-scale Sector@	June 1969	53	257	60	294
	June 1978	687	1971	722	2210
	June 1979	815	2473	966	2820
Of which :					
(*i*) Road and Water Transport Operators@	June 1969	2	6	3	8
	June 1978	192	307	209	359
	June 1979	226	386	252	457
(*ii*) Small-scale Industries@	June 1969	51	251	57	286
	June 1978	495	1644	513	1828
	June 1979	589	2061	713	2333
(*iii*) Setting up of Industrial Estates	June 1969	Neg.	Neg.	Neg.	Neg.
	June 1978	Neg.	20	Neg.	23
	June 1979	Neg.	26	1	30
3. Other Priority Sectors	June 1969	42	22	N.A.	23
	June 1978	1646	391	1758	454
	June 1979	2019	539	2198	629
Of Which :					
(*i*) Retail Trade and Small Business	June 1969	33	19	N.A.	N.A.
	June 1978	1041	298	1124	347
	June 1979	1313	413	1447	483
(*ii*) Professional and self-employed persons	June 1969	8	2	N.A.	N.A.
	June 1978	575	87	602	100
	June 1979	672	119	715	138
(*iii*) Education	June 1969	1	1	N.A.	N.A.
	June 1978	30	6	32	7
	June 1979	34	7	36	8
Total Priority Sector Advances (1+2+3)	**June 1969**	**260**	**441**	**328**	505
	June 1978	**7708**	**4022**	**8493**	**4515**
	June 1979	**9705**	**5233**	**10712**	**5908**
4. Exports	June 1969		204		270
	June 1978		1102		1301
	June 1979		1179		1457
Total Bank Credit*	**June 1969**		**3016**		**3599**
	June 1978		**13364**		**15694**
	June 1979		**16220**		**19116**
Total Bank Credit Excluding Food Advances*	**June 1969**		**2783**		**3366**
	June 1978		**11075**		**13169**
	June 1979		**13517**		**16120**
Percentage of Priority Sector Advances to Total Bank Credit	**June 1969**		**14.6**		**14.0**
	June 1978		**30.1**		**28.8**
	June 1979		**32.3**		**30.9**
Percentage of Priority Sector Advances to Total Bank Credit Excluding Food Advances	**June 1969**		**15.9**		**15.0**
	June 1978		**36.3**		**34.3**
	June 1979		**38.7**		**36.7**

@The total is based on number of units and not on number of accounts in respect of small-scale sector.
* Excluding credit extended through issue of participation certificates to financial institutions.
Note : Figures for June 1979 are provisional.
Neg.=Negligible. N.A.=Not available.

June 1978 to Rs. 2,820 crores by June 1979—an increase of Rs. 610 crores or 27.6 per cent over the year.



Component-wise, advances to small-scale industries increased by Rs. 505 crores or 27.6 per cent to Rs. 2,333 crores, those to road and water transport operators by Rs. 98 crores (27.3 per cent) to Rs. 457 crores and advances for setting up industrial estates by Rs. 7 crores (30.4 per cent) to Rs. 30 crores, and constituted 82.7 per cent, 16.2 per cent and 1.1 per cent, respectively, of total advances to small-scale sector.

Other Priority Sectors. —Advances to other priority sectors increased from Rs. 454 crores at the end of June 1978 to Rs. 629 crores by end-June 1979 i.e. by Rs. 175 crores or 38.5 per cent. The increase in advances to retail trade and small business was by Rs. 136 crores, from Rs. 347 crores to Rs. 483 crores and that to professional and self-employed persons by Rs. 38 crores to Rs. 138 crores.

Exports : Bank credit to exports which amounted to Rs. 270 crores at the end of June 1969 rose to Rs. 1,457 crores by end-June 1979. The share of export credit in total bank credit worked out to 7.6 per cent at the end of June 1979; it was 7.5 per cent in June 1969.

Regional and Rural/Urban Pattern of Credit Deployment

Mention was made in the last year's Report of the target fixed by the Government of India requiring public sector banks 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. Table VI.18 shows region-wise/State-wise credit-deposit ratios of scheduled commercial banks according to population groups as at the end of June 1979. It will be seen that at the end of June 1979, the all-India credit-deposit ratio for rural and semi-urban offices worked out to 54.4 per cent and 47.2 per cent, respectively, and for urban/metropolitan offices to 79.4 per cent. In respect of rural offices, excepting the Southern Region, where the ratio for rural offices was high—78.4 per cent—it was lower than 60 per cent for rural offices in all the other regions; the ratio worked out to 52-55 per cent in Eastern and Central Regions, 40-43 per cent for Northern and Western Regions and was only 30 per cent for North-Eastern Region. The credit-deposit ratio for semi-urban offices was lower than 60 per cent in respect of all the regions—it was 59 per cent for Southern Region, 48-51 per cent for Northern and Central Regions, 43 per cent for Western Region and 32-34 per cent for Eastern and North-Eastern regions.

Data on frequency distribution of districts based on credit-deposit ratios as at the end of June 1978 and June 1979 of rural and semi-urban offices are shown in Tables VI.19A and VI.19B.

It will be seen that at the end of June 1979, the rural offices achieved a higher than 60 per cent ratio in 164 districts out of 392 districts, as against in 148 districts out of 388 districts

Table VI. 18 : State-wise Credit-Deposit Ratios of Offices of Public and Private Sector Scheduled Commercial Banks According to Population Groups

(As on the last Friday of June 1979)

Region/State/Union Territory	Rural			Semi-Urban			Urban/Metropolitan			Total		
	Public	Private	Total	Public	Private	Total	Public	Private	Total	Public	Private	Total
	1	2	3	4	5	6	7	8	9	10	11	12
Northern Region	**45.0**	**28.7**	**40.0**	**49.3**	**41.3**	**47.6**	**111.4**	**78.5**	**105.0**	**93.6**	**63.4**	**87.2**
Haryana	75.3	50.1	67.3	63.3	57.6	62.2	66.8	85.5	70.0	66.2	60.9	65.1
Himachal Pradesh	32.4	30.7	31.5	22.4	20.5	22.1	—	—	—	28.0	24.8	27.6
Jammu & Kashmir	41.1	14.8	25.9	48.8	51.8	50.2	29.7	40.5	35.8	34.0	36.4	35.4
Punjab	27.0	20.7	24.8	39.2	30.1	37.1	44.5	59.7	47.5	38.4	35.1	37.6
Rajasthan	80.5	80.4	80.5	67.1	59.9	65.7	66.8	47.7	62.8	69.1	55.7	66.5
Chandigarh	55.6	16.4	24.1	4.5	13.5	9.5	369.4	93.5	319.5	366.1	88.1	313.2
Delhi	267.3	25.9	202.6	—	—	—	114.1	93.3	110.6	114.3	93.2	110.7
North-Eastern Region	**26.8**	**90.3**	**29.7**	**33.7**	**38.7**	**34.0**	**42.3**	**52.7**	**43.4**	**34.8**	**50.6**	**36.0**
Assam	28.7	73.3	29.8	38.8	45.5	39.2	46.2	53.5	47.1	39.4	51.9	40.3
Manipur	51.5	100.0	51.7	11.8	—	11.8	17.6	43.8	19.4	21.6	43.4	22.8
Meghalaya	18.1	—	18.1	19.2	19.8	19.2	—	—	—	19.1	19.8	19.1
Nagaland	6.5	9.5	6.6	37.2	26.7	35.1	—	—	—	29.2	24.9	28.4
Sikkim	—	—	—	2.6	—	2.6	—	—	—	2.6	—	2.6
Tripura	55.2	139.3	77.8	38.0	91.2	39.9	—	—	—	40.9	124.4	48.0
Arunachal Pradesh	9.6	26.5	10.6	—	—	—	—	—	—	9.8	24.5	10.6
Mizoram	2.6	—	2.6	7.0	15.8	7.8	—	—	—	6.5	14.0	7.0
Eastern Region	**48.6**	**128.1**	**52.5**	**31.3**	**40.3**	**31.6**	**63.2**	**65.6**	**63.6**	**53.9**	**66.3**	**55.5**
Bihar	61.1	87.9	62.1	34.4	39.4	34.5	40.7	40.0	40.7	40.4	48.7	40.6
Orissa	69.1	238.6	87.1	55.1	59.3	55.4	56.2	46.0	55.0	58.2	85.4	61.1
West Bengal	33.0	77.5	34.7	23.4	32.0	23.7	68.4	67.2	68.2	59.2	66.4	60.3
Andaman & Nicobar Islands	38.4	—	38.4	20.2	—	20.2	—	—	—	23.0	—	23.0
Central Region	**56.3**	**47.2**	**55.3**	**52.2**	**38.8**	**51.1**	**45.6**	**56.1**	**46.7**	**49.1**	**50.4**	**49.2**
Madhya Pradesh	64.2	102.3	65.9	55.3	54.7	55.3	50.5	77.8	52.1	53.7	76.1	54.8
Uttar Pradesh	54.1	42.2	52.6	51.1	37.0	49.6	43.9	52.2	44.8	47.5	46.7	47.4
Western Region	**42.6**	**55.8**	**42.9**	**42.9**	**48.9**	**43.2**	**75.4**	**88.7**	**77.1**	**66.9**	**85.3**	**68.9**
Gujarat	33.5	28.6	33.5	37.3	29.7	37.2	66.6	64.2	66.6	51.8	61.0	52.0
Maharashtra	68.1	59.3	67.5	50.3	47.6	50.0	77.5	90.0	79.4	74.6	86.8	76.4
Dadra & Nagar Haveli	63.5	—	63.5	—	—	—	—	—	—	63.5	—	63.5
Goa, Daman & Diu	22.8	29.9	22.9	45.5	65.1	46.5	—	—	—	37.7	60.4	38.6
Southern Region	**84.3**	**64.9**	**78.4**	**64.0**	**47.9**	**59.3**	**90.0**	**74.7**	**86.8**	**82.1**	**63.8**	**77.7**
Andhra Pradesh	111.4	89.3	104.4	75.9	48.0	65.8	69.8	52.6	65.2	76.7	56.2	70.6
Karnataka	78.9	51.4	70.4	69.9	47.5	63.8	86.3	60.9	81.2	81.7	55.4	75.5
Kerala	51.7	56.5	53.5	45.0	47.1	45.7	100.0	96.6	99.3	67.0	61.1	65.3
Tamil Nadu	93.6	68.6	88.9	71.2	49.6	67.0	101.9	98.6	101.3	94.0	83.6	92.0
Lakshadweep	8.2	—	8.2	—	—	—	—	—	—	8.2	—	8.2
Pondicherry	91.6	65.5	89.9	37.1	12.9	35.8	61.6	38.7	60.7	61.3	38.8	60.4
All India	**55.2**	**50.8**	**54.4**	**47.5**	**45.1**	**47.2**	**80.0**	**76.4**	**79.4**	**70.0**	**67.0**	**69.5**

Note : The data are provisional.

Source : Returns on Aggregate Deposits and Gross Bank Credit.

Table VI. 19A : Frequency Distribution of Districts based on Credit-Deposit Ratios for Rural Offices of all Scheduled Commercial Banks

(As on the last Friday of June)

(Rupees crores)

Frequency (Credit-Deposit Ratio)	1978			1979		
	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances
	1	2	3	4	5	6
Up to 20%	72	445 (6)	54	48	422 (9)	50
20% — 30%	53	491 (9)	120	52	598 (12)	148
30% — 40%	49	303 (6)	109	45	317 (7)	111
40% — 50%	29	137 (5)	62	48	333 (7)	150
50% — 60%	37	269 (7)	147	35	325 (9)	176
Above 60%..	148 (38.1)£	734 (5)	756	164 (41.8)£	1,069 (7)	1,032
Total	**388**	**2,379**	**1,248**	**392**	**3,064**	**1,667**

@ Figures in brackets represent amount of deposits per district under each size class (in crores of rupees).
£ As percentage of total number of districts.
Note : The data are provisional.
Source : Returns on Aggregate Deposits and Gross Bank Credit.

Table VI.19B: Frequency Distribution of Districts Based on Credit-Deposit Ratios for Semi-Urban Offices of all Scheduled Commercial Banks

(As on the last Friday of June)

(Rupees crores)

Frequency (Credit-Deposit Ratio)	1978			1979		
	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances
	1	2	3	4	5	6
Upto to 20%	40	582 (15)	92	28	530 (19)	82
20% — 30%	57	815 (14)	195	56	1,129 (20)	267
30% — 40%	55	1,086 (20)	373	54	1,173 (22)	418
40% — 50%	46	703 (15)	324	52	1,059 (20)	480
50% — 60%	35	529 (15)	280	59	1,041 (18)	575
Above 60%..	113 (32.7)£	1,467 (13)	1,193	98 (28.2)£	1,511 (15)	1,218
Total	**346**	**5,182**	**2,457**	**347**	**6,443**	**3,040**

@ Figures in brackets represent amount of deposits per district under each size class (in crores of rupees).
£ As percentage of total number of districts.
Note : The data are provisional.
Source : Returns on Aggregate Deposits and Gross Bank Credit.

at the end of June 1978. The number of districts falling in the range of 40 to 50 per cent credit-deposit ratio was also higher at 48, as against 29 at the end of June 1978, while the number of districts having a credit-deposit ratio of 20 per cent and lower was reduced from 72 in June 1978 to 48 in June 1979. As regards semi-urban offices, at the end of June 1979, 98 district out of a total of 347 districts had a credit-deposit ratio above 60 per cent, as against 113 districts out of a total of 346 districts in June 1978. The number of districts achieving credit-deposit ratio 50 to 60 per cent was higher at 59 in June 1979 as against 35 in June 1978, while the number of districts with credit-deposit ratio upto 20 per cent was reduced from 40 in June 1978 to 28 in June 1979.

Distribution of Credit According to Interest Range

Table VI.20 shows classification of loans and advances of scheduled commercial banks according to interest range as at the end of June 1975 to June 1978.

It will be seen that the distribution of credit according to interest rates underwent substantial change between June 1977 and June 1978, as a result of the all round reduction in lending rates which became effective from March 1, 1978. With the lowering of the ceiling rates on advances, the proportion of credit with interest rates above 15 per cent to total credit declined sharply from 36.1 per cent to 7.9 per cent. Outstanding credit given at 11 to 12 per cent interest declined from 22.5 per cent at the end of June 1977 to 8.6 per cent by the end of June 1978, while that given at 10 to 11 per cent showed a more or less corresponding increase from 2.0 per cent to 18.2 per cent reflecting presumably the reduction in rate of interest on food credit from 12 per cent to 11 per cent.

GEOGRAPHICAL AND FUNCTIONAL COVERAGE OF BANKS

Branch Expansion

Mention was made in the last year's Report of the new Branch Licensing Policy formulated by the Reserve Bank in August 1978 providing for the opening of 6,500 additional bank offices in the rural and semi-urban areas of the deficit districts in the country (*i.e.* districts where the average population per rural/semi-urban office in relation to the population of such areas is higher than the national average of 20,000) during the three years 1979-81. The new policy thus aimed at achieving a progressive reduction in the imbalances in branch banking. In order to achieve this, the Reserve Bank asked the State Governments to suggest centres in the rural and semi-urban areas of the deficit districts where they would like bank offices to be opened. The State Governments were also asked to give suggestions regarding centres where there was urgent need for bank offices, having regard to the needs of the developmental programmes in the context of the existing banking facilities. In accordance with the guidelines laid down in the new policy, the detailed programme of branch expansion on a district by district basis for each State/Union Territory was drawn up by the Reserve Bank in consultation with the State Governments and banks.

The new policy has been in force since January 1979, and the process of allotment of rural and semi-urban centres—identified by the State Governments for locating the additional branches to be opened within the framework of the policy, has been going on since then. Till the end of June 1980, the Reserve Bank issued 6088 authorisations to banks for opening offices in the rural and semi-urban areas. The allottee banks were advised to gear up their machinery to achieve the pace of expansion by opening offices at the centres allotted to them, so as to achieve the overall objective of bringing about a perceptible reduction in the inter-district and inter-State disparities in the spread of banking facilities before the end of 1981. The new policy permits expansion in urban/Metropolitan areas only on a highly selective basis.

Of the 653 unbanked block headquarters (inclusive of the block headquarters served only by a branch of an RRB) identified as at the end of June 1980, 131 block headquarters fall within 3 kms. from the nearest bank office and were treated as banked as per the guidelines issued by the Government. In respect of another 5 block headquarters, banking needs were already adequately

Table VI. 20 : Distribution of Loans and Advances* of Scheduled Commercial Banks According to Interest Range

(As on the last Friday)

(Amount in rupees crores)

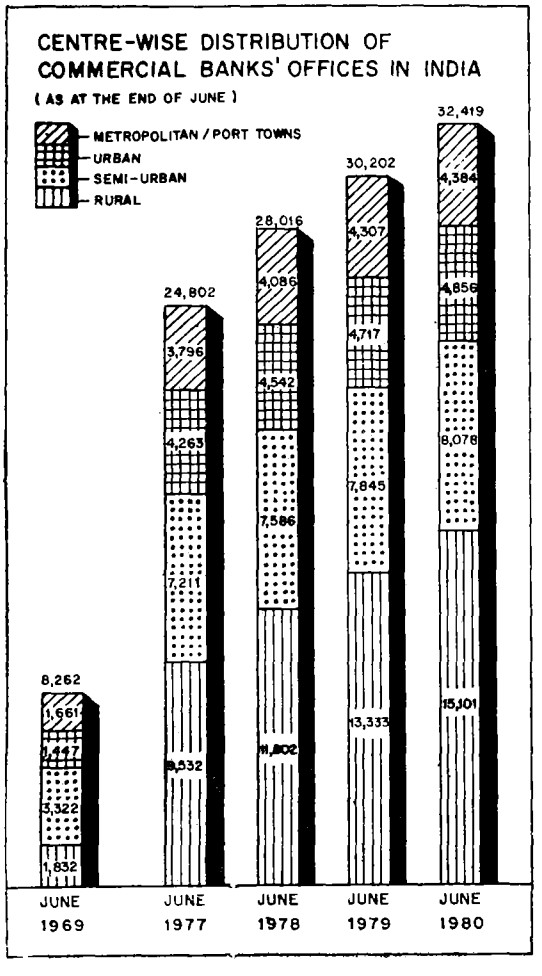
Interest Range	June 1975		June 1976		June 1977		June 1978	
	No. of Accounts	Out-standing	No. of Accounts	Out-standing	No. of Accounts	Out-standing	No. of Accounts	Out-standing
	1	2	3	4	5	6	7	8
6 per cent and less	23,669 *(4.8)*	147.6 *(2.2)*	29,512 *(5.2)*	173.6 *(2.2)*	34,844 *(5.3)*	213.5 *(2.3)*	43,772 *(5.6)*	240.4 *(2.2)*
Above 6 per cent and upto 9 per cent	5,816 *(1.2)*	113.1 *(1.7)*	4,555 *(0.8)*	69.0 *(0.9)*	4,634 *(0.7)*	97.2 *(1.0)*	15,977 *(2.1)*	220.6 *(2.0)*
Above 9 per cent and upto 10 per cent	30,147 *(6.1)*	121.7 *(1.9)*	30,343 *(5.4)*	133.7 *(1.7)*	35,486 *(5.4)*	150.3 *(1.6)*	32,212 *(4.1)*	148.4 *(1.3)*
Above 10 per cent and upto 11 per cent	24,908 *(5.0)*	110.4 *(1.7)*	27,602 *(4.9)*	118.2 *(1.5)*	39,534 *(6.1)*	184.3 *(2.0)*	97,933 *(12.6)*	2032.3 *(18.2)*
Above 11 per cent and upto 12 per cent	49,402 *(10.0)*	769.9 *(11.7)*	61,322 *(10.9)*	1684.4 *(21.0)*	76,046 *(11.7)*	2095.6 *(22.5)*	90,192 *(11.6)*	956.6 *(8.6)*
Above 12 per cent and upto 13 per cent	50,519 *(10.2)*	322.5 *(4.9)*	58,883 *(10.4)*	320.2 *(4.0)*	72,516 *(11.1)*	378.0 *(4.1)*	121,722 *(15.6)*	909.8 *(8.2)*
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)*	77,483 *(10.0)*	1788.4 *(16.0)*
Above 14 per cent and upto 15 per cent	64,935 *(13.1)*	1700.0 *(25.8)*	76,991 *(13.6)*	1942.1 *(24.3)*	91,649 *(14.1)*	2096.2 *(22.5)*	237,211 *(30.5)*	3963.9 *(35.6)*
Above 15 per cent and upto 16 per cent	65,624 *(13.2)*	1465.8 *(22.3)*	68,479 *(12.1)*	1636.6 *(20.4)*	68,139 *(10.4)*	1869.7 *(20.1)*	28,921 *(3.7)*	522.6 *(4.7)*
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)*	27,859 *(3.6)*	316.2 *(2.8)*
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)*	3,417 *(0.4)*	36.8 *(0.3)*
Above 18 per cent	13,099 *(2.5)*	123.4 *(1.8)*	8,013 *(1.4)*	67.3 *(0.8)*	6,192 *(1.0)*	55.0 *(0.6)*	1,469 *(0.2)*	13.8 *(0.1)*
TOTAL	**496,401 (100.0)**	**6580.0 (100.0)**	**564,656 (100.0)**	**8001.9 (100.0)**	**652,477 (100.0)**	**9313.3 (100.0)**	**778,168 (100.0)**	**11149.8 (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 percentage to total.

Source : Basic Statistical Returns.

catered to by bank offices functioning beyond 3 kms. and were therefore also treated as banked, while another 160 block headquarters were adequately served by an RRB branch. Of the remaining 357 block headquarters, offices at 187 block headquarters were opened, while in respect of 123 block headquarters, licences were pending with the banks. A close watch was kept on opening offices at the remaining 47 block headquarters. Of these, in 39 centres banks have expressed difficulties in opening offices mainly due to lack of infrastructural facilities; the question of providing the necessary infrastructure at these centres is being pursued with the concerned State Government authorities. The allottee banks have been asked to open offices at all the unbanked block headquarters as early as possible and in any case before December 31, 1980.



During the year 1979-80 (July-June), 2,224 offices were opened by commercial banks (7 offices were closed during the period) as against 2,191 offices opened in the previous year. The thrust into unbanked areas continued with 1,735 offices or 78.0 per cent of the total new offices opened in such areas as against 1,478 offices or 67.5 per cent opened in unbanked areas in 1978-79. The bulk of these offices were opened in the backward states of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal. The number of offices opened in rural areas during the year 1979-80 at 1,768 (adjusted for 7 offices closed during the period) formed 79.7 per cent of the total offices opened during the year, as against 70.6 per cent in 1977-78 and 70.0 per cent in 1978-79 (Table VI.21).

Table VI.21: 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 percentage of (2)
1	2	3	4
1969-70 ..	1,869	1,230	65.8
1970-71 ..	1,882	1,217	64.7
1971-72 ..	1,609	537	33.4
1972-73 ..	1,740	744	42.8
1973-74 ..	1,574	605	38.4
1974-75 ..	1,794	641	35.7
1975-76 ..	2,490	881	35.4
1976-77 ..	3,582	1,846	51.5
1977-78 ..	3,214	2,269	70.6
1978-79 ..	2,186	1,531	70.0
1979-80 ..	2,217	1,768	79.7

@ Adjusted for offices closed.

The number of commercial bank offices in the country increased from 8,321 on the eve of nationalisation to 32,419 by end-June 1980 (Table VI.22). Of the 24,098 offices opened from July 19, 1969 to end-June 1980, 13,200 offices (54.8 per cent) were opened in unbanked centres. The average population per bank office declined from 65,000 at the time of nationalisation to 17,000 at the end of June 1980.

Table VI.22: Centre-wise Distribution of Commercial Bank Offices in India

Bank Group	No. of offices as on														
	19-7-1969					30-6-1979					30-6-1980				
	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
State Bank of India	462 (29.4)	796 (50.7)	163 (10.4)	150 (9.5)	1571 (100.0)	2,330 (46.1)	1,528 (30.2)	661 (13.1)	533 (10.6)	5,052 (100.0)	2,508 (47.4)	1,567 (29.6)	676 (12.8)	542 (10.2)	5,293 (100.0)
Associate Banks of State Bank of India	358 (40.0)	375 (42.0)	86 (9.6)	75 (8.4)	894 (100.0)	1024 (43.9)	755 (32.3)	315 (13.5)	241 (10.3)	2,335 (100.0)	1,089 (44.5)	767 (31.4)	341 (13.9)	250 (10.2)	2,447 (100.0)
14 Nationalised Banks ..	703 (16.9)	1,465 (35.1)	928 (22.3)	1,072 (25.7)	4,168 (100.0)	5,767 (39.7)	3,647 (25.1)	2,609 (18.0)	2,510 (17.2)	14,533 (100.0)	6,428 (41.9)	3,726 (24.3)	2,659 (17.3)	2,543 (16.6)	15,356 (100.0)
6 Banks Nationalised on 15-4-1980*						1027 (39.4)	649 (24.9)	488 (18.7)	443 (17.0)	2,607 (100.0)	1,115 (40.9)	655 (24.0)	506 (18.6)	450 (16.5)	2,726 (100.0)
Regional Rural Banks ..	—	—	—	—	—	1,813 (92.2)	131 (6.7)	21 (1.1)	— (—)	1,965 (100.0)	2,473 (92.3)	181 (6.8)	24 (0.9)	— (—)	2,678 (100.0)
Other Commercial Banks ..	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1,688 (100.0)	1,372 (37.0)	1,135 (30.6)	623 (16.8)	580 (15.6)	3,710 (100.0)	1,488 (37.9)	1,182 (30.2)	650 (16.6)	599 (15.3)	3,919 (100.0)
Total	**1,860** (22.3)	**3,344** (40.2)	**1,456** (17.5)	**1,661** (20.0)	**8,321** (100.0)	**13,333** (44.1)	**7,845** (26.0)	**4,717** (15.6)	**4,307** (14.3)	**30,202** (100.0)	**15,101** (46.6)	**8,078** (24.9)	**4,856** (15.0)	**4,384** (13.5)	**32,419** (100.0)

* Number of offices as on 19-7-1969 are included under "other commercial banks" group.

Note: 1. 7 offices were closed during the period July 1979 to June 1980.

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 Murmugoa.

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

Source: Returns submitted by banks.

Regional Rural Banks (RRBs)

During the year under review, the Central Government set up 17 more RRBs, bringing the total number of RRBs to 73 in 17 States. The total number of branches of RRBs rose by 688 from 1990 at the end of June 1979 to 2,678 by the end of June 1980. The Table below shows the State-wise break-up of the RRBs together with the number of branches and districts covered.

State	Number of		
	RRBs	Branches	Districts
1. Andhra Pradesh ..	4	265	9
2. Assam	1	42	3
3. Bihar	14	448	22
4. Gujarat	2	39	2
5. Haryana ..	2	76	4
6. Himachal Pradesh ..	1	27	3
7. Jammu & Kashmir ..	2	54	8
8. Karnataka ..	4	211	7
9. Kerala	2	150	3
10. Madhya Pradesh ..	9	203	15
11. Maharashtra ..	1	70	4
12. Orissa	6	186	8
13. Rajasthan ..	4	208	8
14. Tamil Nadu ..	1	75	2
15. Tripura	1	30	3
16. Uttar Pradesh ..	15	447	18
17. West Bengal ..	4	147	11
Total	**73**	**2678**	**130**

As at the end of June 1980, the total deposits with RRBs amounted to Rs. 162.23 crores and their advances to Rs. 189.22 crores (64 RRBs), as against Rs. 98.00 crores and Rs. 113.70 crores (56 RRBs), respectively, a year earlier. According to the progress reports received from 57 RRBs, of their total advances (outstanding) of Rs. 167 crores as on the last Friday of December 1979, those granted to small/marginal farmers, landless labourers and rural artisans aggregated Rs. 154 crores or 92 per cent.

The RRBs continued to avail of the Refinance Scheme introduced on October 1, 1976. For the year 1979-80 (July-June), limits aggregating Rs. 75.64 crores were sanctioned by the Reserve Bank to 45 RRBs. The amount drawn against these limits and outstanding as on the last Friday of June 1980 was Rs. 67.38 crores.

The Steering Committee on RRBs constituted in the Reserve Bank (a reference to which was made in the last Report) decided, *inter alia*, to undertake a quick study of all the issues having a bearing on the viability of RRBs. Accordingly, 15 RRBs which had been in existence for three years, or which had attained a loan business of Rs. 3 crores and above by the end of December 1978 were selected for study. The broad findings of the study were that it is not possible for all branches to become viable because some branches are located at centres where the potential is limited. Some branches cannot expand their business because of keen competition from branches of commercial banks and co-operative banks. The RRBs have so far been able to achieve the main objective of helping the weaker sections in the rural areas in meeting their credit requirements despite the constraint of limited area of operation, an unhelpful topography (in some areas) and an unenterprising clientele.

In pursuance of one of the recommendations of the Dantwala Committee, and on the advice of the Steering Committee, RRBs have been advised to render other banking services viz.,

(*a*) collection of cheques and bills,

(*b*) issue of drafts, MTs/TTs, and

(*c*) miscellaneous services such as collection of insurance premia, electricity bills, safe custody, etc.

The Reserve Bank, in consultation with the Government of India, decided to enlarge the scope of financing by RRBs so as to include "other farmers", i.e., other than small and marginal farmers, who are cultivating lands within the project area approved for refinance by ARDC. The advances to farmers other than small and marginal farmers were, however, to be restricted to a certain fixed percentage of total advances. The relaxation for financing "other farmers" was allowed only on the conditions that (*a*) the RRB has been participating in the land development schemes in the project approved for refinance by ARDC, (*b*) such "other farmers" to be financed by the RRB are cultivating land within the specific project areas indicated in the scheme and the land cultivated by them form an integral part of the scheme taken up for refinance by the ARDC, (*c*) there should be a preponderance of small and marginal farmers in the area in question, and (*d*) the relaxation relates

only to term loans and *not* short term loans in the form of crop loans, if such short term loans did not form part of the composite loan approved by the ARDC for the purpose of refinance. Loans to "other farmers" in non-ARDC scheme, so also loans for subsidiary occupations, such as poultry, dairy, piggery, etc., whether under the ARDC scheme or otherwise, were not covered by this relaxation.

The Reserve Bank also advised the RRBs to adopt the recommendations of the Baldev Singh Working Group on the simplification of application forms and procedures in respect of financing of agriculture. Certain other relaxations concerning margin, security, etc., recommended by the Working Group were also to be adopted by RRBs, in case they were not following such liberalised terms of lending.

Deposits and Credit of Scheduled Commercial Banks

The impact of the branch expansion programme of scheduled commercial banks on the regional distribution of deposits and credit is shown in Table VI. 23.

Table VI. 23 : Distribution of Deposits and Advances of Scheduled Commercial Banks according to Population Groups (June 1969—December 1979)

(Rupees crores)

Population Group*	As on the last Friday of							
	June 1969		December 1978		December 1979		Increase (June 1969 to December 1979)	
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
	1	2	3	4	5	6	7	8
1. Rural	145	54	2,747	1,555	3,538	2,016	3,393	1,962
Percentage to total	*3.1*	*1.5*	*10.4*	*8.4*	*11.3*	*9.4*	*12.7*	*11.0*
Average amount per office	0.10	0.04	0.22	0.12	0.25	0.14		
2. Semi-urban	1,024	407	5,793	2,858	7,079	3,435	6,055	3,028
Percentage to total	*22.0*	*11.3*	*21.9*	*15.4*	*22.5*	*16.0*	*22.6*	*17.0*
Average amount per office	0.31	0.12	0.74	0.37	0.89	0.43		
3. Urban	1,209	722	6,637	3,975	7,828	4,604	6,619	3,882
Percentage to total	*25.9*	*20.0*	*25.0*	*21.4*	*24.9*	*21.4*	*24.7*	*21.7*
Average amount per office	0.63	0.38	1.33	0.79	1.63	0.96		
4. Metropolitan/Port Towns	2,287	2,426	11,332	10,183	12,993	11,421	10,706	8,995
Percentage to total	*49.0*	*67.2*	*42.7*	*54.8*	*41.3*	*53.2*	*40.0*	*50.3*
Average amount per office	1.53	1.62	2.92	2.62	2.99	2.63		
TOTAL (1 to 4)	**4,665** (*100.0*)	**3,609** (*100.0*)	**26,509** (*100.*)	**18,571** (*100.0*)	**31,438** (*100.0*)	**21,476** (*100.0*)	**26,773** (*100.0*)	**17,867** (*100.0*)
Average amount per office	0.57	0.44	0.90	0.63	1.00	0.68		

* Based on 1971 Census.

Note : Data for December 1978 and 1979 are provisional.

Source: Monthly return on 'Aggregate Deposits and Gross Bank Credit'.

During the ten-and-half year post-nationalisation period (end-June 1969 to end-December 1979), accretion to scheduled commercial banks' deposits was of the order of Rs. 26,773 crores from Rs. 4,665 crores on the last Friday of June 1969 to Rs. 31,438 crores by the last Friday of December 1979, while their outstanding advances expanded by Rs. 17,867 crores from Rs. 3,609 crores to Rs. 21,476 crores. Metropolitan offices accounted for Rs. 10,706 crores or 40.0 per cent of deposits accretion and for Rs. 8,995 crores or 50.3 per cent of the incremental credit. Urban offices claimed Rs. 6,619 crores (24.7 per cent) of deposit accretion and Rs. 3,882 crores (21.7 per cent) of credit expansion. The share of semi-urban and rural offices in deposit growth worked out to 22.6 per cent and 12.7 per cent and in incremental credit to 17.0 per cent and 11.0 per cent, respectively.

Over the period, however, the share of rural offices in aggregate deposits increased from 3.1 per cent to 11.3 per cent and in total advances from 1.5 per cent to 9.4 per cent, while that of metropolitan offices declined from 49.0 per cent to 41.3 per cent and from 67.2 per cent to 53.2 per cent, respectively. Though the share of the semi-urban and urban offices in deposit mobilisation in December 1979 was more or less the same as at the end of June 1969, they were able to increase their share in advances from 11.3 per cent to 16.0 per cent and from 20.0 per cent to 21.4 per cent, respectively. Over the period June 1969 to December 1979, the credit-deposit ratio of the rural and semi-urban offices showed marked improvement from 37.2 per cent and 39.7 per cent, respectively, in June 1969 to 57.0 per cent and 48.5 per cent in December 1979, though they are still much behind the target ratio of 60 per cent. As against this, the credit-deposit ratio of urban offices declined from 59.7 per cent to 58.8 per cent over the period and of metropolitan offices from 106.1 per cent in end-June 1969 to 87.9 per cent by end-December 1979.

Latest available data on the performance of banks in the various population groups in mobilising the different types of deposits are given in Table VI. 24. It will be seen that as at the end of June 1978, deposits of scheduled commercial banks aggregated Rs. 23,346 crores in 922 lakh accounts. Metropolitan offices accounted for 42.6 per cent of the deposits but 24.0 per cent of the accounts, while urban offices' share was about one-fourth in both deposits and accounts. As against these, rural offices and semi-urban offices held only 9.9 per cent and 22.3 per cent of deposits but their share in total number of accounts was 20.4 per cent and 30.7 per cent.

Term deposits constituted 56.6 per cent of total deposits but accounted for only 29.1 per cent of total number of accounts. As against this, savings accounts constituted almost two-thirds of total number of accounts (64.8 per cent), but their share in total deposits was only 26.9 per cent. Current deposits accounted for only 6.1 per cent of total number of accounts and 16.5 per cent of total amount of deposits.

The rural and semi-urban offices were able to attract a comparatively large number of small savers; savings accounts in respect of these two groups together formed 53.4 per cent of the total savings accounts for all groups of offices, and the amount of savings deposits held in those accounts constituted 42.6 per cent of total savings deposits. The average size of savings deposit per account in the case of these two groups was Rs. 725 and Rs. 920, respectively, compared to Rs. 1,103 and Rs. 1,494 in the case of urban and metropolitan offices.

Metropolitan offices serving mostly the business community claimed 53.7 per cent of total current deposits but the number of current accounts in metropolitan offices constituted 30.5 per cent of total current accounts. Rural offices and semi-urban offices accounted for 13.0 per cent and 28.8 per cent of total number of current accounts but their share in current deposits was only 5.0 per cent and 16.5 per cent. The average balance per current account was highest at Rs. 11,961 for metropolitan offices and lowest at Rs. 2,630 for rural offices. In the case of term deposits again, metropolitan offices claimed the highest share (44.2 per cent of total term deposits), followed by urban (25.4 per cent) and semi-urban (21.7 per cent), while rural offices' share in total term deposits was only

Table VI. 24 : Distribution of Deposits of Scheduled Commercial Banks according to Population Group and Type of Deposits

(As on the last Friday of June 1978)

(No. of accounts in thousands)
(Amount in rupees lakhs)

Population Groups	Current			Savings			Term			Total		
	No. of Accounts	Amount out-standing	Average per Account (Rs.)	No. of Accounts	Amount out-standing	Average per Account (Rs.)	No. of Accounts	Amount out-standing	Average per Account (Rs.)	No. of Accounts	Amount out-standing	Average per Account (Rs.)
	1	2	3	4	5	6	7	8	9	10	11	12
RURAL	**7,36**	**1,93,58**	**2,630**	**1,34,69**	**9,76,90**	**725**	**45,70**	**11,45,63**	**2,507**	**1,87,75**	**23,16,11**	**1,234**
Per cent to total deposit category	(13.0)	(5.0)		(22.5)	(15.5)		(17.1)	(8.7)		(20.4)	(9.9)	
Per cent to total deposits ..	3.9	8.4		71.7	42.2		24.4	49.4		100.0	100.0	
SEMI-URBAN	**16,26**	**6,36,20**	**3913**	**1,84,61**	**16,98,12**	**920**	**82,33**	**28,65,84**	**3,481**	**2,83,20**	**52,00,16**	**1,836**
Per cent to total deposit category	(28.8)	(16.5)		(30.9)	(27.1)		(30.7)	(21.7)		(30.7)	(22.3)	
Per cent to total deposits ..	5.8	12.2		65.2	32.7		29.0	55.1		100.0	100.0	
URBAN	**15,68**	**9,52,53**	**6,075**	**1,41,95**	**15,65,96**	**1,103**	**71,72**	**33,63,39**	**4,690**	**2,29,35**	**58,81,88**	**2,565**
Per cent to total deposit category	(27.7)	(24.8)		(23.8)	(25.0)		(26.8)	(25.4)		(24.9)	(25.2)	
Per cent to total deposits ..	6.8	16.2		61.9	26.6		31.3	57.2		100.0	100.0	
METROPOLITAN	**17,27**	**20,65,70**	**11,961**	**1,36,02**	**20,32,09**	**1,494**	**67,98**	**58,49,98**	**8,605**	**2,21,27**	**99,47,77**	**4,496**
Per cent to total deposit category	(30.5)	(53.7)		(22.8)	(32.4)		(25.4)	(44.2)		(24.0)	(42.6)	
Per cent to total deposits ..	7.8	20.8		61.5	20.4		30.7	58.8		100.0	100.0	
TOTAL	**56,57**	**38,48,01**	**6,802**	**5,97,27**	**62,73,07**	**1,050**	**2,67,73**	**132,24,84**	**4,940**	**9,21,57**	**233,45,92**	**2,533**
Per cent to total deposit category	(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)		(100.0)	(100.0)	
Per cent to total deposits ..	6.1	16.5		64.8	26.9		29.1	56.6		100.0	100.0	

Note: Data are provisional.
Source : Basic Statistical Returns.

8.7 per cent. The average amount of term deposit per account was Rs. 8,605 for metropolitan offices and Rs. 2,507 for rural offices.

Data on Statewise distribution of deposits according to different population groups reveal that, over the ten years of the post-bank nationalisation period (June 1969 to June 1979), of the total increase in deposits of rural offices of Rs. 2,919 crores, Uttar Pradesh claimed the largest share at Rs. 422 crores or 14.5 per cent, followed by Punjab Rs. 361 crores or 12.4 per cent, Gujarat Rs. 274 crores or 9.4 per cent and Karnataka Rs. 212 crores or 7.3 per cent. The increase ranged between Rs. 107 crores and Rs. 183 crores in seven States *viz.*, Bihar, West Bengal, Madhya Pradesh, Maharashtra, Andhra Pradesh, Kerala and Tamil Nadu; these seven States together accounted for Rs. 1,123 crores or 38.5 per cent of the total increase in rural deposits over the ten-year period. Deposit growth of rural offices was between Rs. 77 crores and Rs. 92 crores in Haryana, Himachal Pradesh, Rajasthan and Goa, Daman and Diu. In most of the remaining States/Union Territories, though the increase in deposits in absolute amount was not very large, the growth rate was substantial—the 1979 deposit level was several times the 1969 level.

Deposits in semi-urban centres rose by Rs. 5,418 crores over the decade; the largest increase was again in Uttar Pradesh (Rs. 598 crores), closely followed by Gujarat (Rs. 532 crores). The increase was between Rs. 395 crores and Rs. 478 crores in six States viz., Punjab, Bihar, West Bengal, Maharashtra, Kerala and Tamil Nadu and ranged between Rs. 207 crores and Rs. 358 crores in four States viz., Haryana, Madhya Pradesh, Andhra Pradesh and Karnataka.

The deposits of urban/metropolitan centres increased by Rs. 15,700 crores between June 1969 and June 1979. Maharashtra, Delhi and West Bengal topped the list, together accounting for an increase of Rs. 8,519 crores, or 54 per cent of the total increase.

Of the total deposit growth of Rs. 24,038 crores over the decade June 1969 to June 1979, Maharashtra's share was the largest at Rs. 4,494 crores or 18.7 per cent, followed by West Bengal Rs. 2,727 crores or 11.3 per cent, Delhi Rs. 2,479 crores or 10.3 per cent, and U. P. Rs. 2,254 crores or 9.4 per cent.

As in the case of total deposit mobilisation, Maharashtra claimed the largest share of Rs. 3,220 crores or 19.7 per cent of the total incremental credit of Rs. 16,334 crores over the decade, followed by Delhi Rs. 2,951 crores or 18.1 per cent. Tamil Nadu and West Bengal came next accounting, respectively, for Rs. 1,404 crores or 8.6 per cent and Rs. 1,333 crores or 8.2 per cent of total incremental credit.

State-wise distribution of bank credit in respect of the three population groups over the period June 1969 to June 1979 show that of the total increase in bank credit of rural offices of Rs. 1,612 crores, Uttar Pradesh received the largest share of Rs. 218 crores, and Andhra Pradesh came next with Rs. 193 crores. The increase in credit over the ten-year period ranged between Rs. 118 crores and Rs. 155 crores in three States viz., Karnataka, Tamil Nadu and Maharashtra—these five States together accounted for over 50 per cent of the total incremental credit of rural offices. In some of the less developed States, the increase in credit of rural offices in absolute terms was not impressive, but the June 1979 level of credit was several times the June 1969 level; for instance, it was more than 400 times in West Bengal, Orissa and Jammu and Kashmir, 197 times in Madhya Pradesh and 98 times in Himachal Pradesh.

Of the total increase in credit of Rs. 2,633 crores of the semi-urban centres, the share of Uttar Pradesh was Rs. 295 crores and of Tamil Nadu Rs. 259 crores; the increase was over Rs. 200 crores in Andhra Pradesh, Maharashtra, Kerala and Gujarat. Advances of urban and metropolitan bank offices increased by Rs. 12,088 crores over the decade, of which the share of Delhi was the highest at Rs. 2,942 crores or 24.3 per cent and that of Maharashtra at Rs. 2,875 crores or 23.8 per cent. These two, together with West Bengal (Rs. 1,167 crores) and Tamil Nadu (Rs. 1,004 crores) claimed 66 per cent of the total incremental advances of urban/metropolitan offices.

INDIAN BANKS' OFFICES ABROAD

During 1979-80, Indian commercial banks opened 13 offices* in foreign countries as against 10 offices opened in the previous year. Of these, two each were in Sri Lanka (foreign currency banking units) and U. S. A. and one each in U. K., Oman, Panama, Japan. Nigeria, Tanzania, Australia, Kuwait and Hong Kong. (Table VI. 25)

At the end of June 1980, there were 11 Indian commercial banks having 130 branches (including 2 foreign currency banking units) functioning in 25 countries. Besides, there was one subsidiary of the Bank of Baroda with three offices operating in a foreign country.

Table VI-25: Number of offices opened or closed in foreign countries by Indian banks during July 1979—June 1980

A—No. of offices opened	Two each in Sri Lanka and U S.A., one each in U.K., Oman, Japan, Nigeria, Tanzania, Australia, Hongkong, Panama and Kuwait.
B—No. of offices closed	—NIL—

WORKING OF DIFFERENT INSTITUTIONS

(a) Export Credit and Guarantee Corporation Ltd.

The number of policies and guarantees issued by the Export Credit and Guarantee Corporation (ECGC) and remaining in force stood at 8,695 at the end of June 1980, as compared to 8,678 at the end of June 1979. (Table VI.26). The value of risk covered during the year (July-June) amounted to Rs. 5,265.6 crores, of which the value of exports covered under insurance policies and other schemes accounted for Rs. 882.7 crores, while the balance of Rs. 4,382.9 crores represented export advances and other bank facilities covered under the financial guarantees. In the preceding year, the value of risk covered was Rs. 4408.9 crores, comprising Rs. 818.1 crores being the value of exports covered and Rs. 3590.8 crores being risk covered, under financial guarantees. The premium income earned during the year was higher at Rs. 9.5 crores, as against Rs. 7.1 crores earned during 1978-79.

*7 branches (including upgradation of one representative office into a branch) 4 representative offices, one deposit taking company and one joint venture Exchange Company.

New Schemes

ECGC evolved during the year two new schemes *viz.*, the Exchange Fluctuation Risk (Bid) Cover Scheme and the Exchange Fluctuation Risk (Contract) Cover Scheme to provide insurance cover against the risk of loss due to fluctuations in exchange rates. The Exchange Fluctuation Risk (Bid) Cover Scheme is meant to protect exporters against possible loss due to exchange fluctuation between the date of submission of the bid and the date of signing the contract. The Exchange Fluctuation Risk (Contract) Cover Scheme is to provide cover against exchange fluctuation from the date of contract upto a maximum period of 15 years for the amounts receivable from the buyer.

Bids/Contracts for export of goods which are eligible for export on deferred payment terms for a period exceeding one year, turnkey jobs and civil construction contracts which have been duly cleared by the authorities designated by the Reserve Bank of India are eligible for cover under these schemes, irrespective of whether any deferred credit terms are actually offered or not. Bids for services contracts may also be covered at the discretion of the Corporation. Cover shall be available only on the value of the bid/contract representing goods and services for which payments are to be received in India in approved foreign currencies, *viz.*, Sterling Pound, U. S. Dollar, Deustche Mark, Japanese Yen, Swiss Franc and French Franc. Any contract executed in India but paid for in foreign currency with assistance from International Financial Institutions and which are treated as export contracts for the purpose of export incentives by Government of India, will also be considered eligible for cover under the scheme with due regard to the mode of payment.

Table VI. 26 : ECGC's Guarantees and Policies for Exporters (July-June)

	No. of policies and guarantees				Bank Finance (Guarantees availed of) (Rs. crores)	
	Issued during		In force at the end of			
	1978-79	1979-80	1978-79	1979-80	1978-79	1979-80
	1	2	3	4	5	6
Standard Policies	4241	4641	4977	5040	—	—
Packing Credit Guarantee	870	601	899	555	3,265.33	3,686.15
Post-shipment Guarantee	1013	823	869	657	221.04	506.93
Export Finance Guarantee	318	270	355	255	16.89	18.67
Export Production Finance Guarantee	14	30	54	52	26.47	15.09
Export Performance Guarantee	1303	1399	1503	2101	58.38	155.02
Special Schemes (Transfer Guarantees, Buyer Credit Insurance and Line of Credit Insurance)	68	45	21	35	—	—
TOTAL	**7,827**	**7,809**	**8,678**	**8,695**	**3,588.11**	**4,381.86**

Source : Export Credit and Guarantee Corporation Ltd.

The schemes were put into operation from August 2, 1980.

(b) Deposit Insurance and Credit Guarantee Corporation.

The Deposit Insurance and Credit Guarantee Corporation (DICGC) made significant progress during the year in the achievement of its objectives of providing insurance cover to small depositors and guarantee support for credit granted to small borrowers.

Deposit Insurance Function

The number of insured banks increased from 978 at the end of June 1979 to 1,412 by end-June 1980, and comprised 78 commercial banks, 70 regional rural banks and 1,264 co-operative banks. This increase was mainly brought about by extension of the Deposit Insurance Scheme to 280 co-operative banks in the State of Gujarat from September 1, 1979. By the end of June 1980, the Scheme covered co-operative banks in 12 States and 3 Union Territories *viz.*, Andhra Pradesh, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tripura, Uttar Pradesh, West Bengal, Delhi, Goa, Daman and Diu and Pondicherry. The scheme was extended to 145 co-operative banks in Tamil Nadu with effect from July 1, 1980. Thus, only about 100 co-operative banks remain to be brought under the coverage of the Deposit Insurance Scheme.

The rate of insurance premium remained unchanged at 4 paise per Rs. 100 per annum. The limit of the insurance coverage under the scheme was enhanced from Rs. 20,000 to Rs. 30,000 from July 1, 1980.

Insured deposits of commercial and co-operative banks at the end of June 1979 amounted to Rs. 18,585 crores, representing 69.5 per cent of the total assessable deposits of Rs. 26,743 crores. Fully protected accounts numbered 1,067 lakhs (98.4 per cent of the total of 1,085 lakh accounts), as against 915 lakh accounts (98.3 per cent of the total of 931 lakh accounts) in September 1978.

The deposit insurance claims paid or provided for by the Corporation since its inception amounted to Rs. 2.10 crores, and relate to 14 commercial banks and nine co-operative banks. Since the inception of the Corporation, repayments to the extent of Rs. 73.94 lakhs have been received in respect of com-

mercial banks, including full repayment received in the case of two banks, while there have been no repayments in regard to co-operative banks.

Credit Guarantee Function

The total advances covered by the three guarantee schemes viz., Small Loans Guarantee Scheme, Financial Corporations Guarantee Scheme, and Service Co-operative Societies Guarantee Scheme, increased from Rs. 2,164.72 crores at the end of June 1979, to Rs. 2,469.88 crores by the end of June 1980, a rise of 14.1 per cent over the year (Table VI. 27). Advances to farmers and agriculturists continued to account for the major portion of the guarantee cover at 63.4 per cent, followed by advances to transport operators (13.5 per cent) and retail traders (11.4 per cent).

At the end of June 1980, all the 75 functioning commercial banks and 59 Regional Rural Banks were participating in the Small Loans Guarantee Scheme; this scheme 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 are participating in the Financial Corporations Guarantee Scheme. Participation in the Service Co-operative Societies Guarantee Scheme is open to all scheduled commercial banks, regional rural banks and co-operative banks (other than primary co-operative banks) which are eligible for deposit insurance cover. So far, 61 commercial banks, 28 regional rural banks and 35 co-operative banks have joined the Scheme.

Guarantee claims numbering 36,535 for Rs. 11.30 crores were received during 1979, which far exceeded the claims lodged in any of the earlier years. During the six month period ended June 1980, a record number of 24,853 claims for Rs. 4.64 crores were received. Claims received since the inception of the scheme up to June 1980 numbered 1,12,951 and were for Rs. 31.40 crores. To meet the increasingly large number of claims

Table VI. 27: Credit Facilities Guaranteed by Deposit Insurance and Credit Guarantee Corporation

(Rupees crores)

Scheme/Category of Borrowers	As on last Friday of June					
	1972	1976	1977	1978	1979	1980*
	1	2	3	4	5	6
A. Small Loans Guarantee Scheme, 1971 ..	**205.71**	**993.20**	**1,322.80**	**1,706.29**	**2,154.45**	**2459.24**
1. Farmers and agriculturists	134.67	650.18	845.64	1,057.04	1,345.80	1,566.02
2. Transport Operators	28.29	149.91	202.25	282.66	310.54	334.65
3. Retail traders	28.34	99.40	138.00	178.92	257.39	280.58
4. Professional and self-employed persons.	9.14	51.33	69.72	87.96	108.11	115.40
5. Business enterprises	5.27	31.90	46.83	68.07	92.18	107.13
6. Residual category of borrowers under Differential Interest Rate Scheme ..	—	10.48	20.36	31.64	40.43	55.46
B. Financial Corporations Guarantee Scheme, 1971	**2.56**	**5.25**	**7.57**	**8.66**	**9.38**	**10.21**
1. Transport operators	2.35	5.01	6.95	7.97	8.69	9.56
2. Business enterprises	0.21	0.24	0.62	0.69	0.69	0.65
C. Service Co-operative Societies Guarantee Scheme, 1971						
Service co-operative societies	0.12	0.29	0.34	0.22	0.89	0.43
TOTAL (A+B+C)	**208.39**	**998.74**	**1,330.71**	**1,715.17**	**2,164.72**	**2,469.88**

* Provisional.

Source : Deposit Insurance and Credit Guarantee Corporation.

submitted to the Corporation, a simpler tabular form of claim format has been introduced which permits submission of a larger number of claims under a single guarantee invocation letter. This format is meant to be used in the case of claims for amounts not exceeding Rs. 1,000 per borrower which account for nearly half the total number of claims lodged and the information required to be furnished in respect of them has been reduced to the minimum necessary for settlement of the claim. During the year 1979, 25,739 guarantee claims for an aggregate of Rs. 6.95 crores were disposed of, as against 14,623 guarantee claims for an amount of Rs. 3.34 crores in 1978. During January-June 1980, 16,560 claims for an aggregate amount of Rs. 3.35 crores were disposed of. The total claims disposed of since the inception of the Corporation's guarantee schemes upto June 1980 numbered 69,332 and were for Rs. 16.94 crores. Besides, 13,512 more claims have been scrutinised and certain additional information/clarifications sought from the claimant institutions.

At the end of 1979, the Credit Guarantee Fund amounted to Rs. 33.79 crores and constituted 1.6 per cent of the total guaranteed advances of Rs. 2,165 crores.

Enlargement of Scope and Benefits of Guarantee Cover.

Further amendments were made during the year with a view to enlarging the scope and benefits of guarantee cover. For instance, effective January 1, 1980, term loans granted to farmers and agriculturists for purchase of shares of sugar factories, and agro-processing units subject to a ceiling of Rs. 1,000 per borrower were extended guarantee cover within the over-all ceiling of Rs. 37,500 prescribed for credit facilities granted for agriculture and allied activities. In case of advances to retail traders and semi-wholesalers, carrying on wholesale business in some commodities are also covered, if their sales turnover pertaining to their retail trade constitutes a major portion of the total sales turnover in respect of their entire business. Also, since 1979, credit facilities granted to eligible borrowers under Small Loans Guarantee Scheme for setting up gober gas plants as part of the equipment used in their business or activity were extended the guarantee coverage to bring them on par with the farmers and agriculturists to whom such cover was already available since March 1976. Except in the case of farmers and agriculturists, where guarantee coverage is available for their main activities, as also for specified subsidiary occupations like dairy farming, poultry farming, etc., the guarantee was previously provided for the main activity of a borrower. Effective January 1, 1980, the guarantee cover has been extended also for their subsidiary activities specified in the scheme subject to an overall ceiling on the Corporation's claim liability.

A major step taken to ensure that the benefits under the Guarantee Schemes accrue to the intended category of borrowers, namely, the small borrowers, was the introduction of a graduated scale of guarantee fee weighted in favour of smaller borrowers, from July 1, 1980. The existing rate of guarantee fee, *i. e.*, $\frac{1}{2}$ per cent was applied in the case of "small borrowers" defined as a borrower who was provided eligible credit facilities not exceeding Rs. 25,000 in the aggregate. In all other cases the rate of guarantee fee was increased to $\frac{3}{4}$ per cent. This was primarily done to encourage the credit institutions to lend more liberally to small borrowers. In the case of regional rural banks, however, in view of the special role they are required to play in extension of credit to the weaker sections of community, a concessional rate of $\frac{1}{4}$ per cent has been applied for the initial period of three years.

A Working Group constituted by the Union Government examined the question of entrusting to the Corporation the formulation and implementation of a credit guarantee scheme for advances to small-scale industries, in respect of which a scheme formulated by the Government is already in force and is administered by the Reserve Bank as the agent of the Union Government. The Corporation is taking steps to introduce a scheme of its own and is in consultation with the Government.

Another Working Group constituted by the Corporation is presently considering the

question of extension of Credit Guarantee Scheme to advances of co-operative institutions. At its instance, certain pilot studies of the co-operative institutions in several States and Union Territories have been conducted by the Reserve Bank and their findings are under examination.

WORKING GROUPS RELATING TO BANKING

Working Groups to consider measures for increasng flow of credit to weaker sections of society

Mention was made in the last year's Report regarding the setting up by the Government of India of the four Working Groups for ensuring greater flow of credit to the neglected and weaker sections of the society, and for augmenting employment opportunities with the help of bank assistance. 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. In addition, a high powered meeting was also convened to look into the problems of sick industrial units.

The commercial banks were asked to initiate urgent action in respect of the Working Groups' recommendations concerning the banking system. The main objective of the recommendations being to ensure smooth and adequate flow of credit to priority sectors and weaker sections of the society, banks were advised that the District Consultative Committees would be the appropriate forum to discuss common problems (including supply of inputs, power, marketing arrangements, etc.) and evolve ways and means to overcome them.

The question of obtaining certain additional data, in order to monitor the follow-up of instructions in regard to recommendations of the Working Groups was discussed with the representatives of some local public sector banks and it was decided to amend suitably the proforma of the existing return on priority sector advances by banks to Reserve Bank on a quarterly basis.

The Reserve Bank has been sending to Government quarterly progress reports, outlining the action initiated by commercial banks for implementing the recommendations of the Working Groups.

Working Group on the modalities of implementation of the priority sector lending and 20-point economic programme by banks

Pursuant to the decision taken at the Finance Minister's meeting with the Chief Executive Officers of public sector banks on March 6, 1980, the RBI constituted, on March 13, 1980, a Working Group to examine and report on the modalities of implementation of the 20-Point Programme. The terms of reference of the Working Group were: (1) identification of the specific groups which are to be assisted under the 20-Point Programme, (2) the ways and means of rendering assistance to the beneficiaries identified under the Programme, (3) to look into the question of fixing sub-targets (within the enhanced over-all target of 40 per cent for assistance to priority sectors) to the identified beneficiaries, (4) to consider whether certain types of assistance to the beneficiaries identified under the Programme which is presently not treated as "priority sector" should be included in the "priority" category, (5) to consider the modalities of evaluation of the performance of banks in lending to priority sectors particularly under the Programme, (6) to suggest an appropriate machinery within the banks to monitor the progress of the assistance to the priority sectors particularly under the Programme and (7) to make any other recommendations which are incidental or related to the terms of reference mentioned above. The Group submitted its Report on April 22, 1980. In pursuance of the recommendations made by the Group, banks were advised on October 29, 1980 that:

(*i*) 40 per cent of the *priority sector lending* should be extended to the agricultural sector by 1985, (*ii*) 50 per cent of *direct lending by commercial banks to agricultural and allied activities* should be directed to the weaker sections, such as small and marginal farmers and agricultural labourers by March 1983 and (*iii*) 12.5 per cent of *the total credit advanced to small-scale industries* should be for rural artisans, village craftsmen and cottage industries by 1985.

Working Group on monitoring the system of bank advances for priority sectors and 20-point programme

In pursuance of another decision taken at the meeting of the Finance Minister with the Chief Executive Officers of public sector banks, referred to earlier, the RBI constituted another Working Group on March 13, 1980, to review the monitoring system for bank advances for priority sectors and 20-Point Programme. The terms of reference were: (1) to make a quick examination of the existing system of data collection in respect of advances to the priority sectors, (2) to consider how best the existing system could be rationalised to facilitate collection of data in respect of assistance to specified categories of borrowers under the 20-Point Programme and (3) to make any other recommendations which are incidental or related to the terms of reference mentioned above. Based on the Group's recommendations, the Reserve Bank would issue suitable guidelines on the system of data collection for the purpose of monitoring.

Working Group to Review the System of Cash Credit by Banks

The inability of the banks to implement the credit restraint measures introduced during the period end-November 1978 to end-March 1979 when the advances exceeded the level of 40 per cent specified by the Reserve Bank for incremental (non-food) credit-deposit ratio brought to focus the need for re-examining the cash credit style of lending. In this context the Reserve Bank of India constituted a Working Group to review the system of cash credit by banks in all its aspects under the Chairmanship of Shri K. B. Chore, Chief Officer, Department of Banking Operations & Development, Reserve Bank of India. The Committee of Direction Cell provided the secretariat for the Working Group. The decisions taken by the Reserve Bank on the recommendations made by the Group were conveyed to the banks on December 8, 1980.

Working Group on Customer Service in Banks

Mention was made in the last year's Report of the progress made by banks in the implementation of the recommendations of the Working Group on Customer Service in Banks. During the year, the Small Group* held three meetings and assessed (*a*) the appraisal notes prepared by the Reserve Bank on the performance of the banks, and (*b*) a note on the replies to the questionnaire issued to public sector banks by the Reserve Bank. The broad picture that emerged was that there was sufficient awareness on the part of banks of the need for continued improvement of customer service and the fact that customer service is an important corporate objective was accepted by them. At the Head Offices, almost all banks have set up Customer Service Cells.

In functional areas, at least where rules, procedures and organisational support are concerned, tangible improvement was reported to have been achieved in matters covered under 'deposit accounts' and 'loans & advances'. The quality of service in the field of 'foreign exchange' and in 'disciplines and attitude' varied from bank to bank according to its quality of man-power and its experience and culture. In the area of 'remittances and collection', there was much room for further improvement even in the matter of organisational and procedural support.

The performance in the functional area was corroborated by the following quantitative analysis.

Service Area	Number of recommendations accepted by the Government	Number of recommendations implemented by more than 50 per cent public sector banks
1. Deposit Accounts	14	10
2. Remittances & Collections ..	12	9
3. Loans & advances	8	8
4. Foreign Exchange business	5	2
5. Govt. business	1	1
6. Discipline & attitude ..	7	6
7. General	4	4

* *i.e.*, the Task Force comprising of representatives of the Ministry of Finance, Reserve Bank, some public sector banks and the Indian Banks' Association.

The important aspects of customer service which were examined by the Small Group during the year in consultation with the Reserve Bank, Indian Banks' Association (IBA), Government of India and other institutions and improvements effected thereto are mentioned below:

(*1*) *Common Format for Demand Drafts*: With a view to minimising frauds, the IBA has designed a common format for demand drafts and banks are reported to be acting on it.

(2) *Scheme for Collection of Outstation Cheques* : In order to avoid delays in collection of outstation cheques and bills, organisational and procedural changes have been effected by some banks. In particular, the Bank of India has set up regional collection centres to improve up-country collection. The Reserve Bank has exhorted other public sector banks to emulate this example and introduce similar special collection centres for outstation cheques. The progress is being watched.

(3) *Payment of Pension* : The Reserve Bank has emphasised (through the IBA) upon all public sector banks to consider the collection of pension cheques drawn by Central/State Governments as social obligation and not to levy collection charges other than postal charges.

(4) *Overdrawal in Savings Bank Accounts* : At the instance of the Reserve Bank, the Indian Banks' Association has prepared guidelines for its member-banks for the purpose of allowing their customers to overdraw savings bank account.

(5) *Foreign Exchange Business:* The Government of India at the instance of the Small Group is co-ordinating the efforts of the Reserve Bank (Exchange Control Department) and other concerned institutions on the job of preparing the following booklets:

(*a*) Booklet/brochure containing information on basic exchange control regulations for incoming tourists;

(*b*) Booklet containing information on exchange formalities, back home facilities, etc. for Indians going abroad; and

(*c*) Booklet containing information on important aspects of exchange control.

OTHER BANKING DEVELOPMENTS

(a) Banking Laws (Amendment) Bill, 1978

The Banking Laws (Amendment) Bill was introduced in the Lok Sabha in December 1978. However, it could not be taken up for consideration on account of other pressing legislative business and since lapsed. The Government of India requested the Reserve Bank to review the position and suggest fresh amendments, if any, to the RBI Act, 1934, Banking Regulation Act, 1949, State Bank of India Act, 1955, etc. for being included in a fresh Bill. The Reserve Bank accordingly suggested further amendments to the Government. These are under its active consideration.

(b) Amendments to State Bank of India General Regulations, 1955

Following the recommendations of the Reserve Bank, the Union Government issued an order amending Regulation 8(1) of State Bank of India General Regulations, 1955 so as to shift the Local Head Office, from Kanpur to Lucknow.

(c) Indo-Pak Banking Agreement, 1949

In terms of the Scheme evolved by the Reserve Bank in consultation with the Government of India, the Bank has been following up the progress made in the settlement by the banks (designated) of the claims of non-muslim evacuees who had left their deposits with banks in Pakistan during the partition of the country. During the course of the year, an amount of Rs. 8,71,963.77 was settled by the banks out of the total amount of Rs. 16,32,595.80 credited to them. Considering the poor progress made in this regard, the Reserve Bank has decided to give wider newspaper publicity about the arrangement made above, to speed up the payment to non-Muslim evacuees.

The Reserve Bank has also made effort to settle the claims of the court deposit holders who migrated to India during the partition disturbance. The matter is now under active consideration of the Government of India.

As regards release of deposits made prior to the partition of the country for the purchase of foodgrains under the Monopoly Procurement Scheme in operation in the erstwhile Punjab Province, the Punjab Government has now decided to release these deposits. This is in pursuance of the Union Cabinet's decision in 1974 to pay these depositors out of the funds left by Muslim foodgrain dealers in India during the partition. The Reserve Bank is now working out the accounting procedures as well as guidelines for making pro-rata payments to the claimants in consultation with the Government.

(d) Nationalisation of Six Banks

A major banking development during the year was the issue of an Ordinance by the President of India on April 15, 1980 nationalising six more banks each with demand and time liabilities in India of not less than Rs. 200 crores. The six banks were :

(*i*) The Andhra Bank Ltd. (*ii*) The Corporation Bank Ltd. (*iii*) The New Bank of India Ltd. (*iv*) The Oriental Bank of Commerce Ltd. (*v*) The Punjab & Sind Bank Ltd. (*vi*) The Vijaya Bank Ltd.

With the nationalisation of the six banks, the number of public sector banks (excluding RRBs) increased from 22 to 28 (comprising the State Bank of India and its 7 subsidiaries and 20 nationalised banks). The share of the public sector banks in the total outstanding deposits and credit of the commercial banking system went up to 91 per cent each, it was 84 per cent each prior to nationalisation. The amount to be paid in respect of the transfer of the undertakings of the above six banks was Rs. 18.50 crores.

CONTROL OVER NON-BANKING COMPANIES

Follow-up action on the Recommendations of the Raj Study Group on Non-Banking Companies

It was mentioned in the last Report that for facilitating speedy winding up of the existing business of prize chits and money circulation schemes, the Reserve Bank had prepared a draft of the model rules which State Governments could frame under the Prize Chits & Money Circulation Schemes (Banning) Act, 1978, which became operative with effect from December 12, 1978; the draft rules were circulated amongst the State Governments/Union Territories for adoption. Since then, 21 State Governments/Union Territories have framed the Rules, although some of them have not yet notified the same. Apart from the State of Jammu and Kashmir, to which the Act is not applicable, four other States/Union Territories are not required to frame Rules, since no prize chits/money circulation schemes are stated to be operating within their jurisdiction. The matter is being actively pursued with the remaining States. Further, to discharge its advisory functions, the Reserve Bank prepared certain guidelines and furnished the same to the State Governments, to enable them to examine the winding up plans received from the promoters of prize chits.

The Chit Funds Bill, which was introduced in parliament on February 23, 1979, lapsed consequent on the dissolution of the then Lok Sabha, and the same will have to be reintroduced. Meanwhile, it was observed that the Bombay High Court had held that any amount due from a prized subscriber to the foreman conducting conventional chits, is a "debt" within the meaning of the provisions of the Maharashtra Debt Relief Act, 1975 and thus stood extinguished by reason of the provisions of that Act. The Bank, therefore, recommended to the Government of India that a suitable provision may be incorporated in the Chit Funds Bill, so that notwithstanding anything to the contrary contained in any such law, the liability of a prized subscriber shall not be deemed to be a "debt" for the purpose of any law relating to debt relief for the time being in force. This is intended to safeguard the interests of the promoters of conventional chits.

The draft of the comprehensive legislation for regulating the deposit-acceptance and other business of non-banking financial companies is being finalised by the Bank.

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

Mention was made in the last year's Report of the study undertaken by the Reserve Bank

to assess the impact of inter-company borrowings of non-banking non-financial companies on their total borrowings; the findings of the study were conveyed to the Government of India. In the meantime, further representations were received from certain Chambers of Commerce and other trade bodies pleading for the continuance of the exemption in respect of inter-company borrowings, as also for the maintenance of the existing overall ceiling of 35 per cent of the net owned funds, upto which deposits can be accepted by such companies. Having regard to the tight monetary situation as also the contentions made out in the representations, the Government of India, in consultation with the Bank, further amended the relative provisions of the Companies (Acceptance of Deposits) Rules, 1975 to the effect that the restriction in respect of inter-company borrowings will be made applicable from April 1, 1981 and that the ceiling on deposits would also stand reduced to 25 per cent from the said date, instead of from April 1, 1980 as contemplated earlier. Meanwhile, the Bank has undertaken a fresh study of the inter-company deposits as on March 31, 1980 to tender appropriate advice to the Government to enable them to take a decision on the question of bringing inter-company borrowings within the purview of the Rules. Further, Rule 8 of the said Rules, which provides for reduction in the rates of interest in case deposits are repaid before the expiry of the period for which they were accepted by the non-financial companies, was amended in April 1980 to stipulate that the provision regarding reduction in the rates of interest shall not be applicable in the event of conversion of deposits into secured debentures, with the consent of the depositors, in accordance with the guidelines issued by the Government of India from time to time regarding issue of 'rights' debentures.

Acceptance of deposits by unincorporated bodies

The Banking Laws (Amendment) Bill, 1978 seeking to amend, *inter alia*, the Reserve Bank of India Act, 1934, with a view to prohibiting the acceptance of deposits by unincorporated bodies except from a specified number of depositors, was introduced in Parliament in December 1978, but it lapsed in view of the dissolution of the then Lok Sabha. While considering the Bill, the Government have made certain further suggestions regarding the scope of the contemplated legislation.

Growth of deposits with non-banking companies

The survey of deposits with non-banking companies as on March 31, 1977 has been completed. The number of reporting companies increased during the year by 188 to 5,828. The deposits and exempted loans of these companies amounted to Rs. 720.1 crores and Rs. 1,014.8 crores, respectively, on March 31, 1977. Of the total deposits and exempted loans of Rs. 1,734.9 crores, Rs. 1,038.6 crores were held by 3,545 non-financial companies, Rs. 611.3 crores by 1,497 financial companies and Rs. 85.0 crores were held by 786 miscellaneous non-banking companies.

During the period under review, a quick survey of deposits with non-banking companies as on March 31, 1979 was carried out for certain *ad hoc* purposes. The study, which is provisional, has revealed that 4,998 companies comprising 3,102 non-financial, 1442 financial and 454 miscellaneous non-banking companies held deposits and exempted loans of Rs. 844.7 crores and Rs. 1,692.9 crores, respectively. Of the total deposits including exempted loans of Rs. 2,537.6 crores, the non-financial companies accounted for Rs. 1,491.0 crores, financial companies for Rs. 943.9 crores, and miscellaneous non-banking companies for Rs. 102.7 crores.

TRENDS IN RURAL CREDIT

I. Institutional Finance for Agriculture

Direct Finance

Data on direct loans to the agricultural sector disbursed during 1979-80 by co-operatives, scheduled commercial banks (CBs) and Regional Rural Banks (RRBs) are not yet available. However, taking into consideration the performance of these institutions during the period 1975-76 to 1978-79 and the various steps taken during 1979-80 by the Reserve Bank of India (RBI) for augmenting the flow of credit to agricultural sector, broad estimates of advances during 1979-80 and the outstanding level as on June 30, 1980 are presented in Table VI-28. The aggregate disbursal of credit is thus placed at Rs. 3,042

Table VI. 28 : Direct Institutional Finance for Agriculture

(Rupees Crores)

Source of Finance	Loans issued during					Loans outstanding as on June 30,				
	1975-76	1976-77	1977-78	1978-79P	1979-80E	1976	1977	1978	1979P	1980E
I. Co-operatives (July-June)*	**1,186.7 (18.8)**	**1,430.5 (30.9)**	**1,444.4 (33.2)**	**1,559.7 (44.3)**	**1,744.0 (59.0)**	**2,357.1 (26.7)**	**2,795.7 (45.6)**	**3,074.1 (57.4)**	**3,352.7 (75.0)**	**3,758.0 (101.0)**
Of which										
(*a*) Short-term loans by PACS	881.4	1,016.3	1,057.9R	1,110.6	1,218.0	1,012.1	1,215.8	1,347.6	1,473.1	1,625.0
(*b*) Medium and Long-term loans by PACS/ LDBs**	305.3 (215.4)	414.2R (278.1)	386.5R (237.9)	449.1 (255.3)	526.0 (274.0)	1,345.0 (1,057.9)	1,579.9 (1,193.4)	1,726.5 (1,276.0)	1,879.6 (1,370.8)	2,133.0 (1,494.0)
II. State Governments@ (April-March)	**81.5**	**82.3**	**97.8**	**119.1**	**153.0**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
III. Scheduled Commercial Banks †† (April-March)	**404.9**	**507.8**	**569.4**	**800.1**	**1,045.0**	**790.3**	**1,031.0**	**1,339.7**	**1,824.6**	**2,455.0**
Of which										
(*a*) Short-term loans	212.5	253.8	288.1	365.1	470.0	363.8	451.0	546.6	759.3	1,025.0
(*b*) Medium-term loans	192.4	254.0	281.3	435.0	575.0	426.5	580.0	793.1	1,065.3	1,430.0
IV. Regional Rural Banks@ (July-June)	**1.5**	**16.2**	**43.7**	**100.8**	**100.0**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
TOTAL DIRECT FINANCE (I TO IV)	**1,674.6**	**2,036.8**	**2,155.3**	**2,579.7**	**3,042.0**	**3,147.4**	**3,826.7**	**4,413.8**	**5,177.3**	**6,213.0**
Of which										
(*a*) Short-term loans	1,176.9	1,368.6	1,487.5	1,695.6	1,941.0	1,375.9	1,666.8	1,894.2	2,232.4	2,650.0
(*b*) Medium and Long-term loans	497.7	668.2	667.8	884.1	1,101.0	1,771.5	2,159.9	2,519.6	2,944.9	3,563.0

R—Revised E—Estimates P—Provisional.
* Figures in brackets indicate the position of short and medium-term loans financed by commercial banks and RRBs and routed through PACS.
** Figures in brackets relate to long-term loans by LDBs.
†† —1979-80 data estimated on the basis of the average growth rate during 1975-76 to 1978-79.
@Taken as short-term loans.

crores as compared with Rs. 2,580 crores in 1978-79 (Revised), recording a rise of Rs. 462 crores (17.9 per cent) over 1978-79 as against the rise of Rs. 424 crores (19.7 per cent) noticed in 1978-79. Institution-wise, co-operatives continued to account for the largest share of total advances viz., Rs. 1,744 crores (57.3 per cent), followed by commercial banks with Rs. 1,045 crores (34.4 per cent), State Governments Rs. 153 crores (5.0 per cent) and RRBs Rs. 100 crores (3.3 per cent). The share of scheduled commercial banks was only 24.2 per cent in 1975-76 from which level it has been steadily showing a rise mainly on account of medium-term loans. In 1975-76, these medium-term loans had accounted for 47.5 per cent of total credit disbursed by commercial banks to the agricultural sector; these are estimated to have risen to 55.0 per cent during 1979-80. In the case of co-operatives, the share of term loans (including long-term credit) showed a rise from 25.7 per cent in 1975-76 to 30.2 per cent in 1979-80. The aggregate level of outstandings as on June 30, 1980 at Rs. 6,213 crores showed a rise of Rs. 1,036 crores (20.0 per cent) over June 1979 as against the rise of Rs. 764 crores (17.3 per cent) in June 1978 over the preceding year. Of these, 60.5 per cent were outstandings relating to advances by co-operatives and 39.5 per cent by commercial banks. At the end of June 1979, the respective shares were 64.8 per cent and 35.2 per cent.

Indirect Finance

Besides direct advances to farmers discussed above, CBs/SCBs/CCBs/REC and RRBs indirectly benefit farmers through loans to institutions for purposes such as procurement of foodgrains, marketing of agricultural commodities, fertiliser distribution, deposits to State Electricity Boards, etc. In view of the non-availability of data for 1979-80, estimates have been made on the basis of past trends and are presented in Table VI-29.

The aggregate indirect finance disbursed by co-operatives (SCBs/CCBs), RRBs and the REC during 1979-80 has been placed at Rs. 839 crores, registering a rise of Rs. 65 crores or 8.4 per cent over 1978-79 (Revised). As in 1978-79, major portion of disbursals, viz., Rs. 672 crores (80.1 per cent) represented short-term loans by SCBs/CCBs/RRBs; this was followed by Rs. 167 crores (19.9 per cent) disbursed by the REC as long-term loans. Total estimated indirect advances outstanding as at the end of June 1980 at Rs. 2,251 crores registered a rise of Rs. 474 crores (26.7 per cent) over the year. Of this, the share of commercial banks was Rs. 787 crores (35.0 per cent), that of the REC Rs. 780 crores (34.6 per cent) and co-operatives Rs. 684 crores (30.4 per cent).

II. The RBI and Co-operative Agricultural Credit

During the year 1979-80, the emphasis of the co-operative credit policy of the RBI continued to be on strengthening of the co-operative credit structure by amalgamations, reorganisation of weak units (PACS/DCCBs, PLDBs), safeguarding the interests of weaker section, and minimising disparities in the flow of credit to various regions. The Agricultural Refinance and Development Corporation (ARDC), a major refinancing institution in the field of long-term credit, also introduced some changes in its loaning policy to fulfil these objectives. The various measures adopted to implement these policies as also principal developments concerning co-operative credit are discussed in the following paragraphs.

(A) Short-term Credit

(a) Interest Rates/Seasonality Discipline

During the period under review, no change was introduced by the RBI in its refinance rates. Efforts were, however, made towards implementation of the revisions effected during the preceding two years through rationalisation of short-term/medium-term interest rates by all co-operatives.

The seasonality discipline modified on the recommendations of the Study Group on Interest Rates in the Co-operative Credit Structure and made applicable from 1978-79 was continued with further relaxations in regard to recovery stipulations. As mentioned in the last year's Report, CCBs are required to recover and remit to the Apex Bank the specified share of *kharif* advances before March 31 and *Rabi* advances by June 30 every year. According to the revised norms, SCBs

Table VI. 29 : Institutional Finance for Agriculture—Indirect Finance

(Rupees Crores)

Source of Finance	Loans issued during the year (July-June)					Loans outstanding as on June 30,				
	1975-76	1976-77	1977-78	1978-79P	1979-80E	1976	1977	1978	1979P	1980E
I. Co-operatives@	**556.8**	**615.3**	**569.3**	**613.0E**	**660.0**	**237.3**	**256.6**	**380.4**	**505.4E**	**684.0**
Of which										
(*a*) State Co-operative Banks*	280.9	307.4	251.7	271.9E	294.0	150.5	166.9	200.2	231.2E	267.0
(*b*) Central Co-operative Banks*	275.9	307.9	317.6R	341.1E	366.0	86.8	89.7	180.2	274.2E	417.0
II. Scheduled Commercial Banks	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**301.5**	**349.7**	**511.0**	**633.7R**	**787.0**
Of which										
(*a*) Short-term loans	N.A.	N.A.	N.A.	N.A.	N.A.	99.7	105.5	140.7	190.3R	255.0
(*b*) Medium-term loans	N.A.	N.A.	N.A.	N.A.	N.A.	201.8 (30.1)	244.2 (47.4)	370.3 (63.1)	443.4R (86.0)E	532.0 (N.A.)
III. Regional Rural Banks@	—	1.9	2.7	6.3	12.0	—	N.A.	N.A.	N.A.	N.A.
IV. Rural Electrification Corporation Ltd.@@	**76.0**	**88.2**	**112.2**	**154.9†**	**167.0†**	**315.5**	**400.0**	**503.4**	**637.5†**	**780.0†**
TOTAL INDIRECT FINANCE (I to IV)	**632.8**	**705.4**	**684.2**	**774.2**	**839.0**	**854.3**	**1,006.3**	**1,394.8**	**1,776.6**	**2,251.0**
Of which										
(*a*) Short-term loans	556.8	617.2	572.0	619.3	672.0	337.0	362.1	521.1	695.7	939.0
(*b*) Term loans	76.0	88.2	112.2	154.9	167.0	517.3	644.2	873.7	1,080.9	1,312.0

E—Estimates R—Revised P—Provisional

@ Taken as short-term loans.

* 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.

† Financial year data.

@@Taken as long-term loans. Excluding Harijan Basti loans but inclusive of loans to co-operative societies and State Electricity Boards.

— Nil or Negligible.

Note : Figures in brackets indicate loans routed through PACS by Scheduled Commercial Banks.

are now permitted to draw on the sanctioned short-term credit limits even if the concerned CCB has not achieved the stipulated percentage of the recovery from societies but has remitted the same to Apex Bank after March 31/June 30 with the permission from the RBI.

(b) Premium for Crop Insurance Scheme

The Bank decided in September 1979 to allow co-operative banks to treat the insurance premium payable by borrowers under the Crop Insurance Scheme as a component of the crop loan issued to members of PACS, provided such premium does not exceed 5 per cent of the sum insured and that any premium in excess of 5 per cent is subsidised/borne by the concerned State Government. Co-operative banks were also advised that in areas where the General Insurance Corporation (GIC) has introduced pilot crop insurance schemes, relief to borrowers of PACS, affected by natural calamities, through conversion of short-term dues into medium-term conversion loans should be restricted to the balance amount of loans not covered by the indemnity from the GIC. This has been done to avoid overlapping of relief arrangements to borrowers of co-operative societies.

(c) Condonation of Small Defaults against Small Farmers

With a view to ensuring that small/marginal farmers and weaker sections are not deprived of co-operative credit, the Bank decided to condone their defaults involving small amounts. A small farmer (cultivating up to one hectare of irrigated or two hectares of dry land) whose default involving a small amount (not exceeding 10 per cent of his eligibility for short-term production loan) was on account of circumstances beyond his control, could be provided with fresh finance by the concerned PAC out of its own resources. Some concessions were also announced regarding term credit to small farmers as discussed in the subsequent paragraphs.

(d) Restrictions on Advances Against Sensitive Commodities

In view of the necessity to curb the rise in prices of essential commodities and to restrict advances where hoarding tendencies were likely to develop, the RBI introduced necessary changes in the selective credit control measures applicable to advances given by commercial banks against sugar, gur, pulses, khandsari, oilseeds, oils, etc. These measures which have been discussed elsewhere were made applicable to co-operative banks with necessary adaptations.

(e) Credit for Fertiliser Distribution

The RBI continued its policy of meeting short-term credit needs for fertiliser distribution on a consortium basis involving commercial banks and supplementing it by sanctioning of credit limits to SCBs wherever the commercial banks are unable to meet these requirements.

Further, in view of the increase effected in the prices of indigenous fertilisers by the Government of India (GOI) since June 1980, the RBI announced measures to cover additional requirements of credit of fertiliser distribution agencies and of farmers. Thus, the RBI advised commercial banks to consider requests for additional credit from distributing agencies and also showed willingness to sanction additional short-term credit limits to SCBs during 1980-81, wherever necessary, at one per cent above the Bank Rate.

The concession of waiver of margin requirements on credit provided by SCBs/CCBs to marketing federations/societies for distribution purpose was also continued.

(f) Penal Rate of Interest

As mentioned last year, some concessions were granted by the RBI in the penal rates to be charged to SCBs defaulting in repayment of borrowings from the RBI for advances to cottage and small scale industries.* During the year, further concessions were announced in respect of other advances also. Accordingly, the penal rate was reduced to 1 per cent (over and above the effective rate) and would be charged on the outstanding balance of loan only for the period during which the default subsisted as against 2 per cent for the entire period of loan charged earlier.

* In the case of advances to cottage and small-scale industries, the penal rate would continue to be at the Bank Rate and for the entire period of the loan.

(B) Medium-term Credit for Agricultural Investments

(*a*) In view of the increasing requirements of investment credit, demand for medium-term loans for approved agricultural purposes was expected to rise further during 1980. For the calendar year 1980, therefore, an increased allocation of Rs. 45 crores was made from the National Agricultural Credit (Long-term Operations) [NAC(LTO)] Fund for medium-term loans as against Rs. 30 crores in 1979.

(*b*) Under the reimbursement scheme for medium-term loans in vogue till July 1979, SCBs/CCBs were required to maintain a 'basic level' of loans (i. e., the level of medium-term loans made out of their internal resources as on June 30, 1962) and banks were eligible for reimbursement from the RBI up to 80 per cent of the medium-term loans issued for financing approved agricultural purposes, over and above the 'basic level'. In order to allow greater flexibility to the banks in operating on credit limits sanctioned by the RBI these requirements were dispensed with. Thus, banks are now eligible for full reimbursement under medium-term credit limits from the RBI, subject, however, to the availability of adequate non-overdue cover at the level of CCBs. Further, in order to facilitate reimbursement in respect of loans disbursed at the close of the year, it was decided that the medium-term loans disbursed to PACS in the month of December will be reimbursed out of the RBI limit sanctioned on behalf of CCBs for similar purposes during the following calendar year.

As the allocations of medium-term credit limits are intimated to various States sufficiently in advance, the State Governments were requested to advise SCBs to formulate their medium-term lending programmes keeping in view the resources available to them from the RBI, and also arrange to obtain refinancing facilities from the ARDC, wherever possible, through special schemes under IRD/SFDA programme to supplement their resources.

(*c*) *National Agricultural Credit Stabilisation Fund*

During the year ended June 1980, Rs. 65 crores were transferred to the above Fund raising the total amount transferred up to June 30, 1980 to Rs. 290 crores.

As mentioned in the last year's Report, it was decided in May 1979 that State Governments should bear a share of 15 per cent of conversions sanctioned in respect of short-term production loans issued for 1978-79 *Rabi* season and thereafter. However, in the context of large scale conversions necessitated during the year owing to natural calamities, higher credit limits were sanctioned during the year and as a special case, the share of State Governments was reduced for the year.

The facility in regard to availing of extension by SCBs for repayment of short-term borrowings for seasonal agricultural operations up to 3 months from the due date, pending conversions into medium-term loans, which was to expire on June 30, 1979, was extended by a year.

(C) Long-term Credit

(*a*) *Regulation of Advances*:

As in the preceding year, increasing credit needs for capital investment in agriculture were envisaged to be met by suitable revisions in the existing credit policy. The ARDC's decision to give interim finance required for collection of mortgages at rates of interest on debentures floated by CLDBs is likely to be of substantial help to them in reducing the interest burden on borrowings from commercial banks.

(*b*) *Financing of Small Farmers*

In January 1979, the RBI had decided to make additional funds available to LDBs for financing small farmers. Thus, PLDBs/branches of SLDBs operating in the areas covered by special programmes such as SFDA, DPAP, CADA, etc., were permitted to draw funds to the full extent, as against the percentage stipulated under various slabs of overdues, for the purpose of financing small farmers where the RBI/ARDC were satisfied of adequate monitoring and supervision of the finance. This benefit was also extended to PLDBs/branches having no

eligibility on account of their overdues being in excess of 55 per cent of demand, provided a time-bound programme for rehabilitation of the concerned PLDB/branch was presented and implemented in accordance with the guidelines issued to them in December 1979 which required them to improve financial viability and reduce overdues position over a reasonable period of time.

(c) *Rescheduling Facility Substituted by Postponement of Recovery of Loans*

In view of the difficulties expressed by certain States in the implementation of the rescheduling facility in respect of term loans in areas affected by natural calamities, the RBI revised the relevant procedure. Henceforth, the recovery of loan instalment representing the current demand (due from the concerned borrower) is allowed to be postponed by a year with formal approval from the RBI/ARDC. This was subject to the condition that the total period of loan should not exceed the useful life of the assets created out of the loan. This facility was, however, intended to benefit only weaker sections of borrowers affected by natural calamities where State Governments had declared the crop *annawari* of six annas or less and suspended/remitted land revenue and recovery of Government dues. As such, affluent farmers paying income tax, owning tractors and having perennial sources of irrigation as well as such cultivators who have not utilised the loans for the intended purpose were excluded from this facility. Loan rescheduling facility available to owners of tractors who were not subject to income tax was extended even to such borrowers who were affected by natural calamities for one year, as against the existing condition of two years but limiting the total period of loan to nine years.

(d) *Loans from NAC (LTO) Fund for Contribution to the Share Capital of Co-operative Credit Institutions.*

A sum of Rs. 170 crores was transferred to the NAC (LTO) Fund during 1979-80, as against Rs. 140 crores last year, raising the total to Rs. 920 crores as on June 30, 1980.

The policy for sanction of loans from the Fund to State Governments for contributions to the share capital of SCBs, SLDBs and PLDBs and urban banks continued unchanged but the eligibility criteria were modified in respect of CCBS/PACS/FSS/LAMPS as indicated below:-

PACS/CCBS

With a view to making good the deficit in the accretion to the share capital of PACS on account of lower ratio of share linking in respect of small farmers and weaker sections, it was decided to provide loans for additional share capital contribution at the rate of 5 per cent of the loans outstanding against small farmers, over and above a base level of Rs. 50,000. It was, however, decided in the case of CCBs to exclude such CCBs which were already given Rs. 50 lakhs and over for this purpose by respective State Governments.

FSS/LAMPS

The initial share contribution up to Rs. 50,000 which FSS/LAMPS are eligible to receive from the respective State Governments has been continued. However, it was decided in September 1979 to relate additional contribution which is available to them from State Governments, for credit and non-credit business, to the volume of loans advanced to small farmers and weaker sections. Further, it was also decided to provide loans for additional share capital contribution at the rate of 5 per cent of their lendings to small farmers/weaker sections in excess of the base level of Rs. 1 lakh.

During the year under review, 16 States availed of these loans as against 18 States in 1978-79.

(e) *Assistance to Small Farmers*

The Agricultural Credit Board had recommended in December 1979 that a favourable view should be taken while issuing loans to non-wilful defaulters, enabling them to receive additional advances from PLDBs. Accordingly, it was decided that when small farmers and other weaker sections of rural population are the defaulters for small amounts, they may be provided with investment credit by adjusting the defaulted amount

in the new loan up to a certain limit, provided the SLDB is satisfied that the default is not wilful and the amount of default together with fresh investment credit is within the repaying capacity of the borrower.

(f) Lending Programme of LDBs in 1979-80 and 1980-81

The total lending programme of SLDBs for the financial year 1979-80, at Rs. 434 crores, was marginally higher by Rs. 15 crores than in 1978-79. This lending programme comprised Rs. 298 crores to be advanced through schemes refinanced by the ARDC, Rs. 125 crores through ordinary debentures and Rs. 11 crores through internal resources. The lending programme for 1980-81 was tentatively fixed at Rs. 439 crores, of which Rs. 314 crores are to be financed through schemes refinanced by the ARDC, Rs. 115 crores through ordinary debentures and Rs. 10 crores from internal resources.

As in 1978-79, the actual debenture programme put through during 1979-80 was around 74 per cent of the target as shown in Table VI.30.

Floatation of Rural Debentures

The rate of interest on Rural Debentures continued to be at 12 per cent. No bank floated rural debentures during 1979-80.

D. Strengthening of Co-operative Structure

(a) Reorganisation of PACS

The implementation of the programme of reorganisation of PACS into viable units is more or less complete in 12 States, namely, Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. It is still in progress in Gujarat. Efforts in this direction are being made in States other than Jammu & Kashmir and Maharashtra, where the programme is yet to be taken up. As a result of these efforts, the number of primary societies which had already declined from 1,25,799 on June 30, 1977 to 1,16,126 on June 30, 1978, was further reduced to 1,02,134 on June 30, 1979. It is expected that the number of societies would slide down to 90,000 on completion of the reorganisation programme in all the States.

(b) Rehabilitation of CCBs/SCBs

In view of the considerable improvement recorded by a number of CCBs under the rehabilitation programme, it was decided to exclude from the programme those banks whose (1) bad and doubtful debts, overdues of over 3 years, and accumulated losses were scaled down to less than 50 per cent of their owned funds and (2) which have shown an annual growth rate of 10 per cent both in mobilizing deposits and in outstanding loans

Table VI. 30: Ordinary Debenture Programme of Central Land Development Banks

(Rupees Crores)

Agencies	1978-79		1979-80		1980-81
	Approved Programme	Subscriptions received	Approved Programme	Subscriptions received	Approved Programme
1	2	3	4	5	6
(i) Central and State Governments	12.0	17.1	16.0	15.7	12.0
(ii) Life Insurance Corporation	32.5	32.5	38.0	38.0	45.0
(iii) Commercial Banks (Through IBA) ..	10.0	9.6	10.0	9.6	10.0
(iv) State Bank of India Group	5.0	5.0	7.0	7.0	10.0
(v) Mutual Support	65.5	22.1	54.0	21.7	38.0
(vi) Self-help	—	6.5	—		—
TOTAL	**125.0**	**92.8**	**125.0**	**92.0**	**115.0**

and advances during the past 3 years. Accordingly, 72 CCBs were removed from the list of weak banks, while five banks were brought under the programme of rehabilitation as on June 30, 1978. Further, seven CCBs in Assam were deleted from the list of weak banks as six of these were merged with the Assam State Co-operative Bank, and one was non-functioning. The number of weak banks under rehabilitation thus declined from 180 as on June 30, 1977 to 106 as on June 30, 1978.

(*c*) *Rehabilitation of Primary Land Development Banks and Branches of State Land Development Banks*

The Scheme of rehabilitation of PLDBs and branches of SLDBs introduced with a view to improving their operational efficiency in channelising investment credit was continued during the year.

The overdues position of LDBs in States like Bihar, Gujarat, Karnataka, Maharashtra and Tamil Nadu, which were the main beneficiaries under the World Bank projects, had created difficulties in obtaining the World Bank funds through the ARDC, and necessitated urgent steps to ameliorate the situation. With a view to ensuring an uninterrupted flow of investment credit, these and other matters were discussed by the Bank with Chief Ministers of the States and in order to facilitate the preparation of rehabilitation programmes, broad guidelines evolved by the ARDC/RBI were communicated to them. The guidelines included, among others, the strengthening of organisational structure, improving of financial viability, rescheduling and extension of loan period in the case of natural calamities, augmenting of technical assistance from the State Governments, etc.

III. The RBI and Co-operative Non-Agricultural Credit

(*a*) *Credit for Artisans — Village and Cottage Industries — Issue of Composite Loans*

In keeping with the national objective of generating more of employment and production in the decentralised sectors, the RBI reoriented its policy towards further stepping up assistance to artisans and village and cottage industries. Thus, apart from the refinancing of advances to this sector at 3 per cent below the Bank Rate since March 1978, detailed guidelines were issued in June 1980 to all Registrars of Co-operative Societies so as to enable them to fulfil these national policy objectives. Important aspects of the revised policy are given below :

(*i*) Co-operatives may sanction up to Rs. 25,000 composite term loan for equipment finance/working capital or both and not charge penal rate of interest on such loans.

At the end of each year, the working of the schemes should be reviewed for assessing additional requirement of funds.

(*ii*) In view of the low profitability and of sustenance needs, the repayment schedule (of not less than 7 years) may be so drawn that monthly repayment instalment does not ordinarily work out to more than one per cent of the principal.

(*iii*) As regards reasonably well established units, the initial moratorium period may be 12 months while in the case of new units the period may be extended to 18 months.

(*iv*) The refinance facilities from the IDBI which were hitherto available to licensed scheduled SCBs, were extended to CCBs/PUCBs on merits.

(*v*) The quantum of loans should be made need-based by adding 10 to 20 per cent to the original sanctioned amount for meeting unforeseen contingencies subject to following ceilings in respect of various purposes—general consumption (Rs. 75), medical expenses (Rs. 250), educational needs (Rs. 100), marriage ceremonies (Rs. 250), funerals, births, etc. (Rs. 75) and certain religious ceremonies (Rs. 75). For two or more purposes, the maximum loan amount is not to exceed Rs. 500 per borrower.

(*b*) *Handloom Finance*

There was no major change in the RBI's refinance policy for weavers' societies during the year. While continuing the rate of interest on refinance to SCBs at 2½ per cent below

the Bank Rate for production and marketing of handloom including polyester cloth, a rise in the scale of handloom finance was announced in September 1979 so as to facilitate larger flow of credit to this sector.

The scales of finance per loom for production of cotton, woollen and silk cloth on handloom were raised by Rs. 500 each to Rs. 2,000, Rs 2,500 and Rs. 2,500 respectively. There was no change in the scales of finance for cotton and woollen cloth produced on powerloom.

The revised scales are applicable to all societies. However, in the case of new weavers' societies and dormant societies to be activised (with the prior sanction of the RBI) the revised scales would be applicable for the first two years of operations after which their credit requirement will be reassessed at 33⅓ per cent of the anticipated production.

(c) Credit Guarantee Scheme for Small-scale Industries

As on March 31, 1980, 10 SCBs, 89 CCBs and 76 PUCBs were covered under the Credit Guarantee Scheme for Small-scale Industries as against 10 SCBs, 86 CCBs and 72 PUCBs during the preceding year.

During the year under review following relaxations were announced.

The requirement of insurance against fire and other risks for the security furnished in respect of advances, whether for working capital or equipment, to the extent of Rs. 10,000 per unit granted to small-scale industries covered under the Credit Guarantee Scheme was waived except in cases where insurance of vehicles, machinery or other equipment is compulsory under the provisions of the law. Further, margin requirements for small-scale industries covered under the scheme were lowered in June 1980. In the case of advances up to Rs. 2 lakhs a uniform margin of 10 per cent (as against 10 per cent for pledge and 20 per cent for hypothecation prevailing till then) was fixed and margin requirement was totally removed in case of composite term loans up to Rs. 25,000 for equipment finance or working capital finance or both.

(d) Credit Authorisation Scheme

The Credit Authorisation Scheme as detailed in the last year's Report was continued during the year. During 1979-80 seven SCBs and eight CCBs had approached the RBI for prior authorisation in respect of 35 proposals for block capital finance on behalf of 30 manufacturing/processing units. Authorisation was granted to three SCBs and four CCBs for an aggregate amount of Rs. 22 crores in respect of 18 units as against Rs. 11 crores on behalf of 26 units during 1978-79. In addition, 11 SCBs and 35 CCBs had submitted 294 proposals for sanction of working capital limits on behalf of 164 societies. Authorisation was granted to 10 SCBs and 29 CCBs for an aggregate amount of Rs. 444 crores on behalf of 147 societies/units during 1979-80 as against Rs. 605 crores authorised during 1978-79 in respect of 148 societies/units.

(e) Financing of Other Cottage and Small-scale Industries

In pursuance of the recommendation of the Committee on Urban Co-operative Banks, the IDBI has agreed in principle to extend its refinance facilities to urban banks also on a selective basis for financing small-scale industries covered by 22 broad approved groups.

IV. Other Developments

(a) Deposit Insurance Scheme

With the extension of the deposit insurance scheme to co-operative banks in Tamil Nadu effective from July 1, 1980, the number of States operating under this scheme rose to 13, covering 1,406 registered co-operative banks. The other 12 States and 3 Union Territories where the scheme does not operate as yet are Andhra Pradesh, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tripura, Uttar Pradesh, West Bengal, Goa, Daman and Diu, Pondicherry and Delhi.

(b) Regulation of Salary Earners Societies

On recommendations of the Committee on Urban Co-operative Banks, the RBI decided to permit only viable existing salary earners societies (classified as primary co-operative

banks) to function as banks and not to register in future any such societies accepting deposits from non-members. Further, societies not complying with the provisions of the Banking Regulation Act (as applicable to Co-operative Societies) and not satisfying the viability criteria were to go out of the purview of the Act by refunding non-member deposits or making adequate provisions for repaying such deposits. Further, they were to amend their by-laws to the effect of not accepting non-member deposits and deleting the word 'bank', 'banker' or 'banking' if any, from their name.

(*c*) *Advances against Gold/Silver and Ornaments thereof*

In July 1978, instructions were issued to the Registrars of Co-operative Societies to recover advances against gold bullion before September 30, 1978 and to ensure that advances against gold ornaments are not used for speculative purposes. During the year under review, these restrictions were extended to silver and silver ornaments also. The maximum loan amount per borrower was maintained at Rs. 2,000/-. The banks were, however, asked to take into account the higher level of silver prices while granting advances against silver ornaments to weaker sections, particularly Adivasis so as to discourage them from selling.

(*d*) *Restriction on Advances against Shares of Companies*

The RBI has directed that with effect from April 21, 1980 no primary co-operative bank should grant advances against the security of shares of joint-stock companies in excess of Rs. 5,000 to any single party if its demand and time liabilities (DTL) do not exceed Rs. one lakh. In respect of other categories of banks, such advances should not exceed five per cent of DTL of the concerned bank or Rs. 50,000, whichever is lower. It is also stipulated that (1) *total advances* granted by a PCB against shares of joint-stock companies should not exceed 20 per cent of its paid-up capital and reserves, (2) advances against shares of any one company should not exceed four per cent of the total paid-up capital and reserves of the bank and (3) the RBI's permission is obtained before May 21, 1980 for continuance of the excess position of advances, if any.

(*e*) *Advances to Individuals*

(*i*) *By SCBs/CCBs*

The scope of advances by SCBs/CCBs to individuals was widened within specified limits so as to cover financing of individuals under the ARDC schemes envisaging such a provision. These banks were also allowed to advance loans up to Rs. 5,000/- for purchasing durable consumer articles as per guidelines issued to them by the RBI.

(*ii*) *By Urban Co-operative Banks*

As per the recommendations of the Committee on Urban Co-operative Banks the maximum limits on advances to individuals were relaxed by the RBI. In case of PUCBs having the DTL exceeding Rs. 2 crores, advances up to Rs. 15 lakhs were allowed as individual loans as against Rs. 10 lakhs permitted so far. How-ever, advances to any single party were not to exceed 5 per cent of the DTL of the concerned bank.

(*f*) *Progress of 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 the farmers. The following table gives the progress of FSS as on June 30, 1979 as compared to the position on June 30, 1978.

Progress of FSS††

(Amount in Rupees Crores)

	1977-78	1978-79*
1. Number	1,577	1,862
2. Membership (lakhs)	32.8	40.1
3. Owned funds	22	28
4. Deposits	7	9
5. Borrowings	59	81
6. Loans issued	56	71
Of which short-term	48	60
7. Loans outstanding	69	91
8. Total overdues	26	34

* Data are provisional.

†† Including 665 Grampanchayat level multi-purpose societies in Assam.

V. RBI Credit to Co-operative Sector

Short-term Credit

Short-term credit limits sanctioned by the RBI to SCBs during 1979-80 were lower at Rs. 945 crores as against Rs. 961 crores last

year. Drawals and repayments against short-term limits during 1979-80 were also lower at Rs. 999 crores and Rs. 1,054 crores, respectively, as compared to Rs. 1,380 crores and Rs. 1,428 crores during 1978-79. The outstanding position on June 30, 1980 at Rs. 222 crores was also lower than Rs. 277 crores on June 30, 1979 (Table VI-31).

Seasonal agricultural operations continued to account for the major share in short-term credit limits and at Rs. 783 crores represented 83 per cent of the total. Drawals during the year and outstandings on June 30, 1980 accounted for 94 per cent and 83 per cent of the total as against 89 per cent and 91 per cent, respectively, during 1978-79. There was a net decline of Rs. 16 crores in limits sanctioned as lower credits were sanctioned to the following States : Maharashtra (Rs. 21 crores), West Bengal (Rs. 8 crores), Tamil Nadu (Rs. 7 crores), Haryana (Rs. 3 crores), Gujarat (Rs. 2 crores) and others (Rs. 4 crores). In contrast, the following States were sanctioned increased credit limits : Uttar Pradesh (Rs 11 crores), Orissa (Rs. 9 crores), Punjab (Rs. 6 crores) and Rajasthan (Rs. 3 crores).

Out of the total credit limit of Rs. 783 crores, sanctioned during 1979-80, Rs. 750 crores were sanctioned to SCBs on behalf of 276 CCBs but as in 1978-79, 20 other CCBs did not get the full benefit of concessional rate of interest due to their borrowings being in excess of the levels fixed for them by the RBI. The number of such banks was 36 in 1977-78 and 29 in 1976-77. Further, rising overdues at the level of CCBs, particularly in Andhra Pradesh, Bihar, Maharashtra and West Bengal, also reduced the number of banks eligible for credit limits from the RBI. The credit utilisation as measured by the maximum outstandings during the year was 51.7 per cent (Rs. 405 crores) of the amount sanctioned in 1979-80 as against 59.2 per cent (Rs. 473 crores) in 1978-79. Banks in Karnataka, Tamil Nadu and West Bengal could not utilise the limits to an appreciable extent due to their inability to provide adequate non-overdue cover for their borrowings from the RBI.

Credit limits sanctioned by the RBI for purposes other than seasonal agricultural operations aggregated Rs. 162 crores, the same as in 1978-79. Limits sanctioned for production and marketing of handloom products (Rs. 58 crores) was somewhat higher than in the previous year (Rs. 51 crores). However, unlike last year, handloom limits were not fully drawn ; the amount drawn during 1979-80 aggregated only Rs. 42 crores while in 1978-79 Rs. 126 crores were drawn against the limit of Rs. 51 crores. The decline in drawals during the year was mainly in Tamil Nadu (from Rs. 100 crores to Rs. 21 crores) and in Andhra Pradesh (from Rs. 17 crores to Rs. 9 crores).

A limit of Rs. 25 crores was also sanctioned for financing industrial societies and units covered under 22 broad approved groups as against Rs. 17 crores sanctioned last year. This included a limit of Rs. 4 crores sanctioned to Kerala SCB for financing co-operative societies, as against Rs. 3 crores sanctioned last year.

Medium-term Credit

Medium-term credit limits sanctioned during 1979-80 were higher at Rs. 149 crores as against Rs. 70 crores last year. Of these, limits for conversion loans were Rs. 117 crores showing a rise of Rs. 76 crores over 1978-79, reflecting unfavourable seasonal conditions in certain States during the period under review. Thus, larger limits were sanctioned to Uttar Pradesh (Rs. 58 crores as against Rs. 7 crores), Rajasthan (Rs. 20 crores as against Rs. 3 crores), Madhya Pradesh (Rs. 12 crores as against Rs. 3 crores), Haryana (Rs. 10 crores as against Rs. 2 crores) and Orissa (Rs. 8 crores as against Nil). Drawals against the limits sanctioned for conversion purposes aggregated Rs. 87 crores in 1979-80 as compared to Rs. 48 crores during 1978-79. During 1979, limits sanctioned, drawals and repayments for agricultural investment purposes were Rs. 32 crores, Rs. 21 crores and Rs. 13 crores, respectively, which were higher by Rs. 4 crores, Rs. 5 crores and Rs. 3 crores, respectively, over 1978. The outstanding level of advances at end-December 1979, at Rs. 36 crores was higher by Rs. 8 crores, over December 1978.

Table VI. 31 : Reserve Bank Credit to Co-operatives, State Governments and ARDC during 1978-79 and 1979-80

(Rupees in crores)

Section of the RBI Act, 1934	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1978-79R				1979-80			
			Limits sanctioned	Drawals	Repayments	Outstandings	Limits sanctioned	Drawals	Repayments	Outstandings
			1	2	3	4	5	6	7	8
I. Short-term Total	.. ..		**961**	**1,380**	**1,428**	**277**	**945**	**999**	**1,054**	**222**
17(2)(b) read with 17(4)(c)/ Section 17(4) (*c*)	(*i*) Seasonal agricultural operations (at 3% below Bank Rate from March 1978)*	July-June	799	1,228	1,265	252	783	935	1,003	184
-do-	(*ii*) Marketing of crops other than cotton and kapas (at Bank Rate from June 1978)	July-June	19	3	4	—	57	—	—	—
17 (4) (*c*)	(*iii*) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	July-June	50	—	—	—				
-do-	(*iv*) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December †	6	8	10	1	7	3	2	2
17 (2) (*bb*) read with 17(4)(*c*)	(*v*) Production and marketing of handloom products (at 2½% below Bank Rate from March 1978)	April-March	51	126	134	16	58	42	31	27
-do-	(*vi*) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978)@	April-March	17	13	9	8	25	18	18	8
17(4) (*c*)	(*vii*) Purchase and sale of yarn (at Bank Rate)	April-March	3	1	2	—	5	1	—	1
-do-	(*viii*) Against pledge of sugar (at 3% above Bank Rate)	July-June	6	1	4	—	—	—	—	—
17(4E)	(*ix*) Loans to ARDC (at Bank Rate)	July-June	10	—	—	—	10	—	—	—
II. Medium-term Total	.. ..	..	**70**	**48**	**90**	**119**	**149**	**109**	**70**	**158**
17(4AA) read with 46A(2) (*b*)	(*i*) Agricultural purposes (at 3% below Bank Rate from January 1, 1979)	January-December†	28	16	10	28	32	21	13	36
17(4AA) read with 46B(2)	(*ii*) Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasement and reschedulement (at 3% below Bank Rate from January 1979)	July-June	41	32	80	91	117	88	57	122
17(4AA) as determined under section 46A(2)(B)	(*iii*) Purchase of shares in co-operative sugar factories/processing societies (at Bank Rate)	January-December†	1	—	—	—	—	—	—	—
III. Long-term Total ..	.. ..		**94**	**94**	**38**	**384**	**105**	**100**	**45**	**439**
17(4AA) as determined under section 46A(2)(*a*)	(*i*) Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6% per annum)	April-March	19	19	10	120R	20	15	11	124
17(4AA) read with section 46A(2)(*e*)	(*ii*) Loans to ARDC (at 6% per annum)	July-June	75	75	28	264	85	85	34	315
	TOTAL CREDIT (I+II+III) ..		**1,125**	**1,522**	**1,556**	**780**	**1,199**	**1,208**	**1,169**	**819**

* Subject to recovery of an additional interest of 1½ per cent as per linking scheme. † Data for 1978 and 1979.
@ Including small amounts relating to advances to artisans and weavers at 3% below Bank Rate.
R Revised data.
— Nil or Negligible.

(*Source* : Agricultural Credit Department, RBI)

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 April 1979 —March 1980, limits sanctioned and drawals were Rs. 20 crores and Rs. 15 crores, respectively. The outstanding position as at end-March 1980 was Rs. 124 crores—Rs. 4 crores more than at end-March 1979.

A limit of Rs. 85 crores was also sanctioned to the ARDC as against Rs. 75 crores in 1978-79, which was fully drawn. The outstanding position as on June 30, 1980 was Rs. 315 crores as against Rs. 264 crores last year.

VI. Commercial Banks and Rural Credit

Based on the recommendations of the Working Group appointed by the GOI in June 1978, the RBI issued in August 1979 new guidelines to commercial banks on simplifications of application forms, documentation (including 'No dues' certificates), margin requirements, security norms, etc. Margin and security norms were also relaxed in the case of individual loans up to Rs. 5,000/-.

Disbursal of Credit to Agriculture and Allied Activities by Commercial Banks

During April 1978 to March 1979, scheduled commercial banks made further progress in extending finance to agriculture and allied activities and disbursed Rs. 800 crores as against Rs. 569 crores in 1977-78, representing a rise of 40.6 per cent over 1977-78 as against the rise of 12.0 per cent in 1977-78.

Out of Rs. 800 crores disbursed during 1978-79, a sum of Rs. 365 crores (45.6 per cent) was disbursed as short-term crop loans, Rs. 304 crores (38.0 per cent) as term loans for agricultural investment and Rs. 131 crores (16.4 per cent) for allied activities. Of the total advances, the State Bank of India group disbursed Rs. 333 crores (41.6 per cent), 14 nationalised banks Rs. 368 crores (46.0 per cent) and foreign banks and other scheduled banks Rs. 99 crores (12.4 per cent).

Region-wise, Southern region received 44.3 per cent of the total credit disbursed followed by Northern region (18.6 per cent), Central region (14.4 per cent), Western region (12.9 per cent), and Eastern and North-Eastern regions (9.8 per cent). Purpose-wise/region-wise details are indicated in Table VI-32.

In term finance, loans for purchase of tractors and agricultural implements and machinery were the highest single item amounting to Rs. 143 crores (47.2 per cent) followed by loans for pumpsets/oil engines Rs. 33 crores (10.9 per cent). In the case of allied activities, loans for dairy activity at Rs. 58 crores were the highest single item followed by fisheries with Rs. 17 crores.

Financing of PACS by Commercial Banks

As on December 31, 1979, the scheme of financing of PACS by commercial banks, introduced in June 1970, was in operation in 127 districts in13 States@ where 683 branches of 24 commercial banks had taken over 2,869* societies for financing. The average number of societies per branch continued to be lower at 4 as against the norm of 10 societies per branch envisaged for operational viability and optimum use of the field-staff at branch level. Since the introduction of the scheme, 5.9 lakh new members have been admitted to the societies taken over by commercial banks. As on December 31, 1978, the proportion of borrowing membership to the total members increased from an average of 158 members (30 per cent) on December 31, 1977 to an average of 190 members (48 per cent) which is slightly below the norm of 200 members for operational viability of a society. During 1979, commercial banks provided short-term agricultural loans aggregating Rs. 18.4 crores to 2,154 societies as against Rs. 15.2 crores advanced to 1,641 societies in 1978. Besides, the banks had disbursed medium-term loans aggregating Rs. 2.4 crores to 565 societies as against Rs. 2.6 crores to 556 societies in 1978. The overdues of PACS

@ Other than Tamil Nadu, Rajasthan, Meghalaya, Gujarat, Himachal Pradesh, Kerala, Nagaland and Punjab.

* The number of societies had shown a net decline of 251 from 3,036 on December 31, 1977 to 2,785 on December 31, 1978 due to amalgamation and reorganisation.

Table VI. 32 : Purpose-wise/Region-wise Distribution of Credit—1978-79

(Rupees lakhs)

	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total
I. Short-term Loans	**32,58 (8.9)**	**1,07 (0.3)**	**30,62 (8.4)**	**25,80 (7.1)**	**38,43 (10.5)**	**236,55 (64.8)**	**365,05 (100.0)**
(Crop loans)	**(21.9)**	**(43.3)**	**(40.3)**	**(22.4)**	**(37.3)**	**(66.6)**	**(45.6)**
II. Term Loans	**97,03 (31.9)**	**88@ (0.3)**	**37,81 (12.4)**	**74,82 (24.6)**	**36,11 (11.9)**	**57,44 (18.9)**	**304,09 (100.0)**
	(65.4)	**(35.6)**	**(49.8)**	**(65.0)**	**(35.0)**	**(16.2)**	**(38.0)**
1. Sinking and deepening of wells and Tube Wells ..	2,31	3	3,84	4,02	3,78	3,63	17,61
2. Pumpsets/Oil engines ..	5,49	3	7,57	11,49	4,17	4,11	32,86
3. Composite minor irrigation schemes	2,15	—	2,65	4,44	2,60	1,58	13,42
4. Tractors and Agricultural implements and machinery	72,22	17	8,62	38,51	16,98	6,91	143,41
5. Plough Animals	2,12	7	1,34	2,69	1,89	4,20	12,30@
6. Reclamation and Land Development Schemes ..	1,26	4	1,16	3,84	57	4,04	10,91
7. Construction of Godowns and Cold Storages ..	1,40	1	1,08	4,91	32	1,26	8,98
8. Plantations	16	25	3,30	4	30	15,25	19,30
9. Others	9,92	27	8,25	4,88	5,50	16,46	45,28
III. Loans for Allied Activities ..	**18,88 (14.4)**	**52 (0.4)**	**7,52 (5.7)**	**14,49 (11.1)**	**28,51 (21.8)**	**60,99 (46.6)**	**130,91 (100.0)**
	(12.7)	**(21.1)**	**(9.9)**	**(12.6)**	**(27.7)**	**(17.2)**	**(16.4)**
1. Dairying	10,97	26	2,70	8,26	15,29	20,34	57,82
2. Poultry farming, Piggery and Bee Keeping ..	3,35	10	1,47	1,22	2,62	6,71	15,47
3. Fisheries	10	9	93	12	6,69	8,65	16,58
4. Others	4,46	7	2,42	4,89	3,91	25,29	41,04
Grand Total (I+II+III) ..	**148,49 (18.6)**	**2,47 (0.3)**	**75,95 (9.5)**	**115,11 (14.4)**	**103,05 (12.9)**	**354,98 (44.3)**	**800,05 (100.0)**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

@ The group totals do not exactly add up due to rounding up of figures.

Notes : Figures in side brackets indicate the share of each region to the total loans disbursed under three main categories.
Figures in lower brackets indicate the share of each category of loan disbursed to the Grand total.

(*Source :* DBOD, RBI.)

financed by commercial banks declined marginally from 65 per cent of the total demand in 1978 to 63 per cent during 1979. The report of the Study Group appointed by the RBI in February 1979 to review the scheme is expected to be ready shortly.

VII. Government of India and Co-operative Credit

(CENTRAL SECTOR AND CENTRALLY SPONSORED SCHEMES)

Agricultural Credit Stabilisation Fund

Government of India is providing assistance for meeting a part of the shortfall in the share of co-operatives for building up the Agricultural Credit Stabilisation Fund maintained at the Apex Co-operative Bank level. In view of the wide-spread drought in the year 1979-80, an assistance of Rs. 15.9 crores was provided to State Governments as against Rs. 8.4 crores in 1978-79. For 1980-81, a provision of Rs. 8.4 crores has been suggested.

Assistance to Central Co-operative Banks in Co-operatively Weak States for Non-overdue Cover

Co-operative banks in co-operatively weak States namely Assam, Bihar, Meghalaya, Orissa, Rajasthan, West Bengal, Manipur, Tripura and Nagaland receive assistance under this scheme to enable them to overcome the difficulties in providing the non-overdue cover. The scheme has also been extended to cover central co-operative banks in tribal areas of other States. Under the scheme, which was introduced from the beginning of the Fifth Plan, a sum of Rs. 14.4 crores had been sanctioned to 94 central co-operative banks till 1979-80. During 1979-80, an amount of Rs. 3.5 crores was released. For 1980-81, a sum of Rs. 3.5 crores has been provided in the Central Budget.

Assistance to the Cadre Fund of the Reorganised Base Level Credit Institutions

This scheme envisages Central support by way of reimbursement of 50 per cent of the assistance provided by State Governments to meet the deficit in the cadre fund of the reorganised base level credit institutions during the previous year. The scheme has been introduced to expedite the process of reorganisation, particularly by appointment of full-time paid trained secretaries at reasonable scales of pay. During 1979-80, a sum of Rs. 1.3 crores was released under the scheme. A budget provision of Rs. 1.5 crores has been suggested under the scheme in the year 1980-81.

Risk Fund for Consumption Credit

Risk Fund for Consumption Credit, which is a non-Plan Scheme, was introduced in pursuance of the recommendations made by the Expert Committee on Consumption Credit. During the year 1978-79, a sum of Rs. 16.6 lakhs was released under the scheme. During 1979-80, a budget provision of Rs. 30 lakhs has been made. For the year 1980-81, a provision of Rs. 35 lakhs has been suggested.

Waiver of Interest Liabilities on Short-term Production Loans for Kharif Cultivation in Areas Affected by Drought

As a part of relief measures for minimising hardships due to the incidence of drought in several States, Government of India decided that the interest liability on the short-term production loans given for Kharif cultivation in areas where the crop loss is more than 50 per cent, may be waived for the small and marginal farmers and agricultural labourers, provided the loans are repaid on the rescheduled dates. Such interest liability would be waived in respect of loans issued both by the commercial banks and the co-operative credit institutions. The expenditure on this would be shared equally by the State Governments and the Government of India. A sum of Rs. 1 crore had been released during 1979-80 and a provision of Rs. 10 crores has been suggested during 1980-81 for the purpose.

VIII. Study Teams/Committees

(*a*) *Committee for Reviewing Arrangement for Financing Institutional Credit for Agriculture and Rural Development (CRAFICARD)*

The Committee for Reviewing Arrangement for Financing Institutional Credit for Agriculture and Rural Development (CRAFICARD)

was constituted by the RBI in March 1979. The Committee submitted in November 1979 its Interim Report on National Level Arrangement for Institutional Credit for Agriculture and Rural Development. The Committee noted that problems of agricultural credit had not only grown in complexity and size but also had merged in the larger tasks of rural development. The Committee felt that there was a need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. For this purpose, the Committee envisaged a new Bank, viz., the National Bank for Agriculture and Rural Development (NABARD), to operate as an apex institution within the complex of the Reserve Bank. The proposal to set up NABARD has been accepted by the Government and the RBI in principle. The details of the constitution of the NABARD are being worked out.

(b) Study Teams on Agricultural Credit in Jammu and Kashmir, Himachal Pradesh and Orissa

The reports of the Study Teams on Co-operative Credit Institutions in Jammu & Kashmir and Himachal Pradesh were finalised. Pending detailed examination of the recommendations of the Study Team on Jammu & Kashmir by the RBI, the State Government was advised in November 1979 to implement certain important and non-controversial recommendations.

A Study Team has been constituted for examining the factors inhibiting the growth of co-operative credit institutions in Orissa and to suggest measures for the improvement in their working.

(c) Working Group for Study of Rural Storage

In pursuance of the recommendations of the above working group, referred to in the last year's Report, commercial banks@ were permitted to grant advances against warehouse receipts issued by rural godowns maintaining the standards of godowns managed by the State and Central Warehousing Corporations. These advances would carry the same margins and rates of interest as are applicable to advances against warehouse receipts issued by the Central and State Warehousing Corporations in the case of agricultural commodities.

(d) Implementation of the Talwar Committee's Recommendations

As many as 16 States* have so far enacted legislation on the lines of the Model Bill recommended by the Committee. In respect of remaining States/Union Territories, the matter is being pursued with the concerned State Governments/Central Government. The progress made by State Governments in the implementation of the administrative measures recommended by the Committee such as relief to agriculturists in respect of levy of stamp duty, registration fees, updating of land records, etc., is also being watched by the RBI and wherever necessary, the matter is being pursued with the concerned State Governments.

IX. Other Institutions in the Field of Rural Credit

Agricultural Refinance and Development Corporation (ARDC)

The ARDC continued to play an important role in refinancing long-term investment in agriculture. The Corporation took active part in locating pockets with growth potential and in rendering necessary expertise for formulation, appraisal and implementation of development projects. During 1979-80, the Corporation's disbursements of refinance touched a new height of Rs. 412 crores as against Rs. 285 crores in 1978-79, raising the cumulative disbursements since inception to Rs. 1,738 crores (excluding short-term finance). The necessary resources required were raised through borrowings of Rs. 165 crores from the GOI, Rs. 85 crores from the RBI and Rs. 40 crores from the open market, besides ploughing back the funds received by way of repayments of refinance. The number of schemes sanctioned during

@ Extended to co-operative banks from August 1980.

* Viz., Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Tripura, Uttar Pradesh and West Bengal.

1979-80 was 3,657 involving commitment of funds for Rs. 757 crores as compared with 2,505 schemes and Rs. 573 crores in the previous year. As on June 30, 1980, the ARDC had sanctioned in all 12,225 schemes with an aggregate commitment of Rs. 3,077 crores.

Diversification of activities, reduction of regional imbalances and maximisation of benefits to weaker sections of the rural sector continued to be the aims of the Corporation's policies during the year.

(*1*) *Diversification of schemes*

Minor irrigation continued to be the largest single purpose for which the Corporation's commitment works out to 50 per cent of the total commitments *i. e.*, Rs. 381 crores out of the total of Rs. 757 crores (Table VI.33). The number of schemes sanctioned for purposes other than minor irrigation* during 1979-80 stood at 2,298 with commitment of Rs. 376 crores as against 1,470 schemes and Rs. 226 crores during 1978-79. Their share accounted for 63 per cent of the schemes sanctioned and 50 per cent of the aggregate commitment during the year, as compared to 59 per cent and 39 per cent, respectively, in 1978-79.

(*2*) *Reduction in Regional Imbalances*

The ARDC classified the States of Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, West Bengal, Assam and other North-Eastern States, Rajasthan, Jammu and Kashmir and Himachal Pradesh as less developed and/or/ under-banked States. As a result of special attention paid to stepping up investment in these States these less developed regions together were able to obtain Rs. 164 crores in 1979-80 as against Rs. 127 crores in 1978-79.

The cumulative position (upto June 1980) of schemes sanctioned to weaker States aggregated 5,570 with commitment of Rs. 1,381 crores or 45 per cent of the total.

* Such as plantations/horticulture, storage/market yards, farm mechanisation, poultry, sheep-breeding, etc.

Table VI. 33 : Purpose-wise sanctions and disbursements by the ARDC during 1978-79 and 1979-80

(Rupees crores)

Purpose	During 1978-79 (July—June)			During 1979-80 (July—June)			Cumulative position as on 30-6-80		
	No. of schemes sanctioned	Commitments	Disbursements	No. of schemes sanctioned@	Commitments	Disbursements	No. of schemes sanctioned	Commitments	Disbursements
	1	2	3	4	5	6	7	8	9
Minor Irrigation	1,035	347	171	1,359	381	227	5,059	1,908	1,130
Land Development/CAD	107	27	11	143	29	10	613	170	66
Farm Mechanisation	320	50	41	520	119	92	1,803	370	279
Plantation/Horticulture	311	68	12	376	65	21	1,161	212	63
Poultry/Sheep breeding/Piggery ..	152	8	4	355	17	11	642	36	19
Fisheries	102	17	8	139	13	10	575	58	32
Dairy Development	229	17	7	373	24	10	1,035	85	30
Storage/Market yards	196	30	27	215	29	15	1,052	142	106
Others	53	9	4	177	80	16	285	96	13
TOTAL	**2,505**	**573**	**285**	**3,657**	**757**	**412**	**12,225**	**3,077**	**1,738**

@ Excludes IRDP Banking plans.

Of the total disbursals (Rs. 412 crores) by the ARDC during the period under review, Andhra Pradesh availed of the largest share (Rs. 62 crores or 15 per cent) followed by Uttar Pradesh (Rs. 57 crores or 14 per cent), Punjab (Rs. 50 crores or 12 per cent), Haryana (Rs. 39 crores or 10 per cent), Maharashtra (Rs. 37 crores or 9 per cent) and Madhya Pradesh (Rs. 36 crores or 9 per cent).

All the regions recorded increase in the flow of refinance. While the increase was high in Northern, Central and Western regions, it improved marginally in North-Eastern region from Rs. 2.8 crores in 1978-79 to Rs. 3.1 crores in 1979-80.

Region-wise Disbursements (Rupees Crores)

Region@	During 1978-79	During 1979-80
Northern	54 (19.0)	110 (26.7)
North-Eastern	3 (1.1)	3 (0.7)
Eastern	42 (14.7)	48 (11.6)
Central	65 (22.8)	93 (22.6)
Western	40 (14.0)	63 (15.3)
Southern	81 (28.4)	95 (23.1)
Total	**285 (100.0)**	**412 (100.0)**

Figures in brackets are percentages to total.

@ Northern Region comprises Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab and Rajasthan; North-Eastern Region—Assam, Meghalaya, Nagaland, Tripura and Manipur; Eastern Region—Bihar, Orissa and West Bengal; Central Region—Madhya Pradesh and Uttar Pradesh; Western Region—Goa, Gujarat and Maharashtra; Southern Region—Andhra Pradesh, Karnataka, Kerala, Pondicherry and Tamil Nadu.

(3) *Agency-wise Sanctions/Disbursements*

Agency-wise, the share of disbursements through the SLDBs declined gradually from 91 per cent in 1972-73 to 46 per cent in 1978-79 and further to 40 per cent in 1979-80 while that of commercial banks increased considerably from 5 per cent in 1972-73 to 53 per cent in 1978-79 and to 58 per cent in 1979-80. The involvement of SCBs, however, remained negligible over the years (Table VI. 34).

(4) *Small Farmers*

The special facilities provided by the Corporation to ensure a large flow of resources to small farmers are, lower rate of interest prescribed for lendings to beneficiaries at 9½ per cent for all purposes, longer period of repayment and lower down payment, larger quantum of refinance to banks at 90 per cent of disbursements and specific assistance in drawing up the banking plans for IRD Programmes which are treated as scheme proposals by the banks, etc., in collaboration with the State authorities, including those of SFDA, DPAP and CADA. During 1979-80, it has been possible for member banks to attain 58 per cent coverage of small farmers on the overall, 61 per cent in respect of minor irrigation and 47 per cent under diversified purposes other than farm mechanisation and storage and market yards. The ARDC has fixed its goal at 60 per cent coverage of small farmers during the Third ARDC Credit Project which became effective from January 2, 1980. The total cost of this project is of the order of $ 1,005 million with an IDA assistance of $ 250 million. The financing banks are the state land development banks, scheduled commercial banks and the state co-operative banks. The project period is for 2 years ending December 31, 1981. The investment programme is in the fields of minor irrigation (including land development) and other diversified categories as may be agreed to by the GoI, the IDA and the ARDC during the currency of the project. The ARDC disbursement till the end of June 1980 under the project at Rs. 139.7 crores would entitle the ARDC to draw a credit of $ 84.2 million. This level of disbursement exceeded the IDA appraisal estimates of drawal under the project by June 1980 at $ 50 million, by nearly $ 34 million.

Small farmers continued to account for a significant proportion in disbursals by the ARDC as well as its member banks. The respective shares were 50 per cent in IDA loans by the ARDC and 58 per cent in total loans by member banks. The proportion is

Table VI. 34 : Agency-wise sanctions by the ARDC during 1978-79 and 1979-80
(July—June)

(Rupees crores)

Agency	Number of schemes		Financial assistance		ARDC commitments		Disbursement by ARDC	
	1978-79	1979-80	1978-79	1979-80@	1978-79	1979-80@	1978-79	1979-80
1. State Land Development Banks ..	529	919	288	372	252	296	131	164
2. Scheduled Commercial Banks* ..	1,955	2,637	399	462	314	386	150	239
3. State Co-operative Banks	21	101	8	16	7	14	4	9
TOTAL	**2,505**	**3,657**	**695**	**850**	**573**	**696**	**285**	**412**

@Excludes IRDP Banking plans.
* Includes Regional Rural Banks.

expected to rise further as a result of the revisions in the ARDC loaning policy during the year under review to extend 90 per cent refinance to schemes under other special projects also as in the case of SFDA.

As at the end of June 1980, the ARDC sanctioned 695 schemes sponsored by SFDA involving aggregate commitment of Rs. 111 crores of which Rs. 58 crores were disbursed till June 1980. The financial assistance involved was Rs. 120 crores.

Policy decisions during the year

(1) The ARDC decided to provide interim finance at a rate of interest of 10 per cent per annum to SLDBs to enable them to satisfactorily manage their resources position so as to tide over the time lag between the date of disbursement of loans to ultimate borrowers and the date of issue of special development debentures. Under the scheme, credit limit will be sanctioned to each SLDB for each co-operative year and a beginning has already been made in this regard.

(2) Apart from extending the facility of 90 per cent refinance to special programmes as mentioned earlier, the ARDC agreed to extend 80 per cent refinance facility for (*a*) construction of mechanical compost plants in metropolitan towns or large cities jointly by Municipal Corporation and Agro-industries Corporation or similar agencies with the approval of the concerned State Government and (*b*) construction of rural godowns.

(3) With a view to helping the LDBs financially and operationally, the Corporation in consultation with the RBI, decided to allow SLDBs, to a limited extent, to finance corporate bodies set up mainly to benefit the farmers, such as, Minor Irrigation Corporation, Lift Irrigation Corporation, etc., subject to certain terms and conditions.

(4) A reference has been made earlier in the RBI long-term credit policy to the liberalisation of overdue discipline in the case of advances to small farmers and to the postponement of recovery of loan instalments from borrowers affected by natural calamities. Suitable steps were also taken by the ARDC for implementation of these policies.

IDA/IBRD Credit—Credit allocation of $ 200 million sanctioned by the IDA under the Second ARDC Credit Project was fully disbursed by December 1979. The Third ARDC Credit Project became effective from January 2, 1980. Three more projects were negotiated with the IDA by GoI. State Governments and the ARDC during the year. A credit of $ 27.2 million is being routed through the ARDC under these programmes. With these, the total amount of credit to be channelled through the ARDC stands at $ 1,200 million. The three projects are (1) an inland fisheries project covering States of Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal, (2) a Multi-State cashew project involving total IDA credit of $ 22 million and covering the States of Andhra Pradesh,

Karnataka, Kerala and Orissa and (3) the Karnataka sericulture project ($ 54 million).

Apart from 3 general lines of credit to the ARDC the World Bank Group have sanctioned 37 projects for which credit for non-farm development is being routed through the ARDC; these include 12 agricultural credit projects, 7 command area development projects, 3 dairy development projects, 3 seeds projects, 3 fisheries projects, 2 market yards projects, 2 horticultural marketing projects, 2 irrigation projects, an integrated cotton development project, a multi-state cashew project and a sericulture project. The ARDC obtained credit from the United Kingdom (£15 million), EEC (US $50 million) and Canadian International Development Association (CIDA) (C $ 25 million) during 1979-80. Agreements with Switzerland, Netherlands and USAID (First Tranche) for credits of SW. Fr. 40 million, DfL 50 million and $ 20 million, respectively have also been concluded by Government of India. Negotiations for credit from KFW of West Germany, EEC countries out of counterpart funds generated under the proposed supply of fertilizer project, further USAID credit of $ 80 million and credit from UK are in advanced stage. The ARDC expects credit to the extent of nearly $ 180 million from countries under bilateral assistance for financing Third ARDC Credit Project.

National Co-operative Development Corporation

During the year ended June 1980, the activities of the National Co-operative Development Corporation (NCDC) in respect of planning, promotion and financing of co-operatives in the field of processing, storage, marketing, etc., recorded further progress. The total financial assistance of Rs. 58 crores provided by the NCDC marked a rise of 23.4 per cent over disbursements during the preceding year. Out of their total advances of Rs. 58 crores during 1979-80, a sum of Rs. 26 crores (Rs. 19 crores in 1978-79) was under Central Sector Scheme and Rs. 32 crores (Rs. 28 crores in 1978-79) was under Corporation sponsored programmes.

With the assistance of Rs. 58 crores during 1979-80, the total assistance given by NCDC so far aggregated about Rs. 338 crores, of which Rs. 193 crores were outstanding as on March 31, 1980.

Rural Electrification Corporation Limited

The progress recorded by the Rural Electrification Corporation (REC) in its activities during the financial year 1978-79 was maintained during 1979-80. During 1979-80, the REC sanctioned 776 schemes as compared to 717 projects during the preceding year. Financial assistance sanctioned and disbursements during the year aggregated Rs. 211 crores and Rs. 167 crores as against Rs. 231 crores and Rs. 156 crores, respectively, during 1978-79. The total amount sanctioned as well as disbursed upto the end of the year (net of adjustments) aggregated Rs. 1,242 crores and Rs. 840 crores,* respectively. During 1979-80, over 13,000 villages were electrified and 148,000 agricultural pumpsets energised as compared to 8,763 villages electrified and 94,161 pumpsets energised in 1978-79. In relation to the targets envisaged for the year, the achievements were over 80 per cent for village electrification, and 95 per cent for pumpset energisation. The villages electrified under the projects financed by the Corporation constitute 78 per cent of the total villages electrified in the country during the year. During the year one more rural electrification co-operative scheme was sanctioned at Sircilla in Andhra Pradesh for intensive electrification of the area. As on May 31, 1980 the amount of loans sanctioned and disbursed aggregated Rs. 91 lakhs and Rs. 32 lakhs, respectively.

The REC suitably modified the policy for financing of System Improvement (SI) Projects, Special Loans (SL) for Training Centres, Special Transmission (ST) projects and the projects of Specially Underdeveloped (SU) areas with a view to improving the quality of project formulation and facilitating effective implementation of programme.

The criteria of viability for rural electrification projects of Specially Underdeveloped (SU) areas in the States wholly covered under the Revised Minimum Needs Programme

* The amount of disbursal is inclusive of Rs. 6 crores disbursed for Harijan Basti Schemes.

(RMNP) for rural electrification were further liberalised during the year. It was decided that in such States if the funds available under RMNP were fully committed, the projects would be eligible for loan assistance under the normal programme on the basis of the criteria of viability applicable to RMNP areas. In matters relating to rate of interest, period of repayment, etc., however, the loan would be governed by the terms and conditions as applicable in the case of Specially Underdeveloped areas under the normal programme.

The Corporation concluded an agreement with National Agency for Distribution of Electricity and Gas in Algeria (SONELGAZ) to supply technical personnel and render other technical assistance to SONELGAZ in their rural electrification programme. The Corporation also agreed to provide assistance in procurement of equipment and materials for rural electrification project in selected areas of Egypt. An agreement to this effect was signed between the Government of Egypt and India.

Agricultural Finance Corporation

As mentioned in the last year's Report, the AFC had approved 66 schemes till June 30, 1979 involving net commitment of Rs. 213 crores. During 1979-80, no new scheme was approved by the AFC as the Corporation concentrated its activities on project formulation and providing consultancy services to its clients including State Governments as well as international organisations. The number of schemes formulated/appraised by the AFC on consultancy basis was higher at 154 during 1979 as against 85 in 1978, raising the cumulative position as on December 1979 to 931@ schemes (excluding 101 schemes under Phase II) involving loan requirements of around Rs. 548 crores.

The purpose-wise distribution of finance required for the schemes indicated that 37 schemes for electrification topped the list and absorbed Rs. 137 crores (25 per cent) of the total. This was followed by 47 schemes for horticulture development (Rs. 76 crores or 14 per cent), 45 schemes for crop loans (Rs. 51 crores or 9 per cent), 137 schemes for infrastructural development (Rs. 45 crores or 8 per cent), 44 composite agricultural schemes (Rs. 40 crores or 7 per cent) and 164 minor irrigation schemes (Rs. 32 crores or 6 per cent). Backward regions and the weaker sections of the rural society were the main beneficiaries of the schemes formulated during 1979-80 which included schemes for integrated tribal development, command area development, forestation, inland fisheries, etc. The Corporation also assisted in preparation of block level plans and District Credit Plans at the request of State Government, and of the member banks, respectively.

The Corporation has entered into the area of international project formulation in the third world countries. The FAO/World Bank Investment Centre as also the ADB have been drawing on the services of the Corporation for detailing experts in various disciplines to undertake project identification/formulation and appraisal work in developing countries.

In view of difficulties experienced by commercial banks in extending agricultural credit, a review of the existing State enactments having a bearing on agricultural credit was considered necessary. The Corporation, therefore, set up a committee in consultation with the Government of India, to review the existing State Agricultural Acts in the light of difficulties experienced by commercial banks in agricultural lendings and submit its recommendations. The Committee has since submitted its report to the Corporation.

Warehousing Corporations

During 1979-80, the Central Warehousing Corporation (CWC) set up 53 new warehouses. However, six warehouses were closed down/handed over to State Warehousing Corporations. The number of warehouses managed by the Corporation increased to 292 with a total capacity of 34.4 lakh metric tonnes as at the end of March 1980 as against 245 warehouses with a capacity of 30.4 lakh metric tonnes a year ago. Of the total capacity of 34.4 lakh metric tonnes, 19.6 lakh metric tonnes was in the Corporation's owned godowns, 2.4 lakh metric tonnes in the shape of plinths and 12.5 lakh metric tonnes in hired godowns. As mentioned in the last year's Report, 17.0 lakh

@As on June 1980, the number of schemes formulated/appraised by the Corporation was 1,050 involving loan requirements of Rs. 578 crores.

metric tonnes additional capacity was proposed to be put up during the Sixth Five Year Plan Period (1978-79 to 1982-83). Of this, 5.1 lakh metric tonnes capacity has been achieved by the CWC during the first two years ended March 1980 which includes a capacity of 1.0 lakh metric tonnes under the World Bank Project for the use of Food Corporation of India.

Under the GOI Scheme for building a national grid of rural godowns for storage of agricultural produce which was mentioned in the last year's Report, the CWC on its part tries to ensure that the storage space required by farmers is adequately met. It also offers a rebate in storage charges to farmers.

A new scheme viz., 'Farmers Extension Service' was introduced during the year for improving farm economy by catering to the post-harvest needs of farmers. The main objectives of the scheme are to educate the farmers on advantages of scientific storage and use of public warehouses to assist farmers in getting bank loans and to popularise disinfestation extension services.

State Warehousing Corporations: (SWCs)

On March 31, 1980, there were 1,024 warehouses managed by 16 SWCs, showing a net decline of 7 warehouses as compared to 1,031 on March 31, 1979.

However, the total capacity showed a rise of 1 lakh metric tonnes to 50 lakh metric tonnes during the period under review. The owned capacity rose by 2 lakh metric tonnes to 22.9 lakh metric tonnes but the hired capacity declined by 1 lakh metric tonnes to 27 lakh metric tonnes.

The total capacity (including the godowns hired) of the CWC and the SWCs aggregated 84.4 lakh metric tonnes on March 31, 1980 as against 78.9 lakh metric tonnes on March 31, 1979.

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 overall fiscal policy for 1979-80 was framed mainly against the background of a satisfactory performance of the economy in 1978-79 as indicated by the trends in agricultural and industrial production as well as the price stability. While agricultural production recorded an increase of 3.4 per cent in 1978-79 on top of an increase of 14.5 per cent in the preceding year, the rate of growth of industrial production was much higher at 7.6 per cent compared with the increase of 3.3 per cent registered in the preceding year. The index of wholesale prices on a weekly average basis during 1978-79 remained almost at the previous year's level of 185.8.

The total Annual Plan outlay of the Centre, States and Union Territories was increased by Rs. 861 crores or 7.4 per cent to Rs. 12,511 crores as compared with an outlay of Rs. 11,650 crores in 1978-79. The budget proposals were aimed at prevention of diversion of resources to wasteful and unproductive uses and minimising disparities in income and wealth. Thus, in order to bring about reduction in disparities in income and wealth, the highest marginal rate of personal income-tax was raised from 69 per cent to 72 per cent and the rates of wealth-tax on high slabs of net wealth were revised upwards. In the sphere of indirect taxes, to introduce further progression in duty structure, the rates of excise duty on a number of luxury and semi-luxury items were enhanced.

*Figures in this Chapter relate to fiscal years (April-March).

The combined budgetary deficit[1] of the Central and State Governments according to the revised estimates for 1979-80 which stood at Rs. 3,141 crores[2] was substantially higher than Rs. 496 crores recorded in 1978-79. Net Reserve Bank credit to the Centre and States spurted sharply by Rs. 2,989 crores in 1979-80 as compared with an increase of Rs. 1,772 crores in 1978-79. Net RBI credit to the Central Government rose by Rs. 2,650 crores as compared with an increase of Rs. 2,191 crores in 1978-79. On the other hand, the amount of such credit to States rose by Rs. 339 crores in 1979-80 as against a decline of Rs. 419 crores in 1978-79 (Table VII. 1).

The combined aggregate receipts of the Central and State Governments, according to the revised estimates for 1979-80 increased by Rs. 937 crores (or by 3.4 per cent) over the preceding year to Rs. 28,635 crores (Table VII. 2). Such receipts formed about 32.5 per cent of the national income at current prices in 1979-80 as compared with 34.6 per cent in the preceding year. While revenue receipts showed a rise of 10.7 per cent in 1979-80 (revised estimates), capital receipts recorded a decline of 14.8 per cent from the level in the preceding year.

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 1979-80 amounts to Rs. 2,639 crores—Rs. 2,410 crores on Centre's account (i. e., net variation in outstanding treasury bills and cash balances) and Rs. 229 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

(Rs. 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	—288	91	—197
1976-77	—131	+ 50	— 81	816	22	838
1977-78	—933	—229	—1162	—260	142	—118
1978-79	—1506	+1010	—496	2191	—419	1772
1979-80 (Revised Estimates) ..	—2700	—441	—3141	2650	339	2989

(*a*) For definition see footnote No. 1 of this Chapter.
(*b*) Comprising net changes in (*i*) RBI holdings of treasury bills, Other Government Securities, Rupee coins in Issue Department, loans and advances to State Governments and (*ii*) Governments' balances with the RBI so that an increase in cash balances will imply a decline in RBI credit to Governments and vice versa. Data refer to full fiscal year (i.e. from April 1 to March 31) and take into account adjustments made at the time of final closure of Government accounts.

Source: Central and State Budget documents for budgetary data.

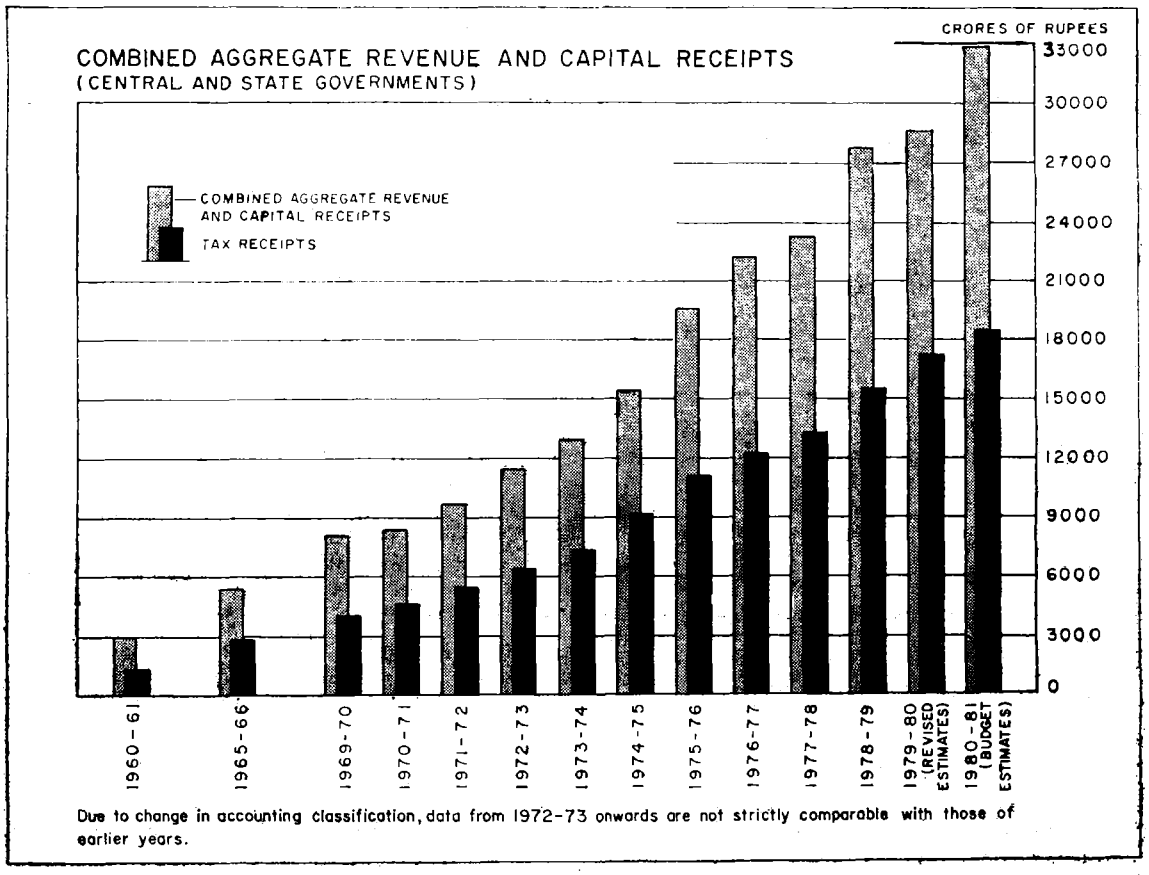


Table VII-2 : Combined Receipts and Disbursements of Central and State Governments

(Rs. crores)

Items	1978-79 Accounts	1979-80 (Revised Estimates)		1980-81 (Budget Estimates)@	
		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	**28194**	**31776**	**+12.7**	**34839**	**+ 9.6**
Of which :					
1. Developmental (a+b+c)	**18335**	**20719**	**+13.0**	**21966**	**+ 6.0**
(*a*) Revenue	10183	12184	+19.7	12936	+ 6.2
(*b*) Capital	4132	4851	+17.4	5458	+ 12.5
(*c*) Loans	4020$	3684	— 8.4	3572	— 3.0
2. Non-Developmental (a+b+c)	**8822**	**9941**	**+12.7**	**11771**	**+ 18.4**
(*a*) Revenue	8021	9323	+16.2	10507*	+ 12.7
(*b*) Capital	573	328	—42.8	972@@	+196.3
(*c*) Loans	228	290	+27.2	292	+ 0.7
II. Total Receipts (A+B)	**27698**	**28635**	**+3.4**	**32948**	**+ 15.1**
A. Revenue Receipts	**19762**	**21874**	**+10.7**	**23618**	**+ 8.0**
Of which:					
Tax Receipts (a+b)	15491	17116	+10.5	18666	+ 9.1
(*a*) Taxes on commodities and services	12294	13743	+11.8	14856	+ 8.1
(*b*) Taxes on income and property	3197	3373	+ 5.5	3810	+ 13.0
B. Capital Receipts	**7936**	**6761+**	**—14.8**	**9330@@**	**+ 38.0**
Of which:					
(*i*) Market Borrowings (Gross)	2111	2564	+21.5	3092	+ 20.6
Market Borrowings (Net)	1834	2139	+16.6	2695	+ 26.0
(*ii*) Small Savings (Net)	847	925	+ 9.2	1100	+ 18.9
(*iii*) State Provident Funds (Net)	475	535	+12.6	558	+ 4.3
III. Overall Surplus (+) or Deficit (—) (II-I)	**— 496**	**— 3141**		**— 1891**	
(*Financing of Surplus (+) or Deficit (—)*					
(*i*) Increase (+) or Decrease (—) in cash balances of Centre and States	—2154	—477		—424	
(*ii*) Increase (—) or Decrease (+) in Treasury bills of Centre	+1010	—2399		—1444	
(*iii*) Withdrawals from (—) or additions to (+) cash balance investment accounts and revenue reserve funds of States	+393	—267		—30	
(*iv*) Increase (—) or decrease (+) in ways and means advances and overdrafts from the Reserve Bank of India to States	+255	+2		+ 7	

@ Including effects of budget proposals and adjusted for tax concessions announced by Central Government on July 24, 1980. Figures for Assam are taken from its interim Budget for 1980-81 and do not cover the regular Budget of Assam presented to Parliament on November 20, 1980. Supplementary Demands for Grants for additional expenditure of the Central Government presented to Parliament in December 1980 are also not covered.

* Excludes accounting adjustments relating to write-off of Rs. 946 crores of loans advanced to State Governments prior to 1979-80. These loans were written off by way of debt relief to States in pursuance of the recommendations of the Seventh Finance Commission.

@@ Include contra-entries relating to receipt/expenditure of Rs. 562 crores on account of subscription payable to International Monetary Fund in the form of securities and special drawing rights.

\+ Takes into account shortfall in deposits of special credits from Iran and withdrawal of deposits of Crude Oil Fund.

§ Since actuals are not available in respect of technical credits to foreign governments towards export promotion by the Central Government revised estimates are used.

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 Central Government Budget.

3. 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.

4. Data given here would not tally with those given in Bank's Annual Report—1979-80 due to revision in data.

Source: Budgets of Central and State Governments.

Aggregate tax receipts increased by 10.5 per cent in 1979-80 and their proportion to national income at current prices at 19.4 per cent was marginally higher than 19.3 per cent in 1978-79. Receipts from taxes on commodities and services recorded a higher growth rate of 11.8 per cent than the rate of 5.5 per cent in the receipts from taxes on income and property. As regards capital receipts, receipts from market borrowings (net of repayments) were higher by Rs. 305 crores (16.6 per cent). Receipts from small savings (net) and State Provident Funds (net) recorded a rise of Rs. 78 crores (9.2 per cent) and Rs. 60 crores (12.6 per cent), respectively.

According to the budget estimates for 1980-81, the combined aggregate receipts during the year are likely to show a rise of Rs. 4,313 crores (or 15.1 per cent) over the revised estimates for 1979-80. Revenue receipts are expected to rise at a rate of 8.0 per cent while capital receipts are anticipated to increase by a much higher rate of 38.0 per cent. Tax receipts are budgeted to rise at a lower rate of 9.1 per cent as compared with the rate of 10.5 per cent in the preceding year.

Aggregate combined disbursements of the Centre and States at Rs. 31,776 crores in 1979-80 were higher by Rs. 3,582 crores (or 12.7 per cent) than their level in the preceding year. Such disbursements formed about 36.1 per cent of national income at current prices in 1979-80 as compared with 35.2 per cent in the preceding year. According to the budget estimates for 1980-81, combined disbursements during the year are envisaged to rise by Rs. 3,063 crores (or 9.6 per cent) to Rs. 34,839 crores over the revised estimates for 1979-80. A substantial part of the increase (Rs. 1,830 crores) is attributed to the rise in non-developmental expenditure. In percentage terms, non-developmental expenditure is anticipated to rise by a higher rate of 18.4 per cent than the estimated rate of growth (6.0 per cent) of developmental expenditure.

1. Budgetary Operations of the Central Government

According to the revised estimates for 1979-80 the budgetary deficit of the Central Government increased sharply to Rs. 2,700 crores* rfom the level of Rs. 1,506 crores in 1978-79.

Aggregate disbursements during 1979-80 at Rs. 20,030 crores were higher by Rs. 346 crores (or 1.8 per cent) than in the preceding year. Expenditure on revenue account showed arise of Rs. 1,099 crores while that on capital account was lower by Rs. 753 crores.

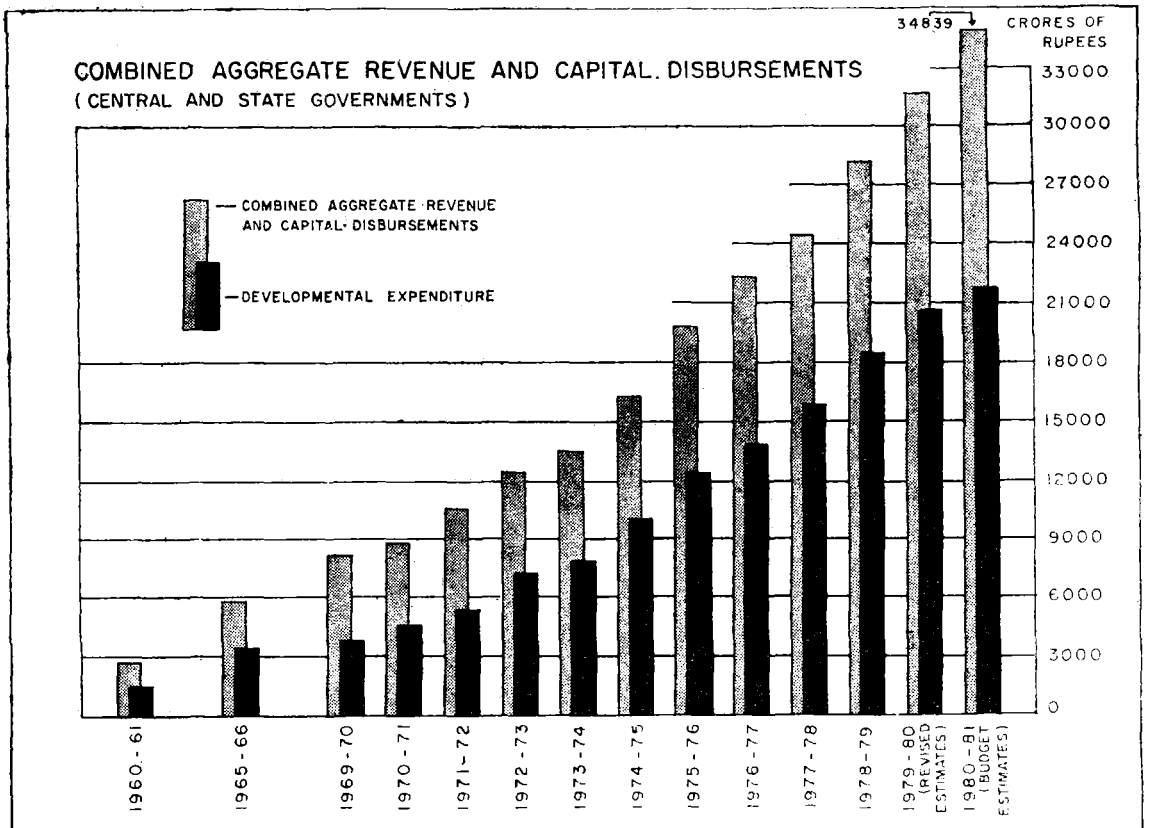
The increase in expenditure on revenue account is attributed mainly to (*i*) the step-up in expenditure on economic services by Rs. 414 crores, (*ii*) the rise in grants-in-aid to State and Union Territory Governments for developmental purposes by Rs. 229 crores and (*iii*) the enhancement in defence expenditure (net) by Rs. 396 crores. The decline in capital expenditure, is accounted for largely by (*i*) reduction in loans and advances to State and Union Territory Governments by Rs. 525 crores, (*ii*) decrease in other loans and advances by Rs. 372 crores and (*iii*) curtailment of non-developmental capital outlay in respect of general services like India Security Press, Currency, Coinage and Mint (including subscription to I.M.F.), etc. by Rs. 262 crores. The fall in expenditure under these heads, however, was partially offset by the rise in expenditure on economic services to the extent of Rs. 308 crores.

Aggregate receipts at Rs. 17,330 crores were lower by Rs. 848 crores (or 4.7 per cent) in 1979-80 as compared with Rs. 18,178 crores in the preceding year. Revenue receipts showed a decline of Rs. 63 crores while capital receipts decreased substantially by Rs. 785 crores.

The decline in revenue receipts was mainly due to the fall in accrual of receipts from taxes on commodities and services by Rs. 421 crores and taxes on property and capital transactions by Rs. 17 crores which was partially offset by the rise in the receipts from taxes on income (mainly corporation tax (Rs. 89 crores)) and the step-up in non-tax revenue (Rs. 286 crores).

Under capital receipts, the major part of the decline resulted from the decrease in recoveries of loans and advances (Rs. 498 crores). Other receipts (net) such as suspense and miscellaneous receipts, remittances, reserve

* The overall budgetary deficit of the Central Government in 1979-80, according to the Reserve Bank's books, amounted to Rs. 2,410 crores, Rs. 290 crores less than the revised estimate for that year. Details of receipts and expenditure corresponding to this figure are not yet available..



Developmental expenditure consists of developmental outlays under Revenue and Capital Accounts and loans and advances for developmental purposes to the rest of the economy The data from 1972-73 onwards are not strictly comparable with those for earlier years due to changes in accounting classification

Aggregate Disbursements for 1980-81 (B E.) exclude accounting adjustments relating to the write-off of Rs. 946 crores of loans advanced to States in pursuance of the recommendations of the Seventh Finance Commission.

funds other than railway reserve funds, inter-State settlements, oil credits special securities issued to the I.M.F., the I.B.R.D., the I.D.A., the A.D.B., prize bonds, annuity certificates, etc., amounted to Rs. 461 crores in 1978-79. However, there was a net outgo of Rs. 182 crores in 1979-80 under this head. Similarly, special borrowings from the R.B.I. against compulsory deposits which were of the order of Rs. 125 crores in 1978-79 showed a net outgo of Rs. 80 crores in 1979-80. The decrease under these heads, however, was partly made up by the rise in net receipts from internal market loans (Rs. 307 crores) and external loans (Rs. 147 crores).

Economic and Functional Classification of the Central Government Budget

According to the Economic and Functional Classification of the Budget, the total expenditure@ of the Central Government in 1979-80 (revised estimates) was placed at Rs. 18,651 crores showing an increase of Rs. 934 crores (or 5.3 per cent) over the preceding year (Table VII-3).

Economic Classification

Of the two components of total expenditure, viz., final outlays and financial resources pro-

@ 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, (b) current expenditure of the departmental commercial undertakings, their interest payments and net transfer to 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.

Table VII-3: Economic Classification of Total Budgetary Expenditure of the Central Government

(Rs. crores)

Items	1978-79 (Accounts)	Per cent variation over the previous year	1979-80 (Budget Estimates)	Per cent variation over the previous year	1979-80 (Revised Estimates)	Per cent variation over the previous year	1980-81 (Budget Estimates)	Per cent variation over the previous year
1	2	3	4	5	6	7	8	9
I. Total Expenditure	**17717**	**+18.2**	**17808**	**+ 0.5**	**18651**	**+ 5.3**	**21353**	**+14.5**
	(100.0)		**(100.0)**		**(100.0)**		**(100 0)**	
A. Final Outlays	**5276**	**+10.2**	**6018**	**+14.1**	**5979**	**+13.3**	**6926**	**+15.8**
	(29.8)		**(33.8)**		**(32.1)**		**(32.4)**	
(*a*) Consumption Expenditure	3975	+ 8.1	4270	+ 7.4	4428	+11.4	5032	+13.6
	(22.5)		(24.0)		(23.8)		(23.5)	
(*b*) Gross Capital Formation	1301	+17.4	1748	+34.4	1551	+19.2	1894	+22.1
	(7.3)		(9.8)		(8.3)		(8.9)	
B. Financial Resources Provided to the Rest of the Economy	**12441**	**+22.0**	**11790**	**— 5.2**	**12672**	**+ 1.9**	**14427**	**+13.8**
	(70.2)		**(66.2)**		**(67.9)**		**(67.6)**	
(*a*) For Capital Formation	5612	+22.5	5269	— 6.1	5808	+ 3.5	6552	+12.8
	(31.7)		(29.6)		(31.1)		(30.7)	
(*i*) To States and Union Territories	3302	+48.7	2556	—22.6	3240	— 1.9	3555	+ 9.7
	(18.7)		(14.4)		(17.4)		(16.7)	
(*ii*) To Others*	2310	— 2.1	2713	+17.4	2568	+11.2	2997	+16.7
	(13.0)		(15.2)		(13.7)		(14.0)	
(*b*) For Purposes other than Capital Formation	6829	+21.5	6521	— 4.5	6864	+ 0.5	7875	+14.7
	(38.5)		(36.6)		(36.8)		(36.9)	
(*i*) To States and Union Territories	1953	+26.7	1511	—22.6	1737	—11.1	1936	+11.5
	(11.0)		(8.5)		(9.3)		(9.1)	
(*ii*) To Others*	4876	+19.5	5010	+ 2.7	5127	+ 5.1	5939	+15.8
	(27.5)		(28.1)		(27.5)		(27.8)	
II. Total Capital Formation Expenditure	**6913**	**+21.5**	**7017**	**+ 1.5**	**7359**	**+ 6.5**	**8446**	**+14.8**
	(39.0)		**(39.4)**		**(39.5)**		**(39.6)**	
III. Total Expenditure for purposes other than Capital Formation	**10804**	**+16.2**	**10791**	**— 0.1**	**11292**	**+ 4.5**	**12907**	**+14.3**
	(61.0)		**(60.6)**		**(60.5)**		**(60.4)**	

* 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.

vided to the rest of the economy a major portion of the increase in the total expenditure (75.3 per cent) was accounted for by final outlays. The share of such expenditure in the total expenditure increased from 29.8 per cent in 1978-79 to 32.1 per cent in 1979-80. On the other hand, the share of financial resources provided to the rest of the economy in total expenditure has declined from 70.2 per cent in 1978-79 to 67.9 per cent in 1979-80. In absolute terms, the expenditure on final outlays increased by Rs. 703 crores in 1979-80. Out of this, Rs. 453 crores (or 64.4 per cent) was accounted for by the rise in consumption expenditure resulting from Government's direct demands for goods and services for consumption. On the other hand, expenditure on capital formation rose by Rs. 250 crores over the year.

About 24.7 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. 12,441 crores in 1978-79 to Rs. 12,672 crores in 1979-80 (or by 1.9 per cent). Of the financial resources provided to the rest of economy, the amount provided for capital formation increased by Rs. 196 crores (or 3.5 per cent) over the year, while that allocated for purposes other than capital formation was higher by Rs. 35 crores (or 0.5 per cent). The share of the former in the total expenditure declined from 31.7 per cent in 1978-79 to 31.1 per cent in 1979-80. Likewise, the share of the latter in the total expenditure decreased from 38.5 per cent in 1978-79 to 36.8 per cent in 1979-80.

The expenditure on capital formation both on account of direct outlays and transfer of financial resources to the rest of the economy increased by Rs. 446 crores to Rs. 7,359 crores in 1979-80 (or by 6.5 per cent) and its proportion to total expenditure rose marginally from 39.0 per cent to 39.5 per cent.

Functional Classification

A functional classification of the total expenditure in 1979-80 shows that developmental expenditure (comprising expenditure on social and economic services) showed a rise of Rs. 907 crores (or 8.7 per cent) over the preceding year to Rs. 11.284 crores. The share of developmental expenditure in the aggregate expenditure was higher at 60.5 per cent in 1979-80 than 58.6 per cent in the preceding year. Of the total increase in developmental expenditure, as much as Rs. 827 crores (or 91.2 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, subsidies to industries and block grants and loans) (Table VII-4).

Non-developmental expenditure of the Central Government comprising disbursements on account of general services (including defence expenditure) and unallocable items, increased over the year by Rs. 27 crores to Rs. 7,367 crores in 1979-80. While expenditure on unallocable items comprising consumption subsidies, interest payments, pensions, statutory grants-in-aid and special loans to State Governments declined by Rs. 226 crores, the expenditure on general services increased by Rs. 253 crores. Non-developmental expenditure showed a smaller rate of growth of 0.4 per cent as compared with the rate of growth of 8.7 per cent in developmental expenditure. Consequently, its share in total expenditure declined from 41.4 per cent in 1978-79 to 39.5 per cent in 1979-80. The share of resources provided for capital formation for developmental purposes in total developmental expenditure showed a decline from 66.2 per cent to 64·7 per cent in 1979-80 (Table VII-5).

Pattern of Expenditure for 1980-81—Budget Estimates

The regular@ Budget of the Government of India for 1980-81 was presented to the Lok Sabha against the background of a disconcerting economic situation in 1979-80 judged by the trends in agricultural and industrial production, gross national product, as well as movements in prices. Due to severe drought in various parts of the country agricultural production is anticipated to decline by 10 per cent in 1979-80 as against an increase of 3.4 per cent in the preceding year. Industrial production is estimated to fall by 1.4 per cent as compared with an increase of 7.6 per cent in 1978-79 as a result of the serious deficiencies in infrastructure.

@ An interim Budget for 1980-81 was presented to the Lok Sabha on 11th March 1980.

Table VII-4. Functional Classification of Central Government's Total Expenditure

(Rs. crores)

Items	1978-79 (Accounts)		1979-80 (Budget Estimates)		1979-80 (Revised Estimates)		1980-81 (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)	**17717** (100.0)	**+18.2**	**17808** (100.0)	**+ 0.5**	**18651** (100.0)	**+ 5.3**	**21353** (100.0)	**+14.5**
A. Developmental Expenditure (i+ii)	**10377** (58.6)	**+23.0**	**10474** (58.8)	**+ 0.9**	**11284** (60.5)	**+ 8.7**	**12415** (58.1)	**+10.0**
(i) Social Services	1198 (6.8)	+23.5	1336 (7.5)	+11.5	1278 (6.9)	+ 6.7	1464 (6.8)	+14.6
(ii) Economic Services* ..	9179 (51.8)	+22.9	9138 (51.3)	— 0.4	10006 (53.6)	+ 9.0	10951 (51.3)	+ 9.4
B. Non-Developmental Expenditure (i + ii)	**7340** (41.4)	**+12.1**	**7334** (41.2)	**— 0.1**	**7367** (39.5)	**+ 0.4**	**8938** (41.9)	**+21.3**
(i) General Services	3742 (21.1)	+14.4	3804 (21.4)	+ 1.7	3995 (21.4)	+ 6.8	5050 (23.7)	+26.4
(ii) Unallocable	3598 (20.3)	+ 9.8	3530 (19.8)	— 1.9	3372 (18.1)	— 6.3	3888 (18.2)	+15.3

* Includes block grants and loans.
Note : Figures in brackets are percentages to total expenditure.
Source: Economic and Functional Classification of the Central Government Budget.

Table VII-5: Provision for Capital Formation

(Rs. crores)

Items	1978-79 (Accounts)	1979-80 (Budget Estimates)	1979-80 (Revised Estimates)	1980-81 (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)	**6913**	**7017**	**7359**	**8446**	**+ 6.5**	**+14.8**
A. Developmental (1 to 3)	6868	6934	7300	8362	+ 6.3	+14.5
1. Social Services	259	340	255	337	— 1.5	+32.2
2. Economic Services (a to d) ..	4281	4959	4945	5795	+15.5	+17.2
(a) Agriculture	451	637	580	611	+28.6	+ 5.3
(b) Industry	2151	2290	2265	2663	+ 5.3	+17.6
(c) Transport and Communication	1175	1585	1418	1723	+20.7	+21.5
(d) Other Economic Services ..	504	447	682	798	+35.3	+17.0
3. Block Grants and Loans ..	2328	1635	2100	2230	— 9.8	+ 6.2
B. Non-Developmental (1+ 2)	45	83	59	84	+31.1	+42.4
1. General Services	45	83	59	84	+31.1	+42.4
2. Unallocable	—	—	—	—	—	—
II. Total Developmental Expenditure.. ..	**10377**	**10474**	**11284**	**12415**	**+8.7**	**+10.0**
III. IA as per cent of II	**66.2**	**66.2**	**64.7**	**67.4**		

Source: Economic and Functional Classification of the Central Government Budget.

Gross national product (at 1970-71 prices) is expected to decline by 3 per cent during 1979-80 as against a rise of 4.2 per cent recorded in 1978-79. Sharp decrease in aggregate supply and the direct and indirect effects of the increase in the prices of crude oil and oil products contributed to the inflationary pressures in the economy resulting in the rise of wholesale prices by 16.7 per cent in 1979-80 on a weekly average basis. The balance of payments position deteriorated in 1979-80; foreign exchange reserves declined by Rs. 56 crores.

Against this background of the inflationary situation in the economy, the regular Budget of the Central Government seeks to restrain the price rise through an increase in aggregate supply and moderation of aggregate demand. Although, immediate problems of economic management have influenced the formulation of budgetary policy, the need to build up the growth potential of the economy over the medium term has also received due emphasis.

The fiscal measures in the Budget seek to reduce wasteful and unnecessary expenditure, invest resources in increasing the production potential of the economy and maximise the revenue potential of the existing tax system. The scope for additional resource mobilisation through taxation is somewhat limited in view of the slackness in the growth of the economy and the substantial burden imposed by the large oil price increases. Therefore, greater reliance has been placed on borrowings, both internal and external, and on mobilisation of additional resources and containing liquidity pressures. The Budget for 1980-81, therefore, seeks to devise ways and means to arrest the deterioration in the economic situation and set the economy on the path of stability and growth. Pursuant to these objectives, the Annual Plan outlay of the Centre, States and Union Territories and Schemes of North-Eastern Council, etc. for 1980-81 has been stepped up by 16.6 per cent to Rs. 14,593 crores as compared with an outlay of Rs. 12,511 crores in the preceding year. The Plan has also emphasised the need for making available the benefits of planned development to the weaker sections of society. The Budget has made a provision of Rs. 340 crores in 1980-81 for National Rural Employment Programme which, if properly implemented, is expected to generate 850 to 900 million mandays of additional employment. The provision in the Central Budget for the Central Plan has been increased by Rs. 943 crores to Rs. 5,322 crores.

Together with the internal resources generated by the public sector undertakings* and other extra budgetary resources, the outlay on the Central Plan is estimated at Rs. 7,340 crores during 1980-81 as compared with Rs. 5,800 crores in the revised estimates for 1979-80. The provision for Central assistance for the Plans of the States, Union Territories and North Eastern Council, etc. at Rs. 3,094 crores is budgeted to be higher by Rs. 203 crores over the preceding year. Keeping in view the strategic role of agriculture in the development of the economy, the outlay on agriculture and allied sectors has been enhanced by Rs. 436 crores (or 24.1 per cent) to Rs. 2,247 crores over the preceding year. The provision for irrigation and flood control has been placed at Rs. 1,380 crores indicating a rise of Rs. 122 crores (9.7 per cent). The allocation for power has been raised by Rs. 268 crores (11.0 per cent) to Rs. 2,708 crores. The outlay on industry and mining has been raised by Rs. 611 crores (or 24.0 per cent) to Rs. 3,162 crores. The outlay on transport and communications has been stepped up by Rs. 277 crores (or 13.0 per cent) to Rs. 2,414 crores.

Aggregate disbursements in 1980-81 are placed at Rs. 23,650 crores† showing a rise of Rs. 3,620 crores (or 18.1 per cent) over the revised etimates for 1979-80. Aggregate receipts adjusted for the effect of post-budget tax concessions in 1980-81 are estimated at Rs. 22,205 crores; these are anticipated to show a rise of Rs. 4,875 crores@ (28.1 per cent)over

* To mobilise additional resources for sustaining investment in the Public sector, the Government has decided to allow selected public sector units to raise public deposits on the same lines as companies in the Private Sector. When this Scheme makes headway, it is hoped that dependence of these public enterprises on budgetary support will get reduced.

† Excluding the effect of supplementary demands for grants presented to the Lok Sabha on December 3, 1980.

@ While analysing the budgeted growth in aggregate receipts for 1980-81, it should be borne in mind that these receipts include notional receipts of Rs. 562 crores on account of subscription payable to International Monetary Fund in the form of securities and special drawing rights and also notional receipts due to accounting adjustments relating to the write-off of Rs. 946 crores of loans advanced to State Governments prior to 1979-80, in pursuance of the recommendations of the Seventh Finance Commission.

the revised estimates for 1979-80 as against a decline of Rs. 848 crores (or 4.7 per cent) during 1979-80 over 1978-79 (Accounts). The size of the budgetary deficit is, therefore, likely to be of the order of Rs. 1,445 crores in 1980-81 as compared with Rs. 2,700 crores in the preceding year.

In 1980-81, revenue receipts are budgeted to account for 55.5 per cent and capital receipts for 44.5 per cent of the anticipated aggregate receipts. Revenue receipts during 1980-81 are likely to show a rise of Rs. 1,150 crores to Rs. 12,327 crores. Of these, tax receipts are expected to show an increase of Rs. 702 crores, while non-tax revenue receipts are likely to indicate a rise of Rs. 448 crores. In the sphere of direct taxes, receipts from taxes on income (net of States' share) are likely to go up by Rs. 39 crores to Rs. 494 crores. Receipts from corporation tax are estimated to rise by Rs. 135 crores to Rs. 1,515 crores. As regards indirect taxes, net receipts from customs duties are budgeted to increase by Rs. 175 crores to Rs. 2,989 crores while those from Union excise duties (net of States' share) are anticipated to rise by Rs. 255 crores to Rs. 3,550 crores. Among the items of non-tax revenue, interest receipts are budgeted to increase by Rs. 371 crores to Rs. 1,856 crores in 1980-81 as compared with Rs. 1,485 crores in the preceding year. Receipts from 'General Services' are likely to increase by Rs. 16 crores to Rs. 291 crores in 1980-81. Receipts under 'Social and Community Services' are expected to go up by Rs. 5 crores to Rs. 125 crores while those from' Economic Services' would indicate a rise of Rs. 46 crores to Rs. 362 crores.

The Budget for 1980-81 has placed greater reliance on borrowings than on taxation to mobilise additional resources. Accordingly, capital receipts in 1980-81 budgeted at Rs. 9,878 crores would show a substantial increase of Rs. 3,725 crores (or 60.5 per cent) over the revised estimates for 1979-80. Internal market borrowings (net) are likely to fetch an amount of Rs. 2,499 crores showing a rise of Rs. 538 crores over the preceding year. Further, capital receipts during 1980-81 include borrowings of Rs. 540 crores from the Trust Fund of the International Monetary Fund.@ Net external borrowings are placed at Rs. 801 crores in 1980-81 indicating a rise of Rs. 270 crores. Receipts under 'small savings (net)' are anticipated to increase by Rs. 175 crores to Rs. 1,100 crores in 1980-81 as compared with Rs. 925 crores in the preceding year. Recoveries of loans advanced to State and Union Territory Governments are budgeted to increase by Rs. 1,057 crores to Rs. 1,963 crores in 1980-81. The Government has decided that a part of the investible resources of Life Insurance Corporation of India, General Insurance Corporation and Unit Trust of India should be lodged with the Government in Special Deposit Accounts to augment resources for development. Accordingly, the Budget for 1980-81 takes a credit of Rs. 100 crores on account of these deposits.

Economic Classification

According to the economic classification, the total expenditure of the Central Government during 1980-81 at Rs. 21,353 crores is anticipated to show a rise of Rs. 2,702 crores (or 14.5 per cent) as compared with a smaller increase of 5.3 per cent in the preceding year (Table VII-3). The expenditure on account of the financial resources provided to the rest of the economy is budgeted to increase by Rs. 1,755 crores (or 13.8 per cent) to Rs. 14,427 crores in 1980-81 as compared with a rise of Rs. 231 crores (or 1.9 per cent) 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 increase in 1980-81.

Provision for 'final outlays' which accounts for about 32 per cent of the total expenditure is anticipated to rise by Rs. 947 crores (or 15.8 per cent) compared with an increase of Rs. 703 crores (or 13.3 per cent) in the preceding year. Consumption expenditure which is the major component of final outlays is slated to rise by Rs. 604 crores (or 13.6 per cent) to Rs. 5,032 crores in 1980-81 as compared with Rs. 453 crores (or 11.4 per cent) in 1979-

@ The Trust Fund was established in May 1976 by the IMF to provide additional balance of payments assistance on concessional terms to developing members. The resources made available for loans by the Trust Fund were derived mainly from the profits of the sale through public auctions of 25 million ounces of the Fund's gold. Each disbursement under a Trust Fund loan is to be repaid in ten equal semi-annual instalments. Interest is charged at the rate of half per cent per annum on the outstanding balances of the loans (vide IMF Survey, September 1, 1980).

80. Even so, the proportion of such expenditure to the total expenditure is likely to show a marginal decline from 23.8 per cent in 1979-80 to 23.5 per cent in 1980-81.

The provision for direct gross capital formation expenditure at Rs. 1,894 crores has been estimated higher by Rs. 343 crores (or 22.1 per cent) as compared with Rs. 250 crores (or 19.2 per cent) in the preceding year. The share of such a provision in the total expenditure is likely to show a rise from 8.3 per cent to 8.9 per cent.

The provision for capital formation (including assistance for capital formation) out of the budgetary resources of the Central Government in 1980-81 is anticipated to rise by Rs. 1,087 crores (or 14.8 per cent) to Rs. 8,446 crores as compared with an increase of Rs. 446 crores (or 6.5 per cent) in 1979-80. The estimated share of expenditure on capital formation in total expenditure at 39.6 per cent in 1980-81 is almost the same as in the preceding year. Capital formation expenditure for developmental purposes is budgeted to increase by Rs. 1,062 crores (or 14.5 per cent) to Rs. 8,362 crores in 1980-81 as compared with an increase of Rs. 432 crores (or 6.3 per cent) in the preceding year.

Functional Classification

The functional classification of the total expenditure in 1980-81 shows that developmental expenditure (comprising expenditure on social and economic services including block grants and loans) is estimated to rise by Rs. 1,131 crores (or 10.0 per cent) to Rs. 12,415 crores as compared with an increase of Rs. 907 crores (or 8.7 per cent) in 1979-80. Among the components of developmental expenditure, the expenditure on social services in 1980-81 is budgeted to increase by Rs. 186 crores (or 14.6 per cent) as against a rise of Rs. 80 crores (or 6.7 per cent) in the preceding year. On the other hand, the expenditure on economic services which constitutes about one-half of the total expenditure is estimated to increase by Rs. 945 crores (or 9.4 per cent) in 1980-81 as compared with an increase of Rs. 827 crores (or 9.0 per cent) in 1979-80. Provision for social services has been stepped up at a higher rate of 14.6 per cent compared with the rate of 6.7 per cent in the preceding year. Non-developmental expenditure is budgeted to rise sharply by Rs. 1,571 crores (or 21.3 per cent) to Rs. 8,938 crores in 1980-81 as compared with a small increase of Rs. 27 crores (or 0.4 per cent) in the preceding year (Table VII-4). The share of resources provided for capital formation for developmental purposes in total developmental expenditure is anticipated to increase marginally from 64.7 per cent in 1979-80 to 67.4 per cent in 1980-81 (Table VII-5).

Major Tax Proposals

Taxation measures incorporated in the budget for 1980-81 in the field of direct taxes have been framed against the background of certain broad considerations. Firstly, an attempt has been made to ensure that the rates of direct taxes should be such as to promote voluntary compliance. Secondly, it has been considered desirable that the farmers, workers and the middle class should be afforded some relief and some stimulus should be provided for raising the level of savings and investment in the national economy. Thirdly, it has been recognised that a concerted attempt should be made to counter certain widely prevalent devices for tax avoidance through fragmentation of income and wealth.

Tax proposals are expected to yield a revenue of Rs. 286 crores of which the share of the Central Government would be Rs. 227 crores. Subsequently, tax concession in respect of Interest Tax was announced involving a loss of about Rs. 28 crores to the Centre. Total additional revenue accruing to the Centre from taxation measures in 1980-81 is, therefore, likely to be of the order of Rs. 199 crores.

Direct Taxes

On the basis of the recommendations of the Direct Taxes Enquiry Committee,@ the rates of income-tax on the personal incomes were reduced in 1974 and this process was taken one step further in 1976. The reduction in rates, it is claimed by the Government, had largely

@ Government of India, Ministry of Finance—Direct Taxes Enquiry Committee—Final Report (Chairman Shri Justice K. N. Wanchoo), December 1971.

fulfilled the expectation that it would lead to better tax compliance. This experience has been taken into account while formulating the budget proposals relating to taxation of personal incomes.

In order to afford a measure of relief to the middle class which is among the worst hit by the rise in prices in recent years and to skilled workers in the organised sector who became liable to income-tax, the exemption limit in the case of individuals, Hindu undivided families, etc., has been raised from Rs. 10,000 to Rs. 12,000. Although the rate schedule (including the nil rate slab of income upto Rs. 8,000) has not been changed, a provision has been made to the effect that no income-tax will be payable in the case of individuals, Hindu undivided families, etc., where the total income of the tax payer does not exceed Rs. 12,000. Provision has also been made for relief where the taxable income exceeds Rs. 12,000 by a small margin.

The surcharge on personal incomes in the case of all categories of non-corporate tax payers has been reduced from 20 per cent to 10 per cent. This measure has brought down the maximum marginal rate of tax from 72 per cent to 66 per cent and is designed to benefit tax payers in all slabs of income.

With a view to providing further incentive for effecting long-term savings through life insurance, provident fund contributions and other approved forms, the incentives for such savings have been restored to the pre-1979 Budget levels. Thus, while the quantum of deduction in respect of long-term savings for the first Rs. 5,000 of the qualifying savings has been retained at the earlier level (100 per cent), the quantum of deduction in respect of the next Rs. 5,000 has been increased to 50 per cent as against 35 per cent previously and the quantum of deduction in respect of the balance has been increased to 40 per cent as against 20 per cent earlier.

Under the earlier provisions of the Wealth-tax Act, wealth-tax was payable by individuals and Hindu undivided families where the net wealth on the valuation date exceeded Rs.1 lakh. With a view to relieving hardship to middle class tax payers, who would be brought within the tax net as a result of steep rise in prices of assets in general, the exemption limit for wealth-tax has been raised from Rs. 1,00,000 to Rs. 1,50,000. However, where the net wealth exceeds Rs. 1,50,000, the entire net wealth would be chargeable to wealth-tax, subject to the marginal relief, namely, that the wealth-tax payable shall, in no case, exceed 5 per cent of the amount by which the net wealth exceeds Rs. 1,50,000.

Further, under the earlier provisions, wealth-tax was levied on the value of agricultural property subject to certain specific exemptions. The Budget for 1980-81 excludes from the purview of wealth-tax, the value of the agricultural property, other than the value of the agricultural land comprised in a tea, coffee, rubber or cardamom plantation and trees standing on such plantation. The value of agricultural land comprised in such plantation will, however, continue to enjoy the existing limited exemption inasmuch as the value of such land together with the value of specified financial assets will be exempt upto Rs. 1.5 lakhs.

As a step towards realignment of interest rates, the Finance Act, 1978 discontinued the levy of interest tax in relation to interest accruing or arising to scheduled banks after 28th February 1978. However, as a measure for restraining inflationary tendencies, interest tax in relation to interest accruing or arising to scheduled banks is revived. The scope of the levy is extended to cover also interest received by larger all-India industrial financial institutions, namely, Industrial Development Bank of India, Industrial Credit & Investment Corporation of India, Industrial Finance Corporation of India and Industrial Reconstruction Corporation of India. The tax is to be levied at the rate of 7 per cent on the chargeable amount of interest.@ As it may not always be possible for the financial institutions and the scheduled banks to pass on the incidence of interest tax in respect of term loans granted by them before the Budget day, it was subsequently provided, as a part of the tax concessions announced on July 24, 1980 that interest on term loans sanctioned by financial institutions and scheduled banks before June 18, 1980 will be exempt from the tax in cases

@ This measure, initially expected to yield about Rs. 108.50 crores in 1980-81, would now yield about Rs. 80 crores as a result of modifications announced subsequent to the presentation of the Budget.

where the agreements under which such loans have been made to provide for the repayment thereof during a period of not less than three years. Further, interest received by scheduled banks on deposits impounded by the Reserve Bank of India under Section 42 of the Reserve Bank of India Act has been exempted.

The existing 'tax holiday' provision will apply in relation to new industrial undertakings which go into production before 1st April 1981 or approved hotels which start functioning before that date or new ships which are brought into use on or before that date. Under the Finance Act, 1980, a new section has been inserted in the Income-tax Act which will apply in relation to new industrial undertakings (including cold storage plants) which are set up after 31st March 1981 or approved hotels which start functioning after that date or ships brought into use after 1st April 1981. The 'tax holiday' under the new provision will be available in respect of new industrial undertakings set up before 1st April 1985 or approved hotels which start functioning before that date or new ships which are acquired on or before that date.

The main feature of the new 'tax holiday' scheme which differs from the existing scheme in certain respects, is that the basis of computing the 'tax holiday' profits has been changed from the percentage of capital employed to a percentage of the taxable income derived from the new industrial unit, ship or approved hotel. In the case of companies, 25 per cent of the profits derived from new industrial undertakings, etc., will be exempted from tax for a period of 7 years* and in the case of other taxable entities 20 per cent of such profits will be exempted for the same period. In the case of co-operative societies, however, the exemption will be allowed for a period of 10 years instead of 8 years.

Under the Income-tax Rules, seven different rates of depreciation have been prescribed in respect of machinery or plant ranging from 5 to 100 per cent. In addition to the normal depreciation allowance, an extra allowance upto one-half of the normal allowance is allowed where the concern works double shift and an extra allowance upto an amount of normal depreciation is allowed where the concern works triple shift. The general rate of depreciation on machinery, i.e., the rate applicable to machinery or plant which is not specifically listed in the depreciation rate schedule, is fixed at 10 per cent. With a view to stimulating investment during the Sixth Five Year Plan period, an additional depreciation, subject to certain exceptions, has been allowed in an amount equal to 50 per cent of the normal depreciation allowance (excluding extra shift allowance and the extra allowance in respect of machinery or plant installed in any premises used as hotels) in respect of new machinery or plant installed after 31st March 1980 but before 1st April 1985. The additional depreciation allowance will be taken into account in determining the written down value of machinery or plant for subsequent years.

With a view to checking lavish expenditure incurred on accommodation and entertainment in luxury hotels, the Finance Minister proposed to introduce a Bill@ providing for a levy of a new tax at 15 per cent on gross receipts of hotels in which the minimum tariff for a single room is 75 rupees per day.

Indirect Taxation

The main objective kept in view while framing the taxation measures in the field of indirect taxes has been that additional resource mobilisation, to the extent that it is inescapable, should be done in such a way as not to enhance the burden on any commodity significantly. Subject to this consideration, it has been considered desirable to encourage the small scale segment of industry, assist industries with significant employment and export potential through suitable adjustment of duty structure and reduce or totally remove the duty burden on some articles of common consumption.

Central Excise Duties

The rate of special excise duty has been raised from 1/20th of the basic excise duty to 1/10th of basic excise duty. This increase

* As a part of the tax concessions announced on July 24, 1980, this period has been extended to 8 years, in the case of assessees other than co-operative societies.

@ The Lok Sabha on 27th November 1980 passed the 'Hotel Receipts Tax Bill, 1980'.

has not been made applicable to furnace oil, asphalt, bitumen and tar, petroleum products not otherwise specified and calcined petroleum coke. Sugar and processed vegetable non-essential oils have not also been subjected to the increased levy. Cigarettes which were totally exempt from special excise duty have been subjected to special excise duty at 1/10th of the basic excise duty rates. Further, special excise duty has been levied on other items which were previously exempt from the levy at the rate of 1/20th of the effective basic excise duty rates applicable with the exception of motor spirit including naphtha, kerosene, high speed diesel oil, light diesel oil, liquefied petroleum gas, coal and electricity. Again, the special excise duty has not been made applicable to matches or vanaspati or goods falling under Tariff Item 68.

The excise duty on soda ash, caustic soda and starch has been raised from 10 per cent to 15 per cent *ad valorem* while that on synthetic rubber has been enhanced from 5 per cent to 10 per cent *ad valorem*. Molasses has been subjected to a specific duty of Rs. 30 per metric tonne under a separate item in the Central Excise Tariff instead of 8 per cent under Item 68 of the Central Excise Tariff. The levy is, however, restricted to molasses produced in vacuum pan sugar factories. Molasses produced in khandsari sugar units which goes *inter alia* for edible purposes has been exempted.

Certain specified life saving drugs, controlled cloth, cotton and cotton viscose blend hosiery consisting of items like banians, cycles and cycle parts falling under Item 68 and sewing machines have been exempted from excise duty. The duty on pressure cookers has been reduced from 15 per cent to 10 per cent. Excise duty on cheaper varieties of toilet soaps has been reduced from 10 per cent to 5 per cent, while the duty on tooth paste has been brought down from 20 per cent to 10 per cent. Further, vacuum and gas filled bulbs not exceeding 60 watts have been subjected to a lower excise duty of 10 per cent as against 15 per cent earlier. The excise duty on cheaper priced T.V. sets has been reduced from 15 per cent to 10 per cent *ad valorem* and a corresponding reduction in the duty from 30 per cent to 25 per cent *ad valorem* has been effected in the case of other T.V. sets.

Under the earlier scheme of excise duty, concessions applicable to manufacturers of 70 excisable commodities, clearances upto Rs. 5 lakhs in value in a year were exempted from duty. This concession has been liberalised in two respects. Firstly, two more groups of commodities covering certain chemicals and paper and paper boards have been included under the scheme. Secondly, in respect of all the commodities covered by the scheme, it has been provided that clearances between Rs. 5 lakhs and Rs. 15 lakhs will bear only three fourths of the applicable rate of excise duty as against the normal duty earlier. The revenue sacrifice as a result of this concession will be of the order of Rs. 6.50 crores in a full year. As regards small manufacturers of goods falling under the residuary Item 68 of the Central Excise Tariff, the quantum of duty free clearances was reduced from Rs. 30 lakhs to Rs. 15 lakhs under the last year's Budget. As a measure of undoing the hardship caused to such small manufacturers, complete exemption has been granted from duty for clearances upto Rs. 30 lakhs per annum. In other words, small manufacturers of goods falling under Item 68 of the Central Excise Tariff whose capital investment on plant and machinery does not exceed Rs. 10 lakhs@ are now eligible for complete exemption from duty on their first clearances of goods upto Rs. 30 lakhs in a financial year provided their clearances during the preceding financial year did not exceed Rs. 30 lakhs. Further, a concessional rate of duty of 20 per cent *ad valorem* against the earlier rate of 30 per cent has been extended to paper and paper board produced by small manufacturers whose clearances in the preceding financial year did not exceed 300 tonnes of paper and paper board.

Customs Duties

Baggage allowances were substantially liberalised in 1978 and for the generality of Indian passengers going abroad for short visits, the allowances consisted of Rs. 1,000 worth of duty free goods and Rs. 2,000 worth of goods on payment of duty. Despite this liberalisation, goods in the nature of baggage continued to be imported by many passengers in quanti-

@ The Government of India has increased the limits of investment in capital assets in small units from Rs. 10 lakhs to Rs. 20 lakhs (vide Industrial Policy Statement presented to the Lok Sabha on July 23, 1980).

ties substantially higher than the permissible limits. The main factor behind this practice has been the high margin of profits on the sale of these goods in India. Such cases of import of baggage items in excess of the permissible limits necessitate initiation of adjudication proceedings which generally have the effect of slowing down the tempo of passenger clearance in international airports. In order to tackle this problem, therefore, the effective rate of duty on baggage articles in excess of the free allowances has been raised from 120 per cent *ad valorem* to 150 per cent *ad valorem*. Further, it is proposed to levy duty at a flat rate of 320 per cent on baggage imported in excess of permissible limits.

Import duty (basic, auxiliary and additional) on certain machines and testing instruments for electronics industry has been reduced from the previous rates to 25 per cent *ad valorem*. Further, the import duty (basic plus auxiliary) on certain raw materials and components for electronics industry has been reduced from the previous rates to 45 per cent *ad valorem*. Additional (countervailing) duty would be leviable only on items classifiable under Central Excise Tariff Item No. 68.

Postal Services

Payment of dearness allowance and sanction of bonus linked to productivity to the staff of the Posts and Telegraphs Department have increased the working expenses of the Department. It has, therefore, become necessary to increase the tariffs on a few selected services. The tariffs have accordingly been revised and are estimated to bring in an additional revenue of Rs. 27.10 crores per annum.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS*

Revised Estimates for 1979-80

The combined budgetary position of the States shows a deficit of Rs. 441 crores according to revised estimates for 1979-80 in contrast to a surplus of Rs. 1010 crores recorded in 1978-79 (Table VII-6). Such a marked deterioration was the result of larger increase in aggregate disbursements than in aggregate receipts. Aggregate disbursements at Rs. 18,272 crores in 1979-80 recorded a rise of Rs. 2,493 crores (15.8 per cent) over the level of 1978-79 while aggregate receipts showed an increase of Rs. 1,043 crores (6.2 per cent) at Rs. 17,831 crores.

Receipts

The growth rate in aggregate receipts declined sharply to 6.2 per cent in 1979-80 from 27.9 per cent in 1978-79. This deceleration was attributable to lower capital receipts which registered a steep fall of Rs. 905 crores (or 17.6 per cent) in 1979-80. In contrast, revenue receipts rose by Rs. 1,948 crores (or 16.7 per cent) to Rs. 13,595 crores. This rise was brought about by tax receipts while non-tax receipts declined. Tax receipts at Rs. 8,897 crores in 1979-80 showed a rise of Rs. 1,974 crores (or 28.5 per cent) as compared to an increase of Rs. 768 crores (or 12.5 per cent) in 1978-79. The substantial rise in the tax receipts was on account of the States' share in Central taxes which spurted by Rs. 1,394 crores (or 71.4 per cent) to Rs. 3,347 crores from Rs. 1,953 crores in 1978-79, reflecting largely the impact of Seventh Finance Commission's recommendations. The share of the States in the Union excise duties increased by Rs. 1,252 crores to Rs. 2,494 crores in 1979-80 as against an increase of Rs. 122 crores in 1978-79. Similarly, the States' share in income tax was higher by Rs. 142 crores in 1979-80 as against an increase of Rs. 24 crores in the previous year.

Revenue from the States' taxes registered a lower increase of Rs. 580 crores compared with a rise of Rs. 621 crores in the preceding year. A little more than two-thirds (or Rs. 407 crores) of the rise in revenue from the States' taxes was on account of sales tax in 1979-80. Incremental revenue from other taxes were : State excise (Rs. 60 crores), taxes on vehicles (Rs. 83 crores), entertainment tax (Rs. 20 crores) and electricity duties (Rs. 25 crores). Collections from land revenue and agricultural income tax declined by Rs. 72 crores and Rs.11 crores, respectively, in 1979-80 from their levels in 1978-79. The non-tax revenue of the States declined by Rs. 26 crores to Rs. 4,698 crores in 1979-80. Total grants from the Centre at Rs. 2,254 crores were lower by Rs. 219 crores in 1979-80 than in 1978-79. This decline was

* Source of Data : Assam's interim budget and the other 21 states' regular budgets for 1980-81.

Table VII-6: Overall Budgetary Position of State Governments

(Rs. crores)

Items	1978-79 (Accounts)	1979-80 (Budget Estimates)		1979-80 (Revised Estimates)		1980-81 (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)	**16788**	**16816**	**+ 0.2**	**17831**	**+ 6.2**	**18963**	**+ 6.3**
						(18858)	**(+ 5.8)**
A. Revenue Receipts (1+2)	**11647**	**13210**	**+13.4**	**13595**	**+16.7**	**14610**	**+ 7.5**
						(14505)	**(+ 6.7)**
1. Tax Receipts (*a*+*b*)	6923	8787	+26.9	8897	+28.5	9744	+ 9.5
						(9633)	(+ 8.3)
(*a*) States' Taxes	4970	5285	+ 6.3	5550	+11.7	6111	+10.1
						(6059)	(+ 9.2)
(*b*) Share in Central Taxes	1953	3502	+79.3	3347	+71.4	3633	+ 8.5
						(3574)	(+ 6.8)
2. Non-tax Receipts (*c*+*d*)	4724	4423	— 6.4	4698	— 0.6	4866	+ 3.6
						(4872)	(+ 3.7)
(*c*) Grants from the Centre	2473	2034	—17.8	2254	— 8.9	2276	+ 1.0
(*d*) Other Non-tax Receipts	2251	2389	+ 6.1	2444	+ 8.6	2590	+ 6.0
						(2596)	(+ 6.2)
B. Capital Receipts (1+2)	**5141**	**3606**	**—29.9**	**4236**	**—17.6**	**4353**	**+ 2.8**
1. States' Capital Receipts	1911	1484	—22.3	1643	—14.0	1801	+ 9.6
Of wihch:							
(*a*) Market Borrowings (Gross)	274	341	+24.5	305	+11.3	327	+ 7.2
(*b*) Recovery of Loans and Advances	366	418	+14.2	474	+29.5	511	+ 7.8
2. Loans from the Centre (Gross)	3230	2122	—34.3	2593	—19.7	2552	— 1.6
II. Aggregate Disbursements (A to E)	**15778**	**16947**	**+ 7.4**	**18272**	**+15.8**	**19409**	**+ 6.2**
A. Developmental Expenditure * (1+2)	**11397**	**12495**	**+ 9.6**	**13481**	**+18.3**	**14151**	**+ 5.0**
1. Social and Community Services	4560	5125	+12.4	5583	+22.4	5909	+ 5.8
Of which:							
Expenditure on Natural Calamities	120	103	—14.2	245	+104.2	200	—18.4
2. Economic Services	6837	7370	+ 7.8	7898	+15.5	8242	+ 4.4
B. Non-Developmental Expenditure*	**3129**	**3513**	**+12.3**	**3632**	**+16.1**	**4107**	**+13.1**
C. Repayment of Loans to the Centre	**868**	**605**	**—30.3**	**750**	**— 13.6**	**725**	**— 3.3**
D. Discharge of Internal Debt	**132**	**175**	**+32.6**	**181**	**+37.1**	**187**	**+ 3.3**
Of which:							
Market Loans	94	121	+28.7	127	+35.1	131	+ 3.1
E. Others@	**252**	**159**	**—36.9**	**228**	**— 9.5**	**239**	**+ 4.8**
III. Overall Surplus (+)/Deficit (—) (I—II)	**+1010**	**— 131**		**— 441**		**— 446†**	
						(— 551)	

Notes : 1. Budget Estimates for 1980-81 include estimated net additional yield from Budget Proposals by States (Rs. 46 crores) and the States' share (Rs. 59 crores) in the Centre's additional taxation.

2. Figures given here differ from those given in the Reserve Bank's Annual Report for 1979-80 due to revision in data.

3. Figures for Assam are taken from its Interim Budget for 1980-81.

4. Figures in brackets are at 1979-80 rates of taxation.

* Comprises States expenditure on revenue and capital accounts and loans and advances extended by States.

@ Comprise compensation and assignments to local bodies, appropriation to contingency fund and remittances (net).

† Deficit of Rs. 48 crores was shown in the regular budget of Assam for 1980-81 (Presented to parliament on November 20, 1980) which is Rs. 30 crores more than that estimated in its Interim Budget, and additional Central assistance of Rs. 310 crores for State Plans, grants of Rs. 75 crores to the flood affected States and short-term advances of Rs. 25 crores to them for purchase of fertilisers were provided for in the First Supplementary Demands for Grants for expenditure of the Central Government presented to Parliament in December 1980. As this Report was in an advance stage of publication when these details became available, they could not be included in it.

partly compensated by other non-tax receipts which increased by Rs. 193 crores to Rs. 2444 crores. While Central grants for State Plan schemes and Centrally sponsored schemes declined, grants for Central Plan schemes and non-Plan grants for natural calamities increased in 1979-80. Grants for natural calamities rose to Rs. 64 crores in 1979-80 from a meagre amount of Rs. 3.9 crores in 1978-79. Among the other constituents of non-tax revenue, interest receipts rose by Rs. 75 crores to Rs. 696 crores in 1979-80, the increase being mainly on account of interest received from States' departmental commercial undertakings and non-commercial undertakings. Revenue from dairy developments, forests, industries, road and water transport services, power projects and animal husbandry also increased during the year. Dividends from public undertakings and other investments showed a rise during the year under review.

Capital receipts declined to Rs. 4,236 crores in 1979-80 from Rs. 5,141 crores in 1978-79. The major part of this decline was in respect of loans from the Centre which at Rs. 2,593 crores in 1979-80 were lower by Rs. 637 crores as compared to an increase of Rs. 1,319 crores in 1978-79. The difference of such a magnitude in the Central loans was mainly on account of special non-recurring loan aggregating Rs. 551 crores sanctioned to certain States in 1978-79 to clear their closing deficits with the Reserve Bank of India as at the end of March 1978. Market borrowings (gross) amounted to Rs. 305 crores in 1979-80 as against Rs. 273 crores in 1978-79. Recovery of loans and advances improved by Rs. 108 crores to Rs. 474 crores in 1979-80 from Rs. 366 crores in 1978-79. While the net receipts from small savings, provident funds, etc. increased by Rs. 35 crores to Rs. 329 crores, net receipts on account of deposits and advances and from suspense and miscellaneous accounts declined by Rs. 265 crores and Rs. 212 crores to Rs. 145 crores and Rs. 101 crores, respectively, in 1979-80.

Transfer of Resources from the Centre

Devolution of resources from the Central Government to the States, including their share in Central taxes but after deducting their loan repayments (Rs. 750 crores) and interest repayments (Rs. 612 crores) to the Centre, amounted to Rs. 6,832 crores in 1979-80 which showed a rise of Rs. 635 crores (or 10.3 per cent) over the level in 1978-79. The proportion of these transfers to the net aggregate receipts of States was higher at 40.0 per cent in 1979-80 as against 38.9 per cent in the preceding year. Transfer of resources excluding States' share in Central taxes declined by Rs. 758 crores to Rs. 3,486 crores in 1979-80. Consequently, their proportion to States' aggregate receipts declined to 20.4 per cent from 26.7 per cent in 1978-79. Larger transfer of resources from the Centre to States was mainly on account of States' share in Central taxes which moved up to Rs. 3,347 crores from Rs. 1,953 crores in 1978-79. Consequently, the States' share in Central taxes as a proportion to States aggregate receipts moved up to 19.6 per cent in 1979-80 from 12.3 per cent in 1978-79. The Central grants to the States declined by Rs. 219 crores of which Rs. 217 crores were in respect of non-plan grants, and Rs. 128 crores in Centrally sponsored schemes; on the other hand grants for Central Plan schemes, and State Plan schemes, however, increased by Rs. 116 crores and Rs. 10 crores respectively. There was a decline as mentioned earlier, of Central loans sanctioned to the States. Loans for both Plan and non-Plan purposes declined—the decline being larger in the case of the latter.

Disbursements

Aggregate disbursements rose to Rs. 18,272 crores from Rs. 15,778 crores thereby registering an increase of Rs. 2,494 crores (or 15.8 per cent) in 1979-80 as compared to an increase of Rs. 2,421 crores (or 18.1 per cent) in the previous year. Of the increase in the disbursements in 1979-80, Rs. 2,084 crores (or 83.6 per cent) was accounted for by developmental expenditure. The total developmental expenditure amounted to Rs. 13,481 crores in 1979-80 and was higher by 18.3 per cent over its level in the preceding year. Consequently, the proportion of developmental expenditure to total disbursements moved up to 73.8 per cent from 72.2 per cent in 1978-79. The distribution of developmental expenditure between the two sectors, viz. economic services and social and community services showed that the former accounted for Rs. 7,898 crores (58.6 per cent) and the latter Rs. 5,583

crores (41.4 per cent) in 1979-80. However, the share of the economic services in the incremental developmental expenditure declined significantly to 50.9 per cent (Rs. 1,061 crores) in 1979-80 from 69.3 per cent (Rs. 1,420 crores) in 1978-79. The expenditure on natural calamities was more than double at Rs. 245 crores in 1979-80 as compared to Rs. 120 crores in 1978-79. The non-developmental expenditure rose by Rs. 503 crores (16.1 per cent) to Rs. 3,632 crores in 1979-80; at this level its proportion to aggregate disbursements formed 20 per cent—the same as in the previous year. Repayments of loans to the Centre at Rs. 750 crores were Rs. 118 crores lower than in 1978-79 but repayment of market loans at Rs. 127 crores were higher by Rs. 33 crores in 1979-80.

Budget Estimates for 1980-81

The States' budget estimates for 1980-81, inclusive of net additional resource mobilisation of Rs. 46 crores, and the States' share of Rs. 59 crores in the Centre's additional taxation for 1980-81, anticipate a deficit of Rs. 446 crores, that is, a figure close to Rs. 441 crores observed in 1979-80 (revised estimates) when Rs. 212 crores were raised by the States through additional resource mobilisation. Thus, the budgetary deficit for 1980-81 is estimated almost at the same level as in 1979-80 (revised estimates) because increases of almost the same magnitudes are estimated in both receipts (Rs. 1,132 crores or 6.3 per cent) and disbursements (Rs. 1,137 crores or 6.2 per cent) in 1980-81.

Receipts

Aggregate receipts are budgeted to rise to Rs. 18,963 crores in 1980-81 from Rs. 17,831 crores in the preceding year. The increase in receipts is reflected more in revenue receipts which are expected to be higher by Rs. 1,015 crores (or 7.5 per cent) at Rs. 14,610 crores as compared to an increase of Rs. 1,948 crores (or 16.7 per cent) observed in 1979-80. The capital receipts are envisaged to rise by Rs. 117 crores (or 2.8 per cent) to Rs. 4,353 crores in 1980-81. The anticipated increase in revenue receipts is mainly on account of tax receipts which are budgeted to rise by Rs. 847 crores (or 9.5 per cent) to Rs. 9,744 crores in 1980-81. During 1979-80 they increased by Rs 1,974 crores or by 28.5 per cent. The deceleration in tax receipts in 1980-81 should be viewed against the background of substantial increase of Rs. 1,394 crores (or 71.4 per cent) in the States' share in the Central taxes during 1979-80 consequent to the implementation of the Seventh Finance Commission's recommendations. In 1980-81, the receipts from the States' share in the Central taxes are expected to rise only by Rs. 286 crores (or 8.5 per cent) to Rs. 3,633 crores. The States' own tax receipts are budgeted to increase by Rs. 561 crores (or 10.1 per cent) to Rs. 6,111 crores as compared to the rise of Rs. 580 crores (or 11.7 per cent) recorded in the preceding year. The major portion of the budgeted rise is to be realised from taxes on commodities and services. The Sales tax alone would account for 68.3 per cent of the incremental revenue from commodity taxes.

Non-tax receipts are budgeted to rise by Rs. 168 crores (or 3.6 per cent) to Rs. 4866 crores in 1980-81 in contrast to a decline of Rs. 26 crores (0.6 per cent) observed in the preceding year. While revenues from interest receipts and economic services etc., are estimated to increase by Rs. 146 crores to Rs. 2,590 crores, grants from the Centre are estimated to rise only by Rs. 22 crores (or 1 per cent) to Rs. 2,276 crores.

In respect of capital receipts, loans from the Centre are budgeted lower by Rs. 41 crores at Rs. 2,552 crores in 1980-81 than in the preceding year. The major decline is in ways and means advances from the Centre. States' own capital receipts including market borrowings, loans from Life Insurance Corporation, State Bank of India etc., small savings and provident funds, appropriation from reserve funds, deposits and advances, etc., are anticipated to rise by Rs. 158 crores to Rs. 1,801 crores as against a decline of Rs. 268 crores in 1979-80. Receipts from the recovery of loans and advances would rise by Rs. 37 crores to Rs. 511 crores, as compared to a rise of Rs. 108 crores in the preceding year.

Proposals to raise additional resources

Additional resource mobilisation effort of the States is cast on a much smaller scale in 1980-81 than in 1979-80. The measures for ad-

ditional resource mobilisation to the extent of Rs. 70 crores have been announced by seven States, viz., Jammu and Kashmir, Karnataka, Madhya Pradesh, Meghalaya, Orissa, Punjab and West Bengal. On the other hand, Bhiar, Karnataka, Madhya Pradesh, Punjab, Rajasthan and Tamil Nadu have given concessions in existing levies to the extent of Rs. 6 crores, Rs. 12 crores, Rs. 3 crores, Rs. 1 crore, Rs. 29 lakhs and Rs. 2 crores respectively. Thus, net aggregate additional resource mobilisation proposed by the States would amount to Rs. 46.3 crores (Table VII.7) of which Rs. 52.6 crores would be obtained by raising tax levies while concessions of Rs. 6.3 crores were granted in non-tax levies. This is lower than Rs. 212 crores raised by way of net additional resource mobilisation in 1979-80 of which Rs. 186 crores were in respect additional tax effort and Rs. 26 crores were in respect of non-tax levies.

West Bengal has introduced measures to raise additional revenue to the extent of Rs. 23·1 crores including Rs. 8 crores from changes in excise duty, Rs. 5.5 crores from changes in sales tax, Rs. 4.6 crores from entry tax on tobacco and tobacco products and Rs. 5 crores from agricultural income-tax. Karnataka has budgeted to raise Rs. 2·3 crores through measures like revision of rates of sales-tax, entertainment tax and agricultural income-tax. It has also granted certain concessions in the rates of sales-tax and agricultural income-tax. Orissa has taken steps to raise Rs. 19 crores and Jammu and Kashmir and Meghalaya Rs. 4 crores and Rs. 32 lakhs respectively.

TABLE VII-7: Estimated Yield from Budget Proposals 1980-81. Net Additional Yield

(Rs. crores)

States		
1.	Bihar	—6.00
2.	Jammu and Kashmir	3.75
3.	Karnataka	2.31
4.	Madhya Pradesh	3.00
5.	Meghalaya	0.32
6.	Orissa	18.68
7.	Punjab	3.05
8.	Rajasthan	—0.29
9.	Tamil Nadu	—1.60
10.	West Bengal	23.10
	Total	**46.32**
By major Heads		
1.	Sales Tax	5.72
2.	State Excise	9.35
3.	Stamps and Registration Fees	1.27
4.	Entertainment Tax	1.46
5.	Motor Vehicles Tax	0·50
6.	Agricultural Income Tax	5.70
7.	Electricity Duties	0.02
8.	Profession Tax	0.50
9.	Other Taxes on Commodities and Services	28.10†
10.	Non-tax Receipts	—6.30
	Total	**46.32**

† Includes full budget proposals by Jammu and Kashmir and Orissa.
(—) Sign indicates concessions.

Disbursements

Aggregate disbursements are budgeted to increase by Rs. 1,137 crores (or 6.2 per cent) to Rs. 19,409 crores as against the rise of Rs. 2,493 crores (or 15.8 per cent) observed in 1979-80. The estimated deceleration in disbursements in 1980-81 is more in respect of developmental expenditure than in non-developmental expenditure. While the developmental expenditure is anticipated to increase by Rs. 670 crores (or 5.0 per cent) to Rs. 14,151 crores as against the rise of Rs. 2,084 crores (or 18.3 per cent) in 1979-80, non-developmental expenditure would rise by Rs. 475 crores (or 13.1 per cent) to Rs. 4,107 crores as compared to the increase of Rs. 503 crores (or 16.1 per cent) in the preceding year. Consequently, the share of developmental expenditure in the total disbursement would marginally decline from 73.8 per cent to 72.9 per cent.

Table VII-8: Plan Outlay of States and Union Territories

(Rs. 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 Actual expenditure	1979-80 Aproved outlay	1979-80 Revised Approved outlay	1980-81 Approved outlay
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	421	426	148	203	293	361	444	421	450	501
Assam	245* (28)	198	46	56	74	106@	151	155	155	198
Bihar	480	479	153	205	248	266	313	357	376	477
Gujarat	485	545	188	236	249	327	374	392	392	524
Haryana	277	358	88	106	136	147	194	227	220	250
Himachal Pradesh	79	113	34	35	39	54	74	73	79	90
Jammu and Kashmir	164	162	48	59	77	94	98	118	118	147
Karnataka	340	374	121	167	234	246	271	299	323	385
Kerala	274	333	81	104	127	159	190	170	218	273
Madhya Pradesh	461	476	167	220	283	347@	379	455	477	541
Maharashtra	906	1005	297	381	505	648	781	763	789	883
Manipur	17	31	11	14	17	21	30	31	32	42
Meghalaya	—	36	12	17	19	23	28	33	33	43
Nagaland	42	39	15	16	19	21	26	26	29	36
Orissa	245	249	75	93	136	149	187	191	210	250
Punjab	360	428	127	166	222	204	221	260	259	300
Rajasthan	300	309	110	141	173	191	257	275	278	334
Sikkim	—	—	—	—	12	13	16	18	18	21
Tamil Nadu	467	552†	141	173	242	265	322	307	332	411**
Tripura	20	35	9	12	14	14	26	28	30	40
Uttar Pradesh	1023	1163	374	481	585	653	816	690	757	934**
West Bengal	321	364	150	182	225	304	369	480	471	575
A. Total—All States	6927	7675	2395	3067	3929	4613	5567	5769	6046	7255
B. Hill Areas**	—	—	25††	19	35	43	52	55	55	25
C. Tribal Areas***	—	—	—	10	36	51	70	70	69	70
D. Total—Union Territories	365	278	72	96	133	165	189	227	217	255
E. North Eastern Council	—	—	5	7	16	30	33	47	47	164@@@
Total (A to E)	**7292**	**7953**	**2497**	**3199**	**4149**	**4902**	**5911**	**6168**	**6434**	**7769**

Note: Figure in bracket indicates plan outlay for Meghalaya.

* Includes plan outlay for Meghalaya also.

@ Anticipated Expenditure.

† Excludes Rs. 19 crores on Power as outside the plan.

** Excluding Central assistance for Hill Areas Plan.

@@ Including Hill Areas of Assam, Tamil Nadu, 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 LIC Loan of Rs. 10 crores to be raised by NEC and Rs. 100 crores for Scheduled Caste component plan.

The deceleration in developmental expenditure is estimated to affect both social and community services and economic services. The growth rate of expenditure on social and community services would decline to 5.8 per cent and of economic services to 4.4 per cent in 1980-81 from 22.4 per cent and 15.5 per cent, respectively, in 1979-80. The expenditure on social and community services at Rs. 5,903 crores indicates a rise of Rs. 326 crores in 1980-81 as against a large increase of Rs. 1,023 crores observed in the preceding year. Similarly, the expenditure on economic services, at Rs. 8,242 crores, would be higher by Rs. 344 crores as against an increase of Rs. 1,061 crores during 1979-80.

Non-developmental expenditure is estimated to increae by Rs. 475 crores (or 13.1 per cent) to Rs. 4107 crores in 1980-81 as compared with a rise of Rs. 503 crores or (16.1 per cent) in the preceding year; interest payment and administrative services would account for Rs. 328 crores or 69.1 per cent of the increase in 1980-81.

States' Annual Plan Outlay

The approved annual Plan outlay of States at Rs. 7,255 crores for 1980-81 shows an increase of Rs. 1,209 crores (or 20.0 per cent) over the revised approved Plan Outlay of 1979-80 (Tables VII-8 and VII-9) which is estimated to have increased by Rs. 583 crores (or 10.7 per cent) to Rs. 6,046 crores. According to the Plan priorities, larger outlay has been provided for power, agriculture and allied programmes including co-operation and irrigation and flood control. The Plan Outlay for power at Rs. 2,188 crores forming 30·1 per cent of total outlay would be higher by Rs. 317 crores (or 16.9 per cent) than in 1979-80. The outlay on agriculture and allied programmes and irrigation and flood control have been raised by Rs. 190 crores (or 18·4 per cent) and Rs. 170 crores (or 14·3 per cent) to Rs. 1,224 crores and Rs. 1,356 crores which constitute 16·9 per cent and 18·7 per cent, respectively, of total outlay. The outlay on transport and communication has also been stepped up by Rs. 160 crores to Rs. 648 crores in 1980-81 from Rs. 488 crores in 1979-80. The outlay on industry and minerals at Rs. 216 crores would continue to form a small proportion (3 per cent) in 1980-81, almost the same as in 1979-80 (2.8 per cent) at Rs. 170 crores.

Table VII.—9: States' Plan Outlay by Heads of Development

(Rs. crores)

	1979-80 Revised approved outlay	1980-81 approved outlay	Variation over the previous year
1	2	3	4
1. Agriculture and Allied Programmes including Co-operation	1034 (17.1)	1224 (16.9)	+190 (+18.4)
2. Irrigation and Flood Control	1186 (19.6)	1356 (18.7)	+170 (+14.3)
3. Power	1871 (30.9)	2188 (30.1)	+317 (+16.9)
4. Village and Small Industries	130 (2.2)	130 (1.8)	— (—)
5. Industry and Mining .	170 (2.8)	216 (3.0)	+ 46 (427.0)
6. Transport and Communications	488 (8.1)	648 (8.9)	+160 (+32.8)
7. Others	1167 (19.3)	1493 (20.6)	+326 (+27.9)
Total (1 to 7)	**6046 (100.0)**	**7255 (100.0)**	**+1209 (+20.8)**

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.

Source: Planning Commission

III. RAILWAY FINANCES

The Railway Budget for the year 1980-81 shows a net surplus of Rs.42.7 crores as against a deficit of Rs. 42.1 crores revealed in the revised estimates for 1979-80. The total receipts of the railways in 1980-81 are estimated to rise by Rs. 403.7 crores (or 16.7 per cent) to Rs. 2,824.4 crores while total expenditure is expected to be higher by Rs. 292.7 crores (or 13.5 per cent) at Rs. 2,459.5 crores. An increase of 5 to 20 per cent in passenger fares and a flat surcharge of 15 per cent on all freight traffic are proposed in the Budget. However,

certain commodities which have direct impact on the daily life of the common man are exempted from this surcharge. These proposals are expected to yield an additional revenue of Rs. 204.2 crores* out of which Rs. 73.3 crores are estimated under passenger traffic while the remaining Rs. 130.9 crores are anticipated from freight traffic.

Revised Estimates 1979-80

The revised estimates for 1979-80 showed a shortfall of 28 million tonnes (or 12.6 per cent) in originating revenue earning freight traffic as compared with the anticipated 222 million tonnes in the budget estimates for that year.

The total receipts in 1979-80 at Rs. 2,420.7 crores are higher by Rs. 259.4 crores (or 12.0 per cent) as compared with Rs. 2,161.3 crores realised in 1978-79 (Table VII-10). Receipts from passenger traffic, which amounted to Rs. 672.8 crores in 1978-79 rose by Rs. 77.3 crores (or 11.5 per cent) to Rs. 750.1 crores in 1979-80. Goods earnings showed a rise of Rs. 142.5 crores (or 10.9 per cent) at Rs. 1,447.9 crores in 1979-80 as compared with Rs. 1,305.4 crores in the preceding year.

Table VII-10 : Financial Results of Railways

(Rs. crores)

Items	1976-77 (Actuals)	1977-78 (Actuals)	1978-79 (Actuals)	1979-80 (Revised Estimates)	1980-81 (Budget Estimates)
1	2	3	4	5	6
I. Total Receipts	**2,045.7**	**2,133.8**	**2161.3**	**2,420.7**	**2,824.4***
II. Total Expenditure	**1,749.4**	**1,781.0**	**1,900.4**	**2,166.8**	**2,459.5**
III. Ratio of Total Expenditure to Total Receipts	85.5	83.5	87.9	89.5	87.1
IV. Net Revenue (I—II)	296.3	352.8	260.9	253.9	364.9
V. Capital-at-Charge@	4,533.7	4797.1	5,023.9	5,400.3	5,857.3
VI. Net Revenue as Percentage of Capital-at-Charge	6.5	7.4	5.2	4.7	6.2
VII. Payment to General Revenues	209.1	226.6	224.2	296.0**	322.2
VIII. Net Surplus (+)/Deficit (—) (IV—VII)	+87.2	+126.2	+36.7	—42.1	+42.7
IX. Appropriation to (+) or Withdrawals from (—) Funds or Loans from (—) General Revenues to finance deficit:					
(a) Development Fund	+25.8	+34.6	+34.7	—	+36.0
(b) Revenue Reserve Fund	+61.4	+91.6	—	—	—
(c) General Revenues	—	—	—	—	—
(d) Deferred Dividend Liability Account	—	—	+ 2.0	—42.1	+ 6.7

* The concessions announced by the Railway Minister in the Lok Sabha on June 20, 1980 in respect of the revised fare and freight rate structure, would result in a revenue loss of about Rs. 10.0 crores (Rs. 2.5 crores in freight and Rs. 7.5 crores in passenger earnings in 1980-81).

@ Excluding outlay on Metropolitan Transport Projects.

** The actual payment of dividend is limited to the Net Revenue available viz., Rs. 253.9 crores, the shortfall of Rs. 42.1 crores being transferred to Deferred Dividend Liability Account.

The revised estimates of total expenditure in 1979-80 at Rs. 2,166.8 crores indicate a rise of Rs. 266.4 crores (or 14.0 per cent) over the preceding year. The rise is mainly due to inflationary pressures that developed during the year and various post budgetary factors like revisions in the rates of dearness allowance, increase in the prices of coal and diesel and electricity charges, payment under productivity linked bonus scheme, etc., for which no provision was made in the Budget. Expenditure on 'repairs and maintenance' is estimated Rs. 66.0 crores (or 10.3 per cent) higher at Rs. 706.2 crores in 1979-80 as compared with Rs. 640.2 crores in the preceding year. Expenditure on 'fuel' is estimated to have gone up by Rs. 61.2 crores (or 19.8 per cent) at Rs. 370.2 crores in 1979-80 as compared with Rs. 309.0 crores in 1978-79.

With total receipts estimated at Rs. 2,420.7 crores and total expenditure at Rs. 2,166.8 crores, the net revenue is estimated to amount to Rs. 253.9 crores in 1979-80. After paying the dividend liability estimated at Rs. 296.0 crores, the year is expected to close with a net deficit of Rs. 42.1 crores.

Developmental Expenditure 1979-80

The increase in costs during the year and the need based requirements for ongoing projects, justified a larger outlay for the Railway Plan, but in view of the overall financial constraints, the outlay remained unchanged at Rs. 650.0 crores in 1979-80. Of the total outlay, Rs. 271.7 crores (or 41.8 per cent) was on account of rolling stock (Table VII-11). The outlays on traffic facilities and track renewals were Rs. 92.2 crores and Rs. 88.6 crores, respectively. The other important outlays were on new lines—Rs. 36.6 crores, electrification—Rs. 26.7 crores, signalling and telecommunication works—Rs. 19.8 crores and metropolitan transport projects—Rs. 21.0 crores.

Table VII—11 : Developmental Expenditure of Railways

(Rs. crores)

Items	1976-77 (Actuals)	1977-78 (Actuals)	1978-79 (Actuals)	1979-80 (Revised Estimates)	1980-81 (Budget Estimates)
1	2	3	4	5	6
1. Rolling Stock	202.0	217.1	234.4	271.7	341.7
2. Traffic Facilities	63.1	59.2	68.3	92.2	112.8
3. Track Renewals	60.2	62.6	73.6	88.6	100.0
4. Electrification	16.6	24.4	25.9	26.7	30.2
5. New Lines	18.7	22.2	34.2	36.6	44.8
6. Signalling and Telecommunication Works	13.8	15.6	17.8	19.8	20.0
7. Staff Quarters	6.6	7.6	10.7	9.3	8.8
8. Plant and Machinery	8.8	7.3	9.2	14.5	17.0
9. Investment in Government Commercial Undertakings—Road Services	9.6	10.2	27.3	10.0	22.0
10. Others	—56.7	2.9	36.1	80.6	62.7
Of which :					
Metropolitan Transport Projects	9.2	10.1	15.5	21.0	25.0
Total	**342.7@**	**429.1**	**537.5***	**650.0**	**760.0**

@ Inclusive of Rs. 1.80 crores for financing export orders.

* Inclusive of Rs. 1.08 crores for financing export orders.

Cost of Social Obligations

The financial cost of social obligations@ of the railways is estimated to increase by Rs. 67.0 crores (or 37.9 per cent) to Rs. 243.7 crores during 1979-80, as compared with Rs. 176.7 crores in 1978-79. Such increase in the cost of social obligations is mainly due to loss on coaching services* which, estimated at Rs. 175.5 crores in 1979-80, is higher by Rs. 61.5 crores (or 53.9 per cent) than Rs. 114.0 crores in the preceding year. Loss on low rated freight like foodgrains, fodder, fire wood, salt for edible use, fruits and vegetables, oilseeds etc., is estimated at Rs. 68.1 crores in 1979-80 as compared with Rs. 62.5 crores in the preceding year. The ratio (per cent) of financial cost of social obligations to total railway receipts is estimated to increase from 8.2 per cent in 1978-79 to 10.1 per cent in 1979-80.

Budget Estimates 1980-81

During 1980-81, the originating revenue earning freight traffic is budgeted at 214.5 million tonnes, as against 194 million tonnes in the revised estimates for 1979-80. The passenger traffic is projected to increase by 6 per cent during 1980-81. The total receipts during 1980-81 are estimated to increase by Rs. 403.7 crores (or 16.7 per cent) to Rs. 2,824.4 crores from Rs. 2,420.7 crores in the revised estimates for 1979-80. The major portion of this increase is estimated under goods earnings (viz. Rs. 270.3 crores or 67.0 per cent) followed by passenger earnings (Rs. 118.3 crores or 29.3 per cent).

Total expenditure is estimated to rise from Rs. 2,166.8 crores in 1979-80 (revised estimates) to Rs. 2,459.5 crores in 1980-81, an increase of Rs. 292.7 crores (or 13.5 per cent). Expenditure on 'repairs and maintenance' is anticipated to rise by Rs. 85.3 crores (or 12.1 per cent) to Rs. 791.5 crores in 1980-81 as compared with Rs. 706.2 crores in 1979-80. Expenditure on 'fuel' is estimated to increase by Rs. 72.0 crores (or 19.4 per cent) to Rs. 442.2 crores in 1980-81 as against Rs. 370.2 crores in 1979-80.

@ 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.

With total receipts estimated at Rs. 2,824.4 crores and total expenditure at Rs. 2,459.5 crores, the net revenue for 1980-81 is estimated to amount to Rs. 364.9 crores as against Rs. 253.9 crores in the preceding year. After providing Rs. 322.2 crores as dividend liability to General Revenues, the year is expected to close with a surplus of Rs. 42.7 crores as against a deficit of Rs. 42.1 crores in 1979-80. The ratio of total expenditure to total receipts† is expected to decline from 89.5 per cent in 1979-80 to 87.1 per cent in the current year. On the other hand, the net revenue as percentage of Capital-at-Charge is estimated to increase from 4.7 per cent in 1979-80 to 6.2 per cent in 1980-81. Total indebtedness of the Railways to the General Revenues is expected to come down from Rs. 351.8 crores in the revised estimates for 1979-80 to Rs. 345.1 crores at the end of 1980-81, comprising outstandings of Development Fund (Rs. 189.5 crores) and Deferred Dividend Liability Account (Rs. 155.6 crores).

Revision in fare and Freight Rate Structure

Passenger fares were last revised in 1974-75; the only exception was a modest revision in the rates of monthly suburban season tickets from 1-4-1979@@. Since 1974-75 the costs of various inputs have gone up steeply. Further, during these years the amenities and comforts provided in the trains and at railway stations, have improved considerably resulting in increase in Working Expenses. To bridge the budgetary gap and to provide the budgetary support for the development programme, some measures for additional resource mobilisation were undertaken. Accordingly, the existing fares for the various classes of passenger traffic are increased** as under:-

* Suburban and non-suburban passenger traffic, parcels, luggage, etc.

† Operating ratio which is defined as the ratio of total working expenses excluding suspense to total earnings excluding suspense is budgeted to decline to 87.8 per cent in 1980-81 from 90.4 per cent in the preceding year.

@@ Vide Budget Speech of the Railway Minister in the Lok Sabha on June 16, 1980.

** Passengers travelling upto 100 kilometers (ordinary second class) are exempted from the proposed fare hike, as per the announcement made by the Railway Minister in the Lok Sabha on June 20, 1980.

(i) 20 per cent on 1st class AC; First Class and AC 2-tier sleeper;
(ii) 12.5 per cent on AC Chair Car and IInd class for mail and express trains;
(iii) 10 per cent on IInd class ordinary;
(iv) 5 per cent on passenger traffic upto 50 kms. and
(v) 15 per cent on quarterly and monthly season tickets.

A flat 15 per cent surcharge on all freight traffic is proposed. However, the following commodities which have a direct impact on the daily life of the common man are exempted from this additional surcharge.

(*i*) Salt for domestic use;
(*ii*) Sugar;
(*iii*) Foodgrains;
(*iv*) Pulses;
(*v*) Kerosene oil;
(*vi*) Edible and hydrogenated oils;
(*vii*) Chemical manures (fertilisers);
(*viii*) Fire wood; and
(*ix*) Charcoal

Nine more items namely, sugarcane, fresh vegetables, fruits, onions, potatoes, milk, medicines, safety matches and fodder are added to this list as per the post-budget concessions announced by the Railway Minister in the Lok Sabha on June 20, 1980. Also, all goods traffic in the North Eastern region beyond Siliguri and Jalpaiguri have been exempted from the proposed 15 per cent surcharge.

Passenger Amenities

Twenty-six new non-suburban trains were introduced and the run of another ten trains was extended. The tri-weekly Neelancha Express between New Delhi and Puri, a pair of express trains between Mysore and Bangalore, Madurai and Trichy, a tri-weekly train between Sealdah and Malda, Chandigarh and Ranchi (via New Delhi) and Jaipur and Jodhpur, are some of the new trains introduced. Some of the proposals under consideration are a bi-weekly Express train between Bombay and Varanasi, double heading of K. K. Express, increasing number of coaches on Deccan Queen and Mahalaxmi Express etc., so as to accommodate larger number of passengers in these fast and popular trains. About 12 lakh additional berths and seats through 1,400 special trains were provided to clear the summer rush of 1980. In order to render more satisfactory service to the travelling public in the matter of reservations, additional reservation and refund counters have been opened. It is proposed to arrange for reservation of seats by day-time trains without the passengers having to fill up detailed requisition forms.

Developmental Expenditure 1980-81

The Development Plan of Railways for 1980-81 provides for an outlay of Rs. 760.0 crores which is Rs. 110.0 crores (or 16.9 per cent) higher than outlay of Rs. 650.0 crores in 1979-80. The increased allocation will be utilised for employment-oriented projects and for expediting the completion of the sanctioned and on-going schemes. The largest increase in the outlay over the year is provided under rolling stock, viz., an increase of Rs. 70.0 crores (or 25.8 per cent) at Rs. 341.7 crores in 1980-81 as against Rs. 271.7 crores in the preceding year. Expenditure on new lines is expected to go up over the year by Rs. 8.2 crores (or 22.4 per cent) to Rs. 44.8 crores in 1980-81 as against Rs. 36.6 crores in the preceding year. The outlay on Metropolitan Transport Projects is budgeted at Rs. 25.0 crores in 1980-81, higher by Rs. 4.0 crores (or 19.0 per cent) than Rs. 21.0 crores in the preceding year.

IV. FINANCES OF THE INDIAN POSTS AND TELEGRAPHS DEPARTMENT

Revised Estimates 1979-80

The financial results of the Indian Posts and Telegraphs Department showed an improvement during the year 1979-80. The surplus on revenue account, before making contributions towards capital expenditure and paying dividend to General Revenues increased by Rs. 47.9 crores (or 20.8 per cent) to Rs. 278 crores in 1979-80 (revised estimates) from Rs. 230.1 crores in 1978-79 (accounts). This improvement was the result of a relatively larger rise in revenue receipts as compared to that in net working expenses. While the revenue receipts rose by Rs. 107.3 crores (or 14.1 per cent) to Rs. 870.1 crores, the net working expenses were higher by

Rs. 59.4 crores (or 11.2 per cent) at Rs. 592.1 crores (Table VII-12). Postal services accounted for 30.5 per cent of total revenue receipts in 1979-80 (revised estimates) as against 31.4 per cent in 1978-79 (accounts). Correspondingly the share of telecommunications services in total revenue receipts rose to 69.5 per cent in 1979-80 from 68.6 per cent in 1978-79. The revisions in tariffs of various postal and telecommunications services effected from June 1, 1979 helped the Posts and Telegraphs Department to augment its revenue receipts. As regards net working expenses, those on 'operation' at Rs. 322.2 crores were higher by Rs. 30.4 crores (or 10.4 per cent) while 'engineering' expenses increased by Rs. 21.5 crores (or 16.2 per cent) in 1979-80. Provision for depreciation on historical costs was raised by Rs. 7.9 crores (or 14.6 per cent) to Rs. 62 crores. The contributions towards capital expenditure were also higher by Rs. 9 crores (or 17 per cent). The dividend payment to General Revenues was placed at Rs. 32.8 crores which was higher by Rs. 1.5 crores than that in the preceding year. The surplus after making contributions towards capital expenditure and paying dividend to General Revenues amounted to Rs. 183.3 crores as against Rs. 145.9 crores in 1978-79. The postal services which used to show deficits continuously during the past few years showed a surplus from 1978-79 onwards when it amounted to Rs. 2.3 crores. During 1979-80, the surplus from postal services amounted to Rs. 5.8 crores. Out of the total surplus of the Posts and Telegraphs Department, Rs. 177.1 crores were appropriated towards Capital Reserve Fund and Rs. 6.2 crores towards Revenue Reserve Fund.

Table VII-12 : Financial Working of Posts and Telegraphs Department

(Rs. crores)

Items	1977-78 (Accounts)	1978-79 (Accounts)	1979-80 (Budget Estimates)	1979-80 (Revised Estimates)	1980-81 (Budget Estimates)
1	2	3	4	5	6
1. Revenue Receipts	668.2	762.8	888.3	870.1	963.3
2. Working Expenses (net)	466.6	532.7	567.2	592.1	670.1
3. Dividend to General Revenues	30.0	31.3	33.5	32.8	35.6
4. Surplus (+)/Deficit (—) before making contributions towards capital expenditure (1—(2+3))	**+171.6**	**+198.8**	**+287.6**	**+245.2**	**+257.6**
Of which: On account of					
(*i*) Postal Services	+0.4	+5.0	+7.8	+9.0	+0.1
(*ii*) Telecommunications Services	+171.2	+193.8	+279.8	+236.2	+257.5
5. Contributions towards Capital Expenditure	44.6	52.9	62.5	61.9	73.0
6. Surplus (+)/Deficit (—) after making contributions towards capital expenditure (4—5)	**+127.0**	**+145.9**	**+225.1**	**+183.3**	**+184.6**
7. Appropriations to (+) or withdrawals from (—)					
(*a*) Revenue Reserve Fund	+2.0	+1.7	+1.5	+6.2	+1.6
(*b*) Capital Reserve Fund	+125.0	+144.2	+223.6	+177.1	+183.0

Sources : 1. Explanatory Memoranda on the Budgets of the Central Government.
2. Annual Reports of Indian Posts and Telegraphs Department.

The capital outlay of Posts and Telegraphs Department was raised by Rs. 92.4 crores (or 34.3 per cent) to Rs. 361.4 crores in 1979-80 from Rs. 269 crores in 1978-79. (Table VII-13) 'Telecommunications Services' and 'Stores and Manufacture Suspense' accounted for more than the entire increase, while the outlay on postal services showed a decline of Rs. 2.8 crores. Capital Reserve Fund and receipts and recoveries on capital account financed as much as Rs. 195 crores (or 54 per cent) of total capital outlay. The capital advanced out of General Revenues at Rs. 17.6 crores was lower by Rs. 8.4 crores.

Budget Estimates 1980-81

The Central Budget for 1980-81 envisages a larger surplus of Rs. 293.2 crores in 1980-81 on revenue account of the Posts and Telegraphs Department before making contributions towards capital expenditure and paying dividend to General Revenues. This represents an improvement of Rs. 15.2 crores (or 5.5 per cent) over the revised estimates for 1979-80. Revenue receipts are budgeted to rise over the year by Rs. 93.2 crores (or 10.7 per cent) to Rs. 963.3 crores. With a view to meet the rising working expenses consequent to the payment of increasing dearness allowance and sanction of bonus linked to productivity to staff, it has been decided to revise the tariffs of various postal and telecommunications services. The revision of tariffs will be effective from September 1, 1980. While making tariff revision proposals, upward changes in charges for services generally used by the common man have been carefully avoided. These revisions are estimated to yield an additional revenue of Rs. 13 crores in 1980-81 and Rs. 27.1 crores in a full year. Net working expenses are expected to rise by Rs. 78 crores (or 13.2 per cent) to Rs. 670.1 crores, mainly due to higher operational costs, larger expenditure on engineering items 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. 184.6 crores as against Rs. 183.3 crores in the previous year.

The capital outlay would be stepped up by Rs. 90.2 crores (or 25 per cent) to Rs. 451.6 crores in 1980-81 (budget estimates) from Rs. 361.4 crores in 1979-80 (revised estimates). The capital outlays on telecommunications services and stores and manufacture suspense have been raised to Rs. 394.5 crores from Rs. 308.5 crores and to Rs. 50.9 crores from Rs. 42 crores, respectively. Capital outlay on postal services, however, has been reduced to Rs. 6.2 crores from Rs. 11.1 crores. Of the total capital outlay of Rs. 451.6 crores on Postal and Telecommunications services and Stores and Manufacture Suspense, the Plan outlay will be to the extent of Rs. 400.5 crores (or 88.7 per cent) and the balance will be accounted for the non-plan outlay. In the non-plan outlay, while outlay on stores and manufacture suspense would amount to Rs. 50.9 crores that on telecommunications services would be Rs. 0.2 crore. Capital outlay would be financed from the internal resources of Posts and Telegraphs Department to the extent of Rs. 382.3 crores (or 84.7 per cent) and the remaining Rs. 69.3 crores by advances from the General Revenues.

V. PUBLIC DEBT AND OTHER LIABILITIES

The outstanding public debt and other liabilities@ of the Government of India aggregated Rs. 49,864 crores at the end of March 1980 (revised estimates). The liabilities recorded a larger rise of Rs. 6,382 crores (or 14.8 per cent) during 1979-80 (Table VII-14) as compared to an increase of Rs. 3,309 crores (or 8.3 per cent) during 1978-79. The higher growth in 1979-80 was mainly attributable to treasury bills and market loans which recorded a rise of Rs. 2,398 crores and Rs. 1,889 crores, respectively as against a decline of Rs. 1,010 crores in treasury bills and an increase of Rs. 1,739 crores in market loans in the preceding year. As a result, the share of public debt in the total liabilities increased to 68.3 per cent at the end March 1980 from 67.2 per cent at the end of March 1979.

Public Debt

The outstanding public debt of the Government of India stood at Rs. 34,082 crores at the end of March 1980. It registered a substantial rise of Rs. 4,855 crores (or 16.6 per cent) which was larger than that of Rs. 1,247 crores (or

@ Including amount due from Pakistan on account of pre-partition debt.

Table VII-13: Capital outlay of Posts and Telegraphs Department

(Rs. crores)

Item	1977-78 (Accounts)			1978-79 (Accounts)			1979-80 (Budget Estimates)			1979-80 (Revised Estimates)			1980-81 (Budget Estimates)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
I. Expenditure:															
(*a*) Postal	10.7	—	10.7	13.9	—	13.9	10.7	—	10.7	11.1	—	11.1	6.2	—	6.2
(*b*) Telecommunications ..	227.3	—	227.3	241.5	—	241.5	351.2	—	351.2	308.3	—	308.3	394.3	0.2	394.5
(*c*) Stores and Manufacture Suspense	—1.0	—	—1.0	—	13.6	13.6	42.0	—	42.0	42.0	—	42.0	—	50.9	50.9
Total Expenditure (a to c) ..	**237.0**	—	**237.0**	**255.4**	**13.6**	**269.0**	**403.9**	—	**403.9**	**361.4**	—	**361.4**	**400.5**	**51.1**	**451.6**
II. Financed from :															
(*i*) Receipts and Recoveries on Capital Account ..	2.1	—	2.1	1.9	—	1.9	33.1	—	33.1	34.9	—	34.9	2.8	36.8	39.6
(ii) Advance Rentals Received under O.Y.T. and Other Schemes	20.2	—	20.2	20.7	—	20.7	25.0	—	25.0	25.0	—	25.0	20.0	—	20.0
(*iii*) Capital Reserve Fund ..	103.4	—	103.4	99.8	13.6	113.4	166.7	—	166.7	160.1	—	160.1	164.2	14.3	178.5
(*iv*) Depreciation on Historical Costs Transferred from Revenue	45.7	—	45.7	54.1	—	54.1	62.7	—	62.7	62.0	—	62.0	71.3	—	71.3
(*v*) Contribution towards Capital Expenditure from Revenue ..	44.6	—	44.6	52.9	—	52.9	62.5	—	62.5	61.8	—	61.8	72.9	—	72.9
(*vi*) Capital Advanced from the General Revenues	21.0	—	21.0	26.0	—	26.0	53.9	—	53.9	17.6	—	17.6	69.3	—	69.3
Total (i to vi)	**237.0**	—	**237.0**	**255.4**	**13.6**	**269.0**	**403.9**	—	**403.9**	**361.4**	—	**361.4**	**400.5**	**51.1**	**451.6**

Sources : (1) Explanatory Memoranda on the Budgets of the Central Government.
(2) Annual Reports of Indian Posts and Telegraphs Depart ment.
(3) Director General Indian Posts and Telegraphs Department.

Table VII-14 : Public Debt and Other Liabilities of Government of India

(Rs. crores)

Items	As at the end of March						
	1975	1976	1977	1978	1979	1980 (Revised Estimates)	1981 (Budget Estimates)
1	2	3	4	5	6	7	8
A. Public Debt (1+2)	**18,789 (31.8)**	**21,387 (34.7)**	**23,068 (34.5)**	**27,980 (37.4)**	**29,227 (36.5)**	**34,082 (38.7)**	**39,965**
1. Internal Debt (*i* to *iv*)	12,368	13,898	14,457	18,995	19,854	24,183	28,726
(*i*) Current Market Loans	6,415	6,972	7,917	9,202	10,941	12,830	15,330
(*ii*) Others@	156	155	155	155	69	197	220
(*iii*) Treasury Bills	5,064	5,810	5,368	8,619	7,609	10,007	11,646
(*iv*) Special Floating Loans†	733	961	1,017	1,019	1,235	1,149@@	1,530@@
2. External Debt	6,421	7,489	8,611	8,985	9,373	9,899	11,239††
B. Other Liabilites (1+2)	**8,047 (13.6)**	**8,763 (14.2)**	**10,540 (15.8)**	**12,193 (16.3)**	**14.255 (17.8)**	**15,782 (17.9)**	**18,046**
1. Unfunded Debt (a to c)	5,043	6,006	7,710	9,131	10,757	12,364	14,484
(*a*) Small Savings	3,554	3,946	4,359	4,904	5,751	6,676	7,776
(*b*) State Provident Funds	1,292	1,504	1,677	1,844	2,079	2,342	2,578
(*c*) Other Unfunded Debt £	197	556	1,674	2,383	2,927	3,346	4,130
2. Reserve Funds and Deposits*	3,004	2,757	2,830	3,062	3,498	3,418	3,562
C. Aggregate Liabilities (A+B)	**26,836 (45.4)**	**30,150 (48.9)**	**33,608 (50.2)**	**40,173 (53.7)**	**43,482 (54.3)**	**49,864 (56.6)**	**58,011**
D. Amount due from Pakistan on account of pre-partition debt	**300**	**300**	**300**	**300**	**300**	**300**	**300**
E. Net Liabilities (C—D)	**26,536**	**29,850**	**33,308**	**39,874**	**43,182**	**49,564**	**57,711**

@ 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.

@@ Borrowings against Compulsory Deposits have been shown under Other Unfunded Debt.

† These represent non-negotiable, non-interest bearing securities issued to International Financial Institutions like the IMF, IBRD, IDA and ADB.

†† Includes loan from I.M.F. Trust Fund to the extent of Rs. 540 crores.

£ Includes mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against Compulsary Deposits, Income Tax Annuity Deposits, etc.

* Includes depreciation and reserve funds of Railways and Posts and 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 1975 to 1978, Ministry of Finance, Government of India for end-March 1979 and Explanatory Memorandum on the Budget of the Central Government for 1980-81 for end-March 1980 and 1981.

4.5 per cent) observed during 1978-79. The proportion of Central public debt to national income at current prices is estimated higher at 38.7 per cent in 1979-80 than 36.5 per cent in 1978-79. The internal debt accounted for 89.2 per cent of the increase in public debt in 1979-80 as against 68.9 per cent in 1978-79.

External Debt

The external debt of the Government of India amounted to Rs. 9,899 crores at the end of March 1980. It recorded a rise of Rs. 526 crores (or 5.6 per cent) in 1979-80 as compared to an increase of Rs. 388 crores (or 4.3 per cent) in the preceding year. The gross receipts under external loans are estimated at Rs. 1,211 crores during 1980-81 as against Rs. 939 crores in 1979-80.

Internal Debt

The internal debt of the Government of India spurted by Rs. 4,329 crores (or 21.8 per cent) to Rs. 24,183 crores at the end of March 1980 as against a smaller rise of Rs. 859 crores (or 4.5 per cent) observed during 1978-79. The components viz., market loans and treasury bills recorded increases whereas special floating loans recorded a decline of Rs. 86 crores during 1979-80.

The estimates for 1980-81 place internal debt at Rs. 28,726 crores which indicates a rise of Rs. 4,543 crores (or 18.8 per cent), mainly on account of treasury bills and market loans.

Market Borrowings@ in 1979-80

The net receipts from the market borrowings of the Central Government at Rs. 1,961 crores registered a smaller rise of Rs. 308 crores during 1979-80 than that of Rs. 471 crores in the previous year. The Centre approached the market six times during the year, four times directly and twice indirectly through placements with the Reserve Bank for subsequent sale to investors. The gross amount raised in these six instalments at Rs. 2,259 crores in 1979-80 was higher by Rs. 426 crores (or 23.2 per cent) over the amount raised in previous year (Table VII-15). The Centre placed two further tranches of 6¾ per cent loan 2007 on April 2 (Rs. 100 crores) and April 28, 1979 (Rs. 150 crores) with the Reserve Bank of India, which subsequently released them to investors. Such loans issued to the Reserve Bank amounted to Rs. 250 crores in 1979-80 as against Rs. 400 crores in 1978-79.

The Centre first approached the market on May 25, 1979 by floating three loans viz., 6¼ per cent loan 1989, 6½ per cent loan 1995 and 7 per cent loan 2009 entirely on cash basis. A total amount of Rs. 551 crores was raised through this floatation. The second floatation of loans was made by the Centre on July 2, 1979 when it issued 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. The amount raised by this second floatation was Rs. 660 crores of which Rs. 431 crores were in cash and the rest by way of conversion. A third approach to the market was made on October 29, 1979 when three loans were floated viz., 5 ¾ per cent 1984, 6 1/4 per cent 1991 and 7 per cent 2009 (third issue) for cash subscription only yielding Rs. 495 crores. The last floatation was made on February 11, 1980 by offering two loans viz., 6 per cent loan 1988 (fourth issue) and 7 per cent loan 2009 (fourth issue) on a cash basis which realised subscription of Rs. 303 crores.

The initial cash contribution of the Reserve Bank of India to the net market borrowings of the Central Government was Rs. 1,042 crores in 1979-80 as against Rs. 642 crores in the previous year. Open market sales were substantially in excess of the purchases during the financial year. Since the three years in succession, the issues of new market loans have been of marginally longer maturities and of higher rates of interest. The monthly average of gross redemption yield on Government of India securities was slightly higher at 5.87 per cent during 1979-80 as compared to 5.84 per cent in the preceding year.

1980-81

The Central Budget 1980-81 provides for gross market borrowings of Rs. 2,765 crores or Rs. 2,500 crores (net). The Centre has raised Rs. 2,040 crores (gross) or Rs .1,775 crores net of repayments by the end of October 1980. The Centre approached the market on May 12,

@ Subscription figures are drawn from the Reserve Bank of India records.

Table VII-15 : Market Borrowings of Government of India during 1979-80

(Rs. crores)

Date	Loans Floated	Issue price (Rupees per cent)	Amount offered	Amount Subscribed			Repayment in cash for unconverted maturing securities	Net Market Borrowings (Col. 5-8)
				Cash	Conversion	Total (Col. 5+6)		
1	2	3	4	5	6	7	8	9
2-4-1979*	6¾ Per Cent Loan, 2007	100.30	100	100	—	100	—	100
28-4-1979*	6¾ Per Cent Loan, 2007	100.30	150	150	—	150	—	150
25-5-1979*	6¼ Per Cent Loan, 1989	100.00	500	80	—	80		
	6¾ Per Cent Loan, 1995	100.00		95	—	95		
	7 Per Cent Loan, 2009	100.00		376	—	376		
				551	—	551	—	551
2-7-1979@	6 Per Cent Loan, 1987	100.00	600	97	64	161		
	6½ Per Cent Loan, 1997	100.00		67	84	151		
	7 Per Cent Loan, 2009 (Second Issue)	100.00		267	81	348		
				431	229	660	65	366
29-10-1979*	5¾ Per Cent Loan, 1984	100.00	450	100	—	100		
	6¼ Per Cent Loan, 1991	100.00		121	—	121		
	7 Per Cent Loan, 2009 (Third Issue)	100.00		274	—	274		
				495	—	495	—	495
11-2-1980*	6 Per Cent Loan, 1988, (Fourth Issue)	100.00	275	104	—	104		
	7 Per Cent Loan, 2009, (Fourth Issue)	100.00		199	—	199		
				303	—	303	—	303
Total during 1979-80			**2075**	**2030**	**229**	**2259**	**69****	**1961****

* Offered for cash subscription only.
@ Offered on cash-cum-conversion basis.
** Includes cash repayments of Rs. 3.26 crores on account of maturing 7 per cent Gold Bonds, 1980.
Source : Reserve Bank of India Records.

1980 with three loans viz., 6 per cent loan 1986, 7 per cent loan 1998 and 7 ½ per cent loan 2010 on a cash-cum-conversion basis and raised an aggregate amount of Rs. 662 crores of which Rs. 597 crores were cash subscription. It approached the market again on July 18, 1980 with three loans viz., 6½ per cent loan 1990, 7 per cent loan 1998 (second issue) and 7½ per cent loan 2010 (second issue) on a cash-cum-conversion basis. Total subscriptions to these loans amounted to Rs. 718 crores of which Rs. 647 crores were by way of cash and the balance was conversion of maturing securities.

The centre made the third approach to the market on October 29, 1980 with the floatation of two loans viz., 6½ per cent loan 1990 (second issue) and 7½ per cent loan 2010 (third issue) entirely on a cash basis and raised an aggregate of Rs. 660 crores.

National Rural Development Bonds

The 7-year National Rural Development Bonds which were issued by the Government of India from July 9, 1979 continued to be on tap during the year. The subscriptions to these bonds amounted to Rs. 38.8 crores as on June 28, 1980.

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 amounted to Rs. 905 crores during 1979-80 and registered a rise of Rs. 124 crores (or 15.9 per cent) over the level of the previous year. (Table VII-16). The market borrowings of institutions sponsored by the Central Government at Rs. 526 crores were higher by Rs. 109 crores (or 26.1 per cent) in 1979-80 while those of the institutions sponsored by State Governments showed a smaller rise of Rs. 15 crores (or 4.4 per cent) and amounted to Rs. 354 crores. The net market borrowings of Municipal Corporations and metropolitan development authorities remained around the previous year's level of nearly Rs. 25 crores.

Table VII.16: Net Market borrowings of Local Authorities and institutions sponsored by Central and State Governments

(Rs. crores)

Institutions	Year	
	1978-79	1979-80
Local Authorities	**24.94**	**25.11**
Municipal Corporations	24.94	25.11
Institutions sponsored by the Central Government	**417.45**	**525.63**
Industrial Finance Corporation of India	61.89	66.75
Agricultural Refinance and Development Corporation of India	44.05	39.60
Industrial Credit and Investment Corporation of India	58.03	80.30
Industrial Development Bank of India	192.50	275.00
Rural Electrification Corporation	20.08	20.08
Housing Urban Development Corporation	15.00	20.00
National Co-operative Development Corporation	11.00	23.90
Industrial Reconstruction Corporation of India	2.70	—
Delhi Development Authority	10.00	—
Economic Development Corporation of Goa	2.20	—
Institutions sponsored by State Governments	**338.62**	**354.07**
State Electricity Boards	224.87	265.78
Housing Boards	10.18	9.91
Industrial Investment Corporations and Industrial Development Corporations	12.25	11.81
State Finance Corporations	41.55	39.27
Land Development Banks	31.03	4.74
Other Institutions	18.74	22.56
GRAND TOTAL	**781.01**	**904.81**

Source: Reserve Bank of India Records.

Maturity Pattern of Rupee Debt

In regard to the maturity pattern of the Government of India rupee loans, the proportion of long-dated securities (maturing after 10 years and undated) improved further by 1.7 per cent to 72.4 per cent as at the end of March 1980. (vide Statement No. 94 in Volume II of the Report). As against this, there was a corresponding decline in the proportion of medium-dated securities (maturing between 5 and 10 years) and short-dated securities (maturing within 5 years) by 0.9 per cent to 14.3 per cent and by 0.7 per cent to 13.9 per cent, respectively, over the year.

Treasury Bills

The Government of India's outstanding treasury bills increased by Rs. 2,588 crores (or 34.0 per cent) to Rs. 10,196 crores during 1979-80 as against a decline of Rs. 1,011 crores (or 11.7 per cent) in 1978-79 (vide Statement No. 84 in Volume II of the Report). The rise in outstanding treasury bills during the year was mainly on account of the Reserve Bank (Rs. 2,500 crores) while holdings of State governments increased by Rs. 109 crores; as against this, outstandings of commercial banks were actually lower by Rs. 70 crores. Of the total outstandings, the Reserve Bank of India accounted for a major share of Rs. 9,203 crores (or 90.3 per cent), State Governments for Rs. 834 crores (or 8.2 per cent) and commercial banks for Rs. 65 crores (or 0.6 per cent).

Special Floating Loans

Special floating loans representing mainly India's contributions towards share capital of international financial institutions at Rs. 1,149 crores at the end of March 1980 showed a decline of Rs. 86 crores (or 7.0 per cent) during the year as against a rise of Rs. 216 crores (or 21.2 per cent) during the preceding year.

Other Liabilities*

The non-marketable debt liabilities of the Government of India which stood at Rs. 15,782 crores showed a smaller rise as compared to the previous year. These liabilities increased by

* These liabilities include unfunded debt, Reserve Funds and Deposits of departmental undertakings.

Rs. 1,527 crores (or 10.7 per cent) as against the rise of Rs. 2,061 crores (or 16.9 per cent) in the preceding year.

Small Savings

Small savings collections were higher in 1979-80 at Rs. 1,126 crores as against Rs. 881 crores in the preceding year (vide Statement No. 96 in Volume II of the Report). During 1979-80, the collections of the small savings through the media of Post Office Time Deposits, 7-Year National Savings Certificates, Cumulative Time Deposits, Post Office Recurring Deposits and Public Provident Fund Scheme increased over the previous year, the noticeable improvement being in the case of Post Office Time Deposits. However, the collections in the case of Post Office Savings Bank Deposits and 5-Year National Development Bonds recorded a decline during the year.

Promotional Measures

During the financial year 1979-80, the Government of India did not introduce any new small savings media. In 1979-80, 2 more post office savings banks were enrolled as submembers of local clearing houses thereby raising the total number of Post Office Savings Banks admitted to clearing houses to 220.

State Governments' Debt Position

The outstanding debt liabilities of the State Governments stood at Rs. 21,577 crores as at the end of March 1980. They registered a smaller increase of Rs. 2,406 crores (or 12.6 per cent) during 1979-80 as compared to that of Rs. 2,653 crores (or 16.1 per cent) in the preceding year. Their proportion to the national income was higher at 24.5 per cent during 1979-80 as against 23.9 per cent in 1978-79. The States' debt liabilities are expected to show a rise of Rs. 2,476 crores (or 11.5 per cent) during 1980-81 and to increase to the level of Rs. 24,053 crores at the end of March 1981@.

@ For State-wise break-up, please refer to Statement No. 93 in Volume II of this Report.

Loans and Advances from the Centre

The loans and advances from the Central Government for Plan and non-Plan purposes and loans against small savings collections constitute the major part of the States' debt. These loans and advances increased by Rs. 1,843 crores (or 13.3 per cent) to Rs. 15,734 crores during 1979-80 as against an increase of Rs. 2,361 crores (or 20.5 per cent) in the preceding year while their share in States' debt increased slightly from 72.5 per cent at the end of March 1979 to 72.9 per cent at the end of March 1980. The States' indebtedness to the Centre is expected to increase further by Rs. 1,828 crores (or 11.6 per cent) during 1980-81 to Rs. 17,562 crores at the end of March 1981.

Market Loans and Bonds

Loans and bonds comprising loans floated in the market and bonds issued by the State Governments such as zamindari/jagirdari abolition bonds, housing bonds, etc., registered a rise of Rs. 176 crores (or 6.6 per cent) during 1979-80 which was marginally smaller than Rs. 185 crores (or 7.5 per cent) in the previous year. They stood at Rs. 2,832 crores at the end of March 1980. During 1980-81 they are expected to increase further by Rs. 199 crores (or 7.0 per cent) so as to reach the level of Rs. 3,031 crores at the end of March 1981.

Market Borrowings* in 1979-80

State Governments entered the market only once during 1979-80 as in the preceding year. On September 1, 1979, 21 State Governments issued 6.50 per cent 1989, 10 year loans at par which were oversubscribed. As against the notified amount of Rs. 276.75 crores, the total subscriptions amounted to Rs. 305.87 crores of which Rs. 259.63 crores (or 84.9 per cent) represented cash subscriptions and the balance was conversion of maturing securities. After repayment of maturing loans amounting to Rs. 118.72 crores, the net amount raised aggregated Rs. 187.14 crores.

The yield on the loans at the issue price in 1979-80 was higher at 6.50 per cent as against 6.25 per cent in 1978-79. The monthly aver-

* Subscription figures are drawn from the Reserve Bank of India records.

age of gross redemption yields was, however, slightly lower at 5.72 per cent during 1979-80 than 5.79 per cent in the preceding year.

1980-81

Twenty-one State Governments entered the market on September 3, 1980 for raising loans aggregating Rs. 329.73 crores (gross). The total subscriptions received for State loans amounted to Rs. 397.97 crores, of which cash subscriptions were Rs. 348.52 crores (or 87.6 per cent) approximately. All these loan floatations were on a cash-cum-conversion basis, with a maturity period of 12 years bearing 6.75 per cent interest and issued at par as in the preceding year. The rate of interest has been raised by a quarter per cent during the year which is consistent with the practice adopted in the preceding year. The maturity period also has been raised to 12 years as against 10 years in the previous year. The net amount raised by the States aggregated Rs. 203.73 crores approximately after meeting repayment liabilities of Rs. 127.46 crores on account of maturing loans and taking into account the partial allotments made in respect of 11 States.

Ways and Means Advances from the Reserve Bank of India

'Ways and Means Advances from the Reserve Bank of India' which include normal and special ways and means advances and overdrafts from the Reserve Bank of India repayable within seven working days showed a decline of Rs. 1 crore only during 1979-80 as against a noticeable decline of Rs. 256 crores (or 68.4 per cent) observed during 1978-79. They stood at the level of Rs. 110 crores at the end of March 1980.

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. 59 crores (or 9.2 per cent) to Rs. 702 crores during 1979-80 as compared to that of Rs. 68 crores (or 11.8 per cent) in the preceding year. A further rise of Rs. 78 crores (or 11.1 per cent) is anticipated during 1980-81.

Provident Funds, etc.

'Provident and other Funds' mainly represent balances in the State provident funds, trusts and endowments. These funds increased by Rs. 329 crores (or 17.7 per cent) to Rs. 2,192 crores during 1979-80 while the rise in the preceding year was Rs. 295 crores (or 18.8 per cent). A further rise of Rs. 378 crores (or 17.2 per cent) is budgeted in these funds during 1980-81.

Chapter VIII

Industrial Finance

The activity in the capital market, which had shown signs of picking up during 1979, turned somewhat sluggish in the first half of 1980.

The value of consents/acknowledgements of proposals granted by the Controller of Capital Issues to non-Government public limited companies in 1979 were higher at Rs. 476 crores as compared to consents aggregating Rs. 258.9 crores in 1978. However, during January-June 1980, consents for capital issues aggregated lower at Rs. 233.6 crores than those of Rs. 309.5 crores during the same period last year. The capital issues through prospectus and as rights by public limited companies (other than term-lending institutions) amounted to Rs. 181.7 crores in 1979 which was 80.8 per cent higher than Rs. 100.5 crores of capital issues in 1978. The amount of capital issues, however, showed a smaller rise of 28.0 per cent at Rs. 65.0 crores during January-June 1980 over the amount of such issues during January-June 1979. Though the consents and issues in 1979 were for higher amounts than in 1978, the total capital raised (inclusive of bonus issues) by non-Government companies under consents/acknowledgements of proposals during 1979 at Rs. 200.6 crores was lower than Rs. 258.0 crores raised during 1978. Similarly, capital raised (inclusive of bonus issues) by these companies during January-June 1980 at Rs. 74.0 crores was lower by Rs. 40.1 crores than the amount raised during January-June 1979.

During April 1979-March 1980, the financial assistance sanctioned by the financial institutions at Rs. 1,989.7 crores recorded a rise of 40.1 per cent over the amount sanctioned in 1978-79, the amount disbursed also rose, but at Rs. 1,262.7 crores it showed a smaller rise of 30.5 per cent.

Industrial security prices exhibited a downward trend till the end of November 1979. Thereafter a steady recovery was noticeable. The Reserve Bank all-India index for ordinary shares at 149.4 for the week-ended June 28, 1980 was higher by 2.7 per cent than the index of 145.5 for the week ended June 30, 1979; the index had recorded a rise of 15.9 per cent in the preceding year.

I. Capital Market

(*i*) Industrial Securities Market

On the major stock markets in India, industrial security prices* exhibited a downward trend till the end of November 1979. Thereafter a steady recovery was noticeable.

The RBI all-India index number for ordinary shares (1970-71=100) declined from 145.5 for the week ended June 30, 1979 to 135.2 for the week ended December 1, 1979. It improved thereafter and stood at 149.4 for the week ended June 28, 1980.

The bearish trend during the period July-November 1979 was attributed to market apprehensions regarding the deceleration in agricultural and industrial output on account of drought in various parts of the country and non-availability of key inputs such as power, coal, steel, cement, etc. Industrial unrest, fear of curbs on company dividends and issue of bonus shares and other anti-inflationary measures, and the sharp jackup of crude oil prices by the OPEC acted as major depressants to market sentiment.

Equities started looking up by early December on reports of fairly widespread winter rains in north-India which brightened the *rabi* prospects, and on continuous flow of

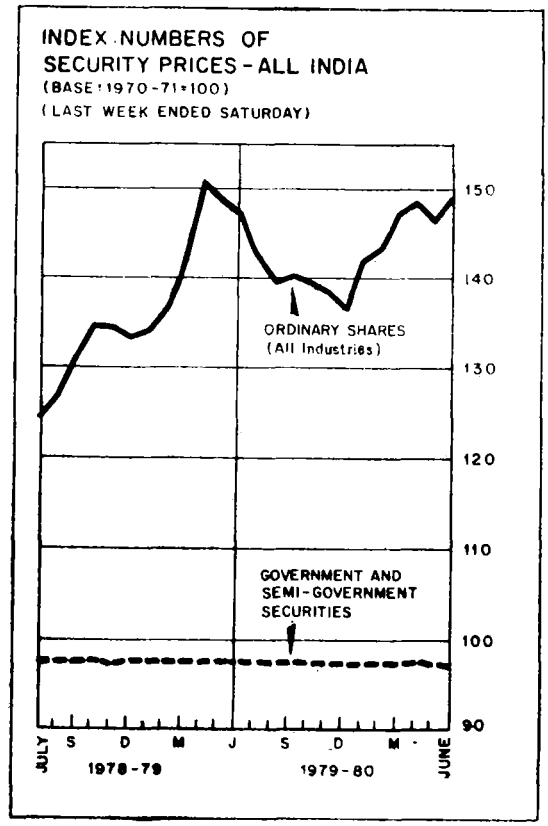
* The analysis of security prices and yields is restricted to ordinary shares only. On account of restricted transactions of preference shares and debentures on the market it is not possible to present any meaningful analysis of trends in the prices and yields of these securities.

good corporate news. The up-trend in share prices was, however, halted in March 1980 as uncertainties relating to fresh tax proposals in view of the unprecedented deficit of Rs. 2,700 crores in the revised estimates for 1979-80 as against the original estimate of Rs. 1,382 crores triggered a moderate bear pressure. The interim Union Budget for 1980-81, however, placed the estimated deficit of Rs. 1,235 crores at a relatively moderate level. Subsequently, the equities hardened on sustained support. The import policy for 1980-81 announced by the Government on April 15, 1980 further enlivened the market sentiment, as contrary to market expectations of sharp curbs on imports, it continued to be liberal. The turmoil in Afghanistan, continued strained relations between the U. S. A. and Iran and disturbed conditions in the north-eastern part of the country, however, unnerved the operators who preferred to lighten their commitments causing a fall in equity prices in the month of May. Prospects of good monsoon revived the bullish sentiment in June and with the emergence of hectic short covering and fresh speculative buying support, equities improved. The Union Budget for 1980-81, presented to Parliament on June 18, 1980, was welcomed by the marketmen as it provided for relaxation in convertibility clause for term loans from financial institutions, extension of tax holiday period and additional depreciation, and did not propose any fresh tax on corporate profits, though the proposal to amend with retrospective effect Section 80-J of the Income Tax Act relating to the tax-holiday scheme caused anxiety in market circles.

The Reserve Bank's index number for prices of ordinary shares rose by 2.7 per cent during the year July 1979--June 1980 as compared to a rise of 15.9 per cent in the preceding year. The increase in the annual average index for ordinary shares was also lower at 4.5 per cent to 143.0 than that of 23.8 per cent to 136.9 during 1978-79 (Table VIII—1).

Yield on Industrial Securities

The average gross yield on ordinary shares which had declined to 5.5 per cent in 1978-79 from 6.4 per cent in 1977-78 increased to 6.0 per cent in 1979-80. The ceiling rate of dividend on preference shares continued to



be 11 per cent. Interest rates on public issues of debentures of 10 per cent, on debentures for a term upto seven years and 10.5 per cent for a term exceeding seven years remained unchanged during the year. Interest rates on privately placed debentures also remained un-altered at 10.5 per cent for maturity period upto seven years and 11 per cent for those exceeding seven years. The ceiling interest rates on 'rights' debentures offered to existing share holders on a rights basis to augment long-term working capital funds also remained unchanged at 10.5 per cent for a maturity period upto seven years and at 11 per cent for a maturity period from eight to twelve years, though with the prior approval of the Controller of Capital Issues, the companies were permitted to offer an incentive of a higher rate of interest upto 1 per cent on rights debentures, for any financial year of the company if the dividend declared for the immediately preceding year was greater than the average rate of dividend declared during the past three years.

Table VIII-1: Variations in Index Number of and Yield on Ordinary Shares

Year (July-June)	Index Number (1970-71=100)	Average Gross Yield (percent per annum)
1973-74	121.1 (+14.6)	5.4
1974-75	101.8 (—15.9)	3.8*
1975-76	98.2 (—3.5)	5.7
1976--77	104.8 (+6.7)	6.2
1977-78	110.6 (+5.5)	6.4
1978-79	136.9 (+23.8)	5.5
1979-80	143.0 (+4.5)	6.0

* Average for 11 months from August 1974 to June 1975.
Note: Figures in brackets are percentage variations over the previous year.

(ii) Open Market Operations

The sales of securities by the Reserve Bank of India were generally maintained during the year 1979-80 (July-June) at the previous year's level, the total sales amounting to Rs. 1,119 crores, or Rs. 82 crores higher over the year. The purchases, however, were sizeably stepped up from Rs. 364 crores in 1978-79 to Rs. 776 crores in 1979-80 to accommodate for the higher net market borrowings by the Centre, all of which could not be absorbed by the market, particularly due to slower growth in commercial bank deposits. As a result, the RBI's open market operations during the year resulted in net sales of securities to the tune of Rs. 343 crores, which was the lowest for the past five-year period since 1975-76, and Rs. 294.5 crores lower than in 1978-79. Table VIII. 2 presents two sets of data on the Reserve Bank's purchases and sales of securities for the years from 1970-71 to 1979-80; first, the figures of open market operations proper and secondly, the figures of aggregate purchase/sale operations inclusive of those effected from time to time from out of the surplus funds of the IDBI and the ARDC under a special arrangement.

Gilt-edged Market

During the year under review, the gilt-edged market was subdued against the backdrop of stiffening short-term rates of interest

Table VIII 2 : RBI's Open Market Operations

Year (July-June)	Purchases	Sales	Net Sales
1970-71 ..	207.5 (276.2)	312.9 (374.7)	105.7 (98.2)
1971-72 ..	188.8 (258.6)	245.0 (315.0)	56.2 (56.4)
1972-73 ..	317.1 (437.1)	459.7 (584.6)	142.6 (147.5)
1973-74 ..	225.5 (358.8)	304.9 (426.3)	79.4 (67.5)
1974-75 ..	371.2 (516.7)	645.4 (778.6)	274.2 (263.9)
1975-76 ..	680.2 (868.3)	1186.5 (1379.6)	506.3 (511.3)
1976-77 ..	412.3 (732.2)	942.9 (1263.3)	530.6 (531.1)
1977-78 ..	559.0 (926.7)	1189.7 (1595.4)	630.7 (668.7)
1978-79 ..	363.7 (911.4)	1037.5 (1562.3)	637.8 (550.9)
1979-80 ..	776.1 (1630.8)	1119.4 (2014.1)	343.3 (383.3)

Notes: 1. Figures shown in brackets are inclusive of purchases and sales effected from time to time from out of the surplus funds of IDBI and ARDC under a special arrangement.
2. Figures in the table are inclusive of purchases and sales on behalf of the State Governments.
3. On account of the reasons mentioned in (*i*) and (*ii*) above, the figures in this table are not the same as those published in the past Reports on Currency and Finance.

and stringency in money market conditions as also as a reaction to the gradual upward revision of interest rates for the comparable new loans. The Reserve Bank's All India (combined) Price Index for Government and Semi-Government Securities(Base: 1970-71=100) registered a delcine of 0.5 point over the year to 97.2 on June 28, 1980. While the index of Central Government securities declined by 0.7 point, the index of State Government securities rose by 0.2 point and that of Semi-Government securities declined by 0.1 point.

The All-India index was at 97.7 at end-June 1979, and after coming down by 0.2 point to 97.5 by the last week of July 1979, following the floatation of new loans with comparatively higher coupon rates, slid further to 97.4 towards the last week of November 1979. It recovered to 97.6 by first week of January 1980 but declined to 97.4 in the following week. Thereafter it steadily moved up to 97.8 by third week of April 1980, but following the step-up in coupon rates for the new loans floated, again declined to 97.1 by week ended June 7, 1980. The index moved up by 0.1 point to 97.2 by third week of June 1980 and remained at that level towards the close of the year under review.

The index of Central Government securities, which declined from 96.8 on June 30, 1979 to 96.5 by end-October 1979 in the wake of an upward revision in deposit rates payable by scheduled commercial banks, moved up to 96.7 in the first week of January 1980, but declined to 96.4 by week ending January 19, 1980. Thereafter it moved up steadily to 96.9 by third week of April 1980, but declined to 96.0 on June 7, 1980. It rose by 0.1 point to 96.1 in the third week and remained at that level subsequently.

The price index in respect of State Government securities recorded a rise of 0.1 point in the first week of December 1979 from 99.8 at the June 1979, following an acute demand for short-dated securities during the closing period of the year. Thereafter, it generally moved around that level upto end-May 1980, but from the beginning of June, edged upto 100.0 and remained steady thereafter at that level, because of the increased interest evinced in short-dated loans following expectations of a hike in coupon rates of the impending new Central loans. The price index for Semi-Government Securities which declined by 0.1 to 101.8 by August 4, ruled steady at that level excepting week ending April 5 at 101.9.

Among the Central Government securities, most of the short-dated securities recorded appreciation in price ranging from Re. 0.70 to Rs. 3.05 with the corresponding declines in yields varying from 0.32 to 1.67 percentage points. The 4 per cent loan 1981 recorded the largest increase of Rs. 3.05 in price with an erosion of 1.58 percentage points in yield. The $4\frac{3}{4}$ per cent loan 1981 recorded a rise of Rs. 2.00 in price with the largest decline of 1.67 percentage points in yield. The only short-dated security that recorded a decline in price was $5\frac{1}{2}$ per cent loan 1984, by Re. 0.75 to Rs. 99.00. (Table III-3) Most of the medium and long-dated securities recorded depreciation in prices ranging from Re. 0.10 to Rs. 7.90. Among medium-dated, significant declines in price and increases in yield were in respect of 6 per cent loan 1994 (Rs. 5.10 and 0.58 percentage point), 6 per cent loan 1993 (Rs. 3.25 and 0.38 percentage point), and $5\frac{1}{2}$ per cent loan 1991 (Rs. 2.25 and 0.33 percentage point). The long-dated securities with sizeable declines in price and improvements in yield were $6\frac{1}{2}$ per cent loan 2005 (Rs. 7.90 and 0.69 percentage point), $6\frac{1}{2}$ per cent loan 2001 (Rs. 7.30 and 0.67 percentage point).

Most of the State Government securities registered higher prices over the year. The States showing noticeable increases in the short-dated $5\frac{3}{4}$ per cent 1980 loans were: Bihar (Rs. 2.20), Andhra Pradesh and Uttar Pradesh (Rs. 1.25 each), Kerala (Rs. 1.15) and Tamil Nadu (Rs. 1.10). The decline in yield was notable in Andhra Pradesh (2.52 percentage points), Rajasthan (1.14 percentage points) and Maharashtra (1.12 percentage points). Among other loans recording relatively higher increases in prices were: (a)$5\frac{3}{4}$ per cent loan 1981, Tamil Nadu (Rs. 1.20), Punjab and Rajasthan (Re. 1.00 each); (b) $5\frac{3}{4}$ per cent loan 1982, Andhra Pradesh (Re. 0.95), Kerala and Madhya Pradesh (Re. 0.90 each), (c) $5\frac{3}{4}$ per cent loan 1985, Andhra Pradesh

Table VIII—3 Prices and Yields of Selected Central Government Securities

Loans	As on June 29, 1979 Price (Rs.)	As on June 29, 1979 Yield (Per cent)	As on June 28, 1980 Price (Rs.)	As on June 28, 1980 Yield (Per cent)	Variations Price (Rs.)	Variations Yield (Per cent)
Terminable less than 5 years						
4¾% 1981	99.40	5.06	101.40	3.39	+2.00	—1.67
4 % 1981	96.95	5.58	100.00	4.00	+3.05	—1.58
5 % 1981 (N.D.L.)	99.60	5.17	101.30	4.08	+1.70	—1.09
5 % 1982	98.80	5.43	100.20	4.90	+1.40	—0.53
5½% 1982	99.70	5.61	100.40	5.29	+0.70	—0.32
5 % 1983	97.80	5.61	98.90	5.39	+1.10	—0.32
5 % 1984	97.60	5.56	100.35	4.90	+2.75	—0.66
5½% 1984	99.75	5.56	99.00	5.78	—0.75	+0.22
5¾% 1984	—	—	100.00	5.75	—	—
5 to 10 years						
4½% 1985	93.75	5.74	94.10	5.87	+0.35	+0.13
5½% 1985	98.15	5.86	98.60	5.82	—0.45	—0.04
4½% 1986	92.60	5.82	93.10	5.91	+0.50	+0.09
6 % 1986	—	—	100.00	6.00	—	—
5¼% 1986	97.25	5.73	96.85	5.88	—0.40	+0.15
5¼% 1986 (N.D.L.)	97.00	5.75	97.00	5.81	—	+0.06
6 % 1987	—	—	99.35	6.12	—	—
5¼% 1987	97.30	5.67	96.15	5.92	—1.15	+0.25
5¼% 1988	95.90	5.85	96.00	5.89	+0.10	+0.04
6 % 1988	99.50	6.07	98.95	6.16	—0.55	+0.09
4¾% 1989	88.75	6.30	90.85	6.10	+2.10	—0.20
6¼% 1989	100.75	6.15	100.05	6.24	—0.70	+0.09
6 % 1989	100.15	5.98	99.50	6.07	—0.65	+0.09
10 to 15 yearss						
5½% 1990	94.00	6.26	93.70	6.36	—0.30	+0.10
5½% 1991	95.15	6.07	92.90	6.40	—2.25	+0.33
6¼% 1991	—	—	98.45	6.44	—	—
5½% 1992	94.75	6.09	94.50	6.15	—0.25	+0.06
6½% 1993	98.50	6.41	96.80	6.62	—1.70	+0.21
6 % 1993	98.90	6.12	95.65	6.50	—3.25	+0.38
6 % 1994	98.65	6.14	93.55	6.72	—5.10	+0.58
15 years and above						
5½% 1995	93.60	6.14	91.75	6.37	—1.85	+0.23
6¼% 1995	100.45	6.20	100.45	6.20	—	—
6½% 1995	100.20	6.48	100.10	6.49	—0.10	+0.01
6¼% 1996	100.05	6.24	98.65	6.38	—1.40	+0.14
6½% 1997	—	—	100.00	6.50	—	—
6¼% 1997	100.05	6.24	98.80	6.36	—1.25	+0.12
7 % 1998 (A.C.B.)	—	—	100.00	7.00	—	—
6 % 1998	97.00	6.27	92.00	6.77	—5.00	+0.50
6¼% 1998	98.85	6.35	97.95	6.44	—0.90	+0.09
5½% 1999	89.90	6.41	84.35	7.01	—5.55	+0.60
5½% 1999 (A.C.B.)	89.00	6.49	89.50	6.46	+0.50	—0.03
5½% 2000	89.30	6.44	88.20	6.57	—1.10	+0.13
6½% 2000	100.25	6.48	94.30	7.04	—5.95	+0.56

Table III—3—*Contd.*

Loans	As on June 29, 1979 Price (Rs.)	As on June 29, 1979 Yield (Per cent)	As on June 28, 1980 Price (Rs.)	As on June 28, 1980 Yield (Per cent)	Variations Price (Rs.)	Variations Yield (Per cent)
15 years and above						
5¾% 2001	91.50	6.48	90.40	6.60	—1.10	+0.12
6½% 2001	100.55	6.45	93.25	7.12	—7.30	+0.67
5¾% 2001 (N.D.L.)	89.25	6.68	90.25	6.63	+1.00	—0.05
5¾% 2002	90.90	6.52	84.70	7.14	—6.20	+0.62
6½% 2002	99.00	6.58	94.00	7.04	—5.00	+0.46
5¾% 2003	90.00	6.59	85.00	7.09	—5.00	+0.50
6½% 2003	99.85	6.51	93.75	7.05	—6.10	+0.54
6½% 2004	99.30	6.56	94.00	7.02	—5.30	+0.46
6½% 2005	99.00	6.58	91.10	7.27	—7.90	+0.69
6¾% 2006	100.00	6.75	93.55	7.31	—6.45	+0.56
6¾% 2007	100.05	6.75	98.95	6.84	—1.10	+0.09
7 % 2009	100.25	6.98	100.25	6.98	—	—
7 % 2009 II	—	—	100.25	6.98	—	—
7 % 2009 III	—	—	100.35	6.97	—	—
7 % 2009 IV	—	—	94.90	7.43	—	—
7½% 2010	—	—	100.20	7.48	—	—
National Defence Gold Bonds 1980	810.00	—	1155.00	—	—	—
Non-Terminable						
3 % 1986 (or later)	61.00	4.92 (F)	62.00	4.84 F	+1.00	—0.08
3 % (Government Rupee Paper)	60.50	4.96 (F)	61.00	4.92 F	+0.50	—0.04

(F) Flat yield.

(Re. 0.90) and (d) 6 per cent loan 1984, Nagaland (Rs. 1.45). The securities with relatively larger decline in prices were 5¾ per cent loan 1983, Rajasthan (Rs. 1.45), 5¾ per cent loan 1985, Uttar Pradesh (Re. 0.85) and 6 per cent loan 1985, Gujarat (Re. 0.90). The loss in yield was notable in the case of 6 per cent loan 1985, Rajasthan (0.92 percentage point) and 5¾ per cent loan 1982, Bihar (0.95 percentage point).

(iii) New Issue Activity

The new issue activity markedly improved in 1979 after a slight set-back during 1978. The number of issues of capital through prospectus and rights by public limited companies (other than term-lending institutions) at 189, however, showed a smaller rise of 24, but the total amount of issues at Rs. 181.7 crores during 1979, was higher by 80.8 per cent than Rs. 100.5 crores during 1978 (Table VIII—4). Of these, 187 issues for an aggregate amount of Rs. 177.8 crores were made by non-Government companies and two issues for Rs. 3.9 crores by Government companies, viz., Bihar Finished Leather Ltd., promoted by Bihar State Leather Industries Development Corporation Ltd., and Gujarat State Machine Tools Corporation Ltd., promoted jointly by Gujarat Industrial Investment Corporation Ltd., and HMT Ltd., Bangalore. In addition, there were 19 issues for Rs. 6.7 crores in the form of offers for sale by existing share holders during the year. Such issues during 1978 numbered 12 for Rs. 7.6 crores.

The amounts of equity and debenture issues both through prospectus and through rights were higher in 1979 than in 1978. Only the amount of preference shares, which constitute a small proportion of the total, was lower during the year. The increase in the total amount of issues was, however, largely due to issues through rights, particularly those of debentures. As against a rise of Rs. 18.8 crores in the amount of issues through prospectus, that through 'rights' increased by Rs. 62.4 crores; the amount of debentures

Table VIII-4: Fresh Capital Issues through Prospectus and Rights by 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	Preference Shares	Debentures		No. of Issues	Equity Shares	Preference Shares	Debentures		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
Non-Government Companies																
(January-December)																
1976	105	42.8	5.1	1.0	48.9	26	7.4	0.4	2.3	10.1	132	59.0	72	36.7	60	22.3
1977	104	73.6	1.7	0.5	75.8	41	18.2	0.6	—	18.8	145	94.6	61	50.7	84	43.9
1978	114	73.3	5.1	2.0	80.4	50	11.1	0.4	7.8	19.3	164	99.7	75	61.4	89	38.3
1979	116	88.7	0.4	7.0	96.1	71	21.9	—	59.8	81.7	187	177.8	75	52.4	112	125.4
(January-June)																
1979	49	30.2	0.2	—	30.4	29	6.2	—	14.2	20.4	78	50.8	31	11.0	47	39.8
1980	82	26.0	0.2	—	26.2	32	12.1	—	26.7	38.8	114	65.0	75	22.8	39	42.2
Government Companies																
(January-December)																
1976	9	9.0	0.7	—	9.7	—	—	—	—	—	9	9.7	9	9.7	—	—
1977	5	3.6	—	5.5	9.1	—	—	—	—	—	5	9.1	4	3.6	1	5.5
1978	1	0.8	—	—	0.8	—	—	—	—	—	1	0.8	1	0.8	—	—
1979	2	3.9	—	—	3.9	—	—	—	—	—	2	3.9	2	3.9	—	—
(January-June)																
1979	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1980	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Grand Total																
(January-December)																
1976	115	51.8	5.8	1.0	58.6	26	7.4	0.4	2.3	10.1	141	68.7	81	46.4	60	22.3
1977	109	77.2	1.7	6.0	84.9	41	18.2	0.6	—	18.8	150	103.7	65	54.3	85	49.4
1978	115	74.1	5.1	2.0	81.2	50	11.1	0.4	7.8	19.3	165	100.5	76	62.2	89	38.3
1979	118	92.6	0.4	7.0	100.0	71	21.9	—	59.8	81.7	189	181.7	77	56.3	112	125.4
(January-June)																
1979	49	30.2	0.2	—	30.4	29	6.2	—	14.2	20.4	78	50.8	31	11.0	47	39.8
1980	82	26.0	0.2	—	26.2	32	12.1	—	26.7	38.8	114	65.0	75	22.8	39	42.2

* Other than term-lending institutions.

@ Companies which had not gone in for commercial production/business at the time of the public issue.

Note: Data for earlier years have been revised and hence these are not comparable with the data published earlier.

Source: Prospectuses/Circulars and replies to our questionnaires received from the companies.

alone being higher by Rs. 52.0 crores. Consequently, the amount of issues by existing companies recorded a substantial rise, increasing from Rs. 38.3 crores in 1978 to Rs. 125.4 crores in 1979, whereas that by new companies declined from Rs. 62.2 crores in 1978 to Rs. 56.3 crores in 1979.

The amount offered for public subscription during 1979 was Rs. 59.6 crores, which declined from 63.1 per cent in 1978 to 59.6 per cent as a proportion of the total amount issued through prospectus. Public response to these issues, as judged by the number of over-subscribed issues, was better in 1979 than in 1978. Out of the 89 equity issues in 1978 and 83 in 1979, data on public response to which are available, the respective numbers of over-subscribed, fully subscribed and under subscribed issues were 49, 3 and 37 in 1978 and 65, 6 and 12 in 1979.

The upward trend in new issue activity continued during the first half of 1980, *albeit*, at a slower pace. During this period, there were 114 issues for an aggregate amount of Rs. 65.0 crores as against 78 issues for Rs. 50.8 crores during the corresponding period last year. As in the previous year, the tempo of new issue activity during this period was largely sustained by the issues of FERA companies and issues of debentures through rights.

Capital issues for diluting foreign equity

During 1979, there were 21 capital issues for a total amount of Rs. 25.5 crores by the companies diluting their foreign equity as required under the Foreign Exchange Regulation Act (FERA) 1973; the number of issues was the same in 1978 but the issues were for a much lower amount of Rs. 13.7 crores. The entire amount of Rs. 25.5 crores was issued through prospectus and, out of this, Rs. 12.6 crores were offered for public subscriptions. In addition to this, five public issues were made by the FERA companies for an amount of Rs. 3.5 crores in the form of offer for sale. The share of the issues under FERA in the total capital issues (excluding offer for sale) during 1979 was 14.0 per cent and that in the total amount offered for public subscription came to 21.1 per cent, the respective percentages during 1978 were 13.6 and 17.4. In 1978 as well as in 1979, all these issues evoked satisfactory response from the public and all the issues for which information on public response was available were over-subscribed.

(iv) Consents for Capital Issues

The total value of consents for capital issues [inclusive of acknowledgement of proposals under the Capital Issues (Exemption) Order, 1969] accorded by the Controller of Capital Issues to non-Government public limited companies during 1979 aggregated Rs. 476 crores, 83.9 per cent higher than the amount of Rs. 258.9 crores consented to during 1978 (Table VIII—5). The rise was mainly due to substantial increase in the amounts consented to debentures and miscellaneous issues (loans etc.). While the increase in consents to debenture issues from Rs. 48.8 crores in 1978 to Rs. 138.8 crores in 1979 was largely due to a number of approvals for issue of rights debentures for long-term working capital requirement under the guidelines issued by the Government in September 1978, the consent amounting to Rs. 90.3 crores granted to the Tata Hydro Electric Power Supply Company Ltd., contributed to the increase in consents for miscellaneous issues which amounted to Rs. 138.5 crores in 1979 as against Rs. 13.0 crores in 1978. Consents granted to the issues of equity and preference shares at Rs. 110.8 crores and Rs. 9.1 crores were respectively, 12.3 per cent and 21.3 per cent higher than in 1978, whereas those to capitalisation of reserves (bonus shares) declined to Rs. 78.8 crores in 1979 from Rs. 90.9 crores in 1978. Thus the total of consents accorded to issues of shares (other than bonus shares) and debentures aggregated Rs. 258.7 crores in 1979, 67 per cent higher than in 1978. Of these, consents amounting to Rs. 200.3 crores (or 77.4 per cent) were granted to existing companies and Rs. 58.4 crores (or 22.6 per cent) to new companies (initial issues).

The consents given for reduction of foreign participation in the share capital declined to Rs. 42.2 crores in 1979 from Rs. 56.3 crores in 1978. Such consents had been steadily increasing for the past few years and were maximum in 1978 (Table VIII-6).

Table VIII-5: 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	Preferences Shares	Debentures	Total (2+3+4) or (6+7)	Initial Issues	Further Issues			
1	2	3	4	5	6	7	8	9	10
January-December									
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
1979	110.8 (42.9)	9.1 (3.5)	138.8 (53.6)	258.7 (100.0)	58.4 (22.6)	200.3 (77.4)	78.8	138.5	476.0
January-June									
1979	73.8 (51.4)	7.0 (4.9)	62.8 (43.7)	143.6 (100.0)	47.0 (32.7)	96.6 (67.3)	43.9	122.0	309.5
1980 .. .. (Provisional.)	115.0 (78.1)	5.6 (3.8)	26.6 (18.1)	147.2 (100.0)	86.1 (58.5)	61.1 (41.5)	49.7	36.7	233.6

* These are loans other than loans granted by public financial institutions, banks, etc., which are exempt from control of capital issues.

Note: Figures in brackets in columns 2, 3, 4, 6 and 7 are percentages to the totals in column 5.

Source: Office of the Controller of Capital Issues, Government of India.

Table VIII-6: Consents given for Reduction in Foreign Participation in Share Capital

Year	No. of Consents	Amount (Rupees Crores)
1974	18	10.0
1975	23	14.5
1976	18	15.0
1977	29	22.7
1978	47	56.3
1979	34	42.2

Source: Quarterly Statistics on the Working of Capital Issues Control, Ministry of Finance, Government of India.

During January—June 1980, the value of total consents granted amounted to Rs. 233.6 crores, substantially lower as compared with Rs. 309.5 crores granted during the corresponding period of 1979. While consents for debentures and miscellaneous issues (loans, etc.) at Rs. 26.6 crores and Rs. 36.7 crores, respectively, were significantly lower than those for Rs. 62.8 crores and Rs. 122 crores during January-June 1979, consents for equity shares rose by Rs. 41.2 crores to Rs. 115 crores over the period.

(v) Capital Raised

Non-Government Companies

The total capital raised by non-Government companies under consents/acknowledgements of proposals during 1979 at Rs. 200.6 crores was lower than Rs. 258.0 crores raised during 1978 (Table VIII-7). The decline was shared by all the instruments of capital issues. The trend continued during the first half of 1980 as well, during which period non-Government companies raised Rs. 74.0 crores as against Rs. 114.1 crores raised during January-June 1979.

Table VIII-7: Capital Raised (Paid-up) under Consents/Acknowledgements of Proposals

(Rupees Crores)

	1978	1979	January-June 1979	January-June 1980
A. Non-Government Companies	**258.0**	**200.6**	**114.1**	**74.0**
(*i*) Equity	86.5	80.3	44.8	19.7
(*ii*) Preference	6.1	3.3	3.2	0.5
(*iii*) Debentures	50.0	29.0	7.2	32.2
Total (*i* to *iii*)	**142.6**	**112.6**	**55.2**	**52.4**
(*iv*) Bonus	95.9	86.2	57.8	12.3
(*v*) Loans,* etc.	19.5	1.8	1.1	9.3
B. Government Companies	**55.9**	**43.4**	**17.7**	—
(*i*) Equity	4.8	1.5	1.5	—
(*ii*) Preference	—	—	—	—
(*iii*) Debentures	35.7	23.9	0.4	—
Total (*i* to *iii*)	**40.5**	**25.4**	**1.9**	—
(*iv*) Bonus	15.4	15.8	15.8	—
(*v*) Loans,* etc.	—	2.2	—	—

* These are loans other than loans granted by public financial institutions, banks, etc.; which are exempted from control of capital issues.

Note: Data relate to capital raised against consents/acknowledgements of proposals granted during the respective years as well as earlier years and are based on capital raised by the companies from which reports were received by the Controller of Capital Issues.

Source: Office of the Controller of Capital Issues, Government of India.

Government Companies

The total capital raised by Government companies during 1979 aggregated Rs. 43.4 crores as against Rs. 55.9 crores raised during 1978, showing a decline of 22.4 per cent.

(vi) Developments in Policy

Under the provisions of the Companies (Acceptance of Deposits) Rules, 1975 as amended in July 1978, the limit of 25 per cent of the paid-up capital and free reserves for aggregate deposits of all categories, was to be effective from April 1, 1980. But in March 1980, Government extended the period to effect that reduction in the limit of deposits upto April 1, 1981, on representations from various chambers of commerce. In view of this, the aggregate limit of 35 per cent [10 per cent under rule 3 (2) (i) deposits against unsecured debentures or deposits from share holders or deposits guaranteed by a director of the company and 25 per cent under rule 3(2)(ii) deposits other than those refered to in rule 3(2)(i)] of paid-up capital and free reserves would continue till March 31, 1981. Similarly, the inter-company deposits, except any deposits received from another company by a company which has not gone into commercial production and has not accepted any deposit from the public, would now be brought within the purview of the Rules from April 1, 1981 instead of April 1, 1980.

The Union Finance Minister announced the following decisions of Government in his budget speech for 1980-81, to stimulate and encourage fresh investment in and modernisation of industry.

(1) In terms of the 1971 guidelines, financial institutions have been inserting convertibility clause to convert a portion of term loan into equity capital of an assisted company in agreements governing assistance to industrial units. The guidelines have been modified as follows:

(*i*) The limit for mandatory insertion of the convertibility clause has been raised to financial assistance exceeding Rs. 1 crore from Rs. 50 lakhs at present, (*ii*) The

financial institutions should exercise the conversion option in such a way that they do not acquire more than 40 per cent of the share capital of an existing concern. However, in case of persistant default in repayment of loans or mismanagement of the company or continuous closure for over three months of an industrial unit of a company producing goods and services essential to the community, the financial institutions may, with the concurrence of Government, exercise the conversion option in such a way that their share holdings can go upto 51 per cent or above, (*iii*) The exemption from the convertibility clause which is available under the Soft Loan Scheme for modernisation has been extended to loans sanctioned for modernisation assistance, for balancing equipment under existing capacity, for small overruns in cost of projects already assisted by institutions, and for rehabilitation of sick units.

(2) With a view to promoting new investment in industry and at the same time to discourage bias in favour of capital intensive techniques of production, the incentive of the tax holiday in respect of new industrial undertakings, ships and hotels has been continued in a modified form and is available with reference to a specified percentage of income derived from these enterprises. The percentages of exempted profits are 25 in case of companies and 20 in case of non-corporate tax-payers. Further, the tax holiday is available for a period of ten years in case of co-operative societies as against seven years in the case of other category of tax-payers.

(3) As a special stimulus for new investment, an additional depreciation in the amount equal to 50 per cent of the normal depreciation in the year of installation has been allowed on new machinery or plant installed during the Sixth Plan period upto March 31, 1985.

(4) With a view to augmenting resources for financing the Plan, a part of the investible resources of the LIC, GIC and UTI would be lodged with Government in Special Deposit Accounts.

(5) To reduce the dependence of public enterprises on budgetary support, the Government has decided to allow selected public sector units to raise deposits from public on the same lines as the companies in the private sector.

(6) To moderate the inflationary pressure in the economy, the interest-tax has been revived and has been extended also to interest earned by the larger all-India industrial finance institutions, namely, the IDBI, the IFCI, the ICICI and the IRCI. The rates of interest charged to the borrowers by the banks and the institutions have consequently been revised upward with effect from July 1, 1980.

II. Term Lending Institutions

The total financial assistance sanctioned during 1979-80 (April-March) by the financial institutions (i.e., the IDBI, the IFCI, the ICICI, the IRCI, the LIC, the GIC and its subsidiaries, the UTI, SFCs and SIDCs/SIICs) increased substantially over the year by Rs. 569.6 crores to Rs. 1,939.7 crores; disbursements also went up by Rs. 295.4 crores to Rs. 1,262.7 crores (Table VIII-8). Sanctions and disbursements of direct loans (rupee loans and foreign currency loans) at Rs. 1,772.9 crores and Rs. 1,134.3 crores were higher by Rs. 486.9 crores and Rs. 239.5 crores, respectively than those during 1978-79. Assistance sanctioned and disbursed by way of underwriting of and direct subscriptions to shares and debentures increased over the year by Rs. 82.7 crores and Rs. 55.9 crores to Rs. 216.8 crores and Rs. 128.4 crores, respectively.

The IDBI's total sanctions and disbursements (excluding refinance facilities to SFCs, SIDCs/SIICs and subscriptions to shares and bonds of other financial institutions) during 1979-80 (April-March) aggregated Rs. 963.9 crores and Rs. 558.6 crores, respectively. The financial assistance sanctioned by the IFCI remained almost at the previous year's level of Rs. 138.5 crores, while the assistance disbursed increased from Rs. 73.5 crores to Rs. 91.2 crores. Sanctions and disbursements of financial assistance by the ICICI at Rs. 212.4 crores and Rs. 136.8 crores were, respectively 16.2 per cent and 25.3 per cent higher than in the previous year. Assistance sanctioned by the IRCI increased by 43.9 per cent to Rs. 15.4 crores during 1979-80 (April-March) from

Table VIII- 8: Assistance Sanctioned and Disbursed by Financial Institutions@

(Rupees Crores)

Year (April-March)	Rupee Loans		Foreign Currency Loans		Underwriting and Direct Subscriptions				Total	
					Ordinary and Preference Shares		Debentures			
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
1	2	3	4	5	6	7	8	9	10	11
1977-78	1045.7 (+24.4)	589.4 (+16.4)	37.4 (—20.9)	52.9 (+11.8)	73.9 (+53.3)	35.1 (+45.0)	30.4 (+65.2)	16.4 (—14.1)	1187.4 (+24.4)	693.8 (+16.2)
1978-79	1214.8 (+12.0)	851.6 (+39.5)	71.2 (+90.4)	43.2 (—18.3)	73.1 (—13.3)	44.0 (+13.7)	61.0 (+78.6)	28.5 (+55.5)	1420.1 (+14.6)	967.3 (+34.1)
1979-80 .. .. .. (Provisional)	1683.1 (+38.5)	1088.3 (+27.8)	89.8 (+26.1)	46.0 (+ 6.5)	100.8 (+37.9)	34.2 (—22.3)	116.0 (+90.2)	94.2 (+230.5)	1989.7 (+40.1)	1262.7 (+30.5)

@ Covers IDBI, IFCI, ICICI, IRCI, LIC, UTI, SFCs and SIDCs/SIICs. For 1978-79 and 1979-80 financial assistance sanctioned and disbursed by GIC and its subsidiaries is included for the first time in this report to make the review comprehensive.

Note: 1. Total assistance comprises (*i*) in respect of IDBI, all types of assistance with the exception only of subscriptions to shares and bonds of financial institutions; refinance of SFCs and SIDCs/SIICs industrial loans are excluded to avoid double counting and (*ii*) all types of assistance of other institutions.

2. Assistance by GIC and its Subsidiaries includes loans to State Governments for housing programmes, HUDCO/DDA and also short-terms loans.

3. Figures in brackets are percentage variations over the previous year. For the compilation of variations for 1978-79 over 1977-78 data on assistance by GIC and its subsidiaries are excluded.

Table VIII-9 : Direct Financial Assistance Sanctioned and Disbursed by IDBI £, IFCI and ICICI

(Rupees Crores)

Year (April-March)	Direct Loans Sanctioned@				Direct Loans Disbursed@			
	Newly Established Companies	Existing Companies		Total (2+3+4)	Newly Established Companies	Existing Companies		Total (6+7+8)
		New Projects	Expansion of existing capacity, modernisation, etc.			New Projects	Expansion of existing capacity, modernisation, etc.	
1	2	3	4	5	6	7	8	9
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	162.5 (28.3)	81.3 (14.2)	330.0 (57.5)	573.8 (100.0)	248.5 (58.2)	32.0 (7.5)	146.4 (34.3)	426.9 (100.0)
1979-80 (Provisional)	292.3 (40.3)	85.8 (11.8)	347.0 (47.9)	725.1 (100.0)	151.5 (35.7)	45.8 (10.8)	226.9 (53.5)	424.2 (100.0)

£ Comprising project loan, soft loan and assistance under Technical Development Fund Scheme.
@ Include foreign currency loans also.

Note : Figures in brackets are percentages to totals.

Table VIII-10 : Progress of Soft Loan Scheme upto the end of June 1980

Industry	Applications* received		Sanctions		Disbursements		Col. (7) as per cent of Col. (5)
	No. of applications	Amount (Rs. crores)	No. of applications	Amount (Rs. crores)	No. of applications	Amount (Rs. crores)	
1	2	3	4	5	6	7	8
Textiles	226 (187)	483.4 (381.8)	209 (146)	296.9 (181.1)	116 (63)	89.9 (38.0)	30.3 (21.0)
Cement	14 (12)	78.5 (75.4)	12 (8)	65.0 (53.3)	10 (5)	39.1 (12.7)	60.2 (23.8)
Sugar	23 (20)	50.4 (42.9)	23 (19)	38.0 (32.5)	13 (10)	20.9 (13.7)	55.0 (42.2)
Jute	20 (22)	60.8 (66.0)	20 (20)	39.0 (39.2)	4 (3)	3.9 (1.9)	10.0 (4.8)
Engineering	86 (58)	153.2 (110.2)	77 (42)	112.2 (67.6)	51 (21)	36.1 (11.9)	32.2 (17.6)
Total	**369 (299)**	**826.3 (676.3)**	**341 (235)**	**551.1 (373.7)**	**194 (102)**	**189.9 (78.2)**	**34.5 (20.9)**

* After adjusting proposals rejected/withdrawn/closed.
Note : Figures in parentheses indicate the progress upto the end of June 1979.

Rs. 10.7 crores in 1978-79. The General Insurance Corporation and its four subsidiaries together sanctioned and disbursed financial assistance of Rs. 83.3 crores and Rs. 58.9 crores, respectively during April 1979-March 1980 as against Rs. 58.7 crores and Rs. 36.7 crores sanctioned and disbursed during 1978-79. Financial assistance sanctioned and disbursed by the SFCs at Rs. 263.8 crores and Rs. 184.7 crores, respectively showed increases of 31.4 per cent and 36.8 per cent over the previous year.

Investments of the LIC in stock exchange securities and loans increased by Rs. 700 crores to Rs. 5,287.6 crores as at the end of March 1980 from Rs. 4,587.6 crores as at the end of March 1979. The investible funds of the Unit Trust of India amounted to Rs. 467.0 crores as at end of June 1980, showing a rise of Rs. 64.6 crores during 1979-80 (July-June).

Direct financial assistance sanctioned by the IDBI, the IFCI and the ICICI amounting to Rs. 725.1 crores in 1979-80 (April-March) showed a substantial increase of Rs. 151.3 crores, while disbursements declined marginally from Rs. 426.9 crores in 1978-79 to Rs. 424.2 crores in 1979-80 (Table VIII-9). While the share of newly established companies in sanctions increased from 28.3 per cent in 1978-79 to 40.3 per cent in 1979-80, that in disbursements declined significantly from 58.2 per cent to 35.7 per cent. The major share in both sanctions and disbursements of direct assistance by the three institutions was claimed by the existing companies for the purposes of expansion of existing capacities and modernisation.

Soft Loan Scheme

The Soft Loan Scheme operated by the IDBI in collaboration with the ICICI and the IFCI for financing modernisation of cotton textiles, jute, cement, sugar and certain specified engineering industries showed considerable progress during July 1979—June 1980. Assistance sanctioned under the scheme during the year aggregated Rs. 177.4 crores, and formed 32.2 per cent of the cumulative sanctions since the commencement of the scheme in February 1977 (Table VIII-10). An encouraging feature of the operation of the Scheme during the year was a sharp pick-up in the disbursements. During 1979-80, a total of Rs. 111.7 crores was disbursed as against Rs. 78.2 crores disbursed till the end of June 1979. The amount disbursed as percentage of sanctions, which stood at 20.9 as on June 30, 1979, improved to 34.5 as on June 30, 1980. However, as against a general pick-up in disbursements, that to jute industry continued to lag far behind the sanctions.

Assistance to Small-Scale Industries/Backward Areas

Among the term-lending institutions, the financial assistance to small-scale industries is mainly provided by SFCs, SIDCs/SIICs and by the IDBI under it's refinance of industrial loans and bills rediscounting schemes. Assistance sanctioned and disbursed by these term-lending institutions to projects in small-scale sector are set out in Table VIII—11. The assistance sanctioned and disbursed by the SFCs to small-scale industries sector at Rs. 189.1 crores and Rs. 130.6 crores showed increases of Rs. 54.9 crores and Rs. 37.5 crores, respectively during 1979-80 (April-March). The IDBI's refinance and bills rediscounting assistance to this sector also went up by Rs. 118.3 crores to Rs. 265.4 crores, and disbursements increased by Rs. 74.2 crores to Rs. 160.9 crores. The total credit extended by scheduled commercial banks to small-scale industries increased by Rs. 594.1 crores during the period July 1978—June 1979 and total outstanding credit as at the end of

Table VIII-11: Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions to Projects in the Small-Scale Industries Sector

(Year: April-March) (Rupees Crores)

Institutions	1978-79		1979-80 (Provisional)	
	Sanctioned	Disbursed	Sanctioned	Disbursed
IDBI@	147.1	86.7	265.4	160.9
IRCI	0.2	0.3	0.4	0.3
SFCs	134.2	93.1	189.1	130.6
SIDCs$	2.5	1.7	3.4	1.8

@ Comprising assistance under refinance and bills rediscounting schemes.
$ Data relate to 13 SIDCs.

Table VIII-12 : Assistance Sanctioned and Disbursed by Financial Institutions for Backward Areas and New/Small Entrepreneurs

(Year : April-March) (Rupees Crores)

Institutions	Backward Districts/Areas						New/Small Entrepreneurs**					
	1977-78		1978-79		1979-80 (Provisional)		1977-78		1978-79		1979-80 (Provisional)	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
IDBI*	160.9	121.0	200.3	165.0	318.5	184.9	8.6	2.1	18.6	1.9	34.5	2.5
IFCI@	58.0	33.7	69.6	47.3	56.3	46.9	4.4	6.5	9.2	7.8	9.0	4.7
ICICI	33.2	28.3	71.4	46.9	79.7	47.4	11.8	13.8	10.2	14.2	5.3	7.7
IRCI	1.0	1.1	0.3	1.2	0.5	0.5	—	—	—	—	—	—
SFCs	92.6	58.1	113.6	68.2	139.1	95.0	7.2	5.8	25.9	13.2	35.0	20.7
SIDCs	50.5	24.3	68.0	39.2	99.1	53.8	19.0	10.2	27.7	12.2	47.6	18.2
Total	**396.2**	**266.5**	**523.2**	**367.8**	693.2	**428.5**	**51.0**	**38.4**	**91.6**	**49.3**	**131.4**	**53.8**
L.I.C.	18.3	16.5	15.9	10.2	13.9	20.4	40.5	23.1	14.6	17.9	14.4	25.7
GIC and its subsidiaries ..	..	..	6.7	1.9	11.5	7.6	—	—	—	—	—	—

* Data on assistance to backward districts/areas relate to concessional finance and those to new and small entrepreneurs cover assistance to technician entrepreneurs only.
@ Including guarantees.
** Data are provisional in case of SFCs and SIDCs
— Nil or negligible
.. Not available

Table VIII-13 : Assistance Sanctioned and Disbursed by Financial Institutions to the Industrial Companies in the Co-operative and Public Sectors

(Year : April-March) (Rupees Crores)

Institutions	Co-operative Sector						Public Sector					
	1977-78		1978-79		1979-80 (Provisional)		1977-78		1978-79		1979-80 (Provisional)	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
IDBI@	29.3	21.8	19.8	30.6	8.6	13.4	85.8	67.4	74.2	87.8	108.9	45.1
IFCI	13.5	13.8	5.3	9.0	3.7	5.1	23.8	10.9	12.4	7.5	19.6	18.3
ICICI	8.3	11.3	6.8	9.4	2.4	3.0	14.5	11.7	3.0	4.6	2.4	6.6
IRCI	—	—	—	—	—	—	—	—	0.5*	—	—	0.3*
SFCs	2.5	2.1	2.3	1.4	2.2	2.3	0.8	0.6	2.9	2.9	3.6	2.3
SIDCs	—	—	—	—	0.6	0.3	11.4	6.9	10.7	12.3	14.8	13.2
TOTAL	**53.6**	**49.0**	**34.2**	**50.4**	**17.5**	**24.1**	**136.3**	**97.5**	**103.7**	**115.1**	**149.3**	**85.8**
L.I.C.	3.4	6.4	0.4	2.2	—	5.5	6.0	9.8	10.6	5.7	6.5	15.6
GIC and its subsidiaries ..	—	—	—	—	—	—	..	..	23.8†	27.0†	36.2†	30.5†

@ Total assistance under all schemes of IDBI (excluding guarantees and assistance to financial institutions).
* Consist of only one State Public Undertaking.
— Nil or Negligible
.. Not available.

June 1979 amounted to Rs. 2,332.8 crores. Under the Credit Guarantee Scheme for small-scale industries, the guarantees outstanding increased to Rs. 3,435.7 crores as at the end of June 1980 from Rs. 2,994.8 crores a year ago.

Assistance sanctioned and disbursed by the term-financing institutions to industries located in backward districts/areas during 1979-80 at Rs. 718.6 crores and Rs. 456.5 crores showed increases of Rs. 172.8 crores and of Rs. 76.6 crores, respectively (Table VIII—12). Their assistance to new/small entrepreneurs and units in public sector also increased during the year while that to units in co-operative sector declined substantially (Table VIII—13).

(i) The Industrial Development Bank of India

The Industrial Development Bank of India (IDBI) recorded significant increases in financial assistance sanctioned and disbursed during July 1979—June 1980. Its total sanctions (excluding guarantees) under all the schemes went up by 29.6 per cent to Rs. 1,334.4 crores in respect of 55,630 applications and disbursements by 22.8 per cent to Rs. 834.9 crores (Table VIII—14). These increases are mainly attributable to the schemes of refinancing of assistance granted by other financial institutions. The cumulative net financial assistance (excluding guarantees) sanctioned and disbursed by the IDBI since its inception aggregated Rs. 5,391.0 crores and Rs. 3,611.7 crores, respectively, as at the end of June 1980. Total assistance outstanding on the same date was Rs. 2,397.3 crores as against Rs. 1,817.1 crores at the end of June 1979.

Direct Project Assistance

The IDBI's sanctions of direct assistance (i. e. project loans, soft loans, Technical Development Fund loans, and underwriting of and direct subscriptions to shares and debentures of industrial concerns) at Rs. 419.7 crores (to 293 applicants) during the year were higher than Rs. 381.6 crores (to 310 applicants) sanctioned during 1978-79. However, disbursements under this head declined over the year by 15.4 per cent to Rs. 217.4 crores. In case of the soft loans, on the other hand, the sanctions during the year were lower at Rs. 94.2 crores (to 77 applicants) than Rs. 106.5 crores sanctioned (to 92 applicants) during the last year, but the disbursements increased to Rs. 62.7 crores from Rs. 34.0 crores in 1978-79.

Refinance and Bills Rediscounting

Under the Refinance of Industrial Loans Scheme providing indirect assistance to small and medium scale industrial units and transport operators through SFCs, SIDCs and commercial banks, the sanctions and disbursements during 1979-80 went up sizeably by 54.3 per cent and 60.6 per cent to Rs. 624.8 crores and Rs. 410.4 crores, respectively.

Assistance sanctioned under the Bills Rediscounting Scheme amounted to Rs. 174.6 crores (benefitting 1,074 purchaser-users of machinery), Rs. 35.3 crores higher than in the previous year. Disbursements at Rs. 131.5 crores were also higher by Rs. 27.4 crores. The major beneficiaries under the scheme, industry-wise, were textile (38 per cent), engineering (17 per cent) and electricity generation and supply (8 per cent). The assistance of the order of Rs. 21.2 crores was sanctioned to public sector utilities, mainly to State Electricity Boards and State Road Transport Corporations.

Export Finance

The IDBI's sanctions (excluding guarantees) under various schemes of export finance, viz., direct loans for export, refinance of export credit, overseas buyers' credit, foreign line of credit, overseas investment finance and pre-shipment credit, registered a rise of 16 per cent from Rs. 63.6 crores in 1978-79 to Rs. 73.9 crores during 1979-80. The total export assistance disbursed during the year at Rs. 33.1 crores was higher by 57 per cent than that of Rs. 21.1 crores disbursed during the previous year. Under Foreign Lines of Credit Scheme, Rs. 15 crores to Vietnam, Rs. 5 crores each to Zambia, Malawi and Sri Lanka and Rs. 1 crore to Mozambique and an enhancement of the existing line of credit to Algeria by Rs. 10 crores were sanctioned to enable all these countries to import machinery and equipment from India. The assistance of Rs. 7.1 crores was sanctioned under Overseas

Table VIII-14 : Summary of Operations of I.D.B.I.

(Year : July-June) (Rupees Crores)

Type of Assistance	Sanctions				Cumulative sanctions since inception upto end of June 1980		Disbursements		Cumulative disbursements since inception upto end of June 1980	Amount outstanding as on June 30, 1980
	1978-79		1979-80				1978-79	1979-80		
	No. of applications	Amount	No. of applications	Amount	No. of applications	Amount	Amount	Amount		
1	2	3	4	5	6	7	8	9	10	11
1. Direct loans to industrial concerns (other than for exports)	252	354.6	244	381.2	1212	1623.7	250.6	209.7	979.6	860.8
2. Underwriting of and direct subscriptions to shares and debentures of industrial concerns	58	27.0	49	38.5	472	183.7	6.3	7.7	73.5	63.3
3. Refinance of industrial loans	28952	404.8	54167	624.8	129305	1900.7	255.6	410.4	1302.4	778.8
4. Rediscounting of bills	951	139.3	1074	174.6	4073	1095.1	104.1	131.5	853.3	406.6
5. Seed capital through SIDCs	36	1.4	35	1.4	93	3.5	0.7	0.9	1.6	1.6
6. Total Export Finance	31	63.6	41	73.9	292	389.9	21.1	33.1	208.3	115.8
7. Subscriptions to shares and bonds of financial institutions	20	39.0	20	40.0	31	194.4	41.3	41.6	193.0	170.4
Total (1 to 7)	**30300**	**1029.7**	**55630**	**1334.4**	**135478**	**5391.0**	**679.7**	**834.9**	**3611.7**	**2397.3**
8. Guarantees for loans and deferred payments	—	—	—	—	15	26.7	—	—	19.5*	—
9. Export guarantees	107	64.9	103	100.1	277	261.6	60.5*	93.2*	235.0*	—

* Guarantees executed.

Notes : 1. The number of applications in respect of item 4 relates to the number of purchaser - users and in respect of item 7 to the number of financial institutions.

2. In case of Bills Rediscounting Scheme, amount sanctioned represents face value of bills rediscounted, while amount utilised indicates the net disbursements after deduction of discount charges from the face value of the bill.

Table VIII-15 : Structure of I.D.B.I.'s Interest Rates

(Per cent per annum)

	Old Rate		Revised Rate from 1-7-1980			
	IDBI Rate	Ceiling on Primary Lenders' Rate	IDBI Rate			Ceiling on Primary Lenders' Rate
			Direct Lending	Indirect Lending		
				Banks	SFCs/ SIDCs	
1. Direct loans to industrial concerns (other than for exports)						
(a) Normal	11.00	—	11.85	—	—	—
(b) Concessional rate to units in specified backward districts	9.50	—	10.25	—	—	—
(c) Soft Loan	7.50	—	8.10	—	—	—
(d) Technical Development Fund :						
(i) Normal	11.00	—	11.85	—	—	—
(ii) Concessional rate to backward area units	10.00	—	—	—	—	—
2. Refinance of industrial loans						
(a) Normal	9.00	12.50	—	9.00	10.00	13.50
(b) Special rates						
(i) Units in specified backward districts	6.00	9.50	—	6.00	6.75	10.25
(ii) Small-scale industries (SSI) covered under the Credit Guarantee Scheme (CGS) and Technician Entrepreneurs Scheme (TES) and loans upto Rs. 5 lakhs to fishing units	7.50	11.00	—	7.50	8.35	11.85
(iii) Single truck operators covered by the guarantee of DICGC	8.00	11.50	—	8.00	8.90	12.40
(iv) SRF 1978						
(a) Loans for amounts upto Rs. 25,000 (Service charge)	1.00	2.00	—	—	—	—
(b) Loans for amounts exceeding Rs. 25,000	6.00	7.50	—	—	—	—
(v) Units promoted by persons belonging to Scheduled Caste/Tribes (upto Rs. 25,000 per unit)	6.00	9.50	—	6.00	6.75	10.25
(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	—	—	8.60	12.10
(ii) Other cases	8.75	12.00	—	—	9.45	12.70
3. Rediscounting of machinery bills unexpired usance of bills/promissory notes						
A. Normal						
(a) 6 months to 36 months	9.50	11.50	—	9.50	—	11.30
(b) Over 36 months and upto 84 months	9.00	10.00	—	9.00	—	10.75
B. Small-scale sector (seller and/or purchaser)						
(a) 6 months to 36 months	8.75	10.00	—	8.75	—	10.75
(b) Over 36 months and upto 84 months	8.25	9.50	—	8.25	—	10.25
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	—	7.25	—	9.00
(b) Over 36 months and upto 84 months	6.75	7.75	—	6.75	—	8.50
4. Export Credit						
(a) Refinance against medium-term export credit	6.50	8.00	—	6.50	—	8.65
(b) Overseas investment finance	11.00	—	11.85	—	—	—
(c) Pre-shipment credit	11.00	—	11.85	—	—	—
(d) 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 on the entire credit is generally 7.50 per cent.		The rate of 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 on the entire credit is generally 8.10 per cent.			

* Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu and Kashmir, Sikkim and Himachal Pradesh and Union Territories of Arunachal Pradesh and Mizoram. These rates will also apply to the Uttar Pradesh SRTC in respect of purchases of chassis,/machinery for the operation in the districts of Almora, Chamoli, Dehradun, Nainital, Pithoragarh, Pauri Garhwal, Tehri Garhwal and Uttar Kashi.

Investment Finance Scheme to facilitate Indian participation in the equity of eleven overseas joint ventures. Six direct loans for an aggregate amount of Rs. 18.1 crores were sanctioned for export of machinery.

Assistance to Backward Areas

The assistance sanctioned to units in the specified backward areas by way of direct assistance and indirect assistance through refinance and bills rediscounting schemes aggregated Rs. 584.3 crores in 1979-80 which was substantially higher than Rs. 364.3 crores sanctioned in 1978-79. However, disbursements on this account were lower at Rs. 306.7 crores than those of Rs. 313.6 crores in 1978-79. Out of this, the assistance sanctioned and disbursed on concessional terms amounted to Rs. 308.3 crores and Rs. 195.9 crores during 1979-80 as compared to Rs. 263.2 crores and Rs. 176.0 crores, respectively, during the previous year.

Assistance to Small-Scale Industries

The total assistance sanctioned to small-scale industries and small road transport operators increased from Rs. 303.0 crores covering 28,144 applications in 1978-79 to Rs. 467.0 crores covering 53,259 applications during 1979-80. Of this, assistance to the tune of Rs. 440.5 crores was sanctioned under Refinance of Industrial Loans Scheme. The increase of Rs. 153.9 crores in the sanctions over the year under this scheme was largely brought about by the accelerated operation of Automatic Refinance Scheme which was introduced from July 1, 1978 for loans upto Rs. 5 lakhs.

The interest rate structure of the IDBI for various direct and indirect financial facilities remained unchanged during the year under review. But, following the imposition of interest-tax on interest received by all-India industrial finance institutions in the Union Budget for 1980-81, the interest rates have been revised effective from July 1, 1980. The new rates along with the old ones are shown in Table VIII—15.

To strengthen the resources position of other public financial institutions, the IDBI subscribed during the year a sum of Rs. 30.0 crores to the bond issues of the ICICI as IDBI's support for their participation in the Soft Loan Scheme, Rs. 1.3 crores to IFCI's right issues of shares and Rs. 10.4 crores to the share capital (inclusive of special capital of Rs. 1.1 crores) of 18 SFCs.

(ii) The Industrial Finance Corporation of India

The financial assistance sanctioned by the Industrial Finance Corporation of India (IFCI) during 1979-80 (April-March) remained at the previous year's level of Rs. 138.5 crores. The assistance disbursed, however, increased from Rs. 73.5 crores in 1978-79 to Rs. 91.2 crores in 1979-80 (Table VIII—16).

About two-thirds of the total assistance was sanctioned to industries of high national priority such as fertilisers, power generation, cement, paper, etc. During the year, the Corporation sanctioned assistance of Rs. 56.3 crores to 85 projects in specified backward districts as against Rs. 69.6 crores to 93 projects sanctioned during 1978-79. Disbursements to projects in these areas amounted to Rs. 46.9 crores, marginally lower than Rs. 47.3 crores disbursed during the previous year.

In the term—loans sanctioned by the Corporation, which at Rs. 128.4 crores were slightly lower than Rs. 129.1 crores during 1978-79, the share of newly established companies at Rs. 42.5 crores declined by Rs. 7.7 crores and that of existing companies at Rs. 85.9 crores increased by Rs. 7.0 crores. In the disbursements of term—loans, which at Rs. 89.0 crores were higher by Rs. 20.1 crores, newly established companies accounted for Rs. 33.6 crores and existing companies for the balance, consisting of Rs. 17.3 crores for new projects and Rs. 38.1 crores for expansion and modernisation purposes.

The IFCI sanctioned assistance of Rs. 44.4 crores to 89 projects under the Soft Loan Scheme. With this, the total assistance sanctioned by IFCI under this Scheme since its inception amounted to Rs. 99.2 crores to 199 projects as on March 31, 1980.

The cumulative financial assistance sanctioned and disbursed (including guarantees issued)

Table VIII-16 : Financial Assistance Sanctioned and Disbursed by the IFCI

(Year : April-March) (Rupees Crores)

Type of Assistance	1978-79		1979-80		Cumulative Assistance as at the end of March 1980	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1. Rupee Loans	119.0	65.6**	118.9	81.9**	802.4**	609.1**
2. Foreign Currency Loans ..	10.4*	3.4	9.5	7.2	111.8*	91.5*
3. Underwriting and Direct Subscriptions	9.1	4.5	10.1	2.1	77.3	42.4
(*i*) Ordinary and Preference Shares	8.4	4.5	9.1	2.0	63.0	31.6
(*ii*) Debentures	0.7	—	1.0	0.1	14.3	10.8
**Total .. **	**138.5**	**73.5**	**138.5**	**91.2**	**991.5**	**743.0**

* Includes foreign loan guarantees.
** Includes deferred payment guarantees.

by the Corporation upto March 31, 1980 aggregated Rs. 991.5 crores and Rs. 743.0 crores, respectively, covering 1,206 projects.

The Risk Capital Foundation (RCF) established by the IFCI to provide seed capital assistance to new and technocrat entrepreneurs in 1975, sanctioned assistance of Rs. 56.4 lakhs to 12 such promoters of 7 projects during the year 1979-80. The assistance sanctioned and disbursed by RCF since the commencement of the Scheme totalled Rs. 150.2 lakhs to 39 promoters of 23 projects, and Rs. 115.4 lakhs, respectively.

During the year, the IFCI raised funds by issue of bonds in two tranches of Rs. 34·9 crores and Rs. 40.1 crores in August 1979 and December 1979, respectively. The Corporation's total outstanding bonds aggregated Rs. 339.8 crores as at the end of March 31, 1980. The Central Government made available to the Corporation Rs. 0.7 crore representing the loan portion of 'Interest Differential Funds' under the Kreditanstalt—fur—Wiederaufbau, (KfW) West Germany, line of credit. The IFCI received a further allocation of DM 10 million from the KfW being the 18th line of credit under the Inter-Governmental Agreement. With this allocation, the total credit from KfW to the Corporation amounted to DM 212.5 million. As on March 31, 1980, the IFCI's cumulative disbursements amounted to DM 164.7 million. Under the Indo-Swedish Development Cooperation Agreement, 1979, the Corporation was granted a further allocation of Sw. Kr. 25 million bringing the total allocations made so far to Sw. Kr. 75 million; as on March 31, 1980 cumulative disbursements under this stood at Sw. Kr. 25.2 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. 212.4 crores and Rs. 136.8 crores, respectively during April 1979—March 1980. The sanctions were higher by 16.2 per cent and disbursement by 25.3 per cent than those in the preceding year (Table VIII—17). During the year under review, while the increase in assistance sanctioned was largely on account of foreign currency loans which at Rs. 73.3 crores showed a rise of Rs. 21.6 crores, the increase in the assistance disbursed resulted from the rise of Rs. 26.8 crores in rupee loans to Rs. 93.5 crores.

The increased assistance was largely claimed by existing companies. The loan sanctioned to newly established companies at Rs. 42.1 crores was almost at the last year's level, while disbursements to such companies

Table VIII-17 : Financial Assistance Sanctioned and Disbursed by the ICICI

(Year : April-March) (Rupees Crores)

Type of Assistance	1978-79		1979-80		Cumulative Assistance as at the end of March 1980	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1. Rupee Loans*	117.7	66.7	124.9	93.5	520.3	324.8
2. Foreign Currency Loans ..	51.7	35.0	73.3	34.2	633.1	522.6
3. Underwriting and Direct Subscriptions	13.4	7.5	14.2	9.1	143.4	84.0
(*i*) Ordinary and Preference Shares	11.2	5.0	11.1	2.6	96.0	48.9
(*ii*) Debentures	2.2	2.5	3.1	6.5	47.4	35.1
**Total .. .. ..

Table VIII-18 : Assistance Sanctioned and Disbursed by the LIC

(Year: April-March) (Rupees Crores)

Type of Assistance	1978-79		1979-80		Cumulative Assistance as at the end of March 1980	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1. Loans	52.3	23.1	38.7*	54.6*	334.3	251.5
2. Underwriting and Direct Subscriptions	13.2	8.6	24.1	16.3	256.7	188.0
(*i*) Ordinary and Preference Shares	6.8	4.5	6.2	4.9	112.9	87.0
(*ii*) Debentures..	6.4	4.1	17.9	11.4	143.8	101.0
Total ..	**65.5**	**31.7**	**62.8**	**70.9**	**591.0**	**439.5**

* Include short-term loans also.

Table VIII-19 : Investments by Life Insurance Corporation of India

(Rupees Crores)

Sectors	As at the end of March 31		Net during April-March	
	1979	1980	1978-79	1979-80
1. Public Sector	3411.85	3915.49	377.93	503.64
2. Co-operative Sector	527.79	602.11	60.20	74.32
3. Private Sector	648.00	770.07	136.40	122.07
Total	**4587.64**	**5287.67**	**574.53**	**700.03**
Of which: *				
(*i*) Stock Exchange Securities	2733.82	3113.35	316.87	379.53
(*ii*) Loans	1853.07	2173.57	257.66	320.50

* LIC's investment of Rs. 75 lakhs in the initial capital of UTI is not included.

Table VIII-20 : Trends in Operations of the U.T.I.@

(Rupees Crores)

Year (July-June)	Units Sold (Face Value)	Units Re-purchased (Face Value)	Units Out-standing at the end of the year (Face Value)	Investible Funds of the Trust at the end of the year	Investments in Shares and Debentures at the end of the year	Dividend Rate for Unit Holders of the Unit Scheme 1964 (per cent)
1976-77..	34.6	8.0	193.3	214.4	177.1	9.00
1977-78..	73.3	11.2	255.4	288.2	193.0	9.00
1978-79..	101.5	9.5	347.5	402.4	219.8	9.00
1979-80.. .. .. (Provisional)	57.9	14.4	390.9	467.0	254.9	10.00

@ Covers Unit Schemes 1964, 1971 and 1976.

Source: Unit Trust of India.

troduced in 1979-80, a new facility of short-term loans to companies under which loans up to Rs. 50 lakhs per company are given for a period not exceeding one year at a net rate of interest of 16 per cent. The assistance disbursed was, however, higher by Rs. 39.2 crores at Rs. 70.9 crores (Table VIII—18). The assistance by way of underwriting and direct subscriptions to shares and debentures recorded an impressive increase; sanctions rising to Rs. 24.1 crores in 1979-80 from Rs. 13.2 crores in 1978-79 and disbursements to Rs. 16.3 crores from Rs. 8.6 crores. While sanctions and disbursements for shares were more or less maintained at the last year's level largely due to firm allotments by companies diluting foreign equity holdings, those for debentures increased on account of subscriptions to rights debentures.

LIC's Investments

During 1979-80, the aggregate investments of the Corporation increased by Rs. 700 crores. It's total outstanding investments were Rs. 5,287.6 crores as at the end of March 1980, comprising mainly investment in stock exchange securities of Rs. 3,113.3 crores and loans of Rs. 2,173.6 crores (Table VIII—19). Sector-wise investments in public and co-operative sectors at Rs. 3,915.5 crores and Rs. 602.1 crores, respectively, recorded higher increases during the year than in the previous year. Investment in the private sector at Rs. 770.1 crores showed a smaller rise of 122.1 crores than that of Rs. 136.4 crores during 1978-79.

Rate of Interest

During the year, while the rate of interest charged by the LIC on term—loans sanctioned in consortium with other public financial institutions remained unchanged at 11 per cent per annum, that on term—loans sanctioned by the LIC alone was raised from 12 per cent to 13 per cent. For short term loans the Corporation charges 16 per cent (net) per annum.

(v) The Unit Trust of India

After recording impressive growth in the last two years, sales of units suffered a set-back during 1979-80 (July-June). The total sales of units under the Unit Scheme 1964 and the Unit Scheme 1971 (Unit Linked Insurance Plan) aggregated Rs. 57.9 crores, 43.0 per cent lower than the sales of Rs. 101.5 crores in 1978-79 (Table VIII—20). Sales of units under Unit Scheme, 1976 continued to remain suspended.

The set-back was in the sales of units under the Unit Scheme 1964, which declined by 49.1 per cent from Rs. 96.1 crores in 1978-79 to Rs. 48.9 crores in 1979-80. The upward revision in the interest rates on bank deposits and on small saving schemes in September/ October 1979, taken together with the withdrawal in 1979-80 Union Budget of the tax exemption of capital gains which was available under section 54E of the Income Tax Act were mainly responsible for the set-back in the sales in 1979-80. Repurchases of units at Rs. 14.4 crores during 1979-80 were 51.6 per cent higher than those of Rs. 9.5 crores in the previous year.

On the other hand, the sales under the Unit Linked Insurance Plan 1971—a Plan which provides for a regular investment in units for a period of 10 years with added benefit of insurance cover—recorded improved performance; 38,313 members joined the plan for a total target amount of Rs. 39.0 crores during the year, as against 34,576 members for a target amount of Rs. 34.5 crores in the previous year.

Net sales of units under all the schemes amounted to Rs. 43.5 crores during 1979-80 as against Rs. 92.0 crores last year. As on June 30, 1980 units outstanding with the public amounted to Rs. 390.9 crores; of these about Rs. 365.5 crores were under the Unit Scheme 1964; unit—holding accounts being about 10 lakhs.

For the year 1979-80, the Trust stepped up the rate of dividend to 10 per cent under the Unit Scheme 1964 and 8.5 per cent under the Unit Scheme, 1971 from 9 per cent and 8 per cent, respectively for 1978-79. For the Unit Scheme 1976, the dividend was maintained at 3 per cent.

As at the end of June 1980, total investible funds of the Trust amounted to Rs. 467.0

crores. Of this, Rs. 126.8 crores or 27.2 per cent were invested in equity shares, Rs. 15.9 crores or 3.4 per cent in preference shares and Rs. 112.3 crores or 24.0 per cent in debentures. The remaining amount of Rs. 212.1 crores or 45.4 per cent was invested mainly in call deposits with banks, advance deposits against investment commitments and fixed deposits with companies.

(vi) The Industrial Reconstruction Corporation of India Ltd.

Assistance sanctioned by the Industrial Reconstruction Corporation of India Ltd. (IRCI) increased by 43.9 per cent to Rs. 15.4 crores during 1979-80 (April-March) from Rs. 10.7 crores in 1978-79. Disbursements, however, were marginally lower at Rs. 12.5 crores than those of Rs. 12.6 crores in 1978-79. The cumulative sanctions and disbursements since the inception of the IRCI in 1971 aggregated Rs. 78.5 crores and Rs. 65.9 crores, respectively at the end of March 1980 (Table VIII—21). Over the year the Corporation's assistance sanctioned to projects located in specified backward areas increased from Rs. 29 lakhs to Rs. 47 lakhs, but disbursements at Rs. 52 lakhs were substantially lower by Rs. 64 lakhs. Assistance sanctioned to projects in the small-scale industrial sector also increased from Rs. 17 lakhs in 1978-79 to Rs. 44 lakhs during 1979-80, but disbursements were marginally higher by rupees one lakh at Rs. 26 lakhs. The normal rate of interest charged by the IRCI on its term-loans remained unchanged at 8.5 per cent, and its concessional rates of interest to small-scale units and units located in backward areas also remained unchanged at 7.5 per cent and 7 per cent, respectively. The IRCI assisted 95 industrial concerns; of these 57 operative/reporting units upto March 1980 provided employment to 60,423 persons.

(vii) State Financial Corporations

During the year 1979-80 (April-March) the operations of State Financial Corporations (SFCs) improved significantly. The total financial assistance sanctioned and disbursed by the 18 SFCs (including the Tamil Nadu Industrial Investment Corporation Limited) increased from Rs. 200.7 crores and Rs. 135.0 crores in 1978-79 to Rs. 263.8 crores and Rs. 184.8 crores, respectively in 1979-80. The rates of growth in sanctions and disbursements worked out to 31.4 per cent and 36.9 per cent as against 21.2 per cent and 24.3 per cent, respectively in 1978-79. The total loans outstanding as on March 31, 1980 stood at Rs. 790.1 crores.

The bulk of the assistance sanctioned by the SFCs went to small-scale industries, including road transport operators. Sanctions to this sector increased over the year by Rs. 55.0 crores to Rs. 189.1 crores in 1979-80, and constituted about 71.7 per cent of the total sanctions, while disbursements increased by Rs. 37.5 crores to Rs. 130.6 crores and formed 70.7 per cent of the total disbursements.

SFCs continued to extend liberal financial assistance on concessional terms to industrial units located in specified backward areas. Assistance sanctioned to these areas rose by 22.4 per cent to Rs. 139.1 crores during 1979-80 and disbursements by 39.3 per cent to Rs. 95.0 crores.

Table VIII-21 Details of Financial Assistance Sanctioned and Disbursed by Industrial Reconstruction Corporation of India Ltd.

(Rupees Crores)

Year (April-March)	Number of Units	Amount Sanctioned	Amount Disbursed
1978-79	43	10.72	12.62
1979-80	34	15.39	12.50
Cumulative Position as at the end of March 1980	95	78.50	65.90

Note: Assistance sanctioned and disbursed are net of guarantees.

(viii) The National Small Industries Corporation

The National Small Industries Corporation (NSIC) continued to carry out its traditional activities, *viz.*, (*i*) supply of machinery and equipment to existing and prospective entrepreneurs on hire-purchase, (*ii*) providing marketing support to units in small-scale sector through its Government Purchase Programme, (*iii*) developing prototype of machines for commercial exploitation by small units and (*iv*) providing training in various trades through its Prototype Development and Training Centres. Table VIII-22 presents data on business turnover of NSIC during the last two years.

Table VIII. 22: Business Turnover of NSIC

(Rupees Crores)

Type of Activities	1978-79 (April-March)	1979-80 (April-March)
1. Value of hire purchase applications received	9.26	13.95
2. Value of machines delivered to small-scale units	1.47	4.56
3. Sales of machine tools and value of job orders executed.	0.73	0.69
4. Exports	2.03	1.05
5. Distribution of raw materials.	2.39	2.30
6. Contracts secured under Central Government Store .. Purchase Programme (Nos.)	2334	1978
(Value)	65.54	70.30
7. Training at Prototype Development and Training Centres (Number of trainees) ..	493	522

Under the hire purchase scheme the Corporation received applications for machinery worth Rs. 14.0 crores during 1979-80 as against Rs. 9.3 crores during 1978-79. The value of machines delivered to small-scale units trebled from Rs. 1.5 crores in 1978-79 to Rs. 4.6 crores in 1979-80. The value of contracts secured for small-scale units by the NSIC under the Government Store Purchase Programme aggregated Rs. 70.3 crores during the year under review as against Rs. 65.5 crores last year. The machine tools sold and job orders executed through Prototype Development and Training Centres were at Rs. 69 lakhs lower than Rs. 73 lakhs in 1978-79.

(ix) The National Industrial Development Corporation Limited

The National Industrial Development Corporation Ltd. (NIDC), set up in 1954 for the promotion and development of industries in the country, has been rendering consultancy services which are made use of by Central and State Governments and public and private sector enterprises both in India and abroad. The important assignments in India completed by the NIDC during 1978-79 included consultancy service for the establishment of a coal handling plant and preparation of techno-economic project report for the establishment of an optical instruments manufacturing project and fibre glass project. Project reports for setting up of an automobile radial tyre and tube plants in Liberia and for the establishment of technical consultancy organisation in Mauritius and an industrial survey of Bhutan were among the foreign assignments completed by the NIDC during 1978-79.

Apart from continuing the work on projects already on hand, including consultancy assignments in Libya, Algeria, Tanzania and Zanzibar, the NIDC took up many new projects during 1979-80. Some of the important assignments taken up during the year were detailed designs for a tractor plant and three seed processing plants, project report for a 2.5 tonnes light commercial vehicle project, supply of equipment to Vietnam for a Rice Research Institute and a Buffalo Breeding Centre and recruitment of technicians for Electricity Corporation, Benghazi, Libya. The value of consultancy services rendered by the NIDC during 1979-80 amounted to Rs. 119.5 lakhs, slightly higher than that of Rs. 116.0 lakhs in 1978-79. The net foreign exchange earned by the NIDC which increased from Rs. 14.3 lakhs in 1977-78 to Rs. 48.6 lakhs in 1978-79, further increased to Rs. 60.4 lakhs in 1979-80.

III (*i*) Financing of Small-Scale Industries by Scheduled Commercial Banks

The total credit limits in force, extended by scheduled commercial banks (other than Regional Rural Banks), and the balance out-

standing (including term-loans and advances to craftsmen and other qualified entrepreneurs) as at the end of June 1979, in respect of small-scale industries amounted to Rs. 2,999.2 crores and Rs. 2,332.8 crores respectively, showing increases of Rs. 594.1 crores and Rs. 504.2 crores during the year. The number of assisted units increased from 5.13 lakhs as at the end of June 1978 to 6.16 lakhs as at the end of June 1979 (Table VIII-23). Out of the total outstanding credit as at the end of June 1979, Rs. 79.5 crores or 3.4 per cent were outstanding against 2.79 lakhs artisans and village/cottage industries and another 181.4 crores or 7.8 per cent against 1.10 lakhs small-scale units in tiny sector.

Credit limits sanctioned to craftsmen and other qualified entrepreneurs for industrial projects in the small-scale sector aggregated higher at Rs. 141.2 crores as at the end of June 1979 than that of Rs. 100.2 crores a year ago. The outstanding credit under this head as at the end of June 1979 stood at Rs. 113.5 crores as against Rs. 81.2 crores a year ago.

Term-Loans

Term-loans (including instalment credit) sanctioned by scheduled commercial banks to small-scale industries recorded a higher rise of Rs. 71.7 crores to Rs. 432.2 crores as at the end of June 1979 than that of Rs. 53.3 crores during the previous year. The amount outstanding increased from Rs. 309.1 crores as at the end of June 1978 to Rs. 368.4 crores in June 1979.

Advances to Small Road and Water Transport Operators

Loans and advances sanctioned by scheduled commercial banks to small road and water transport operators as at the end of June 1979 amounted to Rs. 567.2 crores and the amount outstanding to Rs. 457.2 crores. The increases, over the year, in limits sanctioned and the amounts outstanding were of the order of Rs. 118.8 crores and Rs. 102.7 crores as against Rs. 80.0 crores and Rs. 56.7 crores, respectively during the preceding year.

Advances for Setting up of Industrial Estates

Credit limits sanctioned by 24 scheduled commercial banks, including 16 public sector banks, to 444 units for setting up of industrial estates aggregated Rs. 32.8 crores as at the end of June 1979 and the amount outstanding was Rs. 29.6 crores. The amount outstanding and credit limits sanctioned showed larger increases of Rs. 6.7 crores and Rs. 5.1 crores during July 1978-June 1979 than those of Rs. 1.9 crores and Rs. 2.3 crores, respectively during the preceding year.

(*ii*) Credit Guarantee Scheme for Small-Scale Industries

During 1979-80 (July-June), 28 unlicensed primary urban co-operative banks, 8 Regional Rural Banks and 4 Industrial Development Corporations were included in the list of approved credit institutions of the Credit Guarantee Scheme, taking the total number of specified credit institutions at the end of June 1980 to 793. The guarantee outstanding increased to Rs. 3,435.7 crores at the end of June 1980 from Rs. 2,994.8 crores a year ago.

As at the end of June 1980, accounts reported under default numbered 36,311 in respect of 26,226 units involving an aggregate amount of Rs. 181.2 crores, as against 33,630 accounts in respect of 23,646 units for Rs. 160.5 crores as at the end of June 1979. The amount of claims pending settlement increased from Rs. 40.1 crores constituting 25 per cent of the total advances in default at the end of June 1979 to Rs. 57.3 crores forming 31.6 per cent of the total in default as at the end of June 1980. From the inception of the Scheme to the end of June 1980, a sum of Rs. 9.2 crores were paid to the credit institutions in respect of 7,787 claims.

As recommended by the 'Working Group on Small-Scale Industries with Special reference to District Industries Centres' (Tambe Committee), the guarantee norm has been enhanced to 90 per cent in respect of loans granted upto Rs. 25,000 to artisans and village and cottage industries, subject to certain conditions. This has been done with a view to protecting the credit institutions from the risks in granting advances without insisting on margins in respect of such advances.

During the year, the Working Group set up by the Government to examine the question of integration of the Credit Guarantee Scheme for small-sacle industries and other small borrowers submitted its report. The Government has

Table VIII-23: Loans and Advances by Scheduled Commercial Banks to Small-Scale Industries, Small Road/Water Transport Operators and for Setting up of Industrial Estates

Particulars as on the last Friday of	Number of Units				Limits in Force (Rs. crores)				Balance Outstanding (Rs. crores)			
	June 1978	June 1979	Increase (3—2)	Increase between June 1977 and June 1978	June 1978	June 1979	Increase (7—6)	Increase between June 1977 and June 1978	June 1978	June 1979	Increase (11—10)	Increase between June 1977 and June 1978
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Small-scale industries ..	513,323 (100,561)	615,717 (103,239)	102,394 (2,678)	68,047 (13,532)	2,405.1 (360.5)	2,999.2 (432.2)	594.1 (71.7)	323.7 (53.3)	1,828.6 (309.1)	2,332.8 (368.4)	504.2 (59.3)	365.8 (51.6)
Of which to *												
(*i*) Artisans and village/ cottage industries ..	—	279,475	—	—	—	96.9	—	—	—	79.5	—	—
(*ii*) Tiny sector units ..	—	110,353	—	—	—	211.0	—	—	—	181.4	—	—
II. Small road and water transport operators ..	208,625	246,767	38,142	28,778	448.4	567.2	118.8	80.0	354.5	457.2	102.7	56.7
III. For setting up of Industrial Estates	143	444	301	39	27.7	32.8	5.1	2.3	22.9	29.6	6.7	1.9

*Separate data in respect of these sectors are being collected since March 1979 only.

Note: 1. Data are provisional.
2. Data in brackets relate to term-loans including instalment credit.

since accepted the recommendation of the Group to integrate the Cerdit Gauarantee Scheme for small-scale industries with the credit guarantee facilities for loans to small borrowers provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC).

IV. Investment in Private Corporate Sector

The trends in issuance of letters of intent and industrial licences, approvals of foreign collaboration agreements and grant of import licences for capital goods and heavy electrical plants indicate an overall improvement in the private corporate sector investment climate during the year under review.

The number of letters of intent and industrial licences issued in 1979 increased from 440 and 348 in 1978 to 550 and 365, respectively (Table VIII-24). The uptrend has continued in 1980 also with the number of letters of intent and industrial licences issued during January-June 1980 being higher by 88 and 27, respectively than those issued during the same period last year. The number of foreign collaboration approvals at 267 during 1979 was lower than that of 307 in 1978, but in the first half of 1980 such approvals, numbering 182, were substantially higher than the 108 approvals granted during January-June 1979. The value of import licences for capital goods and heavy electrical plants issued to the private sector at Rs. 285 crores during 1979-80 (April-March) were also 25.6 per cent larger than that of Rs. 227 crores during 1978-79 (Table VIII-25).

Table VIII-24 Trends in Issue of Letters of Intent, Industrial Licences and Foreign Collaboration Approvals

(Numbers)

Year	Letters of Intent	Industrial Licences	Foreign Collaboration Approvals
1	2	3	4
1977	533	518	267
1978	440	348	307
1979	550	365	267
January-June			
1979	196	164	108
1980	284	191	182

Source: Ministry of Industry, Government of India.

Table VIII-25 : Trends in Import Licences for Capital Goods/Heavy Electrical Plants

(Rupees Crores)

Year (April-March)	Value of Import Licences		
	Government	Private	Total
1	2	3	4
1977-78	352 (—5.1)	170 (+22.3)	522 (+2.4)
1978-79	334 (—5.1)	227 (+33.5)	561 (+7.5)
1979-80	452 (+35.3)	285 (+25.6)	737 (+31.4)

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

Source : Chief Controller of Imports and Exports.

Chapter IX

Developments in Foreign Trade

Trends in India's Foreign Trade—1979-80

Overall Trends

India's foreign merchandise trade account in 1979-80 (April-March) showed a progressive deterioration for the third year in succession. After a modest surplus of Rs. 72 crores in 1976-77, the merchandise trade recorded a deficit of Rs. 621 crores in 1977-78 which widened to Rs. 1,088 crores in 1978-79 and further sharply to Rs. 2,262 crores (provisional DGCI & S data) in 1979-80. The deterioration in 1979-80 resulted from a steep rise in imports, which was almost thrice that in exports. Imports aggregated Rs. 8,687 crores showing a rise of Rs. 1,873 crores or 27.5 per cent over the year, as compared with a rise of Rs. 789 crores or 13.0 per cent to Rs. 6,814 crores in 1978-79, and of Rs. 951 crores or 18.7 per cent to Rs. 6,025 crores in 1977-78. The faster growth in 1979-80 was basically accounted for by higher outlays on petroleum crude and products, and other allied products consequent upon the large mark-up in crude oil prices. Aggregate exports (including re-exports) amounted to Rs. 6,425 crores, an increase of Rs. 699 crores or 12.2 per cent over the year, as against a rise of Rs. 322 crores or 6 per cent to Rs. 5,726 crores in 1978-79 and of Rs. 258 crores or 5.0 per cent to Rs. 5,404 crores in 1977-78.

The step-up in the export growth during the year under review is noteworthy in the context of the persistence of the unfavourable international trading environment characterised by sluggish growth in output, rising inflation and unemployment and the accompanying intensification of restrictive trading practices in the industrial countries, on the one hand, and the domestic constraints on production and export activities issuing from infrastructure bottlenecks and shortages of basic inputs on the other. But the performance during the year was modest indeed as compared with the average growth of 34.7 per cent during the period 1973-74 to 1976-77. Further, the rate of growth in Indian exports continued to remain significantly below the growth rate in world exports. According to the Direction of Trade, a publication of the IMF, world exports, measured in US dollars, rose by 16.2 per cent in 1978 and by 25.7 per cent in 1979, whereas India's exports during this period, in U.S. dollar terms, increased by 10.6 per cent and 14.0 per cent, respectively. In the result, India's share in world exports, which had moved down steadily over the years to 0.62 per cent in 1976, fell further down to 0.58 per cent in 1978 and to 0.52 per cent in 1979. India's terms of trade have also deteriorated during the last two years. The net terms of trade, which had improved from a low of 70 in 1975-76 to 95 in 1977-78, dropped to 90 per cent in 1978-79. Further deterioration took place in 1979-80 though data on precise terms of trade are not yet available for the year. Under these circumstances and in view of the rising prices of crude oil, India's foreign trade policy was increasingly geared towards the attainment of the twin objectives of strengthening and diversifying the industrial production base and promotion of export efforts.

Exports

Official data on commodity-wise exports are available for the first three quarters (April-December) of the year 1979-80 and these are presented in Table IX-I. Supplementing these data with information on export outturn of some of the major commodities periodically released by the export promotion councils, commodity boards and other representative associations of exporters, the broad trends in export performance of some of the major commodities during 1979-80 as a whole are briefly indicated below.

According to the data released by the Engineering Export Promotion Council, exports of engineering goods during 1979-80 amounted to Rs. 650 crores, 9 per cent lower

Table IX-1: India's Commodity-wise Exports

(Rs. Crores)

Commodities	1974-75	1975-76	1976-77	1977-78	1978-79	April-December		Increase (+)/ Decrease (—) of Col. 8 over Col. 7	
						1978	1979	Actual	Percentage
1	2	3	4	5	6	7	8	9	10
A. Major Non-traditional Items									
Engineering goods	300	357	454	531	699	459@	371@	—88	—19.2
Iron and Steel	88	122	398	280	222	168	74	—94	—56.0
Iron ore	160	214	238	241	233	146	186	+40	+27.4
Chemicals and allied products	104	91	119	125	146	107	123	+16	+15.0
Silver (bullion bar)	78	174	151	75	94	82	2	—80	—97.6
Rice	22	13	6	11	39	33	72	+39	+118.2
Total of 'A'	**752**	**971**	**1,366**	**1,263**	**1,433**	**995**	**828**	**—167**	**—16.8**
B. Other Items									
Jute yarn and manufactures	297	251	201	245	166	144	187	+ 43	+29.9
Cotton yarn and manufactures	240	225	367	341	244	167	214	+ 47	+28.7
Tea	228	237	293	555	340	260	199	— 61	—23.5
Hides, skins, leather and leather manufactures†	169	232	309	292	354	237	346	+109	+46.0
Cashew kernels	118	96	106	150	80	60	90	+ 30	+50.0
Oilcakes	96	86	224	133	116	57	112	+ 55	+96.5
Pearls, precious and semi-precious stones, unworked/worked	98	149	287	546	711	540	303	—237	—43.9
Spices	61	72	75	137	148	84	98	+ 14	+16.7
Fish and fish preparations	66	127	181	174	224	152	182	+ 30	+19.7
Sugar	339	473	148	17	136	94*	96*	+ 2	+ 2.1
Coffee	51	67	126	191	145	118	120	+ 2	+ 1.7
Manganese ore	17	18	19	11	15	12	11	— 1	— 8.3
Tobacco (unmanufactured)	80	93	97	113	111	98	93	— 5	— 5.1
Cotton, raw and waste	17	47	39	4	16	2	48	+ 46	+2300.0
Clothing	138	203	333	329	421	283	311	+ 28	+ 9.9
Crude animal and vegetable materials, (n.e.s.)£	117	87	110	129	127	87	84	— 3	—3.4
Total of 'B'	**2,132**	**2,463**	**2,915**	**3,367**	**3,354**	**2,395**	**2,494**	**+100**	**+ 4.2**
Total of 'A' + 'B'	**2,884**	**3,434**	**4,281**	**4,630**	**4,787**	**3,390**	**3,322**	**—67**	**— 2.0**
Total including others	**3,329**	**4,036**	**5,142**	**5,373**	**5,726**	**4,105**	**4,372**	**+267**	**+ 6.5**

Notes: 1. Aggregate exports have been further revised upwards to Rs. 4,043 crores for 1975-76, Rs. 5,146 crores for 1976-77 and Rs. 5,494 crores for 1977-78. Full commodity details of the revised aggregate exports are not available.

2. Data for the years 1974-75 to 1977-78 are based on the DGCI&S classifications and those for the subsequent period are taken from the Annual Report of the Ministry of Commerce and Civil Supplies-1979-80.

@ Data released by the Engineering Export Promotion Council.

† Due to difference in coverage of items, data for 1978-79 are not strictly comparable with those for the earlier years.

£ Includes lacs, gums, resins, etc.

* Includes sugar and sugar preparations.

Source: 1. D.G.C.I.&S.

2. Annual Report of the Ministry of Commerce and Civil Supplies-1979-80.

than in 1978-79. The over-the-year decline was sharply contrasted with the annual average growth of 25 per cent recorded in the preceding three years, and was attributed by the Council to a variety of domestic constraints such as shortage of power, coal and other key inputs (e.g. steel, aluminium) and transport and shipping bottlenecks. Gems and jewellery, which emerged as the largest export earner in 1978-79, was the other major commodity group which suffered a setback in export activity during 1979-80. According to the DGCI&S data, exports of these items rose rapidly from Rs. 98 crores in 1974-75 to Rs. 546 crores in 1977-78 and further to Rs. 711 crores in 1978-79. But during April-December 1979 these exports amounted to Rs. 303 crores, two-fifths lower than those of Rs. 540 crores in the corresponding period of 1978-79. According to an estimate of the Gems and Jewellery Export Promotion Council, exports of these items during the full year dropped by 18 per cent to Rs. 599 crores from the estimated level of Rs. 727 crores in 1978-79. The setback is attributable to the slump in overseas demand brought about by a variety of factors such as higher prices of final products consequent upon the sharp mark-up in the prices of roughs, subdued tempo of economic activity and rising inflation in the industrially advanced countries. Exports of sugar which are canalised through the State Trading Corporation, are placed at Rs. 129 crores during 1979-80, close to the level of Rs. 132 crores in 1978-79, thanks to the firming up of sugar prices in overseas markets, the quantity exported having dropped following the emergence of domestic shortages to 5.8 lakh tonnes from 7.4 lakh tonnes in 1978-79. Aided by plentiful domestic supplies, sugar exports rose sharply in terms of quantity during 1978-79 to 7.4 lakh tonnes from barely 70,000 tonnes in 1977-78 and exceeded the quota of 6.5 lakh tonnes allotted to India under the International Sugar Agreement.

The more important commodities which showed significant increases in exports during 1979-80 were leather and leather manufactures, tea, cotton textiles, jute goods, fish and fish preparations, cashew kernels and coffee. Exports of leather and leather manufactures rose during the year, according to the data released by the Leather Export Promotion Council, by some 29 per cent to Rs. 425 crores; finished leather and leather goods mainly accounted for the increase, in conformity with the increasing facilities and encouragement given by the Government for the promotion of export of high value-added items and conservation of raw and semi-processed hides and skins for production of finished goods.

In the case of tea, the quantity exported during the year is estimated to have gone up by some 22 per cent over last year's level of 172 million kgs. But the annual average price of tea dipped in the London market from the peak of 146 pence per kg. in 1977-78 to 110 pence per kg. in 1978-79 and further down to 101 pence per kg. in 1979-80. In the net result, exports of tea during the year are placed in terms of value at some 9 per cent higher over the previous year's level of Rs. 340 crores.

Exports of cotton textiles are estimated to have risen over the year by some 13 per cent from the preceding year's level of Rs. 244 crores, primarily because of a better export performance of cotton fabrics both in terms of quantity and unit values. Exports of jute manufactures which suffered a sharp setback during 1978-79 following the prolonged strike by bargemen at Calcutta and the strike by mill workers in the latter half of the year, are reported to have recovered impressively during the year under review. With a significant broadening of the overseas demand, consequent upon the rise in the cost of oil-based synthetic substitutes, exports of jute goods in value terms are estimated to have gone up over the year by some Rs. 100 crores to Rs. 275 crores. The improved competitiveness of jute goods vis-a-vis synthetic substitutes led both to a sharp rise in the quantity exported and to a further mark-up in unit values.

Exports of marine products also grew, but at a much more subdued pace than in the preceding years. Exports of fish and fish preparations which registered an increase of 29 per cent to Rs. 224 crores in 1978-79, are reported to have risen by some 10 per cent during 1979-80 because of higher unit values, the quantity exported being reportedly marginally lower on account of drop in the offtake of shrimps, frozen frog legs, frozen lobster and dried fish.

Exports of cashew kernels, which had declined sharply from Rs. 150 crores in 1977-78

to Rs. 80 crores in 1978-79 because of the lower availability of raw nuts from the East African countries and the reduced offtake by the USSR, are estimated higher around Rs. 120 crores in 1979-80. With improved supplies of imported raw nuts from the non-traditional sources like Tanzania and the higher offtake by the USSR and the USA, the quantity of cashew kernels exported went up over the year from 27,000 tonnes to 38,000 tonnes.

Coffee exports in value terms are reported to be higher by 23 per cent to Rs. 178 crores, despite a drop in the quantity exported from 66.125 tonnes in 1978-79 to 62,000 tonnes. The improvement in export value over the year reflected the increase in the international price of coffee. Coffee prices in the London market, which slumped from an annual average of £2,395 per tonne in 1977-78 to £1,529 per tonne in 1978-79, recovered partially to £1,713 per tonne in 1979-80.

Exports of spices also appear to have done somewhat better than that in last year. While earnings from cardamom are expected to be higher, the offtake of pepper is reportedly lower due to a weakening of the external demand for Indian pepper on account of higher domestic prices. Exports of oilcakes during the first nine months nearly doubled to Rs. 112 crores from Rs. 57 crores in the same period last year. Subsequently, with the emergence of an acute domestic shortage of cattle feed, a ban was imposed on the export of oilcakes; the export of all varieties of expeller cakes, other than cotton seed expeller cakes, was banned on November 23, 1979 and that of cotton seed expeller cakes on December 22, 1979.

Imports

The rising trend in imports since 1977-78 gained added momentum during 1979-80 and the aggregate import bill shot up over the year by 27.5 per cent to Rs. 8,687 crores, as against a rise of 13.0 per cent in 1978-79 and of 18.7 per cent in 1977-78. A major part of the increase in imports during the year was on account of higher outlays on petroleum crude and products and related commodities like fertilisers. According to an official estimate* the import bill on account of P.O.L. items alone during 1979-80 is placed around Rs. 3,145 crores, an increase of Rs. 1,468 crores over the year. As a result, the share of P.O.L. items in the total import bill is estimated to have gone up from 10.9 per cent in 1972-73—the year preceding the first dose of increase in crude oil prices—to 36.7 per cent in 1979-80. Larger outlay on import of edible oils and higher prices of imports in general were the other important factors contributing to the rise in the import bill. In the preceding two years the growth in imports was spread over a large number of items (as is seen from the commodity-wise details of imports for the full year 1978-79 which are now available and are also set out in Table IX-2) in the wake of the liberalisation of the import policy and the need to import larger quantities of certain essential commodities in short supply.

Commodity-wise import data which are available for the nine months (April-December) of the year are provided in Table IX-2. During the nine months ended December 1979 imports advanced by Rs. 726 crores or by 14.8 per cent, as against a rise of Rs. 413 crores or 9.2 per cent during April-December 1978. P.O.L. items, which at Rs. 1,860 crores were higher by Rs. 638 crores than those in the corresponding period of the previous year, accounted for most of the increase. The other major items that contributed to the increase in the import bill were iron and steel (Rs. 152 crores), crude and regenerated rubber (Rs. 44 crores) and paper and paper boards (Rs. 41 crores). At the same time, import payments on account of a few other major items declined over the same period and these included vegetable oils (Rs. 145 crores), pearls, precious and semi-precious stones (Rs. 118 crores), machinery, non-electric (Rs. 108 crores), man-made fibres (Rs. 87 crores), transport equipment (Rs. 47 crores) and manufactured fertilisers (Rs. 40 crores).

Direction of Trade

Data on the direction of India's foreign trade—only for the aggregate exports and imports and not commodity-wise—are also available for the first three quarters of 1979-80. The directional pattern of India's foreign trade by major groups of countries and re-

* Report of the Ministry of Commerce and Civil Supplies, 1979-80.

Table IX-2 : India's Principal Imports

(Rs. Crores)

Commodities	1974-75	1975-76	1976-77	1977-78	1978-79	April-December		Increase (+)/ Decrease (—) of Col. 8 over Col. 7	
						1978	1979	Actual	Percentage
1	2	3	4	5	6	7	8	9	10
1. Food (excluding cashewnuts)	818	1,395	938	214	237	*	*	—	—
Of which :									
Cereals and cereal preparations	764	1,343	868	122	87	60	57	—3	—5.0
2. Vegetable oils, fixed (edible oils)	12	14	101	712	537	418	273	—145	—34.7
3. Raw Cashewnuts	37	34	18	18	9	4	12	+8	+200.0
4. Raw Cotton	27	28	129	199	29	28	—	—	—
5 Crude rubber including synthetic and reclaimed	7	7	8	11	28	22	66	+44	+200.0
6. Wool and other animal hair..	27	26	28	30	32	*	*	—	—
7. Mineral Oils	1,157	1,226	1,413	1,551	1,677	1,222	1,860	+638	+52.2
Of which :									
(*a*) Petroleum crude ..	955	1,052	1,152	1,246	1,251	*	*	—	—
(*b*) Petroleum products ..	202	174	261	305	426	*	*	—	—
8. Chemicals	731	760	443	648	833	*	*	—	—
Of which :									
(*a*) Fertilisers, manufactured	436	469	192	258	371	246	206	—40	—16.3
(*b*) Other chemicals ..	295	291	251	390	462	*	*	—	—
9. Synthetic and regenerated fibres (man-made fibres) ..	3	6	30	192	198	148	61	—87	—58.8
10. Paper, paper boards and manufactures thereof	60	58	62	82	105	74	115	+41	+55.4
Of which :									
(*a*) Newsprint	45	38	47	61	80	*	*	—	—
11. Pearls, precious and semi-precious stones	53	84	181	331	466	356	238	—118	—33.1
Of which :									
(*a*) Rough diamonds	48	78	173	321	458	*	*	—	—
12. Cement	—	—	—	13	69	*	*	—	—
13. Iron and Steel	424	312	219	263	469	291	443	+152	+52.2
14. Non-ferrous metals	179	100	157	192	247	181	181	—	—
15. Machinery and transport equipment	696	935	1,048	1,110	1,228	898	744	—154	—17.1
Of which :									
(*a*) Machinery other than electric	404	577	708	691	757	566	458	—108	—19.1
(*b*) Electrical machinery ..	161	201	169	194	201	114	115	+1	+0.9
(*c*) Transport equipment ..	131	157	171	225	270	218	171	—47	—21.6
16. Others	288	280	299	459	650	*	*	—	—
Total	**4,519**	**5,265**	**5,074**	**6,025**	**6,814**	**4,903**	**5,629**	**+726**	**+14.8**

Note : Data for the years 1974-75 to 1978-79 are based on the DGCI & S classifications and those for the subsequent period are taken from the Annual Report of Ministry of Commerce and Civil Supplies — 1979-80.

* Comparable data not available in the Annual Report of the Ministry of Commerce and Civil Supplies.

gions during 1977-78, 1978-79 and April-December 1979 are set out in Table IX-3. The broad pattern of regional distribution of exports and imports noticed during 1977-78 remained unchanged during 1978-79 and during the nine months period ended December 1979.

The ECM countries which as a group are the largest market for India's exports, maintained their rising share in India's total exports which went up from 25.7 per cent in 1977-78, to 27.4 per cent in 1978-79 and further to 28.3 per cent in April-December 1979. Exports to this region rose by 12.8 per cent in 1978-79, and by a further 5.9 per cent during April-December 1979 over the level in the corresponding period of the previous year. Imports from this region rose sharply by Rs. 563 crores in 1978-79 and accounted for nearly three-fourths of the increase in total imports in that year. During April-December 1979, in contrast to the large increase in aggregate imports, the imports from this region declined modestly to Rs. 1,414 crores from Rs. 1,486 crores in April-December 1978. The region's share in total imports thus came down noticeably from 30.3 per cent to 25.1 per cent over the period. Both exports to and imports from the ESCAP region, which is the second important trading partner of India, maintained their rising trend in absolute terms. During April-December 1979 exports to and imports from this region went up rather modestly, and as a result, the region's relative shares in total exports and imports declined marginally.

Exports to the "Rest of Asia and Oceania" region (including Middle East Countries other than Iran and the U.A.R.) rose in absolute terms, broadly to maintain this region's share in the total exports to around 11 to 11.5 per cent. Imports from this region, on the other hand, rose at a much faster pace and consequently, the region's share in total imports jumped up from 13.3 per cent in 1977-78 to 16.2 per cent in 1978-79 and further to 21.8 per cent in April-December 1979, mainly reflecting the hike in the prices of P:O.L. items and partly an increase in the quantity of imports of these products. In the result, the adverse trade balance with this region widened sharply from Rs. 197 crores in 1977-78 to Rs. 445 crores in 1978-79 and further to Rs. 726 crores during April-December 1979.

Exports to East European countries which had risen by Rs. 139 crores in 1977-78 but then declined by Rs. 268 crores in 1978-79, improved once again, rising by Rs. 99 crores to Rs. 578 crores during the nine months ended December 1979 over the level in April-December 1978. Imports from this region, which had remained generally stagnant around Rs. 650 to 660 crores during 1977-78 and 1978-79, rose briskly by Rs. 175 crores during the nine months of 1979-80. This region absorbed a little over one-eighth of India's exports and met a little more than one-tenth of India's import requirements during April-December 1979.

Exports to North America (the U.S.A. and Canada), which advanced significantly during 1977-78 and 1978-79 by Rs. 104 crores and Rs. 97 crores, respectively, remained generally stable during April-December 1979, the decline in exports of gems and jewellery holding down the growth in exports to this region. As a result, this region's relative share in total exports was marked down from 13.8 per cent in April-December 1978 to 13.4 per cent in April-December 1979. Imports from this region had declined sharply between 1975-76 and 1977-78 consequent upon the cutback in food imports, and recorded small increases during 1978-79 and April-December 1979; their share in the total nearly halved from 28.8 per cent in 1975-76 to 14.7 per cent in 1978-79 and slipped further down to 13.1 per cent in April-December 1979.

The share of African countries in India's export-import trade tended downwards; the share in exports dropped from 6.4 per cent in 1977-78 to 5.2 per cent in April-December 1979 and that in imports halved from 4.7 per cent to 2.3 per cent over the same period. Imports from Latin America, which had improved to 2.2 per cent in 1977-78 from less than one per cent in previous years largely due to imports of soyabean oil from Brazil and rough diamonds from Argentina, fell to 1.2 per cent in 1978-79 as well as in 1979-80 (April-December), while exports to this region remained stagnant around Rs. 10 crores throughout. The share of EFTA countries in India's exports and imports remained broadly unchanged around 2 to 3 per cent.

Table IX-3 : Regional Pattern of India's Trade

(Rs. Crores)

Region	Exports				Imports				Trade Balance			
			April-December				April-December				April-December	
	1977-78	1978-79	1978	1979*	1977-78	1978-79	1978	1979*	1977-78	1978-79	1978	1979*
1. E.C.M.	1,392 (25.7)	1,570 (27.4)	1,170 (28.5)	1,240 (28.3)	1,511 (25.1)	2,074 (30.6)	1,486 (30.3)	1,414 (25.1)	—119	—504	—316	—174
2. E.F.T.A.	99 (1.8)	129 (2.3)	92 (2.2)	108 (2.5)	177 (2.9)	210 (3.1)	143 (2.9)	166 (3.0)	—78	—81	—51	—58
3. North America ..	720 (13.3)	817 (14.3)	565 (13.8)	585 (13.4)	937 (15.6)	999 (14.7)	722 (14.7)	739 (13.1)	—217	—182	—157	—154
4. East European Countries	929 (17.2)	661 (11.5)	479 (11.7)	578 (13.2)	649 (10.8)	662 (9.8)	443 (9.0)	618 (11.0)	+280	— 1	+36	—40
5. E.S.C.A.P.	1,265 (23.4)	1,481 (25.9)	1,028 (25.1)	1,078 (24.6)	1,456 (24.2)	1,479 (21.8)	1,152 (23.5)	1,234 (21.9)	—191	+2	—124	—156
6 Rest of Asia and Oceania	604 (11.2)	658 (11.5)	473 (11.5)	503 (11.5)	801 (13.3)	1,103 (16.2)	743 (15.2)	1,229 (21.8)	—197	—445	—270	—726
7. Africa	345 (6.4)	338 (5.9)	250 (6.1)	226 (5.2)	282 (4.7)	152 2.2)	119 (2.5)	131 (2.3)	+63	+186	+131	+95
8. Latin America ..	10 (0.2)	13 (0.2)	10 (0.2)	11 (0.3)	135 (2.2)	81 (1.2)	75 (1.5)	65 (1.2)	—125	—68	—65	—54
9. Others	44 (0.8)	59 (1.0)	38 (0.9)	43 (1.0)	72 (1.2)	28 (0.4)	20 (0.4)	33 (0.6)	—28	+31	+18	+10
10. **Total**	**5,408 (100.0)**	**5,726 (100.0)**	**4,105 (100.0)**	**4,372 (100.0)**	**6,020 (100.0)**	**6,788 (100.0)**	**4,903 (100.0)**	**5,629 (100.0)**	**—612**	**—1,062**	**—798**	**—1,257**

* Provisional.

ESCAP countries include Afghanistan, Australia, Bangladesh, Rev. Government of Burma, People's Republic of China, Fiji Islands, Hong Kong, Indonesia, Iran, Japan, Republic of Korea, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam Republic.

Notes : (1) Rest of Asia and Oceania Include Bahrain Islands, China Republic, Israel, Iraq, Jordan, Korea People's Republic, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, Yemen Democratic People's Republic and Vietnam Democratic People's Republic.

(2) Data given in the table above are taken from the Annual Report of the Ministry of Commerce and Civil Supplies, 1979-80. Figures of aggregate exports and aggregate imports given above do not strictly agree with those given in tables IX-1 and IX-2 which are based on the DGCI & S. statistics.

Figures in brackets represent percentage to totals.

Table IX-4 : Classification of Import Licences issued by Major Categories and Sectors—1977-78 to 1979-80

(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	1977-78	43	—	—	43	0.6
	1978-79	5	—	—	5	0.1
	1979-80	—	—	—	—	—
Actual Users (Industrial)	1977-78	802	762	10.3	40	0.5
	1978-79	645	602	15.0	43	1.0
	1979-80	686	621	14.8	65	1.6
Actual Users (Non-Industrial) ..	1977-78	..	..	—	..	—
	1978-79	134	131	3.3	3	0.1
	1979-80	205	201	4.8	4	0.1
Raw Materials for Scheduled Industries (DGTD units)	1977-78	671	326	4.4	345	4.7
	1978-79	702	381	9.5	321	8.0
	1979-80	755	291	6.9	464	11.0
Small Scale Industries	1977-78	108	—	—	108	1.5
	1978-79	185	—	—	185	4.6
	1979-80	212	—	—	212	5.0
Registered Exporters/Export Promotion Schemes	1977-78	741	25	0.3	716	9.7
	1978-79	1,097	50	1.3	1,047	26.2
	1979-80	1,090	71	1.7	1,019	24.2
Capital goods/Heavy electrical plants	1977-78	521	351	4.7	170	2.3
	1978-79	561	334	8.3	227	5.7
	1979-80	737	452	10.8	285	6.8
State Trading Agencies	1977-78	1,670	1,670	22.5	—	—
	1978-79	470	470	11.7	—	—
	1979-80	208	208	5.0	—	—
Others*	1977-78	2,850	1,539	20.8	1,311	17.7
	1978-79	204	97	2.4	107	2.7
	1979-80	313	226	5.4	87	2.1
Total	**1977-78**	**7,406 (1,43,078)**	**4,673 (11,539)**	**63.1**	**2,733 (1,31,539)**	**36.9**
	1978-79	**4,004 (64,502)**	**2,066 (5,352)**	**51.6**	**1,938 (59,150)**	**48.4**
	1979-80	**4,206 (60,094)**	**2,071 (5,295)**	**49.2**	**2,135 (54,799)**	**50.8**

* Includes the categories 'Ad-hoc Licences', 'Customs Clearance Permits', 'Director General of Supplies & Disposals', 'Railway Contracts', 'Government or against Government Contracts', 'Replacement Licences', Blanket Licences', 'New Comers', 'Sole Agents' and 'Co-operative Societies'.

Note : 1. Figures within brackets relate to number of licences issued.

2. Data for 1977-78 are not comparable with those for 1978-79 and 1979-80 since (*a*) under the liberalised import policy introduced in 1978-79 the OGL list was substantially enlarged with a consequent decline in the number of commodities/items requiring import licences. (*b*) The category of 'Established Importers' was abolished in terms of the import policy for 1978-79. However, licences for Rs. 5 crores issued to this category in 1978-79 are in respect of the erstwhile established importers under the Indo-Afghan trade agreement which was then in force. (*c*) From 1978-79 the coverage of 'Actual Users (Non-DGTD, Non-SSI)', category was split up into 'Actual Users (Industrial)' and 'Actual Users (Non-Industrial)'. This break-up for 1977-78 is not available. (*d*) During 1977-78 there was heavy licensing under the free licensing scheme in respect of a number of items.

Source : Chief Controller of Imports and Exports.

Import Licences during 1979-80

Import licences issued during 1979-80 amounted to Rs. 4,206 crores and were higher by Rs. 202 crores or 5 per cent over those of Rs. 4,004 crores in 1978-79 (Table IX-4). This modest increase in the value of import licences in the context of the high rates of inflation in industrial countries† indicates that physical quantities covered by these licences would be lower than those in 1978-79.

The number of import licences issued declined over the year by 7 per cent to 60,094 in 1979-80, as a combined result of the enlargement of the OGL list by 168 items to 702 and the consequent reduction in the number of items subject to licensing control, lower demand for imports of rough diamonds following the significant drop in overseas demand for Indian gems and jewellery, and the setback in domestic industrial activity. Most of the decline was accounted for by the private sector, the number of licences issued to this sector going down by 4,351 to 54,799 though their value was higher by Rs. 197 crores at Rs. 2,135 crores. The number of import licences issued to the Government sector declined much more modestly by 57 to 5,295, and their value was almost unchanged over the year, increasing by only Rs. 5 crores to Rs. 2,071 crores. In the result, the share of the private sector in the total value of licences issued, which had gone up from 36.9 per cent in 1977-78 to 48.4 per cent in 1978-79, rose further to 50.8 per cent in 1979-80.

Category-wise, as in the previous year, 'registered exporters/export promotion schemes' accounted for little over a quarter of the total value of import licences issued in keeping with the increasing focus of the import policy on stimulation of exports, though the value of the licences issued to this sector remained virtually stationary around Rs. 1,090 crores probably because of the setback in the export of engineering goods and gems and jewellery. Reflecting the progressive decanalisation of imports, import licences issued to the State trading agencies, which had declined sharply from Rs. 1,670 crores in 1977-78 to Rs. 470 crores in 1978-79, fell further to Rs. 208 crores in 1979-80. The value of CG/HEP licences, on the other hand, increased by Rs. 176 crores to Rs. 737 crores in conformity with the thrust on broadening and strengthening the production base of the economy. Among the other licence categories, import licences issued to actual users, small-scale industries and for raw materials for scheduled industries (DGTD units) recorded minor increases, and their proportionate share in the total remained broadly the same as in the previous year.

Developments in Foreign Trade Policy

India's foreign trade policy for 1979-80 was announced on May 3, 1979. The basic framework of the trade policy detailed in April 1978 was maintained in recognition of the need for continuity and stability of the policy for promoting sustained economic growth. The process of selective liberalisation was carried a step further in an effort to stimulate vigorous export drive and strengthen the production base of the economy, while providing adequate safeguards to ensure legitimate protection to indigenous industries.

Export Policy: 1979-80

Export policy was further geared towards promoting rapid and sustained export growth. Through various quota restrictions and canalisation through public sector organisations, exports were controlled only in respect of a few essential commodities to ensure that the domestic economy is not adversely affected by their inadequate supplies. Commodities subjected to export control were constantly kept under review. In keeping with this policy, a number of commodities were added to the OGL-3 list during the year, for export by all parties and to all permissible destinations; these included coconut protein and coconut honey, roasted and salted peanuts in consumer packs, and silver manufactures having silver content not exceeding 10 per cent of the f.o.b. value of the manufactured products, viz., jewellery, fabrics in the making or embroidery of which silver or silver zari has been used, and electrical and electronic goods.

Following the emergence of domestic shortages, a ban was imposed on exports of naphtha, bitumen and asphalt in July 1979 and

† According to the Annual Report of the IMF for the year 1980, the unit value of imports of non-oil developing countries in SDR terms rose by 15.5 per cent during 1979.

on pig iron in January 1980. A ban was imposed in February 1980 on the export of meat of Indian sheep and goats and organs thereof, mainly with a view to conserving supplies for the domestic market in the context of the rising trend in domestic prices. Likewise, following the severe drought conditions in several parts of the country, all varieties of expeller cakes and compound cattle feed and poultry feed were banned during November and December 1979 and the outstanding pre-ban export commitments in respect of these commodities were disallowed. The ban on export of silver bullion bars, sheets and plates, introduced in February 1979 in order to conserve the stock of this strategic metal, was continued during the year. The ban on the export of wheat introduced in January 1979 was also continued during the year, as was the policy of permitting the export of wheat seeds under the OGL and of wheat products within a quantitative ceiling. The ban on export of rosewood was lifted in December 1979, and its export was allowed subject to a quantitative ceiling. Export of Basmati rice and other fine varieties of rice was allowed as in the last year, subject to minimum f.o.b. prices. The export of rice was to be undertaken by public enterprises owned and controlled by Central and State governments and by certain co-operative agencies, subject to quantitative ceilings. The export of molasses, which was hitherto subjected to a clearance certificate from the State where the molasses were produced, was canalised through the STC effective from April 1979.

The instrument of export duty was deployed in a flexible manner, changes in duties being introduced either to increase the competitiveness of export items in world markets or to promote higher unit value realisations, and mop up a part of windfall profits of exporters as they accrue to them. During the first half of the year, coffee prices in international markets hardened significantly; the export duty on coffee was therefore enhanced from Rs. 4 per kg. to Rs. 7.50 per kg. in June 1979 and further to Rs. 9 per kg. in July 1979, to divert to the exchequer a part of the windfall profits from exports. Subsequently, as the boom in coffee prices gradually petered out, the export duty was cut down to Rs. 7.30 per kg. in August 1979 and again to Rs. 5.70 in February 1980 so as to protect the competitiveness of Indian coffee in international markets. Since then coffee prices in international markets showed two-way fluctuations and in line with this, the export duty was first raised to Rs. 7.00 per kg. on May 28, but later reduced to Rs. 5 per kg. on July 17, 1980, and further to Rs. 2.60 per kg. on August 14, 1980. Following the rising trend of cardamom prices in world markets, the export duty on cardamom was raised from Rs. 10 per kg. to Rs. 15 per kg. in August 1979, but later when the prices eased the duty was lowered to Rs. 5 per kg. effective June 20, 1980. Similarly, against the background of a steep rise in international prices of hessian, at the hike in the prices of petroleum crude which pushed up the prices of oil-based synthetic packaging material, a duty of Rs. 1,000 per tonne was imposed on the export of hessian (cloth and bags) in February 1980; it was, however, abolished in September 1980 following a decline in the overseas offtake.

Various export promotion schemes, namely, cash compensatory support, duty drawback, duty drawback credit, duty exemption, concessional rate of interest on export credit, and import licence facilities to registered exporters and export houses were continued, with further liberalisation of some of these schemes, as indicated later, to make them more responsive to the complex needs of export production and changing patterns of overseas markets.

In line with the Alexander Committee's recommendations, the Government announced that the rates of cash assistance would remain valid for a minimum period of 3 years, i.e. from 1979-80 to 1981-82 for the major commodity groups like marine products, processed foods, leather and leather manufactures, engineering goods, sports goods, handicrafts, silk, woollen and rayon items, chemicals, coir products, etc. The effective rates of cash compensatory support for these commodity groups ranged from 5 per cent to 20 per cent of the f.o.b. value. During the year, the following rates of cash assistance were reduced: canned sardines—from 20 to 5 per cent; canned tuna—from 15 to 5 per cent; cement mill machinery—from 17.5 to 12.5 per cent; guar gum refined—from 5 to 2.5 per cent; and de-oiled mango kernels—from 20 to 12.5 per cent. Cash assistance support

available to the export of hessian at the rate of 10 per cent was withdrawn in August 1979 consequent upon the steady rise in the export prices of this commodity.

The policy of encouraging the export of value added finished leather and leather manufactures, rather than raw hides and skins, was carried a stage further and the quota allocations for different categories of raw and semi-processed hides and skins were pruned down sizeably during the year (for details see Appendix I-A).

The gold jewellery export replenishment scheme, introduced in August 1978, whereunder exporters received gold replenishment at the price notified by the Government from time to time, of the pure gold content of the jewellery exported, was withdrawn in January 1980 following the surge in the price of gold in international markets which took them above the level prevailing in domestic markets.

Import Policy: 1979-80

The process of selective liberalisation of imports was carried further during the year. In particular, the number of items permitted to be imported under the Open General Licence (OGL) Scheme was expanded to 702 from 534 in 1978-79—nearly 80 per cent of this increase was under capital goods whose number in the OGL list went up from 252 in 1978-79 to 385 in 1979-80. The scheme for import of essential inputs by export-oriented units was made broad-based. With a view to promoting the development of small scale units and encouraging them to take to export business as a regular activity, as also to induce actual users (industrial) to export at least a part of their production, the policy in respect of automatic licences was streamlined; additional import of 10 per cent of certified actual consumption in respect of raw materials, components and spares was allowed to the small scale industrial units only if their annual consumption was more than Rs. 75 lakhs and in the case of others only if they had exported at least 5 per cent of their production.

Actual users (industrial) were also allowed to import certain canalised items directly, provided these were used in export production. Actual users, who procured at least 90 per cent of their machinery requirements from indigenous producers, were allowed to import the remaining 10 per cent, subject to a maximum of Rs. 1 crore, without any other precondition. Actual users (non-industrial) were permitted to import their requirements under the OGL, subject to the actual user condition being satisfied.

To encourage the setting up of small scale units, even banned items were allowed to be imported by them, provided these were essential for starting the unit and the value did not exceed 10 per cent of the total value of the licence and within this limit, a single item did not cost more than Rs. 50,000.

Under the scheme of additional licences granted to export houses, the value ceiling of Rs. 2 lakhs for individual item of import was raised to Rs. 5 lakhs, subject to the condition that such imports were needed for the manufacture of the export product. The procedure for the issue of REP licences to registered exporters against exports qualifying for cash compensatory support covered by the Simplified Payment Scheme was further modified to avoid delays in the issue of such licences.

The Duty Exemption Scheme (DES) was made more comprehensive by bringing within the scope of the scheme a larger number of finished products as well as raw materials and components. Benefits under DES were extended to all the items imported by an exporter, provided the product exported contained a minimum value added of 25 per cent and the customs duty payable on it was at least 5 per cent of its f.o.b. value. Further, the benefit of this scheme could be availed of against any existing licence of an actual user or registered exporter as also against imprest licences granted to these categories of licencees, whether or not these were supported by an export order.

The import policy for 1979-80 identified various types of project exports for the first time (though prior to this, broad guidelines were laid down which were designed primarily to assist and encourage exporters in handling deferred payment exports, overseas turnkey projects and construction projects), and cat-

egorised them under the following broad groups: turnkey projects, engineering services, consultancy services and civil construction contracts. For expeditious clearance of proposals for turnkey projects and construction projects as also the supply of equipment on deferred payment terms, a working group of financial institutions was set up in the Industrial Development Bank of India. Banks of the intending exporters were also delegated powers themselves to clear such proposals in cases where the value of a contract was Rs. 1 crore or less and certain other minimum conditions were satisfied. Project contractors were allowed to import the required equipment either from the project country or from any third country and re-import the used equipment into India after completion of the project on a customs clearance permit. The project exporters were entitled to claim import replenishment licences against the value of items exported from India.

Out of their own foreign exchange savings, Indians returning from abroad to set up industries in India were allowed to import capital goods upto Rs. 25 lakhs without indigenous clearance, as also to import raw materials and components, consumables and spares upto a limit of Rs. 5 lakhs for meeting one year's requirements even where the machinery is not imported from abroad but purchased locally. Import of second-hand capital goods was permitted if the value of a new machine of more or less the same type and specification was not more than Rs. 25 lakhs.

Foreign Trade Policy: 1980-81

The foreign trade policy for the year 1980-81 was announced in two instalments—the export policy on April 2, and the import policy on April 15, 1980. The basic framework has been maintained for the third year in succession as stability of the trade policy is deemed essential for promoting sustained economic expansion. As in 1979-80, the changes made are designed primarily further to assist the growth of a diversified and expanded industrial production base which would help curb inflationary tendencies in the economy and at the same time enable the exporting units to respond to the changing demands of the highly competitive world markets.

Export Policy

In the context of the rising import bill, modest export growth during the past three years and corresponding widening of trade deficits, export policy is directed towards promoting a rapid and sustained increase in exports. Exports of only a few essential commodities are controlled so as to contain adverse impact on the domestic economy of their inadequate availabilities and such control is kept under constant review.

Import Policy

The more important changes effected by the import policy for 1980-81 are : (*a*) duty-free imports on a selective basis against REP licences, (*b*) greater flexibility in imports against REP licences by allowing imports of items not included in the shopping list, (*c*) liberalisation of imports of spares and certain categories of textile machinery, (*d*) enlargement of the list of capital goods allowed to be imported by actual users under the open general licence, (*e*) simplification and extension of the scheme of advance licensing with duty exemption facilities, (*f*) decanalisation of certain imports, (*g*) transfer of 57 items from the OGL to restricted or banned lists in order to encourage their indigenous production or in view of their better domestic supply position.

Import requirements of actual users in respect of raw materials, components, consumables and spares would continue to be met, as before, through the OGL, automatic and supplementary licences and canalising agencies. The OGL list has been further expanded to 776 from 702 in 1979-80. Nearly three-fifths of the additions to the list are by way of capital goods whose number has gone up over the year from 385 to 428. At the same time, a number of items whose domestic production has improved materially have been taken off the OGL list and have been put under the banned or restricted lists in accordance with the degree of their indigenous availability. In respect of automatic licences to actual users, the additional 10 per cent over the certified actual consumption in either of the previous two years will now be available only to those exporters who exported at least 10 per cent of their annual production of select products, as against 5 per cent earlier.

To make the system of monitoring of the OGL imports more effective, the actual users applying for automatic and supplementary licences are now required to furnish, alongwith their import applications, information regarding the description of the raw materials, components and spares, together with the c.i.f. value, imported by them under the OGL in 1979-80.

In addition to the continuation of the existing facilities of supplementary and repeat licences to small scale industrial units and initial licences to new units, supplementary licences to new units in exceptional cases are provided under the new policy. Pharmaceutical units approved as "loan licencees" will from now be allowed to obtain actual user licences in their own name for the import of raw materials required by them. The facility available to actual users to import spares for the purpose of providing warranty coverage/ after-sales service is continued and the value of such import entitlement has been raised to 1 per cent of sale value of production in the last three years from 0.5 per cent hitherto. The special facilities granted to graduates/ ex-servicemen and persons belonging to scheduled castes and tribes for setting up industries in backward areas are also continued. Workshops repairing machinery, instruments and vehicles have been included in the actual user (non-industrial) category, and allowed to import spares under the OGL for their repair work.

The number of capital goods placed under the OGL have been increased from 385 to 428 largely to enable the electronics and T.V. industries to import their machinery requirements more freely. A few items mainly relating to textile machinery have been removed from the banned list and are allowed to be imported on merits, subject to indigenous clearance requirements. Certain other items of capital goods like gas cylinders and flat hand operated knitting machines have been transferred to the banned list in view of the improvement in indigenous availability. Actual users proposing to import capital goods worth Rs. 10 lakhs and above, are, as in the past, required to advertise their requirements locally, but in their case the waiting period after the advertisement has been extended from 6 months to 12 months.

The facility of importing raw materials, consumables and spares under the OGL has been extended to departmentally run undertakings and the railways, subject to the clearance of the concerned technical authority and the release of foreign exchange for the purpose by the Ministry of Finance. Import of spares can also be made under the OGL by the State Electricity Boards and projects and undertakings in the public sector.

Registered exporters are, as before, entitled to transferable REP licences against their exports. A new feature of the policy is that manufacturer-exporters can import under the REP licences not only items appearing in the shopping list, but also other items of raw materials, components, consumables and packing material required for their own use. Another noteworthy feature is that exporters of a few select products can now import raw materials free of customs duty against REP licences. To begin with, the export items selected for this scheme are : (*i*) stainless steel utensils, sinks, and hospitalware (made from non-magnetic stainless steel sheets), (*ii*) brass artware and (*iii*) steel pipes, tubes, wires, sheets, whether or not corrugated, including galvanised items. In the light of experience gained, the facility may be extended to other export products.

The scheme of advance licences has been made more comprehensive and simpler in order to increase its responsiveness to the needs of export production. (1) The total number of items of imports eligible under the scheme has been raised by 5 to 55. (2) Exports made from the date of filing of application for advance licence, instead of from the date of issue of the duty exemption entitlement certificate as hitherto, will be considered for discharge of the export obligation, thus enabling exporters to utilise their existing stocks of raw materials for export production for timely execution of the export orders as also to obtain imported inputs at international prices without the payment of customs duty. (3) Where an export obligation has been fulfilled in part before the import takes place against the advance licence, the export obligation bond will be marked down to a correspondingly lower value. (4) A combined export obligation bond would now be adequate to meet the requirements of both the customs

duty exemption and the import control, in the place of separate bonds required hitherto for these two purposes. (5) Applications for further advance licences will be entertained from the same exporters, even when export obligations against previous licences issued to them are outstanding, as long as the exporter has not been declared a defaulter in respect of any earlier export obligation. (6) An export house which does not manufacture the products to be exported is now permitted to offer export obligation bond on its own, instead of the earlier requirement of a joint bond both by the exporter and the supporting manufacturer. (7) Where an exporter receives an advance licence without having on hand an export order, and there is subsequently a change in the f.o.b. value of the export product, the licensing authority is authorised to modify the value of the export obligation already imposed on the licence, so long as the quantity and other specifications of the products exported do not change and the minimum value added of 25 per cent is not eroded. (8) The issue of duty exemption entitlement certificates has been decentralised and the certificates will hence forth be issued by regional authorities.

Imprest licences without duty exemption, available in respect of all export products, will now be granted only where there is a minimum 25 per cent value addition to the product to be exported.

The minimum export performance requirement for issue or renewal of eligibility certificates to export houses has been specified as the annual average of three years of the base period (i.e. 1977-78, 1978-79 and 1979-80) or the exports of the immediately preceding year, provided the applicant does not have 'nil' exports in any of the prescribed years of the base period. For renewal of export house certificate to small scale units having a minimum export level of Rs. 1 crore, the prescribed growth rate has been lowered from 20 to 10 per cent. REP licences issued to export houses on their own exports will now be valid for import of raw materials, components and spares, as are open to actual users under the OGL without debit to their REP licences, provided the imported goods are disposed of only to eligible actual users. Export houses can also obtain imprest licences to the extent of 100 per cent of the value of their REP licences earned against their own exports in the previous year. The value of additional licences to be issued to export houses against exports of select products manufactured in the small and cottage industries has to be kept at $33^1/_3$ per cent of the f.o.b. value of such products, while that against exports of selected products manufactured in the large scale sector has been raised from 5 per cent to $7^1/_2$ per cent of the f.o.b. value of such exports in the previous year. Under these licences the value limit for import of individual items placed in the restricted list has been raised from Rs. 2 lakhs to Rs. 5 lakhs. Export houses with an annual turnover of not less than Rs. 5 crores have been allowed to provide Industrial Raw Material Assistance Centre (IRMAC) facilities to actual users for supplying raw materials and components of non-canalised items off-the-shelf against valid import licences. Export houses have also been allowed to sell to any person spares imported by them against REP or additional licences. The ceiling on the foreign exchange to be released to export houses for export promotion activities has been raised from Rs. 5 lakhs to Rs. 7.5 lakhs.

Public sector agencies have been assigned an increased role in the import and distribution of raw materials to actual users. On a review, items unsuitable for bulk purchase like arms and ammunition, shoddy wool/woollen rags, antimony ore, photographic films and certain drugs have been decanalised, whereas items like tin plate, tin plate waste, raw petroleum coke, DDT, certain categories of stainless steel have been canalised. Besides canalised items, the canalising agencies have been allowed to import goods placed in the OGL list for supply to actual users off-the-shelf.

The facilities of importing capital goods granted to overseas Indians returning home for setting up industries are continued. Some of the procedures associated with this scheme have been simplified in that such prospective enterpreneurs are not requireed to make an application for retaining foreign currency balances abroad at the time of applying for the import licence. The three-tier system of dealing with applications for import of capital goods has been made applicable to the scheme for non-residents also; applications for imports upto Rs. 10 lakhs will be dealt

by the regional licensing authorities, those with value between Rs. 10 lakhs and Rs. 25 lakhs by the Chief Controller of Imports and Exports and those above Rs. 25 lakhs by the Secretariat of Industrial Approvals of the Ministry of Industry.

Specialised Foreign Trade Agencies

The State Trading Corporation of India

The State Trading Corporation of India (STC), which has been playing an important role in promoting the country's export-import trade since its formation in May 1956, recorded a significant improvement in its business turnover during 1979-80. The Corporation's turnover shot up over the year by Rs. 390 crores or 34 per cent to Rs. 1,529 crores; in 1978-79 it increased by a modest Rs. 69 crores or 6.4 per cent. Imports which rose by Rs. 359 crores to Rs. 884 crores as against an increase of Rs. 23 crores to Rs. 525 crores last year, accounted for most of the increase in the year under review. Imports of canalised items handled by the Corporation increased by Rs. 292 crores to Rs. 790 crores mainly because of larger imports of edible oils. The Corporation imported 8.4 lakh tonnes of edible oils valued at Rs. 603 crores, as compared with 5.5 lakh tonnes valued at Rs. 327 crores imported in 1978-79. Among the other canalised items, imports of newsprint and journals and cement rose over the year from Rs. 90 crores to Rs. 141 crores and from Rs. 52 crores to Rs. 63 crores, respectively. During the year import of rubber was canalised through the STC and following this, the rubber imports through the Corporation went up to Rs. 23 crores from Rs. 13 crores in 1978-79.

The Corporation continued to extend its services in meeting temporary shortages through imports of various essential non-canalised items like DDT Technical, printing paper, jute bags, etc. The list of non-canalised imports handled by the Corporation was expanded during the year to include new items like explosives, arms and ammunition, foreign liquor, white printing paper, etc. Total imports of non-canalised items by the Corporation amounted to Rs. 42 crores in 1979-80 as against Rs. 27 crores in 1978-79.

Export sales by the Corporation during 1979-80 were marginally higher at Rs. 636 crores than those of Rs. 602 crores in 1978-79, and this increase was achieved despite the ban imposed on the export of silver which fetched the Corporation a turnover of Rs. 105 crores in 1978-79, and despite limited availabilities of groundnut extractions and alcohol. Among the canalised items, the Corporation's exports of groundnut extractions, which was canalised in March 1979, increased over the year from Rs. 4 crores to Rs. 72 crores; molasses, from a negligible amount to Rs. 27 crores; castor oil, from Rs. 31 crores to Rs. 53 crores and seedlac/shellac, from Rs. 9 crores to Rs. 12 crores. Export sales of semi-processed leather, on the other hand, were lower at Rs. 112 crores than those of Rs. 115 crores in 1978-79.

As part of its long-range plan of diversification of the export structure and exploration of new overseas markets as also of price support operations and entering into direct buying and selling activities to assist the primary/small-scale producers, the Corporation exports a wide variety of other products, the more important among these being coffee, jute goods, finished leather, footwear components tobacco, spices, barley, readymade garments, cotton textiles, livestock, meat and marine products, consumer products, construction materials, raw cotton, etc. The Corporation added to its list of non-canalised exports several new items during the year and exported *tandur* stones and roofing black slates to Australia, decorative plywood sheets, commercial plywood, commercial blackboard, royal teak, royal elm, STC-branded dry cell batteries to Iraq, and mango pulp to Switzerland. Several new markets were explored for existing items, and leather handbags and industrial gloves were exported to the USA, vacuum flasks and yeast tissue to Iraq, fashion garments and fireworks to Japan, paint brushes and hobby items for carpentry to the U. K., gold jewellery to Kuwait, clog shoes to Holland, leather wallets to West Germany, industrial gloves and cotton handloom/hand-woven towels to Australia, and termite board and tiles to Seychelles.

During the year the STC successfully negotiated on behalf of the Cotton Corporation of India an arrangement with

Bangladesh for export of raw cotton worth Rs. 4.5 crores to that country. The Corporation undertook price support operations for tobacco for the second successive year, over and above its commercial purchases. It took up a number of projects for increasing production of quality goods for export, including (a) establishment of a footwear unit at Agra, (b) restructuring of leather garment manufacturing unit at Madras, and (c) establishment of manufacturing capacity for luggage and travel goods with foreign collaboration.

The State Chemicals and Pharmaceuticals Corporation of India

The State Chemicals and Pharmaceuticals Corporation of India (CPC) was established in January 1976 as a wholly owned subsidiary of the STC to take over the latter's export-import trade in chemicals, drugs and pharmaceuticals. Its total turnover rose from Rs. 107 crores in 1978-79 to Rs. 132 crores in 1979-80. Its imports—which represent the essential raw material requirements of almost 5,000 production units encompassing a wide range of industries such as drugs, pharmaceuticals, agro-industries detergents, paints, plastics, metal processing—rose over the year by Rs. 26 crores to Rs. 126 crores and this increase took place almost wholly under canalised items which advanced from Rs. 69 crores to Rs. 92 crores. Imports of non-canalised essential raw materials such as PVC, Polyestyrene, Soda Ash, Caustic Soda, Carbaryl Technical, DDT, etc., which were taken up on instructions from the Government to meet market shortages, went up nominally by Rs. 1 crore to Rs. 32.5 crores. Export sales of the Corporation were barely maintained at the previous year's level of Rs. 7 crores. As part of the new import policy the CPC has introduced schemes for providing off-the-shelf delivery, on duty-free basis, of selected imported plastics and drugs and other raw materials to meet export production needs of manufacturing units of plastic and drugs industries. These schemes are expected to generate additional exports during 1980-81.

The Cashew Corporation of India

The Cashew Corporation of India (CCI) was set up in August 1970 as a wholly-owned subsidiary of the STC for the purpose of canalising the import of raw cashewnuts and for their distribution at fair prices to the export-oriented units in the country. The Corporation also undertakes export of cashew kernels in order to assist the small exporting units to market their products in overseas markets. Its imports of raw nuts and exports of kernels during 1979-80 amounted to Rs. 12 crores and Rs. 8 crores, respectively, as against Rs. 9 crores and Rs. 8 crores in 1978-79.

During the past year, the overseas supply position of raw cashewnuts remained difficult. Following a decline in their cashew crops, Kenya and Mozambique, the traditional suppliers to India, did not have any exportable surplus. Consequently, the Corporation made intensive efforts to diversify the supply base and procured 24,000 tonnes of raw nuts from Tanzania and 550 tonnes from Madagascar. The Government also introduced a special scheme permitting eligible manufacturer-exporters to import directly raw nuts from non-traditional sources. The Corporation has adopted a dynamic pricing policy for releases of imported raw nuts to the manufacturer-exporters in order to revive international demand and stabilise international prices for cashew kernels. It stepped up its export efforts to major markets like USA, Canada and Japan. It is also associated with the programme of increasing indigenous production of raw cashew through State-sponsored schemes, and a part of its free reserves are earmarked for loans for such schemes.

The Projects and Equipment Corporation of India

The Projects and Equipment Corporation of India (PEC), a subsidiary of the STC, specialises in the export of light, medium and heavy engineering equipment, rolling stocks and turnkey projects. Its exports of canalised items went up substantially from Rs. 1 crore in 1978-79 to Rs. 20 crores in 1979-80, but its exports of non-canalised products nearly halved over the year from Rs. 25.9 crores to Rs. 14.0 crores. The decline in non-canalised exports has been attributed by the Corporation to a variety of constraints such as power cut, labour unrest, port strikes and

non-availability of raw materials. The Corporation's imports of non-canalised products also came down sharply from Rs. 9.9 crores to Rs. 1.0 crore. As on April 1, 1980 the Corporation had on hand export orders for an aggregate value of Rs. 84 crores, including contracts for construction of warehouses, school buildings, etc., in Libya amounting to Rs. 34 crores; for the supply of printing machinery, petrol pumps and thermo containers incinerators to the USSR valued at Rs. 6.62 crores; for the supply of foodgrains and fertilizer wagons to Bangladesh worth Rs. 3.63 crores; and for the supply of diesel locomotives for the National Thermal Power Corporation under the World Bank loan placed at Rs. 2.60 crores.

The Handicrafts and Handlooms Exports Corporation of India

The Handicrafts and Handlooms Exports Corporation (HHEC), a wholly-owned subsidiary of the STC, is mainly engaged in the export of handicrafts and handloom products, ready-to-wear garments, carpets and gold jewellery. Its export turnover declined to Rs. 26 crores in 1979-80 from Rs. 39 crores in 1978-79, following the decanalisation in April 1979 of exports of woollen knitwear which fetched the Corporation export sales of Rs. 21 crores in 1978-79. Exports of products other than woollen knitwear improved over the year by Rs. 6 crores to Rs. 23 crores, due to the better performance in carpets, handicrafts, handlooms and readymade garments. During the year, the HHEC took over the export of gold jewellery from the STC, and organised three exhibitions at Abu Dhabi, Dubai and Kuwait and booked export sales of over Rs. 2 crores. But this scheme of export of gold jewellery was suspended in January 1980. The Corporation has been making efforts to expand and diversify its export base. In collaboration with an Italian company, it is setting up a factory for the manufacture of leather garments; the construction of the factory is nearing completion and the factory is expected to go into commercial production early next year.

Exports of the STC and its subsidiaries taken together totalled Rs. 712 crores during 1979-80, an increase of 4 per cent over the preceding year's level of Rs. 683 crores. Their combined imports were substantially higher at Rs. 1,025 crores as compared with Rs. 644 crores in 1978-79. Over the year, the group's share in the country's total exports came down fractionally from 11.9 per cent to 11.2 per cent, whereas its share in total imports went up noticeably from 9.5 per cent to 11.9 per cent.

The Minerals and Metals Trading Corporation

The Minerals and Metals Trading Corporation (MMTC) is primarily engaged in the export of ores and minerals and in the import of non-ferrous metals, stainless steel, industrial raw materials, fertilizers and fertilizer raw materials and rough diamonds. The total trade turnover (exports, imports and internal trade) of the Corporation amounted to Rs. 1,410 crores during 1979-80, an increase of 21 per cent over the previous year's level of Rs. 1,163 crores. Imports handled by the Corporation went up over the year by Rs. 225 crores or 23 per cent to Rs. 1,188 crores, and exports by Rs. 20 crores or 10 per cent to Rs. 216 crores.

Iron ore continued to be the major export of the Corporation, which rose over the year from 13.7 million tonnes valued at Rs. 163 crores to 13.9 million tonnes worth Rs. 170 crores. The Corporation had set an export target of 14 million tonnes of iron ore for 1979-80, which it could not achieve due to internal supply constraints and movement bottlenecks. Manganese ore exports which are subject to quantitative restrictions imposed by the Government, aggregated 6.72 lakh tonnes valued at about Rs. 14 crores as against 6.7 lakh tonnes valued at Rs. 16.4 crores exported in 1978-79. Exports of chrome ore and concentrates, a canalised item since 1978, brought in about Rs. 15.6 crores for a quantum of 2.32 lakh tonnes. Exports of barytes, which were recanalised in March 1979 after a short period of decanalisation, were about 3.4 lakh tonnes as compared to 0.87 lakh tonnes in 1978-79. Because of domestic shortages, the export of coal was regulated by the Government and only limited quantities were permitted to be exported to the neighbouring countries—Bangladesh, Burma and Sri Lanka. The Corporation's export sales of coal were quite small at 0.75

lakh tonnes in 1979-80, as against 2.48 lakh tonnes in 1978-79. The Corporation continued its efforts to export non-canalised minerals and products from raw materials imported by it, though such exports in value terms were quite small.

Out of the Corporation's total imports of Rs. 1,188 crores during 1979-80, fertilizers accounted for Rs. 630 crores or 53 per cent, as compared with Rs. 491 crores or 51 per cent in the preceding year, and the balance was made up of non-ferrous metals of Rs. 407 crores, stainless steel of Rs. 104 crores and industrial raw materials of Rs. 47 crores. The Corporation arranged spot purchases of sulphur from non-traditional sources like the USA and Bahrein for maintaining steady supplies to the fertilizer units and other sectors of the industry when the traditional supplies from Iran, Poland and Canda were not forthcoming due to various reasons.

The Corporation's internal trade turnover was quite small at Rs. 6.6 crores; in 1978-79 it was Rs. 4.9 crores.

The Mica Trading Corporation of India

The Mica Trading Corporation of India (MITCO), set up as a wholly-owned subsidiary of the MMTC to take over the exports of mica from the latter, has been in operation since June 1974. The country's exports of processed mica during 1979-80 were 18.9 thousand tonnes valued at Rs. 23.2 crores, of which the MITCO's share was 1.7 thousand tonnes valued at Rs. 7.1 crores. In addition, the Corporation exported 14 tonnes of fabricated mica worth about Rs. 21 lakhs. The Corporation has already set up a fabrication unit with a Tool Room and a Dry Ground Mica Powder Plant which would produce higher unit value fabricated/manufactured mica. It has proposals on hand to set up a Micronised Mica Powder Plant, a Wet Ground Mica Powder Plant, a Mica-paper based plant and a Glass-Bonded Mica project. The Corporation also has plans to set up warehouses in West Europe and the USA which would facilitate direct delivery of mica and mica products to its customers.

The Tea Trading Corporation of India

The Tea Trading Corporation of India (TTCI) is a Government of India undertaking engaged in the export of value-added tea, distribution of tea in the domestic market, and management of some tea gardens and tea warehouses. As part of its export promotion activity, the Corporation has taken up the production of exportable green tea and soluble instant tea, and set up blending and packaging units in Tripura. It has established tea warehouses in Singapore and Europe in participation with local parties. During 1979-80, the Corporation exported value-added tea worth Rs. 20 crores, as against Rs. 18 crores in 1978-79. In the home market, the Corporation arranges distribution of tea through a network of 2,200 outlets and also caters to the needs of organisations like the Railways and other public sector undertakings.

Trade Development Authority

The Trade Development Authority of India (TDA), essentially a service organisation, continued to provide intensive export services to its members right from the stage of intention to the actual export, so as to enable them to execute export orders effectively. During the year, the TDA brought into fuller utilisation its research and consultancy capabilities, and indentified several new product lines of international market relevance and concentrated purposively export promotion efforts on them. During 1979-80, the TDA undertook market surveys in the U. K. (for electronic products, auto ancillaries, forgings and castings, industrial fasteners, scientific instruments, sports goods and toys and dolls), Greece (for auto ancillaries, scientific instruments, hand tools and small tools), Sweden (for home furnishings, carpets and precious metal jewellery), Indonesia (for auto ancillaries, bicycles and components, hand, small and cutting tools), Singapore (for auto ancillaries, hand, small and cutting tools and home furnishings), Hong Kong (for auto ancillaries, hand, small and cutting tools and bicycles and component), Malaysia (for hand, small and cutting tools and auto ancillaries), and Thailand (for bicycle components, hand tools and auto ancillaries). On the basis of these surveys, detailed reports were brought out identifying specific products with export potential and offering concrete recommendations such as marketing tie-ups with firms in the importing countries, appointment of agents, participation in trade fairs, establish-

ment of display centres, etc., for the exploitation of this export potential.

The TDA organised a Buyer-Seller Meet at Tokyo with assistance from the Commonwealth Fund for Technical Co-operation, London and the Japan External Trade Organisation (JETRO). The products displayed at the fair were engineering goods, readymade garments, jewellery, chemicals, furniture, leather and sports goods, home furnishings and handicrafts. Ninety-three firms participated in the fair which was visited by about 1,400 buyers. Spot orders worth US $ 1.4 million were booked at the fair. At the Buyer-Seller Meet at Birmingham financed by ITC/SIDA, eighty-nine manufacturers/exporters participated and about 1,800 buyers visited the fair. The major products displayed were machine tools, hand and cutting tools, forgings and castings, builders' hardware, auto ancillaries, diesel engines, electronic equipment and components, industrial fasteners, bicycle components, electrical products, etc., and orders worth over Rs. 3 crores were booked at the fair.

The TDA attaches special importance on setting a consistent trend in product adaptation to overseas market requirements. Accordingly, under the TDA/SIDA (Swedish International Development Agency) and Indo-French Export Development and Product Adaptation Projects, the TDA assisted exports to the Swedish and French markets of several new products. Under the Indo-French Export Development and Product Adaptation Project the services of a French consultancy firm were utilised for conducting a detailed study of the prospects for introducing Indian products such as electronic components, automobile ancillaries, scientific instruments, hand tools, fasteners and castings and forgings in the French market.

The more important consultancy assignments taken up by the TDA during the year were: (i) a feasibility study for setting up a hand tools industrial estate in Karnataka, (ii) a feasibility study for establishing a tea packaging-cum-blending complex in Singapore on behalf of the Tea Trading Corporation of ndia, (iii) a study of the prospects for exports of plastic products from India, (iv) a study of 15 West African countries conducted jointly with the STC, for the purpose of identifying a suitable location for setting up a India Trade Centre for identifying products having export prospects and other areas for trade and economic co-operation with these countries, and (v) an export programme for 35 selected manufactured products for which the export development activities are to be undertaken by the STC. As part of a project to promote trade among selected developing countries in Asia, the International Trade Centre, Geneva, awarded to the TDA a supply study to make micro level assessment of export supply capabilities in several products covering hand tools and measuring instruments, bicycles and components, textile machinery, electrical wires and cables, dyes and intermediates and sports goods.

The TDA was designated as the National Focal Point of India for the exchange of trade information between India and overseas stations. The TDA, which is a member of the World Trade Centre's Association (WTCA), also initiated action during the year on a new scheme known as "Market Match" —a continually updated computerised directory of products needed around the world, which is an effective way of bringing together buyers and contacts internationally. This scheme was introduced last year on a trial basis in New York, as a stimulus to international business.

The Electronic Export Processing Zone, Santacruz, Bombay

During 1979-80, the Electronic Export Processing Zone (EEPZ) made significant progress in production and exports of electronic goods. Exports from this Zone rose briskly from Rs. 6 crores in 1978-79 to Rs. 11 crores in 1979-80 and accounted for nearly 15 per cent of the country's total exports of electronic products in the latter year. At the end of 1979, 33 units were in production in the Zone. The construction of a second design factory building is expected to be completed in 1980.

The Kandla Free Trade Zone

The Kandla Free Trade Zone (KAFTZ), the only multi-product export processing zone in the country, also made good progress

during the year with export sales advancing to Rs. 9 crores from Rs. 5 crores in 1978-79. The number of industrial units in the Zone increased over the year from 39 to 45 and the number of industrial sheds from 80 to 116. Plans for construction of 30 bigger-sized sheds by the Gujarat Industrial Development Corporation (GIDC) were also finalised.

The Government of India have recently extended the following fiscal incentives to industrial units in the Zone: the enhancement of transport subsidy from 1 per cent to 2 per cent of the f.o.b. value of exports; reimbursement of Central sales tax to units in the Zone on their purchases from outside Gujarat; and the general exemption from payment of Central excise duty on excisable goods brought into KAFTZ for export production.

Trade Agreements and Economic and Technical Co-operation with other Countries

Trade agreements and trade and payments arrangements continued to play an important role in promoting and diversifying India's trade and in developing economic relations with other countries.

Trade Agreements and Trade and Payments Arrangements

During 1979-80, India concluded a new trade and payments arrangement with Czechoslovakia and fresh trade agreements with Cuba, the People's Democratic Republic of Yemen and the Philippines. Further, protocols of annual trade plans for 1980 were signed with Bulgaria, Czechoslovakia, the German Democratic Republic, Poland, Romania and the USSR in terms of the existing long-term trade and payments agreements with each of these countries.

The Trade and Transit Treaties with Nepal signed in September 1978 provide for concessional imports of certain Nepalese manufactured products into India. In pursuance of this provision, the Indo-Nepal Inter-Governmental Committee, at its second meeting held in September 1979, agreed upon (*i*) the procedures for determining the eligibility of products for concessional entry, (*ii*) the opening of one more route, viz., Dharchula, for free flow of goods traffic between the two countries, and (*iii*) the arrangements for exports of goods to Nepal under the duty draw-back procedure through two additional points, *viz.*, Nepalganj and Panitanki/Kakarbhitta.

A new trade and payments agreement with Czechoslovakia, was signed in December 1979, and came into force on January 1, 1980. It would remain valid for a period of five years. Like its predecessor, it provides for all payments for transactions to be made in non-convertible Indian rupees, with both the countries endeavouring to maintain their mutual trade on a balanced basis. The agreement calls for efforts at promotion and diversification of mutual trade, identification of new fields of economic co-operation, development and better utilisation of resources and production facilities in both countries on a mutually beneficial basis and joint marketing in third countries on the basis of the recommendations of the Indo-Czech Joint Committee for Economic, Trade and Technical Co-operation.

A trade agreement between India and the Republic of Cuba was signed on July 9, 1979. It is valid for 3 years and is renewable each year after the expiry of the three year period with the concurrence of the partner countries. It provides for maximisation of trade between the two countries within the framework of their respective domestic laws and regulations and for taking all necessary measures to strengthen and develop economic and technical co-operation between the two countries. Towards this goal, it was agreed to accord the most favoured nation (MFN) treatment to each other as also to arrange for the exchange of commercial and technical representatives/delegations, to hold trade fairs/exhibitions, to participate in other trade promotion activities and permit the use of free trade zones of one country by the other. All payments and charges arising out of commercial transactions are to be settled in convertible currencies acceptable to the two Governments. The more important commodities that could be traded between the two countries have also been identified and these include nickel oxide and nickel sinter, minerals, cement, construction materials, natural alcohol, basic pharmaceutical products, rayon fibres, equipment for industry and agriculture, sugar mill

equipment, and forged steel balls from Cuba, and spices, tyres, chemicals and pharmaceutical products, dyestuffs, aluminium ingots, copper wires and tubes, nuts and bolts, hand tools, motors, switchgears, pumping sets, railway equipment—including for maintenance and rolling stock, electrical machinery, wires and cables from India. Provision has also been made for setting up of a joint committee which, on request from either party, would examine and, if necessary, amend the indicative lists of items identified for trade exchange, recommend procedures for promoting trade exchanges and help solve problems arising in the implementation of the agreement.

A new trade agreement with the People's Democratic Republic of Yemen was concluded on April 23, 1979. The agreement would remain valid initially for a two-year period and could be extended by one year each time with the concurrence of both parties. The agreement provides for the the extension of the most favoured nation (MFN) treatment to each other and for mutual consultation on any other matter that may arise in the implementation of the agreement. For the latter purpose the two countries agreed to establish a joint commission of representatives of the two Governments which will meet on request from either party.

A trade agreement with the Philippines was signed on May 29, 1979 and will remain valid until such time as either of the contracting parties gives 3 months' notice of termination. The agreement provides, inter alia, that both countries would extend the most favoured nation (MFN) treatment to each other, covering customs duties and other charges on imports, exports and transfer payments, cargo bearing vessels of the two countries, rules and formalities in connection with customs clearance, internal taxes and charges and import and export licences. Provision is also made for exchange of visits by commercial and technical representative groups/delegations and for participation in trade fairs and exhibitions. The two Governments agreed on expanding co-operation and trade relations and to consult each other on other matters of mutual interest. Each such meeting will be held within 60 days from the date of receiving a request from either of the parties.

Economic and Technical Co-operation

In addition to the traditional exchange of commodities, India has been continuously exploring, new avenues of economic co-operation by way of co-operation in production, joint marketing and transfer of technical know-how through joint ventures abroad. The effort began with the East European countries, and was gradually extended to other countries, mainly the developing countries, which are similar to India in their aspirations, economic potentialities and attitudes.

The U.S.S.R.

India and the Soviet Union signed three agreements during 1980 which provide for mutual co-operation in agriculture, irrigation, science and technology. The first protocol, signed in February 1980, envisages collaboration between leading agricultural research institutions of the two countries in the exchange of scientific information, literature and research methodology in areas such as crop, soil and animal science, plant protection, agricultural engineering, post harvest technology, solar and other sources of energy, and recycling of agricultural wastes. It was also agreed to hold four symposia, two in India and two in the Soviet Union, in this connection. The second protocol was signed in March 1980 which sets out a three-year (1980-83) programme for Indo-Soviet co-operation in science and technology. The programme identifies specific projects in areas like magneto-hydro-dynamics, power generation, solar energy, powder metallurgy, corrosion of metals, metrology, lasers, systems analysis, earthquake prediction techniques, semi-conductors, standardisation, building materials, large scale housing, meteorology, etc. The two countries further agreed to co-operate in fundamental research through the exchange of scientists and information between the Indian National Science Academy and the USSR Academy of Sciences. The third protocol signed in April 1980 provides for mutual co-operation in the field of irrigation in the next three to four years. The agreement provides for the setting up of an enterprise in India for the production of pre-fabricated components for the construction of canal linings. Preliminary technical studies for three alternative units (with annual capacities of

9,000 cubic metres, 15,000 cubic metres and 100,000 cubic metres) have been prepared by Soviet experts and India is to decide on the size of the unit taking note of the cost estimates. The agreement also provides for collaboration between the two countries in designing and producing equipments for irrigation projects in third countries. The protocol further envisages co-operation between the two countries in the survey, research and design for high earth and rockfill dams, as also in the exchange of information on reclamation of saline land, development of arid and semi-arid zones, prevention of reservoir sedimentations and designs of large canal systems.

Czechoslovakia

A protocol was signed in June 1979 with Czechoslovakia in terms of which it was agreed to institute measures designed to double the trade flow between the two countries over the years 1981 to 1985. For this purpose, the two sides agreed to identify various commodities with long term potential of exchange between the two countries. The Government of Czechoslovakia agreed to extend the period for the utilisation of its credit to India upto the end of 1980. Areas identified for utilisation of the credit were: cement, metallurgical, chemical and fertilizer plants. The two countries also agreed to explore opportunities for collaboration in third country projects. The protocol identified the areas of technical co-operation between the two countries and these included manufacture of heavy machine tools like horizontal and vertical boring machines, high capacity cement plants, radar equipment, transmitters, transmitter tubes and computer peripherals. A new programme of action for such technical co-operation was drawn up for the period June 1979 to December 1980.

Yugoslavia

India and Yugoslavia signed a new trade pact on June 26, 1979 which envisages doubling of the trade turnover between the two countries in the next five years. To this end, Yugoslavia agreed to supply a number of industrial raw materials like newsprint pulp, aluminium, fertilisers and soda ash. Both countries agreed to set up large joint production ventures in tractors and trucks which will not only meet the requirements of the two countries but will also produce surpluses for export. It was further agreed to expand the leather factory at Madras, set up with Yugoslav help, for export production. Yugoslavia has sought Indian technical assistance in setting up gobar gas plants. The two countries also decided to participate, on a large scale, in annual trade fairs in each other's territory. Yugoslavia is to expand its trade centre in Bombay and establish new ones in Madras and Calcutta.

France

India and France signed a protocol on January 28, 1980, with the object of promoting trade and development of economic, agricultural, industrial and technical collaboration between the two countries in sectors of common interest. It was agreed that the two countries would (*i*) explore possibilities of collaboration between industrial firms of the two countries for joint manufacture of components and finished goods on the basis of comparative advantage and mutual benefits so as to take the maximum advantage of relative production costs in the two countries; (*ii*) grant facilities to each other for commercial transactions in respect of third country projects; (*iii*) promote industrial and commercial contacts, particularly between small and medium scale enterprises in both countries; (*iv*) facilitate exchange of information and co-ordination on all subjects which have a bearing on co-operation in the economic field; and (*v*) promote exchange of visits by individuals/groups/delegations from trade, economic and industrial circles, organise fairs and exhibitions for development of trade in items of special interest and exchange technical assistance in order to encourage mutual trade. It was also agreed that the Indo-French Committee on Economic and Technical Co-operation may set up ad hoc working groups to organise studies on specific problems of mutual interest and would oversee the implementation of this protocol. The agreement is to remain valid for a period of five years and will be extended for further periods by mutual consent. Provision is also made for its termination on notice of six months given by either of the signatories.

Senegal

On April 30, 1979 a protocol arrangement was concluded with Senegal whereunder India agreed to extend technical assistance to that country in various fields including in building big irrigation projects and in setting up industries for the manufacture of agricultural machinery.

Nigeria

A protocol was signed with Nigeria on August 2, 1979 which formalised the memorandum of understanding on technical and economic co-operation between the two countries reached in December 1977. The agreement identifies the areas of technical co-operation in agriculture, commerce, industry, petroleum, mining, education and consultancy services and provides for the setting up of a joint commission to supervise the projects in agreed areas.

Algeria

On February 29, 1980 India and Algeria signed an agreement on technical co-operation and a cultural exchange programme, and exchanged letters assuring parity according to international standards in employment conditions of Indian experts in Algeria. The two countries also signed documents for setting up a joint commission to oversee the operation of the entire range of Indio-Algerian economic relations.

Libya

The Indo-Libyan Joint Commission met in July 1979 and agreed to expand trade flows and technical co-operation in agricultural and irrigation sectors between the two countries. Tea and rice from India and chemical and petro-chemical products from Libya were identified as promising areas for expansion of trade between the two countries. A protocol was signed at the end of the meeting providing for mutual tax benefits and greater participation of Indian firms in large value projects in Libya. The tax concessions are expected to help Indian enterprises, personnel, air and shipping companies operating in Libya.

Bangladesh

Trade relations between India and Bangladesh which are governed by the Trade Agreement of September 1973, are reviewed at six monthly intervals. At the trade review talks held in October 1979 the two countries agreed on taking steps to expand and diversify trade between them and to provide greater content to the two-way flows. Further, India indicated its willingness to collaborate in mutually beneficial joint ventures in Bangladesh.

ECA

Discussions between India and the U.N. Economic Commission for Africa (ECA) on mutual co-operation were held in May and December 1979. Under an agreement signed India agreed to extend a grant of Rs. 50 lakhs to the U.N. Trust Fund. This grant is to be utilised by the ECA for financing the services of Indian experts and institutions associated with projects identified for collaboration. Projects identified for such collaboration include procurement and supply management, building materials production and construction services, rural technology and construction services, surveying and mapping.

INTERNATIONAL TRADE NEGOTIATIONS

Tokyo Round of Multilateral Trade Negotiations

A reference was made in the last Report to the Tokyo Round of Multilateral Trade Negotiations concluded in April 1979. At the 35th Session of the contracting parties to the General Agreement on Tariffs and Trade (GATT) held in November 1979, it was agreed to bring within the GATT framework agreements resulting from the Tokyo Round of Multilateral Trade Negotiations. In particular, member states took note of the two tariff protocols opened for acceptance during 1979, which included the commitments to cut tariffs made at the Tokyo Round of Multilateral Trade Negotiations. In the field of tariffs, India held bilateral consultations with the USA, the EEC, Japan and other developed countries and exchanged tariff concessions with them. The important items of export interest to India on which tariffs have been reduced by the USA are diamonds, woollen carpets (hand-knotted), handloom fabrics, mill-made fabrics, goat and kid leather, mica and mica products, jute yarn, wearing apparel for men and women, lace and net beddings, bed spreads, steel bars

and brass articles used in households. The concessions made by the EEC cover cotton fabrics, jute fabrics, colmates and mattings, woollen carpets, silk fabrics, leather and leather products and all handicrafts items. In the case of Japan, the duty has been reduced on shrimps and prawns, cuttle fish and quid, cashewnuts, walnuts, cotton fabrics, jute fabrics and cut diamonds. Other developed countries have also offered small concessions on some items of India's export interest. In return for these concessions, India has bound tariffs on a number of items though at a level higher than the current effective level, these items include rapeseed oil, certain textile and leather machinery, certain machine tools and other related items, soyabean oil, wood pulp for manufacture of newsprint, pulp excluding woodpulp, ferro-molybdenum, magnesium and alloys, power cranes, defibrillators, heart pacers and petroleum and gas well drilling equipments and parts thereof.

At their annual session in November 1979 member states adopted as integral parts of the GATT rules four important agreements on (1) differential and more favourable treatment, reciprocity and fuller participation of developing countries, (2) safeguard action for development purposes, (3) trade measures taken for balance of payments purposes, and (4) understading on notification, consultation, dispute settlement and surveillance in GATT—which relate to the fundamental provisions of the General Agreement on Tariffs and Trade, as they emerged from the Framework Negotiating Group. The code on subsidies and countervailing duties, the agreement on technical barriers to trade, the agreement on import licensing procedures and the revised GATT anti-dumping code, which were negotiated in the Tokyo Round, entered into force on January 1, 1980, while the new customs valuation code and the agreement on government procurement will come into effect on January 1, 1981. All these agreements contain provisions for consultation and dispute settlement. They also provide for more favourable treatment for developing countries. Standing committees or councils were set up in early 1980 to administer the agreements covering non-tariff measures which took effect on January 1, 1980. Each of the committees or councils set up to supervise the various Tokyo Round agreements will report regularly to GATT members as a whole on developments relating to operation of the agreements. In regard to a code for multilateral safeguards system, the GATT Council agreed with the proposal from the Director General that the negotiations, which had broken down at the Tokyo Round, should be continued in a Committee of the GATT rather than in the framework of the Tokyo Round. Resolution 131 of the UNCTAD conference at Manila in May 1979 invited GATT to examine protective measures taken against imports from developing countries ; accordingly the GATT Council decided to set up a sub-committee of GATT's Committee on Trade and Development for the purpose.

On July 9, 1980, India announced her decision to accept four of the six agreements on non-tariff measures concluded under the Tokyo Round, namely, agreements on subsidies and countervailing measures, anti-dumping, customs valuations and import licensing procedures.

The Common Fund under the Integrated Programme for Commodities

The proposal of an 'Integrated Programme for Commodities' adopted at UNCTAD IV in 1976 centered on the creation of a Common Fund for the stabilisation of commodity prices. After intensive negotiations in three preparatory meetings on the fundamental elements of a Common Fund for Commodities, five sessions of the Interim Committee of the Negotiating Conference on drafting the articles of agreement of the Fund, and four prolonged sessions of the 101 member-U.N. Negotiating Conference on the draft articles of agreement as emerged from the Interim Committee, the Articles of Agreement of the Common Fund for Commodities were finally adopted on June 27, 1980. The Agreement will come into force when at least 90 states representing two-thirds of the directly-contributed capital ratify it, and 50 per cent of the $ 280 million target set for voluntary contributions to the account set up to finance measures to improve structural conditions of commodity markets have been made. The Agreement is open for signature in New York as from October 1, 1980. The second condition about voluntary contributions has already been fulfilled with pledges thus far announced amounting to

about $ 223 million, including a contribution of $ 5 million by India. The Fund will be an autonomous institution with its own Governing Council, on which each member will be represented. An Executive Board, headed by a Managing Director will be responsible for the conduct of business. The Council will determine the fundamental policy of the Fund, decide on terms and conditions of accession to the Agreement and on modifications of its capital. The most important decisions, including constitutional decisions and those with significant financial implications, would be taken by a three-quarters majority. Other decisions, depending on their importance, would be subject to a two-thirds majority or a simple majority. The voting rights, which are not distributed among members strictly in proportion to obligatory contributions to the Fund, are first allocated among the three major groups of countries and China and then an individual country's votes are determined. The Group of 77 (developing countries) is allotted 47 per cent of the total votes, Group B (industrialised countries) 42 per cent, Group D (socialist countries) 8 per cent and China 3 per cent. There are 150 basic votes for each country and the balance of each regional group's share in the total votes are distributed among its member countries in proportion to each country's share in the total directly-contributed capital. In addition, each member receives one vote for each $ 50,000 of guarantee capital provided by it.

The Common Fund will have two accounts, the first account would finance buffer stocks by working through international commodity organisations (ICOs), and the second account would finance measures aimed at improving the structural conditions of commodity markets, such as research and productivity improvements to enhance the competitiveness of raw materials versus synthetics, measures to assist developing countries with marketing and processing of their own commodities and with vertical diversification of their economies. The Articles of Agreement stipulate that governments will provide a total of $ 470 million in obligatory contributions to the Fund, of which $ 100 million would not be used in operations but would only serve as a security for the Fund's borrowings. The balance $ 370 million would be paid in partly at the commencement of the Fund and partly as and when the Fund needed resources. The members' obligatory contributions to the Fund, amounting to $ 470 million have been allocated among the three groups of countries and China as follows : Group B countries — $ 241.6 million (51.4 per cent), the Group of 77— $ 151 million (32.1 per cent), Group D— $ 46 million (9.8 per cent) and China — $ 16 million (3.4 per cent). Countries not belonging to any of the above groups would provide the remaining 3.3 per cent. Members are required to allocate a part of their obligatory contributions to the second account, and such allocations in the aggregate should not be less than $ 70 million. Besides the allocations of $ 70 million from the members' obligatory contributions, voluntary funding would provide resources for the second account.

The international commodity organisations joining the Fund are required to deposit in the first account one-third of their maximum financial requirements for stocking (MFR), and the countries that participate in the ICOs are expected to provide the remaining two-thirds in the form of "guarantee capital". Provision is also made that in the event of the Fund not being able to meet its liabilities even after it has had recourse to all the guarantees provided by participants in defaulting ICOs, including those provided by them by virtue of their participation in other ICOs, the directly-contributed capital of the Fund would be increased by the amount needed. In that event, the Governing Council would meet in an emergency session to decide upon the modalities for such increase. Further, in the unlikely situation of possible default by the Fund which was unrelated to any ICO default, the guarantees available to the Fund would be fully 'fungible'. An ICO associated with the Fund is entitled to withdraw its cash deposits whenever needed for its stocking operations, as also to borrow upto two-thirds of its MFR from the Fund.

The financial structure of the first account should give the Fund a high credit rating on capital markets and enable it to make financial resources available to ICOs on more attractive terms than they could obtain on their own. The assurance of finance for buffer stocking can be a crucial factor in the success of negotiations on individual commodities.

United Nations Industrial Development Organisation

The United Nations Industrial Development Organisation (UNIDO) was set up in January 1967 for the purpose of promoting and accelerating the industrialisation of the developing countries with particular emphasis on the manufacturing sector, through the mobilisation of national and international resources. Its third general conference (UNIDO III) was held at New Delhi from January 21 to February 9, 1980. This Conference was convened by the United Nations' General Assembly Resolution 33/147 of February 1, 1979 to review and appraise the world industrial situation with specific reference to the implementation of the Lima Declaration and the Plan of Action on Industrial Development and Co-operation adopted at UNIDO II in 1975, which set the share of 25 per cent for the developing countries in the total world manufacturing output as a target to be attained by the year 2000. The Conference expressed serious concern over the lack of progress in the implementation of the Lima Declaration and the Plan of Action and emphasized the urgent need to accelerate the industrialisation of developing countries, as such development was required in order to consolidate national independence, enhance economic and technical capability, provide for social progress and offer greater opportunities for international co-operation.

As part of the agenda on ways and means of accelerating the industrialisation of developing countries in the 1980s and beyond, the UNIDO Secretariate placed before the Conference a document entitled "Industry 2000—New Perspectives" which called for new initiatives in international co-operation to help bring about the new international econmic order. The eight specific proposals put forth in the document relate to the creation of an international industrial finance agency, a global fund for the stimulation of industry, a commission for international industrial development law, a system for the resolution of industrial conflicts, an international centre for the joint acquisition of technology, an international patent examination centre and a trade target for manufactured exports from developing countires. The developed and developing nations, however, differed in their approaches to the international action needed to achieve the Lima target. In the absence of a consensus, the Group of 77 consisting of developing countries presented their own report to the Conference setting out the New Delhi Declaration and the Plan of Action on Industrialisation of Developing Countries and International Co-operation for their Industrial Development.

Reviewing the world industrial scene since the UNIDO II, the Group of 77 report drew pointed attention to the lack of progress in industrial development of developing countries and to the persistent and widening gap between developed and developing countries resulting from inadequate financial, material and technological resources transfer necessary to generate industrial capacities in developing countries. The report also emphasized the deterioration of developing countries' export earnings in real terms as a result of the stagnation in the prices of their exports. According to the report, while the developing countries generated 8.6 per cent of the world industrial production in 1975 their estimated share would have barely exceeded 9 per cent by 1979. The actual performance of the developed countries in the transfer of financial resources through official development assistance fell far short of the 0.7 per cent target; such assistance declined from 0.35 per cent in 1975 to 0.34 per cent in 1978. Against this background the G-77 called for immediate adoption by the developed countries of special additional measures to enable the developing countries to attain the Lima target and its related objectives, and strongly emphasized the responsibility of the developed countries to fully contribute financially and technologically to the efforts of the developing countries. The G-77 supported the establishment of an international industrial financing agency and a Global Fund to stimulate industry, and suggested that (*a*) the bulk of the resources of the Global Fund should come from the developed countries; (*b*) the developing countries with excess financial liquidity should contribute to it; (*c*) the Fund should be administered and controlled by the developing countries; (*d*) the level of the Fund should be substantial, reaching $ 300 billion by the year 2000; (*e*) the UNIDO should be responsible for preparing and justifying funding requirements on an annual basis upto the year 2000 and governments should make available necessary data regarding their requirements by identifying and preparing

industrial programmes and projects; (*f*) at least one-third of the resources of this Global Fund should be earmarked for least developed, land-locked, island developing and most seriously affected developing countries; and (*g*) financing by the Fund should be provided on soft terms.

Concerning the UNIDO Secretariate's proposals for the establishment of an international industrial technology institute, an international centre for joint acquisition of technology and an international patent examination centre, the Group of 77 stressed the need to strengthen existing national, regional and inter-regional industrial technology institutions and agencies in order to ensure that they are able to function effectively and to create such institutions where necessary with a view to developing the capacities of developing countries in regard to industrial technology. In this context, the G-77 highlighted certain functions which are necessary for generating increased and more appropriate flows of technology to developing countries, such as information on technologies and alternative suppliers, comparative prices, latest developments and innovations in the developed countries. These functions can only be discharged effectively if the national, regional and inter-regional centres have adequate funds available to them. The G-77 called upon the industrialised countries to display the political will necessary to facilitate an early adoption of the International Code of Conduct on the Transfer of Technology. An urgent improvement of the International Patent System was also urged in order to redress present imbalances and to serve as a useful tool for facilitating the transfer of industrial technology to developing countries and the development of indigenous industrial technology by revising the existing text of Paris Convention suitably.

The Group of 77 called upon the UNIDO Secretariate to create an effective mechanism to undertake the task of disaggregation of the Lima target into mid-term, industrial, sectoral and regional targets. Sectoral targets and sectoral disaggregation should be based on resources and needs and sectoral targets should be particularly established for major industrial sectors. It also advocated that new financial flows should meet the needs of all developing countries and accord priority to the special needs of the least developed, land-locked, island developing and most seriously affected developing countries, and in this context it called for the cancellation of the debts of the least developed countries and most seriously affected countries, as a means of alleviating their difficult economic and social situation.

In their statement the OECD member countries indicated that they shared the conviction of the developing countries that industrialisation has a major role to play in their broader development effort. But they held the view that the countries of the Third World should bear the main responsibility for their industrialisation, and stressed that domestic efforts aimed at raising the savings rate, increasing the efficiency of resource use and supplying the necessary social and physical infrastructure are of paramount importance for successful industrialisation. They conceded that external assistance and other resources should, however, complement, strengthen and reinforce domestic industrialisation efforts of developing countries. The OECD member countries also expressed readiness to assist in such areas as trade, investment and technical co-operation, in order to enable developing countries to increase their share of world trade in accordance with their comparative advantages. They agreed that more should be done to speed up the industrialisation process within the framework of an effective, open and inter-dependent world economy. Further, while recognising the continuing need for structural adjustment in the world economy, they believed that the process should rely as much as possible on market forces to encourage mobility of labour and capital for their most productive use and they considered that the concept of redeployment should be seen in this broad context of structural adjustment. Like-wise, in the international redeployment process they advocated that reliance should be placed as much as possible on the market system, characterised by the pluralism of factors and objectives, and that governments should play their role mainly by influencing it indirectly e.g. providing incentives and removing impediments.

Chapter X

Balance of Payments and International Monetary Developments

I. Balance of Payments and Developments in Reserves

Although detailed balance of payments data for the financial year 1979-80 are not yet available, developments in foreign exchange reserves clearly point to a weakening of the overall balance of payments situation. The rise in reserves in 1978-79, according to the balance of payments definition—foreign exchange assets, SDRs and gold—had already dropped to two-thirds from Rs. 1,555 crores in 1977-78 to around Rs. 1,000 crores. Over the year 1979-80 these reserves showed a substantially smaller surplus of about Rs. 370 crores; this was the result of a surplus of over Rs. 380 crores in the first and a deficit of Rs. 12 crores in the second half. The payments deficit gathered momentum thereafter. During the period April to September 1980, reserves would show a drop of over Rs. 900 crores if (*a*) the Compensatory Financing Facility drawing on the Fund of Rs. 274 crores and (*b*) the receipts from the Trust Fund loan of Rs. 541 crores that accrued to government were excluded.

The weakening in the balance of payments in 1979-80 and its further deterioration in the first half of 1980-81 is the result of a widening of the trade deficit as import payments rose substantially while exports remained sluggish in comparison, the underlying factors for which have been discussed at length in Chapter IX. The trade deficit, according to the DGCI & S data on merchandise trade, more than doubled, from Rs. 1,088 crores in 1978-79 to Rs. 2,262 crores in 1979-80, as imports rose by as much as 27 per cent while exports increased by only 12 per cent. The sizeable improvement in current invisible transactions indicated by the available information, assisted by the rise in external assistance net of amortisation, by Rs. 49 crores to Rs. 781 crores during 1979-80, seems to have more than covered the widened trade deficit, permitting a small overall surplus to emerge in the balance of payments during 1979-80.

The provisional and incomplete data on merchandise trade released by the DGCI & S for the quarter April-June 1980 show a trade deficit of Rs. 1,363 crores, roughly two and a half times that in 1979-80 at an annual rate. Allowing for exceptional imports of sugar etc., and the partial coverage of trade data for the first quarter, the rise in the oil import bill following the increase in oil prices generally and due to purchases in the spot market because of hostilities between Iran and Iraq, and the efforts that are being made to push up exports, it is likely that the trade deficit in 1980-81 as a whole might be somewhat less than twice that of the previous year. Indications are that invisible receipts may hold on at the 1979-80 level reflecting the impact of Middle-Eastern situation on private transfers and a slowdown in travel receipts because of recessionary conditions in industrialised countries, while there might be some further improvement in external assistance as visualised by the 1980-81 Central budget. The reserve developments during the first half of 1980-81 and the likely outcome in respect of trade, invisibles and aid referred to above portend that the overall deficit on the balance of payments during 1980-81 would be a sizeable one.

Foreign Exchange Reserves

As on end March 1980, the country's foreign exchange reserves comprised of foreign currency assets of Rs. 5,163.7 crores, SDR 529.1 million and gold of Rs. 224.7 crores. The foreign currency assets — the major component of exchange reserves—declined during the fiscal year 1979-80, by Rs. 56 crores, as against the rise of Rs. 720 crores in the preceding year. The other two components viz. the Special Drawing Rights (SDR) and gold rose over the year by SDR 164.2 million and Rs. 5.2 crores, respectively, but the growth in these items was smaller than those in 1978-79.

A turnaround of Rs. 776 crores in foreign currency assets during 1979-80 reflected, as

mentioned earlier, the adverse developments in merchandise trade. Transactions with the IMF, that resulted in a lower net outgo of Rs. 132 crores in foreign currency payments (payments towards SDR designations— Rs. 115 crores, the voluntary repurchase of rupees —Rs.20 crores, and use of rupees in operational budgets of the Fund—Rs. 35 crores *minus* receipts by way of interest subsidy on the 1975 Oil Facility—Rs. 2 crores and India's share of profits from gold sales by the Fund—Rs. 36 crores) than that of Rs. 387 crores in 1978-79, helped to limit the fall in foreign currency assets.

The SDR holdings during 1979-80 rose by SDR 164.2 million to SDR 529.1 million. The allocation of SDR 119.1 million, representing the second instalment of India's share in the total allocation of SDR 12 billion agreed for the period 1979-81 and the acquisition of SDR 110.1 million under the Fund's designation plans against payment of foreign currencies augmented the SDR holdings. During the year SDRs were used to the tune of SDR 59.9 million for a voluntary repurchase in May 1979 and SDR 5.1 million for the payment of charges to the Fund. In 1978-79, the allocation was of the same order as in 1979-80 but the designations at SDR 96.3 million were lower. The use of SDRs in 1978-79, however, was much smaller and was confined to the payment of charges amounting to SDR 12.1 million. The rise in SDR holdings during 1978-79 at SDR 203.3 million was, therefore, larger than in 1979-80.

The increase in gold holdings by Rs. 5.2 crores during 1979-80 was solely due to the restitution of gold by the IMF; in 1978-79 these also benefited from the acquisition under India's entitlement in respect of profits from sales of the Fund's gold for the benefit of developing countries.

At the end of September 1980, the foreign currency assets amounted to Rs. 5,209 crores showing a rise of only Rs. 45 crores during the first half of 1980-81. If the receipts from the Fund equivalent to Rs. 815 crores in August 1980 comprising a Trust Fund loan of Rs. 541 crores and a Compensatory Financing Facility drawing of Rs. 274 crores were excluded, the decline in the foreign currency assets during this period would amount to Rs. 770 crores indicating a turn-around in the payments position of the order of Rs. 1,186 crores in the first half of 1980-81 as compared to the corresponding period of the preceding year. While the gold holdings remained unchanged at Rs. 224.7 crores during April-September 1980, the fall in the SDR holdings of SDR 6.7 million to SDR 522.4 million was marginally lower than that of SDR 12.9 million in the same period of 1979-80.

II. External Assistance*

The net inflow of aid which had been steadily declining since 1976-77 showed a modest improvement during 1979-80. It rose over the year by Rs. 52 crores or 13 per cent to Rs. 449 crores as a result of both a rise in the aid utilisation and a fall in the outflow on account of debt service payments; during 1978-79 the net aid had fallen by Rs. 12 crores. Gross utilisation recorded a nominal rise of Rs. 33 crores or 3 per cent during 1979-80 as against Rs. 18 crores in the previous year. Debt service payments declined by Rs. 19 crores or 3 per cent to Rs. 678 crores during 1979-80, as against a rise of about 4 per cent in 1978-79. The net inflow during 1979-80 neared the levels reached in 1969-70 and 1974-75, but was still less than half the peak of Rs. 927 crores in 1975-76.

Authorisations

Aid authorisations, comprising loans and grants, which had shrunk considerably from Rs. 2,143 crores in 1975-76 to Rs. 967 crores in 1976-77 recovered in subsequent years to Rs. 2.037 crores in 1978-79. But these dropped again in 1979-80 by Rs. 628 crores or 31 per cent to Rs. 1,409 crores, almost entirely on account of the fall of Rs. 620 crores to Rs. 965 crores in loan authorisations. Authorisations of grants which had risen by Rs. 99 crores in 1978-79 declined by Rs. 8 crores to Rs. 444 crores in 1979-80 (Table X-1).

Loan authorisations plunged downwards mainly due to the drop in the IDA authorisa-

* The rupee values of authorisations, utilisations and undisbursed balances of aid to India are given at pre-December 1971 IMF par rates, unless specifically stated otherwise. In Tables X-1 to X-3 and X-5, however, the figures are also given for the years 1973-74 through 1979-80 at the rupee's relevant annual average rates of exchange.

Table X-1 : External Assistance
(Fiscal Years)

(Rupees Crores)

Items	Loans	Grants	P.L. 480 Aid	Total (2+3+4)
1	2	3	4	5
1. Amount undisbursed as at the end of March 1966 ..	**1,606**	**86**	**108**	**1,800**
2. Amount undisbursed as at the end of March 1969 ..	**1,604**	**25**	**123**	**1,752**
3. Authorisations during 1969-74	**3,806**	**197**	**32**	**4,035**
4. Authorisations during				
(*a*) 1974-75	1,144 (1,276)	128 (146)	—	1,272 (1,422)
(*b*) 1975-76	1,770 (2,134)	373 (418)	—	2,143 (2,552)
(*c*) 1976-77	659 (871)	308 (320)	—	967 (1,191)
(*d*) 1977-78	1,450 (1,737)	353 (336)	—	1,803 (2,073)
(*e*) 1978-79	1,585 (1,864)	452 (488)	—	2,037 (2,352)
(*f*) 1979-80	965 (1,174)	444 (490)	—	1,409 (1,664)
Total	**7,573** **(9,056)**	**2,058** **(2,198)**	—	**9,631** **(11,254)**
5. Utilisation during 1969-74	**3,510**	**158**	**155**	**3,823**
6. Utilisation during				
(*a*) 1974-75	897 (1,007)	71 (80)	—	968 (1,087)
(*b*) 1975-76	1,171 (1,423)	265 (316)	—	1,436 (1,739)
(*c*) 1976-77	1,002 (1,269)	246 (260)	—	1,248 (1,529)
(*d*) 1977-78	810 (982)	266 (267)	—	1,076 (1,249)
(*e*) 1978-79	727 (934)	367 (398)	—	1,094 (1,332)
(*f*) 1979-80	838 (1,044)	289 (307)	—	1,127 (1,351)
Total	**5,445** **(6,659)**	**1,504** **(1,628)**	—	**6,949** **(8,287)**
7. Amount undisbursed as at the end of March 1980 ..	**4,028** **(4,594)**	**618** **(676)**	—	**4,646** **(5,270)**

Notes : (1) Loans include P. L. 480 Title I convertible currency credits. 'Loans' and 'Grants' include refinance credits and grants under debt relief, but they exclude rupee loans and grants out of P.L. 480 / P.L. 665 rupee counterpart funds. 'Grants' exclude grants under P.L. 480 Title II and III programmes as well. P.L. 480 aid comprises value of imports on rupee payment terms under P.L. 480 Title I programme.

(2) The rupee values of amounts undisbursed at the end of March 1966 (except those for P.L. 480 aid which are given at the pre-devaluation rate of exchange) are shown at the post-devaluation rate of exchange. The rupee values of amount undisbursed at the end of March 1969, the amounts authorised and utilised during each of the subsequent years and the amounts undisbursed at the end of March 1980 have been arrived at on the basis of pre-December 1971 IMF par values. Figures in brackets shown under each of the years 1974-75 to 1979-80 indicate the rupee values calculated at the rupee's annual average rate of exchange for the respective years, while figures in brackets shown against 'Amount undisbursed as at the end of March 1980', (item 7) represent rupee values, calculated at the rates prevalent at end-March 1980.

Table X-2 : Loans Authorised and Utilised during 1978-79 and 1979-80
(Fiscal Years)

(Rupees Crores)

Country/Institution	Authorisations								Utilisation							
	1978-79				1979-80				1978-79				1979-80			
	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. ..	1,372 (1,505)	—	—	1,372 (1,505)	575 (621)	—	—	575 (621)	379 (416)	1 (1)	—	380 (417)	522 (564)	—	—	522 (564)
2. E.E.C. (Special Action Credit)	—	—	—	—	37 (40)	—	—	37 (40)	—	—	—	—	22 (24)	—	—	22 (24)
3. I.F.A.D.	—	—	—	—	79 (85)	—	—	79 (85)	—	—	—	—	—	—	—	—
4. Canada	10 (10)	—	—	10 (10)	17 (17)	—	—	17 (17)	11 (11)	8 (8)	—	19 (19)	18 (18)	—	—	18 (18)
5. France	—	—	—	—	—	—	—	—	11 (15)	17 (24)	—	28 (39)	17 (24)	7 (10)	—	24 (34)
6. West Germany ..	54 (111)	21 (43)	—	75 (154)	52 (113)	22 (48)	—	74 (161)	29 (60)	32 (66)	—	61 (126)	32 (70)	21 (46)	—	53 (116)
7. Italy	—	—	—	—	—	—	—	—	—	1 (1)	—	1 (1)	—	5 (4)	—	5 (4)
8. Japan	—	13 (25)	—	13 (25)	19 (36)	—	—	19 (36)	12 (23)	37 (71)	—	49 (94)	23 (44)	7 (14)	—	30 (58)
9. Netherlands	—	43 (81)	—	43 (81)	—	34 (67)	—	34 (67)	—	33 (62)	—	33 (62)	—	40 (79)	—	40 (79)
10. Switzerland	—	—	—	—	—	—	—	—	1 (3)	—	—	1 (3)	1 (3)	—	—	1 (3)
11. U.K.	—	—	—	—	—	—	—	—	14 (12)	—	—	14 (12)	8 (8)	—	—	8 (8)
12. U.S.A.	44 (48)	—	—	44 (48)	105 (113)	—	—	105 (113)	—	20 (22)	—	20 (22)	39 (42)	—	—	39 (42)
13. O.P.E.C.*	20 (29)	3 (3)	—	23 (32)	15 (16)	1 (1)	—	16 (17)	87 (99)	3 (3)	—	90 (102)	35 (49)	1 (1)	—	36 (50)
14. U.S.S.R.	—	—	—	—	—	—	—	—	22 (22)	—	—	22 (22)	34 (34)	—	—	34 (34)
15. Hungary	—	—	—	—	—	—	—	—	1 (1)	—	—	1 (1)	—	—	—	—
16. Others	—	5 (9)	—	5 (9)	—	8 (15)	1 (2)	9 (17)	—	8 (14)	—	8 (14)	—	5 (8)	1 (2)	6 (10)
Total	**1,500 (1,703)**	**85 (161)**	—	**1,585 (1,864)**	**899 (1,041)**	**65 (131)**	**1 (2)**	**965 (1,174)**	**567 (662)**	**160 (272)**	—	**727 (934)**	**751 (880)**	**86 (162)**	**1 (2)**	**838 (1,044)**

Note : Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.

tions from Rs. 1,166 crores in the previous year to Rs. 387 crores in 1979-80. Loans authorised by the IBRD at Rs. 188 crores during 1979-80 were also lower by Rs. 18 crores than those sanctioned during 1978-79. For the first time in 1979-80, loan assistance was granted by two international sources viz. the International Fund for Agricultural Development (IFAD) (Rs. 79 crores) and the European Economic Community (EEC) (Rs. 37 crores); the latter source authorised only cash and commodity grants until 1978-79. Both the IFAD and the EEC loans are to be administered through the IDA. The loan authorisations by the USA more than doubled from Rs. 44 crores in 1978-79 to Rs. 105 crores in 1979-80. Among other countries which increased loan authorisations during 1979-80 were Canada, Japan and West Germany. The Netherlands and the OPEC on the other hand slightly reduced loan authorisations in 1979-80, while there have been no fresh aid authorisations by the USSR in the last two years (Table X-2).

Despite fresh tied loan authorisations of Rs. 116 crores by the EEC and the IFAD, and the rise from Rs. 44 crores in 1978-79 to Rs. 105 crores, in the loan authorisations from the USA, all of which are for projects, the total project loan authorisations dropped by Rs. 601 crores or 40 per cent in 1979-80 to Rs. 899 crores from those of Rs. 1,500 crores in the preceding year, because of the contraction in the project authorisations from the IBRD/IDA. The drop in project loan authorisations, however, resulted only in a nominal fall in the share of project loans in total loan authorisations from 95 per cent in 1978-79 to 93 per cent in 1979-80.

Non-project loan authorisations declined by Rs. 20 crores to Rs. 65 crores in 1979-80 but its share in total loan authorisations rose from 5 per cent in 1978-79 to 7 per cent in 1979-80, because of the larger fall in the project-loan authorisations. Non-project loan authorisations by West Germany and 'Others' increased marginally while those from the Netherlands and the OPEC declined, and Japan did not authorise any such loans in 1979-80 as against the authorisations of Rs. 13 crores in 1978-79.

Though the authorisations of grants including debt relief grants at Rs. 444 crores during 1979-80 were slightly lower than in the previous year, their share in total aid authorisations in 1979-80 rose from 22 per cent in 1978-79 to 32 per cent due to a steep decline in loan authorisations. Country-wise, assistance from the United Kingdom, Sweden and Switzerland continued to be only in the form of grants, and comprised 73 per cent of the total grants authorised during 1979-80. The sharp fall in grant authorisations by Sweden from Rs. 109 crores in 1978-79 to Rs. 30 crores in 1979-80 was nearly made good by a step-up in the EEC grants from Rs. 10 crores in 1978-79 to Rs. 80 crores (Table X-3).

There were no significant changes in the terms of assistance granted by the donor countries.

Debt Relief

Along with other developing countries, India has been urging substantial relief from debt service burden. Such assistance which had ranged between Rs. 90 crores and Rs. 115 crores during 1974-75 to 1976-77, dropped to a meagre Rs.26 crores in 1977-78 (Table X-4).

During 1978-79 the debt relief assistance shot up to Rs. 136 crores because of conversion of loan obligations into grants by the Swedish and Swiss Governments supplemented by the debt relief provided by the U.K. In 1979-80 the debt relief assistance declined somewhat to Rs. 122 crores. The U.K., the main contributor in 1979-80, increased its debt relief from Rs. 36 crores in 1978-79 to Rs. 116 crores in this year, and accounted for 95 per cent of the total debt relief assistance in the year under review.

Trends in Utilisation

At the commencement of 1979-80, aid available in the pipeline was Rs. 4,364 crores (revised). This together with the fresh aid authorisations of Rs. 1,409 crores amounted to Rs. 5,773 crores which constituted the aid available for utilisation during the year 1979-80. Of this, Rs. 4,599 crores represented project assistance amounting to 80 per cent of the total aid availability, Rs. 267 crores, non-project loans and Rs. 907 crores, grants.

Table X-3 : Grants@ Authorised and Utilised during 1978-79 and 1979-80

(Fiscal Years)

(Rupees Crores)

Country / Institution	Authorisations		Utilisation	
	1978-79	1979-80	1978-79	1979-80
1	2	3	4	5
1. Australia	—	1 (1)	—	1 (1)
2. Canada	4 (4)	14 (14)	4 (4)	14 (14)
3. Denmark	1 (2)	—	1 (2)	—
4. West Germany	1 (2)	—	1 (2)	1 (2)
5. Japan	10 (19)	11 (21)	—	9 (17)
6. Netherlands	5 (10)	13 (26)	3 (6)	1 (2)
7. Sweden	109 (139)	30 (40)	108 (138)	22 (29)
8. Switzerland	14 (37)	7 (19)	12 (31)	1 (3)
9. U.K.	297 (263)	288 (283)	222 (197)	199 (195)
10. U.S.A. (Other than PL 480 / 665)	1 (1)	—	—	—
11. E.E.C.	10 (11)	80 (86)	16 (18)	41 (44)
Total	**452 (488)**	**444 (490)**	**367 (398)**	**289 (307)**

Note : Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

@ Including Debt Relief.

Total aid utilised improved by 3 per cent to Rs. 1,127 crores in 1979-80 and worked out to nearly one-fifth of the available aid. There was a substantial rise in the utilisation of project loans, but this was offset to a large extent by lower utilisation of non-project aid. Utilisation of project loans increased by nearly a third to Rs. 751 crores mainly because of higher utilisation of the IBRD/IDA loans and those from the U.S.A. Utilisation of project aid as a proportion of available aid of this type marginally increased to roughly one-fifth.

Utilisation of non-project loans almost halved from Rs. 160 crores in 1978-79 to Rs. 86 crores in 1979-80 due to lower availability of non-project loans. The fall in utilisation of grants by over one-fifth to Rs. 289 crores was because of the drop in the Swedish grant authorisations. Nearly one-third of the available non-project aid was utilised during 1979-80.

Debt Servicing

Debt service payments (amortisation and interest payments) which at Rs. 697 crores in 1978-79 respresented the peak of the decade, declined by Rs. 19 crores in 1979-80 because of lower amortisation payments (Table X-5). Owing to higher gross aid receipts and lower

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	1979-80	1966-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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	—	60	5,87	1,50	2,25	3,00	1,35	—	60
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**	**—**	**60**	**321,72**	**88,91**	**40,72**	**47,19**	**34,23**	**—**	**60**
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	115,71	—	—	20,16	21,78	7,20	12,83	26,33
9. Japan	—	—	—	—	—	6,04	5,60	—	—	—	—	—	—	1,89
10. Switzerland	—	—	—	—	—	14,03	—	—	—	—	—	—	11,86	—
Total-D	**37,60**	**71**	**27,39**	**27,04**	**11,70**	**135,75**	**121,31**	**37,75**	**67**	**27,39**	**27,04**	**11,70**	**102,39**	**28,22**
E. By way of reduction of interest payments														
Netherlands	—	—	—	—	—	—	19	—	—	—	—	—	—	19
Total—E	**—**	**—**	**—**	**—**	**—**	**—**	19	**—**	**—**	**—**	**—**	**—**	**—**	19
Grand Total	**576,36**	**115,71**	**93,69**	**101,74**	**26,28**	**135,75**	**122,10**	**559,81**	**114,88**	**93,64**	**99,73**	**45,93**	**102,39**	**29,01**

Table X-5 : Inflow of Foreign Assistance — Gross and Net

(Fiscal Years)

(Rupees Crores)

Year	Gross utilisation	Amortisation payments	Interest payments	Total debt services (3+4)	Net inflow of aid (2—5)
1	2	3	4	5	6
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 (1,087)	331 (368)	181 (201)	512 (569)	456 (518)
1975-76	1,436 (1,739)	335 (427)	174 (224)	509 (651)	927 (1,088)
1976-77	1,248 (1,529)	383 (471)	187 (242)	570 (713)	678 (816)
1977-78	1,076 (1,249)	464 (561)	203 (260)	667 (821)	409 (428)
1978-79	1,094 (1,332)	479 (600)	218 (286)	697 (886)	397 (446)
1979-80	1,127 (1,351)	440 (570)	238 (301)	678 (871)	449 (480)

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 average annual rates of exchange prevalent during respective years.

3. Both amortisation and interest payments exclude payments which are either postponed or rescheduled as under :

(Rupees Crores)

Country/Institution	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Japan ..	14	19	15	25	31	25	26	25	—	—	—
I.B.R.D. ..	11	11	—	—	—	—	—	—	—	—	—
U.S.A. ..	7	7	7	—	—	—	—	—	—	—	—
Canada ..	1	1	1	1	1	—	—	—	—	—	—
Total ..	**33**	**38**	**23**	**26**	32 (44)	**25** (32)	**26** (36)	**25** (36)	—	—	—

debt service payments, the debt servicing as a proportion of aid declined from 64 per cent in 1978-79 to 60 per cent in 1979-80. At current prices, the debt service payments as a proportion of exports declined from 15.5 per cent in 1978-79 to 13.6 per cent during the year under review.

Cumulative Assistance

Total external assistance authorised to India from August 15, 1947 to end-March 1980 amounted to Rs. 24, 768 crores, of which four-fifths was in the form of loans (Table X-6). Since 1975-76 the quantum of grants has im-

Table X-6 : Aggregate External Assistance

(Fiscal Years)

(Rupees Crores)

Period	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total (2+3+4)
1	2	3	4	5
Authorisations from August 15, 1947				
1. Upto March 1966	5,952	617	1,511	8,080
2. Upto March 1969	8,185	784	2,133	11,102
3. Upto March 1974	11,991	981	2,165	15,137
4. Authorisations during				
(*a*) 1974-75	1,144	128	—	1,272
(*b*) 1975-76	1,770	373	—	2,143
(*c*) 1976-77	659	308	—	967
(*d*) 1977-78	1,450	353	—	1,803
(*e*) 1978-79	1,585	452	—	2,037
(*f*) 1979-80	965	444	—	1,409
Total (Upto March 1980)	**19,564**	**3,039**	**2,165@**	**24,768**
Utilisation from August 15, 1947				
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
(*f*) 1979-80	838	289	—	1,127
Total (Upto March 1980)	**15,536**	**2,421**	**2,277**	**20,234**

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.

proved, with the result that their share in cumulative assistance has increased progressively to 12 per cent at the end of March 1980. Assistance utilised upto the end of March 1980 aggregated to Rs. 20,234 crores or 82 per cent of the total authorised. The combined authorisations by the IBRD and the IDA rose from Rs. 6,604 crores at end-March 1979 to Rs. 7,171 crores at end-March 1980 and maintained their share in the total authorisations at around 29 per cent (Table X-7). Similarly, utilisation of assistance provided by these institutions increased from Rs. 4,020 crores to Rs. 4,542 crores over the year and formed 22 per cent of the total aid utilised as at end-March 1980.

The U.S.A. continues to top the list of donor countries in terms of cumulative aid authorisations and utilisation, followed at a distance by the U.K.. The U.S. contribution to total amounts authorised and utilised at end-March

Table X-7 : Aggregate External Assistance — Source-wise

(End-March 1980)

(Rupees Crores)

Country/Institution	Authorisations				Utilisation			
	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total (2+3+4)	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total (6+7+8)
1	2	3	4	5	6	7	8	9
I.B.R.D./I.D.A. ..	7,171	—	—	7,171 (29.0)	4,542	—	—	4,542 (22.4)
United Nations ..	—	44	—	44 (0.2)	—	44	—	44 (0.2)
E.E.C.	37@	223	—	260 (1.0)	22@	171	—	193 (0.9)
I.F.A.D.	79	—	—	79 (0.3)	—	—	—	—
U.S.A.	3,808	287	2,165	6,260 (25.3)	3,696	277	2,277	6,250 (30.9)
U.S.S.R.	1,431	12	—	1,443 (5.8)	1,056	11	—	1,067 (5.3)
U.K.	1,419	1,303	—	2,722 (11.0)	1,407	835	—	2,242 (11.1)
West Germany ..	1,548	43	—	1,591 (6.4)	1,397	41	—	1,438 (7.1)
Japan	722	22	—	744 (3.0)	691	10	—	701 (3.5)
O.P.E.C.*	1,287	—	—	1,287 (5.2)	942	—	—	942 (4.7)
Others	2,062	1,105	—	3,167 (12.8)	1,783	1,032	—	2,815 (13.9)
Total	**19,564**	**3,039**	**2,165**	**24,768 (100.0)**	**15,536**	**2,421**	**2,277**	**20,234 (100.0)**

Notes : 1. Please refer to notes to Table X-1.
2. Figures in brackets represent percentage to the total.

@ Relates to Special Action Credit.

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and the OPEC Special Fund.

1980, however, declined marginally to 25 per cent and 31 per cent, respectively, from 26 per cent and 33 per cent 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 1980, total assistance, comprising loans and grants, available in the pipeline was of the order of Rs. 4,646 crores- Rs. 282 crores higher than that at the commencement of the year. Of this, Rs. 3,848 crores or 83 per cent represented project assistance, Rs. 180 crores non-project loans and Rs. 618 crores grants.

Aid Prospects for 1980-81

The Central Government budget for 1980-81 estimates gross external assistance of Rs. 1,736 crores for the year showing a rise of over one-fourth over revised estimates of Rs. 1,370 crores for 1979-80. Net aid (net of loan repayments and interest) is placed at Rs. 1,000 crores in 1980-81 or broadly one-half more than in the preceding year.

At the meeting of the Aid-India Consortium held in Paris on July 3, and 4, 1980, members of the Consortium were appreciative of the fact that 1979-80 was a difficult year for the Indian economy because of one of the most severe droughts and failure of the infrastructure management, and which led to a decline in national income. It seemed to be well understood by the members that the weakening in the balance of payments situation during the second-half of 1979-80 was largely the result of external factors, and that the situation would continue to worsen further due to continued deterioration in the terms of trade following the rise in prices of oil and oil products, and other items, and the unfavourable prospects for growth in world trade. The current year's pledges by Consortium members at US $ 3.4 billion were marginally higher by US $ 100 million over those for the last year; in real terms, however, the assistance pledged is somewhat lower than that for 1979-80. The figure for the last year did not cover the U.K. and Canada, which had not made any formal commitments at the Consortium meeting held in June 1979, as their Governments had taken over only a few days before the meeting. Of the total pledges of US $ 3.4 billion for 1980-81, $ 2 billion are accounted for by the IBRD/IDA group. In respect of most other countries, the levels of assistance pledged are more or less the same as in the preceding year.

III. India's External Assistance to Other Countries

For a number of years India has been extending assistance to other developing countries. Assistance authorised by India during 1979-80 amounted to Rs. 105 crores, only about 1 per cent higher than in 1978-79 (Table X-8). Nearly 46 per cent of the authorised aid was in the form of grants. The bulk of the aid authorised was to Bhutan and Bangladesh. As in the last year, Bhutan was sanctioned the highest amount in 1979-80 though at Rs. 35 crores it was lower than that of Rs. 43 crores in the previous year; Rs. 30 crores of the authorisations to Bhutan in 1979-80 represented grants. Loan authorisations to Bangladesh amounted to Rs. 29 crores in 1979-80 which came after a gap of three years. The assistance to Nepal of Rs. 15 crores during 1979-80 was in grants and was about Rs. 5 crores more than in the preceding year. Loan authorisations of Rs. 11 crores made to Sri Lanka during 1979-80 were a little more than double the authorisation in the previous year. Zambia, for the first time, was authorised a loan of Rs. 10 crores during the year.

Utilisation

Assistance from India utilised by the beneficiary countries during the year amounted to Rs. 114 crores, and was higher by 4 per cent as compared to previous year. While Bhutan, Bangladesh and Tanzania utilised the entire amount sanctioned in the year, till end-March 1980, Zambia did not utilise the loan authorised.

Cumulative Assistance Granted

Upto the end of March 1980, cumulative aid authorisations by India amounted to Rs. 906 crores, of which three-fifths were in the form of grants (Table X-9). Bangladesh continued to top the list of beneficiaries, and its share in total aid authorisations went up from 28 per cent in 1978-79 to 29 per cent in 1979-80. It was followed by Bhutan and Nepal sharing

Table X-8 : Assistance Extended by India to Other Countries

(Fiscal Years)

(Rupees Crores)

Country/Programme	Authorisations						Utilisation					
	1978-79			1979-80			1978-79			1979-80		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
	1	2	3	4	5	6	7	8	9	10	11	12
1 Afghanistan ..	—	—	—	—	—	—	5.0	—	5.0	1.4	—	1.4
2. Bangladesh ..	—	—	—	29.3	0.1	29.4	0.2	0.2	0.4	29.3	0.1	29.4
3. Bhutan	7.2	36.2	43.4	5.2	29.7	34.9	7.2	36.2	45.4	5.2	29.7	34.9
4. Mauritius ..	—	—	—	—	—	—	1.0	—	1.0	2.1	—	2.1
5. Nepal	—	9.4	9.4	—	14.7	14.7	0.1	8.4	8.5	—	13.6	13.6
8. Sri Lanka ..	4.8	—	4.8	11.3	—	11.3	15.8	—	15.8	3.6	—	3.6
7. Tanzania.. ..	2.0	—	2.0	0.4	—	0.4	5.0	—	5.0	0.4	—	0.4
8 Vietnam ..	41.2	—	41.2	—	—	—	27.5	—	27.5	24.1	—	24.1
9. Zambia ..	—	—	—	10.0	—	10.0	—	—	—	—	—	—
10. Assistance under ITEC Programme@	—	3.0	3.0	—	4.0	4.0	—	3.0	3.0	—	4.0	4.0
Total	**55.2**	**48.6**	**103.8**	**56.2**	**48.5**	**104.7**	**67.8**	**47.8**	**109.6**	**66.1**	**47.4**	**113.5**

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.

Table X-9 : Aggregate Assistance Extended by India to Other Countries

(Upto March 1980)

(Rupees Crores)

Country/Programme	Authorisations			Utilisation			Amount undisbursed as at the end of March 1980		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
	1	2	3	4	5	6	7	8	9
1. Afghanistan	6.4	—	6.4	6.4	—	6.4	—	—	—
2. Bangladesh	116.3	145.5	261.8	91.9	130.7	222.6	24.4	14.8	39.2
3. Bhutan	20.4	201.6	222.0	20.4	201.3	221.7	—	0.3	0.3
4. Burma	20.0	—	20.0	20.0	—	20.0	—	—	—
5. Indonesia	10.0	—	10.0	10.0	—	10.0	—	—	—
6. Mauritius	15.0	—	15.0	4.0	—	4.0	11.0	—	11.0
7. Nepal	21.5	171.9	193.4	21.5	159.4	180.9	—	12.5	12.5
8. Sri Lanka	70.6	—	70.6	50.5	—	50.5	20.1	—	20.1
9. Tanzania	7.4	—	7.4	5.4	—	5.4	2.0	—	2.0
10. Vietnam	63.9	—	63.9	53.2	—	53.2	10.7	—	10.7
11. Zambia	10.0	—	10.0	—	—	—	10.0	—	10.0
12. Assistance under ITEC Programme @	—	25.4	25.4	—	25.4	25.4	—	—	—
Total	**361.5**	**544.4**	**905.9**	**283.3**	**516.8**	**800.1**	**78.2**	**27.6**	**105.8**

Note : Refer to notes to Table X-8.

@ Country-wise details not are available.

25 and 22 per cent, respectively, of the assistance authorized. By end-March 1980, aid utilised by recipient countries aggregated to Rs. 800 crores or 88 per cent of the aid authorised.

IV. Foreign Investment Policy

The foreign investment policy during the period under review remained generally unchanged. In October 1980, the policy was liberalised in the light of the changed balance of payments situation and to attract resources from Oil Exporting Developing Countries (OEDCs).

In the planned economic development of the country, foreign investment has basically been viewed as a vehicle for securing technology not indigenously available and for promoting export-oriented production. In view of the weakening in country's balance of payments position and in the context of the emerging new international situation, it is of most importance to increase exports and wherever possible to minimise imports through import substitution. While the country has the indigenous technology in many areas, investments required to set up adequate number of units in those fields to achieve the export promotion or import substitution are large and cannot be accommodated within the visualised domestic savings. Fertilisers, cement, petro-chemicals, paper and pulp are some of the industries in which there is scope for foreign investment leading to saving of foreign exchange through reduction in import dependence. While OEDCs have substantial financial resources, they may not have the type of technology India needs. In order to tap the resources of OEDCs, the government revised the foreign investment policy in October 1980 so that investment proposals from these countries need not be associated with transfer of technology from the investor and that such investments may be of a portfolio nature.

Within the framework of the overall investment policy of the Government, it was accordingly decided to provide the following facilities :

(*a*) Investment from OEDCs may be permitted in new companies even if it is in the nature of portfolio investment.

(*b*) Such investments should not exceed 40 per cent in the equity.

(*c*) The new companies should be export-oriented or should undertake manufacturing activities covered under Appendix I of the Industrial Policy of 1973.

(*d*) Investment on the aforesaid pattern may be allowed in hotels.

(*e*) Investment may also be allowed in new hospital projects and such hospitals should have adequate provision for out-door and emergency medical service to the general public and also for a minimum percentage of occupancy by Indian public.

(*f*) Loans should also be allowed to be raised abroad for such joint ventures provided the terms are reasonable.

Consents for Capital Issues to Non-residents

The year 1979-80 was not a satisfactory one from the point of consents granted to joint stock companies for raising money from non-residents. Not only the total magnitude of consents granted by the Controller of Capital Issues to companies for non-resident participation which had almost doubled in 1978-79 to Rs. 157.3 crores dropped to the lowest level in recent years to Rs. 37.3 crores during 1979-80, but its proportion to total consents for capital issues also fell sharply from 39.5 per cent in 1978-79 to barely 9.9 per cent in 1979-80 as would be seen from table X-10.

The drop in consents for participation by non-residents during 1979-80 was particularly steep under 'initial issues', 'further issues' and 'loans, etc.' Consents for 'initial issues' fell sharply from Rs. 24.3 crores in 1978-79 to Rs. 1.9 crores in 1979-80 those for 'further issues' from Rs. 6.5 crores to Rs. 1.1 crores and those for 'loans, etc.' from Rs. 96.2 crores to Rs. 11.9 crores. The drop in consents for 'bonus issues' to non-residents from Rs. 30.3 crores in 1978-79 to Rs. 15.9 crores in 1979-80 was relatively less precipitous. On the other hand, for the first time in recent years a consent was given in 1979-80 for participation by non-residents in a 'debenture issue' upto Rs. 6.5 crores.

Table X-10 : Consents for Capital Issues* : Aggregate and by Non-Residents (N.R.) : 1977-78 to 1979-80 (Provisional)

(Rupees crores)

Year (April to March)	Initial Issues			Further Issues			Bonus Issues		
	Total	N.R.	2 as % of 1	Total	N.R.	5 as % of 4	Total	N.R.	8 as % of 7
	1	2	3	4	5	6	7	8	9
1977-78 ..	52.1	7.6	14.5	66.4	2.0	3.0	92.1	37.8	41.0
1978-79 ..	69.3	24.3	35.1	52.2	6.5	12.5	94.7	30.3	32.0
1979-80 ..	45.7	1.9	4.2	61.6	1.1	1.8	67.7	15.9	23.5

(Rupees crores)

Year (April to March)	Debenture Issues			Loans, etc.			Total		
	Total	N.R.	11 as % of 10	Total	N.R	14 as % of 13	Total	N.R.	17 as % of 16
	10	11	12	13	14	15	16	17	18
1977-78 ..	32.3	—	—	44.5	41.4	93.0	287.4	88.8	30.9
1978-79 ..	65.3	—	—	116.5	96.2	82.6	398.0	157.3	39.5
1979-80 ..	138.1	6.5	4.7	63.9	11.9	18.6	377.0	37.3	9.9

* Non-Government Public Limited Companies.

Technical Collaboration Arrangements

Approvals granted for financial/technical collaboration arrangements during the financial year 1979-80 at 288 were also lower than those of 308 during the year 1978-79.

V. Developments in Exchange Control

Pursuant to fluctuations in exchange rates of major international currencies, following changes in the rupee rate with the pound sterling were made during the period July 1, 1979 to end-October 1980 :

Table X-11 : R. B. I.'s Spot Rates for Purchase and Sale of Pound Sterling

Date	Buying Rate	Selling Rate	Middle Rate Per £ 1
2-7-1979	£ 5.7143 per Rs. 100/- (or Rs. 17.50 per £ 1)	£ 5.6818 per Rs. 100/- (or Rs. 17.60 per £ 1)	Rs. 17.55
6-7-1979	£ 5.6497 per Rs. 100/- (or Rs. 17.70 per £ 1)	£ 5.6180 per Rs. 100/- (or Rs. 17.80 per £ 1)	Rs. 17.75
19-7-1979	£ 5.5710 per Rs. 100/- (or Rs. 17.95 per £ 1)	£ 5.5402 per Rs. 100/- (or Rs. 18.05 per £ 1)	Rs. 18.00
15-9-1979	£ 5.6497 per Rs. 100/- (or Rs. 17.70 per £ 1)	£ 5.6180 per Rs. 100/- (or Rs. 17.80 per £ 1)	Rs. 17.75
24-10-1979	£ 5.7307 per Rs. 100/- (or Rs. 17.45 per £ 1)	£ 5.6980 per Rs. 100/- (or Rs. 17.55 per £ 1)	Rs. 17.50
31-10-1979	£ 5.8140 per Rs. 100/- (or Rs. 17.20 per £ 1)	£ 5.7803 per Rs. 100/- (or Rs. 17.30 per £ 1)	Rs. 17.25
19-11-1979	£ 5.7143 per Rs. 100/- (or Rs. 17.50 per £ 1)	£ 5.6818 per Rs. 100/- (or Rs. 17.60 per £ 1)	Rs. 17.55
4-12-1979	£ 5.6338 per Rs. 100/- (or Rs. 17.75 per £ 1)	£ 5.6022 per Rs. 100/- (or Rs. 17.85 per £ 1)	Rs. 17.80
9- 1-1980	£ 5.5710 per Rs. 100/- (or Rs. 17.95 per £ 1)	£ 5.5402 per Rs. 100/- (or Rs. 18.05 per £ 1)	Rs. 18.00
21- 1-1980	£ 5.5249 per Rs. 100/- (or Rs. 18.10 per £ 1)	£ 5.4945 per Rs. 100/- (or Rs. 18.20 per £ 1)	Rs. 18.15
15- 2-1980	£ 5.4945 per Rs. 100/- (or Rs. 18.20 per £ 1)	£ 5.4645 per Rs. 100/- (or Rs. 18.30 per £ 1)	Rs. 18.25
5- 3-1980	£ 5.5249 per Rs. 100/- (or Rs. 18.10 per £ 1)	£ 5.4945 per Rs. 100/- (or Rs. 18.20 per £ 1)	Rs. 18.15

Date	Buying Rate	Selling Rate	Middle Rate Per £ 1
11- 3-1980	£ 5.5556 per Rs 100/- (or Rs. 18.00 per £ 1)	£ 5.5249 per Rs. 100/- (or Rs. 18.10 per £ 1)	Rs. 18.05
18- 3-1980	£ 5.6180 per Rs. 100/- (or Rs. 17.80 per £ 1)	£ 5.5866 per Rs. 100/- (or Rs. 17.90 per £ 1)	Rs. 17.85
1- 4-1980	£ 5.6657 pe Rs. 100/- (or Rs. 17.65 per £ 1)	£ 5.6338 per Rs. 100/- (or Rs. 17.75 per £ 1)	Rs. 17.70
2- 4-1980	£ 5.6980 per Rs. 100/- (or Rs. 17.55 per £ 1)	£ 5.6657 per Rs. 100/- (or Rs. 17.65 per £ 1)	Rs. 17.60
11- 4-1980	£ 5.6497 per Rs. 100/- (or Rs. 17.70 per £ 1)	£ 5.6180 per Rs. 100/- (or Rs. 17.80 per £ 1)	Rs. 17.75
17- 4-1980	£ 5.6022 per Rs. 100/- (or Rs. 17.85 per £ 1)	£ 5.5710 per Rs. 100/- (or Rs. 17.95 per £ 1)	Rs. 17.90
24- 4-1980	£ 5.5556 per Rs. 100/ (or Rs. 18.00 per £ 1)	£ 5.5249 per Rs. 100/- (or Rs. 18.10 per £ 1)	Rs. 18.05
15- 5-1980	£ 5.5249 per Rs. 100/- (or Rs. 18.10 per £ 1)	£ 5.4945 per Rs. 100/- (or Rs. 18.20 per £ 1)	Rs. 18.15
22- 5-1980	£ 5.4945 per Rs. 100 (or Rs. 18.20 per £ 1)	£ 5.4645 per Rs. 100/-(or Rs. 18.30 per £ 1)	Rs. 18.25
27- 5-1980	£ 5.4645 per Rs. 100/- (or Rs. 18.30 per £ 1)	£ 5.4348 per Rs. 100/- (or Rs. 18.40 per £ 1)	Rs. 18.35
8- 7-1980	£ 5.4348 per Rs. 100/- (or Rs. 18.40 per £ 1)	£ 5.4054 per Rs. 100/- (or Rs. 18.50 per £ 1)	Rs. 18.45
28- 7-1980	£ 5.4054 per Rs. 100/ (or Rs. 18.50 per £ 1)	£ 5.3763 per Rs. 100/- (or Rs. 18.60 per £ 1)	Rs. 18.55
30- 7-1980	£ 5.4348 per Rs. 100/- (or Rs. 18.40 per £ 1)	£ 5.4054 per Rs. 100/- (or Rs. 18.50 per £ 1)	Rs. 18.45
31- 7-1980	£ 5.4496 per Rs. 100/- (or Rs. 18.35 per £ 1)	£ 5.4201 per Rs. 100/- (or Rs. 18.45 per £ 1)	Rs. 18.40
1- 8-1980	£ 5.4645 per Rs. 100/- (or Rs. 18.30 per £ 1)	£ 5.4348 per Rs. 100/- (or Rs. 18.40 per £ 1)	Rs. 18.35
7- 8-1980	£ 5.4348 per Rs. 100/- (or Rs. 18.40 per £ 1)	£ 5.4054 per Rs. 100/- (or Rs. 18.50 per £ 1)	Rs. 18.45
28- 8-1980	£ 5.4054 per Rs. 100/- (or Rs 18.50 per £ 1)	£ 5.3763 per Rs. 100/- (or Rs. 18.60 per £ 1)	Rs. 18.55
2- 9-1980	£ 5.3908 per Rs. 100/- (or Rs. 18.55 per £ 1)	£ 5.3619 per Rs. 100/- (or Rs. 18.65 per £ 1)	Rs. 18.60
5- 9-1980	£ 5.3763 per Rs. 100/- (or Rs. 18.60 per £ 1)	£ 5.3476 per Rs. 100/- (or Rs. 18.70 per £ 1)	Rs 18.65
16- 9-1980	£ 5.4054 per Rs. 100/ (or Rs. 18.50 per £ 1)	£ 5.3763 per Rs. 100/ (or Rs. 18.60 per £ 1)	Rs. 18.55
23- 9-1980	£ 5.3763 per Rs 100/ (or Rs. 18.60 per £ 1)	£ 5.3476 per Rs. 100/- (or Rs. 18.70 per £ 1)	Rs. 18.65
29- 9-1980	£ 5.4054 per Rs. 100/- (or Rs. 18.50 per £ 1)	£ 5.3763 per Rs. 100/- (or Rs. 18.60 per £ 1)	Rs. 18.55
14-10-1980	£ 5.3763 per Rs. 100/- (or Rs. 18.60 per £ 1)	£ 5.3476 per Rs. 100/- (or Rs. 18.70 per £ 1)	Rs. 18.65
21-10-1980	£ 5.3476 per Rs. 100/- (or Rs. 18.70 per £ 1)	£ 5.3191 per Rs. 100/- (or Rs. 18.80 per £ 1)	Rs. 18.75
24-10-1980	£ 5.3191 per Rs. 100/- (or Rs. 18.80 per £ 1)	£ 5.2910 per Rs. 100/- (or Rs. 18.90 per £ 1)	Rs. 18.85

Spot and Forward Purchases of Foreign Currencies

Effective 2nd June 1980, the spot buying rates for the US dollar, the Deutsche mark and the Japanese yen are being based in modification of the earlier practice on the latest available rates and the movements in the international foreign exchange markets. The rates are announced by the Reserve Bank every day at 10 a.m. and are subject to change anytime during the day on the basis of the latest available rates in the international markets. The forward buying rates of these currencies are also likewise worked out on the above revised basis after providing for appropriate premium/discounts. The rates for forward purchase of the US dollar, the Deutsche mark and the Japanese yen by the Bank under the Long-term Forward Cover Scheme are also similarly worked out.

Spot Purchases of Japanese Yen

With effect from 28th March 1980, it was decided to suspend spot purchase of Japanese yen acquired by authorised dealers from their overseas branches/head offices/correspondents for funding their rupee accounts in India. However, the Reserve Bank will continue to purchase yen both spot and forward in cover of actual merchant transactions entered into with exporters in India.

The Rouble-Rupee Exchange Rate

The Rouble-Rupee exchange rate was revised thrice to Rouble 1 = Rs. 9.9974 effective August 11, 1979, to Rouble 1 = Rs. 9.6378 effective April 5, 1980 and to Rouble 1 = Rs. 9.3407, effective November 10,1980.

Inter-bank Dealings

Under the current Exchange Control Regulations, authorised dealers are permitted to fix rates for foreign currencies other than pound sterling on the basis of market conditions. Authorised dealers were advised by the Reserve Bank in 1977 that while quoting rates to their overseas branches/head offices/correspondents for spot transactions in foreign exchange against rupees, they should be guided by the prevailing inter-bank rates. These directions were calculated to sustain an orderly and competitive exchange market in all foreign currencies.

With a view to curbing unhealthy trends amongst authorised dealers in quoting exchange rates to their overseas branches/head offices/ correspondents for spot transactions in a foreign currency against rupee, the Reserve Bank has advised all authorised dealers to ensure while quoting the rate for pound sterling that the rate is in no circumstances better for the overseas bank than the Reserve Bank ready selling rate for pound sterling. In case the quote is made against any other currency, the rate must be arrived at by coupling the Reserve Bank ready selling rate for pound sterling with the corresponding rate for the foreign currency against pound sterling (being the direct cross rate or the effective cross rate through the medium of the U.S. dollar) being quoted at that point of time in any active overseas market such as London or Singapore. This rule will apply to both 'ready' as well as 'Value next day' and 'spot' (i.e. value two business days after contract) transactions. Since the quotes for these transactions are normally different, while quoting rates for any one of these deliveries, the authorised dealers should ensure that the rule can be complied with if a quote has to be made for any other delivery at the same time. This also applies if on any day the Reserve Bank buying rate for the foreign currency (being other than Pound Sterling) is better than the rate so arrived at.

Symmetrically, the rates quoted for conversion of surplus rupee balances held by overseas banks/head offices/correspondent banks into pound sterling should not be better for the overseas bank than the R.B.I. ready buying rate for pound sterling and in case the quote is made against any other currency, the rate is to be arrived at by coupling the Reserve Bank's ready buying rate for pound sterling with the corresponding rate for the foreign currency against pound sterling as explained above.

Authorised dealers have also been directed not to permit swap operations being made by overseas banks in the rupee. The rupee balances of banks situated in any country of the 'external group' may be converted into any permitted currency freely. But whenever such conversion takes place for a significant amount, authorised dealers should make an instantaneous check of the operations made in the rupee accounts in the immediate past to see whether any speculative transactions intended to benefit from a change in the external value of the rupee had been undertaken by the overseas bank and if so to make a detailed report to the Reserve Bank immediately.

Foreign Travel Scheme

Promotion of Group Inclusive Tours with Money Changers Orders (MCO) facility for persons who are eligible to travel abroad under the Foreign Travel Scheme has been further extended upto 31st March 1981.

Sale of Foreign Currency under Special Travel Schemes

For the convenience of the travelling public, the net-work at which travellers may avail of their entitlement under Special Travel Schemes, (i.e. FTS and MTS) is widened, and full-fledged money-changers are allowed, effective February 25, 1980, to sell foreign currency notes/coins to travellers proceeding under FTS and MTS upto the entitlement of US $ 500, and U.S $ 100, respectively.

Foreign Exchange for Higher Studies Abroad

With effect from April 1, 1980 the foreign exchange released by the RBI for eligible students for higher studies in all countries abroad is as follows : maintenance allowance— US $ 5,000 (per annum); initial equipment allowance— US $ 400; pre-session allowance- US $ 400 or US $ 600 depending upon the date of commencement of the course and actual tuition fee. Research students undertaking post-doctoral studies get higher maintenance allowance upto US $ 6,000 per annum. Students who have already been issued exchange permits at the previous scale would be issued supplementary permits on request to cover exchange requirements from April 1, 1980 onwards.

Exchange for Business Travel

Effective July 21, 1980, the Reserve Bank revised upwards the per diem scales of exchange for travel abroad on business grounds in response to higher hotel tariff and living expenses in certain countries and modified the country groupings for which different scales were applicable.

The revised rates and country groupings are as follows :

Country groupings	Exchange release per day for	
	Senior businessmen	Junior businessmen
Group A		
Saudi Arabia, Japan, Kuwait and Nigeria*	US $ 175 ($ 150)	US $ 140 ($ 120)
Group B		
Dubai, Abu Dhabi, Qatar, Sultanate of Oman, Bahrain, Western Hemisphere (including West Indies), United Kingdom, Continent of Europe, Iran, Libya and Algeria ..	US $ 150 ($ 125)	US $ 120 ($ 100)
Group C		
Other Countries	US $ 125 ($ 100)	US $ 100 ($ 80)
Bilateral group	Rs. 1,000 (Rs. 800)	Rs. 800 (Rs. 650)

* Nigeria was included under Group B in the earlier classification.
Figures in brackets indicate the earlier rates which were in effect since December 15, 1979.

The rates of exchange release towards entertainment expenses in eligible cases would continue to remain at $ 500 for senior businessmen and at $250 for junior businessmen. Similarly, medical practitioners, journalists, scientists and professional people undertaking study tours would continue to receive foreign exchange release at the scale applicable to junior businessmen.

Sale of Foreign Currency Notes

In the light of the large volume of foreign currency notes finding their way into India through incoming tourists etc. and the need for reducing the physical movement of notes from money-changers to authorised dealers and vice versa for realisation of value, additional outlets for disposal of foreign currency notes became necessary. The limit of US $ 250 for sale of foreign exchange in the form of notes has, therefore, been enhanced uniformly to US $ 500 with effect from 25.2.1980.

GR/EP/PP Form Waiver

Effective January 10, 1980, foreign tourists visiting India are required to obtain GR/EP/PP form waiver from the Reserve Bank if the value of articles (other than silver articles) purchased in India and to be taken out of India exceeds Rs. 10,000, as against the previous limit of Rs. 1,000.

Export of Jewellery & Precious Stones

With a view to reducing the gold content of jewellery and articles exported out of India, the Bank has decided to modify the permissible limit of gold content from

forty per cent of the value of jewellery or article to ten per cent of value of Jewellery or article vide Notification dated 16.6.1980. Reserve Bank would not henceforth be prepared to grant any licences for export of jewellery, the value of gold content of which exceeds ten per cent of the value of the jewellery.

Exchange Fluctuations Risk Cover Schemes

Effective from 4th August 1980, the long-term forward exchange cover scheme operated by the Reserve Bank since June 1974, for protecting exporters from losses arising from exchange rate fluctuations was replaced by comprehensive scheme to be operated by the Export Credit Guarantee Corporation (ECGC). The Reserve Bank's schemes covered the exchange risks from deferred payment export contracts denominated in four currencies viz. the Pound sterling, the U.S. dollar, the Deutsche mark and the Japanese yen, but did not extend to the risks between the offer and acceptance of bid nor to buyers' credits/lines of credits offered in foreign currencies. Under the new procedure, two schemes have been introduced, one for covering the bid risks arising from fluctuations in exchange rates between the date of bid and the date of contract and another for covering the contract risks also arising from exchange rate changes in the receivables under the export contracts. Briefly, the schemes provide risk cover to losses above two per cent but upto 35 per cent of the rupee value as per the reference rate agreed. The approved currencies in addition to those in the Reserve Bank's scheme include French franc and Swiss franc, and there is a provision for extending the schemes to other convertible currencies.

Special Facilities to Indian Nationals Returning to India

The special facilities available to Indian nationals and persons of Indian origin returning to India for exploring possibilities of securing employment in India have been modified effective September 26, 1979 so that more Indians could avail of the facility. Accordingly, irrespective of qualification and background, Indian nationals and persons of Indian origin except those who have served in Indian-owned organisations (including Central and State Government officials posted abroad or deputed to foreign governments/institutions) will be granted, on merits of each case, for a period of five years from the date of their return to India, exemption from Exchange Control regulations requiring surrender of foreign currency balances within three months of their arrival in India. Persons wishing to avail of such exemption should apply to the Reserve Bank within 3 months of their return to India. On the facility being granted, persons concerned will be allowed to make use of the foreign currency balances held by them to pay for import of machinery, raw materials and components for which import licences have been issued as also for their personal requirements such as club membership, subscription to magazines, expenses during foreign visits etc. to a reasonable extent. Persons availing of the above facility have also the option of surrendering their foreign currency balances immediately on their arrival in India with a right to retransfer the amount of foreign currency so surrendered, in the event of their deciding to go back to a foreign country, within a period of five years or within such further extended period as may be allowed by the Bank.

Engagement of Foreign Technicians

The procedure governing engagement of foreign nationals in technical as well as non-technical fields by Indian firms and companies was further streamlined in order to cut down delays. As the Government have to take a total view about the employment of foreign nationals, the revised procedure stipulates that the Indian firms/companies intending to engage the services of foreign nationals would apply directly to the concerned Administrative Ministry of the Government of India instead of applying directly to the Reserve Bank. After such approval the foreign technician would submit to the Reserve Bank an application in the prescribed form through the Company for necessary permission under Section 30 of Foreign Exchange Regulation Act, 1973. Reserve Bank will, however, directly deal with such applications for engagement of foreign nationals for short period not exceeding 3 months in each case where foreign nationals are required for attending to breakdowns or overhauling etc. of imported plant and machinery.

Industrial Development Bank of India

The Reserve Bank has permitted the Industrial Development Bank of India (IDBI) to undertake with effect from 24th November 1979 certain types of foreign exchange transactions in all permissible currencies, which are incidental to the IDBI's normal functions.

Zimbabwe

Consequent upon lifting of the ban on economic relations with Zimbabwe (Rhodesia) authorised dealers have been permitted with effect from January 24, 1980 to undertake transactions with persons, firms or banks in Zimbabwe subject to the provisions of the Exchange Control Manual.

Czechoslovakia

The Governments of India and the Czechoslovak Socialist Republic concluded a new Trade and Payments Agreement on the 3rd December 1979 valid for a period of five years. All payments of commercial and non-commercial nature between the two countries will continue to be made in non-convertible Indian rupees as hitherto.

Asian Clearing Union

The procedure for settlement of eligible transactions through the Asian Clearing Union has been streamlined with effect from October 1, 1980. Under the revised procedure, banks authorised to deal in foreign exchange are permitted to settle commercial and other ACU transactions like any other normal foreign exchange transaction through accounts maintained by them with banks in the other participating countries and vice versa. The Reserve Bank from October 1, 1980, undertakes purchase (spot and forward upto six months on monthly option basis) and spot sale of Bangladesh takas, Burmese Kyats, Iranian rials, Sri Lanka rupees and Pakistan rupees from and to authorised dealers in foreign exchange at a rate within a narrow margin of one-tenth of one per cent on either side of the rate for the Asian Monetary Unit (AMU) (one AMU=one SDR) announced by the Union from time to time. (The trade between India and Nepal is outside the purview of the Clearing Union). The forward rates will be at a discount of 0.07 per cent per month over the spot buying rate. For merchant transactions, authorised dealers have been permitted to quote by loading a maximum margin of 0.15 per cent over the corresponding RBI rates.

The revised procedure is expected to facilitate further the growth of trade between the countries in the region and increase use of member countries' currencies for purposes of invoicing of trade and other transactions between them.

The State Bank of Pakistan, has designated the National Bank of Pakistan to handle the Asian Clearing Union transactions.

The Central Bank of Ceylon has designated (1) the Bank of America National Trust and Savings Association, Colombo and (2) the Overseas Trust Bank Ltd., Colombo to handle the Asian Clearing Union transactions.

VI. International Monetary Developments

WORLD ECONOMIC OUTLOOK

A number of developments in the world economic situation which were causing serious concern last year gathered further strength during the year under review. The slowdown in economic activity in the industrial world that began in early 1979 has degenerated in 1980 into a recession in some major industrial countries, and the prospects are that in 1980 and also in 1981 the annual rate of growth of economies of industrial countries as a group would be even below 1 per cent. There has been almost world-wide accentuation in inflationary pressures in 1979 and the first half of 1980. Though price increases seem to be abating in a few countries, and the weakening of output growth in industrial countries has encouraged expectations of deceleration of inflation, particularly in 1981, there are uncertainties as to how widespread the improvement in price trends would be as also regarding the order of the improvement. In the context of the expectations about movements of prices, a view is being increasingly expressed that the revival of growth of industrial economies from the current recession might be slower than on the earlier occasions and that growth rates in the 1980s might not compare well with those in the 1970s.

The growth in the volume of world trade in 1979 surpassed that in the preceding two years but in 1980 a distinctly lower growth is estimated because of the feeble economic activity in industrial countries that is increasingly visualised. Large imbalances have re-emerged in current account payments of all major groups of countries, the deficit of non-oil developing countries as a group reaching a formidable level. The steady deterioration in the terms of trade of the non-oil developing countries because of the rise in world trade prices of manufactures and more than doubling of the oil prices after 1978 was the major factor in aggravating the balance of payments position of this group. What is worse is that the combined deficits of this group are projected to remain at high levels over the medium term, signifying major difficulties, particularly for the low income countries, in maintaining acceptable economic growth.

The economic expansion in industrial countries, already modest in pace since the 1975 recession, became somewhat sluggish in 1979. The real GNP growth of industrial countries as a group slipped to 3.4 per cent in 1979 from about 4 per cent in each of the preceding two years. The deceleration has continued and become particularly marked in 1980; the short-term prospect at mid-1980 was clearly one of a pronounced slowdown. On present indications, the real GNP growth in the industrial world during the year 1980 as a whole may drop to a meagre under 1 per cent. Their pre-occupation with the control of mounting inflationary pressures, the growing diversion of domestic expenditures into payments for imported oil, and generally poor productivity gains are the major factors in the worsening of the growth performance and prospects for industrial countries.

In the U.S., the long feared recession finally seems to have been ushered in. Despite the strong performance of U.S. exports and buoyance of fixed business investment, the economy registered only a paltry real GNP growth of 3/4th of 1 per cent over the four quarters ended with the first quarter of 1980. The real GNP fell in the second quarter of 1980, and for the year 1980 as a whole a decline is now a certainty, as against a growth of 2.3 per cent in 1979. Similarly, under the impact of sustained counter-inflationary policies, the GDP of the U.K. which grew by over 1 per cent in 1979 is projected to fall in 1980.

The growth of real GNP remained moderately buoyant during 1979 and early 1980 in other major industrial countries, particularly in West Germany, Japan and Italy. It accelerated in West Germany and Italy from 3.5 per cent and 2.6 per cent in 1978 to 4.4 per cent and 5.0 per cent in 1979, respectively and was maintained in Japan at 6 per cent. But by mid-1980, signs of softening of economic activity have become evident and the real GNP growth rates in these countries in 1980 are expected to drop by about one-half though they would remain positive.

The real GDP growth of the group of major oil exporting countries remained around 2.5 per cent in 1979 as in the preceding year despite the severe impairment of economic activity in Iran as a result of political upheavals. Because of a lowering of oil output in 1980, the real GDP growth of this group would be probably below that in the preceding two years, though their financial resources would be augmented following the oil price increase.

The real GDP growth of non-oil developing countries as a group has hovered around 5 per cent a year since 1976 and the available data for 1980 also do not suggest any perceptible improvement in that rate. This order of growth, while holding up better than that of the industrial world, must be viewed against the background of the vast differences in the living standards of these two groups, the rapid population growth in non-oil developing countries averaging about $2\frac{1}{2}$ per cent per annum as against well below one per cent in the industrial world and their urgent need for accelerated improvement of living standards of their people in general, and that of the large segment of population below the poverty line in particular.

Besides the disappointing overall growth in relation to the needs, the wide diversity among the 110 countries comprising this group was reflected in an uneven growth for various of their sub-groups. The plight of the poorest sub-group—the low-income oil importing developing countries (comprising 39 countries including India whose per capita GDP, as

estimated by the World Bank, did not exceed the equivalent of US $ 300 in 1977) was particularly deplorable in 1979. The income of this group declined in 1979 resulting from the interaction of around 2 per cent growth in countries other than India and a fall in GDP of India on account of a widespread drought.

The high level of unemployment continues to be a major world wide problem though the current statistics thereon are largely confined to industrial countries. The unemployment rate is expected to accelerate from 4.9 per cent in 1979 to 5.5 per cent in 1980 for the seven largest industrial countries with a particularly marked rise in the rate of unemployment in the U.S.A., Canada, the U.K. and France.

Inflation has been a worrisome problem ever since 1973-74 oil price rise, excepting in 1978 when there was a partial abatement. In the second round of oil price rise that started with 1979, the oil prices as measured by the Saudi Arabian Crude marker price, have already shot up by 120 per cent between end-December 1978 and end-September 1980. The prices of manufactures moved up by 14.5 per cent in 1979 and a further rise of 12.5 per cent therein is anticipated during 1980. The developments in oil prices and prices of manufactures accentuated the inflationary pressures almost universally.

In industrial countries as a group, the rise in consumer prices accelerated from 7.2 per cent in 1978 to 9.1 per cent in 1979 and further to an annual average rate of 12.3 per cent during the first half of 1980. Among major industrial countries, inflation has been particularly marked in Italy, the U.K., the U.S.A. and France. In Italy, in 1979, consumer prices rose by 14.7 per cent and in the first half of 1980 by over 20 per cent. In the U.K., prices increased by 13.4 per cent and 20 per cent over these two periods, respectively. In the U.S.A., prices rose somewhat less by 11.3 per cent in 1979 and by 14.4 per cent in the first half of 1980. The price situation in Germany which was relatively less unfavourable during this period shows some signs of further improvement in recent months, with the rise over the year ending September 1980 being close to 5 per cent.

The price situation is much worse in non-oil developing countries. Consumer prices in this group rose by as much as 29 per cent in 1979. Even if the six high inflation countries are excluded, the price increase remains as high as 21 per cent in 1979. The situation has aggravated in the first half of 1980 as evidenced by the rise of 35 per cent for the group as a whole. This resurgence of inflation emanated from higher costs of imported oil, transmission effect of inflation in the industrial world as also from the expansionary policies adopted by many non-oil developing countries to improve their growth performance. Since the impact of the second oil price rise has yet to work through the system the price situation should be a cause for concern.

The major oil exporting countries have been in a distinctly better position compared to other developing countries in respect of price developments. In 1979, they were able to arrest the domestic price increase at 11 per cent, only marginally higher than that in industrial countries, and are expected to limit the rise in prices close to that of industrial countries in 1980 as well.

World Trade and Balance of Payments

Despite the deceleration in income growth of industrial countries as a group in 1979, the volume of world trade expanded by 6.5 per cent compared with 5 to 5.5 per cent growth in the preceding two years. In terms of U.S. dollars, the rise in world trade which was as much as 26 per cent in 1979, was sharper than in any other year since 1974. The outlook for volume growth in world trade at only 3 per cent in 1980 is poor because of recession in the U.S. and the U.K., and the anticipated slowdown in activity in other major industrial countries.

The import demand of industrial countries which increased in volume terms by 5.5 per cent in 1978 and by 8.5 per cent in 1979, is expected to drop down to just one per cent in 1980 for the same reasons as discussed above. On the contrary, the growth in imports of major oil exporters, in real terms, steadily decelerated since 1976, and in 1979 their imports in fact declined by 11 per cent with a few countries showing a fall in imports even in nominal terms. Imports of this group are now anticipated to shoot up in real terms by over 19 per cent in 1980 as a result of the en-

larged financial resources at their command on account of increases in oil prices. Thus the projected rise in absolute imports of major oil exporters would be substantially higher than that of industrial countries.

As far as non-oil developing countries are concerned, their import demand was maintained at an annual rate of 8 per cent in 1978 and 1979. Unless the problem of financing their external deficits is resolved, through a quick and measurable improvement in their export earnings, larger external assistance and unconditional allocation of reserves in their favour, it would be very difficult for this group to acquire the imports needed by them in 1980 and would seriously impair their growth prospects.

Reflecting the sluggish import demand of industrial countries which would be partly aided by the protectionist policies pursued by them, the growth in volume of exports of non-oil developing countries is expected to slump from 8.5 per cent in 1979 to 5.5 per cent in 1980. The export performance of non-oil developing countries would no doubt depend on their success in capturing the export markets of the major oil exporting countries which are expanding under the impact of rapidly rising oil revenues.

The terms of trade developments for different country groups marked a sharp break in 1979. The terms of trade of the major oil exporting countries improved substantially while those of industrial countries deteriorated and of non-oil developing countries continued to fall. In 1979 and 1980 together, terms of trade gains of oil exporting countries are placed at 80 per cent. On the other hand, terms of trade of industrial countries are expected to deteriorate by around 9 per cent during these two years. As far as non-oil developing countries are concerned, their terms of trade declined by 4 per cent in 1978, by another 2½ per cent in 1979 and are projected to fall further by about 2 per cent in 1980. In this group, the condition of low-income countries would be particularly deplorable though these data are not available for the sub-group separately.

Reflecting these trade developments, the pattern of current account balances of major country-groups has changed dramatically again in 1979; the new pattern is largely expected to continue in 1980 and 1981. With the escalation of oil prices since the beginning of 1979, the combined current account surpluses of the major oil exporters shot up from about US $ 5 billion in 1978 to US $ 68 billion in 1979 and are estimated to increase sharply to US $ 110 billion in 1980, but might decline thereafter to about US $ 85 billion in 1981 on the assumption that oil prices will remain unchanged.

On the other hand, the combined payment balances on current account of industrial countries which showed a surplus of US $ 33 billion in 1978 turned into a deficit of US $ 10 billion in 1979; this deficit is expected to increase further to US $ 55 billion in 1980, but narrow down to US $ 26 billion in 1981. Much of the turnaround in 1979 was concentrated in West Germany and Japan whose current account positions were the strongest in 1978. The US position which was one of the weakest among the major industrial countries in 1978 has, however, improved substantially since then.

The current account deficit of non-oil developing countries as a group deteriorated further with the deficit widening from US $ 36 billion in 1978 to US $ 53 billion in 1979 and will probably be about US $ 72 billion in 1980 and around US $ 80 billion in 1981. The current account position of net oil importers of them shows even a sharper deterioration with their deficit increasing from US $ 29 billion in 1978 to US $ 46 billion in 1979 and further US $ 65 billion in 1980.

Financing of Deficit of Non-Oil Developing Countries

The current account deficit of non-oil developing countries, as stated earlier, increased by about one-half from US $ 36 billion in 1978 to US $ 53 billion in 1979. On the other hand, accretion to their reserves declined from US $ 18 billion in 1978 to US $ 11 billion in 1979 raising their financing requirements from US $ 54 billion to US $ 64 billion.

The major changes in sources of financing of the above needs as estimated by the Fund were as follows : Financing through items such as official transfers, SDR allocations and direct investment flows, etc. which do not affect the net debt positions of the countries

increased from US $ 16.2 billion in 1978 to US $ 19.4 billion in 1979 accounting for roughly 30 per cent of the increased finance. Net external borrowings which amounted to US $ 37.8 billion in 1978 aggregated to US $ 44.5 billion in 1979 and provided the remaining resources. Of these long-term borrowings, those from official sources — both on concessionary terms and otherwise, rose by US $ 2.6 billion to US $ 15.9 billion in 1979. On the other hand, 'other' long-term borrowings including those from financial institutions and bond issues declined by about US $ 2 billion to US $ 23.4 billion in 1979. In 1978, these countries, on a net basis, repaid about US $ 1 billion to the Fund, while in 1979 they borrowed from it roughly US $ 0.2 billion. There was, however, a sharp increase in their short-term borrowings (and residual errors and omissions) from a small amount in 1978 to as much as US $ 5 billion in 1979.

Developments in Exchange Rates

Foreign exchange markets during the period July 1979 to June 1980 were relatively quieter as compared to their behaviour during the preceding two years which exhibited marked volatility in exchange rates. More active intervention policies pursued by certain countries, a greater degree of co-ordination of monetary policies of major industrial powers and a shift in current account positions of the U.S.A., West Germany and Japan were the main underlying factors promoting greater orderliness in exchange rate developments of major international currencies. In view of the considerable realignment of exchange rates of major international currencies that had taken place in the previous two years and in the absence of sharp variations in market assessment of changes in fundamentals of these economies, a relative calmness in exchange markets was not an unexpected development.

The U.S. dollar after relative firmness during the first half of 1979, came under a heavy selling pressure in the third quarter of 1979 and depreciated despite a large scale intervention programme co-ordinated by the U.S.A., West Germany and Switzerland. In October 1979, the U.S.A. initiated a policy package designed, inter alia, to curb speculation in dollar exchange rate and to dampen domestic inflationary pressures which strengthened the dollar temporarily. In March 1980, the U.S. dollar again improved substantially, aided by the sharp increases in U.S. interest rates as well as the anti-inflation programme announced by the authorities on March 14, 1980. Subsequently, in the second quarter of 1980 when the U.S. interest rates turned down swiftly while those of other industrial countries remained at higher levels or declined to a lesser extent, the dollar eased in an orderly manner. Thus over the period July-June 1979-80, the U.S. dollar depreciated by 7.4 per cent against the pound sterling, by 4.3 per cent against the Deutsche mark, by 1.2 per cent against the Swiss franc and by 1.3 per cent against the SDR, but appreciated by 1.0 per cent against the Japanese yen. During the preceding twelve months, the dollar had depreciated by 14.7 per cent against the pound sterling, by 11.1 per cent against the Deutsche mark, by 10.8 per cent against the Swiss franc and by 4.9 per cent against the SDR while it had appreciated against the Japanese yen by 6.8 per cent.

With the relative improvement in the price situation and a steady increase in short term interest rates, the U.S. dollar firmed up somewhat in the quarter July-September 1980 against many major currencies except against the pound sterling and the Japanese yen in relation to which the dollar depreciated marginally.

The pound sterling continued its upward movement against the SDR that began in the first half of 1978 till July-August 1979 after which it started weakening till about early November 1979. The decline in real income growth of the U.K., a sustained rise in domestic consumer prices and narrowing in interest differential between the short-term rates in the U.S.A. and the U.K. led to the easing of the pound sterling against the SDR in the period August to November 1979. With the rise in oil prices and persistance of strong anti-inflationery measures, the pound sterling firmed up later in November 1979 and the underlying rising trend has generally continued till end-September 1980. Between end-June 1979 and June 1980 the pound appreciated by 8.0 per cent against the U.S. dollar while

it had appreciated by as much as 17.3 per cent in the preceding 12 months. During the period July 1979 to June 1980 the pound sterling similarly appreciated by 3.7 per cent against the DM compared with that of 4.0 per cent in the preceding year, by 9.1 per cent against the Japanese yen as compared to that of 25.2 per cent in the previous twelve months and by 6.2 per cent against the SDR in comparison to that of 11.9 per cent in 1978-79.

The downtrend in the Japanese yen that began in August 1978 continued till about end-November 1979 when the yen started looking up. When the yen was weak, the authorities intervened strongly to moderate the decline and followed monetary policies that discouraged capital outflows. Between December 1979 and April 1980 the yen fluctuated in a narrow range, and in early April 1980 it started its strong upward movement supported by the new policies to attract foreign capital. Though the major upward push in the yen ended in early June 1980, the currency remained strong till end-September 1980. Despite the strengthening of the yen in the first half of 1980, over the twelve months ending June 1980, the yen depreciated marginally by 1.0 per cent against the U.S. dollar, by 8.4 per cent against the pound sterling, by 5.3 per cent against the DM and by 2.7 per cent against the SDR. Over the year ending June 1979, the yen had depreciated by 6.3 per cent against the U.S. dollar, by 20.1 per cent against the pound sterling, by 16.7 per cent against the DM and by 10.6 per cent against the SDR.

As a result of the tight monetary policy and relatively low level of inflation, the Deutsche mark maintained its upward trend against the SDR during the period under review till early 1980, despite a steady deterioration in West Germany's current account balances. In January 1980, the DM weakened and the slide down therein continued till about mid-April 1980. With the narrowing of interest differential against West Germany, the DM improved in the latter half of April, and May 1980 and it has stabilised against the SDR thereafter till the end of September 1980. Over the year ended June 1980, the DM appreciated by 4.5 per cent against the U.S. dollar, by 5.6 per cent against the Japanese yen and by 2.4 per cent against the SDR but depreciated by 3.6 per cent against the pound sterling. In the preceding year the DM had appreciated by 12.5 per cent against the U.S. dollar, by 20.1 per cent against the yen and by 7.7 per cent against the SDR but had depreciated by 3.8 per cent against the pound sterling.

The External Value of the Indian Rupee

Developments in the exchange rate of rupee in relation to major international currencies reflected changes in the rupee-pound sterling rate (the intervention currency) and movements in the exchange rates of the pound sterling with these other currencies. Since the rupee rate is determined in terms of a weighted basket of major international currencies, the rupee-pound intervention rate itself is influenced by fluctuations in these currencies. (The discussion that follows is in terms of monthly average rates.) In June 1980 the rupee —SDR rate remained almost the same as in June 1979. Over the same period the rupee depreciated against the pound sterling by 7 per cent and against the DM by 3.6 per cent while it appreciated by about 3 per cent against the U.S. dollar and by roughly 2 per cent against the Japanese yen.

The rupee-pound sterling rate was stable around Rs. 17.00 per pound during April-June 1979. In July and August 1979 the rupee depreciated by 5.2 per cent to Rs. 18 per pound in August. In the following three months, however, it steadily appreciated to reach Rs. 17.37 per pound in November 1979. In the subsequent three months from December 1979 to February 1980, the rate again depreciated by 4.6 per cent to reach a level of Rs. 18.20 per pound in February 1980. The rate appreciated by 2.2 per cent in March and April but thereafter depreciated by three per cent to Rs. 18.35 in June 1980. Thus, over the year ended June 1980 the rupee depreciated against the pound by 7 per cent on top of 10 per cent depreciation in the previous year. The depreciation of rupee continued during July to September 1980 and in September the rate reached Rs. 18.61 per pound.

The rupee appreciated against the U.S. dollar in June and July 1979 to reach a level

of Rs. 7.89 per dollar in July. In the following three months to October the rupee steadily depreciated by 4.2 per cent to Rs. 8.24 per dollar. Excluding March and April of 1980 when the rupee was relatively weak in relation to the dollar, the rupee appreciated almost continuously against the dollar to reach Rs. 7.85 per dollar in June 1980 and further to Rs. 7.75 per dollar in September 1980. Between June 1979 and June 1980 the appreciation of the rupee against the dollar was under 3 per cent, slightly less than that in the previous year.

The upward trend in the rupee against the DM observed during the five months ended June 1979 was reversed in July 1979. Thereafter the rupee-DM rate depreciated almost steadily till end-1979 to reach Rs. 4.66 per DM in December—showing a depreciation of about 8 per cent in the second half of 1979. In the first four months of 1980, the rupee appreciated against the DM to even out the earlier depreciation, but in the following two months it depreciated again by over 3 per cent reaching Rs. 4.45 per D.M. in June 1980. Thus over the year ended June 1980, the rupee depreciated against the D.M. by 3.6 per cent compared with the depreciation of 6.5 per cent during the preceding twelve months. Between June and September 1980 the rupee appreciated marginally to reach Rs. 4.33 per DM in September 1980.

The appreciation of the rupee against the Japanese yen that began towards the end of 1978 generally continued till April 1980 during which period the rupee appreciated against the yen by roughly one-third. In May and June 1980, however, the rupee depreciated by about 10.5 per cent against the yen, and in June 1980, the rupee rate at Rs. 0.0361 per yen remained appreciated by 2.5 per cent over the year. Over the preceding 12 months the rupee had appreciated by 5.7 per cent against the yen. In July and August 1980, the rupee further appreciated but it depreciated in September reaching the June 1980 level of Rs. 0.0361 per yen.

The rupee had almost continuously appreciated against the SDR from November 1978 to July 1979 to reach Rs. 10.28 per SDR in July 1979. During the quarter August to October 1979 the rupee depreciated to rise even above the November 1978 level. From November 1979 to April 1980, the rupee appreciated by 3.4 per cent but in May and June it depreciated marginally. Thus between June 1979 and June 1980, the rupee depreciated only fractionally, from Rs. 10.34 per SDR to Rs. 10.37 per SDR, or to the same extent as in the preceding year. In the quarter July-September 1980 the rupee appreciated again to reach Rs. 10.21 per SDR in September 1980.

Development Assistance

According to preliminary data released by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), total resource flows in 1979 to developing countries improved marginally by US$ 1 billion over those in 1978, reaching US $81.9 billion. Relative shares of donor groups in total resource flows also remained almost the same in the two years, with the DAC countries contributing around 91 per cent, the official sector of the OPEC roughly 8 per cent and the centrally planned economies about 1 per cent.

Net resource flows comprising Official Development Assistance (ODA), official and private non-concessional flows and private sector grants from DAC countries increased nominally from US $70.2 billion (revised) in 1978 to US $70.4 billion in 1979 which implied about 8 per cent fall in real terms. Further, expressed as a percentage of DAC members' GNP, these flows declined substantially from 1.23 per cent in 1978 to 1.09 per cent in 1979.

The magnitude of ODA from DAC members increased in 1979 by 11.5 per cent to US $22.3 billion, raising its share in total net flow of resources to developing countries from 28 per cent in 1978 to 32 per cent in 1979. The rate of growth in ODA is very modest against the backdrop of the rate of inflation. Expressed as a proportion of the DAC countries' combined GNP, the ODA remained unchanged at 0.34 per cent in 1979 as against the target of 0.7 per cent laid down in the U.N. Development Decade and accepted by DAC members. While the developing countries are pressing the DAC members for fulfilling this 0.7 per cent target and even crossing it substantially, it is unfortunate that only three

countries—Norway, Sweden and the Netherlands exceeded the target in 1979 and achieved the ODA level of 0.93 per cent.

As far as other components of financial flows from DAC countries are concerned, 'other official flows' in 1979 dropped by over US $2 billion or 41 per cent. On the other hand, 'private flows' which formed 62 per cent of net resource flows from DAC countries in 1978 continued to remain around that level in 1979. In particular, the 'direct investment' component increased by around US $2 billion, while the 'bilateral portfolio' component registered an equivalent decline. Other components *viz.* 'multilateral portfolio' and 'export credits' remained almost unchanged.

World Bank

The World Bank Group plays an important role in providing long-term assistance largely to developing countries. During fiscal 1980 (year ended June 1980) financial assistance committed by this Group consisting of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) amounted to US $ 12,163 million showing a rise of 16.5 per cent over that in the preceding year.

In fiscal 1980, the aggregate loan commitments of the IBRD rose by 9.4 per cent to US $7,644 million in respect of 144 projects in 48 countries. These included loans for two Indian projects for US $125 million forming 1.6 per cent of the total loan commitments by the IBRD. The interest rate on these two loans to India is 8.25 per cent per annum. Total disbursements by the IBRD rose by as much as 21.2 per cent in fiscal 1980 to US $4,363 million.

The IDA, during fiscal 1980, approved loans of US $3,838 million for 103 projects in 40 countries, showing a rise of 27 per cent in credit commitments over those in the previous year. The rise in IDA disbursements of 15.5 per cent to US $ 1,411 million in fiscal 1980 was, however, smaller than the rate of increase in disbursements of the IBRD in the same year. Fourteen projects from India were approved by the IDA during fiscal 1980 for credit assistance of US $ 1,535 million which formed roughly 40 per cent of the total IDA commitments in the year. The Indian projects included 9 for agricultural and rural development with loan assistance of US $796 million, and one for US $ 525 million under the energy sector. The IDA credits for the 14 Indian projects would form nearly 45 per cent of the aggregate cost of these projects. The usual terms of these credits, *viz.* 50 year maturity including 10 years of grace period and an annual service fee of 0.75 per cent remained unchanged during the year.

Agreements were reached during the year to increase the capital stock of the IBRD and resources of the IDA thereby paving the way for enlarged flow of assistance from these two institutions. The authorized capital stock of the Bank was raised by US $ 44 billion in January 1980. The agreement on the Sixth Replenishment of IDA funds is for a total amount equivalent of US $ 12 billion over a three year period fiscal 1981-83. By end-June 1980, the agreement had yet to become effective because the necessary instruments for about 80 per cent of the above amount had not been deposited by them.

Use of Fund Resources

Some important developments regarding the use of Fund resources include an extension of the repayment period in December 1979 under the extended Fund facility (EFF) from eight years to ten years, and further liberalisation of the access to the compensatory financing facility (CFF) in August 1979, which was referred to in the last Report. The principal changes made in the CFF were (1) an increase of quota limit on outstanding purchases under the CFF from 75 per cent to 100 per cent of a member's quota, (2) elimination of the limit of 50 per cent of quota on purchases under the CFF in a single 12-month period, (3) optional inclusion of receipts from travel and workers' remittances in the calculation of export shortfalls—the option once exercised by a member being irreversible for five years, and (4) use of a geometric average instead of an arithmetic average in computing the five year trend in export earnings in relation to which the shortfall is to be calculated.

Despite the marked rise in current account imbalances in 1979, use of Fund resources at

SDR 1,843 million in 1979 was less than one half of that in 1978 when drawings amounted to SDR 3,744 million. Total repurchases in 1979 at SDR 4,215 million were also lower than those of SDR 4,845 million in 1978. Thus, in both the years there were net repayments of resources to the Fund, such repayments in 1979 at SDR 2,372 million being more than twice those of SDR 1,101 million in 1978.

During the first eight months of 1980, members resorted to Fund resources on a greater scale but the trend in repurchases was broadly in line with that in 1979 resulting in net repayments of SDR 275 million to the Fund during this period. Purchases aggregated to SDR 2,361 million while repurchases amounted to SDR 2,636 million.

The reserve tranche purchases declined from SDR 260 million (excluding those by the USA of SDR 2,275 million) in 1978 to SDR 147 million in 1979. Upto end-August 1980, these purchases at SDR 100 million were broadly at the same annual rate as in 1979.

In 1979 and onwards purchases under various facilities either steadily increased or were close to those in the preceding year. Thus. the credit tranche purchases doubled from SDR 421 million in 1978 to SDR 853 million in 1979 and aggregated to SDR 1,218 million during January-August 1980. The CFF purchases in 1979 at SDR 572 million were fractionally lower than those of SDR 578 million in 1978. In the first eight months of 1980, however, such purchases amounted to SDR 933 million of which the drawing by India was of SDR 266 million. The emergence of export shortfalls and the liberalisation of access to the CFF mentioned above contributed to this increase in CFF purchases. Purchases under the EFF increased from SDR 174, million in 1978 to SDR 233 million in 1979 and amounted to SDR 110 million during January-August 1980; These purchases, continue to be small as compared with drawings under other windows.

Drawings under the supplementary financing facility (SFF) which became operational in February 1979, aggregated to SDR 307 million in 1979 and SDR 654 million during the first eight months of 1980; the credit tranche and the EFF purchases given above include those under the SFF. As compared to the resources agreed to be provided by lenders under the SFF upto SDR 7,784 million, the actual drawings under the SFF till end-August 1980 of SDR 961 million were small. Taking into account the undrawn balances of SDR 3,881 million against commitments under the credit tranche and the EFF and the growing use of these facilities, the expectations are that the SFF resources would be committed fully in the first half of 1981. Charges for the use of SFF resources are based on the rate of interest paid by the Fund on amounts borrowed from lenders under the facility and are adjusted half yearly. For the six-month periods ended December 31, 1979 and June 30, 1980, rates of charges applicable under the facility were 10.075 per cent and 11.575 per cent per annum, respectively.

As the SFF charges are burdensome for low income countries, developing countries have been urging to reduce the cost of using these resources. The discussions in the Fund on the establishment of a subsidy account for the purpose are in concluding stages, and borrowers from low income countries under the SFF may start receiving some relief from SFF charges soon.

Drawings under the buffer stock facility in 1978 and 1979 amounted to SDR 36 million and SDR 38 million, respectively. No purchases were made thereunder during 1980 upto end-August.

Review of Member's Quotas at the IMF

It was in December 1978 that the Fund adopted the resolution to increase member's quotas from SDR 39 billion to SDR 58.6 billion, under the Seventh General Review of Quotas. As the condition that members constituting three-fourths of the aggregate quotas as on November 1, 1978 should consent to the increase in their respective quotas so as to make the quota increases under the Seventh Review effective was fulfilled on November 29, 1980 the quota increases became effective on that date. India's quota has increased from SDR 1,145 million to SDR 1,717.5 million with effect from December 17, 1980.

Allocation and Use of SDRs

During the period under review besides allocation of SDRs under the second instal-

ment of the Third Basic period, a number of decisions were taken to widen the usability of the SDR as a reserve asset. In September 1980, it was decided to unify the SDR valuation and the interest rate baskets to enhance its attractiveness.

In accordance with the Board of Governors' Resolution of December 1978, the Fund made further allocations of SDR 4,033 million on January 1, 1980 to 139 members and of SDR 4,052 million on January 1, 1981 to 141 members that were participants in the Fund's SDR department on December 31, 1979 and December 31, 1980, respectively. India received SDR 119.08 million and SDR 116.79 million, respectively on those dates. The cumulative allocations to participants as of January 1, 1981 amounted to SDR 21.4 billion of which India's share was SDR 681.2 million.

In an effort to bring the SDR as close as possible with reserve currencies, SDRs are now allowed to be transferred by agreement between participants in swaps, forward operations and donations (grants). No transfer of SDRs took place under any of these heads till end-October 1980. By March-end 1980 the Bank for International Settlements (BIS) was prescribed as the lone 'other holder' of SDRs which was authorised to acquire, hold and use SDRs on certain terms and conditions but was not entitled to receive allocation of SDRs. In April 1980, five more official institutions were added as 'other holders'; these are : the East Caribbean Currency Authority, the International Fund for Agricultural Development, the Noradic Investment Bank, the Swiss National Bank, and the Andean Reserve Fund. At the end of October 1980, 'other holders' held SDR 5 million.

For sometime the question of simplification of the method of valuation of the SDR, in particular by reducing the number of currencies in the basket, and making the SDR valuation and the interest rate baskets identical was under active consideration of the Executive Board of the Fund. It was felt that a compact and unified basket would enhance the attractiveness of the SDR as a reserve asset and would promote its use in international transactions. In September 1980, the Board resolved to reduce the valuation basket from the current 16 to 5 currencies and thus unify the valuation and the interest rate baskets of the SDR. The new unified SDR basket would consist of the five currencies with weights given below :

U.S. dollar	42 per cent
Deutsche mark	19 per cent
French franc	13 per cent
Japanese yen	13 per cent
Pound sterling	13 per cent.

This decision became effective January 1, 1981.

IMF Gold Sales and Trust Fund

With a view to reduce the role of gold in the international monetary system, and in accordance with the Jamaica Agreement of January 1976, 50 million ounces or one-third of the Fund's gold was disposed off by end-May 1980. According to the Agreement, 25 million ounces of these were to be restituted to member countries and another 25 million ounces were to be sold for the benefit of developing countries.

Under the restitution arrangements 25 million ounces of gold were sold at SDR 35 per ounce to countries that were members of the Fund on August 31, 1975. Each member was entitled to receive a share of this gold in proportion to its quota on August 31, 1975 and accordingly India received 0.804 million ounces. These sales, conducted in four annual instalments, were practically concluded in January 1980.

The other 25 million ounces of gold were sold largely in monthly public auctions conducted by the Fund over a period of four years ended May 1980. A proportion of profits on these sales—the sale proceeds in excess of SDR 35 per ounce—which amounted to US $ 4.6 billion was agreed to be distributed directly to developing countries. Accordingly, US $ 1.3 billion of these profits were distributed in four instalments among 104 developing countries; India's share was US $ 149.3 million. These developing countries were also given an option to submit non-competitive bids during the monthly gold auctions held between June 1978 and May 1979, to acquire gold equivalent to what they were to receive under the restitu-

tion arrangement, against payment of foreign currencies. India submitted a non-competitive bid and received 0.805 million ounces of gold accordingly.

The remainder of profits from gold sales of US $ 3.3 billion was transferred to the Trust Fund, which had been established in May 1976 for the purpose of providing additional balance of payments assistance on concessional terms to eligible members from developing countries during the two periods of two years each; first period ended on June 30, 1978 and the second one which was upto June 30, 1980, was subsequently extended.

Two separate lists of eligible members based on the criterion of per capita income were approved for the two periods. For securing the Trust Fund loan an eligible member has to demonstrate a 'need' for such assistance and also has to present a programme with a first credit tranche conditionality showing that it is making 'reasonable efforts' to strengthen its balance of payments position. On thus qualifying for a loan, a member is entitled to receive a share of the total amount of resources available for the Trust Fund to make loans in each period equal to the proportion of the member's quota to the total quotas of all qualified members during that period.

Resources of the Trust Fund include in addition to profits from gold sales, income from investments of the corpus of the Trust Fund, income from loans already made to members and other transfers. Loans from the Trust Fund carry interest at a rate of one-half of one per cent per annum and are to be repaid in ten semi-annual instalments with a five year grace period.

During the first period 43 of the 61 eligible members qualified for the Trust Fund loans and received SDR 841 million of balance of payments assistance. For the second period, 59 countries were eligible to receive the Trust Fund Assistance and by end-July 1980, 49 countries qualified for assistance and received SDR 1.3 billion in loans.

India was among the eligible countries for the first period but her then comfortable balance of payments situation precluded her from approaching the Fund for the Trust Fund assistance. India is in the list of eligible members for the second period as well. In view of the deteriorating payments position, India requested for the Trust Fund loan in June 1980, and received a loan of SDR 525.5 million (Rs. 541 crores) in August 1980.

International Reserves

Total international reserves comprising gold (valued at SDR 35 per ounce), foreign exchange, SDR holdings and reserve positions in the Fund, as compiled by the Fund for its members and Switzerland increased in 1979 by SDR 23.1 billion or 8.3 per cent. This rise was slightly higher than that of SDR 17.8 billion or 6.8 per cent during 1978. While the rates of growth in reserves in both the years were lower than those in the value of the world trade, the divergence between the two became particularly marked in 1979 when world trade expanded in SDR terms by 22.5 per cent while reserves increased by 8.3 per cent. In the first half of 1980, the rise in reserves at an annual rate of over 13 per cent to SDR 321.7 billion by end-June 1980 was faster than that in 1979.

Component-wise, the bulk of the increase in reserves occurred under foreign exchange holdings which rose by SDR 25.0 billion in 1979 and by SDR 14.4 billion in the first half of 1980, raising its share in total reserves to over 81 per cent by end-June 1980. Another allocation of SDRs by the Fund of just over SDR 4 billion on January 1, 1980, raised their share in aggregate reserves to 5 per cent, still insignificantly small compared with the level warranted to make the SDR the principal reserve asset of the international monetary system. Members' combined reserve positions in the Fund declined in 1978 and 1979 but these rose marginally during January-June 1980, accounting for 3.9 per cent of aggregate reserves at end-June 1980. The gold component which had declined by SDR 3.3 billion during 1979 recorded a nominal increase of SDR 0.2 billion in the first half of 1980. The decline in gold holdings in 1979 occurred mainly in the USA, and in European countries that contributed gold to the EMCF.

Country group-wise, in 1979, the increase in aggregate reserves in absolute terms accrued mainly to major oil exporting countries as a

consequence of the enhanced oil revenues. Total reserves of the major oil exporters, industrial countries and non-oil developing countries rose by SDR 10.0 billion, SDR 6.5 billion and SDR 6.4 billion, respectively. While reserves of industrial countries and major oil exporting countries augmented further in the first half of 1980 by SDR 12.8 billion, and SDR 7.2 billion, respectively, reserves of non-oil developing countries declined by SDR 1.3 billion, despite allocations of SDR 1.1 billion to them during this period. The turn around in reserve developments of non-oil developing countries of the order of SDR 5 billion between the first half of 1979 when this group added to their reserves SDR 3.7 billion and the first half of 1980 when they had to use reserves to the extent of SDR 1.3 billion reflects the difficulties faced by them in financing of their evergrowing current account deficits.

Gold in International Markets

The period under review marks a sea change in the world gold scene. International gold markets ruled strikingly buoyant and in two months of December 1979 and January 1980 gold prices shot up from around U.S. $400 per ounce to touch the all time high of U.S. $ 850 per ounce on January 21, 1980. Excepting the early days of January 1980, and the period roughly from mid-March to mid-June 1980, the gold price generally exceeded U.S. $ 600 per ounce, throughout 1980 till end-September.

The London market final fixing for gold at end-June 1979 was U.S. $ 277.50 per ounce. By early October 1979, the gold price had crossed the U.S. $ 400 per ounce barrier, but thereafter remained below, but close to U.S. $ 400 till end-November 1979. The dip in October 1979 reflected the change in the policy of the U.S. Treasury gold auctions whereby regular monthly schedule was replaced by uncertain one both regarding the timing and the amount offered, and some strengthening of the dollar following a steady rise in short term dollar interest rates. The hectic rise in the gold price in December 1979 and January 1980 seemed to be the result of speculative and nervous trading arising from political uncertainties in the Middle East and Afghanistan culminating in pushing the price to U.S. $ 850 per ounce. In January 1980 itself the price came down sharply to below U.S. $ 700 and fluctuated thereafter between U.S. $ 600 and and U.S. $ 700 per ounce till about the mid-March 1980, when it slumped by 22.4 per cent to below U.S. $ 500 per ounce on account of anti-inflationary measures adopted by the U.S. authorities, the dramatic fall in silver prices and continuous rise in U.S. interest rates. From then onwards till the first week of June 1980 the price remained below U.S. $ 560 per ounce. Since the beginning of June 1980 the price moved up rapidly to reach close to U.S. $ 700 per ounce by around mid-July. While the political uncertainties in the Middle East, decline in U.S. interest rates and weakening of dollar and deepening of the recession in the U.S.A. enhanced the demand for gold, conclusion of Fund gold auctions and absence of the U.S. Treasury sales of gold for quite some time contracted the supply and thus contributed to the sharp rise in prices in June-July 1980.

The London market final fixing for gold at end-June 1980 at U.S. $ 653.50 per ounce was higher by as much as U.S. $ 376 per ounce or 135.5 per cent compared with the final fixing at end-June 1979. During the preceding twelve months, the gold price had increased by U.S. $ 94.45 per ounce or 52 per cent. Gold prices in other international markets also moved, by and large, in tune with the trend exhibited by the London market.

The available information indicates that the supply of gold marginally increased during 1979 but failed to maintain the rate of growth of around 17 per cent per annum observed during the preceding three years. The slowdown in supply seemed to be mainly because of lower net sales from the communist block. As the major demand for gold is for jewellery, investment and speculative purposes, the perceptions of this group regarding gold prices seemed to have pushed up the gold prices. The scramble for gold emanated mainly from the speculative activity, spurred largely by the generally pessimistic outlook for worldwide inflation and political factors such as uncertainties in the Middle East, freezing of Iranian assets by the U.S.A and the Afghan crisis.

APPENDIX-I

IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS

APRIL 1979 - MARCH 1980

A. CHANGES IN EXPORT CONTROL

Sr. No.	Item	Month of Announcement	Details
	1	2	3
1.	Arms and ammunition	April 1979	Export of muzzle loading weapons and breach loading or bolt action weapons such as shot guns, rifles, revolvers, pistols and their ammunitions was allowed under OGL. Firearms and ammunition other than those mentioned above were allowed on merits. Military stores were also allowed on merits. Export of replicas of antique weapons was allowed on production of a certificate in the prescribed form, issued by the District Magistrate, Collector or Commissioner of Police under whose jurisdiction the replicas were manufactured, to the effect that the replicas were rendered innocuous as firearms and corresponded to the samples inspected by the Director of Inspection, Department of Defence Production.
2.	Barytes	April 1979	Export of barytes (lumps and powder) was canalised under OGL through MMTC.
		June 1979	Chemical grade barytes powder/white/snow-white/super snow-white barytes were canalised through MMTC.
3.	Bauxite	April 1979	Export of bauxite (*i*) with alumina content less than 40 per cent and (*ii*) with alumina content 50 per cent but with silica content exceeding 5 per cent was allowed under OGL. Bauxite with (*i*) alumina content above 50 per cent and (*ii*) with alumina content between 40 per cent and 50 per cent but with silica content at 5 per cent or below were allowed within a limited ceiling.
4.	Buffaloes	April 1979	Export of all breeds of buffaloes for breeding purposes was allowed within a limited ceiling. For the years 1980-81 and 1981-82, exports were also placed within a limited ceiling. Export of female buffaloes (culls) and male buffaloes, not used for breeding and draught purposes was allowed under OGL, subject to a minimum f.o.b. price of Rs. 3.50 per kg. of live weight.
5.	Cattle for breeding	April 1979	Export of Haryana, Ongole, Gir and Kankrej breeds was allowed for breeding purposes within a limited ceiling and the export to be canalised through Indian Dairy Corporation. Similar ceilings were prescribed for 1980-81 and 1981-82.
6.	Chrome ore and concentrates	April 1979	Export of chrome ore and concentrates was permitted through MMTC under OGL.
7.	Cotton waste (soft) and yellow pickings	April 1979	Export of soft cotton waste and yellow pickings was allowed within a limited ceiling.
		May 1979	Export of yellow pickings within a limited ceiling fixed for 1979-80 together with the unutilized balance of yellow pickings within the ceiling fixed for 1978-79 was allowed.
		June 1979	Export of soft cotton waste to the extent of the unutilized balance of the ceiling fixed for 1978-79 was allowed.
8.	Cotton yarn	April 1979	Export of cotton yarn of all types in counts of 6s and above, as well as tyre cord yarn was allowed under OGL, while the ban on yarn in counts of 5s and below excluding tyre cord yarn was continued.
9.	Crushed bones	April 1979	Export of crushed bones was allowed within a limited ceiling for the half year April-September 1979.
		October 1979	Export of crushed bones within a limited ceiling for the second half year October 1979-March 1980 together with the unutilised portion, if any, within the ceiling fixed for the first half year was allowed.
		February 1980	The unutilised balance of the quota for the second half year was released.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
10.	Cummin seeds and turmeric	April 1979	Export of cummin seeds and turmeric was allowed under OGL.
11.	De-oiled groundnut cake (extractions)	April 1979	Export of de-oiled groundnut cake containing 1 per cent and less oil was canalised through STC under OGL. The ban on export of de-oiled groundnut cake extractions containing more than 1 per cent oil was continued.
12.	Ethyl alcohol and molasses	April 1979	Export of ethyl alcohol or rectified spirit of any proof or degree, whether denatured or not, was allowed on merits through STC. Export of molasses was canalised through STC under OGL.
13.	Expeller Cakes	April 1979	Export of cotton seed expeller cakes (decorticated and undecorticated) was canalised through All India Cotton Seed Crushers' Association, Bombay.
		November 1979	Export of all varieties of expeller cakes (other than cotton seed expeller cakes) and compound cattle feed and poultry feed was banned.
		December 1979	Export of cotton seed expeller cakes (decorticated and undecorticated) was banned; pre-ban commitments were also disallowed.
14.	Footwear (all sorts)	April 1979	Export of all kinds of footwear was allowed under OGL-3. Closed shoes, not covered under OGL-3, were canalised through STC under OGL-4.
15.	Ginger	April 1979	Export of ginger was allowed under OGL.
16.	Guar meal	April 1979	Export of guar gum with 9 per cent or less protein content was allowed freely. Additionally, such exporters were allowed to export guar meal at the rate of 1 tonne of guar meal for every tonne of guar gum exported, subject to a limited ceiling. Export of guar gum with protein content exceeding 9 per cent continued to be under ban, while that of guar churi was allowed on merits.
		June 1979	Advance quotas of guar meal were issued to exporters of guar gum. Such quotas were based on exports of guar gum made during January 1978—March 1979. Individual exporters had to give an undertaking to the effect that the advance quota of guar meal would cover export of guar gum during 1979-80, so as to maintain the 1:1 ratio; the advance quotas of guar meal to individual exporters were released subject to the ceiling earmarked for 1979-80.
17.	Gur	April 1979	Export of gur was allowed under OGL.
18.	Groundnuts including HPS, both in shell and kernel.	April 1979	Export of HPS groundnuts was canalised through NAFED; blanched and roasted peanuts was allowed within a ceiling, with a minimum price restriction of Rs. 10,000 per tonne f.o.b. Export of all other varieties of groundnuts was banned.
		June 1979	The floor price for blanched and roasted peanuts was reduced to Rs. 9,000 per tonne. Roasted and salted peanuts in consumer packs were allowed under OGL, subject to a minimum export price of Rs. 14,000/- per tonne.
19.	Hides and skins semi-processed	April 1979	Export of all categories of semi-processed hides and skins including EI tanned and wet blue hides and skins and crust leather was canalised through STC under OGL. Reductions in individual quotas, as a percentage of 1978-79 quotas were announced: (*a*) 15 per cent upto the first 20,000 pieces of cow hides. For quotas above 20,000 pieces rate of cut was 15 per cent upto the first 20,000 pieces and 30 per cent on the balance portion; (*b*) 15 per cent uniform cut for buffalo hides; (*c*) 15 per cent cut upto 30,000 pieces of cow/buff-calf skins. For quotas above 30,000 pieces rate of cut was 15 per cent upto 30,000 pieces and 30 per cent on the balance portion; (*d*) 30 per cent upto 1 lakh pieces in the case of sheep and goat skins and for quotas above 1 lakh pieces 30 per cent on the first 1 lakh pieces and 50 per cent on the balance portion.
20.	Human skeletons	April 1979	Export of human skeletons was allowed by Port Licensing Authorities on production of certificates from (1) Police authorities re-

Sr. No.	Item	Month of Announcement	Details
	1	2	3
			garding source of procurement, and (2) the foreign buyer that the human skeletons are required only for biological and medical purposes; other skeletons were allowed on merits.
		July 1979	It was decided that the certificate produced from the Police authorities should also indicate the quantity by weight or by number and export would be allowed only to the extent mentioned in the certificate.
21.	Iron and steel	April 1979	Export of iron and steel, other than cast iron pipes and fittings was canalised through SAIL (International Ltd.); export of alloy steels was allowed on merits while that of electrode quality carbon steel wire rods was banned.
		December 1979	Export of rods and bars made out of imported billets was allowed under OGL.
		January 1980	Export of pig iron was banned.
22.	Marine prodcts	April 1979	Export of dried, salted and unsalted Bombay Duck and fresh and frozen pomfrets was allowed within a limited ceiling. Export of all other marine products was allowed under OGL. In the case of frog-legs, those processed during the period June 15 to August 15 and frog- legs of counts smaller than 80 per kg. were banned; frogs and frog-legs processed in units engaged in processing for exports were allowed under OGL.
23.	Mustard oil/rape-seed oil	April 1979	Export of mustard oil was allowed within a limited ceiling only to those parties whose demand was for personal consumption and not for commercial sale. Export of rape-seed oil was banned.
24.	Mustard seeds/rape-seeds	April 1979	Export of mustard seeds/rape seeds was allowed within a limited ceiling for personal consumption, and not for commercial sale.
25.	Niger seeds	April 1979	Export of niger seeds was canalised through NAFED under OGL.
26.	Niger seed oil	April 1979	Export of niger seed oil was banned.
27.	Nux vomica seeds and bark	April 1979	Export of nux vomica seeds/and bark was allowed within a limited ceiling, on production of a declaration that the exporter had ready stock of seeds/bark; in the case of nux vomica bark besides the declaration, a certificate from the Forest Department to the effect that the bark tendered for export had been collected from fallen trees was required.
28.	Pearl barley	April 1979	Export of pearl barley was allowed within a limited ceiling.
29.	Potato and potato seeds	April 1979	Export of potatoes was allowed under OGL. Export of potato seeds of the Khufri Sindhuri, Khufri Chandermukhi and Upto-date varieties were canalised through National Seeds Corporation, within a limited ceiling.
30.	Pure milk ghee	April 1979	Export of pure milk ghee was allowed within a limited ceiling. It was also allowed through STC within a ceiling.
31.	Quinine, quinine products and cinchona alkaloids	April 1979	Export of quinine and quinine products was allowed within a limited ceiling on the recommendations of the Directorate of Cinchona of Tamil Nadu/West Bengal as the case may be. Cinchona mixed alkaloids and cinchona salts after extraction of quinine and quinidine salts thereof (as certified by the Directorate of Cinchona of Tamil Nadu/West Bengal as the case may be) and Quinidine Sulphate were allowed under OGL.
32.	Rice	April 1979	Export of Basmati rice (polished), dehusked non-polished rice and paddy rice was allowed under OGL subject to minimum f.o.b. prices: these minimum prices were Rs. 5,500 per tonne for polished Basmati rice, Rs. 5,000 - per tonne for dehusked non-polished rice and Rs. 4,000 - per tonne for paddy rice.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
		May 1979	The State Governments of Uttar Pradesh, Madhya Pradesh, Andhra Pradesh, Punjab, Haryana, Tamil Nadu and Maharashtra were allowed to export rice, each from their own stocks; other States were also allowed to export out of their own stocks within a limited ceiling provided specific requests were made to the regional licensing authority having jurisdiction over the concerned State. Exports in any case were allowed only by Public enterprises owned or controlled by the concerned State Government or the Apex Co-operative Marketing Federation of the concerned State, or a Central Government enterprise or National Agricultural Co-operative Marketing Federation of India Ltd. as designated by the State Government concerned. National Agricultural Co-operative Marketing Federation of India Ltd. and National Co-operative Consumers Federation Ltd. were also allowed to export rice and the ceiling monitored by them.
		July 1979	Export of other fine varieties of rice was also allowed under OGL, subject to minimum f.o.b. prices which were the same as stipulated for the different categories of Basmati rice.
33.	Rosewood	April 1979	Export of rosewood in log and sawn sizes was banned.
		October 1979	The ban on export of rosewood in log and sawn sizes was removed and such export was allowed within a limited ceiling.
34.	Samo seeds and Kodari seeds	April 1979	Export of samo seeds and kodari seeds was allowed within a limited ceiling.
35.	Sesame seeds	April 1979	Export of sesame seeds was canalised through NAFED under OGL.
36.	Sheep and goats, and meat of Indian sheep	April 1979	Export of sheep and goats was allowed under OGL. Sheep procured from the temperate zone of Himachal Pradesh/Hill areas of Uttar Pradesh/Arunachal Pradesh States and from Bannur/Mandya in Karnataka were not allowed. Further, only whethers (i.e. castrated male) and culled female stock were allowed. In the case of goats, three milch breeds viz., Jamnapari, Betal and Barabari and one mutton type viz., Black Bengal were not permitted for export. Export of meat of Indian sheep was allowed subject to a minimum f.o.b. price of Rs. 12.50 per kg. and other conditions stipulated for procurement of live animals.
		January 1980	The minimum export price of sheep meat was raised to Rs. 14/- per kg. f.o.b.
		Feburary 1980	Export of meat of sheep and goats, including organs thereof was banned.
37.	Silk waste	April 1979	Export of non-mulberry silk waste (tassar), eri and muga and mulberry pierced cocoons was banned for export. Export of mulberry silk waste including cleaned and degummed silk waste of South Indian origin was allowed subject to the condition that against the supply of 3 kg. of silk waste to any of the government spun silk mills the supplier will be entitled to export 2 kg. of silk waste other than processed silk waste. In the case of processed silk waste of South Indian origin the supplier was entitled to export 100 kg. of processed silk waste of South Indian origin against the supply of 15 kg. of processed silk waste or 30 kg. of mulberry silk waste to the government spun silk mills. The export entitlement was to be utilised within a year from the date of issue of certificate by the government spun silk mills. Hard silk waste of South Indian origin, throwster silk waste and all other varieties of silk waste excluding noil & noil droppings were allowed under OGL. Noil & noil droppings were allowed on merits.
38.	Sillimanite	April 1979	Export of khasi sillimanite and sillimanite of Maharashtra origin was allowed within a limited ceiling through MMTC. Granular sillimanite produced by Indian Rare Earths Ltd. (IREL) and Kerala Minerals and Metals Ltd. (KMML) was allowed on the recommendation of the Department of Atomic Energy.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
39.	Silver	April 1979	Export of silver bullion bars, sheets and plates which have not undergone any process of manufacture subsequent to rolling, and silver salts, chemicals and compounds with more than 50 p.c. silver contents continued to be under ban. Manufactures and products, wholly or mainly of silver with more than 50 per cent silver contents were allowed on merits. Silver coins were allowed under OGL.
		August 1979	Export of manufactures and products having 50 per cent or less silver contents was allowed on merits. Pre-ban commitments were allowed subject to certain conditions.
		September 1979	Pre-control commitments in respect of manufactures and products viz., silver salts, chemicals and compounds, with more than 50 p.c. silver content were considered on merits, under certain conditions. Subsequently, pre-ban commitments in respect of other manufactures and products wholly or mainly of silver with more than 50 per cent silver content were also considered for export subject to certain conditions.
		November 1979	Export of silver manufactures and products with more than 10 per cent silver content was allowed subject to certain conditions. Further, the undernoted categories of silver manufactures with silver content not exceeding 10 per cent of the f.o.b. value of the product were allowed under OGL:— (1) jewellery (2) fabrics in the making of which silver or silver zari has been used, and (3) electrical and electronic goods.
		February 1980	Export of silver products having silver content not exceeding 10 per cent of the f.o.b. value—other than those permitted under OGL—were allowed on merits; pre-control commitments were also considered.
40.*	Sugar	April 1979	Shipments of sugar were allowed upto July 30, 1979, under OGL, through the STC and sugar factories.
		August 1979	The last date for shipment was extended to December 31, 1979 but only STC was allowed to export.
		January 1980	The last date for shipment was further extended to March 31, 1980.
41.	Staple cotton	April 1979	Export of staple cotton was allowed under OGL.
42.	Tobacco (unmanufactured)	April 1979	Export of different grades of flue-cured Virginia, Sun-cured Virginia, Sun-cured 'Natu' (Country) Virginia and Sun-cured jutty tobacco was allowed subject to minimum f.o.b. prices under OGL. Other grades were free from minimum price restrictions.
43.	Vanaspati ghee	April 1979	Export of vanaspati ghee was allowed subject to a limited ceiling.
44.	Wheat, wheat seeds and wheat products	April 1979	While export of wheat continued to be banned, export of wheat seeds was allowed under OGL and that of wheat products was allowed within a limited ceiling subject to certain conditions.
45.	Wollastonite	April 1979	Export of wollastonite was allowed freely.
46.	Wool (raw)	April 1979	Export of raw wool (indigenous) except Angora goat hair or Mohair upto 40 counts was allowed within a ceiling. Raw wool above 40 counts was banned.

B. COMMODITIES SUBJECT TO EXPORT DUTY DURING 1979-80@

Sr. No.	Item	Rate of duty as on March 31, 1980	Changes during the year		Effective Date
			From	To	
1.	Coffee*	Rs. 5.70 per kg.	Rs. 4.00 per kg.	Rs. 7.50 per kg.	June 18, 1979
			Rs. 7.50 per kg.	Rs. 9.00 per kg.	July 6, 1979
			Rs. 9.00 per kg.	Rs. 7.30 per kg.	August 4, 1979
			Rs. 7.30 per kg.	Rs. 5.70 per kg.	February 1, 1980
2.	Cardamom**	Rs. 15 per kg.	Rs. 10 per kg.	Rs. 15 per kg.	August 24, 1979
3.	Turmeric				
	(*i*) Whole turmeric	Rs. 2000 per tonne		No Change	January 20, 1979
	(*ii*) Turmeric Powder	Rs. 1500 per tonne		No Change	January 20, 1979
4.	Tobacco unmanufactured	20 per cent ad valorem or 75 paise per kg. whichever is less		No Change	June 6, 1966
5.	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		No Change	January 9, 1979
	(*iii*) Cotton linters	25 per cent ad valorem		No Change	October 14, 1966
	(*iv*) Other varieties below 24.5 mm staple length	Rs. 1000 per tonne		No Change	January 12, 1979
6.	Cotton Waste				
	(*i*) Cotton Waste (soft)	25 per cent ad valorem		No Change	August 17, 1966
	(*ii*) Cotton Waste	40 per cent ad valorem		No Change	June 15, 1966
7.	Raw Wool	25 per cent ad valorem		No Change	August 2, 1976
8.	Mica				
	(*i*) Mica loose splittings of grade numbers 5 ½ and 6 and mica mixed torn loose grade numbers 5 and 5 ½	15 per cent ad valorem		No Change	January 1, 1973
	(*ii*) Mica splittings of all grades other than those specified against Sr. No. (i) above	20 per cent ad valorem		No Change	January 1, 1973
	(*iii*) Mica blocks and condenser films of all grade number 2 and grades superior thereto	30 per cent ad valorem		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 ad valorem		No Change	April 28, 1973
	(*v*) Fabricated Mica	10 per cent ad valorem		No Change	May 1, 1972
9.	Hides and Skins and leather tanned and untanned all varieties excluding leather manufactures. All varieties (excluding (a) finished leather of goat, sheep and bovine animals and of their young ones, (b) tanned hides of bovine animals but excluding calf skin)	25 per cent ad valorem		No Change	May 1, 1976
10.	Groundnuts				
	(*i*) Groundnuts in kernel	Rs. 1500 per tonne		No Change	November 13,1976
	(*ii*) Groundnuts in shell	Rs. 1125 per tonne		No Change	November 13,1976

Sr. No.	Item	Rate of duty as on March 31, 1980	Changes during the year		Effective Date
			From	To	
11.	Oilcakes				
	(*i*) De-oiled groundnut oilcake	Rs. 125 per tonne		No Change	June 6, 1966
	(*ii*) De-oiled groundnut meals (solvent extracted variety containing less than one per cent oil)	Rs. 125 per tonne		No Change	June 6, 1966
12.	Jute Manufactures (Hessian Cloth and bags)††	Rs. 1000 per tonne	Nil	Rs. 1000 per tonne	February 18, 1980
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 content	Rs. 12.50 per tonne		No Change	May 26, 1967
	(*iii*) Manganese ore having more than 48 per cent of manganese content ..	Rs. 20 per tonne		No Change	August 2, 1966
14.	Manganese dioxide	20 per cent **ad valorem**		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 (commonly known as Black Iron Ore)	Rs. 7 per tonne		No. Change	May 28, 1973
	(*ii*) Lumpy iron ore having 60 per cent or more but less than 63 per cent of iron content	Rs. 6 per tonne		No Change	August 31, 1968
	(*iii*) Lumpy iron ore having 58 per cent or more but less than 60 per cent of iron content	Rs. 5 per tonne			
	(*iv*) Lumpy iron ore having less than 58 per cent of iron content	Rs. 4 per tonne			
	(*b*) Iron ore fines (including blue dust)				
	(*i*) Iron ore fines (including blue dust) where the iron content is less than 62 per cent	Rs. 3 per tonne		No Change	July 24, 1967
	(*ii*) Iron ore fines where the iron content is 62 per cent or more	Rs. 4 per tonne		No Change	May 25, 1967
16.	Sillimanite	20 per cent **ad valoren**		No Change	August 2, 1966
17.	Kyanite	Rs. 40 per tonne		No Change	August 2, 1966
18.	Chrome Concentrates	Rs. 15 per tonne		No Change	August 2, 1966
19.	Chromites†				
	(*i*) High grade fines and concentrates with Cr_2O_3 contents 47 per cent and above	Rs. 200 per tonne		No Change	May 12, 1977
	(*ii*) Medium grade fines and concentrates with Cr_2O_3 content 35 per cent and above but below 47 per cent ..	Rs. 150 per tonne			

Sr. No.	Item	Rate of duty as on March 31, 1980	Changes during the year		Effective Date
			From	To	
	(*iii*) Lumpy ore with Cr_2O_3 content 35 per cent and above but below 42 per cent	Rs. 75 per tonne	No change		May 12, 1977
	(*iv*) Low grade lumpy ore or fines or concentrates with Cr_2O_3 content below 35 per cent and FeO content above 25 per cent	Rs. 50 per tonne			
20.	Barytes	Rs. 50 per tonne	No Change		September 2, 1978

@Relates to the period April 1979 to March 1980.

* The export duty on coffee was raised from Rs. 5.70 to Rs. 7 per kg. with effect from May 28, 1980; however, it was reduced to Rs. 5 per kg. with effect from July 17, 1980 and further to Rs. 2.60 per kg. with the effect from August 14, 1980.

** The rate of export duty on cardamom was reduced from Rs. 15 a kg. to Rs. 5 a kg. effective June 20, 1980. This rate which was to last upto July 31, 1980 would continue to be in force beyond July 31, 1980.

@@ Export duty on raw cotton of staple length 24.5mm. and above was abolished with effect from May 15, 1975.

† Chromite concentrates produced by benefication of low-grade chromite ore has been exempted from export duty to encourage export of every low-grade chromite in the form of concentrates produced through this process.

†† Export duty on jute specialities was abolished with effect from July 5, 1980 while that on Hessian (cloth and bags) was abolished with effect from September 8, 1980.

APPENDIX — II

A—IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY

APRIL 1979 — MARCH 1980

Sr. No.	Item	Month of Announcement	Details
	(1)	(2)	(3)
1.	Open General Licence No. 2*@	May 1979	Permission was granted for import of raw materials by Actual Users (industrial) for their own use subject to the condition that (*ii*) in the case of imports of man-made fibres, tow and yarns, the contracts should have been registered with the Textile Commissioner in advance, and (*ii*) in the case of imports of pesticides and weedicides, particulars of quantity and c.i.f. value of each consignment is intimated to the Department of Agriculture (Plant Protection Division), Government of India within 7 days of customs clearance.
2.	Open General Licence No. 3@	May 1979	Permission was granted for import of capital goods included in Appendix 2 of the Import Policy for 1979-80 by Actual Users—industrial and non-industrial—for their own use provided that (*i*) the value of items to be imported does not exceed Rs. 10 lakhs, (*ii*) the items are new and not second hand or re-conditioned, (*iii*) no deferred payment is stipulated, and (iv) the advertisement procedure laid down in the policy is followed.
3.	Open General Licence No. 4	May 1979	Imports were allowed of : (*i*) free gifts of trade catalogues and circulars up to the value of Rs. 1,000/-, (*ii*) blue prints, drawings (including micro films), relating to machinery and plant sites, work and building research data supplied free of charge and having no commercial value, (*iii*) bonafide technical and trade samples supplied free of charge not exceeding c.i.f. value of Rs. 10,000 in one consignment excepting vegetable seeds, bees, tea and new drugs, (*iv*) bonafide advertising materials supplied free of charge not exceeding Rs. 1,000/- in c.i.f. value in one consignment, (*v*) goods supplied free of charge by foreign suppliers imported against insurance (marine) claims in replacement of goods previously imported but found defective or otherswise unfit for use by importers themselves and not for sale (*vi*) drugs and medicines supplied free of charge for clinical trials, (*vii*) bonafide trade samples of drugs and medicines supplied free of charge to sole agents up to Rs. 10,000/- in c.i.f. value on recommendation of Drugs Controller, (*viii*) Human vaccines and sera, animal and poultry vaccines supplied free of charge or against payment with approval of the Central Insecticides Board of the Department of Agriculture.
4.	Open General Licence No. 5*@	May 1979	Imports were allowed of permissible spares (i.e. items not included in the banned lists) by Actual Users (industrial and non-industrial) for their own use for maintenance of capital goods including accessories and ancillary equipments, control and laboratory equipments and safety appliances installed or in use as on April 1, 1979. In the case of computer system, import of permissible spares will be allowed 3 per cent of the c.i.f. value (certified by Chartered/Cost Accountants/Sponsoring authority) of imported computers or 1/2 per cent of purchase price of indigenously manufactured computer systems in a financial year.
5.	Open General Licence No. 6	May 1979	Research and development units, scientific or research laboratories, institutions of higher education and hospitals recognised by the Central or State Governments were allowed to import for their own useraw materials, components, consumables, machinery,equipments, instruments, accessories and spares required by them provided they furnish to concerned authorities, within 30 days of clearance of the goods from Customs, particulars of goods whose value was of Rs. 1 lakh or more.
6.	Open General Licence No. 7@	May 1979	Import of fixtures, moulds and press tools not included in the 'banned' list were allowed by Actual Users (industrial), provided the items are new manufactures and no deferred payments are involved.

Sr. No.	Item	Month of Announcement	Details
	(1)	(2)	(3)
7.	Open General Licence No. 8	May 1979	Import of the goods mentioned in Appendices 8 and 9 of the Import Policy for 1979-80 were allowed by designated Public Sector (Canalising) Agencies mentioned against the relevant items in the said Appendices.
8.	Open General Licence No. 9	May 1979	Permission was granted to the Oil and Natural Gas Commission for import of all items of raw materials, components, consumables, machinery, equipments, instruments, accessories and spares (but not consumer goods how-so-ever described) for its own use provided the DGTD's clearance is obtained and such imports are made against foreign exchange released for the purpose by Government.
9.	Open General Licence No. 10	May 1979	Air India, Indian Airlines and other members of the IATA were granted permission for import of spares, consumables (excluding greases and lubricants covered by Appendix 9 to the Import Policy for 1979-80), aircraft tyres and tubes, manuals, technical drawings and other technical literature, etc. for their own use and pertaining to the fleet of air craft operated and maintained by them and the associated test and training equipments.
10.	Open General Licence No. 11* @	May 1979	Permission was granted for import of (a) poultry vaccines (all types) by poultry farms/hatcheries approved by the Department of Agriculture of the Government of India and (b) high grade molybdenum ore/molybdic oxide/molybdenum oxide, required by any industrial unit for its own use.
11.	Open General Licence No. 12	May 1979	Permission was granted for import of equipments, machinery and spares by Government Departments (State or Central) or projects under their ownership or control provided these are imported free of cost under agreements between the Government of India and foreign Governments and are in accordance with provisions laid down in the relevant agreement. Under this licence, personal effects of foreign experts coming to India were also allowed to be imported provided the project authorities certified that the imports were in accordance with the concerned agreement and the imports, except consumables, are re-exported at the time the foreign expert leaves India.
12.	Open General Licence No. 13	May 1979	Registered exporters of gems and jewellery and co-operative societies of goldsmiths and artisans were allowed to import machinery, equipments, testing apparatus, tools and implements required for gems and jewellery industry subject to satisfying the "Actual User" condition.
13.	Open General Licence No. 14	May 1979	General permission was granted for import of certain items listed in the schedule attached to this notification, e.g., teaching aids, books—educational and scientific— medicines, instruments and equipments required for the blind, wattle extracts/bark for tanning leather, life saving and Homeopathic drugs, other crude drugs required for making Ayurvedic and Unani medicines, family planning instruments, appliances, equipments, dry fruits excluding cashewnuts, spices, rock salt, x-ray films, brass scrap, zinc, zinc alloy and scrap, gum arabic, lubricating oils for watches, clocks and time pieces, viscose filament yarn, educational/instructional films, and spares for printing machine, machine tools, cinematographic equipment, certain earth moving machinery. However the foregoing permission was granted subject to the conditions laid down for each item in the schedule.
14.	Open General Licence No. 15	May 1979	Import of drugs and medicines, medical including surgical, optical and dental instruments, appliances, replacement parts, accessories thereof, and dental material, x-ray intensifying screens, scientific instruments and chemicals, spare parts of motor vehicles and agricultural tractors were allowed by specified eligible importers for specified purposes and within ceiling limits laid down in the schedule attached to the notification.
15.	Open General Licence No. 16	July 1979	General permission was granted for import by integrated steel plants, mini steel plants and electric arc furnaces of (a) stopper heads and nozzles and (b) copper moulds (for continuous billet casting) subject to compliance with the "Actual User" Condition.

Sr. No.	Item	Month of Announcement	Details
	(1)	(2)	(3)
16.	Open General Licence No. 17	October 1979	General permission was granted to import all items of raw materials, components, consumables, machinery, equipments, instruments, accessories and spares (but not consumer goods how-so-ever described) by Oil India Ltd. for its own use provided DGTD clearance is obtained and the import is made against foreign exchange released by the Government for the purpose.
17.	Gold Jewellery Export Replenishment Scheme	January 1980	The Gold Jewellery Export Replenishment Scheme was suspended until further notice.
18.	Trade with Rhodesia	January 1980	The order prohibiting trade with Rhodesia was rescinded.

* The importer is required to maintain and submit, when specified, proper account of the consumption and stock of items imported under these Licences.

@ The description and c.i.f. value of imports made under these licences are to be furnished to the office of the Chief Controller of Imports and Exports twice in the year as on 31-8-1980 and 29-2-1981 within 15 days of the expiry of the specified dates.

B. CHANGES IN IMPORT DUTIES

The Central Government Budget for 1980-81 presented to the Lok Sabha on June 18, 1980 has introduced the following changes in import duties:

(a) The import duty (basic plus auxiliary) on all dutiable articles imported as baggage has been raised from 120 per cent *ad valorem* to 150 per cent *ad valorem*.

(b) The import duty (basic plus auxiliary) on audio-frequency electric amplifiers has been stepped up from 75 per cent *ad valorem* to 120 per cent *ad valorem*.

(c) The additional (countervailing) duty on imported computers and computer peripheral units has been increased from 10 per cent *ad valorem* to 20 per cent *ad valorem*.

(d) The import duty (basic) on cinematograph films, not exposed (colour), has been raised from 50 paise to Re 1 per linear metre.

(e) Steel tubes imported for use in the manufacture of industrial gas cylinders of certain specifications have been exempted from import duty (basic, auxiliary and additional).

(f) The import duty (basic, auxiliary and additional) on certain items of machinery and testing instruments for printing industry, electronics industry and certain other items of machines and testing instruments has been reduced from the existing rates to 25 per cent *ad valorem*.

(g) The import duty (basic plus auxiliary) on certain raw materials and components for the electronics industry has been reduced from the existing rates to 45 per cent *ad valorem*; additional (countervailing) duty would be leviable only on items classifiable under Central Excise Tariff Item No. 68.

(h) Additional (countervailing) duties will be leviable on imported goods consequent upon the increase in the levy of special and/or basic excise duty on certain indigenous goods.

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