FOREWORD

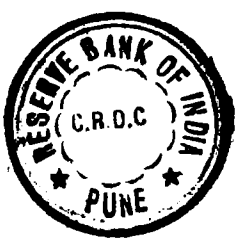
The Reserve Bank of India regularly brings out the Report on Currency and Finance, which was traditionally considered as a comprehensive source and record of economic developments. The structure of this Report has been re-oriented since 1998-99 from just documenting the economic developments to a 'theme-based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



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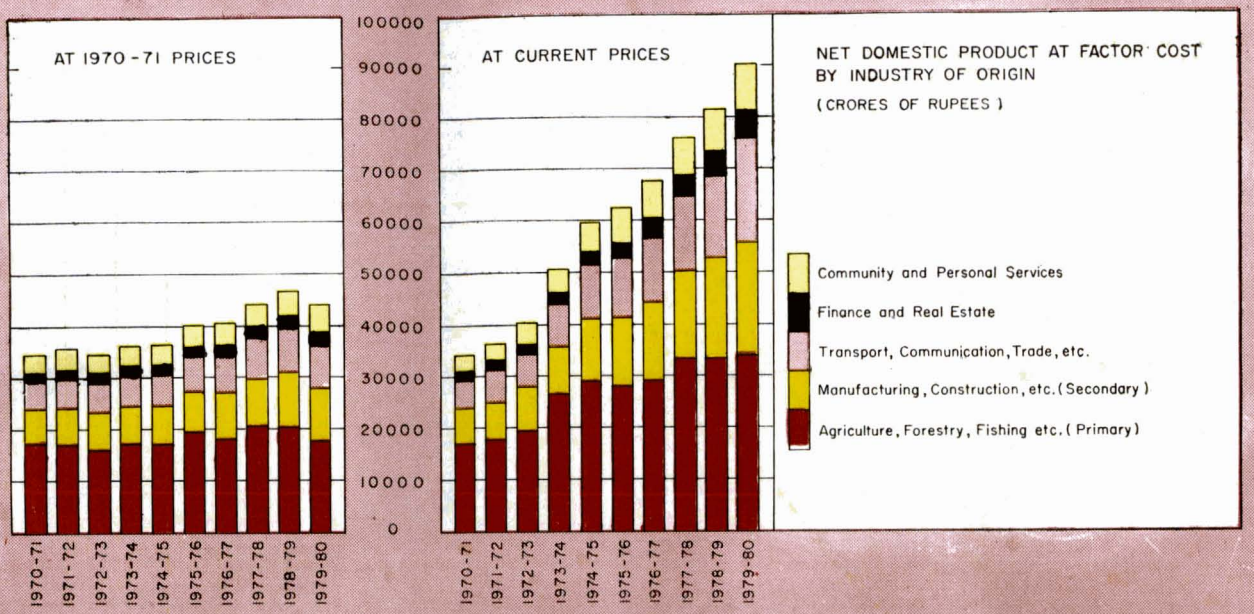

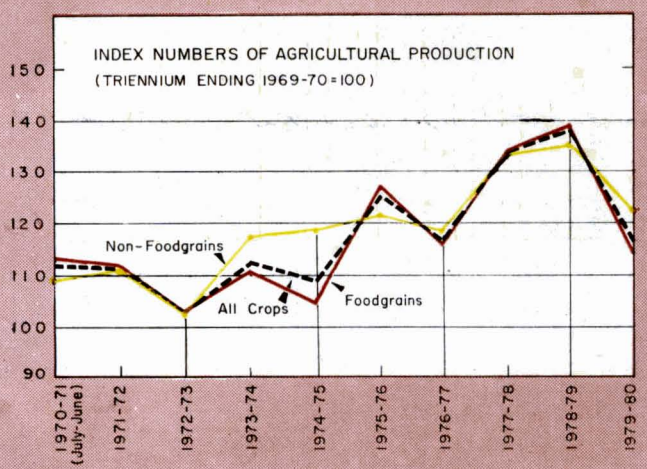

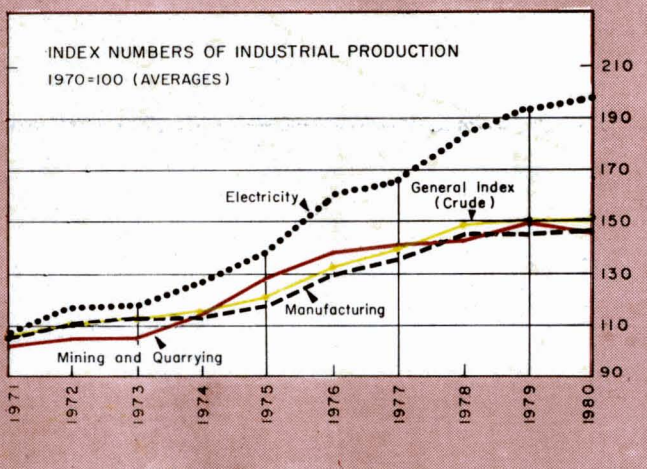

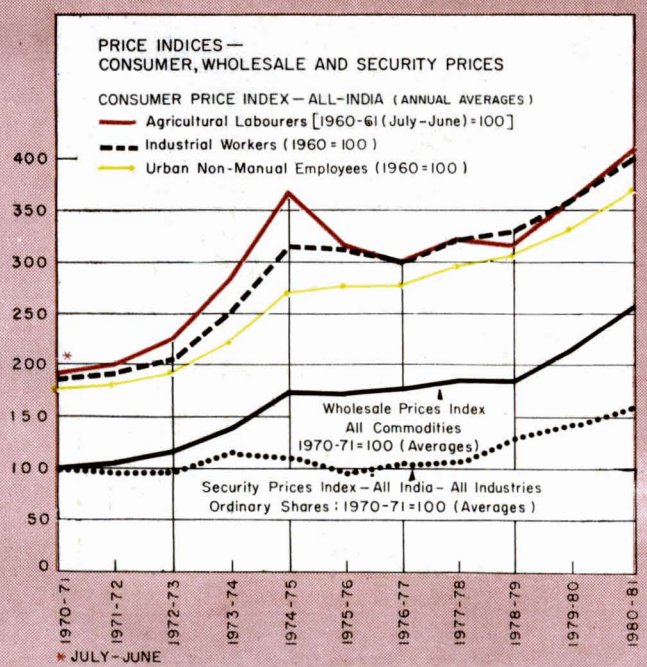

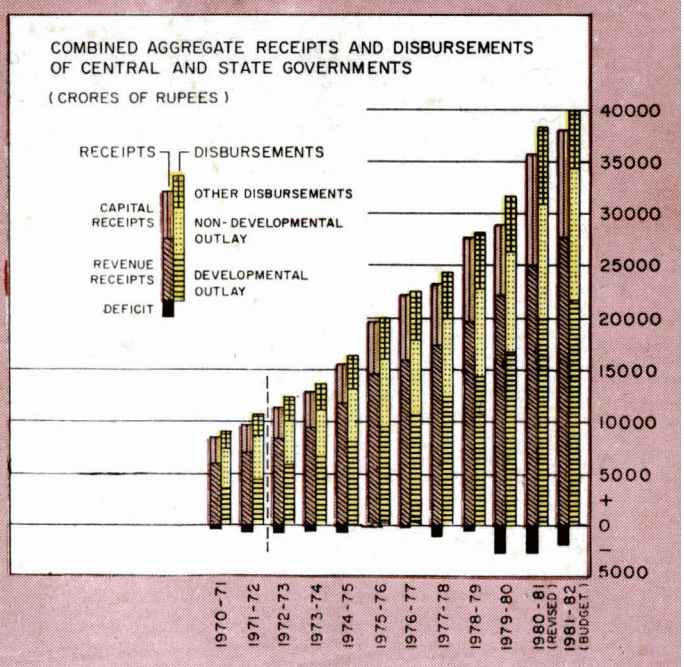

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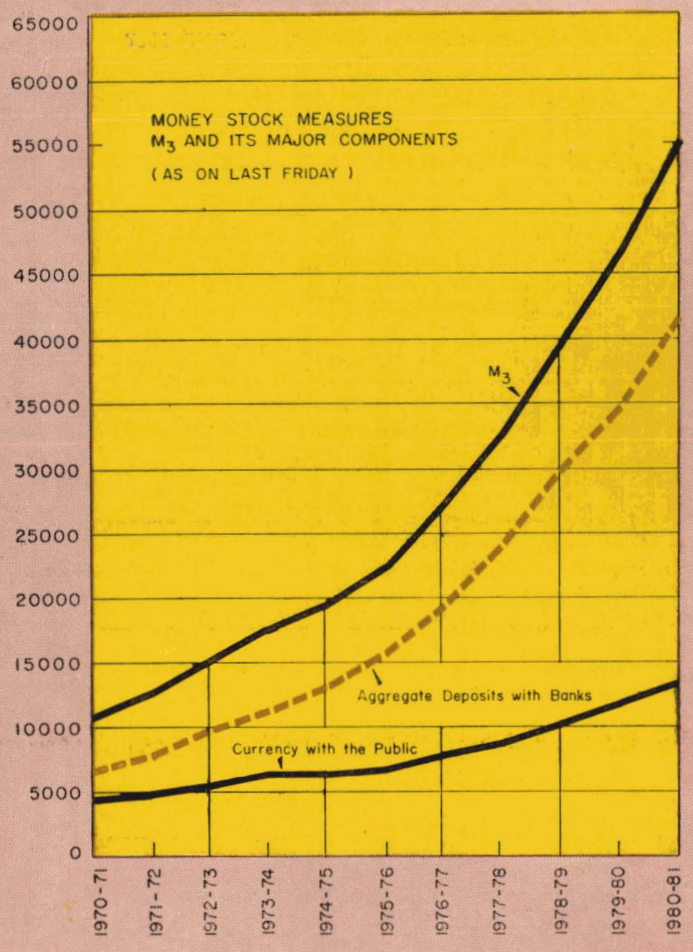
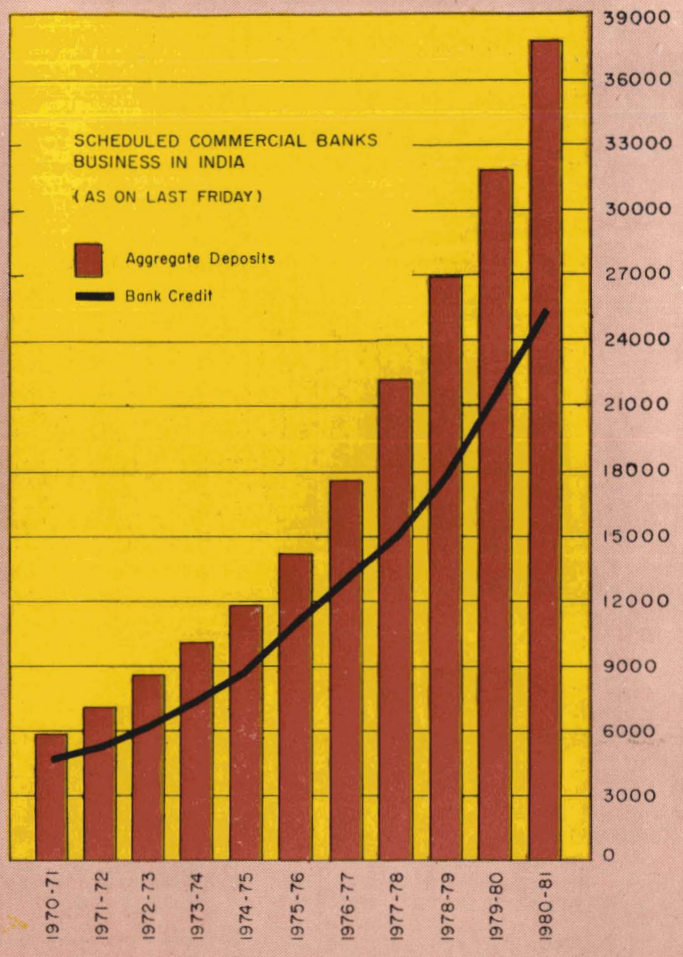
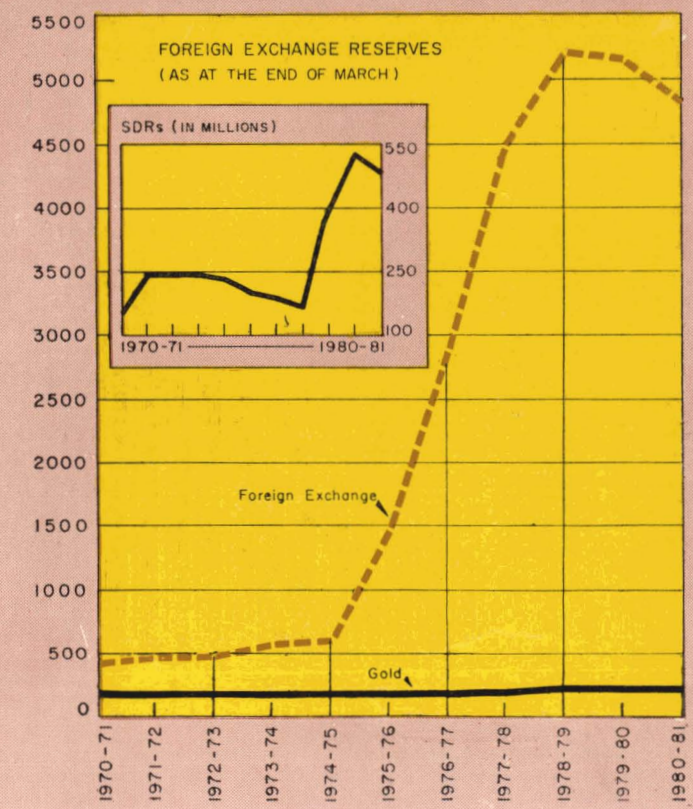
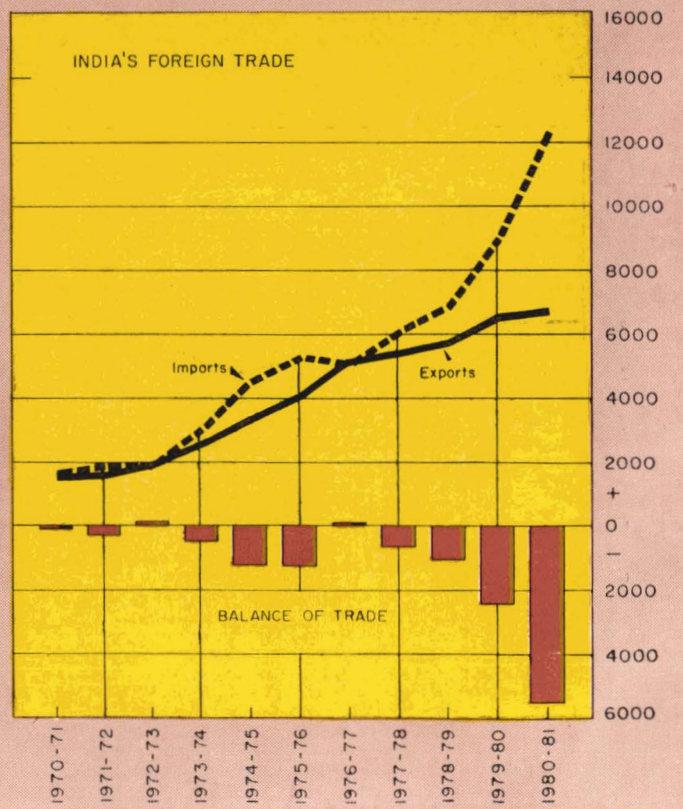








Chapter I

Review and Outlook

The year July 1980-June 1981 presented mixed developments in the economy. On the positive side, there was an improvement in output in contrast to the setback in the previous year. The pace of price increase declined, but there were no indications of halt to, much less a reversal of, the inflationary trend. Monetary expansion was at a higher rate than in the previous year. In respect of external trade and payments, the situation aggravated with a widening of the trade gap and a further drop in foreign currency reserves.

The output of foodgrains, which had been seriously affected by the drought in 1979-80, improved during the year under review in this Report. Preliminary estimates based on better rainfall and weather conditions placed the foodgrains output for the year at 133 million tonnes, exceeding the record level of output of 1978-79; these early estimates have now been revised downwards to 130 million tonnes, at which level the foodgrains production would still be considerably higher than the previous year's output of 110 million tonnes.

As a consequence of the 1979-80 drought and the rise in foodgrain prices, the pressure on the public distribution system increased. The system was expanded with the opening of about 38,000 fair-price/ration shops during the calendar year 1980. Though the allocation of foodgrains for the Food-for-Work Programme was reduced, the stock of foodgrains with the public distribution agencies declined sharply and stood at 13·6 million tonnes at the end of June 1981, as against 16·3 million tonnes at the end of June 1980 and 21·4 million tonnes at the end of June 1979. This decline in stocks was indicative of the increased effectiveness of the public distribution system and the greater recourse to it by the public, in a climate of rising prices of cereals in the open market.

In the industrial sector, there was a marked improvement since July 1980. The overall index of industrial production, which recorded a decline of 2·9 per cent in the first half of the calendar year 1980, rose by 4·6 per cent during the July-December period. In the first half of the calendar year 1981, the increase was more pronounced at 9·9 per cent. The tempo has been sustained in July-August 1981, with the index rising by 9·2 per cent as against an increase of 1·5 per cent in the corresponding months of 1980. The improvement in output over the past 15 months or so is also fairly widespread in the sense that industries accounting for a substantial weightage in the overall index have recorded higher production.

An important factor behind the faster pace of growth in industrial output is the easing of infrastructural constraints, while the overall improvement in labour relations has also contributed. The generation of electricity, which in the first half of financial year 1980-81 had been lower than in the corresponding period of the previous year, improved substantially in the second half so that over the year as a whole, electricity generation increased by 5·7 per cent as against an increase of 2·1 per cent in the financial year 1979-80. In the first quarter of the current financial year (1981-82), electricity generation recorded an increase of 19·3 per cent as against the decline of 5·1 per cent in the corresponding quarter of 1980-81. Other infrastructural industries such as coal, saleable steel, petroleum crude, petroleum products and cement have also recorded improvement in output. The transport sector too showed some improvement as seen in the increase in the daily average number of railway wagons loaded.

Welcome as these developments are, infrastructural constraints have continued to hamper industrial growth. Even with the growth it has recorded, power generation has been below the estimated requirements. Availability of transport is still erratic, while shortages persist in respect of supplies of important inputs such as cement, steel etc. Diverse snags

beset the strengthening of the infrastructural base through additions to capacity for power generation and for the output of producer goods. Further, the pace of monetary expansion also accelerated. M3 rose by 18·8 per cent in 1980-81, as against 15·0 per cent in the previous year. The increase in reserve money during the year was of the order of 19·2 per cent while the pace of its rise in 1979-80 was 14·1 per cent.

Despite increase in money as well as real income in 1980-81, the savings rate is estimated to have declined fractionally. This is partly a reflection of the nature of increase in national income in 1980-81. This increase was recorded over the depleted level of income in 1979-80. In relation to 1978-79, the real national income two years later i.e. in 1980-81, is only 1·7 per cent higher. The ratio of estimated aggregate savings to NNP in 1980-81 is considerably lower than the peak attained in 1978-79, a feature which suggests erosion of the savings capacity in a period of rising prices.

A significant feature of the developments during the year in respect of prices, which are discussed in some detail in Chapter IV, is that the consumer price indices showed a higher rise during the year under review than in the previous year while the upward movement in the wholesale price index was relatively muted. The consumer price index for industrial workers increased, on a monthly average basis, by 11·9 per cent in 1980-81, as against 10·3 per cent in 1979-80, while the increase in the consumer price index for urban non-manual employees recorded a rise of 12·1 per cent as against 9·6 per cent. In terms of the monthly average, the wholesale price index rose by 16·7 per cent during the year under review as compared to a rise of 20·2 per cent in 1979-80.

Another feature to be noted is that in 1980-81 the increase in the price of cereals slackened, with the cereals group in the wholesale price index recording a rise of 10·5 per cent as against an increase of 18·7 per cent in the previous year (on a point to point basis). In the current year upto end-October 1981, the decline in the rate of price increase is pronounced, with the wholesale price index for all commodities rising by only 0·1 per cent between end-June and end-October 1981 as against 4·7 per cent in the corresponding period of the previous year (point-to-point). In contrast, the increase in the cereals group has been higher in the current year thus far, at 3·2 per cent as against 1·1 per cent in the corresponding period in the previous year. That despite the relatively high weightage accorded to cereals in the wholesale price index, this order of increase in cereal prices did not exert greater pressure on the overall price level suggests a slackening of the overall inflationary forces. Further, the increase in cereal prices has to be viewed in relation to the depleted level of food stocks, which have played a significant role in the past two years in subduing the impact of adverse developments in agriculture. By present reckoning, 1981-82 holds promise of good agricultural output for the second consecutive year. This together with the programme for import of wheat should strengthen the stock position with some allowance made for the pace of flow through the pipe line and could influence future price developments favourably.

A reference was made in last year's Report to the growing impact of external factors on the domestic economic situation and the structural character of the external payments imbalance that the country is faced with. This is underlined by the developments during the year, with a further deterioration in the external payments position. The deterioration in foreign merchandise trade transactions came about because of a rapid increase in imports while the pace of export growth declined. The latter was in the main a consequence of the worsening of the world environment for trade, but domestic factors were also of some consequence in this regard, as is pointed out in Chapter IX. India's export performance has not kept pace in recent years with the growth in world exports, and in consequence there was a further erosion in India's share in world exports. At the same time there was a sharp deterioration in India's terms of trade brought about by a substantial mark-up in the unit value index of imports, while the unit value index of exports remained virtually stationary. The rise in import payment on account of the import of petroleum, oil and lubricants

(POL items) was sizeable with an increase of 57 per cent in the fiscal year 1980-81. In consequence, the share of POL items in total imports went up to 41·5 per cent from 36·7 per cent in 1979-80.

The impact of the deterioration in the trade position is seen in the country's overall balance of payments with a turnround from a surplus of about Rs. 370 crores in 1979-80 to a deficit of around Rs. 1,200 crores in 1980-81. The overall balance of payments deficit in the fiscal year 1981-82 would exceed that of the previous year.

In the first quarter of the current financial year (i.e. April-June 1981), foreign currency assets of the Reserve Bank declined by Rs. 495 crores as against a smaller decline of Rs. 389 crores in the corresponding quarter of 1980-81. The level of the foreign currency assets at end-June 1981 was Rs, 4,327 crores. It may be recalled that the foreign currency assets had risen, between end-June 1977 and end-June 1979, from Rs. 3,582 crores to Rs. 5,346 crores.

The loan sanctioned to India by the International Monetary Fund under its Extended Fund Facility should provide the balance of payment support in the immediate future, while the economy presses on with the structural adjustments needed to correct the external payments imbalance. However, the loan in itself cannot be viewed as a sufficient condition for the strengthening of the economy. The requirements of economic management would doubtless accord high priority to a measure of price stability. Such a stability can be enduring and effective only if improved growth of overall production and productivity is secured and maintained. This would require both more investment and more effective utilisation of available resources.

Chapter II

National Income, Saving and Investment

A. Trends in National Income

1. *Estimates for 1979-80*

According to the quick estimates prepared by the Central Statistical Organisation (CSO), the national income at current prices rose from Rs. 81,228 crores in 1978-79 to Rs. 91,173 crores in 1979-80 i. e., by a significantly higher rate of 11.0 per cent than that of 6.7 per cent in the previous year; the per capita income worked out to Rs. 1,379 in 1979-80 showing an increase by 8.8 per cent as compared with a rise of 4.7 per cent in the previous year. However, the *real* net national product at factor cost declined by 4.9 per cent to Rs. 44,328 crores in 1979-80 from Rs. 46,636 crores in 1978-79, after two successive and significant increases of 5.8 per cent in 1978-79 and 8.6 per cent in 1977-78. The national income *per capita* at Rs. 678 suffered a sizeable decline of 6.8 per cent in *real* terms in contrast to increases of 3.8 per cent in 1978-79 and 6.3 per cent in 1977-78 (Table II. 1). In the 30 years since 1950-51, the loss of such a high magnitude in the per capita *real* income had occurred only once before, and that was in the drought year of 1965-66.

The sharp fall in the overall growth rate during 1979-80 was primarily attributable to the poor performance of the agricultural sector in the wake of a severe drought; the domestic product generated in that sector declined by 12.7 per cent in contrast to the rise of 1.6 per cent in 1978-79. As a result, the contribution of the 'primary sector' to the net national product (NNP) at 1970-71 prices declined from 43.9 per cent in 1978-79 to 40.6 per cent in 1979-80. The domestic product originating in the 'secondary sector' also decreased by 2.8 per cent as against a substantial rise of 10.8 per cent noticed in the previous year, though the sectors' share in NDP edged up from 22.1 per cent in 1978-79 to 22.7 per cent in 1979-80. Industry-wise, the income originating in 'manufacturing' and 'construction' suffered losses of 1.9 per cent and 6.6 per cent against rises of 13.9 per cent and 1.3 per cent, respectively, in 1978-79.

Table II-1: Trends in Net National Income and Per Capita Income (Financial Years)

	1976-77	1977-78	1978-79	1979-80	1980-81
Net National Product (Rupees Crores)					
At 1970-71 prices	40,606 (1.3)	44,090 (8.6)	46,636 (5.8)	44,328 ((—) 4.9)	47,431 (7.0)
At Current prices	67,362 (8.4)	76,109 (13.0)	81,228 (6.7)	90,173 (11.0)	110,011 (22.0)
Per Capita Income (Rupees)					
At 1970-71 prices	659 (—0.7)	701 (6.3)	728 (3.8)	678 ((—) 6.9)	694 (2.4)
At Current prices	1093 (6.3)	1,210 (10.7)	1,267 (4.7)	1,379 (8.8)	1,608 (16.6)

Sources and Notes: 1. Estimates upto 1979-80 are as those published by the Central Statistical Organisation (CSO), Government of India; the same are provisional for 1977-78 and 1978-79 and quick estimates for 1979-80.
2. Figures for 1980-81 are tentative estimates.
Figures within brackets represent percentage increases over the previous year.

In keeping with the trend noticed since the mid-'sixties, the domestic product originating in the 'services' sector continued to expand, but at a lower rate of 2.8 per cent as against 8.1 per cent in 1978-79. All the three sub-groups comprising the sector registered improvement, though in varying degrees ; 'transport, communication and trade' by 1.2 per cent against 9.0 per cent in 1978-79; 'finance and real estate' by 1.8 per cent against 9.4 per cent; and 'community and personal services' by 6.2 per cent compared with 5.9 per cent.

2. *Performance in 1980-81*

For the year 1980-81, no official estimate of national income is as yet available. Available indicators, however, suggest that the national income at 1970-71 prices grew approximately 7.0 per cent during the year, following a marked recovery of about 22 per cent in agricultural production and moderate improvement of about 4 per cent in industrial production. Transport and communication and other services sectors would also have shown improvement.

B. Aggregate Domestic Saving

Aggregate domestic saving as a proportion of net national product (NNP) at current market prices dropped for the second year in succession. It may be recalled that in the context of a general setback to economic activity during 1979-80, the saving ratio had fallen from the peak level of 19.5 per cent (revised estimates) attained during 1978-79 to 17.1 per cent in 1979-80. Inspite of a marked improvement in real and in money income during 1980-81, domestic saving in relation to NNP is estimated to have shown a further fall, albeit marginal*.

Tentative estimates of the Bank show an increase in the absolute amount of net domestic saving from Rs. 17,360 crores in 1979-80 to Rs. 20,967 crores in 1980-81, an increase of Rs. 3,607 crores in contrast to the absolute fall of Rs. 574 crores during 1979-80 over the preceding year. However, the rate of saving, that is, the ratio of aggregate saving to NNP at market prices, was lower at 17.0 per cent in 1980-81 than that of 17.1 per cent in 1979-80 and the peak rate of 19.5 per cent in 1978-79. Sector-wise, the marginal fall in the aggregate saving ratio during the year under review was attributable to the sharp deterioration in the saving of the public sector, as a result of the negative saving of the Central Government administration. The household sector and the private corporate sectors recorded small improvements in their saving ratios (Table II. 2). The details of the sector-wise trends in saving are discussed below.

1. **Saving of the Household Sector**

The household sector which comprises, apart from individuals, all non-Government and non-corporate enterprises such as sole proprietorships, partnerships and non-profit organisations like charitable and educational institutions and trusts, account for over three-fourth of the net saving in the economy. To arrive at the net saving of the household sector, financial liabilities are deducted from the gross saving as measured by the additions to financial and physical assets. During 1980-81, the net saving of the household sector rose sizeably by Rs. 3,561 crores to Rs. 16,829 crores; in relation to NNP, however, the rise was fractional, being 0.6 percentage point over the level of 13.1 per cent in 1979-80. (Table II·3)

(*a*) *Financial Assets*

Additions to financial assets (gross) held by the household sector recorded an increase from Rs. 10,324 crores to Rs. 11,928 crores; as a proportion of NNP at market prices, however, additions to these assets declined from 10.1 per cent in 1979-80 to 9.7 per cent in 1980-81. Among the various components of saving in the form of financial assets, currency and deposits with commercial and co-operative banks and with non-banking companies showed larger increases during the year. Together, they grew by 20.4 per cent while the quantum of saving through these media in 1979-80 rose by 3.6 per cent. As a

* This decline in saving would suggest an erosion in saving capacity following persistent rise in prices and consequent increase in consumption expenditure. The increase in *real* national income of 7 per cent in 1980-81 has to be seen in relation to the low absolute level of NNP in 1979-80, when it had recorded a fall of 4.9 per cent. If the national income in 1980-81 is related to level in 1978-79 (both at constant prices) the growth rate works out to only 1.7 per cent over the two-year period. This fact has to be borne in mind while analysing the trends in saving, particularly of the household sector.

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

(Rs. Crores at Current Prices)

	Sector	Financial Year (April-March)		
		1978-79	1979-80	1980-81
1.	Public Sector	4,019	3,255	3,002
		(22.4)	(18.8)	(14.3)
	(Per cent of Net National Product at Market Prices)	(4.4)	(3.2)	(2.4)
2.	Domestic Private Corporate Sector	533	837	1,136
	(Including Co-operatives)	(3.0)	(4.8)	(5.4)
	(Per cent of Net National Product at Market Prices)	(0.6)	(0.8)	(0.9)
3.	Household Sector	13,382	13,268	16,829
		(74.6)	(76.4)	(80.3)
	(Per cent of Net National Product at Market Prices)	(14.6)	(13.1)	(13.7)
4.	Total Net Domestic Saving (1+2+3)	17,934	17,360	20,967
		(100.0)	(100.0)	(100.0)
	(Per cent of Net National Product at Market Prices)	(19.5)	(17.1)	(17.0)
5.	Net National Product (NNP) at Market Prices	91,804	101,668	123,000

Notes: (*a*) The data presented here are not comparable with those presented in the Bank's Annual Report for 1980-81 as the estimates have been revised in the light of fresh data.
(*b*) Figures in brackets are percentages to total.

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

(Rs. Crores at Current Prices)

	Item	Financial Year (April-March)		
		1978-79	1979-80	1980-81
1.	Financial Assets (Gross)	9,490	10,324	11,928
	Per cent of Net National Product at Market Prices	(10.3)	(10.1)	(9.7)
2.	Physical Assets	6,636	6,392	8,241
	Per cent of Net National Product at Market Prices	(7.3)	(6.3)	(6.7)
3.	Financial Liabilities	2,744	3,448	33,40
	Per cent of Net National Product at Market Prices	(3.0)	(3.4)	(2.7)
4.	Total Net Saving (Net of Financial Liabilities) (*i.e.*, 1+2—3)	13,382	13,268	16,829
	Per cent of Net National Product at Market Prices	(14.6)	(13.1)	(13.7)

proportion of gross financial assets, these components formed about 66 per cent in 1980-81 as compared with 63 per cent in the previous year. Contractual saving viz. insurance and contributions to provident funds, grew at a more rapid pace than in the previous year. There was an increase under claims on Government almost of the same order as in the previous year. On the other hand, saving in such assets as investment in shares and debentures of the corporate and co-operative sectors, units of the Unit Trust of India and net trade credit extended by the household sector to the corporate sector was lower during the year than in 1979-80 even in absolute terms (Table II. 4).

(i) Currency

The addition to currency held by households at Rs. 1,666 crores was sizeably higher than that of Rs. 1,309 crores in 1979-80. The share of currency in total financial assets rose from 12.7 per cent in 1979-80 to 14.0 per cent in 1980-81 and as proportion to NNP at market prices it showed a marginal increase from 1.3 per cent to 1.4 per cent.

(ii) Deposits

Saving in the form of deposits which is the single largest form of financial asset held by the household sector, amounted to Rs. 6,186 crores and was higher by Rs. 974 crores over the level in the preceding year. Deposits with commercial banks which represent about 78 per cent of the household sector's saving in the form of deposits grew at a faster pace than in the previous year*. The share of deposits in the gross financial assets improved from 50.5 per cent in 1979-80 to 51.9 per cent in 1980-81, but in relation to NNP at market prices the proportion slipped from 5.1 per cent in 1979-80 to 5.0 per cent in 1980-81.

(iii) Insurance

The household sector's saving in the form of insurance includes accretions to the Life Fund of the Life Insurance Corporation (LIC) and to the State Insurance Fund and Postal life insurance. During 1980-81, the LIC's Life Fund is estimated to have increased by about Rs. 820 crores, which was about Rs. 100 crores larger than the increase during 1979-80. Among the other categories of insurance the accretions to the Postal insurance showed an absolute decline, while there was a marginal increase in the accretion to the State Insurance Fund. The share of this instrument in total financial saving was lower at 7.3 per cent than that of 7.5 per cent in 1979-80.

(iv) Providents Funds

Among the financial assets held by the household sector, saving in the medium of provident funds (including pension funds) is second in importance, next only to deposits. The important categories of provident funds included in the estimates are the public Provident Fund the Central and State Governments' Provident Funds, Employees' Provident Fund, and the provident funds of the Reserve Bank and the commercial banks, the Assam Tea Plantations, and the coal mines. Amounts mobilised through these provident funds during the year under review aggregated Rs. 2,069 crores, as much as 17.2 per cent higher than the figure of Rs. 1,765 crores mobilised in 1979-80. The share of this contractual medium of saving in the total financial assets of the household sector moved up form 17.1 per cent in 1979-80 to 17.3 per cent in 1980-81.

(v) Claims on Government

Major components under this head are accruals under small savings and compulsory deposit schemes, households' direct investment in Government securities and Special Bearer Bonds. The contribution of the changes in these assets to the changes in total financial assets of the household sector was Rs. 627 crores as compared with Rs. 619 crores in the previous year. Net small saving collection (adjusted for the share of provident funds and others) aggregated Rs. 635 crores, which was Rs. 192 crores lower than in 1979-80. The amount mobilised under the compulsory deposit schemes has been declining since 1978-79 as a result of the larger repayments. There was a net reduction of Rs. 94 crores during 1980-81 but this was substantially smaller than the decline of Rs. 207 crores in 1979-80. Under the compulsory deposit scheme applicable to additional wages and dearness allowance, the net repayment aggregated Rs. 192 crores during 1980-81 as against Rs. 318 crores during 1979-80. On the other hand, the net collection under the income-tax payers' scheme amounted to Rs. 99 crores in 1980-81 and Rs. 111 crores in 1979-80. The share of all these assets put together in the gross financial saving showed further decline during the year.

(vi) Other Financial Assets

These assets are mainly investments in corporate and co-operative shares and debentures

* Aggregate deposits with commercial banks increased by Rs. 6,088 crores or 19.2 per cent in 1980-81 as compared with Rs. 4,984 crores or 18.3 per cent in 1979-80.

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

(Rs. crores at current prices)

	Item	Financial Year (April-March)		
		1978-79	1979-80	1980-81
	Total Financial Assets (1 to 8)	9,490	10,324	11,928
		(100.0)	(100.0)	(100.0)
	Per cent of Net National Product at Market Prices	10.3	10.1	9.7
1.	Currency	1,430	1,309	1,666
		(15.0)	(12.7)	(14.0)
	Per cent of Net National Product at Market Prices	1.6	1.3	1.4
2.	Deposits	4,865	5,212	6,186
		(51.3)	(50.5)	(51.9)
	Per cent of Net National Product at Market Prices	5.3	5.1	5.0
3.	Insurance	683	773	876
		(7.2)	(7.5)	(7.3)
	Per cent of Net National Product at Market Prices	0.7	0.8	0.7
4.	Provident/Pension Funds	1,605	1,765	2,069
		(16.9)	(17.1)	(17.3)
	Per cent of Net National Product at Market Prices	1.8	1.7	1.7
5.	Claims on Government	227	619	627
		(2.4)	(6.0)	(5.3)
	Per cent of Net National Product at Market Prices	0.2	0.6	0.5
6.	Investment in Corporate and Co-operative Shares/Debentures including units of U.T.I.	283	313	262
		(3.0)	(3.0)	(2.2)
	Per cent of Net National Product at Market Prices	0.3	0.3	0.2
7.	Trade Credit (Net)	408	320	242
		(4.3)	(3.1)	(2.0)
	Per cent of Net National Product at Market Prices	0.4	0.3	0.2
8.	Other Assets	(—)11	13	—
		(—) 0.1	0.1	—
	Per cent of Net National Product at Market Prices	—	—	—

Note: Figures in brackets are percentages to total.

and in the units of the Unit Trust of India (UTI), and trade credit extended by the household sector to the corporate sector. Net investment in shares/debentures and in the units of UTI amounting to Rs. 262 crores was lower than the addition of Rs. 313 crores in 1979-80. Similarly, net trade credit extended by the household sector to the corporate sector during the year was also lower at Rs. 242 crores than that of Rs. 320 crores in 1979-80. The proportion of these assets in the total financial saving of the household sector declined to 4.2 per cent in the year under review from 6.1 per cent in 1979-80.

(*b*) *Saving in Physical Assets*

Saving by way of physical assets formation takes the form of additions to construction, machinery and equipment and inventories held by the household sector. According to the CSO's estimates, capital formation in this sector amounted to Rs. 6,392 crores in 1979-80 or 6.3 per cent of NNP at market prices, which was lower than the proportion of 7.3 per cent in the previous year. On the basis of the trends in recent years, such saving is projected to be around 6.7 per cent of NNP at Market prices in 1980-81, as shown in Table II. 3.

(*c*) *Financial Liabilities*

The household sector's financial liabilities represent the sector's borrowings from commerical and co-operative banks, Union and State Governments, the State Financial Corporations and the LIC. The increase in finan-

cial liabilities in 1980-81 amounted to Rs. 3,340 crores, as compared with Rs. 3,448 crores in 1979-80; this fall reflected the lower order of additional borrowings by the sector from the commercial banks and from the Union and State Governments. The proportion of these liabilities to NNP at market prices worked out to 2.7 per cent as compared with 3.4 per cent in 1979-80.

2. Saving of the Public Sector

This sector comprises Union and State Government administration and the departmental and non-departmental undertakings of these Governments. The contribution of the public sector to total saving was markedly lower at Rs. 3002 crores or 14.3 per cent than that of Rs. 3,255 crores or 18.8 per cent in 1979-80. The Sector's saving ratio, which fell from 4.4 per cent in 1978-79 to 3.2 per cent in 1979-80, slumped further to 2.4 per cent in 1980-81. The net saving of the Union Government administration and its departmental undertakings showed a marked deterioration once again in 1980-81. As against a positive saving of Rs. 983 crores in 1978-79, it turned negative with a dissaving of Rs. 19 crores the very next year and that of Rs. 52 crores in 1980-81. The dissaving was wholly on account of the Central Government Administration which incurred negative saving to the tune of Rs. 214 crores in 1979-80 and Rs. 309 crores in 1980-81; the net profits of departmental undertakings of the order of Rs. 191 crores and Rs. 269 crores in these two years, respectively, could not fully offset the negative saving of the administration. Among the non-departmental undertakings, the Reserve Bank of India made sizeable contribution to the public sector of Rs. 450 crores in 1980-81 only Rs. 5 crores lower than in 1979-80.

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

(Rs. crores at current prices)

Item	Financial Year (April-March)		
	1978-79+	1979-80+	1980-81*
1. Central Government (including departmental undertakings) ..	983	—19	—52
2. State Governments and Local Authorities	2,675	2,873	2,612
3. Non-departmental Financial and Non-financial undertakings ..	361	401	442
4. **Total (1+2+3)**	**4,019**	**3,255**	**3,002**
Per cent of Net National Product at Market Prices	4.4	3.2	2.4

+ Accounts.
* Revised estimate.

3. Saving of the Domestic Private Corporate Sector

There was further improvement in the saving of the non-Government segment of the corporate sector.

The share of the sector (including saving of co-operatives) in the total net domestic saving went up from 3.0 per cent in 1978-79, to 4.8 per cent in 1979-80 and further to 5.4 per cent in 1980-81 (Table II. 2). The improvement was primarily on account of a surge in the retained earnings of private sector companies from Rs. 485 crores in 1978-79 to Rs. 636 crores in 1979-80 and further to Rs. 901 crores in 1980-81. This trend would appear to support the contention that corporate profitability and cash flows improve during periods of high inflation.

The ratio of the sector's saving to NNP at market prices edged up from 0.6 per cent in 1978-79 to 0.8 per cent in 1979-80 and further to 0.9 per cent in 1980-81 (Table II. 2).

(c) Aggregate Investment in the Economy

(i) Estimates at Current Prices

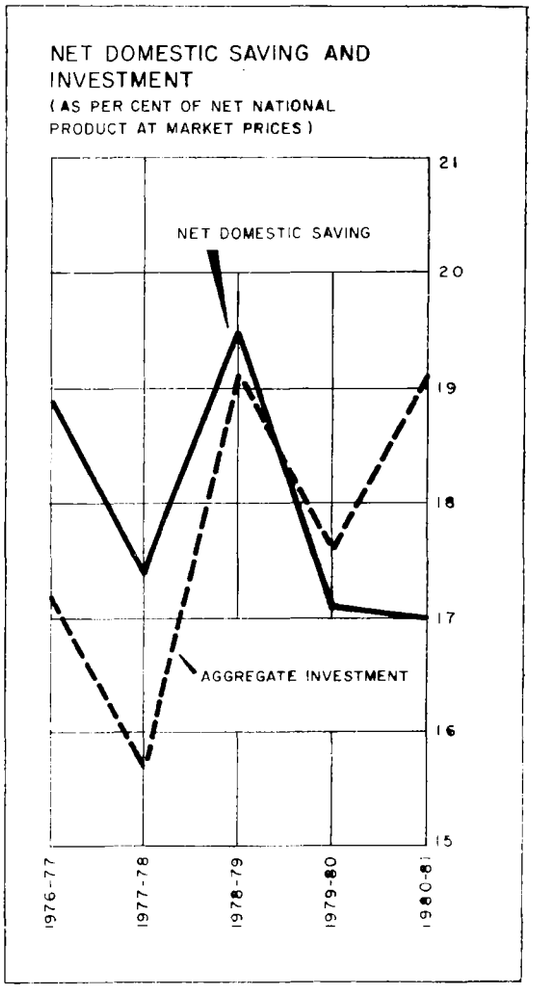
Aggregate domestic investment is equal to the sum of total domestic saving and net inflow of resources from the rest of the world*. During 1980-81 despite a fall in the rate of domestic saving, the ratio of net investment to income at current prices is estimated to have gone up to 19.1 per cent from 17.6 per cent in 1979-80. This marked improvement in net capital formation has to be ascribed to the conspicuously larger inflow of foreign resources, which in relation to NNP at market prices worked out to 2.1 per cent in 1980-81 as compared with 0.5 per cent in 1979-80 (Table II. 6).

(ii) Estimates at Constant Prices

At 1970-71 prices, however, the investment-income ratio worked out to 17.5 per cent during 1980-81 as against 19.1 per cent at current prices. Even so, as can be seen from Table II.7, the improvement in the investment ratio in real terms *i.e.*, at 1970-71 prices appears as impressive as that based on current prices, the former rising by 2 percentage points from 15.5 per cent in 1979-80 to 17.5 per cent in 1980-81 and the latter by 1.5 percentage points from 17.6 per cent to 19.1 per cent.

(iii) Sectoral Investment

On the basis of available information, certain broad investment trends in the different sectors of the economy are briefly discussed below :



(a) Public Sector

Of the aggregate investment of 17.6 per cent of NNP at current market prices obtained in the year 1979-80, the public sector accounted for about 10 percentage points or 60 per cent of the aggregate investment, as compared with 9.5 percentage points, or 49 per cent of the total investment in 1978-79. Capital formation in the public sector seems to have registered a further improvement during 1980-81. The Union Government's direct gross fixed assets formation (*i.e.*, investment in buildings, public works, equipment and other fixed assets), rose by Rs. 380 crores to Rs. 1823 crores or by 26.3 per cent according to revised budget estimates. Net fixed assets formation was also similarly stepped up by 27.5 per cent from Rs. 1,194 crores to Rs. 1,522 crores (Table II. 8). The increase in the gross as also net fixed assets formation was almost equally distributed between 'buildings and other construction' on the one hand, and machinery and equipment, on the other (Table II. 9).

In addition to direct investment, the Union Government also provides assistance for capital formation to the rest of the economy through

* Inflow of resources comprises net current account deficit on balance of payments excluding net official transfer payments and retained earnings and non-cash inflow of foreign controlled rupee companies.

Table II-6: Estimates of Domestic Saving and Investment— Per cent of Net National Product at Market Prices (Provisional)

	1978-79	1979-80	1980-81
1. Domestic Saving	19.5	17.1	17.0
2. Inflow of Foreign Resources (Net)	(—) 0.4	(+) 0.5	(+) 2.1
3. Aggregate Investment (Net) (1 + 2)	19.1	17.6	19.1

Table II-7: Net Investment at 1970-71 Prices as percentage of NNP at (1970-71) Market Prices
(Tentative Estimates)

(Rs. crores)

Year	Net investment at current prices	Net investment at 1970-71 prices	NNP at 1970-71 Market prices	Ratio of (3) to (4)
1	2	3	4	5
1978-79	17,596	8,759	51,645	17.0
1979-80	17,872	7,615	49,010	15.5
1980-81	23,526	9,222	52,686	17.5

Table II-8: Capital Formation through Central Government Budget at Current Prices

(Rs. crores)

	1978-79+	1979-80+	1980-81*
1. Gross Direct Fixed Assets Formation	1,242	1,443	1,823
2. Variation in Inventories	59	84	(—) 6
3. Net Direct Fixed Assets Formation (i.e. gross direct fixed capital formation *minus* expenditure on renewals and replacements) ..	1,050	1,194	1,522
4. Financial Assistance for Capital Formation	5,612	5,701	7,325
(*a*) To States, Union Territories	3,302	3,244	3,839
(*b*) To Non-departmental Commercial undertakings	2,105	2,235	3,241
(*i*) Financial Concerns	345	443	586
(*ii*) Others	1,760	1,792	2,655
(*c*) Other parties	205	222	245
5. Investments in Central Government's Non-Departmental Industrial and Commercial Undertakings	3,662	4,022	
(*i*) Gross Fixed Assets	2,367 (64.6)	2,558 (63.6)	—
(*ii*) Variation in Inventories	1,295 (35.4)	1,464 (36.4)	—

\+ Accounts.
* Revised estimate.

Table II-9: Capital Formation in Union Government Administration and Departmental Commercial Undertakings—Asset-wise

(Rs. Crores)

	1978-79 (Accounts)	1979-80 (Accounts)	1980-81 (Revised)
I. Gross Fixed Capital Formation	1,241.7 (95.5)	1,443.3 (94.5)	1,822.8 (100.3)
1. Building and Other Construction	756.4	858.4	1085.3
Proportion to I above	60.9	59.5	59.5
(*a*) New Outlay	653.6	718.7	931.7
(*b*) Renewals and replacements	102.8	139.7	153.6
2. Machinery and Equipment	485.3	584.9	737.5
Proportion to I above	39.1	40.5	40.5
(*a*) New Outlay	396.4	475.1	590.3
(*b*) Renewals and replacements	88.9	109.8	147.2
II. Increase in Inventories	58.8 (4.5)	84.3 (5.5)	(—) 5.9 (—0.3)
III. Gross Capital Formation (I+II)	1,300.5	1,527.6	1,816.9
IV. Gross Capital Formation as proportion of NNP at market prices.	1.4	1.5	1.5

Note: Figures in brackets are percentages to Gross Capital formation.

grants, loans and investment in share capital. Such assistance during the year increased sizeably by Rs. 1,624 crores to Rs. 7,325 crores as compared with a meagre increase of Rs. 89 crores in 1979-80. Assistance provided to the non-departmental commercial undertakings increased by Rs. 1,006 crores and that to the State Governments and Union Territories by Rs. 595 crores in 1980-81; in the preceding year, the assistance provided to the States and Union territories had shown a reduction of Rs. 58 crores, while that received by departmental enterprises had risen by Rs. 130 crores. According to revised figures, the gross capital formation by the non-departmental industrial enterprises totalled Rs. 4,022 crores in 1979-80, which was larger than that of Rs. 3,662 crores in 1978-79. The increase was shared by both gross fixed assets and inventories almost in the same proportion (of 64 per cent and 36 per cent, respectively) as in 1978-79. Details in respect of gross capital formation are not as yet available, for 1980-81.

(*b*) Private Corporate Sector

It is difficult at this stage to indicate with any precision the size of investment in the private sector for want of adequately accurate data. However, a broad dimension of the capital formation in the organised segment of the private sector, viz., the private corporate sector is indicated by identifiable sources of funds utilised for capital formation. Data on sources and uses of funds contained in Table II. 10 suggest that while retained profits and depreciation provision showed large increases, borrowings from commercial banks and financial institutions, sundry creditors and other trade dues new issues in the capital market and tax provision provided resources on a reduced scale during 1980-81 compared with the position in 1979-80. On this basis, it appears that gross capital formation in private corporate sector at Rs. 3,157 crores in 1980-81 showed a fractional increase over the level in the preceding year.

D. Working Group on Saving and Investment

The need has been felt for refining and improving the methodology and concepts evolved for the estimation of aggregate and sectorwise saving and investment. For instance, the term 'household' is a composite concept encompassing apart from individuals, noncorporate and non-government entities. It is desirable to explore the possibility of dis-

Table 11-10: Investment—Private Non-Financial Corporate Sector (Provisional)

(Rs. Crores at Current Prices)

Financial Year (April-March)						
Sources				Uses		
	1978-79	1979-80	1980-81		1978-79	1979-80	1980-81
1. Capital Raised (including debentures)	152	159	106	1. Net Fixed Assets ..	695	698	901
2. Retained Profits	485	636	973	2. Increase in Inventories ..	1,018	1,402	1,158
3. Tax-Provision	—18	115	54	3. Depreciation	848	955	1,098
4. Borrowings	802	1,189	1,155	4. Investments	52	46	63
(*a*) Banks	567	572	600	5. Cash and Bank balances..	20	62	169
(*b*) Others	235	617	555				
5. Sundry Creditors and other dues (Net) ..	364	109	3				
6. Depreciation Provision ..	848	955	1,098				
7. Total	**2,633**	**3,163**	**3,389**	.. .. ..	**2,633**	**3,163**	**3,389**

aggregating the household sector into various identifiable major segments and to study the inter-connections between the corporate sector and the various layers of the household sector. There are also many 'data-gaps' in the estimation of saving as well as investment of the different sectors. In view of this, the Department of Statistics, Ministry of Planning, Government of India, appointed a Working Group in May 1981, under the Chairmanship of Prof. K. N. Raj with the following terms of reference :

(*i*) To undertake a critical review of the available estimates of investments and savings in the economy, both of the aggregates and their components;

(*ii*) To evaluate their interpretative significance; and

(*iii*) To recommend improvements in the methods and procedures of estimation including suggestions as to the possibility of building up regional estimates.

Chapter III

Agricultural and Industrial Output

I. Agricultural Output

After the severe setback in 1979-80 due to the unprecedented drought during that year, agricultural production is expected to reach a new record level during 1980-81 aided by overall normal weather conditions and the various steps taken by the Central and State Governments to improve agricultural production. Total foodgrains production in 1980-81 is provisionally placed at 133 million tonnes comprising 79 million tonnes of *kharif* output and 54 million tonnes of *rabi* output.@ Among cash crops, sugarcane is expected to recover to 152 million tonnes (in terms of cane) showing an increase of about 24 million tonnes over the 1979-80 level. In the case of oilseeds, although the major crop *viz.* groundnut suffered a setback due to drought in parts of Gujarat, Andhra Pradesh and Karnataka, overall production is expected to be substantially higher at about 10.3 million tonnes during 1980-81 as compared to the previous year's 8.9 million tonnes. Cotton production is provisionally estimated to be around 79-80 lakh bales as against about 77 lakh bales in 1979-80. Similarly, jute and mesta production during 1980-81 reached a higher level of 82 lakh bales as against 80 lakh bales in the previous year.

The targets of production for the principal agricultural commodities as presented in the Sixth Five Year Plan (end 1984-85 projections) are given below:

Commodity Output Projections : 1984-85

Item	Unit	1979-80	1984-85 (Projections)
Rice	M. tonnes	42.2	63.2
Wheat	,,	31.6	43.7
Other Cereals	,,	26.7	28.4
Pulses	,,	8.4	15.0
Total Foodgrains ..	,,	108.9	150.3
Sugarcane (In terms of cane)	,,	128.0	200.1
Cotton	M. bales	7.7	9.2
Jute & Mesta	,,	8.0	9.1
Oilseeds (Five major)	M. tonnes	8.1	11.0
Tea	M. kgs.	550.0	705.0
Coffee	,,	150.0	159.5

Foodgrains

PRODUCTION AND DISTRIBUTION

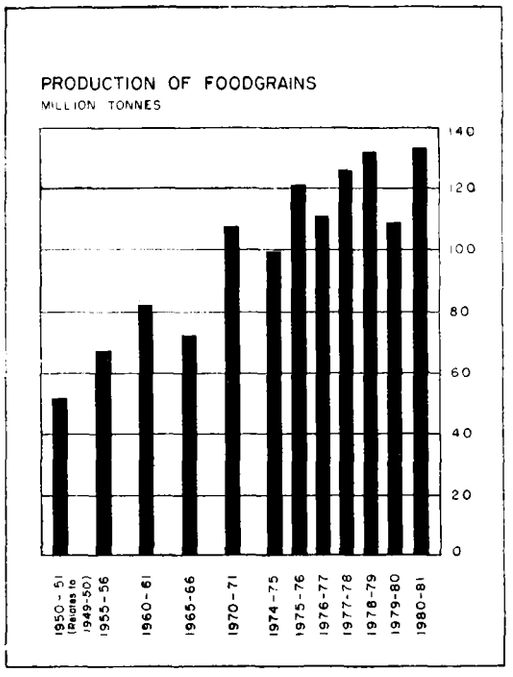
Foodgrains production in 1980-81 is provisionally placed at 133 million tonnes, surpassing the record level of 132 million tonnes reached in 1978-79. As compared with the depressed level of 108.9 million tonnes in 1979-80, production in 1980-81 shows an impressive increase of about 24 million tonnes due to increase under both *kharif* and *rabi* output. *Kharif* output has touched an all-time record of 79 million tonnes in 1980-81. This represents an increase of about 16 million tonnes over the output in 1979-80. Even though the weather conditions during 1980-81 *kharif* season were not as favourable as in 1978-79, the country was able to better the record performance of 1978-79 by more than one million tonnes. *Rabi* output is

@After this material was sent to press, the Government of India revised foodgrains production data for 1980-81 and 1979-80 as under.

(Million tonnes)

	1980-81 (Final)	1979-80 (Revised)
Rice	53.2	42.3
Wheat	36.5	31.8
Coarse cereals	29.0	27.0
Pulses	11.2	8.6
Total Foodgrains	129.9	109.7
of which *Kharif*	77.4	63.3
Rabi	52.5	46.4

placed at 54 million tonnes, around the same level as in 1978-79, despite drought conditions that affected Rajasthan, Madhya Pradesh, Gujarat, Orissa, Maharashtra and parts of Andhra Pradesh.



For the year 1981-82, a target of 138.5 million tonnes has been fixed by the Government.

The overall net availability of foodgrains which had declined from 114.1 million tonnes in 1979 to 100.5 million tonnes in 1980 is anticipated to increase to 116.8 million tonnes during 1981 (Table III.1). As a result, the per capita daily availability of foodgrains which had declined from 480.3 grammes in 1979 to 413.7 grammes in 1980 is expected to go up during 1981.

The continuous rise in cereal prices in the open market during 1980 led to pressure on the public distribution system. To cope with the situation the State Governments expanded the public distribution system. As a result, the number of fair price/ration shops functioning in the country increased from 2.39 lakhs as at end-1979 to 2.77 lakhs (covering a population of 607 million) by end-1980. During 1980, 14.8 million tonnes of foodgrains (including 2.1 million tonnes under the Food-for-Work Programme) were distributed through the public distribution system as against 11.7 million tonnes (including 1.7 million tonnes under the Food-for-Work Programme) during the previous year. However, offtake during the first eight months of 1981 slowed down to 8.4 million tonnes as compared to 10.5 million tonnes during the corresponding period of 1980 due to reduction in the allocation for Food-for-Work Programme.

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
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	452.8	402.5	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	114.1	480.3	435.4	44.9	13.8	11.7†
1980 ..	108.9	95.2	—0.4	— 5.8	100.5	413.7*	383.6*	30.1*	11.1	14.8†
1981 ..	133.0	116.4	..	— 0.4$	116.8	..	..	..	..	8.4£†

* Provisional.
.. Not available.
@ For the agricultural year July-June.
$ At the end of August 1981.
† Includes quantities released for Food-for-Work Programme (National Rural Employment Programme).
£ Upto August 1981.

Note: (1) Net output is defined as 87.5 per cent of gross production, the balance being provided for feed, seed and wastage.
(2) Net availability is equal to Net output + Net import — Change in Government stocks.

Source: Economic Survey, 1980-81, Government of India.

RATIONING—STATUTORY AND INFORMAL

There was no change in the policy in regard to foodgrains movements and statutory rationing during 1980-81. Population covered under statutory rationing in Greater Calcutta and Durgapur Asansol Industrial Complex had increased marginally to 9.6 million from 9.5 million in the preceding year. In areas not covered by statutory rationing, foodgrains were supplied through fair price shops.

PROCUREMENT AND BUFFER STOCKS

The public agencies were instructed to undertake extensive purchases of foodgrains at procurement prices fixed by the Government, in view of the commitment to purchase the entire foodgrains of fair average quality offered by the producers. Rice procured during the 1980-81 *kharif* marketing season (upto end-September 1981) was substantially higher at 5.6 million tonnes as against 3.8 million tonnes during the corresponding period of the previous season. *kharif* coarse-grains procured (upto September 26, 1981) aggregated 101.2 *thousand* tonnes as against 111.4 *thousand* tonnes during the corresponding period last season. Wheat procured during the 1980-81 *rabi* marketing season aggregated 5.8 million tonnes as against 8.0 million tonnes during the preceding season. For the 1981-82 *rabi* marketing season wheat procurement target fixed was 9·5 million tonnes; however, as on September 26, 1981, wheat procured amounted to 6.6 million tonnes which was much lower than the target fixed.

As early as in January 1978, the Government of India had decided to build up a foodgrains buffer stock of 12 million tonnes, based on the recommendations of the Technical Group on Buffer Stock. This buffer stock was intended to be over and above the operational stocks needed for running the public distribution system. The quantum of operational stocks varied from time to time, the range of variation being 3.5-3.8 million tonnes as at end-March to 8.2-8.8 million tonnes as at end-June every year.

There was a draw down in food-grains stocks with Governments by 2.3 million tonnes during the year. Thus as at end-August 1981, stocks of foodgrains with Governments (buffer and operational) were substantially lower at 11.4 million tonnes (comprising 4.7 million tonnes of rice, 6.7 million tonnes of wheat and 0.06 million tonnes of coarse grains) as against 13.8 million tonnes (comprising 5.9 million tonnes of rice, 7.7 million tonnes of wheat and 0.2 million tonnes of coarse grains) a year ago. The increased offtake of foodgrains under the public distribution system led to the depletion of stocks.

Commodity-wise Review

RICE

Rice production during 1980-81 touched a new record of 56 million tonnes as against the previous peak of 53.8 million tonnes attained in 1978-79. In the drought year 1979-80, rice production had touched a low of 42.2 million tonnes (Table III. 2).

For the year 1981-82, a target of 58 million tonnes has been fixed.

The procurement policy which remained largely unchanged during 1980-81, reflected the continued commitment of the Government to purchase all foodgrains offered by producers at the procurement price. As regards procurement prices, the Agricultural Prices Commission (APC) had initially recommended that the price of 'common' variety paddy may be maintained at Rs. 95 per quintal as in the preceding year. In the Commission's supplementary report, however, it had recommended an increase of Rs. 5 to Rs. 100 to compensate the farmers for the increase in the costs of inputs such as fertilisers and diesel oil. The Government, however, decided to raise the procurement prices of paddy (common variety) from Rs. 95 to Rs. 105 per quintal (Table III. 3). Procurement prices of fine and superfine varieties were raised by Rs. 10 to Rs. 109 and Rs. 113 per qunital, respectively. Procurement policy included for the first time, a decision to procure rice for export purposes also. The procurement price of export variety super average quality PR-106 rice — Punjab was fixed at Rs. 214 (Grade I) and Rs. 209 (Grade II) per quintal. Similarly for Grade I and Grade II of IR-8 variety, the prices were fixed at Rs. 194.75 and Rs. 190 per quintal, respectively. With effect from

January 1, 1981 issue prices of rice also were enhanced by Rs. 15-20 a quintal, as a sequel to the increase in procurement prices and also with a view to keeping down the burden of subsidy on the Government. As a result the issue prices of common, fine and superfine varieties were Rs. 165, Rs. 177 and Rs. 192, respectively.

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
1976-77 ..	41.9	29.0	28.9	4.4	5.2	0.2	0.1	0.5	—	4.6	6.4	5.6	11.5	0.2
1977-78 ..	52.7	31.8	30.0	4.9	5.5	Neg.	—	—	—	3.2$	6.9$	8.0	9.0	0.1
1978-79 ..	53.8	35.5	30.4	6.2	8.0	Neg.	—	—	—	4.0$	7.5$	9.1	8.5	0.1
1979-80 ..	42.2†	31.6†	26.7†	3.8	5.8	0.1	—	—	—	5.9$	8.8$	6.7	5.0	0.1
1980-81 ..	56.0††	36.0††	29.5††	5.6*	6.6*	0.1*	—	—	—	4.1$£	4.2$£	4.7£	6.7£	Neg.

$ Includes quantities released under the Food-for-Work Programme (National Rural Employment Programme).
† Final Estimate.
†† Provisional subject to revision.
* Upto September 26, 1981.
£ Upto August 1981

Neg.: Negligible.
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 the 1980-81 *kharif* marketing season, (upto September 26, 1981), rice procured aggregated 5.6 million tonnes as against 3.8 million tonnes during the corresponding period of the preceding season (Table III. 4). Rice distributed through the public distribution system (including issues for Food-for-Work-Programme) during calendar year 1980 amounted to 5.9 million tonnes as against 4.0 million tonnes in 1979. In the first eight months of 1981 (January-August), 4.1 million tonnes of rice were distributed as against 3.9 million tonnes during the corresponding period of 1980.

Export of *Basmati* rice continued to be under Open General Licence (OGL) during the year 1980-81. Permission was granted for the export of 10 lakh tonnes of non-*Basmati* rice also on a cash-cum-barter-cum-commodity loan basis. Export on government to government basis was to be effected through the Department of Food. Commercial exports, within quota limits allotted were assigned to designated agencies. Within the overall ceiling of 10 lakh tonnes laid down for the year, fresh agreements for the supply of 12,000 tonnes on commercial basis to Mauritius, 50,000 tonnes to Vietnam on commodity loan basis and 75,000 tonnes to the USSR on barter basis were entered into by the Food Corporation of India (FCI). The agreement to supply 75,000 tonnes to the USSR by the FCI was part of the agreement to supply 5 lakh tonnes of rice to that country in exchange for crude and diesel oil in terms of the Indo-USSR Protocol signed on June 19, 1980. Actual exports under the above agreements upto end-January 1981 amounted to 12,000 tonnes, 48,262 tonnes and 60,560 tonnes, respectively, to Mauritius, Vietnam and the USSR. Besides the above, some quantities of rice were exported to fulfil past commit-

ments. Additionally, the FCI exported 15,000 tonnes of rice on commercial basis through the STC.

WHEAT

Wheat output during 1980-81 is placed at 36 million tonnes which is larger than even the record production of 35.5 million tonnes in 1978-79. In the drought year 1979-80, production had slipped to 31.6 million tonnes.

For the year 1981-82, a target of 38 million tonnes has been fixed.

Under the wheat procurement policy for the 1981-82 *rabi* marketing season (April-March), procurement price was enhanced from Rs. 117 to Rs. 130 a quintal. This is higher than the price recommended by the APC by Rs. 3. The issue price of wheat which had remained unchanged at Rs. 130 per quintal since December 1, 1978 was raised to Rs. 145 a quintal with effect from April 1, 1981. The issue price for the roller flour mills was fixed at Rs. 155 per quintal.

Wheat procured during the 1981-82 *rabi* marketing season (upto September 26, 1981) aggregated 6.6 million tonnes as against 5.8 million tonnes during the corresponding period of the preceding year. In the calendar year 1980, 8.8 million tonnes of wheat (including issues under the Food-For-Work Programme) was distributed through the public distribution system as against 7.5 million tonnes in 1979. During the eight month period January-August 1981, wheat distributed through the public distribution system was lower at 4.2 million tonnes as against 6.6 million tonnes during the corresponding period of 1980.

No commitments were made for export of wheat during 1980-81. On the import front, however, a major policy decision was taken by the Government in June 1981 to import wheat after having dispensed with the need for imports during the past three years. The decision to import 1.5 million tonnes of wheat despite the bumper harvest of 1980-81 reflects the anxiety of the Government to replenish the stocks which have declined, as already mentioned, by 2.3 million tonnes due to rising domestic consumption on the one hand and lower than targeted procurement on the other.

COARSE GRAINS

Output of coarse grains during the year 1980-81 is estimated to be more or less equal to the 1978-79 level of 30 million tonnes. A target of 30 million tonnes has been fixed for the year 1981-82.

During the year 1980-81, the support price of coarse grains was enhanced by Rs. 10 to Rs. 105 a quintal. The issue price too was revised up-wards by Rs. 10 to Rs. 106 a quintal. During the *kharif* marketing season (upto September 26, 1981), 101.2 *thousand* tonnes of coarse grains were purchased as a price support measure as against 111.4 *thousand* tonnes during the corresponding period of the preceding season. Issues through the public distribution system aggregated 1.20 lakh tonnes during the calendar year 1980, almost the same as in the preceding year; during January-August 1981, they were placed at 140 thousand tonnes as against 64 thousand tonnes during the corresponding period of 1980.

PULSES

Production of pulses during 1980-81 is placed at 11.5 million tonnes as compared to 12.2 million tonnes in 1978-79 and 8.4 million tonnes in 1979-80, the drought year. Compared with the revised target of 12.5 million tonnes for 1980-81, estimated production shows a shortfall due mainly to loss in some of the major pulses growing States *viz.* Rajasthan and Haryana on account of lack of rains.

A production target of 12.5 million tonnes has been fixed for 1981-82.

As part of the 1980-81 strategy for increasing pulses production, the Central sector schemes and Centrally sponsored schemes were continued. Assistance to the states for distribution of quality seeds of short duration improved varieties of pulses and for adoption of plant protection measures on a large scale was liberalised. An additional amount of Rs. 2 crores was sanctioned for this purpose during 1980-81 raising the total

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

(Rupees per quintal)

Commodity	1977-78			1978-79			1979-80			1980-81		
	Minimum Support Price	Procure-ment Price	Issue Price	Minimum Support Price	Procure-ment Price	Issue Price	Minimum Support Price	Procure-ment Price	Issue Price	Minimum Support Price	Procure-ment Price	Issue Price
Paddy (Coarse Varieties)		77.00			85.00			95.00			105.00	
Rice												
(Standard Variety)			135.00—			135.00—			150.00—			165.00—
(Coarse Variety)			172.00			172.00			172.00@			192.00@
Wheat*		112.50	125.00 £ 130.00££		115.00	130.00		117.00	130.00		130.00	145.00
Jowar		74.00			85.00			95.00			105.00	
Bajra		74.00	86.00		85.00	86.00		95.00	96.00		105.00	106.00
Maize		74.00			85.00			95.00			105.00	
Ragi		74.00			85.00			95.00			105.00	
Barley*	67.00			N.A.			N.A.					
Gram*	125.00			140.00			145.00					
Moong*	165.00			175.00			200.00					
Urad*	—			175.00			200.00					
Tur*	155.00			165.00			190.00					

@Represents the prices for common and superfine varieties.
* Rabi marketing season (April-March)
£ Upto November 30, 1978.
££ From December 1, 1978.
N.A. Not announced.

Source: Department of Food, Ministry of Agriculture and Co-operation, Government of India.

Table III.4 : Procurement of Rice and Wheat £

(Thousand tonnes)

State	1976-77		1977-78		1978-79		1979-80		1980-81		1981-82	
	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	483	—	612	—	970	—	469	—	685	—	—	—
Assam	155	1	21	—	32	—	10	—	37	—	—	—
Bihar	42	101	7	11	12	29	—	88	65	9	—	13
Gujarat	32	137	—	—	—	—	—	—	—	—	—	—
Haryana	646	907	740	908	887	933	553	1389	670	1002	—	1120
Jammu & Kashmir	33	15	49	8	58	13	50	22	60	28	—	20
Karnataka	65	—	50	—	106	—	71	—	77	—	—	—
Kerala	20	—	15	—	1	—	1	—	—	—	—	—
Madhya Pradesh	175	274	180	11	303	20	90	100	341	—	—	160
Maharashtra	37	21	1	7	31	—	2	—	66	—	—	—
Orissa	118	—	80	—	54	—	29	—	119	—	—	—
Punjab	1534	2942	2190	3234	2725	3206	2292	4192	2523	4269	—	3759
Rajasthan	39	474	—	122	16	78	—	301	5	17	—	10
Tamil Nadu	173	—	93	—	54	—	133	—	175	—	—	—
Uttar Pradesh	691	1711	566	853	837	1164	73	1883	588	522	—	1490
West Bengal	171	18	245	—	144	16	69	3	138	—	—	—
Others	16	1	6	11	6	19	1	14	3	5	—	—
Total	**4431**	**6602**	**4855**	**5165**	**6236**	**5478**	**3843**	**7992**	**5552**	**5852**	—	**6572**

£ Marketing season for rice is November-October. In the year 1979-80, however, procurement commenced on November 1, 1979 and ended in September 1980. Therefore, the 1980-81 marketing season commenced on October 1, 1980. Marketing season for wheat is April-March.
@Upto September 26, 1981.

Note : Procurement figures in respect of coarse grains are not given as they are negligible.

Source : Bulletin on Food Statistics, Government of India.

outlay on pulses development to Rs. 3.54 crores as against Rs. 1.50 crores during 1979-80. Special programmes were envisaged during the year to bring larger areas under summer moong after wheat harvest in the northern states and rabi moong/urad in rice fallows in eastern and southern states. An area of about 7 lakh hectares was covered in the northern and eastern states. Other developmental measures were : (1) emphasis on increasing irrigated area under moong, urad, gram and *arhar*, (2) intercropping of pulses with millets, oilseeds, cotton and sugarcane and (3) maximisation of yields by utilising available technology. Besides, arrangements were made to supply about 40,000 quintals of certified gram seed to major gram growing states like Rajasthan, Haryana, Uttar Pradesh, Madhya Pradesh, West Bengal etc. at a subsidised rate of Rs. 150 per quintal.

COTTON

The all-India third estimate for 1980-81 (September—August) has placed area under cotton crop at 73.87 lakh hectares which is lower than the previous year's revised estimate by 2.11 lakh hectares. The target of production fixed for the year was 81 lakh bales. Official production estimate for 1980-81 is not yet ready. According to the latest estimate of the Cotton Advisory Board (CAB), however, production during 1980-81 would be 76.50 lakh bales as compared to 76.98 lakh bales (final estimates) during 1979-80, reflecting a marginal decline of 0.6 per cent over the year.

For the year 1981-82, production target fixed by the Government is 84 lakh bales. The supply-demand position based on the CAB's estimate is given below. (Table III. 5).

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 with mills only as at the end of the season
1975-76	5950	138	166	427	7545	1318
1976-77	5839	144	818	10	6752	991
1977-78	7243	157	343(P)	25(P)	6616	1173
1978-79	7258	167	30(P)	270(P)	6981	1487
1979-80	7698*	162	—	530(P)	7412	1512
1980-81**	7650	N.A.	—	663	7850	1347

* Final Official estimate. ** Latest CAB estimates.
N.A.: Not Available. — : Nil P: Provisional.
Sources: Directorate of Cotton Development for 1975-76 to 1979-80 and the Cotton Advisory Board for 1980-81.

The CAB placed opening stock of cotton for 1980-81 season at 25.55 lakh bales, 1.72 lakh bales lower than the preceding season's opening stock. Together with production of 76.50 lakh bales, aggregate availability during the year worked out to 102.05 lakh bales. On the demand side, the marked mill preference for cotton over man-made fibres was expected to push up mill consumption of cotton to 78.50 lakh bales from the level of 74.11 lakh bales during 1979-80. Adding the extra-factory consumption of 3.45 lakh bales (3.00 lakh bales extra-factory consumption and 0.45 lakh bales of staple cotton used by waste spinning units) as also exports of 6.63 lakh bales, the cumulative demand for raw cotton was placed at 88.58 lakh bales which was 6.66 lakh bales higher than last year. The closing stock that would emerge at the end of the season was thus estimated at 13.47 lakh bales as against 25.55 lakh bales at the end of the preceding season.

The strategy adopted for attaining the targeted production of 81 lakh bales consisted of (*i*) raising the per hectare productivity of irrigated as well as unirrigated land under the crop through intensive cultivation measures, (*ii*) stepping up of area under irrigation by exploiting the potential under new irrigation projects fully and (*iii*) accelerating the spread of high yielding/hybrid cotton to their maximum potential area. This strategy is incorporated in the Centrally Sponsored Intensive Cotton District Programme (ICDP), which provides for subsidies on plant protection equipment, ground and aerial spraying, certified seeds, demonstrations, etc.

During 1980-81, the ICDP covered an area of 1.7 million hectares (roughly 23 per cent of the total cotton acreage in the country) in 24 potential districts including area under the command of 6 major irrigation projects and non-traditional areas. Improved seeds and fertiliser supply in these districts covered an area aggregating 1.3 million hectares and 1.5 million hectares, respectively. In order to bring larger area under plant protection umbrella, aerial spraying of cotton plants was planned in 3.90 lakh hectares in 1980-81. As against this target, 1.89 lakh hectares were actually covered during the year. Shortfall was mainly because the programme could not be taken up in Maharashtra, Rajasthan, and Andhra Pradesh. Ground spraying/dusting was introduced as a new programme in the rainfed districts under ICDP. However, as against a target of 4.0 lakh hectares, the programme could be implemented in 16,000 hectares only. The shortfall was due to delay in sanction by states.

In addition to the Centrally sponsored ICDP, a few states continued to implement state package programmes. The Directorate of Cotton Development continued to act as a liaison between the Centre and the states and assisted in the formulation and implementation of the various cotton development programmes.

As regards price policy during 1980-81, the Agricultural Prices Commission (APC) had recommended a support price for fair average quality of 320F, 414F and J-34 varieties of cotton at Rs. 300 per quintal as compared to Rs. 265 during 1979-80. However, the Government of India fixed the support price at Rs. 304 per quintal for these varieties as against Rs. 275 during the preceding season.

With a view to stabilising cotton prices by the avoidance of undue fluctuations, the Cotton Corporation of India (CCI) continued to make commercial purchases during the 1980-81 season. Aggregate purchases by CCI amounted to 11.94 lakh bales (till end-August 1981) as against a target of 15 lakh bales. Aggregate purchases during the 1978-79 and 1979-80 seasons were 10.42 lakh bales and 11.10 lakh bales, respectively.

The Maharashtra State Co-operative Marketing Federation (MSCMF) procured about 12.61 lakh bales of cotton during the 1980-81 season as against 17.36 lakh bales during the preceding season. The guaranteed prices for different varieties of *kapas* procured in 1980-81 were enhanced by the State Government by Rs. 80 to Rs. 145 per quintal as against Rs. 5-20 during the preceding season. The ten year term of the cotton monopoly procurement scheme in Maharashtra expired on June 30, 1981. The Government of India has permitted the State Government to continue the scheme for one more year, with some modifications.

RAW JUTE AND MESTA

The raw jute and mesta production target for 1980-81 season was fixed at 82.50 lakh bales (of 180 kgs. each) comprising 66.30 lakh bales of jute and 16.20 lakh bales of mesta. Actual production of raw jute according to final estimates, is placed at 65.15 lakh bales as compared with 60.71 lakh bales during the preceding year; mesta is placed at 16.80 lakh bales as against 18.90 lakh bales during the last season. Thus, aggregate production of raw jute and mesta at 81.95 lakh bales this year is 2.34 lakh bales higher than the level a year ago (Table III. 6).

To achieve the targeted 82.50 lakh bales, the efforts of the State Governments were supplemented by the Centre through a Centrally sponsored 'Intensive Jute District Programme' which was in operation in 20 selected districts spread over West Bengal, Bihar, Assam, Orissa, Uttar Pradesh and

Table III.6: Trends in Availability of Jute and Mesta

('000 bales of 180 kgs. each)

Year (July-June)	Production	Imports	Exports	Consumption£	Closing stocks$	Availability
1	2	3	4	5	6	7
1974-75	5834	631	399	6520	1650	8331
1975-76	5808	292	121	7723	963	7750
1976-77	7099	37	17	7042	942	8099
1977-78	7154	—	18	7055	664	8096
1978-79	8333	—	28	6479	2848	8997
1979-80	7961*	—	Neg.	8181	2446	10809
1980-81	8195**	—	150(P)	8260	3000	10641

£ Includes village level consumption of 200 thousand bales in 1974-75, 250 thousand bales till 1979-80 and 300 thousand bales in 1980-81.
$ Estimated Stocks with mills, STC/JCI and other stockists at the end of the season.
Neg.: Negligible. * Revised Estimate. ** Final Estimate. — : Nil
P: Projected. *Source:* Directorate of Jute Development, Ministry of Agriculture. Government of India.

Andhra Pradesh and covered an area of 374 thousand hectares under jute and 57 thousand hectares under mesta. Besides, 136 thousand hectares of jute area, forming 10.4 per cent of the aggregate area under jute and mesta (1300 thousand hectares) was brought under irrigation. For implementing the scheme, the Centre had sanctioned an outlay of Rs. 149 lakhs which was to be shared equally between the Centre and the states.

For the 1981-82 season, a production target of 84.63 lakh bales, comprising 64.78 lakh bales of raw jute and 19.85 lakh bales of mesta, has been fixed.

The opening stock of raw jute and mesta for 1980-81 season was placed at 24.46 lakh bales as compared with 28.48 lakh bales in 1979-80. There was no raw jute import during the year as in the preceding three years. Together with production at 81.95 lakh bales, aggregate availability of raw jute and mesta during 1980-81 worked out to 106.41 lakh bales as against 108.09 lakh bales in the preceding year. On the demand side, raw jute consumption by mills during 1980-81 season was placed at 79.60 lakh bales as against 79.31 lakh bales during the preceding season. With village level consumption and exports at 3.00 lakh bales and 1.50 lakh bales, respectively, the estimated closing stock for the season was higher than the level a year ago by 5.54 lakh bales.

The salient features of the price policy with regard to raw jute consisted of minimum support price to the growers fixed on a statutory basis and arrangement for purchase of the fibre through the Jute Corporation of India (JCI) at the statutory minimum price. The minimum support price was enhanced from Rs. 155 a quintal in 1979-80 to Rs. 160 a quintal in 1980-81 for W-5 grade, delivered in the up-country markets in Assam, as recommended by the Agricultural Prices Commission (APC). The prices of other grades and varieties in different states were fixed by the Jute Commissioner on the basis of the statutory minimum price fixed for W-5 grade of raw jute in Assam. As part of the price support scheme, the JCI purchased 10.61 lakh bales of raw jute during 1980-81 as compared with 8.68 lakh bales during the preceding season. JCI purchases in 1980-81 formed 10-12 per cent of the total jute production in the country.

For the 1981-82 season, the Government of India has reportedly fixed the minimum sup-

port price for W-5 grade of raw jute (ex-Assam) at Rs. 175 per quintal, as recommended by the APC.

Raw jute prices in the 1980-81 season remained depressed as in the preceding two seasons. With a large carry over stock of 24 lakh bales from the previous year and a bumper crop of 82 lakh bales during the season, the market opened bearish from the beginning of the season. With a comfortable stock of the fibre from the old crop, mill demand was slack. The excess of supply over demand widened with the progress of the season. The situation worsened from September/October when raw jute from the late sown areas started arriving into the market in larger quantities. Taking advantage of the situation, the mills and their agents confined their interest mainly to superior grade fibre. Consequently, the prices of low and even medium grades went below the statutory minimum level in a number of markets in the jute growing states. In order to have a check on the declining trend in the price of raw jute in Calcutta, the Jute Commissioner fixed the prices of the fibre in the Calcutta terminal market at Rs. 209 and Rs. 217.50 a quintal, respectively, for W-5 grade ex-West Bengal and ex-other States in August 1980. The prices remained at these levels during the whole season. In addition, the Jute Commissioner issued orders on October 4, 1980 prescribing minimum purchase quotas and stocks by individual mills for generating additional buying pressure in the market.

At the commencement of the season, the JCI had a cumulative balance of unsold stock of about 19 lakh bales, including a partial carryover stock from the 1978-79 season. Progress of liquidation of old stocks was not satisfactory due to lack of adequate demand from mills. In order to help the JCI dispose of its old stock, Government persuaded jute mills to purchase raw jute from the JCI's stocks against the purchase of jute goods by the Directorate General of Supplies & Disposals (DGS & D) under "raw jute against jute goods" arrangement. The new linking formula of Government purchases of jute goods from mills to offtake of raw jute from the JCI, along with export of raw jute by the JCI, enabled the latter to bring down its accumulated stock to 14.45 lakh bales by end of the season.

The Task Force on Jute constituted in September 1980 submitted its report to the Government of India on February 27, 1981. The major recommendations were (1) formation of a Jute Board and winding up of the Jute Manufactures' Development Council, the Indian Jute Development Council and Office of the Jute Commissioner, (2) announcement of minimum support prices well in advance of the sowing season, (3) incentives for cultivation of high quality fibre, (4) strengthening of growers' co-operatives, (5) creation of an export price stabilisation fund, (6) streamlining of operation of the JCI to stabilise raw jute prices within the country, and (7) extension of support to the producers in cases where the market price is below cost of production. These recommendations are under consideration of the Government.

OILSEEDS

Oilseeds@ production target for 1980-81 was fixed at 11 million tonnes; actual production according to provisional estimates of the Government is placed at 10.2 million tonnes. Production of five major oilseeds *viz.*, groundnut-in-shell, rapeseed/mustard, sesamum, linseed and castorseed, according to trade estimates, ranged between 89.2 — 91.2 lakh tonnes, which is 8.4 — 10.4 lakh tonnes or 10.4 — 12.9 per cent higher than the production in 1979-80 (Table III. 7). Oilseed-wise, production of groundnut was placed at 57.0 lakh tonnes, about 70,000 tonnes lower than the 1979-80 output. Production of rapeseed/mustard was placed substantially higher at 21-23 lakh tonnes as compared to 14.3 lakh tonnes in 1979-80. Sesamum production at 4.2 lakh tonnes was around 50,000 tonnes higher than in the preceding year. Production of linseed at 5.0 lakh tonnes showed a substantial increase of 2.3 lakh tonnes over the 1979-80 level. Castorseed production at 2.0 lakh tonnes, however, was 30,000 tonnes lower than in 1979-80. For the year 1981-82, the target fixed is 11.2 million tonnes (all oilseeds together).

The following measures were taken by the Government of India for increasing produc-

@ Comprising groundnut, rapeseed/mustard, sesamum, linseed, castorseed, niger, soyabean and sunflower.

tion of oilseeds and oils in the country in 1980-81: (1) The Centrally sponsored scheme for intensive oilseeds development programme continued to operate in 14 states with a coverage target of 40.6 lakh hectares. Under the liberalised pattern of Central assistance, the expenditure on plant protection measures and subsidy on certified seeds of groundnut and rapeseed/mustard was met in full by the Government during the year; assistance for other schemes, however, continued to be shared equally between the Centre and the State Governments. As against the targeted coverage of 40.6 lakh hectares, actual coverage was 36.0 lakh hecatres. The shortfall was due to severe drought conditions in some states during the *kharif* season. (2) Under the intensive oilseeds development programme, permission was given to the Government of Gujarat to implement a special scheme for development of summer groundnut crop in Saurashtra region covering an area of 1.50 lakh hectares at an estimated cost of Rs. 347.50 lakhs. This project was implemented by the State Government during 1980-81. Central assistance for the scheme followed the pattern of assistance granted to Centrally sponsored schemes under the intensive oilseeds development programme. As against a targeted area of 1.50 lakh hectares, 1.41 lakh hectares were actually brought under irrigation. Area brought under plant protection measures was 32,700 hectares. Under the scheme, 410 seed drills and 17 tractor mounted sprayers also had been provided. (3) The Centrally sponsored scheme for extension of oilseeds to new irrigated areas which was introduced in 1975-76 continued to be implemented during 1980-81 in seven states, *viz.*, Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Tamil Nadu at an estimated cost of Rs. 180.9 lakhs. An area of 4.5 lakh hectares was reportedly covered under the scheme till February 1981 as against the target of 10.7 lakh hectares. (4) The scheme for sunflower development was continued during 1980-81 in seven states *viz.*, Andhra Pradesh, Karnataka, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal at an estimated cost of Rs. 42.91 lakhs. An area of 1.8 lakh hectares had reportedly been covered under the scheme as against a target of 4.4 lakh hectares. A large area in the States of Andhra Pradesh and Orissa could not be covered as sunflower was less remunerative compared to other crops in these two states. They were, therefore, advised to popularise mixed/intercropping of sunflower. (5) The scheme for development of soyabean (Centrally sponsored) was continued in 1980-81 in five states (Madhya Pradesh, Uttar Pradesh, Bihar, Himachal Pradesh and Rajasthan) at an estimated cost of Rs. 30.3 lakhs. It covered an area of 6.1 lakh hectares against the target of 6.7 lakh hectares. As maximum potential for soyabean production existed in Madhya Pradesh, a special scheme had been initiated in that state for soyabean production. The scheme aimed at increasing the area under the crop from 4.5 lakh hectares to 18 lakh hectares between 1980 and 1985. This programme is expected to make a significant contribution to the edible oil supplies in the country.

Implementation of Phase I of the oilseeds and vegetable oils project under the National Dairy Development Board (NDDB) continued during the year. As at end-March 1981, there were 224 village level oilseeds growers' societies in Gujarat and 28 in Madhya Pradesh. The total membership (growers) of these societies in Gujarat was 9,515 with 87,514 acres under groundnut. Membership in Madhya Pradesh was 1,628 with 23,289 acres under soyabean. In both these states, as well as in Tamil Nadu and Andhra Pradesh, state level oilseeds growers' co-operative federations have been set up. Groundnut procured from grower-members aggregated 15,169 tonnes in Gujarat. Soyabean procured from the grower-members in Madhya Pradesh aggregated 3,000 tonnes. The Tamil Nadu Federation has done considerable spadework in initiating the project, including identification of the project areas, preparation of draft plan, etc. An important feature of the NDDB project is that ownership and management of processing units and marketing of products lie in the hands of the grower-members. Two oil crushing mills have been acquired in Gujarat under the project. In Madhya Pradesh, the Federation has arranged for crushing of soyabean procured from members in a co-operative mill in that state as well as in a co-operative unit at Anand in Gujarat. The acti-

vities of the NDDB are expected to augment supplies of groundnut and soyabean oil in the coming years.

Out of 1,60,000 tonnes of edible oils committed for supply by the Co-operative League of U.S.A. (CLUSA) over the project period, 55,880 tonnes of refined soyabean oil was received upto end-March 1981. The Co-operative Union of Canada supplied 3,260 tonnes of crude rapeseed oil. Out of the 55,880 tonnes of soyabean oil received from CLUSA 53,020 tonnes were marketed through co-operatives, public distribution system and market intervention sales, mostly in Gujarat, Madhya Pradesh and Maharashtra, which generated funds to the tune of Rs. 45.67 crores. Out of these funds, an amount of Rs. 24 crores has been used for various project activities, including Rs. 16.50 crores given as loans to the oilseeds growers' federations.

As regards price policy for oilseeds, the following changes were made in the support prices during 1980-81 and 1981-82.

Oilseeds Crop	*Support Prices*		
	1979-80 (Rs. per quintal)	1980-81 (Rs. per quintal)	1981-82 (Rs. per quintal)
Groundnut-in-shell ..	190	206	270
Soyabean (black) ..	175	183	210
Soyabean (yellow) ..	175	198	230
Sunflower seed ..	175	183	250
Rapeseed/ mustard ..	245	N.A.	N.A.

It may, however, be mentioned that the ruling market prices were substantially higher than the support prices announced by the Government, as the demand was much in excess of the supply.

For the manufacture of *vanaspati*, Government of India had prescribed the use of either indigenous cottonseed oil or indigenous minor oils or imported vegetable oils supplied through the State Trading Corporation (STC), or any combination thereof, to the extent of 95 percent of the industry's requirements. The balance (5 per cent) was to be met by refined sesamum oil (as liquid oil). The use of groundnut and rapeseed/mustard oil in the manufacture of vanaspati was forbidden. This restriction had been imposed to avoid pressures on the supply of indigenously produced edible oils of mass consumption such as groundnut and rapeseed/mustard. With effect from January 1, 1981, the use of imported vegetable oils (supplied through the STC) in the manufacture of vanaspati was brought down to 70 per cent of the industry's requirements. Therefore, the use of indigenous cottonseed oil or indigenous minor oils had to be stepped up by 25 per cent. The remaining 5 per cent was to be met, as in the past, by refined sesamum oil (as liquid oil). The reduction in the supply of imported vegetable oils to the vanaspati industry was effected mainly with a view to meeting the increased demand from States/Union Territories for public distribution.

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, the following. (1) The scheme for public distribution of imported rapeseed oil was strengthened and streamlined. To such of the State Governments having a refining capacity located within the state, imported rapeseed oil was supplied in raw form, for refining and distribution through licensed fair price shops. State Governments with no refining units were supplied the oil in refined form. (2) Imported RBD palm oil and palmoleine were also supplied to State Governments for public distribution. During the year 1979-80 (November-October) 3.54 lakh tonnes of imported oils had been supplied to State Governments for public distribution as against 93,000 tonnes lifted during the corresponding period of the previous year. During the period November 1980—October 1981, as much as 4-5 lakh tonnes of imported oils will be distributed through public distribution system. The issue price of imported edible oils was maintained at around Rs. 8.25—8.50 per kg. which was substantially lower than the open market prices. (3) The policy of free movement of edible oils in the country was encouraged. (4) Strict enforcement of the

provisions relating to stock limits under the Pulses, Edible Oilseeds and Oils (Storage Control) Order 1977 was ensured by the State Governments under advice of the Centre. (5) Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act, 1980 was promulgated to check *inter-alia* black-marketing in edible oils/oilseeds and to deal with the traders indulging in speculative trading in these essential commodities of mass consumption.

SUGARCANE

Reversing the trend witnessed in 1979-80 when area under sugarcane showed a sharp decline of 4.22 lakh hectares or 13.7 per cent to 26.66 lakh hectares, the year 1980-81 saw a moderate increase of 68,000 hectares (or 2.6 per cent) to 27.34 lakh hectares, according to the all-India second estimate of area. This increase was accounted for mainly by Uttar Pradesh, Maharashtra and Gujarat due to favourable weather conditions at the time of sowing. As a result production of sugarcane in 1980-81 is placed higher at 15.2 million tonnes (in terms of gur) as compared to the previous year's level of 13.3 million tonnes (Table III. 7).

For the year 1981-82, sugarcane production target has been fixed at 180 million tonnes (in terms of cane).

The minimum price of sugarcane payable by factories to cane growers during the 1980-81 season was raised by 50 paise to Rs. 13.00 per quintal for the basic recovery of 8.5 per cent with a premium of 15.2941 paise for every increase of 0.1 per cent above the basic recovery level. However, considering the capacity of the sugar factories to pay prices higher than the statutory minimum, the states had to ensure that the actual cane prices paid to growers were not less than Rs. 16.00 per quintal. In actual practice, the State Governments had fixed still higher prices to be paid by sugar factories. According to provisional figures available, they ranged between Rs. 16.50 and Rs. 28.00 per quintal.

On the development side, realising the need for increasing cane production from the depressed level of 1,280 lakh tonnes (in terms of cane) in 1979-80, the Government of India chalked out an action plan, in consultation with State Governments, aimed at increasing production to 1,800 lakh tonnes (target) of cane in 1980-81. The action plan consisted of the following: (1) promotion of additional planting of cane, (2) use of improved management practices, (3) adoption of plant protection measures over large areas, (4) better management of ratoon crops, and (5) intensive extension drive.

Sugarbeet is grown on a commercial scale only in the area of Ganganagar Sugar Mills—Rajasthan. Area under sugarbeet cultivation declined from 743 hectares in 1979-80 to 675 hectares in 1980-81. However, beet production increased from 13,106 tonnes to 14,334 tonnes due to increased productivity.

TEA

Production of tea registered an increase of 23.2 million kgs. to 575.1 million kgs. in the calendar year 1980. However, divergent trends were observed in the North Indian and South Indian tea production; while production in North India improved by 32.3 million kgs. to 444.8 million kgs., that in South India declined by 9.1 million kgs. to 130.3 million kgs. The shortfall in production in South India was ascribed to adverse weather conditions. (Table III. 7).

In the first seven months of 1981, both South Indian and North Indian tea production showed a decline. South Indian tea production during this period is estimated at 71.6 million kgs. as against 75.4 million kgs. during the corresponding period of 1980. Production of North Indian tea is placed at 198.4 million kgs. as against 209.6 million kgs. during the corresponding period of 1980.

Export of tea during the financial year 1980-81 showed a substantial increase over the preceding year, both quantitatively and in terms of value realisations. Quantitywise, exports during 1980-81 aggregated 234.3 million kgs. showing an increase of 25.9 million kgs. over the preceding year. In terms of value, exports amounted to Rs. 424.5 crores, accounting for an increase of Rs. 39.8 crores or 10.4 per cent over the previous year. The unit value realised abroad had, however, deteriorated

Table III.7: Trends in Production, Export, Consumption etc. of Non-foodgrain Commodities

Years	Oilseeds @[1]		Tea[2] (Million kgs.)		Coffee ('000 tonnes)			Sugarcane[1] (In terms of gur)		Tobacco[5] (Million kgs.)		
	Production (Million tonnes)	Yield per hectare (Kgs.)	Production	Export	Production[4]	Export[3]	Internal Consumption[2]	Production (Million tonnes)	Yield per hectare (Kgs.)	Production	Exports	Released for domestic consumption
1	2	3	4	5	6	7	8	9	10	11	12	13
1975-76	9.9	651	487.1	218.1	84.0	59.4	36.9	14.4	5218	350	74.3	305.4
1976-77	7.8	528	511.8	242.4	102.2	50.6	37.7	15.8	5529	419	79.7	344.3
1977-78	9.0	585	556.3	221.5[3]	125.1	55.8	44.1	18.0	5699	494	80.0	361.0
1978-79	9.3	588	563.8	177.3[3]	110.5	66.4	46.0	16.0	5141	454	78.6	360.3
1979-80	8.1	532	551.9	208.5[3]	149.7@@	62.0	49.6	13.3+	4989	447	65.1£	++
1980-81	8.9—9.1†	N.A.	575.1	234.3[3]	130.5@@	89.0@@	47.7	15.2@@	5560	N.A.	N.A.	++

@ Five major oilseeds viz., groundnut (in shell), sesamum seed, rapeseed/mustard, linseed and castorseed.
@@ Provisional. † Trade estimate.
\+ Final estimate.
++ As unmanufactured tobacco has been exempted from excise duty since 1979-80, data on raw tobacco cleared for home consumption which were maintained by the Central Excise are not available from 1979-80 onwards.
£ Relates to April-November 1979.

1. Figures relate to November-October.
2. Figures relate to calendar year.
3. Figures relate to financial year.
4. Figures relate to October-September.
5. Figures relate to March-February.

Sources: Ministry of Agriculture, Government of India, Tea Board, Coffee Board.

further from Rs. 18.46 per kg. in 1979-80 to Rs. 18.12 per kg. in 1980-81.

COFFEE

Production of coffee during 1980-81 (October-September) is provisionally estimated at 130.5 thousand tonnes reflecting a sharp decline of 19.2 thousand tonnes (or 12.8 per cent) over the preceding year (Table III. 7). The decline was mainly accounted for by Robusta coffee which came down by 15.9 thousand tonnes. Arabica coffee also recorded a decline of 3.3 thousand tonnes.

The quantity released for internal consumption during the calendar year 1980 was marginally lower at about 48 thousand tonnes as compared with about 50 thousand tonnes in 1979. Exports during the fiscal year 1980-81 amounted to 89 thousand tonnes, surpassing the target of 85 thousand tonnes fixed for the year; exports during the year 1979-80 had aggregated 62 thousand tonnes. However, export realisations during 1980-81 showed a continuous deterioration due to a continuous fall in international price of coffee. Average unit value realised during 1980-81 was Rs. 24.16 per kg. as against Rs. 28.87 per kg. during the year 1979-80. The Government of India brought down in stages the export duty on coffee from Rs. 700 as on May 28, 1980 to Rs. 500 per quintal on July 17, 1980, to Rs. 260 per quintal on August 15, 1980 and further to Rs. 150 per quintal on December 1, 1980 with a view to providing Indian coffee a competitive edge in the international market. The duty was completely abolished on June 19, 1981.£

TOBACCO

The all-India final estimates placed tobacco production in 1979-80 at 446.9 million kgs., which was 7.0 million kgs. or 1.5 per cent lower than the production in the preceding year. Andhra Pradesh which recorded a steep fall in production from 190.6 million kgs. in 1978-79 to 155.8 million kgs. in 1979-80 was mainly responsible for the overall reduction in production. The increase of 21.3 million kgs. in Gujarat over the year could not wipe off the deficit caused by the decline in Andhra Pradesh. The sharp decline in production in Andhra Pradesh was largely due to the reduction in acreage under this crop from 198.7 thousand hectares in 1978-79 to 168.5 thousand hectares in 1979-80. However, as the area under the crop had shown a conspicuous increase in Gujarat from 74.6 thousand hectares to 114.7 thousand hectares, the overall position showed a net increase of 12.2 thousand hectares to 421.5 thousand hectares in 1979-80.

As regards 1980-81, no official estimates are available either with regard to area or production. However, according to available indications, area under virginia flue cured tobacco (VFC) has been estimated at 155 thousand hectares and production at 110 million kgs. which will be higher than the 1979-80 levels by 12.2 per cent and 7.1 per cent, respectively.

Raw tobacco cleared for domestic consumption during 1978-79 added up to 360.3 million kgs. which was only marginally below the 1977-78 level of 361.0 million kgs. As unmanufactured tobacco was exempted from excise duty with the introduction of the Finance Bill, 1979, data on raw tobacco cleared for home consumption are no longer maintained by the Central Excise, and therefore, these data are not available commencing with the year 1979-80. Official data on exports of tobacco and tobacco products for the full year 1979-80 are not yet available. Available information relates to the period April-November 1979 only, according to which exports aggregated 65.1 million kgs. valued at Rs. 80.24 crores. It is anticipated that exports for the full year 1979-80 may be more or less the same as those recorded for 1978-79.

With regard to price policy, no price support operations were undertaken during 1979-80, as marketing of tobacco did not pose any major problem in view of the competitive demand for the crop. There was no proposal to undertake any such operation during 1980-81 too, as production of VFC tobacco was just adequate to meet the demand. However, with a view to ensuring remunerative prices to the growers and creating

£With effect from August 21, 1981 the duty was reimposed at the rate of Rs. 75 per quintal. However, the same was subsequently abolished with effect from September 10, 1981.

stable conditions in the market, the question of chalking out a price support policy for 1982 is under active consideration of the Government of India.

On the development side, the Centrally sponsored scheme for improving the production of exportable variety of tobacco in the light soil areas in vogue since 1966-67, was transferred to the state sector from 1979-80. The area covered, which was 77,816 hectares in 1978-79, however, came down to 73,713 hectares in 1979-80 and further down to 73,303 hectares in 1980-81. In 1981-82, no additional area is likely to be brought under this crop. In Andhra Pradesh, the main tobacco growing state, the area covered under the scheme declined from 60,000 hectares in 1978-79 to 49,300 hectares in 1980-81. Schemes for production and distribution of pure seeds and seedlings are being implemented as non-plan schemes in the Central sector. During 1980-81, 14,018 kgs. of seeds and about 51.8 lakh seedlings were sold to the tobacco growers. In addition to the above, a scheme for imparting training to farmers in improved methods of tobacco cultivation, handling, curing and grading was implemented at the Gujarat Agricultural University.

Under the non-plan tobacco extension service schemes implemented by State Governments, growers received various inputs on time and technical guidance in improved methods of cultivation. Currently, the scheme is in operation in six states, viz., Andhra Pradesh, Karnataka, Uttar Pradesh, Gujarat, Tamil Nadu and Bihar.

Production Strategy and Measures undertaken

HIGH-YIELDING VARIETIES PROGRAMME

The target of coverage of area under High Yielding Varieties Programme (HYVP) of foodgrains for 1979-80 was fixed at 43 million hectares. However, the programme suffered a setback due to drought conditions in most parts of the country. As a result, the area covered was estimated at 35.2 million hectares only (Table III.8). To cover the lost ground, measures were intensified during 1980-81 as a result of which the area coverage is expected to have increased to 45.2 million hectares as against the target of 48 million hectares fixed for the year.

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

(Million hectares)

	1976-77	1977-78	1978-79	1979-80	1980-81	1980-81
	Actuals	Actuals	Actuals	Actuals	Targets	Anticipated achievement
Paddy	13.3	15.6	16.9	13.6	20.2	18.5
Wheat	14.5	15.5	16.1	13.5	17.8	17.3
Jowar	2.4	3.1	3.1	3.0	4.3	4.2
Bajra	2.3	2.6	2.9	3.1	3.7	3.8
Maize	1.1	1.2	2.1	2.0	2.0	1.4
Total	**33.6**	**38.0**	**41.1**	**35.2**	**48.0**	**45.2**

Source: Economic Survey, 1980-81, Government of India.

In order to enable the farmers to choose the right type of varieties evolved by research, the Central sector scheme for mini-kit programme of rice, wheat, maize, jowar, bajra and ragi was continued during 1980-81. During the year, 76,631 mini-kits of seeds were supplied to the farmers free of cost. Community nurseries programme set up to help the timely sowing of paddy crop in the major rice growing states continued to operate during the year. Paddy crop nurseries were set up at Government farms and on tube well points of farmers who were given a subsidy of Rs. 1,000 per hectare of nursery for raising

the seedlings not only for their own use but also for sharing with other farmers of the area who did not possess irrigation facilities. The community nurseries demonstrations had been adopted by a large number of farmers in the north-eastern states. This programme, besides helping the small and marginal farmers, also helped in the spread of better technology of high yielding variety in paddy cultivation which resulted in higher yields. The programme of gradual but complete replacement of rust-susceptible local varieties of wheat in hill areas of north as well as south was continued during the year. Under this scheme, 150 quintals of seeds of rust resistant varieties of wheat were supplied during the year for free distribution to the farmers. A scheme for maize demonstration in tribal areas in the selected districts of Bihar, Gujarat, Madhya Pradesh, Orissa and Rajasthan had been introduced in 1979-80 in order to bring home to the tribal farmers the efficacy of the new technology in production of maize and for enhancing the yield per unit area. This programme was continued during 1980-81 and 1,026 demonstrations were organised in the selected districts of the above states.

QUALITY SEEDS

The States and Union Territories are mainly responsible for the production and distribution of seeds in their respective areas. To supplement the efforts of the State Governments, the Government of India had set up the National Seeds Corporation and the State Farms Corporation of India. Production of breeder seeds, foundation seeds and certified seeds amounted to 5,057 quintals, 109,145 quintals and 811,169 quintals, respectively, in 1980-81 as against 4,650 quintals, 44,554 quintals and 440,974 quintals, in the preceding year. The number of dealers was increased from 3,636 in 1979-80 to 3,755 in 1980-81 to ensure timely distribution of seeds to the farmers.

The State Farms Corporation of India also continued its efforts to augment the production and supply of quality seeds, though production prospects during 1980-81 were not encouraging due to failure of monsoon in Rajasthan.

IRRIGATION

Aggregate irrigation potential created through major, medium and minor irrigation projects which showed an increase of 2.2 million hectares (to 56.7 million hectares) in 1979-80 is anticipated to increase by 2.4 million hectares (to 59.1 million hectares) in 1980-81 (Table III-9). Additional irrigation potential through major and medium schemes is expected to increase by 0.9 million hectares as against 0.8 million hectares in 1979-80. Contribution from minor irrigation projects is expected to increase by 1.5 million hectares as against 1.4 million hectares last year. Both surface water and ground water projects will have contributed to the increase.

Table III.9: Development of Irrigation Potential

(Million hectares)

I.	**Surface Water**	**1975-76**	**1976-77**	**1977-78**	**1978-79**	**1979-80***	**1980-81***
	(a) Major and Medium ..	1.02	1.01	1.46	1.04	0.75	0.90
	(b) Minor	0.13	0.13	0.15	0.25	0.26	0.20
II.	**Ground Water**	**0.77**	**0.87**	**0.95**	**1.05**	**1.14**	1.30
	Total	**1.92**	**2.01**	**2.56**	**2.34**	**2.15**	**2.40**

* Anticipated.

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

The approved financial outlay on major and medium irrigation schemes for 1980-81 was Rs. 1225 crores. The expected public sector investment on minor irrigation scheme was Rs. 274 crores as against Rs. 260 crores in 1979-80. Additionally, institutional investment expected under minor irrigation schemes was Rs. 300 crores as against Rs. 250 crores in the previous year. Besides the above, Central assistance amounting to Rs. 40 lakhs has been released to seven States on a matching basis under the Centrally sponsored schemes for strengthening of state surface water and ground water organizations as against the proposed assistance of Rs. 70 lakhs.

The measures taken in 1980-81 to accelerate the minor irrigation programmes included (1) a crash programme of construction of 5000 shallow tube wells in Assam for development of ground water to benefit people in flood-prone areas and (2) a pilot project for construction of 500 public tubewells in Uttar Pradesh with World Bank assistance.

Command Area Development Programme

Under the Command Area Development Programme, (which was introduced at the beginning of Fifth Five Year Plan for making optimum use of irrigation potential created under major and medium irrigation projects) 44 Command Area Development Authorities have been established so far covering 71 selected irrigation projects falling in 13 States and 1 Union Territory of which the one for Salanli Irrigation Project in the Union Territory of Goa has been set up during 1980-81.

The types of work undertaken by C A D involve: (1) on-farm development works to render the land fit for receiving irrigation water, (2) introduction of a system of rotational distribution of water to ensure equitable and timely supplies to all farmers, (3) supply of adequate inputs, (4) strengthening of the extension services such as demonstration, ground water development for conjunctive use with surface water, advice to farmers on the optimum cropping pattern related to availability of water, strengthening of the network of roads and regulated markets, etc.

The physical results of the Command Area Development Programme are indicated below item-wise :

(In lakh hectares)

Item	Cumulative achievement upto end-March 1980	Target for 1980-81	Achievement (upto September 1980)
Soil surveys	64.14	9.57	4.06
Topographical surveys	32.75	7.32	4.45
Planning, design of on-farm development works	25.54	6.55	3.19
Construction of field channels	30.83	6.24	0.75
Lining of field channels	4.54	1.44	0.16
Construction of field drains	5.30	1.45	0.23
Land levelling/shaping	9.37	1.34	0.47

Aggregate Central assistance to State Governments upto 1979-80 for implementation of the Command Area Development Programme amounted to Rs. 120.42 crores. For 1980-81 budgetary provision under the scheme amounted to Rs. 40 crores. Since 1974-75, State Governments have spent a sum of Rs. 131.80 crores on this programme. For 1980-81, the Planning Commission had tentatively approved an allocation of Rs. 62.57 crores in the states sector. In addition, a sum of Rs. 20.67 crores was provided by institutional agencies for execution of on farm development works during 1980-81.

Fertilisers and Manures

Efforts were made to ensure adequate availability of chemical fertilisers during 1980-81. Shortfalls in domestic production were met by massive imports, despite substantial increase in the price in the international markets. Consumption of fertilisers during the year was placed at 55.8 lakh tonnes of nutrients as against the target of 61.0 lakh tonnes and represented an increase of 3.2 lakh tonnes or 6.1 percent over the previous year and 4.6 lakh tonnes over 1978-79 in which a record foodgrains production of 132 million tonnes had been achieved (Table III. 10). Unfavourable weather conditions in many states coupled with heavy shortfall in domestic production of fertilisers formed the major

constraints in the efforts at attaining the targeted level of consumption; however, pool fertiliser helped to a great extent in meeting the shortfall in supplies. Consumption of nitrogenous, phosphatic and potassic fertilisers increased by 6 per cent, 7 per cent and 5 per cent, respectively. For the year 1981-82, the target of consumption has been fixed at 66.0 lakh tonnes. Imports during 1980-81 were expected to be 50 lakh tonnes—about 10 lakh tonnes larger than the imports in the previous year.

Table III.10: Consumption of Fertilisers

(Lakh tonnes)

Year (April-March)	Nitrogenous (N)	Phosphatic (P_2O_5)	Potassic (K_2O)	Total
1	2	3	4	5
1976-77	24.6	6.3	3.2	34.1
1977-78	29.1	8.7	5.1	42.9
1978-79	34.2	11.1	5.9	51.2
1979-80	35.0	11.5	6.1	52.6
1980-81	37.1	12.3	6.4	55.8
1981-82 (Target)	44.0	14.7	7.3	66.0

Source: Annual Report of the Ministry of Agriculture, Government of India.

A substantial number of blocks in the country are, however, handicapped in regard to easy availability of chemical fertilisers due to absence of rail-heads. A major decision to remedy the situation was taken during 1980-81 by Government taking up the responsibility of reaching fertilisers to all block headquarters, the extra expenditure involved being borne by the Government. This decision is expected to meet the three-fold objectives of boosting overall consumption of fertilisers, reduction in regional imbalances in the application of fertilisers and increased consumption by small and marginal farmers.

The Government was compelled to increase the prices of fertilisers by about 38 per cent with effect from June 8, 1980. This was necessitated by the mounting burden of subsidies on fertilisers caused by steep increases in the prices of petroleum-based raw materials, cost of imported fertilisers and ocean freight rates due to the rise in international prices of petroleum products. However, it was decided to continue the subsidy to small and marginal farmers in drought-affected areas. The Centre decided to increase the quantum of funds provided to the states for the purchase and distribution of this input. Accordingly, funds provided to the states were enhanced from Rs. 125 crores and Rs. 136 crores, respectively, in 1978-79 and 1979-80 to Rs. 200 crores in 1980-81. Further, Government decided to compensate the farmers for increase in input costs by directing the Agricultural Prices Commission to take such increases into account while recommending remunerative prices for agricultural produce.

For promoting balanced and efficient use of chemical fertilisers, the policy of encouraging greater use of organic manures in conjunction with chemical fertilisers was continued as the former plays a crucial role in supplementing energy requirements and providing necessary replenishment to the soil nutrients. The estimated production of rural and urban composts during 1980-81 was 225 million tonnes and 6.5 million tonnes as against 220 million tonnes and 6.2 million tonnes, respectively, in the previous year.

PLANT PROTECTION MEASURES

Plant protection measures which had been introduced to combat the increasing menace of insect pests, diseases and weed arising from the changed agronomic conditions consequent to the introduction of high-yielding varieties, were continued during the year. The consumption of pesticides for plant protection work is expected to be about 52,000 tonnes in 1980-81 as against 50,000 tonnes in the preceding year. About 19,000 tonnes of technical grade material of 8 commonly used and indigenously manufactured pesticides were allocated to different States and Union Territories with a view to supplementing the availability of pesticides. For control of pests and diseases affecting agricultural production, the Government of India gave approval for undertaking aerial/ground spraying operations over an area of about 12 lakh hectares at a total cost of Rs. 213 lakhs as against Rs. 153 lakhs in 1979-80. With a view to providing support to the State Governments in the timely monitoring of pest build up and also to provide effective control measures against plant diseases, 13 Central plant protection stations and 19 Central surveillance stations located in different parts of the country continued to function during the year. For detecting 'Karnal Bunt' infection in the states of Bihar, Gujarat, Haryana, Himachal Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh and Punjab, wheat surveys were conducted in collaboration with the Indian Agricultural Research Institute, New Delhi. The analysis of grain samples collected from the above states revealed that the infection was fairly low and confined to Haryana, Punjab and Western Uttar Pradesh. Rice roving survey was conducted to keep vigilance over the pest situation in the states of Assam, Bihar, Madhya Pradesh, Orissa, Punjab, Uttar Pradesh and West Bengal. On specific requests from the State Governments of Andhra Pradesh, Haryana, Karnataka and Tamil Nadu, its operation was extended to the above states.

AGRICULTURAL MACHINERY AND IMPLEMENTS

State Governments were provided assistance for identification and supply of improved tools and implements suitable for different farming conditions with special reference to the backward and dry farming areas. The work on preparation of standards for the manufacture of agricultural machinery and implements was continued by the Indian Standards Institution. It finalised 8 standards. Work on finalisation of 33 other standards was in progress.

SCHEME FOR SMALL FARMERS

Since the inception of the Small Farmers Development Agency (SFDA) Project, 168 schemes covering 1,818 blocks were in operation upto end-August 1980. During 1980-81, participants identified (upto August 1980) numbered 98,000 (Table III. 11). From among the identified, 47,000 were enrolled as members of co-operative societies. The number benefiting from the various programmes under the scheme such as minor irrigation, milch cattle programme, poultry, other animal husbandry programme, rural artisans programme, rural works programme and improved agriculture (till August 1980) was 1,49,000. Total number of participants identified since the inception of the scheme was 168.75 lakhs from among whom only 72.95 lakhs had been enrolled as members of co-operatives. The number benefiting under the various programmes was 83.83 lakhs. Aggregate finance released amounted to Rs. 222.04 crores, while amount utilised was Rs. 239.67 crores. As per the decision taken by the National Development Council the SFDA was merged with Integrated Rural Development Programme (IRDP) on October 2, 1980 as the approach followed and the target group assisted under SFDA were similar to those under the IRDP.

INTEGRATED RURAL DEVELOPMENT PROGRAMME

The Integrated Rural Development Programme (IRDP) was launched in 1978-79 with the objective of raising the poorest families in rural areas above the poverty line by giving them income generating assets and access to credit and other inputs. The target group which consists of the poorest amongst the poor includes small and marginal farmers, agricultural and non-agricultural labourers, rural artisans and craftsmen, scheduled castes and scheduled tribes and all persons living below poverty line — (families of about 5 persons with an annual income below

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

Item	Progress during			Progress since inception (upto August 1980)
	1978-79	1979-80	1980-81 (Upto August)	
1. Number of project areas	168	168	168	168
2. Number of participants identified(in lakhs)	16.59	4.54	0.98	168.75
3. Number enrolled as members of co-operatives (in lakhs)	8.14	2.16	0.47	72.95
4. Amount released (Rs. in lakhs)	4064.24	1920.42	444.51	22,204.06
5. Amount utilised (Rs. in lakhs)	4419.69	3530.82	803.45	23,967.35
6. Physical result@ (Number of beneficiaries)				
(i) Minor irrigation* (in lakhs) ..	1.37	1.00	0.20	9.16
(ii) Milch cattle (in lakhs)	1.31	0.92	0.17	6.21
(iii) Poultry (in lakhs)	0.03	0.05	0.01	0.25
(iv) Other animal husbandry**(in lakhs)	0.51	0.31	0.06	2.65
(v) Improved agriculture (in lakhs) ..	10.46	6.21	1.05	62.61
(vi) Rural Artisans Programme (in lakhs)	..	..	..	0.12
(vii) Rural Works Programme (in lakhs)	..	..	..	2.83

@ Relate to cooperative year. * Includes sprinklers, rahats, irrigation channels, boring and renovation of wells. ** Includes piggery, fisheries, goat and sheep rearing, bee-keeping, sericulture and duck rearing.

Saurce: Ministry of Rural Reconstruction, Government of India.

Rs. 3,500). The programme, which was initially taken up in 2,300 blocks in the country has now been extended to all the development blocks in the country (5,011 blocks). As stated earlier, the SFDA programme which was under implementation in selected areas was merged with the IRDP on October 2, 1980. Similarly, the special livestock production programme which was in operation in 21 States and 4 Union Territories also was merged with IRDP on the same day. Along with the extension of IRDP to all the blocks in the country, it was also decided to rationalise the financial allocation under the programme. The practice of different financial allocations to different blocks was discontinued and instead an uniform allocation of Rs. 5 lakhs per block was made, and the same was to be shared between the Centre and the States on a 50:50 basis. During the year 1980-81, the Central share of allocation stood at Rs. 127.8 crores. Actual release however, aggregated Rs. 19.18 crores. The target number of families to be assisted was fixed at 3 million. However, the actual number of families benefiting under the scheme was 214, 059. The aggregate actual expenditure on IRDP was Rs. 10 crores during the first four months of the financial year of 1980-81. The shortfall in the utilisation of funds allocated for the programme is reportedly attributed to the slow progress made by State Governments in implementing the Centre's guidelines regarding the programme. It is reported that most of the State Governments have not even set up suitable block level agencies.

AGRO-INDUSTRIES CORPORATION

The 17 State Agro-Industries Corportions set up as joint ventures of the State Governments and the Government of India continued to make useful contribution to agricultural growth, by assisting in modernisation of agricultural operations, supply of inputs and

promotion of agro-based industries. Since April 1, 1979, the Government of India stopped contributions to the equity of these corporations as the scheme was transferred to the state sector with effect from that date in accordance with the decision of the National Development Council. The contribution to the equity of these corporations by the Government of India till March 31, 1979 was Rs. 31.56 crores. After the transfer of the scheme to the state sector, the Government of India has been providing guidance and advice to the corporations through its directors on the Boards of these corporations.

The scheme of agro-service centres was set up in 1971-72 with the twin objectives of providing employment to educated unemployed engineers and other qualified technical persons and for making available inputs and services to farmers at their doorsteps at reasonable rates. The scheme was transferred to the state sector with effect from April 1, 1979. Since inception, 3,205 centres had been set up, of which the number set up during 1980-81 (upto October 31, 1980) was 128. On an average, each agro-service centre provides services to about 850 farmers and employment to 3 to 4 persons.

DROUGHT PRONE AREAS PROGRAMME

The Drought Prone Areas Programme (DPAP) launched during the Fifth Plan for the development and management of irrigation resources, soil and water conservation and afforestation, restructuring of the cropping pattern and pasture development, changes of agronomic practices, livestock development and development of small and marginal farmers and agricultural labourers, was continued during the year. It covered 557 blocks in 74 districts of 13 states. Allocations were made at the rate of Rs. 15 lakhs per annum per block which was shared equally between the Centre and the State Governments. Central allocation to various State Governments for this scheme amounted to Rs. 42.22 crores during 1980-81. The World Bank extended a loan of US $ 35 million for the programme in six districts *viz.*, Ananthapur in Andhra Pradesh, Bijapur in Karnataka, Ahmednagar and Sholapur in Maharashtra, Jodhpur and Nagaur in Rajasthan. An amount of Rs. 195 lakhs was given as aid by West Germany to West Bengal. The EEC also extended aid for the projects in Uttar Pradesh aggregating US $ 10 million which will continue till March 31, 1983. Significant achievements have been made in sectors such as soil and moisture conservation, afforestation and pasture development, development of irrigation potential, livestock development, etc.

DESERT DEVELOPMENT PROGRAMME

The desert development programme administered through DPAP/SFDA agencies was launched during 1977-78 for the integrated development of desert areas by increasing the productivity, income level and employment opportunities for the inhabitants, through optimum utilisation of physical, human, livestock and other biological resources. The main activities under the programme consisted of afforestation, ground water development and utilisation, construction of water harvesting structures, rural electrification and development of agriculture, horticulture, animal husbandry and dairy. The programme envisaged an outlay of Rs. 15 lakhs per block subject to a maximum of Rs. 25 lakhs per district, the allocation being shared between the Centre and states equally. The aid from the Centre for the programme increased from Rs. 610 lakhs in 1977-78 to Rs. 731 lakhs in 1979-80. For 1980-81, an amount of Rs. 800 lakhs was earmarked as Central aid for the programme which was in operation in 20 districts of the states of Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir and Rajasthan covering 132 blocks.

NATIONAL RURAL EMPLOYMENT PROGRAMME

The Food-for-Work Programme, renamed as the National Rural Employment Programme (NREP) which has been in operation since April 1, 1977 aims at generating additional employment in rural areas through utilisation of available stocks of foodgrains and thereby creating durable community assets which would strengthen the infrastructure in such areas for socio-economic development. Under this programme, allocation to different States/Union Territories are made on the basis of weightage of 75 per cent given to the population of agricultural labourers and marginal farmers and 25 per cent to the

incidence of poverty in each state. Wages are paid partly in the form of foodgrains and partly in cash. Aggregate allocation of foodgrains under the scheme during 1979-80 amounted to 30 lakh tonnes against which actual utilisation was 23.56 lakh tonnes. Additional employment generated during the year was 5336.66 lakh mandays (Table below). For the year 1980-81, the total quantity of foodgrains allocated amounted to 21 lakh tonnes which included the unutilised balance of about 7 lakh tonnes from the previous year. Additional quantities of 10 lakh tonnes and 4 lakh tonnes were allocated in April and October 1980, respectively. Actual releases upto January 6, 1981 amounted to 19.41 lakh tonnes, of which only 10.75 lakh tonnes were utilised.

Year	Allocation of foodgrains (lakh tonnes)	Utilisation of foodgrains (lakh tonnes)	Additional employment generated (lakh mandays)
1977-78	2.04	1.29	444.34
1978-79	14.00	12.47	3556.97
1979-80	30.00	23.56	5336.66
1980-81	21.08	10.75@	N.A.

@Upto January 6, 1981. N.A. : Not available.

SUGAR

During the 1980-81 season, sugar production is estimated to have improved significantly to 51.43 lakh tonnes, reflecting a sharp increase of 33.3 per cent over the previous year's depressed level of 38.59 lakh tonnes (Table below). Together with the opening stock of 6.82 lakh tonnes and reported imports of 2.15 lakh tonnes, aggregate availability during the season is placed at 60.40 lakh tonnes, more or less close to the preceding season's aggregate availability of 61.75 lakh tonnes (inclusive of the opening stock of 21.36 lakh tonnes). The off-take for internal consumption and exports during 1980-81 season is placed at 48.99 lakh tonnes and 0.64 lakh tonnes, respectively, as against 52.03 lakh tonnes and 2.90 lakh tonnes, respectively, during 1979-80 season.

Availability and Consumption of Sugar

(In lakh tonnes)

Year (October-September)	Opening Stock	Production	Imports	Exports	Consumption
1976-77	8.46	48.43	—	3.12	37.53
1977-78	16.24	64.62	—	2.02	45.48
1978-79	33.36	58.44	—	8.63	61.81
1979-80	21.36	38.59	1.80	2.90	52.03
1980-81P	6.82	51.43	2.15	0.64	48.99

P : Provisional.

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

The marked improvement in sugar production to 51.43 lakh tonnes in 1980-81 from the depressed level of 38.59 lakh tonnes in 1979-80 may be attributed, besides the development strategy/incentives that contributed to a marked increase in sugarcane production (in terms of cane) from 128.0 million tonnes to around 152.0 million tonnes over the year, to the following measures taken by the Government of India: 1. Incentives were given to new sugar factories/expansion projects in the form of higher percentage of free sale quota and concessional rates of excise duty. 2. For the early commencement of crushing operations, incentive in the form of rebate in excise duty was given to sugar factories. 3. Licences were issued for the establishment of new sugar factories and for effecting expansion in existing units. As on February 15, 1981, 23 new sugar factories and 91 expansion schemes were under various stages of implementation. The installed annual sugar production capacity increased from 59.91 lakh tonnes during 1979-80 to 62.03 lakh tonnes during 1980-81. 4. The Central Government directed the State Governments of Uttar Pradesh and Madhya Pradesh to impose a 50 per cent levy on khandsari produced by first sulphitation process.

As regards developments on the export/import front, India being an exporting member of International Sugar Agreement (ISA) 1977, was allotted a quota of 8.32 lakh tonnes (raw value) for 1980. However, the quota became inoperative from January 1980 in terms of the ISA as the international sugar prices crossed the level of US. 15 cents per pound. India was also entitled for export of 25,000 tonnes under Indo-EEC Agreement. In view of the steep fall in production, it was decided to export only 62,000 tonnes (inclusive of the quota under Indo-EEC Agreement). Actual exports in 1980, however, amounted to 64,000 tonnes (including 1,500 tonnes of imported sugar to Nepal). During the year 1981, export has been banned inspite of the fact that India had contractual obligations to export 2.25 lakh tonnes (2 lakh tonnes against import agreement and 25,000 tonnes against Indo-EEC Agreement).

For encouraging sugar based export items such as jams, jellies, marmalades, squashes, sweet chutneys, etc. and for augmenting domestic availability of sugar, the Government of India permitted import replenishment upto 15 per cent of the value of exports of the items mentioned above.

As regards the general sugar situation within the country, the steep fall in sugar production in 1979-80 to 38.59 lakh tonnes (as compared to 58.44 lakh tonnes in the preceding season) and the persistent pressure of demand which led to sharp increases in the price of sugar compelled the Government of India to reintroduce partial control on sugar supply with effect from December 17, 1979. With that, the dual price mechanism which was in existence before August 16, 1978 came into force once again. With the coming into operation of partial control, the State Governments are being allotted monthly levy sugar quotas aggregating 2.71 lakh tonnes on the basis of their quotas obtaining during partial control period prior to the de-control of sugar on August 16, 1978. As regards free sale sugar, monthly quota releases ranged between 1.25 lakh tonnes and 1.65 lakh tonnes during the calendar year 1980 (except during the months of May and June when the quantity was enhanced to 2.75 lakh tonnes and 1.75 lakh tonnes, respectively, to meet increased demand in the summer months). However, the monthly quotas for January to March 1981 were fixed lower in the range of 1 to 1.10 lakh tonnes on account of ample availability of khandsari during that period. For April and May, the quotas were fixed at 1.25 lakh tonnes and 2.00 lakh tonnes, respectively, and between June and September, in the range of 1.70 to 1.80 lakh tonnes. Quota for the month of September was raised to 2.25 lakh tonnes (including imported sugar).

Despite measures such as the reintroduction of partial control and dual price mechanism, the persisting shortage of sugar and the resulting pressure of demand pushed up free sale sugar prices to the level of Rs. 7—8 per kg. in July and early August 1980. To meet this situation, Government of India operated a special scheme based on the voluntary offer of sugar industry for sale of free sale sugar at Rs. 450 per quintal (exclusive of excise duty) during the two and half month festival season from September 1 to November 15, 1980.

Under the voluntary price regulation scheme mentioned above, the State Governments were allotted free sale quotas consisting of indigenous and imported sugar for distribution to individual consumers, as also bulk consumers at the fixed wholesale/retail prices. The retail prices differed from state to state, but were generally in the range of Rs. 5.50 to Rs. 6.50 a kg. However, large-scale bulk consumers registered with the Directorate General of Technical Development (DGTD) in certain selected industries were given direct allocation of free sale sugar on the recommendations of the DGTD. Aggregate quantity of indigenous and imported sugar released under the voluntary price regulation scheme was around 3.9 lakh tonnes. After the expiry of the scheme on November 15, 1980, the sale of free sale sugar was resumed through normal trade channels.

The highest price of sugar (C-30) recorded in Bombay during 1980-81 season was Rs. 941-951 a quintal on November 17, 1980. Between November 17 and end-December 1980, there was a steady decline in the price of free sale sugar due to improvement and better management of the supplies. Since early February 1981, however, the firm trend re-emerged which continued, by and large till mid-June 1981, due mainly to seasonal demand. With the cessation of seasonal demand from mid-June together with maintenance of free sale sugar releases at fairly high levels since May and reports about purchase of 2.15 lakh tonnes of sugar abroad, sugar prices started looking down from the middle of June. The lowest price of the season *viz.*, Rs. 510-515 a quintal was recorded on September 1, 1981.

The sugar pricing policy of the Government upto 1979-80 season was based on the cost schedule recommended by the Tariff Commission in its report of 1973, with suitable revisions. Commencing with the year 1980-81, Government felt that a fresh investigation into the cost structure of the industry was necessary. For this purpose, a High Level Committee headed by the Chairman, Bureau of Industrial Costs and Prices was constituted in March 1980 which submitted its report in October 1980. The main recommendation of the Committee was that the cost of production zone-wise, based on a minimum statutory cane price should be notified as the levy price. Based on the minimum statutory cane price for 1980-81 and on the conversion cost schedules given in the Committee's report, levy prices for 1980-81 season were worked out, with adjustment for the estimated cane crushed, recovery and duration of the season which were notified on November 13, 1980. The levy prices thus notified for 1980-81 season ranged from Rs. 271.03 to Rs. 345.75 per quintal for D-30 grade in respect of average units. Accordingly, the uniform price of levy sugar for distribution to the consumers through public distribution system was also increased from Rs. 2.85 a kg. to Rs. 3.50 a kg. with effect from December 1, 1980.

As regards excise duty on sugar, the duty on free sale and levy sugar had been averaged out and fixed at 18.075 per cent *ad valorem* after decontrol on August 16, 1978. With the re-introduction of partial control on December 17, 1979 excise duty was levied separately on levy sugar and free sale sugar at the rate of 13.175 per cent and 23.775 per cent respectively, *ad valorem*. Subsequently, excise duty on free sale sugar was reduced successively to 15.9 per cent on June 1, 1980. Excise duty on levy sugar fixed at 13.175 per cent *ad valorem* on December 17, 1979 remains unchanged. The tariff values (for the purpose of assessment of excise duty on free sale sugar), the rates of excise duty and the actual duty payable during the year 1980-81 are given in the following table.

The issue price of Rs. 3.50 per kg. fixed for levy sugar with effect from December 1, 1980 included Development Fund Cess calculated at the rate of Rs. 5 per quintal.

The Levy Sugar Price Equalisation Fund was created in 1976 under an Act passed by the Parliament, for securing recovery of the excess realisations made by sugar mills under the interim orders of the courts, which allowed the charging of prices higher than those fixed under the Essential Commodities Act 1955. Such excess realisations are refunded later to the rightful claimants. During the year 1980-81 a sum of Rs. 95 lakhs was recovered from the sugar mills under the Act. This amount

Month	Tariff Value (Rs. per quintal)	Rate of Excise Duty (Basic+Additional) (% ad valorem)	Excise Duty (Rs. per quintal)
June 1, 1980	480.00	15.9(8.4+7.5)	76.32
August 1, 1980	520.00	15.9(8.4+7.5)	82.68
December 1, 1980	630.00	15.9(8.4+7.5)	100.17
March 1, 1981	590.00	15.9(8.4+7.5)	93.81
April 1, 1981	600.00	15.9(8.4+7.5)	95.40
May 1, 1981	640.00	15.9(8.4+7.5)	101.76
August 1, 1981	590.00	15.9(8.4+7.5)	93.81
September 1, 1981	550.00	15.9(8.4+7.5)	87.45

was credited to the Fund bringing the total amount in the Fund to Rs. 6.23 crores. In addition, the Food Corporation of India, under orders of courts has so far collected Rs. 10.95 crores by way of recovery from the sugar mills.

INDUSTRIAL SECTOR

Trends in Industrial Production during 1980-81

Overall Trends

Industrial production recorded a moderate improvement in the fiscal year 1980-81, in contrast to the poor performance in 1979-80. The monthly average of the Central Statistical Organisation's general index of industrial production (Base : 1970 = 100) at 154.1 in 1980-81 was 4.1 per cent higher than the 1979-80 level (Table III. 12). This growth rate during 1980-81 was quite significant as compared to a decline of 1.4 per cent in the previous year; also the growth was achieved in spite of pronounced infrastructural deficiencies in the first half of 1980-81. The declining trend in industrial production noticed in the last two quarters of 1979-80 continued during the first quarter of 1980-81 also. However, industrial production started improving from July 1980 and recorded a steady rise in the subsequent months. Thus, the index of industrial output recorded a net decline of 0.1 per cent in the first half of 1980-81 and a rise of 8.0 per cent in the second half.

The factors that contributed to the improvement in industrial production in 1980-81 were the easing of the infrastructural constraints which had hampered industry in 1979-80. The Government initiated effective administrative arrangements to oversee the performance of the infrastructural sector. A special co-ordination cell was established by the Union Government to identify problem areas requiring action on a priority basis and to co-ordinate efforts for overcoming critical bottlenecks in power, transport, etc. Better labour relations and various policy decisions taken by the Government to regularise excess capacities in selected industries together with the provision for automatic expansion of 5 per cent per annum beyond the licensed capacity contributed to the uptrend in industrial output.

The result of these measures is reflected in an improvement in the performance of what can be termed the infrastructural group

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)		
		1978-79	1979-80	1980-81 (Provisional)
1	2	3	4	5
General Index (Crude)	100.00	+ 7.6	— 1.4	+ 4.1
A. Use-based Classification :				
1. Basic Industries	32.28	+ 6.0	— 0.5	+ 4.0
2. Capital Goods Industries	15.25	+11.1	— 2.2	+ 6.9
3. Intermediate Goods Industries	20.95	+ 7.5	+ 1.9	+ 1.6
4. Consumer Goods Industries	31.52	+ 7.9	— 4.3	+ 4.2
(*a*) Durables	3.41	+ 8.2	+ 5.6	+ 1.8
(*b*) Non-durables	28.11	+ 7.8	— 5.7	+ 4.6
B. Input-based Classification :				
1. Agro-based Industries	33.68	+ 7.2	— 3.8	+ 6.1
2. Metal-based Industries	21.93	+10.9	— 1.0	+ 4.2
3. Chemical-based Industries	12.86	+11.2	— 0.4	+ 1.8
C. Sectoral Indicators :				
1. Transport Equipment and Allied Industries	10.79	+ 5.3	— 0.1	+ 2.4
2. Electricity and Allied Industries	14.53	+12.9	+ 1.1	+ 7.3
3. Energy output @	18.51	+ 7.8	+ 2.0	+ 4.8

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

of industries—power, coal, saleable steel, crude petroleum, petroleum products and cement. These industries, which account for a combined weight of 23.3 per cent in the general index of industrial production, rose by 4.6 per cent in the fiscal year 1980-81, in contrast to a fractional decline of 0.1 per cent in 1979-80.

Among individual industries, power generation increased by 5.7 per cent during the year as compared to an increase of 2.1 per cent in 1979-80. During the first half of 1980-81, power generation was lower than in the corresponding half of the previous year and the entire improvement in the power sector took place in the latter half of the year, with generation improving by 13.0 per cent over the corresponding period of 1979-80. The higher growth rate in power generation during 1980-81 was due to two factors, *viz.*

(*i*) better performance of thermal plants due to efforts made to ensure an adequate supply of coal and extensive maintenance operations undertaken to improve their operational efficiency and

(*ii*) fairly good monsoon all over India, which resulted in the better hydel power generation.

After near stagnancy during the preceding three years, the output of coal in 1980-81,

at 114.0 million tonnes, made a smart recovery by achieving a growth of 9.7 per cent over 1979-80 mainly due to better availability of power to mines, exploitation of relatively new mines, containing labour absenteeism and improved law and order situation in the coal belts.

The performance of the railways, which had adversely affected the movement of essential industrial inputs to various industries during 1979-80, witnessed some improvement after October 1980. The railways made special efforts to carry coal to thermal power plants, steel plants, cement units and fertiliser plants in large quantities. The improvement in the performance of the railways was reflected in the increase in the daily average number of wagons loaded from about 23,000 in November 1980 to 28,000 in March 1981.

The improvement in power and transport led in turn to better performance of the basic industries. For instance, the output of saleable steel at 6.3 million tonnes showed an increase of 5.0 per cent over the year in contrast to continuous declines in the preceding three years. The output of cement in 1980-81, at 18.5 million tonnes, also recorded an increase of 5.1 per cent in contrast to declines in the last two years. However, the output of petroleum crude and petroleum refinery products declined during the year by 10.9 per cent and 6.6 per cent, respectively, on account of Assam agitation, necessitating heavy imports thereof.

The uptrend in industrial production noticed in 1980-81 was more widespread than in the previous year. Illustratively, industries accounting for a combined weight of 73.63 per cent in the general index of industrial production recorded production increases whereas in 1979-80 industries with a weight of only 42.87 per cent had shown increases. Further, industries accounting for a weight of 13.08 per cent showed production increases exceeding 10.0 per cent during 1980-81, whereas in the previous year, industries with a weight of only 7.18 per cent showed similar increases (Table III. 13).

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)	
	1979-80	1980-81 (Provisional)
1	2	3
A. Increase		
1. Moderate : Less than 5%	29.43	27.09
2. Marked : 5% and above	13.44	46.54
Of which :		
10% and above	7.18	13.08
3. Total Weights (1+2)	42.87	73.63
B. Decline		
1. Moderate : Less than 5%	33.43	15.50
2. Marked : 5% and above	21.07	8.24
Of which :		
10% and above	8.56	2.84
3. Total Weights (1+2)	54.50	23.74
Total (A + B)	**97.37**	**97.37**

Industry Group-wise Analysis

The pick-up in industrial production in 1980-81 was shared by all the broad industry groups, excepting the 'Intermediate Goods', industries group. While the output of 'Basic', 'Capital Goods' and 'Consumer Goods' industries recorded a sizeable growth rate in 1980-81 in contrast to their poor performance in 1979-80, the growth rate decelerated in the case of 'Intermediate Goods' industries.

The rate of growth of production in the 'Basic' industries group (weight:32.28 per cent), the single largest among the four groups in terms of weight, recorded an increase of 4.0 per cent as against a fractional decline of 0.5 per cent in 1979-80. All industries classified under this group improved their performance in 1980-81. Within this group, the output of 'mining and quarrying' sector (weight: 9.69 per cent) increased by 4.2 per cent in 1980-81, compared to a marginal growth of 0.7 per cent in the preceding year. This improvement was entirely on account of the growth rate of 9.7 per cent in the output of coal, which was partly offset by a sharp decline in the output of crude petroleum on account of Assam agitation. Among other major industries in the 'Basic' industries group, there was an appreciable recovery in the output of power, cement, saleable steel and heavy chemicals.

The next important group viz., 'Consumer Goods' industries group (Weight: 31.52 per cent) recorded an increase of 4.2 per cent in its output during 1980-81 in contrast to a decline of about the same magnitude in the preceding year. Within this group, while the output of consumer non-durables (weight : 28.11 per cent) registered an impressive growth rate, that of consumer durables (weight : 3.41 per cent) showed a marked deceleration. Among the consumer non-durable industries, the output of sugar, tea, coffee, cotton textiles, wheat flour, vanaspati, beverages and paper and paper boards showed sizeable increases during the year under review. The deceleration in growth rate of the consumer durables group was attributable to actual declines in the output of passenger cars, sewing and knitting machines, radio receivers and watches and clocks. The output of passenger cars declined for the third year in succession during 1980-81 due to depressed demand and labour problems in one of the car producing units. The rate of growth of electric fan output decelerated sharply in 1980-81 compared to 1979-80 which may be attributed to the power shortage and the general inflationary situation, adversely affecting the demand for consumer durables. However, a moderate improvement was noticed in the output of bicycles on account of increase in both domestic and overseas demand.

While the other three groups recorded impressive growth rates, the 'Intermediate Goods' industries group (weight : 20.95 per cent) showed a growth rate of 1.6 per cent in 1980-81 which was fractionally lower than that recorded in the previous year. In this group, the output of synthetic rubber, petroleum refinery products and insulators recorded decline in output in 1980-81, in contrast to increases in the preceding year. On account of improvement in the availability of raw cotton, the cotton spinning industry staged a marked recovery and recorded an increase of 12.2 per cent in 1980-81 over its depressed level in 1979-80. The output of newsprint increased by 6.3 per cent during the year under review.

The performance of the 'Capital Goods' industries group (weight : 15.25 per cent) in 1980-81 was the most outstanding in relation to other groups. Not only was the rate of growth of 6.9 per cent recorded by this group the highest among the four groups, but it was also in sharp contrast to a decline of 2.2 per cent recorded in the previous year. In this group, the output of commercial vehicles increased by an impressive rate of 23.9 per cent as compared to a modest growth of 4.0 per cent in 1979-80. Other industries contributing sizeably to the uptrend in output in this group were power transformers, diesel engines, electric motors, electrical cables and wires and rail road equipment.

Industrial Growth during April-June 1981

The revival in industrial production noticed since July 1980 was not only sustained but also strengthened in the first quarter of 1981-82 (April-June). The monthly average of the general index of industrial production at 156.8 in April-June 1981 showed a rise of

11.1 per cent over April-June 1980 in contrast to a decline of 2.4 per cent recorded a year ago over the corresponding quarter of 1979. This improvement was shared by all the three sectors viz., 'mining and quarrying', 'manufacturing' and 'electricity'. The output of each of these sectors recorded a marked improvement, compared to their performance in the first quarter of 1980-81.

The output of 'mining and quarrying' sector increased during April-June 1981 by 15.2 per cent in contrast to a decline of 1.9 per cent in the corresponding quarter of 1980-81. Within this group, the output of crude petroleum staged a remarkable recovery by recording an increase of 64.5 per cent following the restoration of the flow of crude oil from Assam in sharp contrast to a decline of 30.6 per cent in the last year. The output of coal also increased by 6.2 per cent though at a relatively lower rate on account of prolonged strike in Singareni coal mines.

The 'manufacturing' sector, which accounts for a weight of 81.08 per cent in the general index, increased during the quarter under review by 9.4 per cent in contrast to a decline of 2.0 per cent in the corresponding quarter of 1980-81. The output of saleable steel, paper and paper boards, automobile tyres, fertilisers, cement, railway wagons, commercial vehicles, man-made fibres and petroleum products increased sizeably, compared to their poor performance in April-June 1980.

A factor contributing to the improvement in industrial production during the quarter was the increase of 19.2 per cent in power generation compared to a decline of 5.5 per cent in the corresponding quarter of 1980.

Capacity utilisation

Information relating to capacity utilisation is available for 45 industries accounting for a weight of 37.78 per cent in the general index of industrial production (Table III. 14). According to these data, capacity utilisation ratios improved in respect of 26 industries and declined in case of the remaining 19 industries during 1980-81 over 1979-80. The capacity utilisation in various industries could have been still better but for the infrastructural constraints which continued to affect industrial production adversely during the first half of 1980-81. The increase in capacity utilisation ratio ranged between 0.4 per cent in case of cloth weaving in the mill sector and 24.1 per cent in respect of vanaspati. Similarly, the decline in capacity utilisation varied equally widely between 0.6 per cent in case of radio receivers and 29.7 per cent in case of razor blades.

Among eleven industries in the 'Basic' industries group, barring caustic soda, saleable steel, aluminium (virgin metal) and phosphatic fertilisers, all industries showed declining trend in their capacity utilisation ratios due to infrastructural constraints. Capacity utilisation ratio in respect of nitrogenous fertilisers declined due to tardy availability of feed stocks, power cuts and transport bottlenecks. On the other hand, capacity utilisation ratios improved in the case of saleable steel, aluminium and aluminium products and declining trend was arrested in the case of cement mainly due to special efforts made to ensure better availability of coal, power and railway wagons.

In the 'Capital Goods' industries group, all the five industries showed increases in their capacity utilisation ratios. Incidentally some of the industries like agricultural tractors, commercial vehicles and power transformers had recorded declines in their capacity utilisation during the previous year.

As regards 'Intermediate Goods' industries group, seven out of ten industries in this group improved their capacity utilisation and three others recorded decreases.

Capacity utilisation in respect of 'Consumer Goods' industries group showed a mixed trend. Within this group, the performance of non-durable consumer goods industries group, measured in terms of capacity utilisation, was better than that of durable consumer goods industries group. Thus, while in the former group, only two industries (viz., bicycles and typewriters) improved their capacity utilisation during 1980-81, in the latter group as many as eight industries viz., vanaspati, matches, rubber footwears, baby food, cloth weaving, paper and paper boards, cigarettes and penicillin achieved better capacity utilisation.

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

Group/Industry	Accounting Unit	1978-79 (Monthly Average)			1979-80 (Monthly Average)			1980-81 (Provisional) (Monthly Average)		
		Production	Installed Capacity	Ratio	Production	Installed Capacity	Ratio	Production	Installed Capacity	Ratio
1	2	3	4	5	6	7	8	9	10	11
I. Basic Industries										
1. Cement (Hydraulic)	'000 Tonnes	1611.3	1880.0	85.7	1468.3	1940.0	75.7	1544.4	2114.0	73.1
2. Steel Castings	,,	6.0	13.3	45.1	6.0	13.9	43.2	5.9	13.9	42.4
3. Saleable Steel	,,	549.3	673.7	81.5	503.3	727.4	69.2	523.6	727.4	72.0
4. Ingot Steel	,,	679.3	883.3	76.9	669.0	950.0	70.4	612.8	950.0	64.5
5. Aluminium (Virgin Metal)	,,	18.0	24.2	74.4	16.1	27.1	59.4	16.7	27.1	61.6
6. Aluminium Sheets & Circles	,,	4.0	6.3	63.5	4.0	6.3	63.5	3.8	6.3	60.3
7. Caustic Soda	,,	46.6	58.0	80.3	45.1	62.3	72.4	47.4	65.0	72.9
8. Soda Ash	,,	48.1	51.5	93.4	45.1	51.5	87.6	42.4	52.6	80.6
9. Nitrogenous Fertilisers (N Content)	,,	178.8	271.6	65.8	185.5	324.3	57.2	189.0	362.3	52.2
10. Phosphatic Fertilisers (P_2O_5)	,,	63.5	90.0	70.6	62.6	102.5	61.1	70.3	106.8	65.8
11. Sulphuric Acid	,,	188.3	270.0	69.7	180.1	296.0	60.8	161.5	297.0	54.4
II. Capital Goods Industries										
1. Commercial Vehicles (Buses & Trucks)	'000 Nos.	4.6	6.6	69.7	4.8	7.1	67.6	5.9	7.3	80.8
2. Agricultural Tractors	,,	4.5	4.9	91.8	5.2	5.8	89.7	5.7	5.8	98.3
3. Power Transformers	'000 K.V.A.	1707.2	2157.0	79.1	1500.3	1931.0	77.7	1621.4	2064.0	78.6
4. Electric Motors	'000 H.P.	307.7	561.0	54.8	308.6	561.0	55.0	341.4	598.0	57.1
5. Machine Tools	Lakh Rupees	1151.0	1210.0	95.1	1422.8	1375.0	103.5	1690.0	1439.0	117.4
III. Intermediate Goods Industries										
1. Tyres — Automobiles	'000 Nos.	511.0	459.4	111.2	504.6	698.3	72.3	567.8	734.0	77.4
2. Tyres — Cycles	,,	2628.0	2883.0	91.2	2354.0	2883.0	81.7	2280.9	2883.0	79.1
3. Tubes — Automobiles	,,	442.4	431.8	102.5	430.1	751.9	57.2	485.9	770.0	63.1
4. Tubes — Cycles	,,	1393.8	2709.0	51.5	1208.3	2709.0	44.6	1100.7	2709.0	40.6
5. Storage Batteries	,,	136.4	129.0	105.7	138.8	129.0	107.6	146.0	152.0	96.1
6. Dry Cells	Lakh Nos.	733.5	1010.6	72.6	709.4	1010.6	70.2	831.9	1062.1	78.3
7. Paints and Varnishes	'000 Tonnes	7.4	9.1	81.3	6.5	9.3	69.9	7.6	9.8	77.6
8. Ceramics (Refractories)	,,	65.9	126.0	52.3	57.1	136.7	41.8	58.3	137.5	42.4
9. Cotton Spinning*	—	—	—	79.3	—	—	75.7	—	—	77.0
10. Newsprint	'000 Tonnes	4.0	6.3	63.5	4.0	6.3	63.5	4.3	6.3	68.3

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

Group / Industry	Accounting Unit	1978-79 (Monthly Average)			1979-80 (Monthly Average)			1980-81 (Provisional) (Monthly Average)		
1	2	3	4	5	6	7	8	9	10	11
IV. Consumer Goods Industries										
(*a*) *Durables* :										
1. Electric Fans	'000 Nos.	260.3	245.0	106.2	327.4	257.0	127.4	346.6	275.0	126.0
2. Bicycles	,,	307.2	319.9	96.0	324.3	319.9	101.4	347.1	319.9	108.5
3. Clocks	,,	23.4	49.9	46.9	26.1	59.1	44.2	20.7	56.8	36.4
4. Typewriters	,,	7.1	7.5	94.7	7.4	11.1	66.7	7.9	11.5	68.7
5. Sewing Machines	,,	17.1	46.3	36.9	30.6	47.8	64.0	27.2	47.8	56.9
6. Radio Receivers	,,	163.2	202.0	80.8	163.1	202.0	80.7	162.0	202.0	80.2
(*b*) *Non-durables* :										
1. Vanaspati	'000 Tonnes	56.1	107.5	52.2	52.6	107.5	48.9	62.7	103.3	60.7
2. Soaps	,,	27.0	18.8	143.6	26.5	19.0	139.5	26.2	19.4	135.1
3. Matches	Million Sticks	17890.0	20833.3	85.9	16095.4	20833.3	77.3	16822.5	20833.3	80.7
4. Rubber Footwear	Lakh Pairs	34.7	46.5	74.6	32.8	46.5	70.5	35.9	46.4	77.4
5. Baby Food	Tonnes	2901.1	2569.0	112.9	3175.0	3631.0	87.4	3191.7	3631.0	87.9
6. Cloth Weaving (Mill Sector)*	—	—	—	79.4	—	—	77.4	—	—	77.7
7. Paper and Paper Boards (excl. Newsprint)	'000 Tonnes	83.2	106.3	78.3	84.7	128.2	66.1	92.0	138.1	66.6
8. Cigarettes	Million Nos.	6212.5	6292.0	98.7	6408.1	6292.0	101.8	6524.9	6292.0	103.7
9. Penicillin	M.M.U.	27.4	30.3	90.4	25.5	30.3	84.2	27.2	30.3	89.8
10. Streptomycin	Tonnes	19.7	21.4	92.1	17.4	21.4	81.3	15.5	21.4	72.4
11. Glass and Glassware (Sheet Glass)	Lakh Sq. Mtrs.	18.0	20.8	86.5	21.1	22.4	94.2	20.0	22.5	88.9
12. Razor Blades	Million Nos.	105.3	100.0	105.3	142.0	187.5	75.7	99.7	187.5	53.2
13. Electric Lamps (Incandescent Filament)	,,	15.1	15.7	96.2	17.0	15.8	107.6	16.9	18.4	91.8

* 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.

The frequency distribution of the 45 industries discussed 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 remained at 15 during 1980-81 as in the previous year. Full utilisation of installed capacities during the year under review was impeded by infrastructural constraints, which persisted during the first half of the year. However, the improvement in the performance of infrastructural sector in the second half of 1980-81 and its continuation during the current financial year 1981-82 so far is expected to raise further the capacity utilisation in industries.

Small-scale Sector

The production of small-scale industrial sector is estimated to have increased to around Rs. 28,080 crores during 1980-81 compared to Rs. 21,635* crores in the previous year. The targets of production, exports and employment to be generated by the small-scale sector during the Sixth Plan period (1980-85) are indicated in the following Table.

Table III.16 : Small-Scale Sector

	1979-80*	1984-85 (Target)
Production (Rs. Crores) ..	21,635	32,873
Exports (Rs. Crores) ..	1,050	1,850
Employment (Lakh Nos.) ..	67.0	89.0

Source : Report of the Small Industries Development Organisation, 1980-81

* Figures for 1979-80 have been adjusted to include units as per the revised definition of small-scale units since August 1980.

In accordance with the Government's policy of widening the coverage of items reserved exclusively for production in the small-scale sector, 28 items were added to the reservation list and one was deleted, raising the number of reserved items to 834 by the end of 1980-81. During 1981-82 so far, 9 more items have been added to the list, increasing the total number of reserved items to 843. Other measures taken by the Government in the interest of growth of the small-scale industries included (*i*) reservation of 379 items for exclusive purchase from this sector by the Government and related organisations, (*ii*) grant of special incentives to tiny units with investment upto Rs. 2 lakhs in plant and machinery and located in towns with population of less than 50,000, (*iii*) liberalisation of procedures and conditions of financial assistance from commercial banks and other institutions to small units and (*iv*) providing special facilities for import of raw materials and components required by small-scale sector. Besides, with a view to protecting the interests of the small-scale industries, the Union Government issued guidelines for regularisation of excess capacities created by big industrial units in the case of items reserved for the small-scale sector.

District Industries Centres

The District Industries Centres (DICs) programme initiated on May 1, 1978 made further progress in 1980-81. By the end of March 1981, 382 DICs had been sanctioned to cover 392 out of 406 districts of the country.

Progress reports available for 275 DICs reveal that during 1979-80 1.97 lakh new units comprising 1.50 lakh artisan-based units and 47,000 small-scale and other industrial units had gone into production. These units together generated additional employment opportunities to 6.65 lakh persons. The credit assistance provided by financial institutions to these units amounted to Rs. 183.4 crores in 1979-80.

According to the provisional data available for the first ten months of 1980-81 (*i. e.*, April-January), DICs had set up as many as 1.45 lakh new units comprising 93,461 artisan-based and 51,253 small-scale and other units, which went on stream during the period under review. A total of 4.31 lakh persons were provided with additional employment through the newly established units under the purview of DICs. In respect of reporting DICs, a total credit assistance of Rs. 149 crores was made available from financial institutions to small and decentralised sectors. The scheme of assisting sick industrial units under the DICs programme got further impetus in 1980-81 and accordingly 2,101 such units were assisted in the first ten months of 1980-81.

As envisaged under the Industrial Policy Statement of July 23, 1980, the Union Government decided to conduct an evaluation study

Table III. 15: Frequency Distribution of Capacity Utilisation Ratios of Selected Industries

Range of Capacity Utilisation Ratio in 1980-81	Industry	Capacity Utilisation Ratio			Percentage Variation	
		1980-81	1979-80	1978-79	1980-81 over 1979-80	1979-80 over 1978-79
1	2	3	4	5	6	7
	A. Basic Industries					
Above 80	1. Soda Ash	80.6	87.6	93.4	— 8·0	— 6.2
Between 70 to 80	2. Cement (Hydraulic)	73.1	75.7	85.7	— 3·4	—11.7
	3. Caustic Soda	72.9	72.4	80.3	+ 0·7	— 9.8
	4. Saleable Steel	72.0	69.2	81.5	+ 4.0	—15.1
Between 60 to 70	5. Phosphatic Fertilisers (P_2O_5)	65.8	61.1	70.6	+ 7.7	—13.5
	6. Ingot Steel	64.5	70.4	76.9	— 8.4	— 8.5
	7. Aluminium (Virgin Metal)	61.6	59.4	74.4	+ 3.7	—20.2
	8. Aluminium Sheets and Circles	60.3	63.5	63.5	— 5.0	Nil
Below 60	9. Sulphuric Acid	54.4	60.8	69.7	—10.5	—12.8
	10. Nitrogenous Fertilisers (N Content)	52.2	57.2	65.8	— 8.7	—13.1
	11. Steel Castings	42.4	43.2	45.1	— 1.9	— 4.2
	B. Capital Goods Industries					
Above 80	1. Machine Tools	117.4	103.5	95.1	+13.4	+ 8.8
	2. Agricultural Tractors	98.3	89.7	91.8	+ 9.6	— 2.3
	3. Commercial Vehicles (Buses and Trucks)	80.8	67.6	69.7	+19.5	— 3.0
Between 70 to 80	4. Power Transformers	78.6	77.7	79.1	+ 1.2	— 1.8
Below 70	5. Electric Motors	57.1	55.0	54.8	+ 3.8	+ 0.4
	C. Intermediate Goods Industries					
Above 80	1. Storage Batteries	96.1	107.6	105.7	—10.7	+ 1.8
Between 70 to 80	2. Tyres—Cycles	79.1	81.7	91.2	— 3.2	—10.4
	3. Dry Cells	78.3	70.2	72.6	+11.5	— 3.3
	4. Paints and Varnishes	77.6	69.9	81.3	+11.0	—14.0
	5. Tyres—Automobiles	77.4	72.3	111.2	+ 7.1	—35.0
	6. Cotton Spinning	77.0	75.7	79.3	+ 1.7	— 4.5
Between 60 to 70	7. Newsprint	68.3	63.5	63.5	+ 7.6	Nil
	8. Tubes—Automobiles	63.1	57.2	102.5	+10.3	—44.2
Below 60	9. Ceramics (Refractories)	42.4	41.8	52.3	+ 1.4	—20.1
	10. Tubes-Cycles	40.6	44.6	51.5	— 9.0	—13.4
	D. Consumer Goods Industries					
	(*a*) *Durables:*					
Above 80	1. Electric Fans	126.0	127.4	106.2	— 1.1	+20.0
	2. Bicycles	108.5	101.4	96.0	+ 7.0	+ 5.6
	3. Radio Receivers	80.2	80.7	80.8	— 0.6	— 0.1
Below 80	4. Typewriters	68.7	66.7	94.7	+ 3.0	—29.6
	5. Sewing Machines	56.9	64.0	36.9	—11.1	+73.4
	6. Clocks	36.4	44.2	46.9	—17.6	— 5.8
	(*b*) *Non-durables* :					
Above 80	1. Soaps	135.1	139.5	143.6	— 3.2	— 2.9
	2. Cigarettes	103.7	101.8	98.7	+ 1.9	+ 3.1
	3. Electric Lamps (Incandescent Filament)	91.8	107.6	96.2	—14.7	+11.9
	4. Penicillin	89.8	84.2	90.4	+ 6.7	— 6.9
	5. Glass and Glassware (Sheet Glass)	88.9	94.2	86.5	— 5.6	+ 8.9
	6. Baby Food	87.9	87.4	112.9	+ 0.6	—22.6
	7. Matches	80.7	77.3	85.9	+ 4.4	—10.0
Between 70 to 80	8. Cloth Weaving (Mill Sector)	77.7	77.4	79.4	+ 0.4	— 2.5
	9. Rubber Footwear	77.4	70.5	74.6	+ 9.8	— 5.5
	10. Streptomycin	72.4	81.3	92.1	—10.9	—11.7
Between 60 to 70	11. Paper and Paper Boards (Excl. Newsprint)	66.6	66.1	78.3	+ 0.8	—15.6
	12. Vanaspati	60.7	48.9	52.2	+24.1	— 6.3
Below 60	13. Razor Blades	53.2	75.7	105.3	—29.7	—28.1

of the DIC programme with a view to (*i*) assessing the impact of the programme in selected districts, (*ii*) identifying the areas of strength and weaknesses in the implementation of the programme, and (*iii*) obtaining the views of the State Governments on various aspects of the implementation of the programme. The scheme is being reviewed on the basis of this study and proposals to formulate more effective alternative are under consideration.

Industrial Sickness

Data available upto March 1980 on industrial sickness indicate that there was a spurt in the number of sick units and also in the bank credit extended to these units. The number of large industrial units availing of bank credit of Rs. 1 crore and above and identified by banks as sick rose to 382 in March 1980 from 345 in June 1979 (Table III. 17). The outstanding bank credit against these units also increased by Rs. 119.21 crores to reach a new peak at Rs. 1220.93 crores. Industry-wise, the incidence of sickness was most pronounced in the case of the engineering and iron and steel industries (130 units with outstanding bank credit of Rs. 378.34 crores) and in cotton textiles (86 units with Rs. 332.45 crores). Nearly three-fourth of the increase in bank credit to sick units was accounted for by these two industries. Provisional information on industrial sickness for the quarter ended June 1980 pertains to large and medium scale units together. According to this information, the number of large sick units (availing of bank credit of Rs. 1 crore and above) and medium scale units (non-SSI units availing of bank credit of less than Rs. 1 crore) increased from 1,393 in March 1980 to 1,415 in June 1980. However, the outstanding bank credit against these units increased only by Rs. 2.67 crores to Rs. 1,438.51 crores from Rs. 1,435.84 crores at the end of March 1980.

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

(Rs. Crores)

Industry	End-June 1979		End-March 1980	
	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	130	378.34
2. Cotton Textiles	84	287.71	86	332.45
3. Chemicals	23	135.04	22	138.86
4. Sugar	35	100.95	48	103.54
5. Jute Textiles	33	89.75	34	91.06
6. Rubber	7	34.07	8	39.87
7. Cement	4	13.21	4	13.66
8. Miscellaneous	44	103.74	50	123.15
Total	**345**	**1101.72**	**382**	**1220.93**

The number of sick units identified by banks in the small-scale industrial sector rose from 16,805 in June 1979 to 22,355 in June 1980. The outstanding bank credit against these units also increased from Rs. 181.71 crores to Rs. 295.43 crores over the same period.

By the end of June 1980, the banks had completed viability studies in respect of 1,188 large and medium units out of 1,415 identified as sick and found 824 units with outstanding bank credit of Rs. 1,129.83 crores to be viable. Out of 824 viable units, 691 were taken up under nursing programme. In the case of SSI units, however, out of 22,355 small-scale units identified as sick, only 4,883 units with outstanding bank credit of Rs. 132.18 crores were viable. Of these, 2,082 units were put under nursing programme. As regards the remaining units, they were found either non-viable or their viability was yet to be decided.

During the year under review, the Government streamlined the procedures for the grant of tax benefits under Section 72-A of the Income Tax Act, 1961 for the revival and rehabilitation of sick units through amalgamation with sound ones. On September 10, 1981, the Government announced that a comprehensive policy to deal with the problem of industrial sickness was being evolved, which would apply to different categories of sick units and provide a plan of action at different levels.

In May 1981 the Reserve Bank of India appointed a committee, headed by the Chairman of the Industrial Reconstruction Corporation of India (IRCI), to examine the legal and other difficulties faced by the banks and financial institutions in the rehabilitation of sick industrial units. *Inter alia*, the committee would suggest remedial measures, including amendments to legal provisions, which would facilitate the restructuring of the assisted units.

Industrial Licensing Policies

In pursuance of the Industrial Policy statement of July 23, 1980, Government announced following policy decisions during the year under review :

(1) The investment limit in the case of small-scale industries and ancillary units for the purposes of exemption from licensing provision was enhanced to Rs. 20 lakhs and Rs. 25 lakhs from the existing limits of Rs. 10 lakhs and Rs. 15 lakhs, respectively, with effect from August 1, 1980.

(2) Automatic growth at the rate of 5 per cent per annum limited to 25 per cent in a five year period ending August 14, 1985 was allowed for 19 basic and core industries in addition to 15 engineering industries already enjoying the facility since 1975.

(3) Regularisation of established capacity in the case of 19 basic and core industries and 15 other industries, such as oil drilling equipment and accessories, power transmission accessories, railways safety and signalling equipment, special alloy casting, etc., was allowed.

(4) The procedure for processing of applications for industrial licences, foreign collaborations and capital goods was streamlined to reduce delays.

(5) New guidelines to relax the industrial location policy were issued on November 20, 1980.

(6) A special board was constituted to consider requests for expansion of existing units exclusively for exploiting export potentials and for setting up 100 per cent export-oriented new units.

(7) On September 7, 1981, four more industries (*viz.*, sugar, transmission line towers, hot-rolled semis, bars, wire rods and structural sections of steel and cold or hot-rolled strips, sheets and plates of all categories of steel) were brought within the purview of industrial licensing. This was done to ensure that there was no mushroom growth and pre-emption of capacities.

Selected Industries : A Review

A brief review of the performance of a few major industries under the four broad groups *viz. basic, capital goods, intermediate goods* and *consumer goods*, is given in this sub-section.

A. Basic Industries

(a) COAL

During 1980-81 (April-March), coal output (excluding lignite) at 114.0 million tonnes achieved a breakthrough with a record increase of 9.7 per cent (exceeding the target for coal fixed for the year by 0.5 million tonnes), compared to the marginal rise of 1.9 per cent in the previous year (Table III. 18). Improved power supply and a number of other steps taken by the Government such as controlling absenteeism, expediting land acquisition for coal projects and improving law and order situation in coalfields with the co-operation of the concerned State Governments, were largely responsible for the spurt in the output during 1980-81. Production would have been much higher but for power shortages in the Bengal-Bihar coalfields and frequent strikes in Singareni Collieries Co. Ltd. (SCCL), which continued to hamper coal mining activities to some extent.

Table III.18 : Performance of Coal Industry

(Million Tonnes)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
1. Production			
(*a*) Coal (*i*+*ii*)	102.0 (+ 1.0)	103.9 (+ 1.9)	114.0 (+ 9.7)
(*i*) Coking Coal	22.5 (— 3.4)	23.5 (+ 4.4)	25.3 (+ 7.7)
(*ii*) Non-coking Coal	79.5 (+ 2.3)	80.4 (+ 1.1)	88.7 (+10.3)
(*b*) Lignite	3.3 (— 8.3)	2.9 (—12.1)	4.9 (+69.0)
2. Imports (Coking Coal)	**0.1**	**1.0**	**1.5**
3. Despatches (*i*+*ii*)	**95.8**	**99.6**	**106.0**
(*i*) Coking Coal	21.5	21.3	N.A.
(*ii*) Non-coking Coal	74.3	78.3	N.A.
4. Exports	**0.3**	**0.1**	**0.1**
5. Year-end Pit-head Stocks (*i*+*ii*)	**14.8**	**14.0**	**18.5**
(*i*) Coking Coal	2.8	3.9	6.7
(*ii*) Non-coking Coal	12.0	10.1	11.8

N.A. = Not Available.

Notes: 1. Figures in brackets are 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.

Source : Department of Coal, Ministry of Energy.

Though coal production improved considerably, there was no matching improvement in coal despatches. Coal despatches by Coal India Ltd. (CIL) and SCCL to various consumers improved from 99.6 million tonnes in 1979-80 to around 106 million tonnes in 1980-81. Though railways constitute a major means of coal transport, their contribution to higher coal despatches was only marginal. During April 1980-February 1981 the Railways transported about 72.9 million tonnes of coal, compared to 71.5 million tonnes in the corresponding period of 1979-80. The average daily coal loading in CIL and SCCL during April 1980-February 1981 of 8,068 wagons was only slightly higher than 8,016 in the corresponding period of 1979-80. Even this slight improvement was entirely on account of a sharp increase in daily average loading only since December 1980 due to closer liaison between the Railways and coal companies at various operating levels. However, shortage of wagons for coal movement led to further increase in the transportation of coal by road at 25 million tonnes in 1980-81 compared to 22.4 million tonnes in the preceding year.

During 1980-81, the supply of coking coal to steel plants was only slightly higher at 14 million tonnes, compared to 13.8 million tonnes in 1979-80. As the domestic production of coking coal was inadequate, the Government allowed import of about 1.5 million tonnes of coking coal compared to 1.04 million tonnes imported in 1979-80. Coal supply to thermal power plants also improved from 31.59 million tonnes in April 1979—February 1980 to 34.20 million tonnes during the same period of 1980-81, as a result of better monitoring of the movement of coal by the Cabinet Committee on Industrial Infrastructure. Despatch of coal to cement plants increased only marginally from 4.50 million tonnes in 1979-80 to an estimated 4.75 million tonnes in 1980-81 due to transport bottlenecks. Industrial units in other than the priority sector, however, continued to face the problem of coal shortage due to non-availability of wagons for coal movement.

Reflecting the appreciable increase in output and only a marginal rise in despatches, the stocks of coal at pit-heads increased sharply to a record level of 18.5 million tonnes at the end of 1980-81 compared to 14.0 million tonnes a year ago.

In order to pass the benefit of increased production of non-coking coal to the consumers, the Government allowed its free sale from certain identified mines reporting heavy pit-head stocks. In order to enable the coal companies to cover the losses incurred by them, the Government increased coal prices with effect from February 14, 1981.

Coal production target for 1981-82 has been fixed at 124 million tonnes. The investment anticipated in the public sector coal companies in 1981-82 has been placed at Rs. 511 crores (Rs. 476 crores for CIL and Rs. 35 crores for SCCL). To achieve the targeted production, 15 coal projects in respect of CIL and 2 projects for SCCL were sanctioned during 1980-81 (upto February 1981) with an annual capacity of 18.1 million tonnes of coal. Further, in order to overcome the continued power shortage, it was decided to set up captive power plants in coalfields; and installation of 50 MW power-sets has already been sanctioned in this regard.

(*b*) IRON ORE

The production of iron ore during 1980, at 40.9 million tonnes, showed an increase of 2.5 per cent compared to 1.5 per cent in 1979 (Table III.19). During January-April 1981, the output at 16.6 million tonnes was only marginally higher than in the corresponding period of 1980 (16.2 million tonnes). Despite the improvement since 1979, the level of output in 1980 was still much below the production of 43.9 million tonnes in 1976. The share of public sector mines in the total production in 1980 was 44 per cent, as against 45 per cent in the preceding year. The output from captive mines of steel plants constituted 30 per cent of the total production as against 35 per cent in 1979.

Despatches of iron ore to steel plants in India were lower at 14.5 million tonnes in 1980 against 15.4 million tonnes in 1979. Despatches for exports increased during the year by only 6.1 per cent to 25.9 million tonnes compared to an increase of 12.4 per cent during the previous year. As in the case

Table III.19 : Performance of Iron Ore Industry

(Million Tonnes)

Item	1978	1979	1980
1	2	3	4
(1) Production	39.3 (— 7.8)	39.9 (+ 1.5)	40.9 (+ 2.5)
(2) Despatches for Exports	21.7 (—14.9)	24.4 (+12.4)	25.9 (+ 6.1)
(3) Year-end Stocks	4.6	4.7	5.3

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 despatches for domestic consumption are not given.

Source: Indian Bureau of Mines.

of production, exports of iron ore also stagnated at about the level of 25.9 million tonnes attained in 1976 despite marginal improvement during 1979 and 1980. The slow-down in export demand is attributable to recession faced by the world steel industry, particularly in Japan, which is a major consumer of Indian iron ore. Consequently, the mine-head stocks of iron ore at the end of 1980 increased to 5.3 million tonnes compared to 4.7 million tonnes a year ago.

As stated in last year's Report, the Government appointed a high-powered committee to find alternative uses for the iron ore concentrates produced by the Kudremukh Project. Further, during the year under review, the Government decided to establish a pelletisation plant at Mangalore to convert the iron ore concentrates produced by the Kudremukh Project into iron ore pellets, which have a better market than that for concentrates. The work on Mangalore pelletisation plant is expected to commence in October 1981.

(*c*) CEMENT

During the year under review, the cement industry witnessed a modest recovery compared to the unsatisfactory performance in the preceding two years. The output of cement, at 18.5 million tonnes in 1980-81, showed an increase of 5.1 per cent in contrast to the decline of 0.5 per cent and of 8.8 per cent respectively in 1978-79 and 1979-80 (Table III. 20). Shortages of coal and transport bottlenecks continued to affect cement production in the first half of 1980-81; consequently the output of cement declined by 6.5 per cent over the corresponding half of 1979-80. However, due to an appreciable improvement in the infrastructural facilities during the second half of 1980-81, the output of cement recorded an impressive growth of 17.8 per cent in contrast to a decline of 14.4 per cent in the corresponding period of 1979-80. Addition to capacity to the extent of 2.1 million tonnes during the year also contributed to the better performance. Improvement in cement production noticed since the second half of 1980-81 was sustained in the first quarter of 1981-82 also due to further easing of power and coal supply position. The output of cement, at 4.9 million tonnes during the first quarter of 1981-82, was about 20.0 per cent higher than that in the corresponding quarter of 1980-81. However, the capacity utilisation ratio, which had fallen steadily from 85.7 per cent in 1978-79 to 75.7 per cent in 1979-80 declined further to 73.1 per cent in 1980-81.

The stocks of cement with factories declined from 2.90 lakh tonnes at the end of 1979-80 to 2.84 lakh tonnes at end-March 1981, exerting pressure on its supply and availability. With a view to bridging the gap between demand and supply, the Government im-

Table III.20 : Performance of Cement Industry

(Million Tonnes)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
Installed Capacity	22.6 (+ 3.2)	23.3 (+ 3.1)	25.4 (+ 9.0)
Production	19.3 (— 0.5)	17.6 (— 8.8)	18.5 (+ 5.1)
Capacity Utilisation Ratio (per cent)	85.7	75.7	73.1
Exports	0.05	Neg.	Neg.
Imports	1.66	1.19	1.97
Year-end Stocks	0.33	0.29	0.28

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

Sources : Central Statistical Organisation and Cement Manufacturers' Association.

ported 2.0 million tonnes of cement in 1980-81 and is expected to import cement in 1981-82 also to meet the anticipated shortage.

On the recommendation of the High Level Committee on Cement Industry, Government announced on July 23, 1981 increase in the retention price of cement with retrospective effect from May 3, 1981. The increase in retention price was allowed on account of the escalations in the costs of inputs for the period between May 1980 and May 1981. Accordingly, the retention prices of low, medium and high cost cement units were raised by Rs. 34.74 per tonne to Rs. 233.39, Rs. 253.39 and Rs. 268.39, respectively. The price of cement produced by substantial expansion units, new units and mini-cement plants was also raised from Rs. 309.65 per tonne to Rs. 344.39. With effect from July 24, 1981, the f.o.r. destination prices of both indigenous and imported cement (inclusive of excise duty and packing charges) payable by the consumers were raised by Rs. 81.91 per tonne to Rs. 532.53. In view of the continuing power shortage in some cement producing States, the Government extended the scope of the scheme of subsidy for generation of power from captive power plants set up by cement units even after October 1978. Under the old scheme, the subsidy was applicable only to generating sets installed before October 1978.

As the current pricing policy for the cement industry is scheduled to expire by end-March 1982, the Government has appointed a high level committee on March 28, 1981, (*i*) to review the present system of pricing in the industry, (*ii*) to review and suggest incentives for faster growth, and (*iii*) to review the progress of modernisation and introduction of technological improvements in cement factories. The Committee is expected to submit its report by the end of 1981.

In July 1981, Government issued new guidelines for the establishment of mini-cement plants to exploit limestone reserves in remote and inaccessible areas. Accordingly, the plants will be allowed to be set up in Himachal Pradesh, Jammu & Kashmir and the North Eastern region.

The Government announced a new procedure for cement allocation with effect from July 1, 1981. Accordingly, cement allocation to industrial units registered with the Directorate General of Technical Development (DGTD) should be sponsored by the appropriate directorate of the DGTD before consideration by the Regional Cement Controller. Further, in order to meet the requirements of small-scale sector, Government decided to set apart 10 per cent of the cement allotted to State Governments for

the exclusive use of the small-scale sector with effect from the same date.

(*d*) IRON & STEEL

The iron and steel industry, which was adversely affected during 1979-80 by the shortage of coking coal and power and transport bottlenecks, continued to suffer from these constraints during the first half of 1980-81. Serious shortfall in supply of power continued to affect the output of coking coal and to a reduction in its availability to steel plants. Almost throughout the year steel plants had to operate with poor coal stocks, which fell to the dangerously low level of 57,900 tonnes in September 1980 whereas a minimum of about 5 lakh tonnes is needed for a comfortable stock level. The steel industry's performance was also affected during the year due to inadequate availability of wagons for movement of indigenous coking coal and problems of prompt unloading of ships bringing imported coking coal at the ports of arrival. Apart from shortfall in coal supplies, steel plants were directly affected by shortage of power, interruptions and fluctuations in power supply during the first half of 1980-81. As a result of special efforts made by the Government, the availability of various essential inputs required by the steel sector improved considerably from October 1980 onwards. Consequently, production of saleable steel picked up in the second half of 1980-81 and this tempo was sustained during the first quarter of 1981-82 also.

After three years' continuous fall, the output of *saleable steel* improved during 1980-81. At 6.3 million tonnes, the production of saleable steel during 1980-81 was 5 per cent higher than that in the previous year (Table III. 21). The output of saleable steel at the integrated steel plants at 1.63 million tonnes during April-June 1981 was 25.5 per cent higher than that in the corresponding quarter of 1980.

Table III. 21 : 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										
1977-78	2371	1092	1409	933	1968	651	8424	103	97	200
1978-79	2200	945	1319	1195	1865	628	8152	117	97	214
1979-80	2108	883	1268	1426	1779	565	8029	118	77	195
1980-81 (Provisional) ..	2041	741	1165	923	1874	609	7353	108	70	178
Production of Saleable Steel										
1977-78	1930	865	1178	815	1601	506	6895	74	49	123
1978-79	1846	778	1042	931	1516	481	6594	84	49	133
1979-80	1706	605	1045	849	1447	430	6040*	93	46	139
1980-81 (Provisional) ..	1818	598	985	844	1537	523	6283*	81	42	123
Production of Finished Steel										
1977-78	1411	555	1160	731	967	319	5143	—	—	—
1978-79	1370	541	1029	894	961	315	5110	—	—	—
1979-80	1218	327	998	846	791	278	4458	—	—	—
1980-81 (Provisional) ..	1260	347	860	731	760	368	4326	—	—	—

* For 1979-80 and 1980-81, plant-wise figures of saleable steel output would not add up, as inter-plant transfers of HR Coils for further processing are excluded from the total (Column 8) to avoid duplication.

Source : Steel Authority of India Ltd.

During the year under review, the production of *ingot steel* at integrated steel plants, however, further declined by 7.5 per cent to 7.4 million tonnes due to short supply of coking coal and inadequate and interrupted power supply. Despite the resultant decline in the output of ingot steel, its stocks increased to a high level of 7.49 lakh tonnes in August 1980. Hence, it was decided by the Steel Authority of India Ltd. (SAIL) to bring down the accumulated stocks of steel ingots by regulating their production. The output of steel ingots at 2.02 million tonnes during April-June 1981 was higher by about 17 per cent than that during the same period of 1980. The production would have been still better but for inadequate power supplies to Bhilai and Rourkela steel plants.

As regards mini-steel plants, at the end of March 1981 there were 147 units in the country with an annual installed capacity of 3.33 million tonnes of ingot steel; of these, 140 units with the total capacity of 3.16 million tonnes were functioning as on that date. Their production during 1980-81, which was affected mainly due to shortage of scrap and power, has been estimated by the Ministry of Steel at 1.73 million tonnes as compared to 1.66 million tonnes in 1979-80, indicating the average capacity utilisation of about 55 per cent or about the same as in 1979-80. In order to help mini-steel units to overcome their problems, Government continued most of the fiscal and other reliefs granted during the previous year. In addition, Government imported sponge iron through National Mineral Development Corporation (NMDC) to mitigate the shortage of scrap available to these plants.

The demand for steel continued to increase during 1980-81 due to an alround boom in construction activities consequent to higher Plan outlays in the core sector. The consumption of steel in 1980-81 registered an increase of about 2 per cent over that in the previous year. To improve the domestic availability of steel, exports of most categories of steel continued to be banned and imports of steel items were further liberalised during the year. During 1980-81, steel imports aggregated 1.46 million tonnes, compared to 1.33 million tonnes in 1979-80.

During the year under review, a new distribution policy was announced by the Joint Plant Committee (JPC) taking into consideration the representations made by various consumer associations and main producers. The new policy lays emphasis on equitable supply of available iron and steel materials, keeping in view the priority demands of such core sectors as coal, power, the Railways, irrigation, engineering export sector and small units in the SSI sector. A special feature of the new distribution policy is the supply of bars and rods of both plain steel and tor steel to house-builders and co-operative housing agencies under status 'A' priority. In the light of recent improvement in availability of various items of steel, the JPC announced on August 29, 1981 relaxation in its guidelines for the distribution of all steel items, except plates and structurals.

The scheme for distributing steel in the rural sector, evolved during 1979-80, was continued during 1980-81; about 3,600 tonnes of steel was distributed to the rural distribution centres opened by the Government in 1979-80 and they were accorded status 'A' priority. A price concession of Rs. 150 per tonne on the ruling stockyard prices along with reimbursement of transportation charges from the stockyard to the rural distribution centres were allowed under the scheme. In order to identify groups of customers under various categories based on their specific steel requirements, a compact list of consumers was drawn under the new distribution policy.

With effect from July 15, 1980, JPC rationalised the number of items produced by the main steel producers after detailed discussions and examination of various aspects in producing different sizes and quality of steel by them. With effect from February 8, 1981 Government raised the prices of steel by about 20 per cent in order to augment the resources for the Steel Development Fund (SDF), which is intended primarily for financing the developmental expansion and modernisation needs of steel industry. For instance, the price of pig iron for foundry grade was raised from Rs. 1,041 per tonne to Rs. 1,465, of billets from Rs. 2,190 to Rs. 2,675 and of R. C. squares from Rs. 2,190 to Rs. 2,825. During April 1981, prices of steel were further increased by Rs. 45 per

tonne and of pig iron by Rs. 60 per tonne to take care of the hike in the railway freight announced in the Railway Budget.

With effect from February 23, 1981, Government decontrolled the prices for certain categories of steel items like semis, bars, wire-rods, tor steel, etc., and allowed the main producers to fix their own selling prices of these selected items.

(*e*) ELECTRICITY

During 1980-81. the total electricity generation, at 111.6 billion Kwh, was higher by 5.7 per cent compared to the rise of only 2.1 per cent during 1979-80. The rise was shared by all the three major sources of power generation viz., thermal, hydro and nuclear. In 1980-81, the rise in the thermal generation over the previous year was of the order of 8.5 per cent, in hydel generation 2.3 per cent and in nuclear generation 4.6 per cent (Table III. 22).

During the first half of 1980-81, shortage of power continued to affect the overall economic performance as power generation during this period declined by 1.7 per cent over the corresponding half of 1979-80. This was mainly due to the acute drought of 1979 following

Table III.22 : Power Generation

(Million Kwh)

Category	1978-79		1979-80		1980-81	
1	2		3		4	
Thermal	53420 (+ 2.8)	[51.7]	57155 (+ 7.0)	[54.2]	62031 (+ 8.5)	[56.6]
Hydel	47138 (+24.2)	[45.6]	45501 (— 3.5)	[43.1]	46532 (+ 2.3)	[41.7]
Nuclear	2770 (+21.9)	[2.7]	2876 (+ 3.8)	[2.7]	3009 (+ 4.6)	[2.7]
Total ..	**103328** (+12.1)	**[100.0]**	**105532** (+2.1)	**[100.0]**	**111572** (+5.7)	**[100.0]**

Note : Figures in round brackets indicate annual percentage variations and in square brackets indicate percentage to total.

Source : Central Electricity Authority.

which hydel generation was lower by 4.7 per cent in the first half of 1980-81 as compared to the same period in 1979-80. During this period, the performance of thermal power sector was also poor due to inadequate coal availability, inability of the Railways to provide requisite number of wagons for coal movement to thermal plants and operational/organisational deficiencies of the thermal plants. As a result, capacity utilisation of thermal plants declined during the first half of 1980-81 to an all time low of 42.3 per cent. However, during the second half of the year, total power generation increased considerably (by 13.0 per cent) due to (*i*) the satisfactory monsoon in 1980, (*ii*) increase in thermal generation on account of adequate supply of quality coal and other inputs to the generating units and (*iii*) extensive maintenance operations undertaken in respect of these plants which raised the capacity utilisation of these plants to about 52 per cent.

Despite an appreciable improvement in power generation, the gap between demand and supply persisted during 1980-81. However, the supply demand gap narrowed down to 12.6 per cent from 16.1 per cent in 1979-80. In order to meet the acute power shortage, particularly during the first half of 1980-81, a number of States imposed power cuts varying between 10 to 45 per cent. In the Eastern region, West Bengal was the most adversely affected where restrictions were imposed even on domestic use of electricity. Power cuts varied between 10 to 25 per cent in Northern region, in Western region between 15 and 45 per cent, between 8 to 20 per cent and 8 to 25 per cent

in North Eastern and Southern regions, respectively. With the onset of monsoon, however, power cuts were lifted or relaxed in a number of States.

In view of the great significance of the power sector in the economy, an outlay of Rs. 19,265 crores has been provided for the expansion of this sector during the Sixth Plan period (1980-85). Installed capacity for power generation at the end of 1979-80 was 28,448 MW (Table III. 23). Additional power generation capacity to be created during the Sixth Plan period is placed at 19,666 MW. During the first year of the Sixth Plan (i. e., 1980-81), power generating capacity went up by 1,823 MW and during 1981-82 3,000 MW capacity is expected to be added.

Table III.23 : Installed Plant Capacity

(MW)

Year	Hydel	Steam	Gas Turbine & Diesel	Nuclear	Total
1	2	3	4	5	6
1977-78	10020 (+11.0)	12681 (+10.9)	327 (– 11.9)	640 (—)	23668 (+10.2)
1978-79	10833 (+ 8.1)	14875 (+17.3)	332 (+ 1.5)	640 (—)	26680 (+12.7)
1979-80 (Provisional) ..	11384 (+ 5.1)	15991 (+ 7.5)	433 (+30.4)	640 (—)	28448 (+ 6.6)

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

Source: Economic Survey-1980-81, Government of India.

With a view to fulfilling the targets of power generation set in the Sixth Plan, the Energy Ministry is considering inviting foreign technology to improve the plant load factor of the existing thermal power stations. The development of hydro power potential in the country is also being given top priority due to distinct advantages it has over thermal or nuclear power. The foreign technology in the hydro sector will be sought only for the setting up of new projects.

B. Capital Goods Industries

(*a*) Engineering Industries

During 1980-81, the output of engineering goods increased by 3.6 per cent. However, the value of exports of engineering goods recorded an increase of 22.0 per cent and amounted to Rs. 900.5 crores during the year. In 1979-80, however, the output of engineering goods had declined by 1.7 per cent and exports had increased by only 6.0 per cent over the previous year, due to serious power and coal shortages, transport bottlenecks, paucity of raw materials and labour unrest. The recovery in output was mainly attributable to the easing of these constraints and priority given to the engineering industry in the allocation of steel and pig iron to the export-oriented units. The sharp increase in value of exports was partly due to global inflation.

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

(*i*) *Heavy Mechanical Engineering Industries*

Among the important industries in this group, the output of the automobile industry (viz., passenger cars, commercial vehicles and jeeps and land-rovers) as a whole increased by 15 per cent in 1980-81, compared to only 3.8 per cent rise in 1979-80 (Table III. 24). But within this group, the output of *passenger cars* fell further by 5.4 per cent to 31,300 in 1980-81 compared to the decline of 1.2 per cent in the

previous year. This decline was largely on account of a fall in the demand for cars following continuous rise in car prices from 1978-79 and steep increases in the price of petrol. The output of cars was also affected by labour trouble in one of the car producing units. The output of *commercial vehicles*, on the other hand, recorded an impressive rise of 23.9 per cent to 71,100 as compared to a modest increase of 4.0 per cent in 1979-80. The increase in the production of commercial vehicles was facilitated by better availability of inputs such as steel, power and imported components and the growing demand for commercial vehicles for goods traffic. The production of *jeeps and land-rovers* also increased by 27 per cent in 1980-81 compared to a rise of 16.5 per cent in the previous year.

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

Item	Unit	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4	5
1. Automobiles (*i* + *ii* + *iii*)	'000 Nos.	100.8 (+26.6)	104.6 (+ 3.8)	120.3 (+15.0)
(*i*) Passenger Cars	,,	33.5 (— 2.3)	33.1 (— 1.2)	31.3 (— 5.4)
(*ii*) Commercial Vehicles	,,	55.2 (+52.9)	57.4 (+ 4.0)	71.1 (+23.9)
(*iii*) Jeeps and Land-rovers	,,	12.1 (+31.5)	14.1 (+16.5)	17.9 (+27.0)
2. Scooters	,,	173.9 (+ 7.5)	155.2 (— 10.8)	212.0 (+36.6)
3. Light, Medium and Heavy Structurals	'000 Tonnes	128.1 (— 4.3)	131.0 (+ 2.3)	90.8 (—30.7)
4. Steel Castings (including ferro-alloys) ..	,,	363.4 (+18.6)	297.3 (—18.2)	324.6 (+ 9.2)
5. Diesel Engines (stationary)	'000 Nos.	144.2 (+12.7)	137.3 (— 4.8)	153.0 (+11.4)
6. Railway Wagons (in terms of 4 wheelers)	,,	10.9 (—10.7)	10.8 (— 0.9)	12.4 (+14.8)
7. Road Rollers	Nos.	752 (+13.4)	828 (+10.1)	895 (+8.1)
8. Machine Tools	Rs. Crores	138.1 (+26.7)	170.7 (+23.6)	202.8 (+18.8)

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

Source : Central Statistical Organisation.

In the case of *scooters*, the output increased sharply by 36.6 per cent to 2,12,000 in 1980-81, as against a decline of 10.8 per cent in 1979-80. The output of *railway wagons* increased by 14.8 per cent to 12,400 in 1980-81, in contrast to a decline of 0.9 per cent in the previous year. The increase in wagon production was mainly due to higher orders for wagons placed by the Railways and on account of better availability of power, steel and wheel-sets. In the case of *steel castings including ferro-alloys*, the output increased by 9.2 per cent in contrast to a fall of 18.2 per cent in 1979-80. At Rs. 202.8 crores, the value of output of *machine tools* was higher by 18.8 per cent on the top of an increase of 23.6 per cent in the previous year. The production of *road rollers* also showed an increase of 8.1 per cent in 1980-81 compared to an increase of 10.1 per cent in 1979-80. The output of *diesel engines* (*Sta-*

tionary) too recorded a substantial increase of 11.4 per cent to 1,53,000 as against a decline of 4.8 per cent in 1979-80. The output of *light, medium and heavy structurals*, however, declined steeply by 30.7 per cent in 1980-81 due to shortage of basic raw materials like steel and cement as against an increase of 2.3 per cent in the previous year.

(ii) Light Mechanical Engineering Industries

Many of the industries in this group, which cater to the consumer sector, presented a mixed trend during 1980-81 (Table III. 25). Among the important industries in this group, the output of both *typewriters* and *bicycles* increased by about 7 per cent each, compared to an increase of 4.0 per cent and 5.6 per cent, respectively in 1979-80. The production of *hurricane lanterns*, which had declined by 4.3 per cent in 1979-80, increased by 5.3 per cent during the year under review. Certain industries in this group whose output declined during 1980-81 included *sewing machines* (by 11.3 per cent), *razor blades* (by 29.8 per cent) and *pressure type stoves* (by 63.3 per cent). The production of sewing machines was adversely affected due to strike in one of the units, while that of razor blades declined due to shortage of raw material (i. e., steel).

Table III.25 : Output of Selected Light Mechanical Engineering Industries

Item	Unit	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4	5
1. Typewriters	'000 Nos.	85.5 (+25.6)	88.9 (+ 4.0)	95.0 (+ 6.9)
2. Bicycles	,	3686.2 (+13.7)	3891.7 (+ 5.6)	4164.7 (+ 7.0)
3. Sewing Machines	,,	205.8 (—44.2)	367.3 (+78.5)	325.9 (—11.3)
4. Hurricane Lanterns	,,	2303 (— 6.3)	2204 (— 4.3)	2320 (+ 5.3)
5. Razor Blades	Million Nos.	1264 (+21.5)	1704 (+34.8)	1197 (—29.8)
6. Stoves (Pressure Type)	'000 Nos.	3240 (+79.7)	3240 (—)	1188 (—63.3)

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

Source : Central Statistical Organisation.

(iii) Electrical Engineering Industries

All the industries in this group recorded increases with the exception of radio receivers and GLS lamps (Table III. 26). The output of *domestic refrigerators* increased sharply for the third year in succession by 25.8 per cent following the increase of 23.8 per cent in 1979-80 and 24.9 per cent in 1978-79. The output of *fluorescent lamps* also showed a substantial increase of 19.4 per cent on the top of a rise of 12.9 per cent in 1979-80. The production of *dry cells* registered a sizeable increase of 17.3 per cent, in contrast to a decline of 3.3 per cent in 1979-80. The output of *storage batteries* also increased at a higher rate of 5.2 per cent than that of 1.8 per cent in the previous year. However, in the case of *electric fans*, the growth rate was only 5.9 per cent in 1980-81, as compared to 25.8 per cent in 1979-80. The output of *GLS lamps*, however, declined by 0.3 per cent, as against an increase of 12.2 per cent in the previous year. The fall in production of GLS lamps was due to shortage of glass shells. The output of *radio receivers* also further declined by 0.7 per cent in 1980-81.

Table III. 26 : Output of Selected Electrical Engineering Industries

Item	Unit	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4	5
A. Light Electrical Engineering				
1. Electrical Lamps				
(*i*) GLS and others	Million Nos.	171.0 (+ 3.8)	191.9 (+12.2)	191.4 (— 0.3)
(*ii*) Fluorescent	,,	21.0 (+12.9)	23.7 (+12.9)	28.3 (+19.4)
2. Electric Fans	'000 Nos.	3123.1 (— 6.7)	3928.9 (+25.8)	4160.0 (+ 5.9)
3. Radio Receivers	,,	1958.5 (+ 4.5)	1956.8 (— 0.1)	1943.6 (— 0.7)
4. Storage Batteries	,,	1637 (+ 8.6)	1666 (+ 1.8)	1752 (+ 5.2)
5. Dry Cells	Million Nos.	880.2 (+33.1)	851.3 (— 3.3)	998.3 (+17.3)
6. Domestic Refrigerators	'000 Nos.	186.1 (+24.9)	230.3 (+23.8)	289.7 (+25.8)
B. Heavy Electrical Engineering				
1. Power Transformers	'000 KVA	20487 (+24.8)	18003 (—12.1)	19457 (+ 8.1)
2. Electric Motors	'000 HP	3693 (— 3.8)	3702 (+ 0.2)	4097 (+10.7)

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

Source : Central Statistical Organisation.

In the heavy electrical engineering section, the output of *power transformers* increased by 8.1 per cent in 1980-81 reflecting higher plan outlays on power development, in contrast to a decline of 12.1 per cent in the preceding year. The production of *electric motors* also registered an increase of 10.7 per cent in 1980-81 compared to only 0.2 per cent in the previous year.

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

During 1980-81, the production of major non-ferrous metals, excepting zinc, improved considerably. Despite this improvement imports had to be continued for meeting domestic demands.

The production of *aluminium* in 1980-81 at 200.4 thousand tonnes recorded an increase of 3.4 per cent in contrast to 1979-80, when aluminium output had declined by as much as 10.3 per cent (Table III. 27). In the first half of 1980-81 (April-September 1980), aluminium production amounted only to 84.8 thousand tonnes because of power shortage and labour trouble in one of the producing units. With the improvement in power supply, there was a pick up in the latter part of the year with the output at 115.6 thousand tonnes.

Table III. 27 : Performance of Metallurgical Industries

(Other than Iron & Steel)

(Thousand Tonnes)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
Virgin Metals			
Aluminium			
Production	216.0 (+18.6)	193.8 (—10.3)	200.4 (+ 3.4)
Imports	33.0	85.8	130.0*
Copper			
Production	23.7 (+12.9)	22.5 (—5.1)	25.4 (+12.9)
Imports	76.0	49.0	42.0*
Lead			
Production	10.4 (+38.7)	11.3 (+ 8.7)	14.9 (+31.9)
Imports	27.0	41.0	55.0
Zinc			
Production	64.3 (+51.3)	52.6 (—18.2)	45.5 (—13.5)
Imports	61.0	68.0	35.0
Semi-manufactures (Production)			
Aluminium, Sheets and Circles	48.46 (+ 8.3)	48.06 (— 0.8)	46.18 (— 3.9)
Aluminium Wire Rods, for ACSR	21.66 (—22.5)	22.80 (+ 5.3)	29.59 (+29.8)
Copper Sheets & Circles, including Strips ..	1.96 (—22.8)	1.63 (—16.8)	1.45 (—11.0)
Brass Sheets & Circles, including Strips ..	10.96 (—11.5)	12.23 (+11.6)	11.89 (— 2.8)
Zinc Sheets and Strips	9.94 (+30.8)	9.82 (— 1.2)	9.76 (— 0.6)

* Estimate.

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

Sources : C.S.O., D.G.T.D. and D.G.C.I. & S.

In view of the shortage of supplies, the Government imported 130 thousand tonnes of aluminium during 1980-81 compared to 86 thousand tonnes in the previous year. However, the larger output and imports of aluminium during 1980-81, coupled with the reluctance on the part of the cable and conductor manufacturers—the single largest consumer of aluminium—to purchase EC grade aluminium from the producers, led to accumulation of stocks. Reluctance of the cable and conductor manufacturers to lift the stocks was, in turn, attributable to the inability of the State Electricity Boards

to meet commitments in respect of orders for cables/conductors.

The Aluminium (Control) Order, 1970 was suitably amended in October 1979 to pool the prices of indigenous and imported aluminium. With a view to offseting increases in the cost of power and in the cost of imported aluminium, Government increased in July 1980 the pooled prices for EC grade and commercial grade aluminium to Rs. 15,867 and Rs. 15,723 per tonne, respectively; these prices were further increased with effect from March 1981 to Rs. 18,636 and Rs. 18,492 respectively; price of aluminium wire rods was also increased from Rs. 16,349 to Rs. 19,475 per tonne with effect from the same date.

Copper production by the two plants of Hindustan Copper Ltd. (the Indian Copper Complex at Ghatshila in Bihar and the Khetri Copper Complex at Khetri in Rajasthan), totalled 25.4 thousand tonnes during 1980-81 showing an increase of 12.9 per cent in contrast to a decline of 5.1 per cent in 1979-80. During the year under review, the copper industry could utilise only 53.0 per cent of its installed capacity on account of severe power cuts to the extent of 50.0 per cent in peak months such as October and November 1980. To bridge the supply demand gap, HCL had to import 32 thousand tonnes of copper in 1980-81. Steps are being taken to improve the output of copper by exploring new mining sites as well as exploiting existing mines of additional ore reserves, like in Duriba and Chandmari Copper Projects in Rajasthan. India's first large size opencast mine with an ultimate production capacity of about 23 thousand tonnes of copper is expected to be commissioned in July 1982 which might attain the full rated capacity in the next two years.

At 14.9 thousand tonnes, lead output was higher by 31.9 per cent over the previous year. Zinc output, however, declined in 1980-81 by 13.5 per cent to 45.5 thousand tonnes on the top of a decline of 18.2 per cent in 1979-80. Severe power cuts and complete shut down of the zinc smelter at Debari in Rajasthan due to prolonged strike of workers were mainly responsible for the poor performance of zinc industry.

Imports of 55 thousand tonnes of lead and 35 thousand tonnes of zinc were made during the year to meet the domestic shortage. In order to reduce the imports, new mining sites are being exploited and power supply to the existing mines and smelters is being supplemented with the help of diesel generating sets.

The Pricing Committee on non-ferrous metals announced reductions ranging from Rs. 1,000 to Rs. 2,000 per tonne in the prices of copper wire bars, pig-lead and tin and an increase of Rs. 500 per tonne in zinc prices with effect from June 1, 1981.

C. Intermediate Goods Industries

(*a*) JUTE TEXTILES

The output of jute textiles at 13.85 lakh tonnes in 1980 recorded an increase of 20.4 per cent in contrast to a decline of 4.8 per cent in 1979 (Table III. 28). The substantial improvement in production during the year was mainly attributable to the comfortable supply of raw jute at much cheaper prices and generally improved working conditions in the mills. A few jute mills continued to face the problems of inadequate supply of power, coal, HSD oil and batching oil and disturbed labour situation, resulting in prolonged work stoppages towards the end of the year. However, a majority of them were able to overcome the problem of erratic power supply by installing their own diesel generating sets.

The overall increase in the output of jute goods was accounted for by the increase of 24.3 per cent and 25.4 per cent, respectively, in the hessian and sacking output; the production of carpet backing, on the other hand, registered a further decline of 25.1 per cent. The decline in the output of carpet backing was due to a sharp fall in export demand, which obliged the jute mills to shift looms to the manufacture of hessian and sacking. During January-June 1981 also, the production of jute goods continued to rise and, at 6.93 lakh tonnes, it was 3.4 per cent higher than that during the corresponding period of 1980.

Despatches of jute textiles for domestic consumption increased by 22.6 per cent from 7.33 lakh tonnes in 1979 to 8.98 lakh tonnes

Table III. 28 : Jute Textiles

(Thousand Tonnes)

Item	Year	Hessian	Sacking	Carpet Backing	Total@
1	2	3	4	5	6
Production	1978	343.3 (— 1.8)	575.3 (+ 4.9)	129.4 (— 9.4)	1208.8 (+ 2.0)
	1979	314.7 (— 8.3)	568.4 (— 1.2)	117.5 (— 9.2)	1150.6 (— 4.8)
	1980 (Provisional)	391.2 (+24.3)	712.6 (+25.4)	88.0 (—25.1)	1384.9 (+20.4)
Exports	1978	208.0 (—22.0)	52.4 (—23.7)	103.2 (—24.6)	399.4 (—21.9)
	1979	190.7 (— 8.3)	43.2 (—17.6)	97.8 (— 5.2)	354.1 (—11.3)
	1980 (Provisional)	271.9 (+42.6)	46.6 (+ 7.9)	83.9 (—14.2)	431.5 (+21.9)
Domestic Consumption††	1978	104.2 (+11.3)	531.4 (+15.6)	— —	761.2 (+15.4)
	1979	89.3 (—14.3)	517.7 (— 2.6)	— —	733.0 (— 3.7)
	1980 (Provisional)	114.3 (+28.0)	629.2 (+21.5)	— —	898.3 (+22.6)
Stocks (as at end-December)	1978	60.7 (+97.7)	39.3 (—33.5)	26.9 (+189.2)	144.0 (+26.0)
	1979	43.3 (—28.7)	29.2 (—25.7)	11.0 (—59.1)	96.3 (—33.1)
	1980 (Provisional)	51.7 (+19.4)	39.4 (+34.9)	15.8 (+43.6)	125.2 (+30.0)

— Nil
@ Inclusive of 'Others'.
†† Figures represent despatches for internal consumption.
Notes: 1. Figuers 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).

in 1980 as a result of increased purchases of jute goods on Government account for meeting the urgent requirements of priority sectors for packing foodgrains, fertilisers, etc. In the first half of 1981 (*i. e.*, January-June) also, the despatches of jute goods for internal consumption aggregated 4.45 lakh tonnes compared to 4.17 lakh tonnes during the corresponding period of 1980 due to better demand conditions in the home market.

The exports of jute goods, which had declined by 21.9 per cent and 11.3 per cent in 1978 and 1979, respectively, recovered and increased by 21.9 per cent to 4.32 lakh tonnes in 1980 in spite of acute competition from Bangladesh in the export market. However, bulk of the increase in jute goods exports was accounted for by hessian and sacking. The exports of carpet backing cloth to the U. S. A. and other developed countries, on the other hand, continued to decline on account of competition from synthetic substitutes and recession in those established markets.*

* With effect from September 15, 1981, hessian was made eligible for cash compensatory assistance at the rate of 7.5 per cent of f.o.b. value of export. The new rate will be valid upto March 31, 1982.

As a result of slackening of the overseas demand for carpet backing, their stocks increased over the year by 4.8 thousand tonnes to 15.8 thousand tonnes at end-December 1980. Stocks of other jute goods also mounted up but that was partly due to the shifting of looms by mills to the manufacture of hessian and sacking following persistent decline in overseas demand for carpet backing.

To arrest the precipitate fall in raw jute prices, the Jute Commissioner, by an order of October 4, 1980, under Jute (Licensing and Control) Order 1961, directed 78 mills to purchase 30.25 lakh bales (of 180 kgs. each) of raw jute between October 6, 1980 and December 31, 1980 and to build up stocks in their godowns to a level of 26.43 lakh bales upto December 31, 1980. During the year, the Jute Commissioner continued to issue orders from time to time, directing the mills to produce a specified quantity of B. Twills (Sacking) and to deliver those bags to the DGS&D at specified ex-factory maximum prices.

Since July 1, 1981, the Government (DGS&D) has started buying B. Twill bags from the jute mills on a quarterly basis, whereas formerly they were bought on an *ad hoc* basis. The new scheme of buying on a quarterly basis will enable the mills to plan their production ahead. Further, under the new scheme, purchases of sacking (B. Twills) by the Government are linked to the buying of raw jute by mills from the Jute Corporation of India (JCI); and each jute mill will be allocated a quota of fibre to be bought by it from the JCI in proportion to the quota which is allocated to a mill by the Government for the purchase of sacking (B. Twills) each quarter.

The Government, by an ordinance promulgated on April 27, 1980, nationalised the National Company, the biggest jute mill in the country. By a notification under the Jute Companies (Nationalisation) Act, 1980 the management of National Company and five other units (namely Alexandra, Union, Khaedah, Kinninson Mills in West Bengal and Raibahadur Hurdutory Motilal Jute Mills in Bihar) taken over by Government was vested with the National Jute Manufacturers' Corporation set up for the purpose during the previous year.

(*b*) RUBBER AND RUBBER MANUFACTURES

Production of *natural rubber*, at 153.1 thousand tonnes during 1980-81, increased only by 3.1 per cent, compared to the higher growth of 9.8 per cent in the previous year (Table III. 29). On the other hand, consumption of natural rubber increased at a faster rate (by 5.1 per cent) in 1980-81, compared to a fractional rise of 0.4 per cent during 1979-80. Moreover, imports of natural rubber were lower in 1980-81, at 9.3 thousand tonnes, compared to 32.2 thousand tonnes in 1979-80. Output of *synthetic rubber* also suffered a sizeable decline of 14.2 per cent during the year. The inadequate supply of natural and synthetic rubber, accompanied by an increase in demand, led to a sharp rise in rubber prices as well as reduction in stocks. As against the minimum price of Rs. 825 per quintal for RMA 1 grade fixed by the Government, its average market price shot up from Rs. 1,060 in March 1980 to Rs. 1,447 in March 1981 and further to Rs. 1,574 in May 1981. The year-end stocks declined from 44.9 thousand tonnes in March 1980 to 33.7 thousand tonnes by end-March 1981.

Data on production of selected rubber goods are given in Table III. 30. There are at present 106 units engaged in the production of rubber goods. The average monthly index number of output of rubber products increased substantially by 8.4 per cent during 1980-81, in contrast to a decline of 3.4 per cent in the preceding year. This was largely due to the auto-tyre industry maintaining buoyant production trends on account of rapid growth of motor vehicle production. However, industries producing other rubber goods faced problems of shortages of raw materials such as natural rubber, synthetic rubber, polybutadiene, furnace carbon black and industrial nylon yarn owing to coal/power shortages and labour problems in units producing the raw materials. The Government, therefore, permitted imports of these raw materials on a restricted basis by actual users.

The demand for natural rubber during 1981-82 has been placed around 180 thousand tonnes against production estimates of 157 thousand tonnes. As in the past, in 1981-82 also, domestic short supply of this important raw material is being met through larger imports of the order of 37.3 thousand tonnes.

Table III. 29 : Rubber

(Thousand Tonnes)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
Production			
Natural	135.3 (— 7.9)	148.5 (+ 9.8)	153.1 (+ 3.1)
Synthetic	28.1 (+ 2.9)	29.5 (+ 5.0)	25.3 (—14.2)
Reclaimed	27.6 (+24.9)	26.8 (— 2.9)	22.8 (—14.9)
Imports			
Natural	14.8	32.2 (+117.6)	9.3 (— 71.1)
Synthetic	10.7 (+21.6)	15.8 (+47.7)	15.8 (—)
Consumption			
Natural	164.5 (+13.4)	165.2 (+ 0.4)	173.6 (+ 5.1)
Synthetic	37.6 (+ 8.0)	40.6 (+ 8.0)	45.2 (+11.3)
Reclaimed	24.3 (+12.0)	22.5 (— 7.4)	22.5 (—)
Stocks at the end of the period			
Natural	29.5 (—33.0)	44.9 (+52.2)	33.7 (—24.9)
Synthetic	10.7 (+ 2.9)	15.2 (+42.1)	10.9 (—28.3)
Reclaimed	2.3 (+ 4.5)	2.5 (+ 8.7)	2.8 (+12.0)

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

Table III. 30 : Production of Tyres, Tubes and Footwears

(Lakh Numbers)

Year	Automobile Tyres		Automobile Tubes	Cycle Tyres	Cycle Tubes	Rubber Footwear (Pairs)
	Total	Of which Giant				
1	2	3	4	5	6	7
1978-79	61.3 (+16.5)	35.3 (+16.1)	53.1 (+11.6)	315.4 (+29.0)	167.3 (+ 7.5)	415.9 (—10.0)
1979-80	60.6 (— 1.1)	33.9 (— 4.0)	51.6 (— 2.8)	282.5 (—10.4)	145.0 (—13.3)	393.8 (— 5.3)
1980-81 (Provisional)	68.1 (+12.4)	37.0 (+ 9.1)	58.3 (+13.0)	273.7 (— 3.1)	132.1 (— 8.9)	430.6 (+ 9.3)

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

In order to augment the supply of natural rubber, the Government launched a scheme in 1980-81 known as 'Rubber Plantation Development Scheme' to accelerate new planting and replanting. The scheme, which replaced earlier subsidy schemes, envisages new planting and re-planting of 60 thousand hectares during the period 1980-81 to 1984-85 with an outlay of about Rs. 100 crores, aimed at a minimum additional production of 63 thousand tonnes per year. During 1980-81, about 15 thousand hectares have been planted/replanted under the scheme.

(*c*) CHEMICALS AND CHEMICAL PRODUCTS

The production of chemicals and chemical products improved by 2.3 per cent during 1980-81 in contrast to the decline of 1.3 per cent in 1979-80. The increase in output was partially on account of additions to installed capacity in some industries and also due to improvement in the supply of vital inputs such as power and coal.

Among the important chemical products, the output of *nitrogenous fertilisers*, at 2,268 thousand tonnes, was only 1.9 per cent higher than the 1979-80 level (Table III. 31). The lower growth rate was attributed to shortages of power, coal, naphtha and fuel oil, and to transport bottlenecks; and there has also been delay in the commissioning of new projects. Production would have been still higher but for the prolonged shut down of the Goa plant of Zuari Agro Chemicals due to labour problems. During April-June 1981, however, production of nitrogenous fertilisers shot up by 65.3 per cent to 691 thousand tonnes compared to 418 thousand tonnes in the corresponding months of 1980 due to the easy availability of feedstocks following the resumption of Assam oil flow. Production of *phosphatic fertilisers*, on the other hand, increased to 843 thousand tonnes or by 12.3 per cent in 1980-81 compared to the decline of 1.4 per cent in the preceding year, as it was not much affected by power cuts and Assam agitation. During April-June 1981, output of phosphatic fertilisers improved to 200 thousand tonnes compared to 192 thousand tonnes in the corresponding period of 1980.

Table III. 31 : Production of Major Chemicals and Chemical Products

(Thousand Tonnes)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
1. Sulphuric Acid	2259 (+ 9.8)	2161 (— 4.3)	1938 (—10.3)
2. Caustic Soda	560 (+ 6.3)	541 (— 3.4)	568 (+ 5.0)
3. Soda Ash	577 (— 0.9)	542 (— 6.1)	509 (— 6.1)
4. Nitrogenous Fertilisers (N Content)	2145 (+10.2)	2226 (+3.8)	2268 (+1.9)
5. Phosphatic Fertilisers (P_2O_5)	762 (+24.5)	751 (— 1.4)	843 (+12.3)
6. Paints and Varnishes (Organised Sector)	88 (+12.8)	78 (—11.4)	91 (+16.7)
7. Soaps (Organised Sector)	325 (+ 6.9)	318 (— 2.2)	315 (— 0.9)
8. Synthetic Detergents (Organised Sector)	130 (+21.5)	167 (+28.5)	160 (— 4.2)

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

Source : C.S.O. and D.G.T.D.

There are 32 large fertiliser units producing a wide range of straight nitrogenous, complex and phosphatic fertilisers, besides 35 small units producing single super phosphate. During the year, two coal-based fertiliser plants at Ramagundam and Talcher and one naphtha-based plant of Indian Farmers' Fertiliser Co-operative Ltd. (IFFCO), Phulpur started commercial production. The Sindri fertiliser unit, closed for ten-and-half months due to Assam agitation, also resumed production from December 1, 1980. Taking into account the addition of new capacities, total installed capacity of nitrogenous fertiliser units in 1980-81 increased to 4,347 thousand tonnes and of phosphatic fertiliser units to 1,282 thousand tonnes. However, inadequate availability of various inputs in some plants due to Assam agitation and labour problems led to a decline in the capacity utilisation in the case of nitrogenous fertilisers from 57.2 per cent in 1979-80 to 52.2 per cent in 1980-81. In the case of phosphatic fertilisers, however, capacity utilisation increased from 61.1 per cent in 1979-80 to 65.8 per cent in 1980-81. Five new fertiliser plants—Haldia and Trombay V in the public sector, Gujarat Narmada Valley Fertiliser (Bharuch) and Indian Explosives, Kanpur (Expansion) in the private sector and IFFCO, Kandla (Expansion) in the co-operative sector are expected to go on stream in 1981-82, raising the total capacity of nitrogenous fertilisers to 5302 thousand tonnes and that of phosphatic fertilisers to 1,490 thousand tonnes.

As a result of continued drought conditions in some parts of the country and a sharp increase in prices of fertilisers effected in June 1980, the price of urea which had been raised earlier from Rs. 1,550 to Rs. 2,000 per tonne on June 8, 1980 was further increased to Rs. 2,350 on July 11, 1981. Total consumption of various fertilisers increased by only 6.1 per cent to 5576 thousand tonnes in 1980-81 as against the anticipated growth rate of 18 per cent, though it was higher than the rate of increase of 2.7 per cent recorded in 1979-80. In order to bridge the demand supply gap, arrangements were made to import 5.25 million tonnes of fertilisers during 1980-81, compared to 4.01 million tonnes in 1979-80.

The retention price scheme introduced for nitrogenous fertilisers with effect from November 1, 1977 and in respect of phosphatic fertilisers from February 1, 1979 continued to be in force in 1980-81. The Government announced on August 27, 1980 a new fertiliser pricing formula entitling the fertiliser units to a post tax return of 12 per cent on net worth governing the prices of single nutrient nitrogenous fertiliser and complex fertilisers with retrospective effect from April 1979 and valid upto March 1982.

Production of *industrial alcohol* (*ethyl alcohol*), an important raw material used in the manufacture of many chemical products such as acetic acid, acetone, ethyl acetate, polyethylene, synthetic rubber, etc., sharply declined and amounted to 355.16 million litres in the alcohol year December 1979—November 1980, compared to about 500 million litres in the preceding year. The decline was mainly due to a sharp reduction in the output of sugar in 1979-80 and the resultant shortage of molasses to units producing alcohol. Short supply of alcohol led to steep increase in its prices and alcohol-based industries experienced difficulties in maintaining output at satisfactory levels. In view of the persistent shortage of industrial alcohol, the Government allowed import of this vital input to ease the situation. Alcohol output during 1980-81 alcohol year is estimated to be higher at 404.37 million litres as a result of the improvement in the output of sugar during 1980-81 season.

Among the basic heavy inorganic chemicals, production of *sulphuric acid*, used in the manufacture of fertilisers, rayon, iron and steel, refinery products, etc., experienced a decline for the second year in succession. Output at 1,938 thousand tonnes in 1980-81 was 10.3 per cent lower than the level of 2,161 thousand tonnes reached in 1979-80, mainly due to the producing units experiencing some difficulty in receiving adequate quantity of sulphur on account of the Iran-Iraq war. There are 37 units producing sulphuric acid with an installed capacity of 3,800 thousand tonnes. An additional capacity of 500 thousand tonnes is expected to be commissioned by 1982-83 out of 1,720 thousand tonnes approved by the Government.

Output of *caustic soda*, with a total installed capacity of 766 thousand tonnes, increased by

27 thousand tonnes or 5.0 per cent in 1980-81, against a decline of 3.4 per cent in 1979-80. The pick up in output was on account of the improvement in supply of power and other basic inputs in the second half of the year. During April-June 1981, production of caustic soda at 148 thousand tonnes increased sharply by 23.3 per cent compared to 120 thousand tonnes in the corresponding quarter of 1980.

Production of *soda ash*, an important inorganic chemical, declined in 1980-81 for the third year in succession, and at 509 thousand tonnes was lower by 6.1 per cent over the output in 1979-80. Adverse conditions such as labour trouble, technical difficulties, etc. in some producing units affected the output during the year. Consequently, the gap between demand and supply was met through imports and by streamlining the despatches. However, output increased to 158 thousand tonnes or by 17.9 per cent in April-June 1981 compared to 134 thousand tonnes a year ago. As a result of higher output and adequate imports, the availability of soda ash improved and market prices thereof declined. During the year, Government issued licences for the creation of additional soda ash capacity of 10.4 lakh tonnes by way of expansion of existing units and setting up of new ones

Production of *soap* in the organised sector continued to decline in 1980-81, the decline being 3 thousand tonnes over the previous year's level. The policy of reservation of all future growth in laundry soap production for the small-scale sector, announced in December 1977, continued during the year. During April-June 1981, however, soap output increased marginally by 2.4 per cent to 86 thousand tonnes, compared to 84 thousand tonnes in the corresponding period of 1980.

Production of *synthetic detergents* during 1980-81 at 160 thousand tonnes declined by 4.2 per cent as against a sizeable increase of 28.5 per cent in 1979-80. During the year, Government approved the additional capacity of 130 thousand tonnes in the organised sector of the industry, raising the total installed capacity to 280 thousand tonnes. During April-June 1981 also, the output of synthetic detergents continued to decline; at 41 thousand tonnes it was 10.9 per cent lower than the level of 46 thousand tonnes in the corresponding quarter of 1980.

Production of *paints and varnishes* recovered during 1980-81 with an increase of 16.7 per cent to 91 thousand tonnes, against the decline of 11.4 per cent in 1979-80, on account of increases in domestic and export demand as well as improvement in the supply of power and other inputs. During April-June 1981, output of paints and varnishes increased by 4.5 per cent to 23 thousand tonnes, compared to 22 thousand tonnes in the corresponding period of 1980. A major development affecting the paints and varnishes industry during the year was that it was removed from the 11th schedule of the Income Tax Act, which includes non-priority industries, and was accorded a status of priority industry through an amendment to the I.T. Act in the 1981 Finance Bill.

The *drugs and pharmaceuticals* industry continued to increase production despite various constraints such as substantial increase in cost of raw materials and packing materials, and inadequate availability of power, fuel oil, etc. Output of bulk drugs during 1980-81 has been estimated at Rs. 240 crores and that of formulations at Rs. 1,200 crores, compared to Rs. 226 crores and Rs. 1,150 crores, respectively, in 1979-80. However, the pace of growth in the output of bulk drugs and formulations in 1980-81 was lower at 6.2 per cent and 4.3 per cent, respectively, compared to 13.0 per cent and 9.5 per cent in 1979-80. In order to meet rising demand, drugs and formulations worth Rs. 112.8 crores were imported during 1980-81 compared to Rs. 93.8 crores in 1979-80.

During 1980-81, Government continued to take action for implementing the new drug policy announced in March 1978. In pursuance of this policy, public sector is being assigned a leading role in the production and distribution of drugs and also in meeting the requirements of public health services. It may be recalled that under the new drug policy a revised Drugs Prices Control Order (DPCO) 1979 was issued in March 1979, providing for selective price control of drugs and formulations. Consequent to increase in petroleum prices in 1979 and 1980, the drugs industry ex-

perienced massive escalations in prices of inputs. Government, therefore, approved in August 1980 the procedures for adjustments of prices of 154 bulk drugs and a large number of connected formulations to take into account the cost escalations, and to implement the DPCO 1979. This step resulted in an increase in the prices of 92 bulk drugs and reduction in the prices of 55 drugs. In the case of remaining 7 bulk drugs there was either no change in prices or their prices were fixed for the first time.

D. Consumer Goods Industries

(*a*) TEXTILES—COTTON AND SYNTHETIC

The overall performance of the textile industry during 1980-81 in respect of both production and exports, recorded a marked improvement over the previous year. This was mainly attributable to improvement in power supply in the latter half of the year, easy availability of raw cotton and addition to spindles capacity. During the year, the textile industry continued to implement modernisation plans already taken on hand, utilising internal resources* as well as the loans made available to it under the Soft Loan Scheme of the IDBI. The disbursement of soft loans by IDBI to the industry aggregated Rs. 150.1 crores as on March 31, 1981. Of this, an amount of Rs. 74.10 crores was disbursed in 1980-81, compared to Rs. 48·03 crores in 1979-80. Under the National Textile Corporation's (NTC) plan for modernisation and rehabilitation of its mills, the Corporation had spent Rs. 145 crores till March 31, 1981 out of the proposed outlay of Rs. 320 crores.

Total output of yarn (cotton, blended and 100 per cent man-made fibre spun yarn) at 1,298 million kgs. in 1980-81 increased by 6.7 per cent as against a decline of 4.2 per cent in the previous year (Table III. 32). The increase in yarn output was entirely on account of the sharp rise of 12.2 per cent in cotton yarn output compared to the increase of only 0.4 per cent in 1979-80. On the other hand, production of blended and 100 per cent man-made fibre spun yarn suffered a steep decline for the second year in succession, owing to lower off-take by mills following the hike in prices of fibres. Thus, the share of cotton yarn in the total yarn output steadily increased from 74.5 per cent in 1978-79 to 78.1 per cent in 1979-80 and further to 82.2 per cent in 1980-81. During the first quarter of 1981-82, total yarn output increased by 4.0 per cent to 313 million kgs., compared to 301 million kgs. in April-June 1980. Increased production was accompanied by higher unsold stocks of yarn with mills, but the addition to such stocks was only 1 million kgs., the total unsold stocks being 16 million kgs. by end-March 1981.

Consumption of cotton by mills during 1980-81 (April-March) increased for the third year in succession to 77.7 lakh bales (of 170 kgs. each) compared to 70.1 lakh bales in 1979-80. This reflected the easy availability of raw cotton as also the reluctance of mills to use non-cotton fibres on larger scale due to their high prices. As regards non-cotton fibres, their production at 105.37 million kgs. recorded a decline of 3.0 per cent in 1980-81 (April-March), over and above a decline of 10.9 per cent in the preceding year, mainly due to (*i*) increases in prices of raw materials and (*ii*) lower demand for yarn from weaving mills (175.44 million kgs. in 1980-81, compared to 189.98 million kgs. in 1979-80).

During the year under review, careful monitoring of the fulfilment of the obligation of mills producing cotton yarn to pack at least 50 per cent of the yarn available for civil deliveries in hank form (as per the Government's notification issued in June 1979) contributed to the easy availability of yarn for the handloom sector. Further, to ensure smooth supply of yarn at reasonable prices to handloom weavers for production of Janata Cloth, a voluntary scheme to deliver 14 thousand bales of yarn per month in the counts of 20 to 40 at prices 10 per cent less than those prevailing in the third week of January 1981, for a period of 3 months commencing from February 15, 1981 was also introduced, and was extended upto June 1981.

The scheme in vogue since September 15, 1979 permitting spinning mills to operate old replaced spindles was extended by the Government for one more year upto March 31, 1982.

* According to an estimate the industry has ploughed back internal resources of the order of Rs. 200 crores during the last three years for modernisation.

Table III. 32 : Production, Consumption and Exports of Yarn

(Million Kgs.)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
A. Production (i+ii+iii)	1271 (+10.6)	1217 (— 4.2)	1298 (+ 6.7)
(i) Cotton Yarn	947 (+12.3)	951 (+ 0.4)	1067 (+12.2)
(ii) Blended Yarn	217 (+ 1.4)	172 (—20.7)	144 (—16.3)
(iii) 100 per cent Man-made Fibre Spun Yarn ..	107 (+16.3)	94 (—12.1)	87 (— 7.4)
B. Exports*			
Value (Rs. Crores)	15	15	21
Quantity	5	5	8
C. Domestic Consumption (all yarn) (i+ii)	1261	1226	1273
(i) Mill Sector	587	559	561
(ii) Decentralised Sector@	674	667	712
D. Year-end Stocks (unsold) (all yarn)	14	15	16

* Relates to cotton yarn only.
@ Relates to deliveries by cotton mills.
Notes : 1. Figures of yarn exclude filament yarn.
2. Figures in brackets represent percentage variations over the preceding year.
Source : Office of the Textile Commissioner and Cotton Textiles Export Promotion Council.

During the year under review, installed capacity of spindles increased from 20.74 millions in 1979-80 to 21.15 millions in 1980-81; and the capacity utilisation ratio increased to 77.0 per cent in 1980-81, compared to 75.7 per cent in the preceding year.

Total output of cloth (cotton, blended and 100 per cent man-made fibre fabrics) in the mill and decentralised sectors aggregated 10,988 million metres in 1980-81, showing an increase of 5.8 per cent over the previous year as against the decline of 3.0 per cent in 1979-80 (Table III. 33). The higher cloth output during the year was due to easy availability of cotton and increased consumer demand. The increase in cloth offtake was reflected in the lower unsold stocks of cloth with mills throughout the year. Sector-wise, while the output of cloth by the decentralised sector increased by 523 million metres (8.3 per cent), increase in the mill sector's output was only 83 million metres (2.0 per cent). As between different types of cloth, cotton cloth production in the mill and decentralised sectors together rose by 835 million metres or by 11.1 per cent in 1980-81, while the output of blended and 100 per cent man-made fibre fabrics declined by 229 million metres compared to the position in 1979-80, thus also reflecting the shift in the pattern of yarn consumption by weaving units. The rising trend in total cloth production was maintained during April-June 1981 and total production of cloth in the mill sector at 1,014 million metres was 1.0 per cent higher than that produced in the corresponding quarter of 1980.

In 1980-81, there was no change in the total installed capacity of 207 thousand looms in the organised sector of the industry; and the utilisation of looms was marginally higher at 77.7 per cent, compared to 77.4 per cent in 1979-80.

Exports of cotton piecegoods (mill-made and powerloom) declined by Rs. 11 crores to Rs. 189.90 crores in 1980-81, resulting largely

Table III. 33 : Production, Consumption and Exports of Cotton and Man-made Textiles

(Million Metres)

Item	1978-79	1979-80	1980-81 (Provisional)
1	2	3	4
A. Production (*i*+*ii*)	10708 (+10.6)	10382 (— 3.0)	10988 (+ 5.8)
(*i*) Mill Sector (*a*+*b*+*c*)	4328 (+ 5.6)	4085 (— 5.6)	4168 (+ 2.0)
(*a*) Cotton Fabrics	3317 (+ 5.5)	3231 (— 2.6)	3434 (+ 6.3)
(*b*) Blended/Mixed Fabrics	998 (+ 1.3)	851 (—14.7)	730 (—14.2)
(*c*) 100 per cent Man-made Fibre Fabrics ..	13 (+85.7)	3 (—76.9)	4 (+33.3)
(*ii*) Decentralised Sector (*a*+*b*+*c*)	6380 (+15.0)	6297 (— 1.3)	6820 (+ 8.3)
(*a*) Cotton Fabrics	4311 (+16.8)	4302 (— 0.2)	4934 (+14.7)
(*b*) Blended/Mixed Fabrics	712 (+ 7.1)	632 (—11.2)	540 (—14.6)
(*c*) 100 per cent Man-made Fibre Fabrics ..	1357 (+13.7)	1363 (+ 0.4)	1346 (— 1.2)
B. Exports (all cloth)			
Value (Rs. Crores) @	673	771	853
Quantity	899	912	918
C. Domestic Consumption (all cloth)*	9809	9470	10070
D. Year-end stocks (unsold) (all cloth)+	152	130	145

@ Relates to cotton textiles only.
* Relates to total availability.
\+ Relate to mill sector only.
Sources: Office of the Textile Commissioner and Indian Cotton Mills' Federation.

from lower offtake by importers from U.S.A. and U.K. However, exports of cotton yarn in 1980-81, at Rs. 21.39 crores, increased by about Rs. 6 crores compared to the preceding year's level. Total cotton textile exports also continued to rise during 1980-81 and amounted to Rs. 853 crores, compared to Rs. 771 crores in 1979-80, largely due to the expansion of trade with the East European countries, particularly U. S. S. R. and Poland.

The NTC, set up in 1968 with the main objective of rehabilitating/modernising sick textile mills, operated in 1980-81 with 109 mills (38 spinning units, 67 composite units 3 powerloom units and one processing unit) out of the total of 111 mills taken over upto 1978. While production of cloth by NTC mills around 950 million metres increased during 1980-81 by 107 million metres over the previous year's output, that of yarn stagnated around the level of 65 million kgs. produced in 1979-80. The capacity utilisation in NTC mills during 1980-81 was almost on par with the average for the textile industry, mainly due to the programme of modernisation undertaken by NTC since 1974. During the first quarter of 1981-82, NTC mills produced 227 million metres of cloth compared to 209 million metres in April-June 1980. Production of yarn also was higher at 43 million kgs. compared to 37 million kgs. in April-June 1980. For 1981-82, a production target of 1,010 million metres of cloth and 73 million

kgs. of yarn has been set for NTC mills. NTC have also decided to set up two exclusively export-oriented textile mills in Gujarat and Tamil Nadu.

During the year under review, a new integrated textile policy was announced by the Government on March 9, 1981 with the main objectives of (*a*) increasing production of cloth of acceptable quality to meet the clothing requirements of a growing population, (*b*) promoting harmonious balanced growth of all sectors of the industry, (*c*) maximising growth of handlooms in the decentralised sector and khadi, hosiery and natural silk sectors to generate more employment and to raise the standard of living of small weavers, (*d*) strengthening and streamlining the infrastructure for distribution of cloth to weaker sections of the population, (*e*) encouraging the use of man-made fibres and yarn by different sectors of the industry (while maintaining cotton as the main fibre), and (*f*) generating surplus for the world market at competitive prices.

In pursuance of the new textile policy, a revised *Controlled Cloth Scheme*, aimed at producing 650 million square metres of controlled cloth (only dhotis, sarees and long cloth) annually has been introduced. Out of this, 325 million square metres would be produced by the handloom sector and the rest by the mill sector (mainly by NTC mills). Under the old scheme, a similar target of 650 million square metres of controlled cloth output had been assigned to the handloom and mill sectors in the proportion of 250 million square metres and 400 million square metres, respectively. But, under the new policy, the handloom sector is being given a progressively increasing share in the controlled cloth scheme.

With effect from July 1, 1981, the subsidy on sale of controlled cloth produced by handloom sector was raised from Rs. 1.25 to Rs. 1.50 per square metre. Simultaneously, a 15 per cent increase was allowed in the maximum sale price of controlled cloth produced by the handloom sector. In the case of controlled cloth produced by NTC mills, the subsidy was increased from Rs. 1.90 to Rs. 2 for dhotis and sarees and in case of longcloth it was reduced from Rs. 1.90 to Rs. 1.50 per square metre. In order to meet the enhanced subsidy on controlled cloth, the additional excise duty on all textiles was raised from 10 to 15 per cent under the Union Government Budget for 1981-82.

(*b*) PAPER, PAPER BOARDS AND NEWSPRINT

During 1980-81, production of paper, paper boards and newsprint increased at a much higher rate than during the previous year (Table III. 34), but capacity utilisation continued to remain at a low level due to power shortage, inadequate availability of coal, shortage of pulpable raw materials, transport bottlenecks and industrial unrest in some units. The gap between demand and indigenous production was bridged, as in the past, through larger imports.

(*i*) *Paper and Paper Products*

Total output of paper and paper boards at 1,104 thousand tonnes in 1980-81 was 8.6 per cent higher than in the previous year due to improved supply of coal and power in the latter half of the year. Due to creation of additional capacity to the extent of 119 thousand tonnes during 1980-81 and owing to continued improvement in infrastructural facilities, production of paper and paper boards during April-June 1981 at 283 thousand tonnes, was 12.8 per cent higher compared to 251 thousand tonnes in the corresponding quarter in 1980.

Among the different varieties of paper, production of paper boards increased over the year by 8.7 per cent to the level of 188 thousand tonnes in 1980-81, that of writing and printing paper rose to 654 thousand tonnes or by 8.6 per cent and that of wrapping paper increased by 8.9 per cent to 258 thousand tonnes; production of special varieties paper, however, continued to stagnate at the level of about 4 thousand tonnes.

During the year under review, Government took various measures to control the increase in prices of paper and paper products and to streamline distribution procedures to meet the genuine requirements of the users. The price of white printing paper was raised from Rs. 2,750 to Rs. 3,500 per tonne with effect from November 1980, having regard to the increase in cost of production; and the price

Table III. 34 : Paper, Paper Boards and Newsprint

(Thousand Tonnes)

Year	No. of Units	Installed Capacity@	Production	Capacity Utilisation Ratio (Per cent)
1	2	3	4	5
A. Paper and Paper Boards				
1978-79	106	1380	998 (+ 5.3)	78.3
1979-80	121	1538	1017 (+ 1.9)	66.1
1980-81 (Provisional)	138	1657	1104 (+ 8.6)	66.6
B. Newsprint				
1978-79	1	75	48 (—14.3)	64.0
1979-80	1	75	48 (—)	64.0
1980-81 (Provisional)	1	75	51 (+ 6.3)	68.0

@Figures relate to the position as on 1st January of the respective financial year.
Note: Figures in brackets represent percentage variations over the preceding year.
Source: C.S.O.

control on cream wove and laid paper was simultaneously removed. To meet the increased demand for writing and printing paper, Government imported 64,000 tonnes of paper valued at Rs. 41 crores during 1980-81.

As a measure of ensuring smooth power supply to paper manufacturing units, Government decided to treat paper mills with captive power generation plants on par with power stations in respect of supply of coal and allotment of wagons. Efforts are also being made by the Government to make available other necessary inputs to paper units. Further, in order to encourage utilisation of bagasse in the manufacture of paper, Government announced a package of measures including full excise duty exemption for paper made with not less than 75 per cent bagasse content. Small paper units using non-conventional raw materials have also been granted excise relief.

(ii) Newsprint

The National Newsprint and Paper Mills (NEPA), a public sector undertaking and the only newsprint mill in the country, produced 51 thousand tonnes of newsprint during 1980-81, compared to 48 thousand tonnes in 1979-80. Newsprint production continued to be adversely affected by factors such as imbalance between pulping and paper manufacturing capacity, obsolescence of machinery, operational problems in the cold soda plant and the chemical pulp plant of the mill, erratic supply of coal and power cuts. In order to meet the supply demand gap, Government approved import of 369 thousand tonnes of newsprint during 1980-81, including the carry forward of 19 thousand tonnes from 1979-80 entitlement. Production of newsprint during April-June, 1981 shot up by 50 per cent to 15 thousand tonnes, in contrast to 8.8 per cent decline in the corresponding quarter of 1980.

The Government announced a new newsprint allocation policy, effective July 2, 1980, favouring the small and medium newspapers, incorporating therein features such as higher quota allocations for them, longer validity period for lifting the stocks, opening of more regional depots by the State Trading Corporation and import of more newsprint in the form of sheets for use by small newspapers.

A newsprint mill in Kerala being set up by Hindustan Paper Corporation (HPC) with a capacity of 80 thousand tonnes and another one in Karnataka by Mysore Paper Mills with a capacity of 75 thousand tonnes per annum are expected to commence production in 1981-82.

Chapter IV

Price Trends and Price Policy

Price Trends : The Main Features

During the Bank's accounting year July 1980-June 1981, the wholesale price index for "all commodities" (1970-71=100) registered a rise for the third year in succession. It went up by 11.3 per cent from 251.4 for the week ending June 28, 1980 to 279.8 for the week ending June 27,1981. However, this rise was considerably lower than the increase of 23.2 per cent in the preceding year. Between end-June 1978 and end-June 1979, the price index rose by 9.7 per cent. The average annual index recorded a rise of 16.7 per cent during the period under review compared with 20.2 per cent in 1979-80 and 2.5 per cent in 1978-79.

During the year under review, the downturns in price movements were few, brief and relatively mild, while the upward phases were longer and dominant. The year could be divided into three distinct broad phases: One of an upward swing over 13 weeks from June 28, 1980 to September 27, 1980 when the index rose by 5.6 per cent; the second phase of the following 12 weeks lasting up to December 20, 1980 when the index declined by 3.8 per cent, and the last phase of the succeeding 27 weeks upto June 27, 1981, when it increased by 9.6 per cent.

As seen in the month-wise changes in the "all commodities" price index presented in Table IV-1, the rate of increase in the price level declined from the high of 4.3 per cent in July 1980 to 0.3 per cent in October 1980. In the subsequent two months, *viz.*, November and December 1980, prices eased, the index declining by 2.3 per cent and 0.6 per cent respectively. Thereafter, the price level continued to rise with the monthly rate of increase averaging 1.4 per cent. For the year 1980-81 as a whole, the average monthly rate of inflation was 1.0 per cent against 1.7 per cent in the previous year.

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

(1970-71=100)

Year	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
1979-80..	+4.6	+3.2	+1.2	+0.5	—0.1	+2.3	+0.3	+1.6	+0.8	+0.8	+2.1	+3.0
1980-81..	+4.3	+1.0	+1.3	+0.3	—2.3	—0.6	+2.4	+2.1	+0.5	+1.9	+0.8	+0.7

Except for a few commodities/commodity sub-groups (*viz.*, copra, raw tobacco, vegetables, jute, hemp and mesta textiles, leather and leather products, cement, lime and plaster), prices of all the commodities included in the wholesale price index went up during the year under review. But price increases were dispersed over a wider range of commodities than in the preceding year. The following principal commodities which contributed to the increase in the price level during 1980-81: foodgrains, fruits, fish, oilseeds, milk and milk products, condiments and spices, raw cotton, tea and petroleum crude/natural gas forming a part of the major group 'primary articles' with weight of 326.4 contributed 44.6 per cent; mineral oils in the major group 'fuel, power, light and lubricants' with weight of 49.1 accounted for a rise of 8.6 per cent; and sugar, khandsari and gur, edible oils, cotton cloth, tyres and tubes, iron, steel and ferro alloys and aluminium, which form part of 'manufactured products', accounting for a weight of 196.5 contributed 25.8 per cent to the rise in the general price index. [See Table IV-2 (a,b,c).] Together, these items contributed 79.0 per cent of the rise in the general price level. In the preceding year, the price

increase was more concentrated: petroleum crude/natural gas, mineral oils and sugar, khandsari and gur with weight of 127.6 alone accounted for a weighted contribution of about 54 per cent to the rise in the general price level.

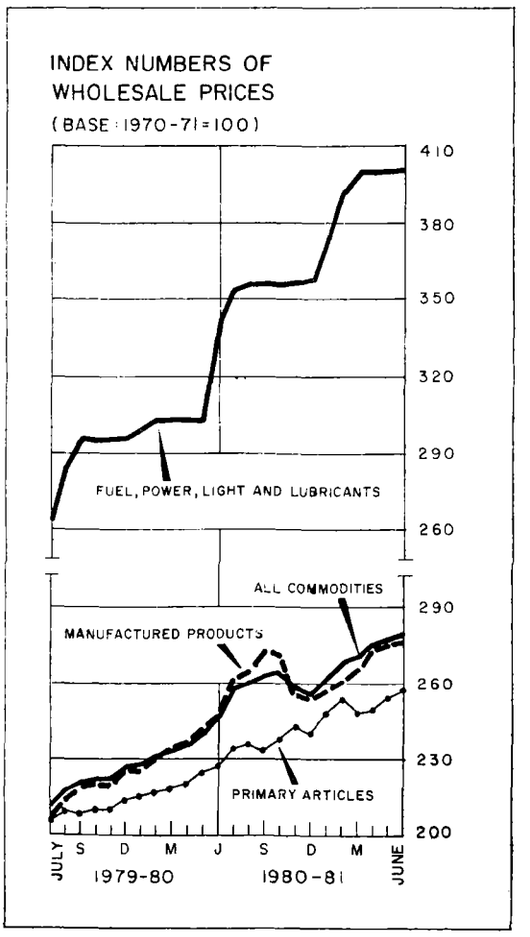
As in the past, supply imbalances in some critical commodities was an important factor influencing the price situation during the year. Apart from this, the increases effected in the administered prices of commodities, such as petroleum products, cement and steel, as also in the excise duties of certain commodities contributed to the overall inflationary situation. The good foodgrains production in 1980-81 did not obviously reduce the inflationary impact in view of the large decline in foodgrains output in the previous year and the consequent draw-down on their public sector stocks.

Commodity/Group-wise Price Behaviour:

Among the major groups in the general index, the price index of 'primary articles' went up by 13.3 per cent over the year, its weighted contribution to the rise in the general index being 44.8 per cent. 'Manufactured products' recorded an increase of 9.2 per cent in 1980-81 and contributed, in view of its relatively large weight in the index, 40.8 per cent of the rise in the overall price level. 'Fuel, power, light and lubricants' went up by 13.7 per cent and contributed 14.4 per cent to the rise in the general price level.

Primary Articles:

Among the 'primary articles', prices of the groups 'food articles' and 'non-food articles' showed increases respectively of 13.2 per cent and 15.3 per cent against 8.9 per cent and 14·9 per cent in the preceding year. Foodgrains' prices rose sharply by 12.8 per cent. Jowar prices alone rose by 33.0 per cent, while increases in the prices of rice, wheat and bajra were high at 6.5 per cent, 10.1 per cent and 17.9 per cent respectively. The rise in the prices of foodgrains at wholesale markets was in part due to the steep rise in production costs, as reflected in the upward revisions granted in the procurement and issue prices by the Government. The availability of fairly sizeable stock of foodgrains with the public distribution system contributed to meeting the impact of the severe drought of 1979-80.



However, the sharp decline in the level of the stocks had a bullish influence in the last part of the year and the decision of the Government to import wheat has to be viewed in this background. The Union Government raised the procurement prices of the common variety of paddy by Rs. 10/- to Rs. 105/- a quintal for the 1980-81 season, in view of the rise in the prices of fertilisers, petrol and diesel. Prices of fine and superfine varieties were also moved up by Rs. 10/- each. The procurement price of wheat was raised by Rs. 13/- per quintal. In order to reduce the burden of subsidy, the Government raised the issue price of the rationed rice by 15 paise per kg. with effect from January 1,1981 and that of wheat by 15 paise per kg. effective April 1,1981. The support prices of jowar bajra, maize and ragi were also revised upwards by Rs. 10/- a quintal to Rs. 105/- a quintal. Jowar prices, however, went up mainly on account of a

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

(Base: 1970-71=100)

Items	Weight	End-June 1979	End-June 1980	End- June 1981	Percentage Variation		Weighted contribute to the change in the All Commodities Index	
					Col. 3 over Col. 2	Col. 4 over Col. 3	1979-80	1980-81
	1	2	3	4	5	6	7	8
ALL COMMODITIES	**1000.00**	**204.1**	**251.4**	**279.8**	**+ 23.2**	**+ 11.3**	**+100.0**	**+100.0**
PRIMARY ARTICLES	**416.67**	**195.6**	**229.1**	**259.6**	**+ 17.1**	**+ 13.3**	**+ 29.5**	**+ 44.8**
A. FOOD ARTICLES	**297.99**	**185.2**	**201.6**	**228.3**	**+ 8.9**	**+ 13.2**	**+ 10.3**	**+ 28.0**
Food Grains	129.22	173.8	207.1	233.6	+ 19.2	+ 12.8	+ 9.1	+ 12.1
(*i*) CEREALS	107.43	161.6	191.8	212.0	+ 18.7	+ 10.5	+ 6.9	+ 7.6
Rice	51.31	171.5	207.3	220.8	+ 20.9	+ 6.5	+ 3.9	+ 2.4
Wheat	34.17	150.9	165.8	182.6	+ 9.9	+ 10.1	+ 1.1	+ 2.0
Jowar	8.39	160.2	187.0	248.7	+ 16.7	+ 33.0	+ 0.5	+ 1.8
Bajra	5.64	140.5	193.8	228.4	+ 37.9	+ 17.9	+ 0.6	+ 0.7
(*ii*) PULSES	21.79	234.1	282.6	339.9	+ 20.7	+ 20.3	+ 2.2	+ 4.4
Gram	10.39	210.6	307.0	385.4	+ 45.8	+ 25.5	+ 2.1	+ 2.9
(*iii*) FRUITS AND VEGETABLES	61.32	203.8	207.4	238.1	+ 1.8	+ 14.8	+ 0.5	+ 6.6
Vegetables	24.86	160.8	198.6	184.0	+ 23.5	— 7.3	+ 2.0	— 1.3
Fruits	36.46	233.1	211.9	275.0	— 9.1	+ 29.8	— 1.6	+ 8.1
(*iv*) MILK & MILK PRODUCTS	61.50	176.1	176.7	197.0	+ 0.3	+ 11.5	+ 0.1	+ 4.4
(*v*) EGGS, FISH & MEAT	18.97	241.0	260.8	292.1	+ 8.2	+ 12.0	+ 0.8	+ 2.1
Fish	6.31	287.1	258.7	327.7	— 9.9	+ 26.7	— 0.4	+ 1.5
Meat	8.46	255.2	317.6	334.0	— 24.5	+ 5.2	+ 1.1	+ 0.5
(*vi*) CONDIMENTS & SPICES	10.94	138.7	122.1	152.8	— 12.0	+ 25.1	— 0.4	+ 1.2
(*vii*) OTHER FOOD ARTICLES	16.04	206.2	215.6	244.0	+ 4.6	+ 13.2	+ 0.3	+ 1.6
Tea	11.49	229.5	239.1	263.7	+ 4.2	+ 10.3	+ 0.2	+ 0.9
Coffee	1.61	127.9	121.5	139.8	— 5.0	+ 15.1	neg.	+ 0.1
B. NON-FOOD ARTICLES	**106.21**	**181.2**	**208.2**	**240.0**	**+ 14.9**	**+ 15.3**	**+ 6.1**	**+ 11.9**
(*i*) FIBRES	31.73	165.6	166.1	214.1	+ 0.3	+ 28.8	—	+ 5.4
Raw Cotton	22.46	160.9	164.2	228.6	+ 2.1	+ 39.2	+ 0.1	+ 5.1
Raw Jute	4.29	144.2	127.7	130.7	— 11.0	+ 2.4	— 0.1	—
(*ii*) OIL SEEDS	42.01	168.9	217.6	263.4	+ 28.8	+ 21.1	+ 4.3	+ 6.8
Groundnuts	18.21	170.9	204.1	285.9	+ 19.4	+ 40.1	+ 1.3	+ 5.2
Rape & Mustard seed	8.22	185.7	260.8	282.8	+ 40.4	+ 8.4	+ 1.3	+ 0.6
Copra	4.49	153.7	204.1	194.6	+ 32.8	— 4.7	+ 0.5	— 0.2
(*iii*) OTHER NON-FOOD ARTICLES	32.47	212.2	237.4	235.2	+ 11.9	— 0.9	+ 1.7	— 0.3
Sugar Cane	16.42	147.5	184.5	192.7	+ 25.1	+ 4.4	+ 1.3	+ 0.5
Rubber	1.28	212.3	228.0	299.5	+ 7.4	+ 31.4	—	+ 0.3
Logs, Timber & Bamboo	3.34	350.5	392.2	457.1	+ 11.9	+ 16.5	+ 0.3	+ 0.8
Raw Tobacco	8.07	138.5	149.6	130.8	+ 8.0	— 12.6	+ 0.2	— 4.9
C. MINERALS	**12.47**	**566.5**	**1061.5**	**1174.7**	**+ 87.4**	**+ 10.7**	**+ 13.1**	**+ 5.0**
(*i*) METALLIC MINERALS	2.29	207.9	231.9	247.9	+ 11.5	+ 6.9	+ 0.1	+ 0.1
Iron Ore	1.56	190.6	213.5	236.5	+ 12.0	+ 10.8	+ 0.1	+ 0.1
Lime Stone	2.30	207.0	228.2	239.2	+ 10.2	+ 4.8	+ 0.1	+ 0.1
(*ii*) OTHER MINERALS	4.16	203.2	239.1	258.3	+ 17.7	+ 8.0	+ 0.3	+ 0.3
(*iii*) PETROLEUM CRUDE/NATURAL GAS	6.02	954.7	1947.0	2162.3	+10.39	+ 11.1	+ 12.6	+ 4.5

decline in production. The price index for pulses recorded a rise of 20.3 per cent which was almost of the same order as in the previous year, which follows from the continued gap in the demand for and supply of pulses. The main influence in this group came from the rise of 25.5 per cent in the prices of gram.

Among other important commodities to show increase under this major group were : fruits (29.8 per cent), fish (26.7 per cent), coffee (15.1 per cent), raw cotton (39.2 per cent), Groundnuts (40.1 per cent) and rubber (31.4 per cent). The factors influencing this uptrend included exports of fruits and groundnuts, and generally reduced availability of rubber and raw cotton. In the case of raw cotton, the price increase reflected in part, in the large scale commercial purchases made by the public sector agencies at market prices.

The sub-group 'minerals' indicated a small rise of 10.7 per cent as compared with the steep rise of 87.4 per cent in the preceding year. The index for 'petroleum crude and natural gas' registered a rise of 11·1 per cent compared with that of 103.9 per cent last year.

Fuel, Power, Light and Lubricants:

All the commodities comprising this major group recorded price rises during the year but to a lesser extent than the increases registered in the previous year. Prices of coal and coke were hiked up. They, as a result, showed increases over the year of 28.8 per cent and 37.4 per cent respectively. (Table IV-2 (b)). The sub-group 'mineral oils' recorded a rise of only 11.8 per cent, as against the rise of 49.8 per cent last year. During the year under review, the upward revision in the domestic prices of petroleum products in January 1981 was of about 10 per cent. This was unavoidable in view of the sharp rise in international oil prices and the disruption in petroleum production in Assam, as also in view of the need to maintain the viability of the domestic petroleum industry. Consequently, all the commodities under this sub-group, *viz.*, kerosene, petrol, aviation spirit, diesel oil, lubricating oil and furnace oil exhibited lower price rise in the year under review than in the previous year. The sub-group 'electricity' recorded a comparatively large rise of 10.0 per cent in the year under review, owing to the hike in the power tariffs by the State Electricity Boards.

Manufactured Products:

Except the group 'leather and leather products' which declined by 1.9 per cent as against the rise of 12.1 per cent last year, the price indices of all the other groups comprising 'Manufactured products' showed increases during the year.

The group 'food products' showed a remarkable decline from the peak increase of 59.2 per cent last year to a rise of only 12.1 per cent this year. This followed mainly from the fact that the rise in sugar prices during 1980-81 did not assume the same dimension as in the previous year, with increased output of sugar and the Government's scheme of releasing adequate monthly quota of sugar for domestic consumption. The Government also supported the positive influence of the large production of sugar in 1980-81 on sugar prices with the imposition of restrictions on the movement of sugar on trade account and the arrangement for the import of over two lakh tonnes of sugar and the levy of a relatively high excise duties on khandsari production. Reflecting the sugar situation, gur prices too increased, albeit by a mild order of 4.9 per cent, compared with the rise of over 102.4 per cent last year.

Among the other important manufactured products, edible oils' prices went up by 22.4 per cent, the same order of rise as in the previous year. The major pressure emerged from groundnut oil, the prices of which increased by 40.0 per cent, mainly on account of the demand for groundnuts exceeding the production in 1980-81, the irregularity and fall in the supplies of groundnut oil from Gujarat, the permission granted to NAFED for export of HPS groundnut and the reduced quantum of imports of edible oils by STC.

In the 'textiles' group, the index for 'jute, hemp and mesta textiles' declined by 15.5 per cent as against the fall of 4.0 per cent in the preceding year, in view of the increase in the domestic production of jute goods interfaced with only a moderate demand in domestic and

Table IV-2(b) : Index Numbers of Wholesale Prices : Fuel, Power, Light and Lubricants

(1970-71=100)

Items	Weight	End-June 1979	End-June 1980	End-June 1981	Percentage Variation		Weighted contribution to the change in the All Commodities Index	
					Col. 3 over Col. 2	Col. 4 over Col. 3	1979-80	1980-81
	1	2	3	4	5	6	7	8
FUEL, POWER, LIGHT & LUBRICANTS ..	**84.59**	**255.0**	**352.8**	**401.0**	**+ 38.4**	**+ 13.7**	**+ 17.4**	**+ 14.4**
A. COAL MINING	11.47	212.1	328.8	424.4	+ 55.0	+ 29.1	+ 2.8	+ 3.9
Coal	10.39	212.2	335.5	432.1	+ 58.1	+ 28.8	+ 2.7	+ 3.5
Coke	0.75	224.3	278.7	382.8	+ 24.3	+ 37.4	+ 0.1	+ 0.3
B. MINERAL OILS	49.12	279.3	418.5	468.0	+ 49.8	+ 11.8	+ 14.5	+ 8.6
Kerosene	8.35	252.1	272.8	293.4	+ 8.2	+ 7.6	+ 0.4	+ 0.6
Petrol	8.56	340.8	434.6	469.3	+ 27.5	+ 8.0	+ 1.7	+ 1.1
Aviation spirit	4.55	348.1	580.3	587.0	+ 66.7	+ 1.2	+ 2.2	+ 0.1
Light Diesel oil	3.44	269.9	560.6	671.5	+107.7	+ 19.8	+ 2.1	+ 1.3
High Speed Diesel oil	13.74	176.6	285.7	339.4	+ 61.8	+ 18.8	+ 3.2	+ 2.6
Lubricating oil	6.48	312.7	377.8	404.4	+ 20.8	+ 7.0	+ 0.9	+ 0.6
Furnace oil	4.00	432.6	904.6	1065.1	+109.0	+ 17.7	+ 4.0	+ 2.3
C. ELECTRICITY	24.00	225.7	229.7	252.7	+ 1.8	+ 10.0	+ 0.2	+ 1.9

Table IV-2(c): Index Numbers of Wholesale Prices : Manufactured Products

(1970-71=100)

Items	1	2	3	4	5	6	7	8
MANUFACTURED PRODUCTS	**498.74**	**202.5**	**252.9**	**276.1**	**+ 24.9**	**+ 9.2**	**+ 53.1**	**+ 40.8**
A. FOOD PRODUCTS	133.22	188.6	300.3	336.6	+ 59.2	+ 12.1	+ 31.3	+ 17.0
(*a*) SUGAR, KHANDSARI AND GUR	72.41	196.5	371.1	403.5	+ 88.9	+ 8.7	+ 26.7	+ 8.3
Sugar	21.91	161.1	223.9	276.5	+ 39.0	+ 23.5	+ 2.9	+ 4.1
Khandsari	4.92	156.4	358.3	424.4	+129.1	+ 18.4	+ 2.1	+ 1.1
Gur	45.58	217.8	440.8	462.3	+102.4	+ 4.9	+ 21.5	+ 3.4
(b) MISCELLANEOUS FOOD PRODUCTS	49.16	178.0	219.5	261.6	+ 23.3	+ 19.2	+ 4.3	+ 7.3
(*i*) EDIBLE OILS	37.16	175.3	214.7	262.8	+ 22.5	+ 22.4	+ 3.1	+ 6.3
Vanaspati	7.52	184.7	206.2	231.2	+ 11.6	+ 12.1	+ 0.3	+ 0.7
Groundnut oil	14.15	172.5	206.4	289.0	+ 19.7	+ 40.0	+ 1.0	+ 4.1
B. BEVERAGES, TOBACCO, TOBACCO PRODUCTS	27.08	184.6	210.5	218.4	+ 14.0	+ 3.8	+ 1.5	+ 0.8
C. TEXTILES	110.26	194.0	211.2	221.9	+ 8.9	+ 5.1	+ 4.0	+ 4.2
(*i*) COTTON TEXTILES	81.02	191.2	209.9	225.5	+ 10.0	+ 7.4	+ 3.2	+ 4.5
Cotton Yarn	13.82	212.3	242.6	249.6	+ 14.3	+ 2.9	+ 0.9	+ 0.3
Cotton Cloth (Mills)	38.04	184.5	203.7	225.2	+ 10.4	+ 10.6	+ 1.5	+ 2.9
(*ii*) JUTE, HEMP, MESTA, TEXTILES	12.14	204.1	195.9	165.6	— 4.0	— 15.5	— 0.2	— 1.3
D. PAPER & PAPER PRODUCTS	8.51	223.2	259.8	269.9	+ 16.4	+ 3.9	+ 0.7	+ 0.3
E. LEATHER & LEATHER PRODUCTS	3.85	337.7	378.5	371.3	+ 12.1	— 1.9	+ 0.3	—
F. RUBBER & RUBBER PRODUCTS	12.07	202.3	241.5	276.4	+ 19.4	+ 14.5	+ 1.0	+ 1.5
(*i*) TYRES AND TUBES	9.84	203.0	245.0	283.1	+ 20.7	+ 15.6	+ 0.9	+ 1.3
Tyres	7.12	199.0	242.7	285.3	+ 22.0	+ 17.6	+ 0.7	+ 1.1
(*ii*) OTHER RUBBER PRODUCTS	2.33	199.4	226.0	247.1	+ 13.3	+ 9.3	+ 0.1	+ 0.2
G. CHEMICAL & CHEMICAL PRODUCTS	55.48	184.3	242.7	251.7	+ 31.7	+ 3.7	+ 6.8	+ 1.8
(*a*) BASIC INDUSTRIAL CHEMICALS	7.26	241.6	339.7	353.8	+ 40.6	+ 4.2	+ 1.5	+ 0.3
(*b*) FERTILISERS	12.52	165.0	258.9	260.6	+ 56.9	+ 0.7	+ 2.5	+ 0.1
Nitrogenous	8.37	171.7	273.9	273.9	+ 59.5	—	+ 0.2	—
Phosphatic	3.52	152.3	226.8	238.4	+ 48.9	+ 5.1	+ 0.6	+ 0.1
H. NON-METALLIC MINERAL PRODUCTS	14.15	239.4	275.5	290.4	+ 15.1	+ 5.4	+ 1.1	+ 0.7
(*a*) CEMENT, LIME, PLASTER	7.07	226.3	233.0	231.3	+ 3.0	— 0.7	+ 0.1	—
Cement	7.03	226.7	233.4	231.7	+ 2.8	— 0.7	+ 0.1	—
I. BASIC METALS, ALLOYS AND METAL PRODUCTS	59.74	245.8	265.5	303.5	+ 8.0	+ 14.9	+ 2.5	+ 8.3
(*a*) IRON, STEEL & FERRO ALLOYS	34.73	256.2	266.2	314.1	+ 3.9	+ 18.0	+ 0.7	+ 5.9
Pig Iron	1.67	211.0	211.8	303.8	+ 0.4	+ 43.4	—	+ 0.5
Structurals	4.72	220.8	222.3	267.7	+ 0.7	+ 20.4	—	+ 0.8
Steel Plates & Sheets	5.97	225.0	226.5	273.2	+ 0.7	+ 20.6	—	+ 1.0
Bars & Rods	7.31	315.1	317.0	368.3	+ 0.6	+ 16.2	—	+ 1.3
(*b*) NON-FERROUS METALS & THEIR ALLOYS	11.78	236.8	275.6	303.2	+ 16.4	+ 10.0	+ 1.0	+ 1.1
Aluminium	4.29	236.3	287.8	360.0	+ 21.8	+ 25.1	+ 0.5	+ 1.1
(*c*) METAL PRODUCTS	13.23	226.7	254.7	283.2	+ 12.4	+ 11.2	+ 0.8	+ 1.3
J. MACHINERY & TRANSPORT EQUIPMENT	67.18	209.2	234.2	258.8	+ 12.0	+ 10.5	+ 3.6	+ 5.8
(*a*) NON-ELECTRICAL MACHINERY	30.91	211.8	239.1	271.2	+ 12.9	+ 13.4	+ 1.8	+ 3.5
(*b*) ELECTRICAL MACHINERY	19.54	196.7	207.4	212.5	+ 5.4	+ 3.9	+ 0.4	+ 0.6
(*c*) TRANSPORT EQUIPMENT	16.73	218.8	256.4	289.9	+ 17.2	+ 13.1	+ 1.3	+ 1.9
K. MISCELLANEOUS PRODUCTS	7.20	204.3	223.7	240.6	+ 9.5	+ 7.5	+ 0.3	+ 0.4

international markets. Cotton textiles' prices rose by a lower order of 7.4 per cent than that of 10.0 per cent last year; this was because cotton yarn prices which went up by 14.3 per cent last year moved up by only 2.9 per cent in 1980-81.

The large increase of 14.9 per cent in the the prices of 'basic metals, alloys and metal products', took place due to the raising of the domestic prices of steel by 20 per cent and a rise of Rs. 420/- per tonne in the pig iron prices, as also the increase in the excise duty on steel ingots effected in February 1981. In addition, prices of different varieties of aluminium were revised upward in July 1980 by about 13 per cent and in March 1981, by about 18 per cent.

The price index of 'rubber and rubber products' also moved up during the year under review. It rose by 14.5 per cent in comparison with 19.4 per cent last year. The fall in the domestic production of natural rubber, coinciding with the fall in rubber imports had aggravated shortages and boosted the prices of this group.

The increases in the price indices of the remaining groups were : 'beverages, tobacco and tobacco products' (3.8 per cent as against 14.0 per cent last year); 'paper and paper products' (3.9 per cent as against 16.4 per cent last year); 'chemicals and chemical products' (3.7 per cent as against 31.7 per cent last year); 'non-metallic mineral products' (5.4 per cent as against 15.1 per cent last year); 'machinery and transport equipment' (10.5 per cent as against 12.0 per cent last year) and 'miscellaneous products' (7.5 per cent as against 9.5 per cent last year). The price rises in the year under review in all these groups were thus lower than those of 1979-80.

Consumer Price Indices

The rise in the prices of most of the primary articles, fuel items and other finished consumer products resulted in an increase in the All-India Consumer Price Index for Industrial Workers (1960=100) from 386 in June 1980 to 439 in June 1981, which showed a rise of 13.7 per cent over the period. In the same period of 1979-80, the index had shown a smaller rise of 11.9 per cent. On an average basis also the rise during July 1980-June 1981 was more pronounced at 11.9 per cent than that of 10.3 per cent in the same period last year.

Table IV-3: Consumer Price Indices

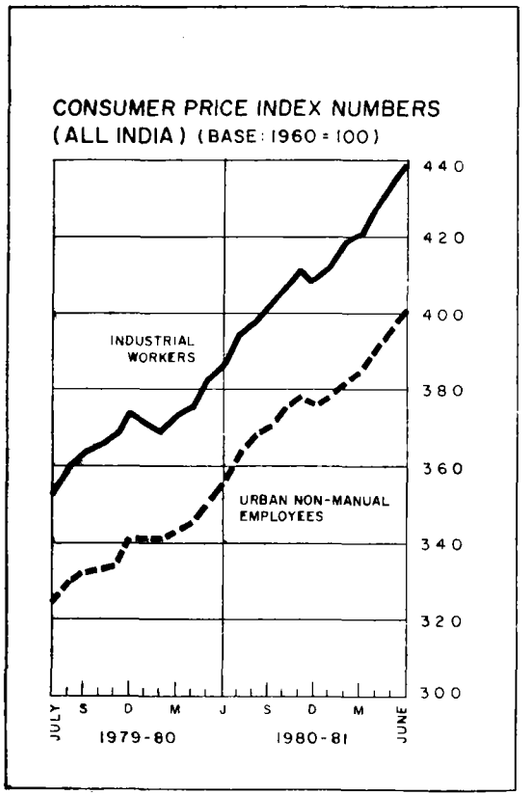
(July-June Average)

	1978-79	1979-80	1980-81
1. Consumer Price Index for Industrial Workers (1960=100)	335.5	369.9	413.8
2. Per cent Variation in (1)	(+2.9)	(+10.3)	(+11.9)
3. Consumer Price Index for Urban Non-Manual Employees (1960=100) ..	309.3	339.1	380.3
4. Per cent Variation in (3)	(+3.5)	(+9.6)	(+12.1)

A centre-wise analysis of consumer price indices shows that increases were recorded in the indices at all the important centres. The highest rise was recorded in Sholapur (23.9 per cent), followed by Bangalore (19.2 per cent), Nagpur (18.8 per cent), Ahmedabad (16.7 per cent), Hyderabad (16.5 per cent), Coimbatore (16.4 per cent), Bombay (15.7 per cent), Madras (15.4 per cent), Delhi (11.9 per cent) and Calcutta (8.3 per cent).

The Consumer Price Index for Urban Non-Manual Employees (1960=100) rose to 401 in June 1981 from the level of 355 in June 1980 indicating a rise of 13.0 per cent as against a lower rise at 11.6 per cent during the corresponding period last year. In the case of Urban Non-Manual Employees too, the rise on an average basis was conspicuously high at 12.1 per cent than that of 9.6 per cent last year. As in the case

of Consumer Price Index for Industrial Workers, the index for Urban Non-Manual Employees also showed substantial increases at various important centres. Among these, Ahmedabad recorded the highest increase (15.7 per cent), followed by Hyderabad (15.4 per cent), Madras (14.2 per cent), Calcutta (14.0 per cent), Delhi (13.0 per cent), Bangalore (12.2 per cent), Bombay (12.1 per cent) and Lucknow (11.2 per cent).



Price Policies

An important aim of the anti-inflationary policy of the Union Government during 1980-81 (July-June) was to effect an improvement of the availability of commodities of mass consumption in short supply. This was sought to be realised by importing these goods and streamlining the distribution arrangements in respect of essential commodities. The administered prices of some commodities were revised upwards when this had become unavoidable and export duties on certain items were revised in accordance with the trends in their international prices.

The regulatory measures taken during the year under review with regard to agricultural commodities are reviewed in the chapter on "Agriculture and Industrial Output". In this chapter, therefore, the important measures taken in respect of industrial commodities are mentioned.

To check the rise in the prices of sugar, the Union Government continued the scheme of monthly releases of sugar duing the year under review. When the stocks had declined substantially to 20.1 lakh tonnes at end-May 1980, from 43.5 lakh tonnes at end-May 1979, plans were made to import over 2 lakh tonnes of sugar in order to increase the availability of sugar. Stringent stock limits on traders in sugar and khandsari were also imposed in July 1980 to augment supplies.

With the change in the statutory minimum price of sugarcane to Rs. 13/- per quintal in October 1980, on top of a 25 per cent increase in the previous year, the issue price of levy sugar was raised by 65 paise per kg. from December 1980. The new issue price of levy sugar distributed through fair price shops was placed higher at Rs. 3.50 a kg. compared with Rs. 2.85 a kg. previously. The ex-factory price of levy sugar was also raised to Rs.285/- a quintal from Rs. 228/- a quintal.

The proportion of levy and non-levy sugar was also kept unchanged at 65:35. Khandsari prices were ruling high from end-May 1980 which resulted in the diversion of an unduly high proportion of the available sugarcane to khandsari manufacturers. Hence, with a view to restoring the balance and providing an adequate supply of sugarcane to the sugar industry, the excise duty on khandsari was revised upwards effective October 22, 1980. The concessional rates of duty applicable to khandsari units were also withdrawn. The additional duty ranged between Rs. 950/- and Rs. 2,450/- in the case of units working with the aid of old sulphitation plant, and Rs. 510/- and Rs. 1, 210/- in respect of those units working without it. The Government of U. P. banned the movement of khandsari out of the State.

The Government further provided incentives to new sugar units established in low

recovery areas by permitting them to market their entire production as free sale quota for 7 years while units established in medium recovery areas, were given the same facility for 4 years, starting from the sugar season 1980-81. The free sale quota would come down to 75 per cent in the eighth year for the units in low recovery areas and to 65 per cent in the fifth year for units in medium recovery areas. Thereafter, the usual 35 per cent would be allowed as free sale quota.

In June 1981, the Union Government decided to purchase over 2 lakh tonnes of sugar in the international market to meet the increased sugar demand to prevent any shortage of the commodity. Export of sugar was also banned effective February 23, 1981.

Aluminium prices were raised upward from July 15, 1980. This was done in view of the higher prices of imported aluminium and to neutralise the rise in the tariff rates of electricity. The revised prices were inclusive of excise duty. The specified prices of different types of aluminium per tonne were as under (earlier prices are given in brackets): Commercial Grade (CG) ingots Rs. 16,412/- (Rs. 14,589/-), Electrical Grade (EC) ingots Rs. 16,556/- (Rs. 14,877/-) and wire rods Rs. 17,038/- (Rs. 15,222/-). Again in March 1981, the Government, following the spurt in the international prices of aluminium announced a hike in the sale and retention prices with immediate effect and extended price control to the entire production of wire rods manufactured by primary producers. The revised prices of aluminium of different specifications were thus fixed at: CG ingots Rs. 18,492/- per tonne, EC ingots Rs. 18,636/- per tonne and wire rods Rs. 19,475/- per tonne. The Government simultaneously hiked the import duty on aluminium ingots and wire rods from 12.5 per cent to 51.2 per cent *ad valorem* and central excise duty on aluminium wire rods manufactured from ingots or billets from Rs. 134/- per tonne to Rs. 233/- per tonne.

At the instance of the Union Government, the Bureau of Industrial Costs and Prices studied the cost structure and prices of paper industry and recommended an increase in the prices of white printing paper in August 1980. Accordingly, the Government allowed a rise in the price of white printing paper from Rs. 2,750/- per tonne to Rs. 3,500/- per tonne effective November 11, 1980. The price control on the cream-wove-laid paper was simultaneously removed.

During the year 1980-81, the prices of imported newsprint (standard) were raised twice. A hike of Rs. 95/- was effected in January 1981 in respect of high-seas sales and S.T.C.'s buffer stocks, bringing their respective prices per tonne to Rs. 4,520/- and Rs. 4,615/-. Again in April 1981, the prices of different grades of newsprint were increased between the range of Rs. 335/- and Rs. 385 to Rs. 4,945/- and Rs. 4,995/- per tonne. They were further raised by Rs. 480/- per tonne with effect from July 1, 1981. In June 1981, following the Government's decision to levy 15 per cent and 5 per cent customs duty on big and medium newspapers respectively, the price of imported newsprint was brought down by 15 per cent for supplies to small newspapers and by 10 per cent for supplies to medium ones. The prices for big newspapers were retained at the original level. The increase effected in July 1981 was made retrospectively effective from April 1981, thus fixing the price range between Rs. 4,310/- and Rs. 4,975/- per tonne for small newspapers, Rs. 4,545/- and Rs. 5,210/- per tonne for medium newspapers and 5,010/- and Rs. 5,675/- per tonne for big newspapers, without taking into account the customs duty for big and medium newspapers.

With a view to compensating the producers for escalation in the cost of essential inputs like coal, freight, power tariff, stores and spares and wages, the Government, in August 1980, allowed an increase of Rs. 13.65 per tonne in the retention price of cement with retrospective effect from May 3, 1980. The incidence was absorbed in the Cement Regulation Account and not to be passed on to consumers. The retention price before the said increase was Rs. 185/- a tonne for low cost units, Rs. 205/- a tonne for medium cost units and Rs. 220/- a tonne for high cost units. Again in July 1981, the retention price of cement was raised by Rs. 34.74 per tonne; on this occasion there was an increase in consumer price of Rs. 81.91 per tonne. This increase was effected on account of escalations in input cost.

In view of the improvement registered in coal production, the Government removed in August 1980 all restrictions imposed on coal companies on the sale of non-coking coal, except the superior grades for which stocks are limited. To cover the rising costs of raising coal, the price of coal was increased by Rs. 20/- per tonne in February 1981.

The Bureau of Industrial Costs and Prices recommended an increase in drug prices, in view of the rising import costs of drugs. Accordingly, the Union Government had allowed the prices of over 60 bulk drugs to go up in January 1981. The upward revision of prices of additional 52 bulk drugs was again made in June 1981.

The domestic prices of non-ferrous metals are periodically revised, taking into account the trend in the prices in the international markets and the rising costs of indigenous production. Over the year, there were increases in the prices of nickel cathodes/pellets and high grade zinc. Revisions effected during the period under review are given below:

Prices of Non-ferrous Metals
(excluding Sales Tax, Octroi and the like)

(Rs. per tonne)

Dates	Copper wire bars	Nickel cathodes/ pellets	Zinc high grade	Pig lead 99.97%	Tin
As on					
July 1, 1980	34,000	83,000	13,000	12,000	2,10,000
October 1, 1980		85,000	13,700	13,000	
November 1, 1980	34,500	83,000	13,500	12,600	2,06,000
January 1, 1981	33,750		13,600	12,000	1,90,000
March 1, 1981	33,300	87,000	14,100	12,000	1,87,000
April 1, 1981 ... ... —			14,500		1,85,000
May 1, 1981 ... ... —			15,250		1,82,000
June 1, 1981	32,300	87,000	15,750	11,000	1,80,000
July 1, 1981	32,300	90,000	16,000	11,000	1,80,000

Due to the rise in the international prices of petroleum crude, the Union Government increased the domestic prices of petroleum products effective January 13, 1981. The prices of petrol, high speed diesel (HSD) and light diesel oil (LDO) were increased by 37 paise per litre. While the price of liquified petroleum gas (LPG) cylinder of 15 kg. weight was raised by Rs. 5·03, the aviation turbine fuel price was raised by Rs. 32/- per kilolitre.

The Government again increased the domestic prices of petroleum products on July 11, 1981 with a view to curbing domestic consumption of petroleum products and to assist the financing of the expanded oil exploration and development programme. The price of domestic crude, both on-shore and off-shore, was raised (inclusive of the increased production cess of Rs. 100/- per tonne) on July 16, 1981 with retrospective effect from July 11, 1981 and brought at par with the imported crude oil price at Rs. 1,182/- per tonne. Earlier the prices of on-shore and off-shore domestic crude were respectively Rs. 305/- and Rs. 475/- per tonne. The prices of petrol and high speed diesel (HSD) were increased by 53 paise and 32 paise per litre respectively. The price of cooking gas (LPG) was raised by Rs. 5/- per 15 kg. cylinder and that of kerosene by 15 paise per litre. The price of furnace oil was increased by Rs. 235/- per kilolitre.

In view of the rising production costs as also to augment the resources available with the Steel Development Fund (SDF), the Joint Plant Committee (JPC) announced a hike of

20 per cent in the prices of all steel products with effect from February 8, 1981. The price of pig iron grade I was increased by Rs. 420/- to Rs. 1,465/- a tonne (a rise of 37.6 per cent). It was further increased to Rs. 1,525/- per tonne on March 31, 1981. Following the increases in the prices of steel products, the Government, on February 23, 1981, raised the excise duty on steel ingots and products produced by mini-steel plants by Rs. 100/- per tonne. With a view to bringing domestic prices of steel items at par with the international prices, the Government announced in April 1981 an increase in the custom duties on iron and steel products. On items like billets, ingots, bars and rods, the customs duty was raised to 40 per cent *ad valorem* from the existing 30 per cent, while in the case of alloy steel and carbon steel, it was raised to 35 per cent from the existing 30 per cent *ad valorem*. The additional customs duties in all these cases were raised from Rs. 165/- to Rs. 363/- per tonne including the special excise duty.

Due to fluctuations in coffee prices in the international markets, the Union Government reduced the export duty on coffee from Rs. 700/- to Rs. 500/- per quintal on July 17, 1980, and to Rs. 260/- in August 1980. It was further reduced to Rs. 150/- per quintal in December 1980. Finally, in view of the marked fall in the international prices of coffee, the Union Government totally exempted coffee from export duty with effect from June 19, 1981.

Chapter V

Monetary Developments

The Overall Trends

Monetary expansion was higher in 1980-81 (July-June) than in the previous year. In terms of all the four measures, M_1, M_2, M_3 and M_4, money stock increased sharply over the year both in absolute amount and relatively.* Broad money, or M_3 (currency with the public, aggregate deposits with commercial and co-operative banks and 'other' deposits with the Reserve Bank of India), increased by Rs. 9,174 crores or 18.8 per cent in 1980-81 against a rise of Rs. 6,385 crores or 15.0 per cent in the previous year. Money supply in the narrow sense, M_1 (consisting of currency with the public, demand deposits with commercial and co-operative banks, and 'other' deposits with the Reserve Bank), showed an increase of Rs. 3,644 crores or 18.0 per cent over the year.@ Both currency with the public and deposits with banks rose sharply over the year in both absolute and percentage terms. The relatively large rise in demand deposits caused a sizeable expansion in M_1. M_2 (M_1 plus Post Office savings bank deposits) went up by Rs. 3,781 crores or 17.0 per cent against the rise of Rs. 2,028 crores or 10.0 per cent in the preceding year. M_4 (M_3 plus total Post Office deposits) rose by Rs. 9,931 crores or 18.2 per cent on top of the rise of Rs. 7,302 crores or 15.4 per cent in the preceding year (Table V. 1).

Table V. 1 : Money Supply and Its Components

(Rupees crores)

	Outstandings as on the last day of			Variations during	
	June 1979	June 1980	June 1981	1979-1980	1980-1981
M_1	18,447	20,274	23,918	+1847 (+ 9.9)	+3644 (+18.0)
(*a*) Currency with the Public ..	10,890	12,097	13,936	+1207 (+11.1)	+1839 (+15.2)
(*b*) Demand Deposits with Banks	7,325	7,923	9,737	+ 598 (+ 8.2)	+1814 (+22.9)
(*c*) Other Deposits with R.B.I.	232	254	245	+ 22 (+ 9.5)	— 9 (— 3.5)
Post Office Savings Bank Deposits	1,819	2,020	2,157	+ 201 (+11.1)	+ 137 (+ 6.8)
M_2 (M_1 + Post Office Savings Deposits)	20,266	22,294	26,075	+2028 (+10.0)	+3781 (+17.0)
Time Deposits with Banks ..	24,058	28,616	34,146	+4558 (+18.9)	+5530 (+19.3)
M_3 (M_1 + Time Deposits with Banks)	42,505	48,890	58,064	+6385 (+15.0)	+9174 (+18.8)
Total Post Office Deposits ..	4,846	5,763	6,520	+ 917 (+18.9)	+ 757 (+13.1)
M_4 (M_3 + Total Post Office Deposits)	47,315	54,653	64,584	+7302 (+15.4)	+9931 (+18.2)

*The data of money supply used in this Report relates to June 30 for the Reserve Bank of India and to the last Friday of June in respect of commercial and cooperative banks. This had been done mainly because the statement of affairs of the Reserve Bank for the last Friday of June 1981 did not reflect the true position of the Bank in view of the dislocation of work arising from uneasy industrial relations. Thus, this Report's figures of money supply differ from those given in the Reports of the past years wherein the data pertaining to both the Reserve Bank and other banks related to the last Fridays of June.

@ Available M_1 data from April 1980 to January 1981, could not be used as a monetary indicator as certain definitional changes rendered comparisons invalid. In October 1977, scheduled commercial banks were issued fresh instructions in regard to the allocation of their savings deposits between the 'demand' and 'time' categories. The change was put into effect at different times, by different banks, mainly in 1980. By February 1981 almost all scheduled commercial banks had switched over to the new method of classification. It has also been possible to compile the data for the previous year on a comparable basis. These adjusted data have been used here.

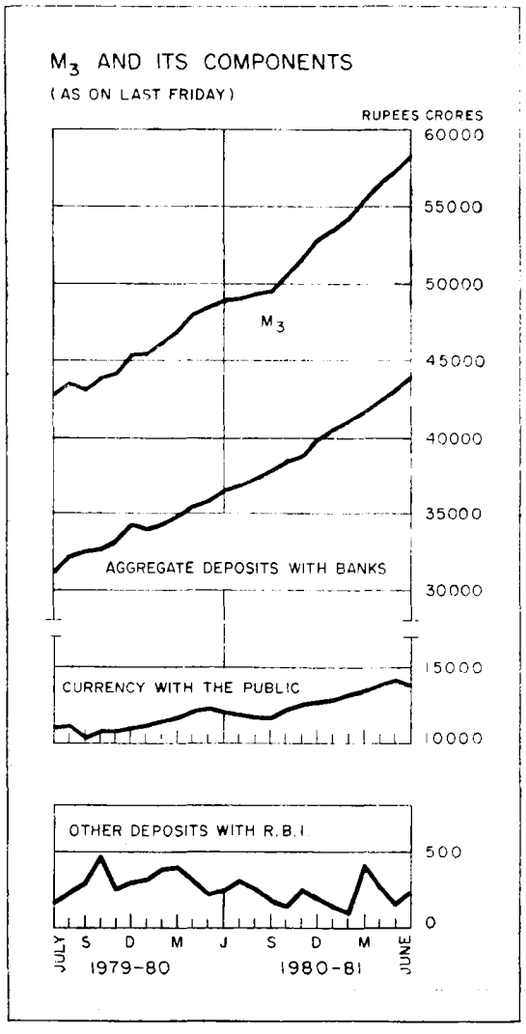
Primary (or reserve) money showed a rise of Rs. 3,353 crores or 19.2 per cent, as against the increase of Rs. 2,148 crores or 14.1 per cent in 1979-80. Unlike in the previous year, the rate of growth in primary money over the year was thus higher than that in M_3. The higher reserve base supported a sharp increase of Rs. 7,344 crores or 20.1 per cent in the banks' aggregate deposits. In the previous year, aggregate deposits went up by a comparatively lower amount of Rs. 5,156 crores, or by 16.4 per cent.

Money Supply

The increase of Rs. 9,174 crores in M_3 consisted of the growth of Rs. 7,344 crores in aggregate deposits of the public with banks and that of Rs. 1,839 crores in the currency with the public, partly offset by a decline of Rs. 9 crores in the 'other' deposits with the Reserve Bank. The comparatively large rise of Rs. 3,644 crores in 1980-81 in M_1 reflected a sharp growth in demand deposits with banks, and currency with the public.

As in Table V. 2 setting out the sources of change in M_3, increases in both net bank credit to Government and bank credit to the commercial sector were higher in 1980-81 than in 1979-80. Net Reserve Bank credit to the Union and State Governments increased by Rs. 4,680 crores during 1980-81, as against the rise of Rs. 3,727 crores during the preceding year. The credit extended by all the commercial and co-operative banks to the Government increased by Rs. 1,540 crores as compared to the increase of Rs. 1,621 crores during the previous year. As a result, the overall net credit to Government by both the Reserve Bank and other banks increased by Rs. 6,220 crores or 28.2 per cent in 1980-81 against the rise of Rs. 5,348 crores or 32.0 per cent in 1979-80.

In respect of bank credit to the commercial sector, the expansion amounted to Rs. 6,376 crores or 20.4 per cent in 1980-81 as against Rs. 3,919 crores or 14.3 per cent in the preceding year. Reserve Bank's claims on the commercial sector went up by Rs. 237 crores in 1980-81 against the rise of Rs. 157 crores recorded in the preceding year. The rise in credit of all commercial and co-operative banks to the commercial sector at Rs. 6,139 crores or 20.6 per cent in 1980-81 was steeper than that of Rs. 3,762 crores or 14.5 per cent in 1979-80. There was, however, a decline of Rs. 197 crores in the food procurement credit from Rs. 2,410 crores in June 1980 to Rs. 2,213 crores in June 1981, but this decline was lower than that of Rs. 586 crores in 1979-80. The growth in non-food credit was steeper in 1980-81 than in 1979-80. Non-food credit extended by scheduled commercial banks rose by Rs. 4,532 crores in the year under review as against the increase of Rs. 2,967 crores in 1979-80.



The downward trend in the net foreign exchange assets of the banking sector continued in 1980-81. The decline was of the order of Rs. 720 crores or 14.5 per cent as compared

Table V. 2: Sources of Money Stock (M_3)

(Rs. crores)

	Outstandings as on Last day of June				Variations during		
	1978	1979	1980	1981@	1978-79	1979-80	1980-81@
Sources of Money Stock (M_3) (1+2+3+4—5)							
1. Net Bank Credit to Government (A+B)	**13915**	**16725**	**22073**	**28293**	**+2810** (+20.2)	**+5348** (+32.0)	**+6220** (+28.2)
(A) RBI's Net Credit to Government (*i*—*ii*)	8229	9621	13348	18028	+1392 (+16.9)	+3727 (+38.7)	+4680 (+35.1)
(*i*) Claims on Government (a+b)	8624	10807	14529	18328	+2183 (+25.3)	+3722 (+34.4)	+3799 (+26.1)
(*a*) Central Government ..	8499	10660	14367	18083	+2161 (+25.4)	+3707 (+34.8)	+3716 (+25.9)
(*b*) State Governments ..	125	147	162	245	+ 22 (+17.6)	+ 15 (+10.2)	+ 83 (+51.2)
(*ii*) Government Deposits with RBI (a+b)	395	1186	1182	299	+ 791 (+200.3)	— 4 (—0.3)	— 883 (—74.7)
(*a*) Central Government ..	377	1168	1096	214	+ 791 (+209.8)	— 72 (—6.2)	— 882 (—80.5)
(*b*) State Governments ..	18	18	86	85	—	+68	— 1
(B) Other Banks' Credit to Government	5686	7104	8725	10265	+1418 (+24.9)	+1621 (+22.8)	+1540 (+17.7)
2. Bank Credit to Commercial Sector (A+B)	**22582**	**27358**	**31277**	**37653**	**+4776** (+21.1)	**+3919** (+14.3)	**+6376** (+20.4)
(A) RBI's credit to Commercial Sector	1067	1371	1528	1765	+ 304 (+28.5)	+ 157 (+11.5)	+ 237 (+15.5)
(B) Other Banks' credit to Commercial Sector (*i*+*ii*+*iii*)	21515	25987	29749	35888	+4472 (+20.8)	+3762 (+14.5)	+6139 (+20.6)
(*i*) Bank Credit by Commercial Banks	16073	19694	22076	26411	+3621 (+22.5)	+2382 (+12.1)	+4335 (+19.6)
(*ii*) Bank Credit by Co-operative Banks	3073	3464	3908	4810	+ 391 (+12.7)	+ 444 (+12.8)	+ 902 (+23.1)
(*iii*) Investments by Commercial and Co-operative Banks in Other Securities	2369	2829	3765	4667	+ 460 (+19.4)	+ 936 (+33.1)	+ 902 (+24.0)
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**4488**	**5519**	**4953**	**4233**	**+1031** (+23.0)	**— 566** (—10.3)	**— 720** (—14.5)
(A) RBI's Net Foreign Exchange Assets (*i*—*ii*)	4572	5566	5000	4280	+ 994 (+21.7)	— 566 (—10.2)	— 720 (—14.4)
(*i*) Gross Foreign Assets ..	4733	5566	5000	4553	+ 833	— 566	— 447
(*ii*) Non-monetary Foreign Liabilities	160	—	—	273	— 160	—	+ 273
(B) Other Banks' Net Foreign Exchange Assets ..	—84	—47	—47	—47	+ 37	—	—
4. Government's Currency Liabilities to the Public	**613**	**608**	**601**	**611**	**— 5** (— 0.8)	**— 7** (— 1.2)	**+10** (+ 1.7)
5. Banking Sector's Net Non-monetory Liabilities other than Time Deposits (A+B)	**6741**	**7705**	**10014**	**12726**	**+ 964** (+14.3)	**+2309** (+30.0)	**+2712** (+27.1)
(A) Net Non-monetary Liabilities of RBI	3057	3168	4065	4942	+111 (+ 3.6)	+ 897 (+28.3)	+ 877 (+21.8)
(B) Other net Non-monetary Liabilities of Banks (Derived)	3684	4537	5949	7784	+ 853 (+23.2)	+1412 (+31.1)	+1835 (+30.8)

@ Data are provisional/partially revised.

Notes : 1. Figures within brackets represent percentage variations.
2. Constituent items may not add up to totals due to rounding off.
3. Reserve Bank data are as on last days of June 1978, 1979, 1980 and 1981. Other data are as on last Fridays of June 1978, 1979, 1980 and 1981. In regard to currency with the public, notes in circulation data are as on last days of June while the circulation of rupee and small coins data as also the deductable item 'cash on hand with banks' are on last Friday basis.

to the decline of Rs. 566 crores or 10.3 per cent in the preceding year. The decline would have been much larger, but for availment of the Trust Fund loan of Rs. 544 crores from the IMF in August 1980. The decline in net foreign exchange assets reflected the outstripping of the receipts on the invisible account by the rising trade deficit.

Net non-monetary liabilities of the banking sector (other than time deposits with the banks) increased by Rs. 2,712 crores or 27.1 per cent as against Rs. 2,309 crores or 30.0 per cent in 1979-80. Net non-monetary liabilities of the Reserve Bank showed an increase of Rs. 877 crores compared with the rise of Rs. 897 crores in the previous year.

Seasonal Trends

Seasonal variations in M_3 along with the sources of M_3 during the last two slack and busy seasons are presented in Table V. 3. The slack season of 1980 witnessed a lower order of monetary expansion than in the slack season of 1979. M_3 expanded by Rs. 3,399 crores in the 1979 slack season, compared with the increase of only Rs. 2,716 crores in the slack season of 1980. Food credit declined sharply by Rs. 150 crores in the slack season of 1980 in contrast to the substantial increase of Rs. 457 crores in the 1979 slack season. Non-food credit, on the other hand, increased by Rs. 1,236 crores in the 1980 slack season as against the rise of Rs. 1,157 crores in the previous slack season. Net bank credit to Government too increased sharply by Rs. 1,429 crores or 6.9 per cent in the 1980 season, compared with the increase of Rs. 338 crores or 2.1 per cent in the previous slack season. On the other hand, there was a sharp decline of Rs. 140 crores in the banking sector's net foreign assets as against the increase of Rs. 111 crores in the slack season of 1979, and a rise of Rs. 457 crores in net non-monetary liabilities as compared to the decline of Rs. 690 crores in 1979.

During the busy season of 1980-81, M_3 expanded by Rs. 5,664 crores as compared with the rise of Rs. 4,051 crores in the previous busy season. The larger expansion in 1980-81 was reflected in both currency with the public and aggregate deposits. With the expansion in net bank credit to Government more or less the same in absolute terms in both the busy seasons, the sizeable increase in bank credit to the commercial sector was mainly responsible for the comparatively high rate of monetary expansion in the 1980-81 busy season. From a rise of Rs. 2,512 crores or 8.9 per cent in the 1979-80 busy season, the expansion in the commercial sector credit went up to Rs. 4,089 crores or 12.6 per cent in the 1980-81 busy season. While food credit declined by a sharply lower amount of Rs. 135 crores in the 1980-81 busy season than that of Rs. 692 crores in the previous year's busy season, non-food credit registered an increase of Rs. 3,152 crores in the current busy season as compared to the increase of Rs. 2,324 crores in the previous busy season.

In the two months between end-April and end-June 1981, M_3 declined by Rs. 1,789 crores. During the corresponding period of 1980, M_3 declined by Rs. 995 crores. The higher decline over the year resulted largely from the steep fall in the net bank credit to the Government.

Reserve Money

Primary or reserve money registered a sharp rise (Table V. 4). Compared to the increase of Rs. 2,148 crores in 1979-80, reserve money expansion in 1980-81 was of the order of Rs. 3,353 crores. While variations in the currency with the public continued to dominate reserve money changes, there was a conspicuous rise of Rs. 1,380 crores in the banks' deposits with the Reserve Bank. The sharp rise in reserve money was accounted for by the substantial increase in the Reserve Bank's net credit to the Government. The rise of Rs. 4,680 crores was higher than that of Rs. 3,727 crores in 1979-80. In percentage terms however, the rise in the Reserve Bank's net credit to Government at 35.1 per cent in 1980-81 was lower than that of 38.7 per cent registered in 1979-80. The other factors behind the expansion in reserve money were the increases in the Reserve Bank's loans to scheduled commercial and State co-operative banks by Rs. 110 crores and Rs. 304 crores as compared to the decline of Rs. 28 crores and rise of Rs. 157 crores respectively in the previous year. Reserve Bank refinance for food procurement credit extended by scheduled

Table V.3 : Variations in M_3 and its Sources of Change

(Rs. crores)

	Variations during					
	Slack Season				Busy Season	
	1979	1980	April 1980 over June 1980	April 1981 over June 1981@	1979-80	1980-81@
I. M_3 (a+b+c)	**+3399**	**+2716**	**— 995**	**—1789**	**+4051**	**+5664**
	(+ 8.4)	**(+ 5.7)**	**(— 2.0)**	**(— 3.1)**	**(+ 9.2)**	**(+11.2)**
(*a*) Currency with the Public	+ 36	+ 60	+ 52	— 79	+1429	+1648
	(+ 0.3)	(+ 0.5)	(+ 0.4)	(— 0.6)	(+13.3)	(+13.5)
(*b*) Aggregate Deposits with Banks (*i*+*ii*)	+2968	+2814	—1109	—1730	+2779	+3909
	(+10.0)	(+ 7.9)	(— 3.0)	(— 3.9)	(+ 8.5)	(+10.2)
(*i*) Demand Deposits	+ 582	+ 174	— 32	— 383	+ 672	+1289
	(+ 8.8)	(+ 2.2)	(— 0.4)	(— 3.9)	(+ 9.3)	(+16.0)
(*ii*) Time Deposits	+2386	+2640	—1077	—1347	+2107	+2620
	(+10.4)	(+ 9.6)	(— 3.8)	(— 3.9)	(+ 8.2)	(+ 8.7)
(*c*) Other Deposits with RBI	+ 395	— 158	+ 62	+ 20	— 157	+107
	(+506.4)	(—50.0)	(+24.4)	(+ 8.2)	(—33.2)	(+67.7)
II. Sources of Money Stock (M_3) (1+2+3+4—5)						
1. Net Bank Credit to Govermnent (A+B)	**+ 338**	**+1429**	**—1281**	**—1778**	**+ 4241**	**+4294**
	(+ 2.1)	**(+ 6.9)**	**(— 5.8)**	**(— 6.3)**	**(+25.6)**	**(+19.3)**
(A) RBI's Net credit to Government (*i*—*ii*)	+ 159	+ 446	— 891	—2028	+3456	+3097
	(+ 1.8)	(+ 3.6)	(— 6.7)	(—11.3)	(+38.4)	(+24.0)
(*i*) Claims on Government (*a*+*b*)	—1886	+ 263	— 593	—2239	+4779	+1890
	(—17.1)	(+ 1.9)	(— 4.1)	(—12.2)	(+52.2)	(+13.3)
(*a*) Central Government	—1933	+ 203	— 835	—2864	+4629	+1484
	(—17.8)	(+ 1.5)	(— 5.8)	(—15.8)	(+52.0)	(+10.8)
(*b*) State Governments	+ 46	+ 60	+ 242	+ 625	+ 150	+ 406
	(+22.1)	(+14.9)	(+149.4)	(+255.1)	(+59.1)	(+87.5)
(*ii*) Government Deposits with RBI (*a*+*b*)	—2045	— 183	+ 297	— 210	+1323	—1207
	(—92.9)	(—12.4)	(+25.1)	(—70.2)	(+848.1)	(—93.1)
(*a*) Central Government	—2041	— 176	+ 366	— 134	+1318	—1206
	(—93.4)	(—12.0)	(+33.4)	(—62.6)	(+915.3)	(—93.8)
(*b*) State Governments	— 4	— 7	— 69	— 77	+ 5	— 2
	(—25.0)	(—41.2)	(—80.2)	(—90.6)	(+41.7)	(—20.0)
(B) Other Banks' Credit to Government	+ 179	+ 984	— 391	+ 250	+ 784	+1197
	(+ 2.4)	(+11.8)	(— 4.5)	(+ 2.4)	(+10.4)	(+12.8)
2. Bank Credit to Commercial Sector (A+B)	**+2270**	**+1877**	**— 622**	**—1029**	**+2512**	**+4089**
	(+ 8.8)	**(+ 6.1)**	**(— 2.0)**	**(— 2.7)**	**(+ 8.9)**	**(+12.6)**
(A) RBI's credit to Commercial Sector	+ 153	+ 20	— 24	— 56	+ 123	+ 185
	(+12.5)	(+ 1.3)	(— 1.6)	(— 3.2)	(+ 8.9)	(+12.1)
(B) Other Banks' credit to Commercial Sector (*i*+*ii*+*iii*)	+2117	+1857	— 598	— 973	+2390	+3904
	(+ 8.6)	(+ 6.4)	(— 2.0)	(— 2.7)	(+ 8.9)	(+12.6)
(*i*) Bank credit by Commercial Banks	+1616	+1086	— 467	— 697	+1631	+3017
	(+ 8.8)	(+ 5.0)	(— 2.1)	(— 2.6)	(+ 8.2)	(+13.3)
(*ii*) Bank credit by Co-operative Banks	+ 127	+ 235	+ 46	—	+ 371	+ 621
	(+ 3.7)	(+ 5.9)	(+1.2)		(+10.4)	(+14.8)
(*iii*) Investments by Commercial and Co-operative Banks in Other Securities	+ 374	+ 536	— 177	— 276	+ 388	+ 266
	(+13.2)	(+14.9)	(— 4.7)	(— 5.9)	(+12.1)	(+ 6.4)
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**+ 111**	**— 140**	**+ 91**	**+ 327**	**— 636**	**—344**
	(+ 0.9)	**(— 2.8)**	**(+ 1.9)**	**(+ 7.8)**	**(—11.3)**	**(—7.1)**
(A) RBI's Net Foreign Exchange Assets (*i*—*ii*)	+ 50	— 139	+ 91	+ 327	— 637	— 345
	(+ 0.9)	(— 2.7)	(+ 1.8)	(+ 7.6)	(—11.1)	(—7.0)
(*i*) Gross Foreign Assets	+ 42	+ 133	+ 92	+ 327	— 636	—345
	(+ 0.7)	(+ 2.6)	(+ 1.8)	(+ 7.2)	(—11.2)	(—6.6)
(*ii*) Non-monetary Foreign liabilities	— 8	+ 273	—	—	—	—
(B) Other Banks' Net Foreign Exchange Assets	+ 61	—	—	—	—	—
4. Government's Currency Liabilities to the Public	**—1 0**	**+ 7**	**— 6**	**— 2**	**—**	**+ 7**
	(— 1.7)	**(+ 1.2)**	**(— 1.0)**	**(— 0.3)**		**(+ 1.2)**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**— 690**	**+ 457**	**— 822**	**— 694**	**+2067**	**+2380**
	(— 8.8)	**(+ 5.0)**	**(— 8.3)**	**(— 5.5)**	**(+29.2)**	**(+24.8)**
(A) Net Non-monetary Liabilities of RBI	— 688	(— 53)	— 395	+ 51	+1465	+1376
	(—23.8)	(— 1.4)	(— 9.7)	(+ 1.0)	(+66.4)	(+38.0)
(B) Other net Non-monetary Liabilities of Banks (Derived)	— 2	+ 510	— 427	— 745	+ 602	+ 984
	(—)	(+ 9.3)	(— 7.2)	(— 9.6)	(+12.3)	(+16.4)

@ Data are provisional / partially revised.

Notes: 1. Figures within brackets represent percentage variations.
2. Constituent items may not add up to totals due to rounding off.
3. Reserve Bank data are as on last days of June 1979, 1980 and 1981. Other data are as on last Fridays of June 1979, 1980 and 1981. In regard to currency with the public, notes in circulation data are as on last days of June while the circulation of rupee and small coins data as also the deductable item 'cash on hand with banks' are on last Friday basis.

commercial banks, however, showed a sharp decline from Rs. 18.0 crores in 1979-80 to Rs. 2.0 crores in 1980-81. The base level for food refinance was raised from Rs. 2,000 crores to Rs. 2,200 crores with effect from April 25, 1980, without altering the proportion of entitlement at 30 per cent of the increase in the food credit over the base level. The non-food refinance increased by only Rs. 92 crores in 1980-81 compared with the rise of Rs. 146 crores in 1979-80.

Table V.4 : Reserve Money : Components and Sources of Change

(Rs. crores)

	Out-standings as on the last day of June 1976	Variations					Out-standings as on the last day of June 1981*
		1976-77	1977-78	1978-79	1979-80	1980-81*	
Reserve Money (1+2+3+4) ..	**8555**	**+1883** (+22.0)	**+1800** (+17.2)	**+3040** (+24.8)	**+2148** (+14.1)	**+3353** (+19.2)	**20779**
1. Currency with the Public ..	7249	+1007 (+13.9)	+ 972 (+11.8)	+1662 (+18.0)	+1207 (+11.1)	+1839 (+15.2)	13936
2. Other Deposits with R.B.I. ..	67	— 5 (— 7.5)	+ 45 (+72.6)	+ 125 (+116.8)	+ 22 (+ 9.5)	— 9 (— 3.5)	245
3. Cash with Banks	414	+ 71 (+17.1)	+ 204 (+42.1)	+ 124 (+18.0)	+ 59 (+ 7.3)	+ 143 (+16.4)	1015
4. Bankers' Deposits with R.B.I. ..	825	+ 810 (+98.2)	+ 579 (+35.4)	+1129 (+60.0)	+ 860 (+25.7)	+1380 (+32.8)	5583
Sources of Reserve Money (1+2+3—4)							
1. Reserve Bank's Claims on :							
(*a*) Government (Net)	7239	+ 267 (+ 3.7)	+ 723 (+ 9.6)	+1392 (+16.9)	+3727 (+38.7)	+4680 (+35.1)	18028
(*b*) Scheduled Commercial Banks	942	+ 20 (+ 2.1)	— 627 (—65.2)	+ 560 (+167.2)	— 237 (—26.5)	— 87 (—13.2)	571
(*c*) State Co-operative Banks ..	248	+ 133 (+53.6)	+ 98 (+25.7)	— 94 (—19.6)	— 28 (— 7.3)	+ 110 (+30.8)	467
(*d*) Financial Institutions (i+ii+iii)	649	+ 105 (+16.2)	+ 212 (+28.1)	+ 334 (+34.6)	+ 157 (+12.1)	+ 304 (+20.9)	1761
(*i*) A.R.D.C.	153	+ 39 (+25.5)	+ 51 (+26.6)	+ 52 (+21.4)	+ 51 (+17.3)	+ 51 (+14.7)	397
(*ii*) I.D.B.I.	388	+ 138 (+35.6)	+ 162 (+30.8)	+ 197 (+28.6)	+ 199 (+22.5)	+ 239 (+22.0)	1323
(*iii*) Others	108	— 72 (—66.7)	— 1 (— 2.8)	+ 85 (+242.9)	— 93 (—77.5)	+ 14 (+51.9)	41
(*e*) Internal Bills Purchased and Discounted	138	— 26 (—18.8)	— 11 (— 9.8)	— 30 (—29.7)	—	— 67 (—94.4)	4
2. Net Foreign Exchange Assets of R.B.I.	**1245**	**+ 2076** (+166.8)	**+ 1251** (+37.7)	**+ 994** (+21.7)	**— 566** (—10.2)	**— 720** (—14.4)	**4280**
3. Government's Currency Liabilities to the Public :	**556**	**+ 27** (+ 4.9)	**+ 30** (+ 5.1)	**— 5** (— 0.8)	**— 7** (— 1.2)	**+ 10** (+ 1.7)	**611**
4. Net Non-Monetary Liabilities of R.B.I.	**2461**	**+ 719** (+29.2)	**— 124** (—3.9)	**+ 111** (+3.6)	**+ 897** (+28.3)	**+ 877** (+21.6)	**4942**

* Data are provisional/partially revised.

Notes : 1. Figures within brackets represent percentage variations.
2. Constituent items may not add up to totals due to rounding off.
3. Reserve Bank data are as on last days of June 1976, 1977, 1978, 1979, 1980 and 1981. Other data are as on last Fridays of June 1976, 1977, 1978, 1979, 1980 and 1981. In regard to currency with the public, notes in circulation data are as on last days of June while the circulation of rupee and small coins data as also the deductable item 'cash on hand with banks' are on last Friday basis.

Reserve Bank's claims on other financial institutions too showed a substantial rise in the year under review. While the Reserve Bank's claims on the Industrial Development Bank of India increased by Rs. 239 crores, those on the Agricultural Refinance and Development Corporation rose by only Rs. 51 crores in 1980-81, against the increase of Rs. 199 crores and of Rs. 51 crores, respectively in the previous year. Reserve Bank's loans and investments in shares, bonds and debentures of other financial institutions increased by a mere Rs. 14 crores. On the other hand, Reserve Bank's holdings of internal bills purchased and discounted declined by Rs. 67 crores. Net non-monetary liabilities increased in 1980-81 almost in the same magnitude as in 1979-80 ; they went up by Rs. 877 crores or 21.6 per cent in the year under review against the rise of Rs. 897 crores or 28.3 per cent in 1979-80.

Some Monetary Relationships

The larger rise in the rate of growth in the currency with the public than in those in aggregate deposits with banks and M_3 as between 1979-80 and 1980-81 led to the increase in the incremental ratios of currency to aggregate deposits and currency to M_3. Thus, the incremental currency to aggregate deposits ratio, rose from 23.4 per cent in 1979-80, to 25.0 per cent in 1980-81, and the incremental currency to M_3 ratio rose from 18.9 per cent in 1979-80 to 20.0 per cent in 1980-81 (Table V : 5). Over the last five years, increases in the marginal ratios, have alternated with the decreases, without, however, affecting the secular decline in the general ratios of currency and aggregate deposits and currency to M_3 witnessed during the year under review. Thus, from 39.8 per cent in 1976-77, currency to aggregate deposits ratio declined to 31.8 per cent in 1980-81, while currency to M_3 ratio came down to 24.0 per cent in 1980-81 from 28.4 per cent in 1976-77.

Owing to the higher rate of expansion in reserve money than in M_3, the money multiplier declined over 1980-81 in both absolute and incremental terms. The average ratio declined from 2.81 in 1979-80 to 2.79 in 1980-81, while the incremental ratio came down from 2.97 to 2.74.

Table V. 5 : Monetary Ratios and Money Multiplier
(Based on data as on the last day of June)

(Rupees crores)

	1976-77	1977-78	1978-79	1979-80	1980-81
Monetary Ratios					
(*a*) Currency/Aggregate Deposits	39.8	36.2	34.7	33.1	31.8
(*b*) Currency/M_3	28.4	26.5	25.6	24.7	24.0
Incremental Ratios					
(*a*) Currency/Aggregate Deposits ..	25.1	20.4	28.4	23.4	25.0
(*b*) Currency/M_3	20.1	16.8	21.7	18.9	20.0
Money Multiplier					
M_3/RM	2.785	2.848	2.782	2.806	2.794
Incremental Money Multiplier					
M_3/RM	2.666	3.214	2.516	2.973	2.736

Income Velocity of Money

During the financial year 1980-81, the income velocity of broad money (the ratio of net national product at factor cost at current prices to average M_3) remained stable at 2.1 (Table V. 6). During the previous four years, it declined mainly because average M_3 grew at a higher rate than nominal national income. In 1980-81, however, average M_3 grew at 17.3 per cent while nominal national income rose at a higher rate of 22.0 per cent.

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 M_3
	Amount	Annual per cent Increase	Amount	Annual per cent Increase	
1	2	3	4	5	6
1976-77	67,362	8.4	25,199	19.8	2.7
1977-78	76,109	13.0	30,263	20.1	2.5
1978-79	81,228	6.7	36,413	20.3	2.2
1979-80	90,173	11.0	43,756	20.2	2.1
1980-81	110,011	22.0	51,326	17.3	2.1

Currency and Coinage

During the fiscal year 1980-81, currency of all denominations together expanded by Rs. 1,916 crores or 15.5 per cent as against Rs. 1,546 crores or 14.3 per cent increase registered in the previous year. While 'notes in circulation', as appearing in the balance sheet of the Issue Department of the Reserve Bank of India, grew by Rs. 1,899 crores or by 16.1 per cent against Rs. 1,557 crores or 15.2 per cent in 1979-80, circulation of rupee coins increased by Rs. 9 crores as contrasted to the significant decline of Rs. 26 crores in 1979-80. On the other hand, small coins experienced a lower increase of Rs. 8 crores in 1980-81 as compared to the sizeable accretion of Rs. 15 crores to circulation in 1979-80. Continuing the long-term trend, the proportion of notes in total currency in circulation steadily moved up from 94.5 per cent as at the end of March 1979 to 95.2 per cent by end-March 1980 and further to 95.8 per cent at end-March 1981. Correspondingly, the proportions of rupee coins and small coins steadily declined from 3.2 per cent and 2.3 per cent at end-March 1979 to 2.6 per cent and 2.2 per cent at end-March 1980 and further to 2.3 per cent and 1.9 per cent, respectively, at end-March 1981.

Circulation of all denomination notes except Rs. 10/- denomination rose in absolute amounts over the year, but as proportion of total currency in circulation, the highest denomina-

Table V—7 : Details of Currency in Circulation

(Rs. crores)

Financial year (April-March)	Notes in Circulation		Circulation of Rupee Coins		Circulation of Small Coins		Currency in Circulation		Of which with Banks	
	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year	Out-standings	Variation over the previous year
1	2	3	4	5	6	7	8	9	10	11
1978-79 ..	10,232 (94.5)	+1673	350 (3.2)	— 3	253 (2.3)	+13	10,835 (100.0)	+1683	615	+94
1979-80 ..	11,789 (95.2)	+1557	324 (2.6)	—26	268 (2.2)	+15	12,381 (100.0)	+1546	682	+67
1980-81 ..	13,688 (95.8)	+1899	333 (2.3)	+ 9	276(P) (1.9)	+ 8	14,297 (100.0)	+1916	835	+153

Notes : 1. Figures in brackets represent proportion to total currency in circulation.
2. Figures include Reserve Bank data as on March 31 on the basis of closure of Government accounts.
(P) 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
1979	18.0	7.2	13.2	49.4	87.8
1980	17.1	7.8	16.0	48.0	88.9
1981	14.6	7.6	15.4	51.7	89.3

* Inclusive of circulation of small coins.

tion note of Rs. 100/- alone showed a rise. 'Notes in circulation' in this denomination of Rs. 100/- recorded a striking expansion of of Rs. 1,455 crores as against the increase of Rs. 582 crores in 1979-80 and its share in the total currency went up from 48.0 per cent at end-March 1980 to 51.7 per cent at end-March 1981. Circulation of Rs. 50/- notes at Rs. 2,206 crores as at the end of March 1981, recorded a substantially lower increase of Rs. 223 crores and formed 15.4 per cent of the total currency, in contrast to the increase of Rs. 544 crores in 1979-80 and its share at 16.0 per cent in the total 'currency in circulation' at end-March 1980. The circulation of Rs. 20/- denomination went up by Rs. 130 crores in 1980-81 against the Rs. 182 crores in 1979-80, its share in the total currency declining slightly from 7.8 per cent to 7.6 per cent. The circulation of Rs. 10/- notes faced an absolute reduction of Rs. 26 crores in the year under review in contrast to an increase of Rs. 166 crores in 1979-80. With this, its share in total currency got eroded rather sharply from 17.1 per cent at end-March 1980 to 14.6 per cent at end-March 1981.

The circulation of Rs. 2/- and Rs. 5/- denomination notes also grew in absolute amounts, but while the share of Rs. 2/- denomination notes in the total currency improved to 2.1 per cent against 1.7 per cent a year ago, that of Rs. 5/- denomination notes fell marginally from 4.8 per cent to 4.4 per cent. Thus, while the relative shares of notes in denomination of Rs. 100/- and Rs. 2/- gained over the year 1980-81, notes in denominations of Rs. 50/-, Rs. 20/-, Rs. 10/- and Rs. 5/- faced relative declines (Statement 116 of Vol. II).

Demonetised High Denomination Notes

The Ordinance demonetising high denomination notes was promulgated on the 16th January 1978, but the data in this respect is still in the process of finalisation. As per the data available till August 1981, of the high denomination notes of Rs. 145.42 crores in circulation at the time of demonetisation, notes worth Rs. 125.08 crores (including notes amounting to Rs. 64.95 crores declared by banks and Government treasuries) were tendered for exchange to the Reserve Bank. The value of notes passed by the Reserve Bank of India for exchange into lower denomination notes was of the order of Rs. 118.94 crores of which Rs. 61.60 crores represented notes declared by banks and Government Treasuries.

Mintage

Decimal coins of various denominations valued at Rs. 4.7 crores were minted in 1980-81. Since the introduction of decimal coinage in 1956-57, the mintage of decimal coins amounted to Rs. 289.3 crores till the end of March 1981 (See Statement 124 in Vol. II of this Report).

New Series of Note/Coin Issue

During the year under review, the Government of India issued commemorative coins with the inscription "Rural Women's Advancement" in the denominations of Rs. 100/-, Rs. 10/-, 25 paise and 10 paise. While coins in the denominations of 25 paise and 10 paise were issued for regular circulation through the Bank's offices and agencies, the coins in the denominations of Rs. 10/- and

Rs. 100/- were sold by India Government Mint, Bombay, as proof sets/uncirculated coins.

As regards notes, a new series of Rs. 50/- notes with new colour scheme was issued by the Bank with effect from April 2, 1981. The new note incorporates 'सत्यमेव जयते' (Satyameva Jayate) in Hindi below the Ashoka Pillar design and 'National Flag' on the Parliament House building.

Lost, Destroyed and Mutilated Notes

The number of claims in respect of lost, destroyed and mutilated notes received during the fiscal year 1980-81 was lower at 1.77 lakh for 105.53 lakh pieces as compared with 1.85 lakh claims for 81.92 lakh pieces in 1979-80. However, in terms of value, such claims were higher in 1980-81 at Rs. 6.88 crores against Rs. 5.27 crores in 1979-80. During the year, claims approved for payment aggregated Rs. 6.88 crores and the payment against approved claims including those admitted during the previous years, amounted to Rs. 6.54 crores; in the fiscal year 1979-80 claims approved and the amount paid against claims totalled Rs. 4.82 crores and Rs. 4.18 crores, respectively (Statement 121 of Vol. II).

Note Forgeries

The total number of forged notes including one rupee notes received by the Bank during the fiscal year 1980-81 declined by 50.6 per cent to 2,868 pieces from 5,811 pieces in 1979-80 (Statement 122 of Vol. II).

Trends in Gold and Silver Prices

Gold

During the period under review (July 1980 to June 1981), the price of gold in the London market fell by $ 241.00 per fine ounce or 36.4 per cent from $ 662.50 as at the end of June 1980 to $ 421.50 at end-June 1981, in sharp contrast to the rise of $ 386.05 per fine ounce or 139.6 per cent from $ 276.45 at end-June 1979 to $ 662.50 at end-June 1980. The main factors influencing the decline after September 1980 were the resolution of the U. S. hostages issue, the outcome of the U. S. Presidential election with assurances of more market-related economic policies, the persistence of high interest rates in the U. S. and the strengthening of the U. S. dollar alongwith the weakness of the European currencies. Movements in the price of gold in the international markets are discussed in some detail in Chapter X of the Report.

Domestic Market

Despite the bearish influences in the international markets, the domestic price of gold, however, exhibited a firm trend during the year 1980-81 (July-June) following a significant improvement in farm incomes and consequent increase in demand for precious metals. The gold price in the Bombay market recorded an increase of Rs. 265 or 19.7 per cent from the end-June 1980 level of Rs 1,345 per ten grammes to Rs. 1,610 on June 30, 1981, in contrast to a fall of 36.4 per cent in the London market during the same period. During July 1979-June 1980 the price of gold in the Bombay market rose moderately by 38 per cent due to a sizeable fall in agricultural output and reported distress sales of gold in rural areas, whereas the London price increased by about 140 per cent.

The peak price during the year under review was touched in the Bombay market on May 16 and 18, 1981 at Rs. 1,738 per 10 grammes; it was 29.2 per cent higher than the price at the end of the previous year. In London, the peak price was recorded on September 23, 1980 at $ 720.50 per fine ounce, which was 8.8 per cent higher than that at the end of June 1980. While the lowest price of Rs. 1,338 per ten grammes was reached in the Bombay market in the beginning of the review period on July 7, 1980, in the case of the London market it was recorded at $ 421.50 at the end of the period on June 30, 1981.

The gold price in the Bombay market opened at Rs. 1,345 per 10 grammes on July 1, 1980, the same level as at the end of June 1980. Thereafter, it fell to Rs. 1,338 on July 7, 1980—the lowest for the year under review —due to continued poor demand. After moving within the range of Rs. 1,345 to Rs. 1,410 till July 12, the price edged up to Rs. 1,445 on July 14, 1980 largely influenced by encouraging overseas advices, paucity of supplies and reported demand from contraband dealers following the persistent wide differential between foreign

prices and domestic prices, but declined thereafter to Rs. 1,381 on July 31. Expectations of a good monsoon gave rise to a firm trend in August and the price registered a fairly steady gain to Rs. 1,490 by August 28 in anticipation of the revival of festival demand. After a mild setback till September 8, the price showed a rising trend and moved in the range of Rs. 1,487 to Rs. 1,505 till September 20 and attained the Rs. 1,600-level—the highest since January 18, 1980—on September 25. After retreating to Rs. 1,535 on September 27, it firmed up to Rs. 1,585 by October 13, with the buoyant festival demand and improved overseas advices following the hostilities between Iran and Iraq. The price eased somewhat thereafter and remained within a narrow range of Rs. 1,551 to Rs. 1,576 till October 31. The yellow metal market ruled firm in November and the price touched Rs. 1,720 on November 21 owing to good seasonal demand, paucity of supplies and firm upcountry advices. However, it gradually eased to Rs. 1,672 by November 26 but edged up to Rs. 1,685 on November 29. The gold price in the Bombay market surpassed that in the London market during the major part of November 1980, after remaining lower for the preceding five months in succession. The firm trend continued in December, with the price rising to Rs. 1,730 on December 5, 1980. On weak overseas advices, the price declined thereafter to Rs. 1,665 on December 12. However, it varied between Rs. 1,670 to Rs. 1,695 till December 20, before closing the calendar year at Rs. 1,690 per ten grammes on December 31, 1980.

Opening at Rs. 1,695 on the New Year day, the gold price drifted gradually to Rs. 1,660 on January 8, 1981 on reports of likely settlement of the American hostages issue. After fluctuating between Rs. 1,680 and Rs. 1,700 till January 17, the price receded gradually to Rs. 1,635 by February 7 due to a steep fall in international gold prices following the strengthening of the U. S. dollar. The price, after lingering between Rs. 1,635 and Rs. 1,672 till February 14, reached Rs. 1,678 on February 16 on seasonal demand but fell thereafter to Rs. 1,590, on March 12, 1981 on reports of an ample inflow of contraband gold following the re-establishment by then of a substantial premium for the domestic price over the foreign prices. After moving within the range of Rs. 1,655 to Rs. 1,684 till March 28, it spurted to Rs. 1,730 on March 31, but closed on the same day at the lower level of Rs. 1,700 in the face of good offerings from Gold Bond holders. Moving within a narrow range of Rs. 1,665 to Rs. 1,700 till April 9, the price slid down to Rs. 1,660 on April 10 on significant bearish overseas advices. Thereafter, it increased gradually to Rs. 1,710 on April 27 as seasonal demand began to pick up. It moved up to Rs. 1,720 per ten grammes on May 4 and after retreating to Rs. 1,700 till May 8, spurted to reach the peak for the year under review at Rs. 1,738 on May 16, on reports of seizure of gold at the airports and a general paucity of supplies in the face of good seasonal demand. The price receded gradually thereafter due to reported increase in the supplies of contraband gold at centres like Ajmer and subdued up-country advices and dipped to a low of Rs. 1,680 on May 29. The price, after rising to Rs. 1,690 on May 30, drifted to Rs. 1,600 per ten grammes by June 6 as the seasonal demand began to wear out. However, it firmed up gradually to reach Rs. 1,680 by June 15 owing to a change in the market sentiment following unsettled political situation, particularly over Poland, limited fresh supplies and the reported seizure of contraband gold. A downward trend followed and the price moved around Rs. 1,675 to Rs. 1,630 till June 29 and eased further to close for the year under review at Rs. 1,610 on June 30, 1981 on weaker overseas advices and poor local demand.

The Spread between the Indian and the International Price

As was indicated in last year's Report, for a few months in 1979-80 (July-June), the domestic price of gold ruled below the international price and at the end of that year (June 1980), the price in the Bombay market was lower by nearly 19 per cent than the price in London. This position persisted during the first four months of 1980-81, i.e., upto October 1980. In the subsequent eight months of the year under report, however, the Bombay price gained a steadily rising premium over the London price. Month-wise, in July 1980, gold was selling in the Bombay market on an average at a discount of 14 per cent on the London price. This average discount declined to 8 to

10 per cent during August and September and further to 5 per cent in October 1980. However, as the London price started declining more steeply, the monthly average price in Bombay was higher by 4 per cent in November 1980 which premium gradually increased to 32 per cent in May 1981; at the close of the period in June 1981 the premium stood at 29 per cent (Table V. 9).

National Defence Gold Bonds, 1980

According to a press communique dated September 22, 1980 issued by the Government of India (Ministry of Finance), the National Defence Gold Bonds, 1980 floated in terms of their notification dated October 19, 1965 became repayable in gold from October 27, 1980. The public Debt Offices of the Reserve Bank of India and branches of the State Bank of India and its subsidiary banks were authorised to deliver gold to the Bond holders.

The Bond holders are issued a certificate of holding by the Repaying offices at the time of delivery of gold to them indicating the details of gold bars/discs delivered to them. Within a period of 6 months from the date of receipt of gold, the recipients are required either to sell the said gold to a licenced dealer/certified goldsmith or to convert it into ornaments through a licensed dealer/certified goldsmith. On the basis of the certificates issued by the Repaying offices at the time of delivery of the gold to the Bond holders, a licenced dealer/certified goldsmith could purchase/convert the gold into ornaments within the prescribed time limit.

Silver

International Market

The behaviour of silver price in the international market during the year July 1980-June 1981 was characterised by an initial uptrend followed by a pronounced downward movement in the last three quarters. While the initial uptrend was associated with the weakening of the U. S. dollar in the context of

Table V—9 : Gold prices in London and Bombay during 1980-81

(Monthly Averages)

(Rs. per 10 grammes)

Month	London price (Morning fixing)	Bombay price (Closing)	Spread between Bombay and London prices	
			Absolute	Percentage
June 1980	1516.91	1333.35	—183.56	—12.10
July 1980	1613.15	1395.23	—217.92	—13.51
August 1980	1566.27	1442.04	—124.23	— 7.93
September 1980	1678.70	1509.36	—169.34	—10.09
October 1980	1643.39	1564.28	— 79.11	— 4.81
November 1980	1563.01	1629.00	+ 65.99	+ 4.22
December 1980	1519.09	1693.35	+174.26	+11.47
January 1981	1430.72	1680.88	+250.16	+17.48
February 1981	1325.14	1655.46	+330.32	+24.93
March 1981	1320.27	1641.91	+321.64	+24.36
April 1981	1323.19	1685.65	+362.46	+27.39
May 1981	1303.52	1715.13	+411.61	+31.58
June 1981	1280.45	1649.92	+369.47	+28.85

repeated enhancement of oil prices by the OPEC countries, the subsequent downtrend was induced by the sharp rise in the U. S. interest rates and the strengthening of the U. S. Dollar.

Over the year 1980-81, the price in the New York market fell sharply from 1,648 cents per ounce at end-June 1980 to 862 cents at end-June 1981 and in the London market from 709.40 pence per ounce to 428.50 pence resulting in steep losses of 786 cents per ounce or 47.7 per cent and of 280.90 pence per ounce or 39.6 per cent in the two markets respectively.

As in gold, these losses in the white metal prices were a reaction to the substantial gains registered during the previous year 1979-80, ranging from 790 cents per ounce or 92.1 per cent in the New York market and of 315.75 pence per ounce or of 80.2 per cent in the London market.

The prices reached the peaks of the period at 2,425 cents per ounce on September 22,1980 in the New York market and of 978.80 pence per ounce on September 24,1980 in the London market, while the lowest prices were touched by the end of the period at 857 cents per ounce on June 29, 1981 in the New York market and at 428.50 pence on June 30, 1981 in the London market.

In the *New York market*, the price of silver opened higher at 1,670 cents per ounce on July 1, 1980 as against 1,648 cents per ounce at end-June 1980 and advanced further to 1,695 cents on July 7. It fell to 1,515 cents on July 18 and after oscillating between 1,551 cents and 1,642 cents till September 3, turned firm and crossing the 2,000 cents-mark rallied to the peak of the period at 2,425 cents on September 22 in the wake of an enhancement of oil prices by the OPEC countries which led to persistent weakness of U. S. Dollar. It declined to 2,045 cents on September 30 and moving both ways, fell below the 2,000 cents-mark and dipped to 1,847 cents on October 28, in view of the then increase in U. S. prime rate to 14 per cent. After a partial recovery to 1,965 cents on November 5, it dropped, precipitately to 1,768 cents on November 11, following the outcome of the U.S. Presidential election, the investors' preference for equities and fears of a prolonged phase of high interest rates. It staged a recovery and touched 1,935 cents on November 21 followed by fractional decline to 1,875 cents towards the end of November 1980. In the month of December there was a precipitate fall from 1,885 cents on December 1, to 1,432 cents on December 11,1980 due to further rapid increase in the U. S. interest rates and the firming up of the U. S. Dollar on the exchange market. However, towards the end of the month, the price staged a recovery on the belief that the U. S. interest rates had peaked and the rumours of further oil price increases. Moving within the range of 1,650 cents and 1,427 cents till January 23, 1981 it declined to 1,272 cents on January 29, advanced to 1,405 cents on February 9 but fell subsequently to 1,252 cents on February 12, reflecting again the strength of the dollar and firm U. S. interest rates. Fluctuating both ways the price slid further to 1,152 cents on March 4, and after a recovery to 1,325 cents on March 24, on account of renewed tension in Poland, drifted to 1,190 cents on March 31 following the strengthening of the U. S. Dollar vis-a-vis continental currencies. It surged to 1,227 cents on April 6 and dipped to 1,090 cents on April 13 on account of the continuing firmness of the dollar and the news of further increases in Saudi Arabian oil supplies in an already surplus market. The price advanced to 1,158 cents on April 22 and after a decline to 1,088 cents on May 5, improved to 1,134 cents on May 11 owing to tensions over the situation in Lebanon and as a reaction to the success of a socialist in the French Presidential election. It slid to 1,031 cents on May 26, recovered to 1,086 cents on June 1 and thereafter moving on a quite note dropped below the 1,000 cents-mark and touched 999 cents on June 18. Though the price improved to 1,023 cents on June 23 following a temporary halt to the rising trend in the U. S. interest rates, it fell sharply to 857 cents, the lowest of the period under review on June 29 and closed at 862 cents on June 30. This lower trend was attributable to the reported U. S. proposals to sell large amounts of silver over the next two years.

In the *London market*, the price of silver which was 709.40 pence per ounce on June 30,1980 moved up to 724.30 pence on July 1 and after touching 733.20 pence on July 8,

receded to 646.80 pence on July 18. The price moved within a narrow range of 648.60 pence and 694.70 pence till July 25 and closed the month lower at 672.90 pence on July 31. It drifted further to 667.00 pence on August 4. However, the price recovered thereafter and advanced to 685.60 pence, the peak of the month on August 21 but closed lower at 671.00 pence per ounce on August 29. Thereafter, touching fresh peaks the price of silver crossed the 900 pence-mark and scaled the peak of the period under review at 978.80 pence on September 24 on expectations of further rise in oil prices. It receded to 858.15 pence on September 30. Though the price opened slightly higher at 908.80 pence on October 1, it moved on a subdued note and fell below the 800 pence-mark and touched 767.40 pence on October 28. It advanced to 821.90 pence on November 5 but drifted subsequently to 720.90 pence on November 7 on fears of a prolonged period of high interest rates. However, it improved to 811.45 pence on November 21, slid to 760.80 pence on November 25 and after a recovery to 804.35 pence on December 1, moved on an easy note and drifting below the 700 pence-mark touched 618.50 pence on December 12. Fluctuating within 694.15 pence and 614.85 pence, the price dropped below 600 pence on January 23, 1981 and dipped to 532.70 pence on February 3. The price spurted to 594.80 pence on February 9, slid to 512.05 pence on March 5 and after a partial recovery to 558.45 pence on March 16 in the wake of a reduction in the Minimum Lending Rate dropped to 500.65 pence on March 17. Prompted by the renewed tension over the situation in Poland, the silver price moved up to 592.90 pence on March 23 and thereafter moving on a subdued note fell to 506.50 pence on April 13. It surged to 541.60 pence on May 11 owing to increased demand together with growing tension over the situation in Lebanon. As a result of the continued strength of the dollar and high U. S. interest rates, the price receded to 496.60 pence on May 27, improved to 536.50 pence on June 12 and thereafter dropped to the lowest of the period of 428.50 pence on June 30.

Domestic Market

In the Bombay market, the silver price displayed a divergent trend during the period under review and registered over the period a net decline of Rs. 232 per Kg. or 8.9 per cent moving from Rs. 2,607 per Kg. at end-June 1980 to Rs. 2,375 per Kg. at end-June 1981 as against a sharp increase of Rs. 1,014 per Kg. or 63.7 per cent during the preceding year.

The price, which stood at Rs. 2,607 per Kg. at end-June 1980 slipped to Rs. 2,557 per Kg. on July 1, and further to Rs. 2,320, the lowest of the period under review, on July 31, owing to weak overseas and upcountry advices. It surged to Rs. 2,425 on August 5, and after some fluctuations, touched Rs. 2,460 on August 23. The price declined to Rs. 2,360 on September 4 but subsequently spurted to Rs. 2,755 on September 12 and advanced further to Rs. 2,850 on September 26 as a result of the escalation of conflict between Iran and Iraq, but closed lower on the same day at Rs. 2,822. It eased further to Rs. 2,649 on October 18 on account of poor local demand and the seizure of silver at some Ports. However, it recovered to Rs. 2,745 on November 6 and thereafter moving both ways rallied to the peak of the period of Rs. 2,960 on December 2 on account of improved demand and limited supplies. However, as a result of the weak trends abroad the price drifted to Rs. 2,720 on December 12 and subsequently spurted to Rs. 2,845 on December 15 on expectations of a rise in silver prices abroad, following weakness in U. S. Dollar. The price fluctuated within the range of Rs. 2,790 and Rs. 2,855 till December 30 and closed for the calendar year at Rs. 2,825. The New Year opened slightly higher at Rs. 2,845 and reached the peak of the month at Rs.2,855 on January 6 and dipped to the lowest at Rs. 2,644 on January 29. Thereafter, the price dropped further to Rs. 2,622 on February 3. After fluctuating in the range of Rs. 2,622 and Rs. 2,760 the highest and lowest for the month, respectively, it fell to Rs. 2,621 on March 3, 1981. It surged to Rs. 2,730 on March 27 and thereafter moving on a quiet note receded to Rs. 2,540 on April 30 but closed higher on the same day at Rs. 2,565. It improved to Rs. 2,592 on May 2 and after a fall to Rs. 2,550 on May 6, touched Rs. 2,650 on May 21 owing to upcountry demand. Thereafter, it dipped to Rs. 2,465 on June 6, as a result of the subdued tendency abroad but surged to Rs. 2,558 on June 13 as a result of the political uncertainty

in Poland and other parts of the world. Moving on a subdued note the price closed finally at Rs. 2,375 on June 30.

Spread between Indian and International Prices

The international price of silver ruled higher than the domestic price throughout the period under review except on June 30, 1981, when the London price fell below the Bombay price by Rs. 32.99 or by 1.38 per cent. The margin between the monthly average prices of silver in the London and Bombay markets widened initially from 55 per cent in June 1980 to 88 per cent in September and thereafter declined steadily to 11 per cent in June 1981. The difference between the monthly average prices of New York and Bombay markets followed a similar pattern and moved up to 91 per cent in September from 54 per cent in June 1980 and declined to 11 per cent in June, 1981.

Chapter VI

Banking Developments

INTRODUCTION

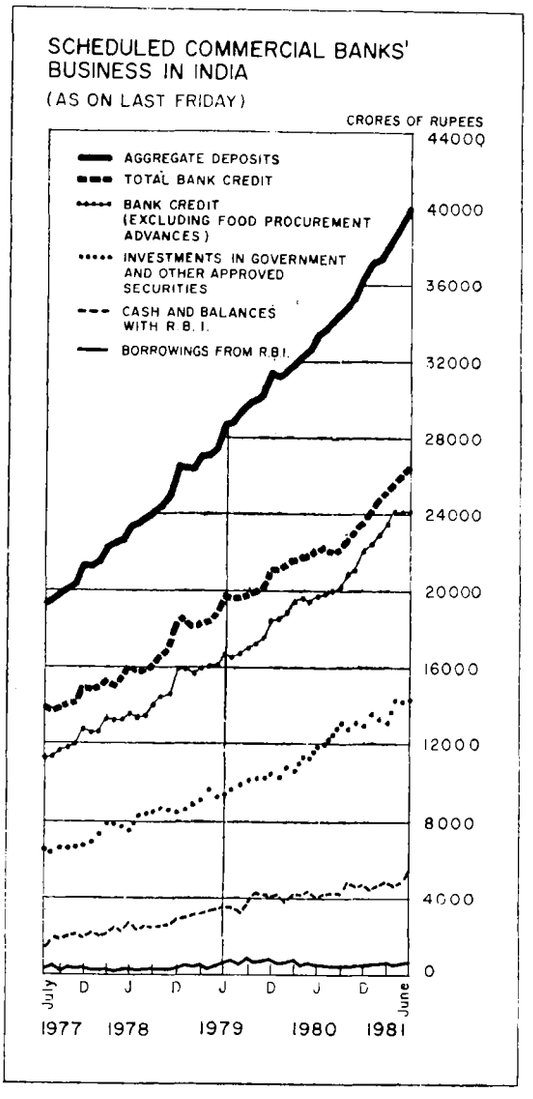
Substantially higher rates of growth than in the preceding year in aggregate deposits, non-food credit and cash in hand and balances with the Reserve Bank were the highlights of banking trends during 1980-81. In the context of sizeable monetary and non-food credit expansion and persistent inflationary pressures, the Reserve Bank's credit policy which was one of caution and restraint during the major part of the year had to be made much more rigorous towards the close of the year and thereafter. The year witnessed a further remarkable progress in branch expansion by commercial banks, particularly by Regional Rural Banks; of the new offices opened during the year, more than one-fourth were opened by Regional Rural Banks. The thrust into unbanked centres continued; three out of every four new offices were opened in such centres.

Aggregate deposits of scheduled commercial banks rose sharply by as much as Rs. 6,807 crores or 20.4 per cent, as against an increase of Rs. 4,706 crores or 16.4 per cent in 1979-80. The substantially larger accretion in 1980-81 may be attributed to the appreciable rise of about 7 per cent in national income in 1980-81, in contrast to a decline of 4.5 per cent in 1979-80, and also as a result of inflationary situation. The upward adjustments from March 2, 1981, in the interest rates on term deposits might have also contributed to the larger accretion in aggregate deposits. The growth in deposits during the year was uneven. In the first quarter, deposit accretion, in absolute terms, at Rs. 1,107 crores was about the same as in the corresponding quarter of 1979-80 (Rs. 1,115 crores), but the rate of growth was lower at 3.3 per cent, as against 3.9 per cent in 1979-80. In each of the next three quarters, deposit accretion in 1980-81 was substantially larger in amount and also in percentage terms than in the corresponding quarter in 1979-80. Accretion over the three-quarter period aggregated as much as Rs. 5,700 crores or 16.5 per cent in 1980-81, as against Rs. 3,591 crores or 12.1 per cent in the same period in 1979-80.

The expansion in bank credit in 1980-81 was also substantially higher at Rs. 4,332 crores or 19.6 per cent, as against Rs. 2,381 crores or 12.1 per cent in 1979-80. The expansion in both the years was the net result of increases in non-food credit and declines in food credit. Non-food credit expansion in 1980-81 was as much as Rs. 4,529 crores or 23.0 per cent, as against Rs. 2,967 crores or 17.8 per cent in the previous year. Season-wise, the expansion in non-food credit in the slack season of 1980 (May-October) did not show appreciable change over the expansion in the 1979 slack season. In the busy season of 1980-81, and in the first eighteen weeks of the 1981 slack season (May to August 1981), non-food credit expansion was substantially larger at Rs. 3,117 crores or 14.9 per cent and Rs. 762 crores or 3.2 per cent, as against Rs. 2,322 crores or 13.4 per cent and Rs. 333 crores or 1.7 per cent, respectively, in the 1979-80 busy season, and the first 18 weeks of the 1980 slack season.

As containment of inflationary pressures was the overriding objective of economic policy, a slowing down of the pace of monetary and credit expansion became a must, and the Reserve Bank's credit policy, which continued to be restrictive since end-November 1978, had to be made much more stringent from end-May 1981. At the same time, banks were urged to make renewed efforts to provide adequate credit to priority sectors as well as to meet the genuine requirements of production and public distribution of essential commodities, and to pay special attention to the needs of the beneficiaries of the 20-Point Programme.

In the beginning of the year, *i.e.*, from July 1980, the Reserve Bank tightened its refinance



facilities. Interest rates on stand-by refinance from the Reserve Bank and on rediscounting of bills with the Reserve Bank were raised, and a few refinance facilities were terminated. On the eve of the busy season, it was felt that the banks' resources position would not be adequate to meet the busy season demand for credit which was expected to be large in view of the pick-up in the economy, and for meeting the needs of priority sectors and exports. The Reserve Bank, therefore, decided to exempt banks, effective October 31, 1980, from the requirement to keep additional cash reserve ratio (CRR) of 10 per cent of their incremental net demand and time liabilities accruing since January 14, 1977.

The significantly larger expansion in non-food credit in the financial year 1980-81 and in the early weeks of 1981-82, made it necessary for the Reserve Bank to set quantitative guidelines on non-food credit expansion; in terms of these guidelines, non-food credit expansion during the 1981 slack season and during the full financial year 1981-82 was to be marginally lower than the expansion in the 1980 slack season and during the financial year 1980-81, respectively. Further, non-food credit expansion in the first half of 1981-82 was not to be in excess of the expansion in the first half of 1980-81. The Reserve Bank took certain other measures also, such as the raising of cash reserve ratio from 6 per cent to 7 per cent in two stages and the stepping up of interest rate on discretionary refinance from the Reserve Bank and on rediscounting of bills with the Reserve Bank. Additional measures were taken in July 1981 to reduce the liquidity of the banking system and thereby control monetary and credit expansion, and these included the raising of the Bank Rate from 9 per cent to 10 per cent, and the raising of the statutory liquidity ratio from 34.0 per cent to 35.0 per cent in two stages. The raising of the Bank Rate necessitated upward adjustments in interest rates on certain refinance facilities provided by the Reserve Bank.

Simultaneously with the presentation of the Budget for 1981-82, on February 28, 1981, the interest rates on deposits and advances were modified, effective March 2, 1981. Interest rates on deposits of one year and over and upto five years were raised with a view to providing adequate incentives to financial savings in an inflationary environment. The upward adjustment in deposit rates necessitated modification in lending rates of banks and at the same time an attempt was made to rationalise lending rates structure.

As regards the national targets set for deployment of credit, during the period July 1980 to June 1981, priority sector's share was as much as 45.7 per cent of the incremental non-food gross bank credit as against 43.3 per cent in 1979-80. The outstanding priority sector advances at the end of June 1981, formed 34.1 per cent of the total net bank credit (excluding participation certificates) compared with the

target of 40 per cent to be achieved by 1985. In respect of the other target that banks should deploy 60 per cent of the deposits mobilised in rural and semi-urban areas in the respective areas, at the end of December 1980, the all-India credit-deposit ratio of rural offices worked out to 57.2 per cent, and semi-urban offices to 48.9 per cent.

The recommendations of the Working Group on the Modalities of Implementation of the Priority Sector Lending and the 20-Point Economic Programme by banks were generally accepted by the Reserve Bank and detailed instructions were issued to banks for implementing the recommendations.

In the field of branch expansion, unbanked centres continued to receive special attention of banks. Of the 3,291 offices opened during the year 1980-81 (July-June), 2,461 offices or about three-fourths were at unbanked centres. Of the total 669 unbanked block headquarters identified earlier, 554 were covered by bank offices by end-June 1981. Of the remaining 115 blocks, authorisations are pending with banks in respect of 99 blocks, while in respect of 12 blocks, banks have expressed difficulties in opening offices due to lack of infrastructural facilities.

A new branch licensing policy covering the period January 1982 to March 1985 is being finalised. It would continue to favour opening of offices in rural and semi-urban centres, and special attention would be paid to covering unbanked pockets in less accessible areas of different States.

CREDIT POLICY

The cautious credit policy pursued by the Reserve Bank since end-November 1978 was not only continued in 1980-81 (July-June), but was made much more rigorous towards the close of the year and thereafter.

In the first quarter of the year, the pace of deposit growth was low, while bank credit declined marginally. The demand for credit in the ensuing busy season was, however, expected to be large reflecting the anticipated growth of the economy, and for meeting the needs of priority sectors and exports. In this context, banks were exempted from end-October 1980, from maintaining additional cash reserve of 10 per cent of their incremental net demand and time liabilities accruing since January 14, 1977.

In each of the next three quarters, the pace of deposit growth was much higher than in the corresponding quarter of the preceding year. Non-food credit expansion was also substantially larger than in the preceding year. It thus became necessary for the Reserve Bank to issue, towards the close of May 1981, quantitative guidelines to banks regarding their non-food credit expansion in the 1981 slack season, in the first half of the financial year 1981-82 and in the whole of 1981-82. A number of other measures were also taken by the Bank with a view to controlling monetary and credit growth, and these included the raising of the cash reserve ratio from 6 to 7 per cent of net demand and time liabilities and the raising of the interest rate on discretionary refinance and rediscounting of bills by as much as 3 percentage points. As there was no abatement in the pace of monetary and credit expansion, the Bank took additional measures in July 1981, which included the raising of the Bank Rate from 9 to 10 per cent, the stepping up of the statutory liquidity ratio from 34 per cent to 35 per cent and the raising of the interest rates on certain refinance facilities including food refinance and export refinance.

The following paragraphs give in detail the credit policy measures taken by the Reserve Bank during 1980-81.

June 1980 Measures

The credit policy measures for the slack season of 1980 (May-October) were announced by the Reserve Bank on June 27, 1980, and these were covered in detail in the last year's Report. To mention the more important of these measures: (1) Effective July 1, 1980, the interest rate on stand-by facility mainly intended for meeting clearing imbalances 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; (2) refinance against advances to farmers under Small Farmers' Window was discontinued from July 1, 1980, and banks were required to phase out outstanding

refinance without dislocating credit facilities provided to small farmers; (3) two other refinance facilities, viz., refinance for import of capital goods and refinance against shipping loans were also terminated, the former from July 1, 1980 and the latter as soon as the commitments reached the limit of Rs. 500 crores.

Banks were also asked to endeavour to keep their non-food credit expansion during the 1980 slack season within 40 per cent of the increase in their deposits. The Reserve Bank also impressed on them the need to improve their procedures for examining cash credit and other working capital requirements; in this connection they were urged to review all credit limits once a year, and in respect of credit limits of Rs. 1 crore and above, they were required to determine the likely drawals for each ensuing quarter on the basis of operating/funds flow statements obtained from the borrowing units.

Policy for Busy Season, 1980-81

In the first six-and-a-half months of the financial year 1980-81, monetary expansion was at a slower pace than in the corresponding period in 1979-80. The monetary situation, however, continued to be a source of concern as the slower pace was largely attributable to the decline in foreign exchange reserves. Further, the primary money creation in 1980-81 (till mid-October) was quite large in the context of an already high level of primary money liquidity. In this situation, the stance of credit policy had to continue to be one of caution.

Deposit growth in the first six-and-a-half months of the financial year 1980-81 was perceptibly slower than in the corresponding period in the previous year. The Reserve Bank therefore advised banks on October 30, 1980, to make sustained efforts for enlarging deposit mobilisation, to pay close attention to recovery of loans and to so plan their resource use that they would be able to avoid in the second half of 1980-81, recourse to any additional support from the RBI beyond the already established refinance facilities.

Apart from requiring banks to operate within their resources, the Reserve Bank did not stipulate any incremental ratio or absolute magnitude in respect of credit expansion. Also, the Reserve Bank did not make any change in the existing CRR of 6 per cent, SLR of 34 per cent and the terms and conditions of the refinance/rediscounting facilities. However, the demand for credit was expected to be large in view of the emerging pick up of the economy while there was also the need to provide for the growth of priority sectors and exports. In this context and also in view of the slow pace of deposit growth, the Reserve Bank decided to exempt banks from the requirement to maintain additional CRR of 10 per cent of incremental net demand and time liabilities accruing since January 14,1977; the exemption was made applicable from October 31, 1980 only to such of the scheduled commercial banks which had maintained the required CRR and SLR on that day; the additional balances so maintained by those banks as at the close of business on October 31, 1980 were, however, not to be withdrawn by them. Banks which had not maintained on October 31, 1980 the CRR and SLR as stipulated, were not to get the exemption unless they made up the short-fall within two weeks.

Priority Sector Lending and the 20-Point Economic Programme—Role of Banks

The recommendations made by the Working Group on the Modalities of Implementation of the Priority Sector Lending and the 20- Point Economic Programme by banks in its Report submitted on April 22,1980 were generally accepted by the Reserve Bank and the Government. On October 29, 1980, the Reserve Bank issued detailed circulars to banks giving the Working Group's recommendations and the Bank's instructions for implementing those recommendations (For details see section on 'Working Groups relating to Banking'). The important instructions were:

(1) Banks should aim at ensuring disbursement of a minimum of 40 per cent of additional credit every year to priority sectors. Subject to the above minimum, banks whose ratio was below 40 per cent were required to disburse additional amounts every year, so as to progressively reach the target of 40 per cent by 1985.

(2) Banks should ensure that 40 per cent of the advances to the priority sectors were extended to agriculture and allied activities.

(3) Direct advances to weaker sections in agriculture and allied activities, *i.e.*, small and marginal farmers and landless labourers should reach a level of at least 50 per cent of the total direct lending to agriculture (including allied activities) by 1983.

(4) Advances to rural artisans, village craftsmen and cottage industries should constitute 12.5 per cent of total advances to small-scale industries by 1985.

As the central theme of the 20-Point Economic Programme was to cover progressively more people belonging to weaker sections of society, the Reserve Bank urged banks (*i*) to associate themselves actively in the programmes for improving the conditions of people in slum areas, and (*ii*) to provide assistance to the physically handicapped.

Streamlining of Cash Credit System

On December 8, 1980, the Reserve Bank communicated to banks its decision on the recommendations of the Working Group constituted in April 1979 to review the system of cash credit (For details see Section on 'Working Groups relating to Banking').

Revision in the Interest Rates Structure

Simultaneously with the introduction in Parliament of the Central Government Budget on February 28, 1981, the Reserve Bank announced several changes in the deposit and lending rates. The revised rates became effective from March 2, 1981.

Interest Rates on Deposits

It may be recalled that from September 13, 1979, the interest rate on fixed deposits of 9 months to less than one year was raised by 0.50 percentage point and those on deposits of 1 year and above were raised by 1 percentage point. It was, however, felt that in the prevailing inflationary situation, the rates offered by banks on fixed deposits did not provide adequate incentive to financial savings. As bank deposits constitute an important instrument for financial savings, it was decided to raise the interest rates on maturities of one year and over and upto five years and a reference to this decision was made by the Finance Minister in his Budget speech, on February 28, 1981.

The Reserve Bank's directive relating to interest rates on deposits raised the interest rates on term deposits, with maturities from one year and upto five years, cumulative deposits, recurring deposits and Foreign Currency Non-Resident deposits accepted/renewed after March 2, 1981. Smaller scheduled commercial banks (*i.e.*, with demand and time liabilities of less than Rs. 25 crores and also RRBs were allowed to pay additional 0.25 per cent per annum and 0.50 per cent per annum, respectively, on term deposits of less than 3 years; prior to March 2, the higher interest rates could be paid on term deposits upto and inclusive of five years. The category of deposits with a maturity of 1 year to 3 years on which 7 per cent interest was paid since September 13, 1979 was abolished, and instead two new categories, *viz.*, one year and above but less than two years bearing interest rate of 7.5 per cent and two years and above but less than 3 years bearing interest at 8.5 per cent were introduced. The rate of 10 per cent was made applicable to term deposits with a maturity of three years and above, as against term deposits of more than five years as stipulated earlier. The raising of deposit rates for certain maturities was intended to help deposit mobilisation while the changes in the term structure of deposits aimed at bringing about a better balance in the time profile of banks' deposits and lending structures. Table VI.1 gives the interest rates on deposits prior to March 2, 1981 and from March 2, 1981.

Subsequently, the Reserve Bank instructed banks on May 2, 1981 that on advances against fixed deposits they should charge interest at least 2 per cent higher than the rate of interest payable on the deposit. Advances against third party deposits were not normally to be encouraged. However, if they were granted, the interest rate should be determined taking into consideration the purposes for which the

Table VI.1: Interest Rates on Deposits

(Per cent per annum)

Deposit Category	Old Rates (since 13-9-1979)	New Rates (since 2-3-1981)
Current Deposits	Nil	Nil
Savings Deposits	5.00 (from 1-10-1979)	5.00
Fixed Deposits:		
15 days to 45 days ..	2.50	2.50
46 days to 90 days ..	3.00	3.00
91 days and above but less than 6 months	4.00	4.00
6 months and above but less than 9 months	4.50	4.50
9 months and above but less than 1 year	5.50	5.50
1 year and above but less than 2 years	7.00@	7.50
2 years and above but less than 3 years		8.50
3 years and above but less than 5 years	8.50£	10.00*
Above 5 years	10.00	

@ Deposits for 1 year and above and up to and inclusive of 3 years.
£ Deposits of over 3 years and up to and inclusive of 5 years.
* Deposits of 3 years and above.

Note: Banks with DTL of less than Rs. 25 crores, and RRBs were allowed to pay a rate higher by 0.25 per cent and 0.50 per cent, respectively, on term deposits up to and inclusive of five years prior to March 2, 1981 and on term deposits of less than 3 years thereafter. Savings deposits: Banks with DTL of less than Rs. 25 crores, and RRBs, have been allowed to pay a rate higher by 0.25 per cent and 0.50 per cent, respectively.

advances were granted, and regardless of the rate of interest on the deposit in question.

Interest Rates on Advances

With effect from September 13, 1979, the maximum rate on advances had been stepped up by 3 percentage points from 15 per cent to 18 per cent in respect of banks with DTL of Rs. 25 crores and above and from 16 per cent to 19 per cent for other banks. Following the re-imposition of the 7 per cent tax on interest income in the Budget for 1980-81, the interest rates on advances were adjusted upwards on a *pro rata* basis to include the tax element, the intention being to pass on the tax burden to the borrower.

The upward revision in the interest rates on deposits from March 2, 1981 required alteration in the lending rates also. An attempt was made to rationalise lending rates. Prior to March 2, 1981, there was an absence of adequate gradation in the rates charged to various categories of beneficiaries in the priority sectors and there was also a plethora of rates. Further, in several categories of interest rates prescribed for the priority sectors, only ceiling rates had been indicated. This allowed different banks to charge different rates for the same kind of advances. All these considerations were kept in view while fixing the new lending rates which became effective from March 2, 1981 (vide Table VI. 2).

The main adjustments related to (*i*) a reduction in total number of specified rates and prescription of four slabs of lending rates, *viz.*, 12.5 per cent, 15.0 per cent, 17.5 per cent and 19.5 per cent; (*ii*) prescription of fixed rates instead of *ceiling* rates earlier so as to ensure uniformity in respect of rates charged by banks for the same category of advances, particularly in respect of priority sector advances; (*iii*) a uniform maximum lending rate for all banks irrespective of their size; earlier banks with DTL of less than Rs. 25 crores could charge 1 per cent more; (*iv*) a rational pattern of lending rates for varying types of operations by public procurement and distribution agencies; (v) correlating the element of concessionality in interest rates with the size of advances in case of priority sectors, and (*vi*) bringing about a better alignment between interest rates charged by banks on short-term advances and term loans.

An important feature of the interest rates structure on advances prescribed in March 1981 was specification of four distinct categories relating to the procurement/distribution of commodities, *viz.*, (*i*) procurement of foodgrains under the full price support scheme, where the sales are at fixed prices through Government approved outlets, the rate of interest being 12.5 per cent; (*ii*) advances to Central and State Government agencies entrusted with procurement/distribution of specified essential consumer commodities for sale at fixed prices through Government approved outlets, the commodities being

Table VI.2 : Interest Rate Structure Effective from March 2, 1981*

Category of advances	Rate of interest (inclusive of interest tax) per cent per annum
I. Public Procurement and Distribution Agencies	
1. FCI, State Governments/agencies acting as agencies of FCI for procurement of foodgrains under full price support scheme, where the sales are at fixed prices through Government approved outlets	12.50
2. Advances to Central and State Government agencies entrusted with procurement/distribution of specified essential consumer commodities for sale at fixed prices through Government approved outlets, the commodities being pulses, edible oils, kerosene, salt and sugar	15.00
3. (i) Advances to Central and State Government agencies entrusted with the procurement and distribution of essential consumer commodities other than those specified in category (2) above	17.50
(ii) Advances to Central and State Government agencies entrusted with the procurement of cash crops viz., jute, cotton@, etc. where there is an element of price support	17.50
(iii) Advances to Central and State Government agencies entrusted with the procurement and distribution of fertilizers, pesticides and seeds	17.50
4. Advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a commercial basis	Not exceeding 19.50
II. Minimum Lending Rate (for commodities coming within the purview of Selective Credit Control)	
(i) Loans/advances/cash credit/overdrafts against commodities subject to Selective Credit Control	19.50
(ii) Sugar mills in respect of all stocks	17.50
III. Exports	
1. **Pre-shipment Credit**	
(a) Specified medium and heavy engineering goods and construction contracts (i) up to 180 days	12.50
(ii) beyond 180 days and up to 270 days	15.00
(b) Other specified goods (e.g., carpets, leather manufactures, coir, cashew, tobacco, etc.) up to 180 days	12.50
(c) Other goods and consultancy services (i) up to 90 days	12.50
(ii) beyond 90 days & up to 135 days	15.00
(d) Against cash incentives, etc., covered by ECGC guarantee (up to 90 days)	12.50
2. **Post-shipment credit**	
(i) Demand bills—for transit period (as specified by FEDAI)	12.50
(ii) Usance bills—up to 180 days comprising usance period of the export bills, transit period as specified by FEDAI and grace period wherever applicable	12.50
(iii) Cash incentives, duty draw-back, etc., receivable, covered by Export Production Finance Guarantee of ECGC (up to 90 days)	12.50
(iv) Undrawn balances (up to 90 days)	12.50
(v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	12.50

* Incorporating modifications/clarifications issued subsequently.

@ Since operations of CCI are on commercial basis, the rate of interest on advances to CCI was fixed at 19.50 per cent (advised to banks on June 17, 1981).

Category of advances	Rate of interest (inclusive of interest tax) per cent per annum
3. **Deferred Credit**	
Deferred credit for period beyond one year	8.65
4. **Duty Draw-back Credit Scheme, 1976**	
Against duty draw-back as provisionally certified by the Customs Authorities (up to 90 days)	Free of interest
5. **Export credit not otherwise specified**	Not exceeding 17.50
IV. Agriculture (Direct finance)	
Short-term loans to farmers	
(a) up to Rs. 5,000	12.50
(b) over Rs. 5,000 and up to Rs. 25,000	Not exceeding 15.00
(c) Above Rs. 25,000	Not exceeding 17.50
Agriculture (Indirect loans)@ (given through PACS/FSS/LAMPS)	
(a) up to Rs. 5,000	Not exceeding 10.00
(b) Over Rs. 5,000 and up to Rs. 25,000	Not exceeding 12.50
(c) Above Rs. 25,000	Not exceeding 15.00
V. Small-scale Industry	
1. Composite loans up to Rs. 25,000	
(a) Backward areas	10.25
(b) Other areas	12.50
2. Short-term advances, limits of:	
(a) Up to and inclusive of Rs. 2 lakhs	Not exceeding 15.00
(b) Over Rs. 2 lakhs and up to Rs. 25 lakhs	Not exceeding 17.50
(c) Above Rs. 25 lakhs	Not exceeding 19.50
VI. Other categories	
1. DRI advances	4.00
2. Retail trade advances	
(a) Limits up to and inclusive of Rs. 5,000	12.50
(b) Over Rs. 5,000 and up to Rs. 25,000	Not exceeding 15.00
(c) Above Rs. 25,000	Not exceeding 19.50
3. Educational advances*	
(a) Indigent students for purposes of higher education in India	Not less than Bank Rate
(b) Other educational advances	15.00—17.50
4. Priority sector not otherwise specified	Not exceeding 17.50
5. All other advances	Not exceeding 19.50

@ Effective June 11, 1981. Applicable for loans from banks to societies. The rates to be charged by the societies to the ultimate borrower, in the same order, are :
(a) Not exceeding 12.50.
(b) Same rate as charged by co-operatives in the area but not exceeding 15.00.
(c) Same rate as charged by co-operatives in the area but not exceeding 17.50.

* Effective May 19, 1981.

Category of advances	Rate of interest (inclusive of interest tax) per cent per annum
VII. Term Loans	
1. **Small-scale Industry**	
(i) Units as in the new definition of SSI	
(a) Backward areas £	12.50
(b) Other areas	13.50
2. (A) **Agriculture** (Direct finance)	
(i) Minor irrigation and land development	10.25
(ii) Other purposes	
(a) Small farmers	10.25
(b) Other farmers	12.50
(B) **Agriculture (Indirect finance)**‡ (given through PACS/FSS/LAMPS)	
(i) Minor irrigation and land development	8.75
(ii) Diversified purposes (as defined by ARDC)	
(a) To small farmers	8.75
(b) To other farmers	11.00
3. **Housing**	
(i) SC/ST up to and inclusive of Rs. 5,000	4.00
(ii) Others up to and inclusive of Rs. 5,000	12.50
(iii) Over Rs. 5,000 and up to Rs. 50,000	13.50
(iv) Above Rs. 50,000	15.00
4. **Road Transport Operators**	
(i) Single vehicle	12.50
(ii) Two or more vehicles	15.00
5. **All other term loans**	15.00

£ Applicable only in respect of new units set up in backward areas and not in respect of expansion/diversification of existing units for which the rate of interest of 13.5 per cent would be applicable.

‡ Effective June 11, 1981. Applicable for loans from banks to societies. The rates to be charged by societies to the ultimate borrower are the same as in the case of Agriculture (Direct Finance).

pulses, edible oils, kerosene, salt and sugar, the rate chargeable on these being 15 per cent; (*iii*) advances to Central and State Government agencies entrusted with the procurement and distribution of essential consumer commodities, other than those specified in category (*ii*) above, advances for the procurement of cash crops, *viz.*, jute, etc., where there is an element of price support, and procurement and distribution of fertilisers,

pesticides and seeds—for all these advances a rate of 17.5 per cent was prescribed; (*iv*) on advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a *commercial basis* the interest rate was not to exceed 19.5 per cent, which meant that for this category banks could charge up to the maximum rate permissible. The lending rates of the RRBs and co-operative banks were also restructured and rationalised so as to bring about a degree of alignment among the various rates charged and with the commercial bank lending rates applicable to comparable categories.

Prior to March 2, 1981, there was a prescribed general minimum lending rate (MLR), and it became necessary to exempt through notification or otherwise, advances carrying lower rates than the MLR, from the applicability of MLR. This meant that there was a large area in which rates had to be individually decided after discussion with banks. Under the new rates structure, such 'grey' area was reduced.

The Reserve Bank clarified on May 2, 1981, certain points raised by some banks. The Bank pointed out that while no rate was stipulated corresponding to the previous minimum lending rate, a broad framework of rates was provided under various categories to enable banks to lay down rates of interest on advances in cases where specific fixed rates had not been indicated in the February 28 circular. Thus, in the case of short-term advances to small-scale industry for limits above Rs. 25 lakhs, while the ceiling rate would be 19.5 per cent, it should not be less than 17.5 per cent, which is the ceiling for limits between Rs. 2 lakhs and Rs. 25 lakhs. In the case of other industrial advances, while the ceiling rate would be 19.5 per cent, the minimum should be so determined as to ensure that the rates applicable to them were not less than 17.5 per cent, which would be the minimum for credit limits over Rs. 25 lakhs to small-scale industries. In respect of all non-priority advances, the interest rate should not be less than 17.5 per cent or more than 19.5 per cent.

Banks could revise interest rates on existing term loans sanctioned prior to March 2, 1981, provided there was an enabling provision to that effect in the concerned loan agreements.

Another circular issued by the RBI on June 19, 1981 mentioned that in some cases the rates of interest prescribed by it on February 28, 1981 and subsequently by way of clarifications, differed marginally from those specified by the Industrial Development Bank of India under their refinance schemes. In such cases, where banks availed of refinance from the IDBI, the rates of interest as specified by IDBI might be charged to the ultimate borrower.

Interest Rates to be charged by RRBs

The Reserve Bank issued on March 23, a separate directive to Regional Rural Banks pointing out that due to constraints both on the clientele that could be served by RRBs and the types of business they could transact, certain categories of advances/purposes mentioned in the directive on interest rates were not applicable to RRBs. The March 23 directive listed the interest rates relevant to the business of RRBs and these are shown below.

(Per cent per annum)

DIRECT LOANS	
A. Short-term (crop) loans	
(*i*) Upto Rs. 5000	12.50
(*ii*) Above Rs. 5000	Not exceeding 15.00
B. Term loans (Agriculture)	
(*i*) Minor irrigation and land development	10.25
(*ii*) Other purposes	
(a) Small farmers	10.25
(b) Other farmers*	12.50
C. Working capital/composite loans (up to Rs. 25,000/-) to artisans and to cottage/village industrial units.	
(*i*) In specified backward areas	10.25
(*ii*) In other areas	12.50
D. Retail trade advances	
(*i*) Upto Rs. 5000	12.50
(*ii*) Over Rs. 5000 and upto Rs. 25,000	Not exceeding 15.00

* In land based schemes of ARDC.

Note : (1) Direct loans for consumption purposes to eligible category of borrowers including agricultural labourers will carry the same rate of interest as charged on short-term (crop) loans upto Rs. 5000/- *i.e.*, 12.50 per cent per annum.

(2) Interest on direct loans for any other purpose should not exceed in any case 17.50 per cent per annum.

March 1981 Measures

In 1981-82 (April-March), the growth in real national income was expected to be at a slower pace than in 1980-81. A large balance of payments deficit was anticipated. For achieving deceleration in the pace of inflation, a slowdown in monetary expansion was necessary. Credit policy in 1981-82 had of necessity to be in consonance with the overall monetary objectives, and yet sufficiently flexible to accommodate credit requirements of agricultural and industrial sectors and thus provide the impetus to growth. While the Reserve Bank did not propose specific ceilings on credit expansion, banks were urged to moderate their credit expansion and to build up their resources sufficiently so as to be able to meet the increased demand for food credit upto June 1981 and later the busy season credit demand, without recourse to refinance from the Reserve Bank as far as possible. They were also asked (*a*) to avoid undue involvement in term lending and (*b*) to give particular attention to effective deployment of credit particularly in priority and export sectors.

No significant changes were made in the specific credit policy measures. It was, however, decided to provide, effective April 24, 1981, export refinance at 10 per cent for 50 per cent of the increase in export credit over the monthly average for 1979, instead of the monthly average for 1978. While the terms and conditions for stand-by and discretionary refinance and rediscounting facilities were kept unchanged, the Reserve Bank made it clear that access to these facilities would be strictly for short periods, and in exceptional circumstances.

May 1981 Measures

Monetary expansion in 1980-81 (April-March) turned out to be higher than in 1979-80. More disturbing was the large growth of primary money in 1980-81, in the context of a sizeable loss of foreign exchange reserves. The increase in real national income in 1981-82 was not expected to exceed 4-5 per cent, as against 6.5 per cent estimated for 1980-81. Since the basic policy objective was a significant reduction in the pace of inflation, a slower pace of monetary expansion was an inescapable necessity.

The expansion in non-food credit in 1980-81 was significantly larger than in 1979-80 and the pace of expansion in the early weeks of 1981-82 was very large as compared to that in the preceding year. It, therefore, became necessary for the Reserve Bank to indicate, once again, the broad quantitative guidelines on credit expansion.

Banks were asked to ensure that the non-food credit expansion in (*a*) the 1981 slack season, and (*b*) the financial year 1981-82, was at least marginally lower than in the 1980 slack season and the financial year 1980-81, respectively. Further, the increase in their non-food credit in the first half of 1981-82 was not to exceed the increase in the first half of 1980-81.

Banks were further urged (*a*) to make renewed efforts to extend adequate credit support to priority sectors, (*b*) to meet the genuine requirements of production and public distribution of essential commodities, and (*c*) to continue to give special attention to the needs of the beneficiaries of the 20-Point Programme.

The Reserve Bank also effected certain changes in the existing credit policy measures with a view to strengthening them; these are mentioned below:

(1) For checking credit expansion and maintaining better control over monetary expansion, the cash reserve ratio (CRR) was raised from 6 per cent of net demand and time liabilities at which level it was since November 13, 1976, to 7 per cent. The increase was to be in two stages: 6·5 per cent from July 31, 1981 and 7 per cent from September 11, 1981; the latter was subsequently advanced to August 21, 1981;

(2) The minimum interest rate on discretionary refinance was raised from 11 per cent to 14 per cent effective June 1, 1981. This enhancement was not to have any effect on the lending rates charged by banks to their ultimate borrowers;

(3) The rate on rediscounting of bills with RBI was also raised from 11 per cent to 14 per cent for the first tranche from June 1, 1981; the subsequent tranches, if any, were to attract higher interest rates; and

(4) The stand-by refinance at 11 per cent provided for meeting clearing imbalances for two-three days at a time was made available from June 1, 1981 only under Section 17 (4) (a) of the R.B.I. Act, *i.e.*, banks could borrow against collateral of Government and trustee securities. Prior to June 1, banks had the option to borrow either under Section 17(4)(a), *i.e.*, with collateral of securities or under Section 17 (3B), *i.e.*, without collateral.

In view of the paramount need to increase exports, the Reserve Bank reduced the interest rate on export credit refinance from 10 per cent to 9 per cent, effective June 1, 1981.

As there had been an overall increase in interest rates in the past two years and as the interest rates on Government securities had also been raised, the Reserve Bank decided to raise the interest rate paid by it on cash reserves maintained with it by commercial banks. Banks were advised that from June 1, 1981, the cash reserves maintained by banks above the statutory minimum of 3 per cent inclusive of the additional balances maintained as on October 31, 1980 under the 10 per cent incremental cash reserve ratio would attract interest at 7 per cent as against 6.5 per cent earlier.

July 1981 Measures

In the first quarter of the financial year 1981-82, the growth in non-food credit was very sharp — as much as three times the increase in the first quarter of 1980-81. If the pace of credit expansion was to be checked, it became necessary to reduce the excess liquidity of the banking system. The measures taken by the Reserve Bank to mop up excess liquidity were:

(1) the raising of the Bank Rate from 9 per cent (at which level it had remained unchanged since July 23, 1974) to 10 per cent; (2) the raising of the statutory liquidity ratio from 34 per cent of total demand and time liabilities (at which level it had remaind since December 1, 1978) to 35 per cent in two phases — 34.5 per cent from September 25, 1981 and 35 per cent from October 30, 1981; and (3) the raising of the minimum margins against stocks of wheat, paddy/rice and other foodgrains by 10 percentage points with the exception of advances to roller flour mills against wheat.

Further, as stated above, the effective date of the second phase of the increase in cash reserve ratio was brought forward from September 11, 1981 stipulated earlier in May, to August 21, 1981.

The Reserve Bank urged banks to ensure that the credit expansion was kept within the guidelines set out in May 1981.

Consequent on the raising of the Bank Rate, certain upward adjustments became necessary in the interest rates on refinance facilities provided by the Reserve Bank.

Accordingly, the refinance rate for (*a*) food credit and (*b*) export credit was raised from 9 per cent to 10 per cent effective July 18, 1981; the commercial banks' lending rates, however, were to remain unchanged.

Interest rates for refinance facilities in respect of shipping loans and loans for import of capital goods are linked to the Bank Rate — the former 1½ per cent above, and the latter at the Bank Rate. Consequently, from the close of business on July 11, 1981, these rates were raised. The refinance against shipping loans was to be provided at 11.5 per cent as against 10.5 per cent earlier with the lending rate of commercial banks raised from 11 to 12 per cent. The refinance rate for the second facility, *i.e.*, against loans for import of capital goods was raised from 9 per cent to 10 per cent and the on-lending rate of commercial banks was raised from 11 to 12 per cent. The latter scheme was terminated on July 1, 1980, and the outstanding refinance was to be repaid by October 31, 1981.

As the increases in refinance rates and in the reserve requirement would affect the profitability of banks, the Reserve Bank advised them that they were free to raise those of their

lending rates as were below the prescribed maximum, upto the maximum rates prescribed by the Reserve Bank.

Non-food credit expansion in the financial year 1981-82 upto July 3, 1981 was almost double the expansion in the corresponding period in the previous year. The Reserve Bank impressed on banks again that they were not to accept such excesses as a *fait accompli*; they were asked to give positive instructions to their branches regarding the measures to be taken to ensure that the guidelines regarding non-food credit expansion were not infringed.

Other Policy Measures

(*a*) *Bank Finance to Physically Handicapped.*— The RBI urged public sector banks on October 13, 1980 to initiate measures before the end of the year to ensure that increased assistance was provided to the physically handicapped during 1981, the International Year of the Handicapped, under the plans drawn up by organisations for the welfare and rehabilitation of handicapped persons. The Reserve Bank requested private sector banks also to take appropriate action in this regard.

(*b*) *Advances under DRI Scheme.* — Consequent on the extension of the Differential Rate of Interest (DRI) Scheme to private sector banks, the RBI informed those banks on October 3, 1980 that the guidelines exempting the advances made by the public sector banks under the scheme from the levy of penal rates, would apply to them also.

(*c*) *Credit facilities to Scheduled Castes and Scheduled Tribes.*— Following representations from organisations of scheduled castes and scheduled tribes (SCs/STs) that the credit needs of these communities were not being met in an adequate measure by banks, the Reserve Bank issued on April 14, 1981, a circular letter to all commercial banks requiring them to take measures to step up their advances to SCs/STs. Banks were advised:(*a*) to consider sympathetically and expeditiously loan applications of SCs and STs.; (*b*) to choose specially villages with sizeable SC and ST population while adopting villages for intensive lending or, alternatively, to adopt specific localities with concentration of these communities; (*c*) to evolve suitable bankable schemes for weaker sections including members of these communities; and (*d*) to make periodical reviews of credit extended to SCs/STs.

(*d*) *Bank Finance to State-level Corporations for assisting Artisans, etc.* — Earlier, though organisations undertaking promotional activities for artisans and village and cottage industries were treated as 'priority sector' for the purpose of allocation of bank credit, no concessions in the rate of interest and other terms were extended to them. The RBI directed commercial banks on June 9, 1981 that from July 1, 1981 such advances should be charged concessional rate of interest of 13.5 per cent. Only specified organisations would be eligible for the concession, provided the advances were exclusively for the purpose of purchase and supply of inputs to and/or marketing of the outputs of artisans/village and cottage industries.

(*e*) *Housing Finance.*—The Bank issued on June 5, 1981, detailed guidelines to scheduled commercial banks regarding provision of housing finance. An overall limit of Rs. 100 crores was fixed for 1981 or roughly 0.43 per cent of total bank advances as at the end of 1980. Of this, an amount of Rs. 75 crores was earmarked for subscription to guaranteed bonds/debentures of HUDCO and State Housing Boards, Rs. 15 crores for SC/ST/ weaker sections and the balance Rs. 10 crores to borrowers of other categories or for providing funds not exceeding Rs. 5 crores to HDFC for lending to middle income borrowers. The guidelines also covered instructions as to the interest to be charged to SC/ST and others, margins to be maintained, etc.

(*f*) *Payment of interest on savings bank accounts of Development Agencies.* — Savings bank accounts with commercial banks of Development Agency organisations such as the SFDA, the MFAL, the DPAP, the District Development Authority, the District Rural Development Agency and the Integrated Rural Development Programme were earlier not eligible for interest, as these organisations were deemed to be "trading" or "business" concerns. However, in the light of the socially

desirable purposes of their activities, the RBI informed scheduled commercial banks on June 9, 1981 that they could open savings bank accounts in the name of these agencies on usual terms for payment of interest.

(*g*) *Valuation of Securities for SLR Purposes/ Calculation of SLR.*—Mention was made in last year's Report about the concession given to banks in May 1980 in the matter of valuation of securities for SLR purposes. The concession was available only till the end of November 1980. As there were further upward adjustments in the interest rates on long-dated Government securities, it was decided in May 1981 to extend once again the concession which had been granted in May 1980, *i.e.*, a liquidity ratio of not less than 25 per cent, the securities taken into account for this purpose being valued at rates not exceeding the current market price, and 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 for depreciation in the value of the investments as was not in excess of the depreciation in the market value of the said securities. The concession was to be available till the end of October 1981.

The Bank announced on May 29, 1981 another concession in respect of calculation of SLR. When the SLR was raised from 33 to 34 per cent of total demand and time liabilities (DTL) on December 1, 1978, banks were enjoined to ensure that the 34 per cent was applied to incremental total DTL accruing after December 1, 1978 regardless of any excess in SLR as on that date. The SLR would henceforward be calculated on a uniform basis and the stipulation freezing the excess liquidity as on December 1, 1978 would no longer be applicable for SLR calculation.

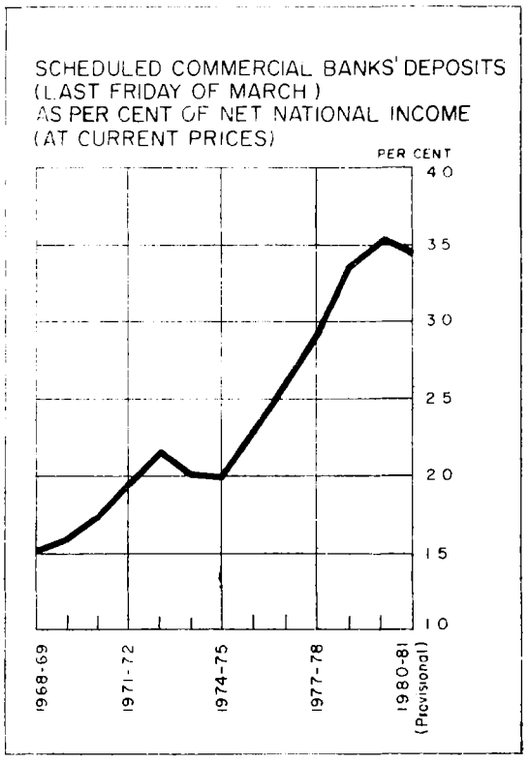
(*h*) *Pre-shipment Credit.*—In respect of pre-shipment credit for export of specified medium and heavy engineering goods and construction contracts abroad, banks were required to charge concessive ceiling rate of interest of 11.85 per cent (12.50 per cent from March 2, 1981) upto a maximum period of 180 days and for export of other goods upto a period of 135 days. Following representations from exporters/export promotion councils that the period of 135 days was inadequate, the Reserve Bank increased from December 1, 1980 the period to 180 days in respect of certain items coming under the category "others".

BANKING TRENDS

A much higher rate of growth than in the previous year in aggregate deposits and non-food credit marked the operations of scheduled commercial banks during 1980-81 (July-June). Cash in hand and balances with the Reserve Bank also registered a sizeable increase over the year — more than two and a half times of that registered in the previous year. (Table VI. 3)

Deposit Growth

Aggregate deposits registered a substantial rise every month during the year. The accretion to deposits over the year was as much as Rs. 6,807 crores (20.4 per cent), as against Rs. 4,706 crores (16.4 per cent) in the preceding year. The larger accretion could partly be attributable to the substantial increase of about 7 per cent in national income in 1980-81; in 1979-80, national income had declined by



4.5 per cent. The persistent inflationary situation and the upward adjustment from March 2, 1981 of interest rates on deposits might have also assisted deposit growth. While deposit accretion in the first quarter July-September 1980 at Rs. 1,107 crores or 3.3 per cent was lower than the accretion of Rs. 1,115 crores or 3.9 per cent in the corresponding quarter in the preceding year, the accretion in the remaining three quarters was substantially larger than in the corresponding quarters of 1979-80 as shown below.

(Rs. crores)

	Growth in Aggregate Deposits			
	1979-80		1980-81	
	Amount	Per cent	Amount	Per cent
July — September	1,115	3.9	1,107	3.3
October — December	1,677	5.6	2,009	5.8
January — March	296	0.9	1,354	3.7
April — June	1,618	5.1	2,337	6.2
Over the year (July-June)	4,706	16.4	6,807	20.4

The substantial expansion of Rs. 1,354 crores in January-March 1981 as against only Rs. 296 crores in January-March 1980 was the result of large increases in deposits of Rs. 607 crores and Rs. 543 crores, respectively, in January and March 1981, as against a decline of Rs. 356 crores, and a smaller increase of Rs. 380 crores, respectively, in January and March 1980.

Impact of New Classification On Demand/Time Deposits.—In terms of the published data, the accretion of Rs. 6,807 crores in total deposits was the net result of a sharp increase of Rs. 9,214 crores in time deposits partially offset by a decline of Rs. 2,407 crores in demand deposits. As mentioned in the Reports for 1978-79 and 1979-80, a portion of the variations in the published figures of demand and time deposits for 1977-78, 1978-79 and 1979 80 is statistical and is due to the adoption by banks of the new procedure outlined in the amended Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations, 1951 for classification of banks' savings deposits into demand and time for reporting figures of total demand deposits and total time deposits in the weekly Section 42(2) Returns. The amended Regulation became effective from August 16, 1978.

Under the procedure outlined in Regulation 7, before it was amended in 1978, if the Savings Banks Rules of the bank specified 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. Thus, under the old procedure, a substantial portion or even the entire amount of savings deposits in case of many banks, was classified as 'demand', and included in demand deposits for reporting Section 42(2) data. In terms of the revised procedure, the average of the monthly minimum balances which is arrived at for crediting half yearly interest on savings banks accounts is to be treated as amount representing time liabilities 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. Thus under the revised procedure, which has now been adopted by most banks, a substantial portion of savings deposits has come to be classified as 'time' deposits for reporting demand/time

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

(Rupees crores)

Items	Seasonal Variations						Annual Variations (July-June)	
	Slack Season 1979	Busy Season 1979-80	Slack Season 1980	Busy Season 1980-81@	Slack Season 1980 (Upto Aug. 29, 1980)	Slack Season 1981 (Upto Aug. 28, 1981)@	1979-80	1980-81@
	1	2	3	4	5	6	7	8
1. Aggregate Deposits	+2820	+2422	+2630	+3447	+1678	+2667	+4706	+6807
(a) Demand $	+ 966	— 132	—2147	—1133	— 712	+ 339	— 495	—2407
(b) Time $	+1854	+2554	+4777	+4580	+2390	+2328	+5201	+9214
2. Borrowings from the RBI	+ 293	— 260	+ 50	+ 76	+ 57	+ 16	— 171	+ 76
3. Cash and Balances with the RBI	+ 901	— 102	+ 669	— 116	+ 113	+ 653	+ 507	+1364
4. Money at call and short notice	+ 5	— 30	+ 48	+ 71	+ 21	+ 108	— 27	+ 214
5. Investments in Government and other approved Securities	+ 503	+1085	+1505	+1427	+1283	+ 765	+2435	+2398
(a) Government Securities	+ 139	+ 767	+ 985	+1167	+1008	+ 349	+1585	+1515
(b) Other Approved Securities	+ 364	+ 318	+ 520	+ 260	+ 275	+ 416	+ 850	+ 883
6. Bank Credit‡	+1615	+1631	+1133	+2971	+ 367	+1090	+2381	+4332
(a) Food procurement advances	+ 457	— 691	— 150	— 146	+ 34	+ 328	— 586	— 197
(b) Other advances‡	+1158	+2322	+1283	+3117	+ 333	+ 762	+2967	+4529
7. Bills rediscounted with the RBI	+ 5	— 24	— 63	— 1	— 60	— 2	+ 4	— 72
8. Gross Bank Credit‡ (6+7)	+1620	+1607	+1070	+2970	+ 307	+1088	+2385	+4260

@ 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 deposits and a smaller proportion as demand deposits.

‡ 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 Section 42(2) of the Reserve Bank of India Act, 1934.

deposits data. The amended Regulation became effective from August 16, 1978, but as the proposed amendment to the Regulation had been advised to the banks in October 1977, a few scheduled commercial banks had adopted the revised procedure even prior to August 16, 1978. Most of the other banks adopted it on various dates after August 16, 1978. As the procedure was adopted by different banks on different dates, the published figures of demand and time deposits from 1978 have become non-comparable; the aggregate deposit figures are not affected by the revised classification.

To present comparable data of demand and time deposits, the published figures of demand deposits and time deposits for June 1978, June 1979 and June 1980 have been adjusted for the changes made by banks subsequently in the classification of savings deposits, on the assumption that those banks which have adopted the revised procedure in 1978-79, 1979-80 or 1980-81, had done so from June 1978 (vide Table VI. 4).

It will be seen from the Table that in terms of the adjusted data, of the total accretion of Rs. 6,807 crores in 1980-81, the share of demand deposits was Rs. 1,551 crores or 22.8 per cent, and that of time deposits Rs. 5,256 crores or 77.2 per cent. In 1979-80, only 8.6 per cent of the total accretion of Rs. 4,706 crores was in demand, and the remaining 91.4 per cent was in time.

Table VI.4: Growth of Demand and Time Deposits: Published and Adjusted* data

(Rs. crores)

	Outstanding as on the last Friday of				Variations during		
	June 1978	June 1979	June 1980	June 1981@	1978-79	1979-80	1980-81 @
	1	2	3	4	5	6	7
PUBLISHED DATA							
Demand Deposits	9,219	11,050	10,555	8,148	+1,831 (+19.9)	—495 (—4.5)	—2,407 (—22.8)
Time Deposits	14,094	17,621	22,822	32,036	+3,527 (+25.0)	+5,201 (+29.5)	+9,214 (+40.4)
Aggregate Deposits	23,313	28,671	33,377	40,184	+5,358 (+23.0)	+4,706 (+16.4)	+6,807 (+20.4)
ADJUSTED DATA							
Demand Deposits	4,890	6,190	6,597	8,148	+1,300 (+26.6)	+407 (+6.6)	+1,551 (+23.5)
Time Deposits	18,423	22,481	26,780	32,036	+4,058 (+22.0)	+4,299 (+19.1)	+5,256 (+19.6)
Aggregate Deposits	23,313	28,671	33,377	40,184	+5,358 (+23.0)	+4,706 (+16.4)	+6,807 (+20.4)

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

* Data for June 1978, June 1979 and June 1980 are adjusted for changes in the classification of savings deposits on the assumption that those banks which adopted the new classification in 1978-79, 1979-80 or 1980-81 had done so from June 1978. As the new classification was adopted by these banks prior to June 1981, the data for June 1981 are not required to be adjusted.

@ Partially revised.

The Table also shows that the accretion to demand deposits in 1980-81 at Rs. 1,551 crores or 23.5 per cent was almost four times the accretion of Rs. 407 crores or 6.6 per cent in 1979-80. It was also a little larger in amount than the accretion in 1978-79 (Rs. 1,300 crores), but was lower in percentage terms; in 1978-79, the rate of growth in demand deposits was 26.6 per cent. The accretion to time deposits in 1980-81 at Rs. 5,256 crores was substantially larger in amount than the accretion of Rs. 4,299 crores in 1979-80 and of Rs. 4,058 crores in 1978-79. In percentage terms, the increase at 19.6 per cent was a little higher than in 1979-80 (19.1 per cent), but was lower than in 1978-79 (22.0 per cent).

Expansion in Bank Credit

Bank credit expansion over the year 1980-81 was substantially larger at Rs. 4,332 crores or 19.6 per cent, as against Rs. 2,381 crores or 12.1 per cent in 1979-80. The expansion in 1980-81 was the net result of a large rise of Rs. 4,529 crores or as much as 23.0 per cent in non-food credit, and a decline of Rs. 197 crores in food credit. In 1979-80, the expansion in non-food credit was much lower at Rs. 2,967 crores or 17.8 per cent, and was partly offset by a decline of Rs. 586 crores in food credit. The credit-deposit ratio at the end of June 1981 at 65.7 per cent was marginally lower than that a year ago (66.1 per cent). The incremental credit-deposit ratio for 1980-81, however, worked out much higher at 63.6 per cent, as against 50.6 per cent in 1979-80.

Seasonwise, non-food credit expansion in the entire slack season of 1980 (end-April to end-October) at Rs. 1,283 crores (6.5 per cent) did not show any appreciable variation over

the expansion in the 1979 slack season (Rs. 1,158 crores or 7.2 per cent). The incremental non-food credit-deposit ratio worked out higher at 48.8 per cent, as against 41.1 per cent in the preceding slack season. In the busy season of 1980-81, however, the expansion was much larger at Rs. 3,117 crores (14.9 per cent) as against Rs. 2,322 crores or 13.4 per cent in the 1979-80 busy season. While in the first two months of the busy season, the expansion at Rs. 1,054 crores was about the same as in the corresponding period last year (Rs. 1,044 crores), in the last four months, the expansion in the 1980-81 busy season was as much as Rs. 2,063 crores, as against Rs. 1,277 crores last year. In the 1981 slack season so far (*i. e.* upto August 28), non-food credit expansion was Rs. 762 crores or about two-and-a-quarter times the expansion of Rs. 333 crores in the corresponding period last year.

In the financial year 1981-82 so far (*i. e.* end-March to August 28), expansion in non-food credit amounted to Rs. 1,263 crores or 5.4 per cent as against only Rs. 507 crores or 2.6 per cent in the first five months of 1980-81. The incremental non-food credit-deposit ratio in the current financial year so far worked out to 38.6 per cent as against 22.1 per cent last year.

Food credit declined from Rs. 2,410 crores at the close of June 1980 to a low of Rs. 1,693 crores by end-April 1981, but moved up to Rs. 2,213 crores by end-June 1981. In the preceding year, the variations were sharper; food credit had dropped from Rs. 2,996 crores in June 1979 to Rs. 1,990 crores by end-April 1980, and increased to Rs. 2,410 crores by end-June 1980.

Variations in Other Assets and Liabilities

Scheduled commercial banks' investments in Government and other approved securities registered an increase of Rs. 2,398 crores or 20.3 per cent over the year (July-June), as against Rs. 2,435 crores or 25.9 per cent in the preceding year. The incremental investment-deposit ratio worked out lower at 35.2 per cent in 1980-81, as against 51.7 per cent in 1979-80. The smaller increase in investments in 1980-81 has to be viewed in the light of the satisfactory investment-deposit ratio prevailing at the beginning of the year.

Cash in hand and balances with the Reserve Bank rose over the year by Rs. 1,364 crores, as against only Rs. 507 crores in the preceding year. The cash-deposit ratio worked out to 13.6 per cent at the close of June 1981, as against 12.3 per cent a year ago.

Scheduled commercial banks' borrowings from the Reserve Bank increased by Rs. 76 crores over the year, in contrast to the liquidation of borrowings to the extent of Rs. 171 crores in 1979-80. The impact of the tighter credit policy was clearly reflected in the shrinking of rediscount and refinance (excluding special refinance) available from the Reserve Bank. Excluding special refinance and food refinance, the RBI accommodation by way of other refinance and rediscounting declined by Rs. 169 crores over the year 1979-80 (July-June) and further by Rs. 109 crores over 1980-81.

Call Money Market

In the call money markets in Bombay and Calcutta, generally firm conditions witnessed during 1979-80 gave way to a distinctly easy tendency, particularly in Bombay during 1980-81, the inter-bank call money rate quoting far below the ceiling level (10 per cent) during the major part of the year. The easiness during the greater part of the year was mainly due to the improved liquidity position of banks as reflected in the level of investment-deposit ratio during the major part of the year.

In Bombay, after an initial firmness in the first three weeks of July, the market turned distinctly easy. The inter-bank call money rate, which ruled at the ceiling level of 10 per cent in the first three weeks of July, receded to 4—4·5 per cent by the close of the month. In the next four-and-a-half months, *i. e.*, during August to mid-December, the call money rate was generally quoted around 2.5—4.5 per cent except for a temporary increase to 6—7 per cent in the second week of November. The rate firmed up temporarily to the ceiling level of 10 per cent in the latter half of December. During the greater part of January to June 1981 also, easy

conditions prevailed and the call money rate ruled much below the ceiling level, but at levels higher than those prevailing during August to mid-December. The rate hovered around 4—7 per cent during the greater part of January to mid-March, and after quoting at the ceiling level of 10 per cent during the latter half of March, receded and was quoted generally around 6—8 per cent; occasionally the rate eased to 4—5 per cent.

In the Calcutta market, more or less similar trend prevailed, but the call money rate ruled at levels much higher than in Bombay, *viz.*, between 7 and 10 per cent.

SELECTIVE CREDIT CONTROL

Taking into account the supply and price situation certain modifications were made in Selective Credit Control during the year.

Gur and Khandsari

In view of the continuous rise in the prices of *gur* and *khandsari*, the minimum margin for advances against these commodities was raised from 50 per cent to 65 per cent for the manufacturers of these commodities and from 60 per cent to 75 per cent for others with effect from October 13, 1980. The minimum margin on advances against warehouse receipts was raised from 45 per cent to 55 per cent.

Sugar

To help some of the sugar mills which might find it difficult to meet the expenses necessary for the off-season repairs and other essential purposes, the banks were advised on July 22, 1980 to consider 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.

Certain relaxations were made in respect of sugar mills which, due to certain exceptional circumstances, had not been able to liquidate the clean loans already granted to them in the past. The banks could consider the request for a fresh loan to 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. If such arrears exceeded the level of 10 per cent (of the loan amount as on May 31, 1980), request for such loans needed to be referred to the Reserve Bank for prior approval.

On the acceptance of the offer made by the Indian Sugar Mills' Association and the National Federation of Co-operative Sugar Factories Ltd., 1.5 lakh tonnes of free-sale sugar were released during the months of October and November 1980 out of the 1979-80 production as levy sugar. Consequent to the release of free-sale sugar stocks as levy sugar valued at different rates, the accounts of some of the sugar mill borrowers were rendered irregular and there occurred a certain amount of deficiency in margin. In order to meet this contingency, on October 14, 1980 the Bank reduced the margin in respect of the accounts of sugar mills to the extent it became necessary on account of the above-mentioned arrangement between the Government and sugar mills. This relaxation was extended up to December 31, 1980.

In regard to the stocks of free-sale sugar out of the 1979-80 production still left with the sugar mills, the Bank agreed not to insist on the deficiency in margin being made good by the excess realisations coming out of such sales. The mills were allowed to retain such surpluses for meeting essential requirements and other obligations for the coming season. The deficit in margin was to be regularised by the mills as and when the sugar production during the 1980-81 season was made available to the banks as security for the drawings in that season.

As sugar production during 1980-81 was expected to be higher, the Reserve Bank decided on October 22, 1980 that subject to liquidity/financial position and estimates of sugar production of individual units, the banks might sanction credit limits for 1980-81 season to sugar mills up to 125 per cent of the maximum amounts availed of by them in the previous season without prior authorisation. While the system of fixing credit

limits in relation to the peak level of stocks was continued, the actual drawals in borrowal accounts were regulated on the basis of deficit as disclosed in the monthly cash budgets of mills. Where applications for credit limits for the 1980-81 season had been received but were awaiting sanction from the competent authority in any bank or prior authorisation from the RBI, banks could allow drawings in such units up to the maximum amount availed of by them in the 1979-80 season so that their production schedule was not upset. Banks were asked to continue the practice of monitoring the payments of dues of sugar mills to cane growers and the system of earmarking of funds out of the advances against pledge/hypothecation of sugar for payment to cane growers as hitherto in consultation with the borrowers.

In view of the upward revision in the sugarcane prices and escalation in the cost of other inputs of sugar mills, the banks were advised on February 19, 1981 that they might, at their discretion, consider sanctioning for the 1980-81 season additional *ad hoc* limits to mills up to 10 per cent of the limits, without the prior authorisation of the Reserve Bank, subject to a maximum of Rs. 25 lakhs for each unit, and only for meeting their urgent requirement for payments to cane growers or for such other emergency purposes.

Hike in Minimum Lending Rates

Following the re-imposition of tax on interest income of banks in the Union Budget for 1980-81, the banks were advised on August 7, 1980 to raise the minimum lending rates on advances covered by Selective Credit Control, 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 textile mills in respect of 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 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

The rates of advances against commodities covered by Selective Credit Control were further modified on February 28, 1981. The minimum lending rates for loans/advances/cash credits/overdrafts against commodities other than advances to sugar mills, coming under the purview of Selective Credit Control was raised to 19.50 per cent per annum from 19.40 per cent. As regards advances to sugar mills in respect of all stocks, the minimum rate was fixed at 17.50 per cent per annum as against the existing 16.70 per cent and banks could charge them a rate which was between this rate and the general ceiling rate on advances, *i. e.*, 19.50 per cent per annum. The following clarifications were made by the RBI on May 2, 1981 :

(*i*) Unless specific exemptions were granted under the relative directives, the advances rate for sensitive commodities would be 19.50 per cent per annum regardless of the borrower enjoying lower rates of interest for other limits by virtue of his being in the priority sector or enjoying lower credit limits. The banks were asked to carefully review all cases of advances against sensitive commodities to small-scale industrial units and bring the rates to the prescribed rates, keeping in view their eligibility or otherwise for exemption under Selective Credit Control.

(*ii*) The concessive rate of interest permissible to cotton textile mills stood withdrawn from March 2, 1981.

(*iii*) On advances against warehouse receipts issued by rural godowns, banks might charge interest at 13.5 per cent per annum in respect

of small advances up to Rs. 5,000/- covering commodities for which support prices have been announced and in respect of which procurement arrangements by Central/State Government agencies exist.

Foodgrains

After a review of the trends in production, prices and bank credit against the security of sensitive commodities and taking into account reports to the effect that the procurement operations of Government were hampered by speculative hoarding of stocks, the minimum margin on advances against stocks of paddy/rice and other foodgrains (including wheat) was raised by 10 percentage points, effective July 13, 1981, with the exception of advances to roller flour mills against wheat.

A similar increase was made in the margins prescribed for advances against warehouse receipts covering these commodities. No modifications were, however, made in the minimum margins on advances against pulses (stocks/warehouse receipts). The changes made are indicated in the Table below.

Basic Minimum Margins under Selective Credit Control on Advances against Foodgrains, effective July 13, 1981

(Percentage)

	Against Stocks (Minimum)				Against Warehouse Receipts			
	Before July 13, 1981		From July 13, 1981		For small advances up to Rs. 5,000/- against rural warehouse receipts (Fixed)		For others (Minimum)	
	Processing Units/ Mills	Others	Processing Units/ Mills	Others	Before July 13, 1981	From July 13, 1981	Before July 13, 1981	From July 13, 1981
	1	2	3	4	5	6	7	8
Paddy	35	50	45	60	20	30	40	50
Rice	50	50	60	60	20	30	40	50
Pulses	45	60	45	60	30	30	50*	50*
Other Foodgrains (including wheat)	35@	50	45@	60	20	30	40	50

@ For stocks equivalent to four weeks' consumption; for additional stocks the minimum margin was 50 per cent before July 13, 1981 and 60 per cent from that date. Advances against wheat to roller flour mills continued to attract a minimum margin of 25 per cent.

* For advances to processing units/mills against warehouse receipts covering pulses the minimum margin is 40 per cent.

The position of Selective Credit Control, as on September 19, 1981 is given as Annexure to this Chapter.

Advances against Sensitive Commodities

Scheduled commercial banks' outstanding advances against selected commodities at Rs. 978 crores at end-June 1981 showed an increase of Rs. 131 crores over the year (Table VI·5). Excluding Rs. 92 crores outstanding against raw jute (which is not covered by Selective Credit Control), the outstanding advances at Rs. 886 crores were higher by Rs. 134 crores over the year. Of the total outstanding amount Rs. 886 crores, advances against cotton and *kapas*, sugar (including *khandsari*), and foodgrains accounted for Rs. 453 crores (51.1 per cent), Rs. 214 crores (24.1 per cent) and Rs. 167 crores (18.8 per cent), respectively. The proportion of advances against sensitive commodities to total credit of all scheduled commercial banks for all purposes remained the same at 3.4 per cent.

Table VI. 5 : Scheduled Commercial Banks' Outstanding Advances Against Selected Commodities

(Amount in rupees lakhs)

Commodities	As on last Friday of								
	June 1976			June 1980			June 1981*		
	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	10
1. Foodgrains (excluding food procurement advances)	**4159**	**9.6**	**0.4**	**12424**	**16.5**	**0.6**	**16686**	**18.8**	**0.6**
(*a*) Paddy and rice	1444	3.3	0.1	6698	8.9	0.3	10253	11.6	0.4
(*b*) Wheat	921	2.1	0.1	1589	2.1	0.1	1701	1.9	—
(*c*) Other Foodgrains	1794	4.2	0.2	4137	5.5	0.2	4732	5.3	0.2
2. Sugar (including Khandsari)	**15120**	**35.1**	**1.3**	**14475**	**19.2**	**0.7**	**21371**	**24.1**	**0.8**
3. Oilseeds	**1899**	**4.4**	**0.2**	**1679**	**2.2**	**0.1**	**1242**	**1.4**	**0.1**
(*a*) Groundnut	1367	3.2	0.1	1043	1.3	0.1	530	0.6	—
(*b*) Rapeseed/Mustardseed	367	0.8	—	526	0.7	—	616	0.7	—
(*c*) Linseed	118	0.3	—	69	0.1	—	62	0.1	—
(*d*) Castorseed	47	0.1	—	41	0.1	—	34	—	—
4. Vegetable Oils	**1382**	**3.2**	**0.1**	**2069**	**2.8**	**0.1**	**2578**	**2.9**	**0.1**
(*a*) Groundnut Oil	439	1.0	—	676	0.9	—	741	0.8	—
(*b*) Rapeseed/Mustard Oil	122	0.3	—	782	1.0	—	1059	1.2	—
(*c*) Castor Oil	600	1.4	0.1	576	0.8	—	749	0.9	—
(*d*) Linseed Oil	221	0.5	—	35	0.1	—	29	—	—
5. Vanaspati	**446**	**1.0**	—	**1189**	**1.6**	**0.1**	**1506**	**1.7**	**0.1**
6. Cotton and Kapas @	**20117**	**46.7**	**1.8**	**43359**	**57.7**	**2.0**	**45254**	**51.1**	**1.7**
(*a*) Indigenous	17698	41.1	1.6	40860	54.4	1.9	43058	48.6	1.6
(*b*) Imported	2419	5.6	0.2	2499	3.3	0.1	2196	2.5	0.1
7. Total of 1 to 6	**43123**	**100.0**	**3.8**	**75195**	**100.0**	**3.4**	**88637**	**100.0**	**3.4**
8. Raw Jute £ $	**3298**		**0.2**	**9491**		**0.4**	9181		**0.3**
9. Total of 7 and 8	**46421**		**4.0**	**84686**		**3.8**	**97818**		**3.7**
Total Bank Credit+	**1147605**		**100.0**	**2206843**		**100.0**	**2640030**		**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.

The major beneficiaries of advances against selected commodities (covered by Selective Credit Control) were mills/factories and industrial users; these two categories accounted for 59.8 per cent of total advances at end-June 1981 as compared to 55.4 per cent at end-June 1980 (Table VI. 6).

Commodity-wise, this proportion was very high at end-June 1981 in the case of vanaspati (97.3 per cent), and sugar (96.4 per cent).

Table VI. 6 : Security-wise Advances to Mills/Factories and Industrial Users

(As percentages to total credit against respective commodities)

Commodities	As on last Friday of	
	June 1981	June 1980
1	2	3
1. Vanaspati	97.3	88.2
2. Sugar (including khandsari)	96.4	97.8
3. Rapeseed/Mustard Oil	77.4	59.0
4. Castor Oil	77.3	79.3
5. Castorseed	66.7	100.0
6. Linseed Oil	66.7	75.0
7. Wheat	61.8	54.1
8. Other Foodgrains ..	59.6	47.3
9. Groundnut Oil ..	59.5	85.3
10. Rapeseed/Mustard seed	58.1	51.9
11. Paddy and Rice ..	53.6	80.1
12. Linseed	50.0	57.1
13. Groundnut	49.1	28.9
14. Cotton & Kapas ..	47.2	40.9
15. Raw Jute	34.4	37.7
All Selected Commodities	**59.8**	**55.4**

Source : Basic Statistical Return 3.

WORKING OF DIFFERENT SCHEMES

Brief reviews of the working during the year of the various schemes like the Credit Authorisation Scheme, Differential Rate of Interest Scheme, Lead Bank Scheme, Export Credit Schemes, etc. are given in this Section.

(a) Credit Authorisation Scheme

The Credit Authorisation Scheme (CAS) which has been in operation since 1965 continued to play an effective role as an instrument of credit regulation particularly against the background of the RBI's policy of keeping inflationary pressures under control.

In examining cash credit and other working capital requirements, there was a need to improve the procedures of banks. On July 1, 1980, banks were asked to comply fully with the requirement of annual review of all credit limits, as it was not being undertaken in several cases. In respect of credit limits of Rs. 1 crore and over (subsequently reduced to Rs. 50 lakhs and over), banks were asked to determine the likely drawals for each ensuing quarter on the basis of the quarterly operating and funds flow statements to be obtained from borrowing units.

Committee of Direction

The Committee of Direction (consisting of senior representatives of Reserve Bank, State Bank 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 lending policies. During the year, the Committee discussed the problems in fixing norms for consumable spares in respect of certain industries, particularly the fertiliser industry where the level of holding is high, for the purpose of assessment of working capital requirements. The Committee finalised the format in which information may be obtained by banks for appraisal of credit proposals relating to road transport operators. A uniform format drawn up for submitting loan proposals by banks to their Boards was also considered and finalised.

Working of Credit Authorisation Scheme

The number of the parties covered under the CAS increased from 1,093 at the end of June

1980 to 1,177 by end-June 1981. Of these, 199 were public sector units, as against 192 public sector units in June 1980. The total limits in force rose by Rs. 1,401 crores in 1980-81—from Rs. 13,026 crores to Rs. 14,427 crores. The limits in respect of public sector units increased by Rs. 564 crores, from Rs. 7,131 crores to Rs. 7,695 crores and those in respect of private sector units by Rs. 837 crores from Rs. 5,895 crores to Rs. 6,732 crores. The pattern of purpose-wise distribution of total limits in force did not show any significant change over the year, working capital accounting for 88.7 per cent, term finance 8.6 per cent, and sale of machinery on deferred payment basis 2.7 per cent (vide Table VI. 7).

Occupation-wise distribution of total limits in force as on June 30, 1981 show that industry's share was the largest at 60.7 per cent, followed by trade (31.9 per cent). In respect of public sector units, however, industry's share was 38.5 per cent, while trade's share was as much as 53.1 per cent; food procurement accounted for 34.3 per cent of the total limits in force in respect of public sector units (vide Table VI. 8).

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

(Amount in rupees crores)

Type of credit	As on June 30, 1979		As on June 30, 1980		As on June 30, 1981	
	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*	10553	5951	11495	6564	12798	7111
Of which:	*(88.2)*	*(92.3)*	*(88.2)*	*(92.1)*	*(88.7)*	*(92.4)*
(a) Bills purchased and discounted	957 *(8.0)*	186 *(2.9)*	1068 *(8.2)*	247 *(3.5)*	1083 *(7.5)*	182 *(2.4)*
(b) Export finance	749 *(6.3)*	68 *(1.1)*	859 *(6.6)*	123 *(1.7)*	1001 *(7.0)*	145 *(1.9)*
2. Sale of machinery on deferred payment basis	378 *(3.1)*	81 *(1.3)*	390 *(3.0)*	82 *(1.1)*	390 *(2.7)*	80 *(1.0)*
3. Term finance	1037 *(8.7)*	415 *(6.4)*	1141 *(8.8)*	485 *(6.8)*	1239 *(8.6)*	504 *(6.6)*
Total limits in force	**11,968** *(100.0)*	**6,447** *(100.0)*	**13,026** *(100.0)*	**7,131** *(100.0)*	**14,427** *(100.0)*	**7,695** *(100.0)*
Number of parties	**1059**	**187**	**1093**	**192**	**1177**	**199**

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

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

Applications received for the Reserve Bank's authorisation increased from 917 in 1979-80 to 1,323 in 1980-81; this included 244 applications from public sector units, as against 186 applications in the previous year. Applications approved numbered 810, including 145 from public sector units and the amount for which authorisations were granted was Rs. 2,366 crores (including Rs. 1,693 crores for public sector units). Applications rejected/withdrawn numbered 67, and the amount involved was Rs. 115 crores (Tables VI. 9 and VI. 10).

(b) Differential Rate of Interest Scheme

Lending by public sector banks under Differential Rate of Interest Scheme made further progress during the period July 1979 to June 1980. While the number of

Table VI. 8 : Occupation-wise Distribution of Total Limits in Force
(As on June 30, 1981)

(Rupees crores)

Industry	Total limits in force		Of which public sector units	
	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4
I. AGRICULTURE & ALLIED ACTIVITIES	**425.57**	**3.0**	**251.37**	**3.3**
1. **Agriculture**	**245.37**	**1.7**	**204.32**	**2.7**
Direct finance	45.75	0.3	21.30	0.3
Indirect finance	199.62	1.4	183.02	2.4
(a) Distribution of fertilizers	187.30	1.3	170.70	2.2
(b) Others	12.32	0.1	12.32	0.1
2. **Plantations**	**180.20**	**1.3**	**47.05**	**0.6**
Tea	144.77	1.0	12.05	0.1
Others	35.43	0.3	35.00	0.5
II. INDUSTRY	**8758.71**	**60.7**	**2965.44**	**38.5**
A. Mining & Quarrying	**229.32**	**1.6**	**194.19**	**2.5**
Coal mining	131.01	0.9	130.89	1.7
Iron ore	17.23	0.1	3.75	0.1
Others	81.08	0.6	59.55	0.7
B. Manufacturing	**8529.39**	**59.1**	**2771.25**	**36.0**
1. Sugar	476.36	3.3	55.26	0.7
2. Edible oils & vanaspati	142.62	1.0	5.56	0.1
3. Tobacco processing & tobacco product manufacturing	107.58	0.8	4.50	0.1
4. Cotton textiles	930.64	6.5	100.45	1.3
5. Jute textiles	199.65	1.4	2.35	0.1
6. Silk & synthetic fibres	277.46	1.9	21.00	0.3
7. Wool & woollen textiles	55.96	0.4	—	—
8. Other textiles	6.93	0.1	—	—
9. Paper & paper products	153.54	1.1	3.00	0.1
10. Leather & leather products	45.91	0.3	—	—
11. Rubber & rubber products	182.94	1.3	—	—
12. Manufacture of chemicals & chemical products	1133.06	7.9	329.41	4.3
Heavy industrial chemicals	268.74	1.9	66.68	1.0
Fertilizer (production)	515.70	3.6	239.12	3.1
Drug & pharmaceuticals	143.87	1.0	19.36	0.1
Plastic & plastic products	16.88	0.1	—	—
Others	187.87	1.3	4.25	0.1
13. Petroleum	591.82	4.1	583.51	7.6
14. Cement	94.16	0.7	10.90	0.1
15. Basic metal & metal products	570.99	3.9	323.58	4.2
Iron & Steel	467.75	3.2	303.83	4.0
Others	103.24	0.7	19.75	0.2
16. Engineering (except transport equipment)	2371.40	16.4	746.10	9.7
Heavy Engineering	1610.19	11.1	678.97	8.8
Machinery except electrical machinery	930.72	6.4	264.90	3.4
Electrical machinery	679.47	4.7	414.07	5.4
Light Engineering (including light metal products)	761.21	5.3	67.13	0.9
17. Manufacture of transport equipment	497.16	3.4	141.37	1.8
Railway equipment industry	161.32	1.1	69.14	0.9
Others	335.84	2.3	72.23	0.9
18. Others (manufacture)	210.70	1.5	21.00	0.3
19. Electricity generation and distribution	480.48	3.3	423.26	5.5
III. TRADE	**4604.26**	**31.9**	**4081.83**	**53.1**
Foodgrains	2640.34	18.3	2640.34	34.3
Fertilizers	612.72	4.2	612.72	8.0
Mineral oils	35.69	0.3	5.05	0.1
Raw cotton	368.00	2.5	324.60	4.2
Raw jute	82.52	0.6	76.00	1.0
Others	864.99	6.0	422.67	6.0
IV. ALL OTHERS	**638.54**	**4.4**	**396.16**	**5.1**
TOTAL	**14,427.08**	**100.0**	**7,694.80**	**100.00**

Table VI. 9 : Particulars of Applications received, approved, rejected/withdrawn and cases reported under Credit Authorisation Scheme during the period July 1980 to June 1981

Particulars	July-September 1980	October-December 1980	January-March 1981	April-June 1981	Total
	1	2	3	4	5
1. Applications received @ ..	277 (58)	331 (58)	359 (71)	356 (57)	1323 (244)
2. Applications approved	150 (24)	234 (37)	208 (45)	218 (39)	810 (145)
3. Applications rejected/withdrawn	20 (5)	16 (1)	15 (1)	16 (—)	67 (7)
4. Reporting cases	208 (37)	226 (45)	274 (50)	257 (53)	965 (185)

Note : Figures in brackets relate to public sector.
@ Excluding number of applications received for extensions of period, authorisations for letters of credit or deferred payment guarantees, restoration, conversion of limits, etc.

Table VI. 10 : Particulars of Authorisations by Reserve Bank of India, amount involved in applications rejected/withdrawn, limits reported by banks.

(Rupees crores)

Particulars	July-September 1980	October-December 1980	January-March 1981	April-June 1981	Total
	1	2	3	4	5
1. Authorisations granted by Reserve Bank of India	488.44 (341.01)	798.53 (624.46)	400.05 (221.36)	679.25 (506.04)	2366.27 (1692.87)
2. Amount involved in applications rejected/withdrawn	38.82 (25.13)	22.36 (0.50)	13.50 (2.25)	40.45 (—)	115.13 (27.88)
3. Limits reported by banks	—829.11 (—849.49)	57.33 (12.94)	—86.66 (—179.69)	—106.53 (—112.70)	—964.97 (—1128.94)

Note : Figures in brackets relate to public sector.

borrowal accounts rose by 4.19 lakhs from 18.34 lakhs to 22.53 lakhs, the amount of loans outstanding went up by Rs. 44 crores from Rs. 114 crores to Rs. 158 crores. The average amount of loan also increased from Rs. 619 at the end of June 1979 to Rs.702 by the end of June 1980. There was also an improvement in the coverage of Scheduled Castes/Scheduled Tribes (SC/ST) borrowers under the Scheme. Thus, the number of borrowal accounts which stood at 7.54 lakhs at the end of June 1979 went up to 9.75 lakhs by end-June 1980. Correspondingly the amount of loan outstanding also rose from Rs. 47 crores to Rs. 70 crores. The percentage of DRI advances outstanding at the end of June 1980 to total advances at the end of December 1979 constituted 0.85 as against the target of 1 per cent (Table VI.11). The percentage of outstanding advances to SC/ST to total advances under the Scheme increased from 42 in June 1979 to 44 in June 1980 (as against the target of 40 per cent).

Advances under the Scheme made by banks in private sector (excluding 6 newly nationalised banks) under 10,460 borrowal accounts amounted to Rs. 90 lakhs as at the end of June 1980, of which Rs. 35 lakhs under 3,734 borrowal accounts were made to members of SC/ST, constituting 39 per cent as against the stipulated target of 40 per cent.

Table VI. 11—Progress of lending by Public Sector Banks under the Scheme of Differential Rate of Interest

As at the end of December	No. of borrowal accounts (000s)	Amount outstanding (Rs. crores)	% of DRI advances to total advances of the previous year
	1	2	3
1972	26	0.87	0.02
1973	230	10.06	0.22
1974	313	13.35	0.23
1975	465	20.99	0.31
1976	1005	47.24	0.56
1977	1392	67.99	0.61
1978	1620	90.00	0.74
1979	2076	139.80	0.98
1980*	2253	158.14	0.85

* Provisional and as at the end of June 1980.

The DRI Scheme was modified to allow sponsor banks to route DRI advances through RRBs on refinance basis also, in addition to routing of such advances on agency basis. The refinance to RRBs would carry a rate of interest at 2 per cent per annum and the amount of refinance so provided could be taken into account by sponsoring banks for the purpose of the target of 1 per cent of the lendings under the Scheme.

The maximum amount of loan under the Scheme does not exceed Rs. 1,500 for working capital and Rs. 5,000 for term loans. The rate of interest to be charged by banks is 4 per cent. Recently, the Government of India have agreed that in the case of small-scale industries, village artisans, etc., in the decentralised sector, advances under the Scheme may be granted upto Rs. 6,500 by way of composite loan without making any further distinction between working capital and term loan.

The Government of India have asked the National Institute of Bank Management to undertake a study of the DRI Scheme.

(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 Participation Certificates (PCs) continued to be 10 per cent per annum. Due to continued emphasis on the need for taking limited recourse to this medium for raising of resources by banks as also to bring about significant and lasting reduction in Participation Certificates, banks were advised on July 1, 1980 to plan their lendings taking into account the reduced availability from this source of funds. The aggregate amount of Participation Certificates issued and outstanding as on the last Friday of September 1981 stood at Rs. 190 crores.*

(d) Lead Bank Scheme

During the year, the High Power Committee (HPC) on the working of the Lead Bank Scheme met twice and considered, *inter alia*, the following issues:

(i) Second round of training programme for Government officials and bank executives:

The lead banks/State level convener banks had been advised to complete, by end-December 1979, the first round of district/State level workshops for bringing about an understanding of the aims and objectives of the Lead Bank Scheme among the bank executives and government functionaries. The first round of district/State level workshops has since been completed. As decided by HPC, the lead banks were advised to organise the second round of two-day district level workshops/review meetings (DLRMs). The focus in the second round of the training

* Provisional

programme would be on identifying the problems in implementation of the District Credit Plans (DCP) and fixing the responsibilities for resolving the problems. The follow-up action taken on the decisions in the first round of the workshops would also be reviewed. The banks were asked to take early steps to ensure that the DLRMs were held in all the lead districts by the end of September 1981.

Similar two-day workshops/review meetings would be organised at State level by the conveners of the State Level Bankers' Committees. The State level review meetings (SLRM) would be held soon after the DLRMs were held in all/most of the districts in the State so that the feed-back from the DLRMs could also be considered at the SLRMs. The entire programme of SLRMs is expected to be concluded by the close of the year 1981.

(ii) Improving the technical content of the DCPs — Seminars :

The HPC also reviewed the question of preparation of the DCPs to identify the existing gaps and lacunae in the methodology and data in order to make district credit planning more realistic. Accordingly, seminars were held on a regional basis in April-June 1981 to discuss the question of improving the technical content of the DCPs. The NIBM would consolidate the conclusions of these regional seminars so that the various State Governments may have the benefit of the issues thrown up in all the seminars. The consolidated report would then be discussed in a meeting of the economists of the lead banks and thereafter in separate State level meetings for finalisation of district manuals relevant for each of the States. These manuals would be relevant for the next round of credit plans, *i.e.*, from 1983 onwards.

(iii) Information System under the Lead Bank Scheme :

The new information system was approved by the HPC in its meeting held in December 1979 and the new formats were put into use with effect from the quarter ended March 1980. The RBI had appointed two Working Groups in March 1980, one to examine and report on the modalities of implementation of the Priority Sector Lending and the 20-Point Programme by banks and the other to review the system of data collection for monitoring banks' advances for priority sectors and 20-Point Programme. The latter Working Group slightly modified the formats devised earlier by the HPC, taking into consideration the concepts regarding priority sector and weaker sections thereof according to the recommendations of the former Working Group. Formats for monitoring the performance of banks under the 20-Point Programme were also devised. The recommendations of the former Working Group were accepted and conveyed to the banks for implementation; the formats, as modified/newly devised by the latter Working Group, were introduced with effect from the quarter ended December 1980.

Allocation of lead responsibility under Lead Bank Scheme :

(*a*) Lead Bank Scheme has been extended to the State of Sikkim and the State Bank of Sikkim has been designated as the lead bank in respect of all the four districts of the State. United Commercial Bank (which has been associated with the State Bank of Sikkim since its inception and holds at present 24.6 per cent of its share capital) and State Bank of India have agreed to extend all necessary assistance to the lead bank to enable it to take over this new responsibility.

(*b*) The Government of Kerala formed a new district, viz., Wynad, comprising North Wynad and South Wynad Taluks of Kozhikode District with effect from November 1, 1980. The lead responsibility in respect of the Wynad district was assigned to Canara Bank.

(*c*) The lead responsibility of the 14 districts in Jammu and Kashmir was with the State Bank of India. It was decided that from January 1981, the Jammu and Kashmir Bank Ltd. would be the lead bank in respect of four districts, viz., Rajouri, Poonch, Kupwara and Baramulla, in the State.

Role of District Authorities :

The RBI has been continuously watching the performance of the District Consultative Committees (DCCs) and issuing instructions, from time to time, for improving their functioning. The various aspects of the functioning of the DCCs on which instructions were issued to banks in March 1981 were also brought to the notice of the State Governments for their guidance. It was emphasised that the effectiveness of the DCC depends considerably on the role of the District Collector/ Magistrate and the co-operation extended by the district functionaries, and the State Governments were requested to issue suitable instructions to the District Collectors/ Magistrates, in this regard.

The credit plan prepared for each district spells out the role to be played by the district authorities as also by the banks. The banks report to the DCC on the action taken by them in this regard. The State Governments were advised in January 1981 that it would be useful if district authorities also commenced reporting to the DCC, every quarter, the steps taken by them in this regard. Such a periodical feed-back given to all the DCCs would facilitate better co-ordination of activities of the development agencies and the credit institutions.

Preparation of Annual Action Plans (AAP)

The deficiencies observed in the preparation of the DCP 1980-82 and the AAP 1980 were brought to the notice of the lead banks and they were advised to avoid those deficiencies while preparing AAP 1981. Further, the lead banks were told to make adequate provision for financial assistance in the DCPs as well as in AAPs 1981 and 1982 for the beneficiaries under the 20-Point Programme. Lead Banks were advised to ensure that suitable viable schemes were formulated in consultation with the State development departments/agencies for the beneficiaries under the 20-Point Programme identified by the State Governments and adequate finance was provided for their implementation in AAPs.

(e) Export Credit

The Reserve Bank has impressed upon banks to ensure that genuine credit requirements of exporters are adequately met and no worthwhile proposal for exports suffers for want of adequate finance. The Bank reviews from time to time, the credit and other facilities available to exporters and takes necessary action to accelerate flow of export credit.

During the year, the Standing Committee on Export Finance discussed *inter alia:*

(*i*) *Sharing of Commission on Bid Bonds and Guarantees by Banks and ECGC in proportion of risks shared* :

With a view to affording some relief to exporters in respect of the cost of raising export finance, it was decided to charge lower composite rates covering bank's commission and ECGC premium.

(*ii*) *Opening of Foreign Currency Accounts Abroad by Diamond Exporters for financing Diamond Trade for Exports*:

It was decided in principle to allow diamond exporters to maintain foreign currency accounts abroad. However, certain related issues are being examined by the RBI in consultation with Government.

(*iii*) *Enhancement of Pre-shipment Credit Period* :

It was represented that due to certain constraints such as transport difficulties, power shedding and congestion in ports, the period of pre-shipment credit at concessive rate of interest was inadequate. The matter was examined and the period was increased from 135 days to 180 days in respect of 33 specified items.

(*iv*) *Delegation of Power of Clearance*:

It was decided to delegate to authorised dealers powers to approve proposals for overseas civil engineering construction contracts upto a value limit of Rs. 1 crore subject to fulfilment of certain minimum conditions, as in the case of export of engineering goods on deferred payment basis and turnkey projects.

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

The scheme which provides for compensating the banks extending export credit at concessive rate of interest for stipulated periods, to make up partially for their losses in interest earnings, has been in operation for over 12 years. The scheme was amended in September 1980 to cover Buyers' Credit also. The amendment seeks to cover any loan or advance granted or any other credit provided by an institution to an importer in a foreign country importing machinery or equipment from India on deferred payment terms approved by the Reserve Bank.

Taking into consideration the difficulties faced by banks, the audit requirements in respect of all the nationalised banks (including subsidiaries of SBI) have been partly relaxed. Certain relaxations in respect of audit requirements have already been granted to SBI.

As in the previous years, the RBI disbursed interest subsidy at 1.5 per cent per annum from the Marketing Development Assistance Fund of the Government of India, Ministry of Commerce, to commercial banks and certain eligible co-operative banks on the export credit extended by them for specific periods to exporters. Besides, a special subsidy at 3 per cent and 1.5 per cent per annum was also paid on behalf of the Ministry of External Affairs to the IDBI, United Commercial Bank, United Bank of India and Punjab National Bank in respect of certain special lines of credit made available to Bangladesh for its imports from India. This was in addition to the subsidy at 1.5 per cent paid from the Marketing Development Assistance Fund. The particulars of subsidy paid during 1980-81 (July-June) are as under:

	(Rs. crores)
Special subsidy at 3% and 1.5%	0.61
General subsidy at 1.5%	15.01

(g) Duty Drawback Credit Scheme, 1976

The scheme is intended to benefit exporters who can avail of interest-free finance from banks upto 90 days against shipping bills provisionally certified by the Customs authorities towards refund of duty. The financing banks, in turn, are eligible to avail of interest-free refinance from the Reserve Bank pending final settlement of duty drawback claims of the exporters. During the period November 1,1980 to June 30, 1981, limits aggregating Rs. 17 crores were sanctioned to 28 banks. These banks had availed of refinance to the extent of Rs. 15 crores, while the amount outstanding as on June 30, 1981 was Rs. 6 crores.

(h) Refinance for Import of Capital Goods

In April 1978, the RBI had introduced a scheme under which the Bank extended refinance facility to banks advancing 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 *i.e.* 9 per cent per annum. However, with the changed outlook on the external payments front, this facility was terminated with effect from July 1980, barring the commitments already made under the scheme.

Outstanding refinance as at the end of June 1981 amounted to Rs. 70 crores spread over 26 banks. It was decided that banks should bring down gradually the outstanding refinance under the scheme so that the entire outstanding refinance was repaid not later than October 31, 1981.

(i) Sick Industrial Undertakings

The Sick Industrial Undertakings Cell in the RBI continued to monitor the banks' performance in identifying sick units and taking remedial measures. Besides, it continued to co-ordinate the efforts of banks, financial institutions, Government and other agencies in the rehabilitation of sick units.

The problems relating to rehabilitation of sick industrial undertakings were discussed with the Union Deputy Finance Minister at a meeting held on January 10, 1981 and an action programme was chalked out on matters relating to (*i*) legal/taxation difficulties faced by banks and financial institutions in their efforts for revival of sick units,

(*ii*) periodical returns from small borrowers which would help in diagnosing incipient sickness, (*iii*) setting up of a high level forum to consider cases of sick units, and (*iv*) strengthening the organisational set-up created in banks and financial institutions for handling sick accounts, etc.

The Reserve Bank has constituted a committee under the Chairmanship of Shri T. Tiwari, Chairman, Industrial Reconstruction Corporation of India Ltd., to examine the legal and other difficulties faced by banks and financial institutions in rehabilitation of sick units and suggest remedial measures, including changes in the law.

As stated in the last Report, State Level Inter-Institutional Committees (SLIICs) have been constituted at all centres where the Department of Banking Operations and Development of the Reserve Bank has Regional Offices. The Committees provide a useful forum for exchange of information and discussion on the problems faced by the small-scale and medium-scale industrial units and small entrepreneurs. They would also deal with problems like (*i*) co-ordination between banks and financial institutions, (*ii*) provision of adequate infrastructural facilities to industrial units, and (*iii*) general problems relating to grant of credit to such units. With the setting up of SLIICs, the Reserve Bank has requested the concerned State Governments to wind up their State Level Co-ordination Committees (as also the Sub-Committees, if any, at each DIC headquarters) set up for rehabilitation of sick and closed small units.

The Standing Co-ordination Committee set up to secure on-going co-ordination between banks and term lending institutions, at its meeting on September 15, 1980, took certain decisions regarding the rehabilitation of sick units. According to these decisions, a unit can be considered as viable if it is in a position to service its debts in about 8 to 10 years; the rate of interest charged could be concessional but not below the minimum lending rate prescribed by the RBI and also not below the cost of funds to banks. Cash losses may be determined before charging depreciation as also interest due to banks and term lending institutions. In cases where IDBI's involvement is considered necessary by banks for the rehabilitation of a unit, the cash losses incurred by the unit before the rehabilitation move was initiated, as well as the losses incurred up to a period of six months or so from the date of reference to IDBI for preparation of rehabilitation programme, should continue to be financed by banks; cash losses subsequent to this period should form part of the rehabilitation package prepared by IDBI. The interest on fresh term loan, interest on fresh working capital borrowing and interest on the existing working capital finance (excluding the irregular portion funded), will have to be treated on an equal footing and given priority for repayment over the interest on present term loan and the funded portion of existing working capital finance. As security for the funded portion of interest on cash credit account, banks may be given a second charge on fixed assets. In respect of the irregular portion of cash credit account transferred to a separate term loan account and the term loans given to cover cash losses during the period of rehabilitation, as also the existing term loans, a *pari passu* first charge on fixed assets may be given to banks.

In terms of the Reserve Bank's instructions, banks have been submitting quarterly statements of sick units enjoying bank credit of Rs. 1 crore and above from the banking system. According to the statements for the quarter ended December 1979, there were 378 large sick units involving aggregate bank credit of Rs. 1,158 crores as compared with 345 units with an outstanding amount of Rs. 1,102 crores as at the end of June 1979. Table VI. 12 shows industry-wise and State-wise distribution of these 378 units.

In pursuance of the decisions of the High Power Committee (1978), banks are required to submit to the Reserve Bank quarterly progress reports giving, *inter alia*, data on sick small-scale industrial units financed by them. According to the information furnished by banks in the progress reports for the quarter ended June 1980, 22,355 small-scale units involving aggregate bank finance of Rs. 295 crores were identified as sick, as compared with 16,947 sick units involving aggregate bank finance of Rs. 181 crores at the end of September 1979. Out of the 22,355 units, 4,883 units were considered by banks

Table VI. 12 : Bank Credit to Sick Industrial Undertakings enjoying credit limits of Rs. 1 crore and above as at the end of December 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	26	118.66	9	21.46	5	8.56	31	82.90	5	12.45
Maharashtra	25	87.27	5	8.75	32	146.99	—	—	4	9.25
Karnataka	7	20.78	—	—	2	2.24	—	—	2	21.39
Gujarat	5	17.63	7	10.15	23	62.22	—	—	—	—
Tamil Nadu	7	17.75	2	1.32	8	40.01	—	—	5	68.88
Andhra Pradesh ..	3	4.12	4	10.78	1	1.35	1	1.51	1	3.29
Bihar	1	7.82	2	3.45	—	—	—	—	—	—
Haryana	3	6.56	1	1.76	—	—	—	—	1	1.78
Rajasthan	2	4.70	—	—	1	3.96	—	—	—	—
Madhya Pradesh ..	4	8.06	3	3.62	7	11.29	—	—	—	—
Orissa	1	7.41	—	—	1	9.44	—	—	1	1.63
Uttar Pradesh	1	9.56	7	10.51	6	17.24	1	1.44	—	—
Kerala	3	5.54	1	1.78	—	—	—	—	1	6.30
Punjab	—	—	—	—	—	—	—	—	—	—
Assam	—	—	—	—	—	—	—	—	1	1.47
New Delhi	1	4.38	—	—	2	5.56	—	—	—	—
Pondicherry	—	—	—	—	—	—	—	—	1	1.87
Goa	—	—	—	—	—	—	—	—	—	—
Total	**89**	**320.24**	**41**	**73.58**	**88**	**308.86**	**33**	**85.85**	**22**	**128.31**

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	17.25	1	1.57	14	38.53	93	301.38
Maharashtra	—	—	1	5.56	1	1.23	6	14.36	74	273.41
Karnataka	—	—	2	2.68	2	13.80	2	1.89	17	62.78
Gujarat	—	—	—	—	—	—	2	3.57	37	93.57
Tamil Nadu	—	—	—	—	6	7.48	4	7.82	32	143.26
Andhra Pradesh ..	—	—	—	—	1	3.97	3	8.57	14	33.59
Bihar	3	5.27	—	—	2	3.95	4	14.83	12	35.32
Haryana	—	—	—	—	—	—	—	—	5	10.10
Rajasthan	1	7.96	—	—	1	0.16	—	—	5	16.78
Madhya Pradesh ..	—	—	—	—	1	0.60	—	—	15	23.57
Orissa	—	—	—	—	—	—	—	—	3	18.48
Uttar Pradesh	—	—	—	—	31	46.86	3	6.40	49	92.01
Kerala	—	—	3	12.01	—	—	4	7.80	12	33.43
Punjab	—	—	—	—	—	—	1	1.81	1	1.81
Assam	—	—	—	—	—	—	1	0.88	2	2.35
New Delhi	—	—	—	—	—	—	—	—	3	9.94
Pondicherry	—	—	—	—	—	—	—	—	1	1.87
Goa	—	—	—	—	—	—	3	4.83	3	4.83
Total	**4**	**13.23**	**8**	**37.50**	**46**	**79.62**	**47**	**111.29**	**378**	**1158.48**

as viable and 10,964 units as non-viable. The banks had still to decide on the viability of the remaining 6,508 units. Out of the 4,883 sick small-scale industrial units, 2,082 units have been put under nursing programmes. Banks have identified 1,037 medium-scale industrial units as sick, involving aggregate bank finance of Rs. 280 crores as at the end of June 1980.

(*j*) Bills Rediscounting Scheme

The bills rediscounting facilities to scheduled commercial banks continued to be extended on a discretionary basis. In keeping with the policy of the Reserve Bank in restricting accommodation from the Reserve Bank, the bills rediscounting limits sanctioned under the Scheme amounted to Rs. 4 crores to only one bank, as against Rs. 95.2 crores a year ago. The average amount of limits sanctioned during the year 1980-81 (July-June) was substantially lower at Rs. 7.2 crores, as against Rs. 130.8 crores during 1979-80. The outstanding of bills rediscounted with RBI as on the last Friday of June 1981 was substantially lower at Rs. 2.8 crores, as against Rs. 76.3 crores a year ago.

Effective July 1, 1981, the minimum rate of rediscount was raised from 11 per cent to 14 per cent on the first tranche; subsequent tranches, if any, would carry a higher rate of rediscount. The ceiling rate on the bills rediscounted by banks with other commercial banks and certain approved financial institutions, which was 10 per cent was raised to 11.5 per cent from September 1, 1981.

QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION

Sectoral Deployment of Credit

Data on sectoral deployment of credit in respect of major banks which account for about 95 per cent of gross bank credit are given in Table VI·13. According to these data, at the end of June 1981, the share of priority sectors in total outstanding gross bank credit was higher at 34.6 per cent, as against 32.1 per cent at the end of June 1980, and that of medium and large industry at 38.6 per cent, as against 37.9 per cent in June 1980. Among priority sectors, the share of agriculture was higher at 14.6 per cent of total outstanding gross credit and that of small-scale industry at 13.1 per cent, as against 13.4 per cent and 12.5 per cent, respectively, at the end of June 1980. As against these, the share of public food procurement advances and wholesale trade was lower at 8.6 per cent and 7.8 per cent, respectively in June 1981, as against 11.1 per cent and 8.4 per cent in June 1980. Outstanding advances to priority sectors at Rs. 8,952 crores at the end of June 1981, constituted 34.1 per cent of total net bank credit (excluding PCs)* as against 32.1 per cent at the end of June 1980.

The Table also shows that in the incremental non-food gross bank credit of Rs. 4,332 crores over 1980-81 (July-June), the share of priority sectors was higher at Rs. 1,971 crores or 45.5 per cent; in the preceding year, of the incremental non-food gross bank credit of Rs. 2,988 crores, priority sector's share was Rs. 1,304 crores or 43.6 per cent.

Advances to the two main components of the priority sector, namely, agriculture and small-scale industries recorded impressive increases; of the total incremental non-food gross bank credit of Rs. 4,332 crores over the year, agriculture's share was Rs. 864 crores or 19.9 per cent, and that of small-scale industry Rs. 685 crores or 15.8 per cent. In 1979-80, whereas the share of agriculture in incremental non-food gross bank credit was a shade higher at 21.0 per cent, that of small-scale industry was lower at 15·5 per cent. In the non-food non-priority sectors, the share of medium and large industry in incremental non-food gross bank credit was substantially higher at Rs. 1,750 crores or 40.4 per cent, as against Rs. 947 crores or 31.7 per cent during 1979-80. The share of wholesale trade in incremental non-food gross bank credit was only Rs. 173 crores or 4.0 per cent; it was Rs. 223 crores or 7.5 per cent in 1979-80.

Sectoral classification of scheduled commercial banks' advances based on 'Basic Statistical Returns' are available upto June 1980 and

* 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. PCs have therefore been excluded for working out percentage of priority sector advances to total net bank credit.

Table VI. 13 : Sectoral Deployment of Gross Bank Credit
(Including bills rediscounted with the RBI)

(Rupees crores)

Items	Outstanding		Variation over the year	Outstanding-June 1981@	Variation over the year
	June 1979	June 1980			
	1	2	3	4	5
I. Public Food Procurement Credit	**2,996** (*15.5*)	**2,410** (*11.1*)	**— 586**	**2,213** (*8.6*)	**— 197**
II. (a) Priority Sectors	**5,677** (*29.3*)	**6,981** (*32.1*)	**+ 1,304**	**8,952** (*34.6*)	**+ 1,971**
(i) Agriculture	2,288 (*11.8*)	2,915 (*13.4*)	+ 627	3,779 (*14.6*)	+ 864
(ii) Small-Scale Industries	2252 (*11.6*)	2,715 (*12.5*)	+ 463	3,400 (*13.1*)	+ 685
(iii) Other Priority Sectors	1,137 (*5.9*)	1,351 (6.2)	+ 214	1773 (6.9)	+ 422
(b) Industry (medium and large)	7,291 (*37.7*)	8,238 (*37.9*)	+ 947	9,988 (*38.6*)	+ 1,750
(c) Wholesale Trade (other than food procurement)	1,612 (*8.3*)	1,835 (*8.4*)	+ 223	2,008 (*7.8*)	+ 173
(d) Other Sectors	1,767 (*9.1*)	2,281 (*10.5*)	+ 514	2,719 (*10.5*)	+ 438
III. Non-food Gross Bank Credit (a+b+c+d)	**16,347** (*84.5*)	**19,335** (*88.9*)	**+ 2,988**	**23,667** (*91.4*)	**+ 4,332**
Export Credit (included under item III)	1,449 (*7.5*)	1,622 (*7.5*)	+ 173	1,725 (*6.7*)	+ 103
IV. Gross Bank Credit (I+III)	**19,343** (*100.0*)	**21.745** (*100.0*)	**+ 2,402**	**25,880** (*100.0*)	**+ 4,135**

@Provisional.

Note : (1) Data relate to major banks which account for about 95 per cent of gross bank credit. These data, besides taking into account the bills rediscounted with the RBI, also include bills rediscounted with the IDBI and other approved institutions and participation certificates.

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

Source : Credit Planning and Banking Development Cell, RBI.

these are presented in Table VI. 14. The Table also gives March 31, 1968 data based on 'Survey of Advances of Scheduled Commercial Banks according to Purpose'. It will be seen that, over the period March 1968 to June 1980 the share of large and medium industry in total outstanding credit came down from 60.6 per cent to 36.1 per cent, while that of agriculture increased from a mere 2.2 per cent to 14.8 per cent.

Industry-wise Deployment of Credit

Gross bank credit to industry(large, medium and small-scale) rose sharply from Rs. 10,953 crores at the end of June 1980 to Rs. 13,388 crores by end-June 1981—an increase of Rs. 2,435 crores or 22.2 per cent. Credit to industry accounted for 51.7 per cent of total gross bank credit at the end of June 1981, as against 50.4 per cent at the end of June 1980 (Table VI. 15).

Of the total increase in gross bank credit to industry of Rs. 2,435 crores, the largest share was of petroleum companies—Rs. 309 crores or 12.7 per cent. Outstanding bank credit to petroleum industry at the end of June 1981 stood at Rs. 687 crores as against only a meagre amount of Rs. 13 crores at the end of June 1979. Advances to engineering industry which increased by Rs. 431 crores in the preceding year, showed a smaller increase of Rs. 292 crores. Advances to sugar increased by Rs. 44 crores, in contrast to a sizeable fall of Rs. 167 crores in 1979-80.

At end-June 1981, of the total outstanding gross bank credit to industry of Rs. 13,388 crores, engineering accounted for Rs. 3,257

Table VI. 14: Sectoral Classification of Scheduled Commercial Banks' Advances

(Rupees crores)

Sector	Outstanding as on											
	March 31, 1968		June 25, 1976		June 24, 1977		June 30, 1978		June 29, 1979		June 27, 1980	
	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**	**5,713**	**48.9**	**6,241**	**46.4**	**7,610**	**47.7**	**8,963**	**46.8**	**10,236**	**48.0**
(*a*) Large and Medium Industries	1,857	60.6	4,462	38.2	4,779	35.5	5,762	36.1	6,686	34.9	7,702	36.1
(*b*) Small-Scale Industries	211	6.9	1,251	10.7	1,462	10.9	1,848	11.6	2,277	11.9	2,534	11.9
II. Agriculture and Allied Activities	**67**	**2.2**	**1,214**	**10.4**	**1,400**	**10.4**	**1,961**	**12.3**	**2,521**	**13.1**	**3,152**	**14.8**
Of which:												
(*a*) Direct Finance	..	..	738	6.3	949	7.1	1,405	8.8	1,946	10.2	2,418	11.4
(*b*) Plantations	58	1.9	151	1.3	150	1.1						
III. Internal Trade	**588**	**19.2**	**3,115**	**26.7**	**3,828**	**28.4**	**4,198**	**26.3**	**4,864**	**25.4**	**4,741**	**22.3**
(*a*) Wholesale Trade	541	17.7	2,822	24.2	3,485	25.9	3,734	23.4	4,282	22.4	4,059	19.1
Of which: Food Procurement	109	3.5	2,192	18.8	2,536	18.8	2,525	15.8	2,996	15.6	2,410	11.3
(*b*) Retail Trade	47	1.5	293	2.5	343	2.5	464	2.9	582	3.0	682	3.2
IV. Services	..	..	**664**	**5.7**	**831**	**6.2**	**892**	**5.6**	**1,211**	**6.3**	**1,386**	**6.5**
V. Personal Loans	..	..	**356**	**3.0**	**401**	**3.0**	**486**	**3.0**	**605**	**3.2**	**700**	**3.3**
VI. All Others	**341***	**11.1**	**616**	**5.3**	**756**	**5.6**	**814**	**5.1**	**999**	**5.2**	**1,096**	**5.1**
VII. TOTAL	**3,064**	**100.0**	**11,678**	**100.0**	**13,457**	**100.0**	**15,961**	**100.0**	**19,163**	**100.0**	**21,312**	**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 1976 to 1980 are based on Basic Statistical Returns.

Table VI. 15 : 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 1979	June 1980		June 1981 @	
	1	2	3	4	5
1. Coal	69 (0.4)	67 (0.3)	— 2	56 (0.2)	— 11
2. Iron & Steel	500 (2.6)	645 (3.0)	+145	648 (2.5)	+ 3
3. Other Metals & Metal Products	319 (1.6)	375 (1.7)	+ 56	465 (1.8)	+ 90
4. All Engineering	2534 (13.1)	2965 (13.6)	+431	3257 (12.6)	+292
5. Electricity (Generation & transmission)	74 (0.4)	98 (0.5)	+ 24	183 (0.7)	+ 85
6. Cotton Textiles	959 (5.0)	1014 (4.7)	+ 55	1176 (4.5)	+162
7. Jute Textiles	132 (0.7)	135 (0.6)	+ 3	169 (0.7)	+ 34
8. Other Textiles	492 (2.5)	585 (2.7)	+ 93	722 (2.8)	+137
9. Sugar	400 (2.1)	233 (1.1)	—167	277 (1.1)	+ 44
10. Tea	166 (0.9)	196 (0.9)	+ 30	237 (0.9)	+ 41
11. Vegetable Oils (including Vanaspati)	150 (0.8)	141 (0.6)	— 9	186 (0.7)	+ 45
12. Tobacco & Tobacco products	110 (0.6)	122 (0.6)	+ 12	139 (0.5)	+ 17
13. Paper and Paper products	212 (1.1)	244 (1.1)	+ 32	299 (1.2)	+ 55
14. Rubber and Rubber products	188 (1.0)	222 (1.0)	+ 34	260 (1.0)	+ 38
15. Chemicals, Dyes, Paints, Drugs and Pharmaceuticals	1034 (5.3)	1258 (5.8)	+224	1537 (5.9)	+279
Of which — Fertiliser	197 (1.0)	214 (1.0)	+ 17	300 (1.2)	+ 86
16. Cement	62 (0.3)	84 (0.4)	+ 22	132 (0.5)	+ 48
17. Leather & Leather Products	178 (0.9)	178 (0.8)	—	191 (0.7)	+ 13
18. Construction	105 (0.5)	102 (0.5)	— 3	130 (0.5)	+ 28
19. SAFAUNS*	248 (1.3)	269 (1.2)	+ 21	303 (1.2)	+ 34
20. Petroleum	13 (0.1)	378 (1.7)	+365	687 (2.7)	+309
21. Residual	1,598 (8.3)	1,642 (7.6)	+ 44	2,334 (9.0)	+692
TOTAL CREDIT TO INDUSTRY	**9,543 (49.3)**	**10,953 (50.4)**	**+1,410**	**13,388 (51.7)**	**+2,435**
Total Gross Bank Credit	**19,343 (100.0)**	**21,745 (100.0)**	**+2,402**	**25,880 (100.0)**	**+4,135**

@Provisional *Ships acquired from abroad under new scheme.

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

Source : Credit Planning and Banking Development Cell, RBI.

crores (24.3 per cent of total credit to industry), followed by chemicals, dyes etc. (Rs. 1,537 crores or 11.5 per cent), and cotton textiles (Rs. 1,176 crores or 8.8 per cent). At the other end, the amount of outstanding credit was very low at Rs. 56 crores in coal, Rs. 130 crores in construction and Rs. 132 crores in cement. Table VI. 16 shows the percentage share of different industries in total bank credit at the end of March 1968 and end-June 1976 to end-June 1980.

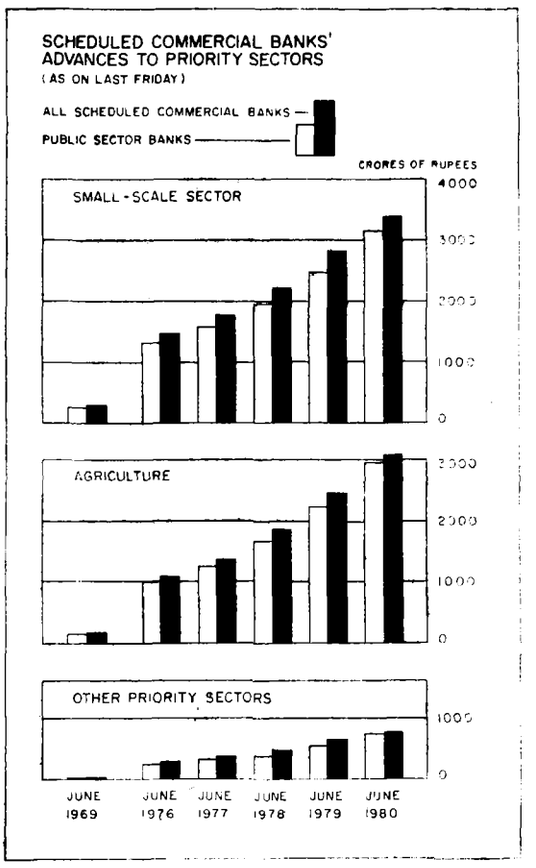
Population Group-wise/Occupation-wise Distribution of Bank Credit

The population group-wise/occupation-wise distribution of bank credit for end-June 1975 and end-June 1980 is summarised in Table VI. 17. The data reveal that significant changes have occurred during the quinquennial period. At the end of June 1975, only about 30 per cent of bank credit of rural branches was extended as 'Direct Finance to Agriculture'. By end-June 1980, this proportion had reached nearly 48 per cent*. In June 1975, of the total bank credit given as 'Direct Finance to Agriculture', only about 34 per cent had emanated from banks' rural branches; this proportion had reached 40 per cent at the end of June 1980. However, the largest proportion of credit extended as 'Direct Finance to Agriculture' continued to be from the semi-urban branches. For rural and semi-urban branches taken together, the proportion was 77.2 per cent in June 1975 and 81.5 per cent in June 1980.

Table VI.18 shows inventories as percentage of sales and bank borrowings as percentage of inventories in respect of medium and large public limited companies and large public limited companies in the private sector. The table shows that in case of large public limited companies, inventories as percentage of sales after rising from 30.6 per cent in 1972-73 to 33.1 per cent by 1974-75, declined more or less steadily to 27.5 per cent by 1977-78, but increased thereafter to 29.6 per cent by 1979-80. Short-term bank borrowing as percentage of total inventories dropped sharply from 55.8 per cent in 1970-71 to 41.2 per cent by 1974-75 and after rising to 49.8 per cent by 1976-77, receded to 43.4 per cent by 1979-80.

Advances to Priority Sectors

Table VI.19 shows outstanding advances of public sector banks and all scheduled commercial banks as at the end of June 1967, June 1979 and June 1980 to priority sectors comprising, among others, agriculture, small-scale industries, road and water transport operators, retail trade and small business and professional and self-employed persons, and for exports.



It will be seen from the Table that over the year ended June 1980, advances of scheduled commercial banks to priority sectors rose by Rs. 1,370 crores or 23.2 per cent from Rs. 5,908

* A small part of the increase is accounted for by the inclusion of developmental loans to plantations under 'Direct Finance to Agriculture'. Upto December 1977, 'Plantations' were treated as a separate sub-group. Thereafter, the sub-group 'Plantations' was split into two categories : (*a*) Developmental loans to plantations are included under 'Direct Finance to Agriculture'; and (*b*) Loans for processing purposes are included under the sub-group 'food manufacturing and processing' under 'Industry'.

Table VI. 16 : Advances of Scheduled Commercial Banks to Major Industries

(Percentage to total bank credit)

Industry	As on					
	March 31, 1968	June 25, 1976	June 24, 1977	June 30, 1978	June 29, 1979	June 27, 1980
1	2	3	4	5	6	7
1. Basic metals & metal products	N.A.	6.3	5.7	5.6	5.3	5.2
Of which : Iron and Steel	3.7	4.0	3.5	3.2	2.9	2.8
2. Beverage and tobacco	N.A.	0.8	1.0	0.9	0.8	0.8
3. Cement	1.3	0.5	0.4	0.4	0.4	0.5
4. Chemicals & chemical products	6.0	5.7	5.3	5.6	5.5	6.1
Of which :						
(*a*) Heavy industrial chemicals	N.A.	0.5	0.6	0.9	0.8	0.8
(*b*) Drugs and pharmaceuticals	N.A.	1.1	1.0	1.2	1.0	1.1
(*c*) Fertilisers	N.A.	1.5	1.2	1.0	1.3	1.6
5. Coal	0.8	0.4	0.4	0.4	0.3	0.3
6. Edible oils and vanaspati	1.4	0.8	0.8	0.7	0.9	0.7
7. Engineering*	15.7	10.6	8.8	9.3	9.6	9.8
(*a*) Heavy engineering	8.9	7.1	5.5	4.7	4.7	4.6
(*b*) Light engineering	6.8	3.5	3.3	2.7	2.3	2.5
(*c*) Others	..	..	..	1.9	2.7	2.7
8. Leather and leather products	N.A.	0.7	0.7	0.8	0.8	0.8
9. Manufacture of basic minerals	N.A.	0.4	0.3	0.4	0.5	1.8
10. Paper, paper products and printing	1.6	1.6	1.5	1.5	1.6	1.7
11. Rice mills, flour and dal mills	N.A.	0.6	0.4	0.6	0.7	0.8
12. Rubber and rubber products	0.7	1.0	1.1	1.0	1.0	1.0
13. Sugar	5.3	1.7	1.9	2.4	1.9	0.9
14. Textiles	15.5	9.8	9.8	9.6	8.9	8.4
Of which :						
(*a*) Cotton textiles	10.3	6.1	5.9	5.7	4.8	4.4
(*b*) Jute textiles	3.1	0.7	0.9	0.7	0.8	0.5
15. Vehicles, vehicle parts and transport equipments	N.A.	2.3	2.1	2.3	2.4	2.5
16. Other industries	17.6	5.7	6.2	6.2	6.2	6.7
TOTAL CREDIT TO INDUSTRY	**67.5**	**48.9**	**46.4**	**47.7**	**46.8**	**48.0**
Total Bank Credit	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

N.A. : Not available.

* 'Light Engineering' and 'Heavy Engineering' are regrouped into 'Light Engineering', 'Heavy Engineering' and 'Others' as per the revised Hand Book of Instructions for Basic Statistical Returns, with effect from December 1977 survey.

Source : Data for March 31, 1968 are based on 'Survey of Advances of Scheduled Commercial Banks according to Purpose'. Data for the years 1976 to 1980 are based on 'Basic Statistical Returns'.

Table VI. 17 : Occupational Pattern of Credit By Population Groups

I—As on Last Friday of June 1975

(In percentages)

Occupation	Population Group-wise Distribution of Bank Credit against Each Occupation					Occupation-wise Distribution of Bank Credit for Each Population Group				
	Rural	Semi-urban	Urban	Metro-politan	Total	Rural	Semi-urban	Urban	Metro-politan	Total
1	2	3	4	5	6	7	8	9	10	11
1. **Direct Finance to Agriculture**	34.3	42.9	17.7	5.1	100.0	30.0	14.8	3.9	0.5	5.2
2. Indirect Finance to Agriculture	5.1	10.5	35.6	48.8	100.0	2.9	2.3	5.1	2.9	3.3
3. Allied Activities	18.3	27.1	39.2	15.4	100.0	2.6	1.5	1.4	0.2	0.9
4. Total Agriculture and Allied Activities (1to3)	22.4	29.9	26.1	21.6	100.0	35.5	18.6	10.4	3.6	9.4
5. Plantations	5.2	15.5	10.6	68.7	100.0	1.3	1.6	0.6	1.8	1.5
6. Industry (including mining)	3.7	12.4	20.5	63.4	100.0	35.1	46.8	49.2	64.5	56.5
Small-scale Industry	6.0	21.5	32.7	39.9	100.0	12.5	17.8	17.2	8.9	12.4
7. Trade (including Retail Trade)	2.3	12.0	27.9	57.8	100.0	6.4	13.3	19.6	17.1	16.5
Retail Trade	10.1	27.5	31.7	30.7	100.0	4.4	4.8	3.5	1.4	2.6
8. Transport	10.7	22.8	32.6	33.9	100.0	4.2	3.5	3.2	1.4	2.3
9. Personal & Professional Services	6.9	15.2	27.7	50.2	100.0	2.1	1.9	2.2	1.6	1.8
10. Electricity generation and distribution	0.5	2.2	52.5	44.8	100.0	0.1	0.2	2.4	0.9	1.1
11. Construction	1.8	14.4	15.0	68.8	100.0	0.2	0.7	0.5	0.9	0.8
12. Financial Institutions	2.9	9.7	22.9	64.5	100.0	0.8	1.0	1.6	1.9	1.6
13. Personal Loans	9.6	21.8	26.1	42.5	100.0	5.8	5.2	3.9	2.7	3.5
14. All Others	9.9	21.4	29.8	38.9	100.0	8.5	7.2	6.4	3.6	5.0
Total Credit for all Occupations	**5.9**	**14.9**	**23.5**	**55.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

II—As on Last Friday of June 1980

(In percentages)

Occupation	Population Group-wise Distribution of Bank Credit against Each Occupation					Occupation-wise Distribution of Bank Credit for Each Population Group				
	Rural	Semi-urban	Urban	Metro-politan	Total	Rural	Semi-urban	Urban	Metro-politan	Total
1	2	3	4	5	6	7	8	9	10	11
I. **Agriculture**	**34.0**	**36.2**	**18.2**	**11.6**	**100.0**	**52.2**	**32.6**	**12.1**	**3.3**	**14.8**
1. Direct Finance	40.4	41.1	13.1	5.4	100.0	47.6	28.4	6.7	1.2	11.3
2. Indirect Finance	12.9	20.1	35.0	32.0	100.0	4.6	4.2	5.4	2.1	3.5
II. **Industry (Including mining)**	**4.2**	**12.3**	**21.9**	**61.6**	**100.0**	**20.7**	**36.1**	**47.1**	**57.3**	**48.0**
Of which :										
1. Food Manufacturing and Processing	8.4	26.7	33.0	31.9	100.0	3.7	7.0	6.4	2.7	4.3
2. Construction	3.4	12.2	23.7	60.7	100.0	0.3	0.6	0.8	0.9	0.8
3. Small-scale Industry	7.6	22.8	32.2	37.4	100.0	9.3	16.5	17.2	8.6	11.9
III. **Transport Operators**	**11.5**	**20.7**	**21.6**	**46.2**	**100.0**	**5.1**	**5.4**	**4.2**	**3.8**	**4.3**
IV. **Personal and Professional Services**	**13.2**	**21.3**	**29.6**	**35.9**	**100.0**	**3.0**	**2.9**	**2.9**	**1.5**	**2.2**
V. **Trade**	**3.2**	**7.8**	**23.3**	**65.7**	**100.0**	**7.4**	**10.6**	**23.3**	**28.3**	**22.3**
1. Wholesale Trade	0.5	4.2	22.3	73.0	100.0	1.0	4.9	19.1	26.9	19.1
2. Retail Trade	19.2	29.4	29.2	22.2	100.0	6.4	5.7	4.2	1.4	3.2
VI. **Personal Loans (including consumer durables)**	**13.3**	**23.8**	**28.4**	**34.5**	**100.0**	**4.6**	**4.8**	**4.2**	**2.2**	**3.3**
VII. **All Others**	**13.2**	**24.3**	**27.2**	**35.3**	**100.0**	**7.0**	**7.6**	**6.2**	**3.6**	**5.1**
Total Credit for all Occupations	**9.6**	**16.4**	**22.3**	**51.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Basic Statistical Returns.

Table VI. 18 : 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	30.7	30.2	48.5	53.0
	1976-77	27.4	30.3	51.7	56.9
	1977-78	26.9	30.4	51.7	57.2
	1978-79	27.6	31.1	51.1	56.8
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
426 Companies	1975-76	31.2	31.5	47.1	51.1
	1976-77	27.9	31.1	49.8	54.6
	1977-78	27.5	31.4	49.4	54.3
	1978-79	28.1	32.4	48.3	53.3
	1979-80	29.6	35.1	43.4	49.0

@ 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.

crores to Rs. 7,278 crores, their share in total bank credit rising from 30.0 per cent to 33.0 per cent; in June 1969, advances to priority sectors amounted to only Rs. 505 crores and their share in total outstanding credit was 14.0 per cent. Within priority sector, the increases over the year were Rs. 638 crores or 25.9 per cent in agriculture, Rs. 571 crores or 20.2 per cent in small-scale sector and Rs. 161 crores or 25.6 per cent in other priority sectors.

Advances for exports increased by Rs. 170 crores or 11.7 per cent to Rs. 1,627 crores, of which public sector banks accounted for Rs. 1,572 crores or 96.6 per cent. The share of exports in total outstanding credit of scheduled commercial banks remained almost unchanged at a little over 7 per cent.

Regional and Rural/Urban Pattern of Credit Deployment

In terms of the other national target set in respect of credit deployment, 60 per cent of the deposits mobilised in the rural and semi-urban areas are to be deployed in those areas.

Table VI. 19: 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 1979	6871	2221	7548	2459
	June 1980	8521	2965	8866	3097
Of which :					
(*i*) Direct Finance	June 1969	160	40	257	54
	June 1979	5932	1678	6550	1825
	June 1980	7362	2299	7677	2364
(*ii*) Indirect Finance	June 1969	5	122	11	134
	June 1979	939	543	998	634
	June 1980	1159	666	1189	733
2. Small-scale Sector @	June 1969	53	257	60	294
	June 1979	815	2473	966	2820
	June 1980	972	3190	1005	3391
Of which :					
(*i*) Road and Water-Transport Operators @	June 1969	2	6	3	8
	June 1979	226	386	252	457
	June 1980	254	527	268	569
(*ii*) Small-scale Industries @	June 1969	51	251	57	286
	June 1979	589	2061	713	2333
	June 1980	718	2635	737	2793
(*iii*) Setting up of Industrial Estates ..	June 1969	Neg.	Neg.	Neg.	Neg.
	June 1979	Neg.	26	1	30
	June 1980	Neg.	28	Neg.	29
3. Other Priority Sectors	June 1969	42	22	N.A.	23
	June 1979	2019	539	2198	629
	June 1980	2389	713	2530	790
Of which :					
(*i*) Retail Trade and Small Business ..	June 1969	33	19	N.A.	N.A.
	June 1979	1313	413	1447	483
	June 1980	1605	549	1711	607
(*ii*) Professional and self-employed persons	June 1969	8	2	N.A.	N.A.
	June 1979	672	119	715	138
	June 1980	748	155	781	173
(*iii*) Education	June 1969	1	1	N.A.	N.A.
	June 1979	34	7	36	8
	June 1980	36	9	38	10
Total Priority Sector Advances (1+2+3)	**June 1969**	**260**	**441**	**328**	**505**
	June 1979	**9705**	**5233**	**10712**	**5908**
	June 1980	**11882**	**6868**	**12401**	**7278**
4. Exports	June 1969		204		270
	June 1979		1179		1457
	June 1980		1572		1627
Total Bank Credit *	**June 1969**		**3016**		**3599**
	June 1979		**16700**		**19687**
	June 1980		**20026**		**22068**
Total Bank Credit excluding Food Advances *	**June 1969**		**2783**		**3366**
	June 1979		**13997**		**16691**
	June 1980		**17734**		**19658**
Percentage of Priority Sector Advances to Total Bank Credit*	**June 1969**		**14.6**		**14.0**
	June 1979		**31.3**		**30.0**
	June 1980		**34.3**		**33.0**
Percentage of Priority Sector Advances to Total Bank Credit* excluding Food Advances	**June 1969**		**15.9**		**15.0**
	June 1979		**37.4**		**35.4**
	June 1980		**38.7**		**37.0**

* Bank credit figures for June 1979 and June 1980 are inclusive of credit extended through issue of participation certificates.

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

Note : Figures for June 1980 are provisional. Neg. = Negligible N.A. = Not available.

Latest available data on credit-deposit ratios of offices of scheduled commercial banks according to population groups show that at the end of December 1980 the all-India credit-deposit ratio of rural offices worked out to 57.2 per cent, and semi-urban offices to 48.9 per cent as against 54.4 per cent and 47.2 per cent, respectively, at the end of June 1979; in respect of urban/metropolitan offices, the ratio worked out lower at 75.2 per cent as against 79.4 per cent in June 1979.

Region-wise, at the close of December 1980, the credit-deposit ratio in respect of rural offices was lower than the national target of 60 per cent in all the regions, excepting the Southern Region, where it was 85.0 per cent. The ratio ranged between 47.0 per cent and 51.4 per cent in the Northern, Eastern, Central and Western Regions, and was lower at 37.4 per cent in the North-Eastern Region. In respect of semi-urban offices also, excepting the Southern Region, where the ratio worked out to 61.9 per cent, it was very much lower than the national target of 60 per cent in all the other regions—Northern Region 53.3 per cent, Western Region 48.2 per cent, Central Region 43.3 per cent, North-Eastern Region 34.8 per cent, and Eastern Region 31.3 per cent (Table VI. 20).

State-wise, the credit-deposit ratio of rural offices was lower than the national target in 17 States/Union territories, out of a total of 31 States/Union territories, while that of semi-urban offices was lower than the national target in 22 States/Union territories.

Data on frequency distribution of districts based on credit-deposit ratios show that at the end of December 1980, rural offices achieved a higher than 60 per cent ratio in 173 districts out of a total 400 districts, (*i. e.* in 43.2 per cent of total districts) as against in 164 districts out of a total of 392 districts (*i.e.* 41.8 per cent of total districts) at the end of June 1979. The number of districts falling in the range of credit-deposit ratio of 40 to 60 per cent was also higher at 95, as against 83 at the end of June 1979, while the number of districts having credit-deposit ratio of 30 per cent or less was reduced from 100 in June 1979 to 77 by the end of December 1980. As regards semi-urban offices, at the end of December 1980, 105 districts out of a total of 355 districts (*i.e.* 29.6 per cent) had credit-deposit ratio above 60 per cent, as against 98 out of a total of 347 districts (*i.e.* 28.2 per cent) in June 1979. The number of districts in the range of 40 to 60 per cent remained more or less the same at 110 as against 111 in June 1979, while the number of districts with credit-deposit ratio of 30 per cent or below was reduced from 84 in June 1979 to 77 in December 1980. (Table VI. 21).

Distribution of Credit according to Interest Range

Data on distribution of scheduled commercial banks' loans and advances according to interest range as on the last Friday of June 1977 to June 1980 are given in Table VI. 22.

The Table shows that the pattern of distribution of credit according to interest rates underwent a significant change between June 1977 and June 1978, and then again between June 1979 and June 1980. While the change over the year ended June 1978 was due to the all round reduction in lending rates which became effective from March 1, 1978, the change between June 1979 and June 1980 was the result of the higher interest rates banks were required to charge from September 13, 1979 to traders (on all short-term advances) and to other borrowers (excluding certain categories) on short-term advances of Rs. 50 lakhs and above. Owing to the raising of the lending rates, the proportion of outstanding advances in the interest range above 15 per cent and upto 18 per cent rose sharply from a mere 4.7 per cent of total advances in June 1979 to as much as 34.7 per cent in June 1980; outstanding credit in the interest range above 18 per cent worked out to 0.5 per cent of total credit in June 1980, as against 0.06 per cent in June 1979. Correspondingly, the proportion of outstanding advances given at interest rates above 13 per cent and upto 15 per cent declined sharply from 51.3 per cent to 21.8 per cent.

GEOGRAPHICAL AND FUNCTIONAL COVERAGE OF BANKS

Branch Expansion

In the last year's Report, mention was made of the branch licensing policy formulated by

Table VI. 20 : State-wise Credit-Deposit Ratios of Offices of Public and Private Sector Scheduled Commercial Banks@ According to Population Group

(As on the last Friday of December 1980)

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
I. Northern Region ..	**47.6**	**47.9**	**47.6**	**53.5**	**50.0**	**53.3**	**83.5**	**53.1**	**80.4**	**73.1**	**52.1**	**71.2**
Haryana	81.1	75.7	80.7	69.5	56.7	69.2	67.7	143.1	69.7	71.5	78.7	71.8
Himachal Pradesh ..	32.4	40.9	32.7	36.0	18.6	35.0	—	—	—	33.8	29.1	33.6
Jammu & Kashmir ..	43.5	24.5	32.9	44.4	50.2	46.7	28.9	28.0	28.5	33.0	29.0	31.2
Punjab	35.0	12.0	34.2	45.7	46.1	45.7	47.3	58.5	47.8	43.4	41.1	43.3
Rajasthan	75.0	115.9	80.8	60.0	53.9	59.2	71.3	46.3	68.0	68.3	62.4	67.6
Chandigarh	58.9	—	58.9	14.4	—	14.4	224.5	50.5	221.9	219.4	50.5	216.9
Delhi	91.0	25.2	83.2	—	—	—	84.5	61.8	82.4	84.5	61.7	82.4
II. North-Eastern Region	**33.7**	**111.2**	**37.4**	**34.6**	**40.8**	**34.8**	**53.1**	**59.6**	**53.7**	**39.1**	**60.6**	**40.4**
Assam	36.7	74.3	38.0	41.6	44.6	41.8	55.8	59.6	56.1	45.3	56.1	46.0
Manipur	59.8	—	59.8	25.0	—	25.1	30.7	—	30.7	35.2	—	35.2
Meghalaya	25.5	—	25.5	15.2	17.9	15.4	—	—	—	16.4	17.9	16.5
Nagaland	16.4	—	16.4	28.5	29.2	28.5	—	—	—	25.3	29.2	25.6
Sikkim	—	—	—	4.6	—	4.6	—	—	—	4.6	—	4.6
Tripura	52.0	149.8	77.9	41.4	77.0	42.6	—	—	—	43.5	129.9	51.3
Arunachal Pradesh ..	11.7	—	11.7	—	—	—	—	—	—	11.7	—	11.7
Mizoram	4.3	—	4.4	10.7	—	10.7	—	—	—	9.7	—	9.7
III. Eastern Region ..	**41.4**	**126.5**	**47.0**	**31.2**	**34.8**	**31.3**	**64.8**	**68.3**	**65.3**	**53.7**	**71.0**	**55.4**
Bihar	48.0	108.4	51.8	35.4	36.8	35.4	42.3	44.3	42.3	40.2	72.9	40.9
Orissa	69.3	261.3	89.9	56.4	63.0	56.6	46.9	33.9	46.6	54.3	171.3	59.0
West Bengal	27.0	61.9	28.9	21.0	28.0	21.2	70.9	69.1	70.7	59.5	67.5	60.5
Andaman & Nicobar Islands	31.5	—	31.5	24.1	—	24.2	—	—	—	25.5	—	25.6
IV. Central Region ..	**48.3**	**61.2**	**49.4**	**44.1**	**32.1**	**43.3**	**44.6**	**60.7**	**45.3**	**45.2**	**52.4**	**45.6**
Madhya Pradesh ..	62.1	137.8	65.5	52.1	46.0	52.0	54.3	95.2	54.7	54.9	98.1	55.7
Uttar Pradesh ..	44.4	51.6	45.1	41.2	30.9	40.4	41.1	58.7	42.1	41.8	48.5	42.2
V. Western Region ..	**50.9**	**68.3**	**51.4**	**48.0**	**53.5**	**48.2**	**78.2**	**101.1**	**80.1**	**70.4**	**95.3**	**72.1**
Gujarat	46.5	47.2	46.5	45.9	86.4	45.9	69.5	86.0	69.7	58.0	82.8	58.1
Maharashtra	70.4	69.2	70.3	50.9	49.4	50.8	80.2	101.3	82.3	77.0	95.4	78.8
Dadra & Nagar Haveli	112.1	—	111.6	—	—	—	—	—	—	112.1	—	111.6
Goa, Daman & Diu ..	21.1	80.0	21.2	48.2	102.4	49.5	—	—	—	38.8	102.0	39.8
VI. Southern Region ..	**83.3**	**92.4**	**85.0**	**63.7**	**53.7**	**61.9**	**88.3**	**82.7**	**87.7**	**80.4**	**73.3**	**79.4**
Andhra Pradesh ..	102.1	202.0	110.8	69.2	50.0	68.3	67.9	55.8	67.3	73.4	89.2	74.3
Karnataka	73.4	92.8	75.7	69.1	45.2	66.2	78.7	70.4	78.0	75.8	67.7	75.0
Kerala	58.5	68.1	62.2	48.9	56.9	51.2	97.2	97.0	97.2	67.4	67.9	67.6
Tamil Nadu	90.5	78.5	88.2	69.8	52.4	66.6	108.5	88.8	105.6	97.2	77.3	94.1
Lakshadweep ..	6.6	—	6.2	—	—	—	—	—	—	6.6	—	6.2
Pondicherry	92.4	69.4	91.2	37.0	9.4	35.8	54.8	61.4	55.1	5.7	56.0	57.0
ALL INDIA ..	**54.8**	**79.1**	**57.2**	**48.9**	**49.7**	**48.9**	**75.1**	**76.0**	**75.2**	**66.4**	**71.1**	**66.9**

@ Including Regional Rural Banks.

Note: The data are provisional.

Source: Monthly Return on Aggregate Deposits and Gross Bank Credit

Table VI. 21 : Frequency Distribution of Districts based on Credit-Deposit Ratios for Rural/ Semi-urban Offices of all Scheduled Commercial Banks

(As on the last Friday)

I Rural Offices

(Rupees In crores)

Credit-Deposit Ratio	June 1979			June 1980			December 1980		
	No. of districts	Deposits @	Advances	No. of districts	Deposits @	Advances	No. of districts	Deposits @	Advances
	1	2	3	4	5	6	7	8	9
Up to 20% ..	48	422 (9)	50	48	563 (12)	76	40	592 (15)	82
20% - 30% ..	52	598 (12)	148	49	683 (14)	171	37	591 (16)	150
30% - 40% ..	45	317 (7)	111	43	533 (12)	193	55	738 (13)	257
40% - 50% ..	48	333 (7)	150	54	594 (11)	271	56	641 (11)	290
50% - 60% ..	35	325 (9)	176	44	361 (8)	200	39	380 (10)	210
Above 60% ..	164 (41.8)+	1,069 (7)	1,032	161 (40.4)+	1,320 (8)	1,271	173 (43.2)+	1,657 (10)	1,640
Total	**392**	**3,064**	**1,667**	**399**	**4,054**	**2,182**	**400**	**4,599**	**2,629**

II Semi-urban Offices

Credit-Deposit Ratio	June 1979			June 1980			December 1980		
	No. of districts	Deposits @	Advances	No. of districts	Deposits @	Advances	No. of districts	Deposits @	Advances
	1	2	3	4	5	6	7	8	9
Up to 20% ..	28	530 (19)	82	32	797 (25)	131	27	725 (28)	115
20% - 30% ..	56	1,129 (20)	267	49	946 (19)	238	50	1,051 (21)	261
30% - 40% ..	54	1,173 (22)	418	72	1,719 (24)	602	63	1,528 (24)	529
40% - 50% ..	52	1,059 (20)	480	64	1,364 (21)	606	66	1,729 (26)	762
50% - 60% ..	59	1,041 (18)	575	51	1,127 (22)	612	44	1,136 (26)	610
Above 60% ..	98 (28.2)+	1,511 (15)	1,218	86 (24.3)+	1,779 (21)	1,416	105 (29.6)+	2,429 (23)	1,930
Total	**347**	**6,443**	**3,040**	**354**	**7,732**	**3,605**	**355**	**8,598**	**4,207**

@ 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 : (1) The data are provisional.
(2) The data for December 1979 are not available.
Source : Returns on Aggregate Deposits and Gross Bank Credit.

Table VI. 22 : Distribution of Loans and Advances* of Scheduled Commercial Banks According to Interest Range

(Amount in Rupees crores)

Interest Range	As on the last Friday of							
	June 1977		June 1978		June 1979		June 1980	
	No. of Accounts	Out-standings	No. of Accounts	Out-standings	No. of Accounts	Out-standings	No. of Accounts	Out-standings
	1	2	3	4	5	6	7	8
6 per cent and less	34,844 (5.3)	213.6 (2.3)	43,772 (5.6)	240.4 (2.2)	47,861 (5.0)	224.1 (1.7)	51,438 (4.6)	232.2 (1.6)
Above 6 per cent and upto 9 per cent	4,634 (0.7)	97.2 (1.0)	15,977 (2.1)	220.6 (2.0)	25,585 (2.7)	298.7 (2.2)	34,147 (3.1)	261.0 (1.8)
Above 9 per cent and upto 10 per cent ..	35,486 (5.4)	150.3 (1.6)	32,212 (4.1)	148.4 (1.3)	35,401 (3.8)	250.5 (1.9)	47,634 (4.3)	278.5 (1.9)
Above 10 per cent and upto 11 per cent ..	39,534 (6.1)	184.3 (2.0)	97,933 (12.6)	2032.3 (18.2)	191,172 (20.1)	2914.1 (21.8)	274,515 (24.8)	3475.8 (23.8)
Above 11 per cent and upto 12 per cent	76,046 (11.7)	2095.6 (22.5)	90,192 (11.6)	956.6 (8.6)	110,587 (11.7)	956.6 (7.1)	135,868 (12.3)	825.4 (5.6)
Above 12 per cent and upto 13 per cent ..	72,516 (11.1)	378.0 (4.1)	121,722 (15.6)	909.8 (8.2)	143,637 (15.1)	1245.1 (9.3)	154,987 (14.0)	1215.4 (8.3)
Above 13 per cent and upto 14 per cent	79,240 (12.1)	736.6 (7.9)	77,483 (10.0)	1788.4 (16.0)	84,492 (8.9)	2244.0 (16.8)	85,370 (7.7)	1183.3 (8.1)
Above 14 per cent and upto 15 per cent	91,649 (14.1)	2096.2 (22.5)	237,211 (30.5)	3963.9 (35.6)	274,628 (28.8)	4622.2 (34.5)	150,992 (13.6)	2010.8 (13.7)
Above 15 per cent and upto 16 per cent	68,139 (10.4)	1869.7 (20.1)	28,921 (3.7)	522.6 (4.7)	19,304 (2.0)	347.5 (2.6)	16,631 (1.5)	903.5 (6.2)
Above 16 per cent and upto 17 per cent ..	127,374 (19.5)	1307.5 (14.0)	27,859 (3.6)	316.2 (2.8)	16,472 (1.7)	241.6 (1.8)	75,599 (6.8)	2150.4 (14.7)
Above 17 per cent and upto 18 per cent	16,823 (2.6)	129.4 (1.4)	3,417 (0.4)	36.8 (0.3)	2,248 (0.2)	45.9 (0.3)	75,409 (6.8)	2030.2 (13.8)
Above 18 per cent	6,192 (1.0)	55.0 (0.6)	1,469 (0.2)	13.8 (0.1)	797 (—)	8.7 (—)	5,282 (0.5)	67.7 (0.5)
TOTAL	**652,477** (100.0)	**9313.3** (100.0)	**778,168** (100.0)	**11149.8** (100.0)	**952,184** (100.0)	**13399.0** (100.0)	**1107,872** (100.0)	**14634.2** (100.0)

* Relate to accounts with credit limits over Rs. 10,000; exclude inland and foreign bills purchased and discounted.

Note : Figures in brackets indicate percentages to total. — : Negligible

Source : Basic Statistical Returns.

the Reserve Bank in August 1978 covering the period 1979 to 1981. As stated therein, 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. Since January 1, 1979 till the end of June 1981, authorisations for opening 8,990 offices in rural and semi-urban areas were issued to banks; on June 30, 1981, banks were holding authorisations for opening offices at 5,366 centres. The Reserve Bank issued instructions to commercial banks to ensure that the arrangements for opening offices at all the rural and semi-urban centres for which they were holding authorisations, were finalised positively before the end of June 1981, so that any carry over is avoided at all costs beyond 1981, when the present branch licensing policy would expire. It was also impressed upon the Chairmen of the concerned sponsor banks of the Regional Rural Banks to make sure that necessary assistance was provided by their banks to the sponsored RRBs in the matter of man-power, if those RRBs had to complete the programme of expansion within the target date.

With the opening of the offices for which banks are holding authorisations, it is expected that, by and large the objective of reducing the per bank office population in all the districts in the country would be achieved. The new policy permits expansion in urban/metropolitan areas only on a highly selective basis.

Of the 669 unbanked block headquarters identified, 554 were covered by the end of June 1981 by bank offices, either by establishment of commercial banks' or RRBs' offices, or by provision of banking facilities by nearby branches of commercial banks. As regards the remaining 115 blocks, authorisations are pending with banks in respect of 99 blocks, while banks have expressed difficulties in opening offices in 12 other centres due to lack of infrastructural facilities. The question of opening offices at the above 115 unbanked block headquarters, of which 84 fall in the backward areas of the North Eastern Region, continues to be pursued with the concerned banks/State Governments.

During 1980-81 (July-June), commercial banks(including RRBs) opened 3,291 offices, as against 2,224 offices opened in 1979-80. The thrust into unbanked centres continued; 2,461 offices were opened at hitherto unbanked centres, as against 1,735 offices opened in such areas in 1979-80. The number of offices added in rural areas during 1980-81 at 2,550 formed 77.6 per cent of the total offices added (Table VI. 23).

Table VI. 23 : 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	(2) as percentage of (1)
	1	2	3
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
1980-81 ..	3,287	2,550	77.6

@ Adjusted for offices closed.

The number of commercial bank offices in the country increased from 8,321 on the eve of nationalisation to 35,707 by the end of June 1981 (Table VI. 24). Of the 27,386 offices added between July 19, 1969 and end-June 1981, 57.1 per cent were in unbanked centres.

Table VI. 25 shows State-wise population per bank office at the end of June 1969, June 1980 and June 1981. It will be seen that the national average population per bank office which was 65,000 at the time of nationalisation was reduced to 19,000 by end-June 1981. The Table also shows that in June 1981, of the 31 States/Union Territories, in 13 States/Union

Table VI. 24 : Centre-wise Distribution of Commercial Bank Offices in India

Bank Group	No. of Offices as on														
	19-7-1969					30-6-1980					30-6-1981				
	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)	1,571 (100.0)	2,508 (47.4)	1,567 (29.6)	676 (12.8)	542 (10.2)	5,293 (100.0)	2,787 (48.9)	1,648 (28.9)	702 (12.3)	563 (9.9)	5,700 (100.0)
Associate Banks of State Bank of India	358 (40.0)	375 (42.0)	86 (9.6)	75 (8.4)	894 (100.0)	1,089 (44.5)	767 (31.4)	341 (13.9)	250 (10.2)	2,447 (100.0)	1,178 (45.0)	804 (30.8)	369 (14.1)	265 (10.1)	2,616 (100.0)
14 Nationalised Banks ..	703 (16.9)	1,465 (35.1)	928 (22.3)	1,072 (25.7)	4,168 (100.0)	6,428 (41.9)	3,726 (24.3)	2,659 (17.3)	2,543 (16.6)	15,356 (100.0)	7,552 (45.1)	3,832 (22.9)	2,769 (16.5)	2,586 (15.5)	16,739 (100.0)
6 Banks nationalised on 15-4-1980*						1,115 (40.9)	655 (24.0)	506 (18.6)	450 (16.5)	2,726 (100.0)	1,199 (41.7)	677 (26.6)	536 (18.7)	460 (16.0)	2,872 (100.0)
Regional Rural Banks ..	—	—	—	—	—	2,473 (92.3)	181 (6.8)	24 (0.9)	— (—)	2,678 (100.0)	3,326 (92.5)	241 (6.7)	30 (0.8)	1 (—)	3,598 (100.0)
Other Commercial Banks..	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1,688 (100.0)	1,488 (37.9)	1,182 (30.2)	650 (16.6)	599 (15.3)	3,919 (100.0)	1,608 (38.4)	1,224 (29.3)	720 (17.2)	630 (15.1)	4,182 (100.0)
Total	**1,860 (22.3)**	**3,344 (40.2)**	**1,456 (17.5)**	**1,661 (20.0)**	**8,321 (100.0)**	**15,101 (46.6)**	**8,078 (24.9)**	**4,856 (15.0)**	**4,384 (13.5)**	**32,419@ (100.0)**	**17,650 (49.4)**	**8,426 (23.6)**	**5,126 (14.4)**	**4,505 (12.6)**	**35,707 (100.0)**

@ Excluding one office of S.B.I. already functioning in Sikkim.

* No. of offices as on 19th July 1969 are included under "Other Commercial Banks" group.

Note : 1. 4 offices were closed during the period July 1980 to June 1981.
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 Mormugao.
3. Figures in brackets relate to percentage to the total in each bank group.

Source : Returns submitted by banks.

Table VI. 25: State-wise Distribution of Bank Offices and Population per Bank Office, as at the end of June 1969, June 1980 and June 1981.

State/Union Territory	No. of offices as at the end of			Opened during 1979-80 (July-June)	Of which at unbanked centres	Opened during 1980-81 (July-June)	Of which at unbanked centres	Population per bank office as at the end of (in thousands)		
	June 1969	June 1980	June 1981					June 1969	June 1980	June 1981
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	567	2,477	2,762	112	91	287	216	75	21	19
Assam	74	466	507	20	12	41	33	198	43	39
Bihar	273	1,907	2,394	313	282	487	429	207	35	29
Gujarat	752	2,243	2,363	82	67	120	64	34	15	14
Haryana	172	746	810	27	21	64	45	57	16	16
Himachal Pradesh	42	324	369	12	9	45	36	80	13	11
Jammu and Kashmir ..	35	394	459	23	19	65	52	114	15	13
Karnataka	756	2,636	2,792	106	74	158	97	38	13	13
Kerala	601	2,191	2,340	93	74	149	101	35	12	11
Madhya Pradesh	343	1,842	2,177	216	176	335	303	116	28	24
Maharashtra	1,118	3,320	3,631	207	134	311	230	44	18	17
Manipur	2	35	37	—	—	2	1	497	41	39
Meghalaya	7	55	59	2	1	4	3	147	24	23
Nagaland	2	35	40	2	2	5	4	205	20	19
Orissa	100	815	968	97	84	153	129	212	33	27
Punjab	346	1,544	1,592	75	59	48	22	42	11	10
Rajasthan	364	1,471	1,638	154	108	167	106	70	22	21
Sikkim			3	—	—	2	1			105
Tamil Nadu	1,060	2,814	3,016	141	104	202	142	37	17	16
Tripura	5	77	85	8	5	8	2	276	27	24
Uttar Pradesh	747	3,740	4,128	370	313	388	264	119	28	27
West Bengal	504	2,040	2,233	131	85	193	149	87	27	24
Andaman and Nicobar Islands	1	12	12	—	—	—	—	82	16	16
Arunachal Pradesh ..	—	19	22	2	2	3	3	—	33	29
Chandigarh	20	78	80	1	1	2	—	7	6	6
Dadra and Nagar Haveli ..	—	4	6	—	—	2	1	—	26	17
Delhi	274	837	872	18	3	35	18	10	7	7
Goa, Daman and Diu ..	85	232	244	7	5	12	8	8	5	4
Lakshadweep	—	5	5	—	—	—	—	—	8	8
Mizoram	—	12	12	—	—	—	—	—	41	41
Pondicherry	12	48	51	5	4	3	2	31	13	12
Total	**8,262**	**32,419***	**35,707**	**2,224**	**1,735**	**3,291**	**2,461**	**65**	**20**	**19**

Note: 1. 7 offices were closed during 1979-80 and 4 offices were closed during 1980-81.

2. The average population per bank office, except in the case of Union Territories, is based on the estimates of mid-year population for June 1980 and on 1981 census figures for June 1981; in the case of Union Territories the average population per bank office is based on 1981 census figures for June 1980 and June 1981. The average population per bank office for June 1969 is based on 1961 census.

* Excluding one office of SBI already functioning in Sikkim.

Source: Department of Banking Operations and Development, RBI.

territories, the population per office was higher than the national average, the more important among them being Assam (39,000), Bihar (29,000), Orissa and Uttar Pradesh (27,000 each) and West Bengal and Madhya Pradesh (24,000 each). But in all these States, particularly in Orissa, Bihar and Assam, the improvement over June 1969 position is outstanding; population per office in these States in June 1969 was around 2 lakhs.

New Branch Licensing Policy

A new branch licensing policy, covering the period January 1982 to March 1985 is being finalised. The new policy will continue to be strongly in favour of opening offices in rural and semi-urban centres. Special attention would be paid to the covering of unbanked pockets in less accessible areas of different States. While selecting such centres for

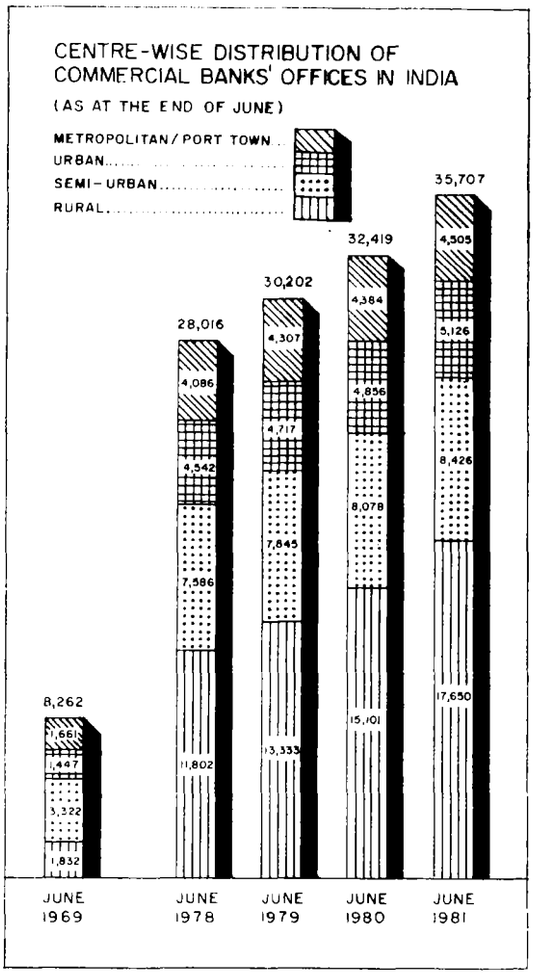
branch expansion, potential for mobilisation of deposits and grant of advances, availability of banking facilities nearby and other special features of the region would be considered. The State Governments would be consulted regarding the location of bank offices in rural and semi-urban areas as well as the types of bank offices—commercial, rural or co-operative—suited for the centres. RRBs would be given priority for opening branches in districts where they have been set up or are proposed to be set up.

Regional Rural Banks

Setting up of new RRBs

In pursuance of the Government's decision to extend the network of RRBs, 29 RRBs were set up during 1980-81, bringing the total number of RRBs to 102 at the end of June 1981. These 102 RRBs covered 172 districts in 18 States, as against 73 RRBs covering 130 districts in 17 States at end-June 1980. The sponsor banks and the number of RRBs sponsored by them so far are shown below:

State Bank of India	18
Central Bank of India	13
Bank of Baroda	10
Punjab National Bank and United Bank of India	9 each
Syndicate Bank United Commercial Bank and Bank of India	6 each
Allahabad Bank Canara Bank and Union Bank of India	4 each
Dena Bank Indian Overseas Bank and Jammu & Kashmir Bank Ltd.	2 each
State Bank of Bikaner & Jaipur State Bank of Mysore State Bank of Saurashtra Andhra Bank Bank of Maharashtra Indian Bank and U.P. State Co-op. Bank Ltd.	1 each
	102



The total number of branches of RRBs rose from 2,678 in June 1980 to 3,598 in June 1981. Of the 3,598 branches, as many as 730 branches were in Bihar, 514 in U.P. and 349 in Andhra Pradesh. The number of branches varied between 100 and 305 in Haryana, Kerala, West Bengal, Orissa, Rajasthan, Karnataka, Madhya Pradesh and Maharashtra and were less than 100 in the remaining States.

At the end of June 1981, the branches of RRBs formed 10.0 per cent of the branches of all commercial banks, as against 8.3 per cent a year ago, while the rural/semi-urban branches of RRBs constituted 13.7 per cent of the rural/semi-urban branches of all commercial banks, as against 11.5 per cent a year ago. Further, of the total increase in rural/semi-urban branches of commercial banks in

1980-81, as much as 31.5 per cent was accounted for by RRBs.

It has been tentatively proposed that, by the end of the Sixth Five Year Plan (*i.e.* by March 1985), about 270 districts out of 394 in the country would be covered by 170 Regional Rural Banks, and these banks would have some 8,000 branches, mostly in rural areas and unbanked centres.

Operations of RRBs

As at the end of June 1981, total deposits with RRBs amounted to Rs. 253 crores and their advances (outstanding) Rs. 302 crores, as against Rs. 164 crores and Rs. 181 crores, respectively, at the end of June 1980. Of the total advances, those granted to small/marginal farmers, landless labourers and rural artisans aggregated Rs. 261 crores as against Rs. 154 crores at end-June 1980. The share of weaker sections in the total credit amounted to 91 per cent at the end of both June 1980 and June 1981.

The sponsor banks continued to provide managerial and financial assistance to RRBs as statutorily required under the RRBs Act. The sponsor banks charge interest at 8½ per cent on their advances to RRBs. They also pay interest at not more than 9 per cent on the current deposits of RRBs, besides meeting the cost of Chairman and other staff deputed to work with the RRBs. The sponsor banks bear the cost of training of RRB staff. The average subsidy provided by the sponsor banks per RRB worked out to Rs. 2.3 lakhs in 1979. As the RRBs are equipping themselves with their own staff, the deputed staff of sponsor banks are being gradually withdrawn; the average number of such staff per RRB was 4 in 1979.

The RBI also continued to extend to RRBs concessions shown earlier. For instance, the cash reserve ratio to be maintained by RRBs continued to be 3 per cent of its total demand and time liabilities for one more year beginning October 2, 1980. The statutory liquidity ratio of RRBs also continued to be 25 per cent. Besides, with a view to ensuring that the lending programme of RRBs did not suffer for want of resources, the RBI has been providing them refinance facility since October 1, 1976 upto 50 per cent of their eligible loans and advances at any point of time at a concessional rate, *viz.*, 3 per cent below the Bank Rate.

During 1980-81 (July-June), the RBI sanctioned limits aggregating Rs. 119.64 crores to 52 RRBs; the amount outstanding against these limits on the last Friday of June 1981 was Rs. 111.40 crores; RRBs' own involvement in the loans and advances was to be not less than 15 per cent. However, now that some RRBs have been in existence for over five years and some of them have shown their ability to mobilise sufficient resources, it has been decided that while the ratio of RBI refinance would continue to be the same as before, *i.e.*, not exceeding 50 per cent of eligible loans of RRBs, the involvement of at least those RRBs which have mobilised substantial deposits should increase. Accordingly, RRBs with deposits of Rs. 5 crores and above at the end of March 1981, would have their involvement at not less than 25 per cent of their outstanding eligible loans and advances. All other RRBs would continue to maintain a minimum involvement of not less than 15 per cent of eligible advances as hitherto. The percentage of involvement of the sponsor bank would vary depending upon the RRBs' involvement, and the extent of refinance from RBI, but would not in any case exceed 25 per cent in the case of RRBs in the first category, and 35 per cent in the second category.

The RRBs have been advised (*i*) to frame their projected lending programmes taking into account the allocations made to them in District Credit Plans and (*ii*) to make all efforts for availing maximum refinance from (*a*) Agricultural Refinance and Development Corporation for agricultural lending and (*b*) Industrial Development Bank of India for financing rural artisans and small/cottage industries.

The RBI also advised RRBs in August 1980 to continue their flexible policy in regard to requests for fresh loans from their borrowers who are unable to repay their short-term agricultural loans for reasons beyond their control (other than natural calamities). Small and marginal farmers who borrow from RRBs, are also eligible for conversion facilities,

and guarantee cover will be available from DICGC in respect of loans to such borrowers, subject to certain stipulations.

Steering Committee on RRBs

Reference was made in the last year's Report to the broad findings of the study on the viability of RRBs. The Steering Committee on RRBs considered the suggestions made in the study and the views of the sponsor banks thereon and concluded that certain steps already taken, such as a slight increase in the margin available to RRBs due to their being exempt from the interest tax, provision of other banking services, etc., would increase the income of RRBs.

The practice obtaining in RRBs of levying service and other charges on loans granted to the weaker sections comprising small/marginal farmers, agricultural labourers, rural artisans, etc., was recently reviewed in consultation with the Steering Committee on RRBs and it was decided to allow the RRBs to recover/levy service and other charges in certain stipulated manner.

In the context of the need for RRBs to attain viability as early as possible, the RBI advised all RRBs that they should increase availment of ARDC refinance which would also enable them to take a schematic approach to lending. RBI also advised the sponsor banks to extend necessary technical assistance to RRBs sponsored by them in the matter of preparation of bankable schemes for the purpose.

The Steering Committee on RRBs continued to monitor the progress of RRBs and guide them on important policy matters by making suitable recommendations to the Government. During the year under review, the Steering Committee discussed *inter alia* identification of areas for establishment of new RRBs, extension of area of some RRBs, recruitment and promotion policy in RRBs, reporting system, model service rules for the staff, representation of SC/ST persons on the Boards of Directors of RRBs, participation of RRBs in the 20-Point Programme, etc.

Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development

The Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) examined the role of RRBs in the rural credit system and made the following recommendations :

(1) As RRBs were more suitable for rural development work, preference should be given to RRBs in regard to licensing of branches in the rural areas; (2) RBI may take necessary steps to facilitate the transfer of eligible business of commercial banks' rural branches to RRBs when such proposals are presented; (3) RRBs' losses in the initial years should be made good by their shareholders and the equity capital of RRBs may also be raised suitably; (4) RRBs should continue to confine their operations to the weaker sections; (5) emoluments of the staff of RRBs should continue to be determined with due regard to State Government scales as is now being done by Government of India; (6) various facilities from sponsor banks to RRBs should continue for a period of 10 years in each case; (7) non-officials connected with the agricultural development, etc., may be nominated on the Boards of RRBs but politicians should not be considered for this purpose; (8) the control, regulation and promotional responsibility relating to RRBs should be transferred from the Government of India to RBI/NABARD; and (9) as RRBs serve the weaker sections exclusively, facilities such as concessional refinance from RBI should be continued.

Deposits and Credit of Scheduled Commercial Banks—Population Group-wise/State-wise

The branch expansion programme of scheduled commercial banks in the post-nationalisation period, particularly the shift in favour of rural areas and hitherto neglected areas had a distinct impact on the distribution of deposits and advances of scheduled commercial banks according to population groups (Table VI. 26).

It will be seen that in June 1969, *i.e.*, just prior to nationalisation, the share of rural offices in total outstanding deposits was only

Table VI. 26: Distribution of Deposits and Advances of Scheduled Commercial Banks according to Population Groups

(June 1969—December 1980)

(Rupees crores)

Population Group*	As on the last Friday of							
	June 1969		December 1979		December 1980		Increase (June 1969 to December 1980)	
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
	1	2	3	4	5	6	7	8
1. Rural	145	54	3,583	2,014	4,599	2,629	4,454	2,575
Percentage to total	3.1	1.5	11.5	9.3	12.4	10.6	13.8	12.2
Average amount per office.	0.10	0.04	0.26	0.14	0.29	0.17		
2. Semi-urban	1,024	407	7,006	3,471	8,598	4,207	7,574	3,800
Percentage to total	22.0	11.3	22.4	16.1	23.2	17.0	23.4	18.0
Average amount per office.	0.31	0.12	0.85	0.42	0.99	0.48		
3. Urban	1,209	722	7,836	4,784	9,186	5,486	7,977	4,764
Percentage to total	25.9	20.0	25.1	22.2	24.8	22.2	24.7	22.5
Average amount per office.	0.63	0.38	1.51	0.92	1.69	1.01		
4. Metropolitan/Port Towns	2,287	2,426	12,800	11,290	14,612	12,416	12,325	9,990
Percentage to total	49.0	67.2	41.0	52.4	39.5	50.2	38.1	47.3
Average amount per office.	1.53	1.62	3.22	2.84	3.57	3.03		
Total (1 to 4)	**4,665** *(100.0)*	**3,609** *(100.0)*	**31,225** *(100.0)*	**21,559** *(100.0)*	**36,995** *(100.0)*	**24,737** *(100.0)*	**32,330** *(100.0)*	**21,128** *(100.0)*
Average amount per office.	0.57	0.44	0.99	0.68	1.08	0.72		

* Based on 1971 Census.

Note: Data for December 1979 and 1980 are provisional.

Source: Monthly return on 'Aggregate Deposits and Gross Bank Credit'.

3.1 per cent, and in total outstanding credit still lower at only 1.5 per cent. Their share rose substantially to 11.5 per cent of deposits and 9.3 per cent of advances by end-December 1979 and further to 12.4 per cent of deposits and 10.6 per cent of advances, by December 1980. As against these increases, the metropolitan/port town offices' share in total deposits and total credit declined sizeably from as much as 49.0 per cent and 67.2 per cent, respectively, prior to nationalisation to 41.0 per cent and 52.4 per cent, respectively, in December 1979 and further to 39.5 per cent and 50.2 per cent in December 1980. It will thus be seen that over the eleven-and-a-half-year period, the decline in the share of deposits of metropolitan offices was by 9.5 percentage points, while the decline in their share of credit was by as much as 17.0 percentage points. As regards semi-urban and urban offices, while their share in total deposits did not show appreciable change over the years, their share in total advances, particularly that of semi-urban offices, registered a significant increase. In December 1980, semi-urban offices accounted for 23.2 per cent of total deposits and 17.0 per cent of total advances, as against 22.0 per cent of deposits and 11.3 per cent of advances in June 1969. In case of urban offices, their share in deposits in December 1980 was a little lower at 24.8 per cent as against 25.9 per cent in June 1969, while their share in advances was a little higher at 22.2 per cent as against 20.0 per cent in June 1969.

Over the eleven-and-a-half-year period end-June 1969 to end-December 1980, the credit-deposit ratio of rural offices showed a marked improvement from 37.2 per cent to 57.2 per cent, and that of semi-urban offices from 39.7 per cent to 48.9 per cent; however, they are still very much below the target ratio of 60 per cent. The credit-deposit ratio of urban offices remained unchanged at 59.7 per cent over the period. As against these increases, the credit-deposit ratio of metropolitan offices declined from 106.1 to 85.0 per cent over the eleven-and- a half-year period.

Table VI. 27 gives latest available data on mobilisation of deposits by banks according to (*i*) different population groups and (*ii*) type of deposits. At the end of June 1980, scheduled commercial banks held deposits amounting to Rs. 33,321 crores in 1,239 lakh accounts which worked out to Rs. 2,689 per account on an average. The share of rural offices, urban offices and metropolitan offices in total number of accounts was about the same, 23-24 per cent each, while that of semi-urban offices was 30 per cent. Their share in total deposits, however, varied widely; it was 39.8 per cent for metropolitan offices, 23-25 per cent for semi-urban offices and urban offices and 11.9 per cent for rural offices.

The Table also shows that in all population groups, term deposits constituted the bulk of the concerned population group's total deposits; the percentage varied from 49.0 per cent for rural offices to 58.6 per cent for metropolitan offices. The number of term-deposit accounts constituted 24.1 per cent to 32.5 per cent of the total number of accounts of the four population groups. Of the total term deposits of Rs. 18,740 crores, 41.5 per cent were with metropolitan offices, 23-25 per cent with semi-urban offices and urban offices, while rural offices' share was only 10.4 per cent.

In all population groups, the number of savings accounts constituted the bulk of the total number of accounts of that population group; for instance, the percentage worked out to 72.3 per cent for rural offices, 65.3 per cent for semi-urban offices and 60-62 per cent for urban and metropolitan offices. In terms of amount, savings deposits accounted for over two-fifths of the total deposits of rural offices, one-third of semi-urban offices, a little over one-fourth of urban offices and only one-fifth of total deposits of metropolitan offices. At the end of June 1980, the amount of savings deposits outstanding was Rs. 9,462 crores, of which 30.2 per cent were with metropolitan offices, 24-27 per cent with urban and semi-urban offices and 18.0 per cent with rural offices.

In all population groups, the number of current deposit accounts constituted a very small percentage of total number of accounts of that group—the percentage varied from 3.6 per cent for rural offices to 7.2 per cent for metropolitan offices. In terms of amount, current deposits accounted for only 8.0 per cent of total deposits of rural offices; the corresponding percentage for metropolitan offices was 19.9. Of the total current deposits of Rs. 5,119 crores, as much as 51.6 per cent was with metropolitan offices, 25.2 per cent with urban offices, 17.0 per cent with semi-urban offices and only 6.2 per cent with rural offices.

Data on State-wise distribution of deposits show that over the eleven-year post-nationalisation period June 1969 to June 1980, of the total increase in deposits of Rs. 28,749 crores, Maharashtra's share was the largest at Rs. 5,132 crores or 18 per cent. West Bengal, Delhi, Uttar Pradesh and Tamil Nadu came next, accounting for Rs. 3,192 crores, Rs. 2,809 crores, Rs. 2,777 crores and Rs. 2,020 crores, respectively, of incremental deposits. Thus 55 per cent of the incremental deposits was in respect of these four States and Delhi. At the other end, States/Union territories, whose share in total incremental deposits, was Rs. 300 crores or below (*i.e.* about 1 per cent or less) included Himachal Pradesh, Jammu & Kashmir, Chandigarh, all North Eastern States/Union territories, Goa, Daman & Diu, Pondicherry, etc. But in all these States/Union territories, the outstanding deposit in June 1980 was several times that in June 1969.

Data on State-wise distribution of deposits according to different population groups over the eleven-year post-nationalisation period (June 1969 to June 1980) show that, of the incremental rural deposits of Rs. 3,909 crores, Uttar Pradesh claimed the highest share of Rs. 603 crores (15.4 per cent), followed by Punjab (Rs. 467 crores or 11.9 per cent) and Gujarat (Rs. 333 crores or 8.5 per cent). Deposit increase of rural offices ranged between Rs. 200 crores and Rs. 300 crores in Andhra Pradesh, Bihar, Karnataka, Kerala, Maharashtra, Tamil Nadu and West Bengal and between Rs. 100 crores and Rs. 200 crores in Haryana, Himachal Pradesh, Madhya Pradesh and Rajasthan. In the case of Jammu & Kashmir, Assam and Orissa, though the increase amounted to less than Rs. 75 crores, the amount of outstanding deposits in June 1980 was 155 times, 56 times and 40 times, respectively, of the June 1969 levels.

Table VI. 27: Distribution of Deposits of Scheduled Commercial Banks according to Population Group and Type of Deposits

(As on the last Friday of June 1980)

(No. of accounts in thousands)
(Amount in rupees lakhs)

Population Groups	Current			Savings		
	No. of Accounts	Amount Outstanding	Average per Account (Rs.)	No. of Accounts	Amount Outstanding	Average per Account (Rs.)
	1	2	3	4	5	6
RURAL	10,17	318,64	3133	204,72	1704,70	833
Per cent to total deposit category	(15.1)	(6.2)		(25.5)	(18.0)	
Per cent to total deposits	3.6	8.0		72.3	43.0	
SEMI-URBAN	18,83	870,62	4624	245,68	2594,32	1056
Per cent to total deposit category	(27.9)	(17.0)		(30.5)	(27.4)	
Per cent to total deposits	5.0	11.3		65.3	33.6	
URBAN	18,16	1291,22	7110	184,88	2309,90	1249
Per cent to total deposit category	(27.0)	(25.2)		(23.0)	(24.4)	
Per cent to total deposits	6.1	15.4		61.8	27.6	
METROPOLITAN	20,18	2638,90	13077	168,95	2853,49	1689
Per cent to total deposit category	(30.0)	(51.6)		(21.0)	(30.2)	
Per cent to total deposits	7.2	19.9		60.3	21.5	
TOTAL	**67,34**	**5119,38**	**7602**	**804,23**	**9462,41**	**1177**
Per cent to total deposit category	(100.0)	(100.0)		(100.0)	(100.0)	
Per cent to total deposits	5.4	15.4		64.9	28.4	

Population Groups	Term			Total		
	No. of Accounts	Amount Outstanding	Average per Account (Rs.)	No. of Accounts	Amount Outstanding	Average per Account (Rs.)
	7	8	9	10	11	12
RURAL	68,39	1943,03	2841	283,28	3966,37	1400
Per cent to total deposit category	(18.6)	(10.4)		(22.9)	(11.9)	
Per cent to total deposits	24.1	49.0		100.0	100.0	
SEMI-URBAN	111,87	4247,34	3797	376,38	7712,28	2049
Per cent to total deposit category	(30.4)	(22.7)		(30.4)	(23.2)	
Per cent to total deposits	29.7	55.1		100.0	100.0	
URBAN	96,31	4766,43	4949	299,35	8367,55	2795
Per cent to total deposit category	(26.2)	(25.4)		(24.1)	(25.1)	
Per cent to total deposits	32.1	57.0		100.0	100.0	
METROPOLITAN	91,18	7782,80	8536	280,31	13275,19	4736
Per cent to total deposit category	(24.8)	(41.5)		(22.6)	(39.8)	
Per cent to total deposits	32.5	58.6		100.0	100.0	
TOTAL	**367,75**	**18739,60**	**5096**	**1239,32**	**33321,39**	**2689**
Per cent to total deposit category	(100.0)	(100.0)		(100.0)	(100.0)	
Per cent to total deposits	29.7	56.2		100.0	100.0	

Source: Basic Statistical Returns.

Uttar Pradesh topped the list in respect of incremental semi-urban deposits also. Of the total incremental semi-urban deposits of Rs. 6,708 crores, Uttar Pradesh accounted for Rs. 748 crores, followed by Gujarat (Rs. 667 crores), Kerala (Rs. 576 crores), Punjab (Rs. 548 crores), Bihar (Rs. 545 crores) and Maharashtra (Rs. 538 crores). The increases ranged between Rs. 400 crores and Rs. 500 crores in Tamil Nadu, West Bengal and Andhra Pradesh and was over Rs. 300 crores in Karnataka. In Haryana, Rajasthan, Madhya Pradesh, the increase was between Rs. 200 crores and Rs. 300 crores, and in Assam, Orissa, Goa, Daman & Diu between Rs. 100 crores and Rs. 150 crores.

In respect of deposits of urban/metropolitan offices, Maharashtra, Delhi and West Bengal, naturally claimed the bulk of the share accounting for an increase of Rs. 9,624 crores or 53 per cent of the total increase of Rs. 18,132 crores.

Data on State-wise distribution of credit show that, of the incremental credit of Rs. 18,952 crores between June 1969 and June 1980, Maharashtra again topped the list accounting for Rs. 3,992 crores, followed by Delhi (Rs. 2,792 crores), Tamil Nadu (Rs. 1,680 crores), West Bengal (Rs. 1,625 crores) and Uttar Pradesh (Rs. 1, 175 crores). These four states and Delhi together accounted for 59 per cent of the total incremental credit. As in case of deposits, in a number of States/ Union territories, though the amount of incremental credit is not substantial, credit outstanding in June 1980 was several times that in June 1969.

Distribution of incremental credit according to population groups shows that as in the case of deposits, rural offices of Uttar Pradesh claimed the first place (Rs. 269 crores) in incremental rural credit, followed by Andhra Pradesh Rs. 260 crores, Karnataka Rs. 197 crores, Tamil Nadu Rs. 183 crores and Maharashtra Rs. 155 crores; these five States together accounted for 50 per cent of the total incremental rural credit. Incremental credit ranged between Rs. 100 crores and Rs. 132 crores in respect of Bihar, Gujarat, Madhya Pradesh, Punjab and Kerala. Even in other States, though the increase in absolute amount was less than Rs. 100 crores, their performance was quite impressive, compared with the position in 1969.

Of the semi-urban incremental credit of Rs. 3,198 crores, the share of Tamil Nadu was the highest at Rs. 324 crores. Incremental credit ranged between Rs. 200 crores and Rs. 300 crores in the case of Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra, Punjab and Uttar Pradesh, these seven States together with Tamil Nadu claiming 69 per cent of the increase in credit.

Maharashtra and Delhi occupied the first two places in respect of urban/metropolitan incremental credit of Rs. 13,626 crores, together claiming 46.5 per cent of the total increase in this group; incremental urban/ metropolitan credit in Chandigarh, Gujarat, Karnataka, Tamil Nadu, Uttar Pradesh and West Bengal ranged between Rs. 600 crores and Rs. 1,500 crores and accounted for another 37.9 per cent.

Indian Banks' Offices Abroad

During 1980-81, Indian commercial banks opened 7 offices (5 branches, one Representative Office and a Deposit Trading Company owned jointly by 3 banks) in foreign countries, as against 13 offices opened in the previous year. Of these, two were opened in U. K. and one each in France, Cayman Islands, Bahrain, Indonesia and Hong Kong.

At the end of June 1981, there were 12 Indian commercial banks having 135 branches (including 2 foreign currency banking units but excluding representative offices) functioning in 25 countries. Besides, there was one subsidiary of Bank of Baroda with three offices operating in a foreign country (Table VI. 28).

WORKING OF DIFFERENT INSTITUTIONS

Export Credit and Guarantee Corporation Ltd.

The number of policies and guarantees issued by the Export Credit and Guarantee Corporation (ECGC) in 1980-81 (July-June) totalled 7,931, as against 7,809 in the preceding year. The policies and guarantees in force at the end of June 1981 numbered 9,852, as compared with 8,695 at the end of June 1980

Table VI. 28: Offices of Indian Scheduled Commercial Banks Outside India

(As at the end of June 1981)

Country	State Bank of India	Central Bank of India	Bank of India	Bank of Baroda	United Commercial Bank	Indian Overseas Bank	Indian Bank	Syndicate Bank	Punjab National Bank	Bharat Overseas Bank Ltd.	Punjab & Sind Bank	Union Bank of India	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13
Bahamas	1			1									2
Bahrain	1			1									2
Bangladesh	1												1
Belgium				1									1
Cayman Islands	1		1										2
Channel Islands			1										1
Fiji Islands				10									10
France	1		1										2
Guyana				2									2
Hong Kong	1		2		4	7							14
Japan	1		2										3
Kenya			2	7									9
Maldive Islands	1												1
Mauritius				6									6
Oman				3									3
Panama	1												1
Seychelles				1									1
Singapore	1		1		3	1	1						7
South Korea						1							1
Sri Lanka	1					2	2						5
Thailand										1			1
United Arab Emirates ..				8									8
United Kingdom	6	3	12	15	2			1	3		1	1	44
United States of America..	4		2	1									7
West Germany	1												1
TOTAL	**22**	**3**	**24**	**56**	**9**	**11**	**3**	**1**	**3**	**1**	**1**	**1**	**135***

* Excluding Representative Offices

(Table VI. 29). The value of risk covered during the year amounted to Rs. 6,681.9 crores, of which the value of exports covered under insurance policies and other schemes accounted for Rs. 1,188.3 crores, while the balance of Rs. 5,493.6 crores represented export advances and other bank facilities covered under the financial guarantees. In the preceding year, the value of risk covered was Rs. 5,264.6 crores, comprising Rs. 882.7 crores, being the value of exports covered and Rs. 4,381.9 crores being risk covered under financial guarantees. The premium income earned during the year was higher at Rs. 11.7 crores as against Rs. 9.5 crores earned during 1979-80.

Table VI. 29: 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			
	1979-80	1980-81	1979-80	1980-81	1979-80	1980-81
	1	2	3	4	5	6
Standard Policies	4,641	4,735	5,040	5,669	—	—
Packing Credit Guarantee	601	557	555	525	3,686.15	4,041.74
Post-shipment Guarantee	823	702	657	658	506.93	1,268.01
Export Finance Guarantee	270	190	255	195	18.67	12.38
Export Production Finance Guarantee	30	79	52	129	15.09	15.50
Export Performance Guarantee	1,399	1,504	2,101	2,574	155.02	155.98
Special Schemes (Transfer Guarantee, Buyer Credit Insurance and Line of Credit Insurance)	45	164	35	102	—	—
Total	**7,809**	**7,931**	**8,695**	**9,852**	**4,381.86**	**5,493.61**

Source: Export Credit and Guarantee Corporation, Ltd.

The Exchange Fluctuation Risk Cover Schemes, particulars of which were given in the previous report, were introduced from August 2, 1980. Two policies with a maximum liability of Rs. 1 lakh were issued during the period under review.

The total value of gross claims paid during 1980-81 recorded an all-time high of Rs. 17 crores. The value of claims recovered during the period totalled Rs. 5 crores, thus resulting in net claim of Rs. 12 crores.

Deposit Insurance and Credit Guarantee Corporation

The Deposit Insurance and Credit Guarantee Corporation (DICGC) made further progress during the year in providing insurance cover to small depositors in banks and guarantee support for credit granted to small borrowers.

Deposit Insurance Function

The number of insured banks increased from 1,412 at the end of June 1980 to 1,619 by end-June 1981, and comprised 81 commercial banks, 101 regional rural banks and 1, 437 co-operative banks. The increase was mainly brought about by extension of the Deposit Insurance Scheme to 145 co-operative banks in Tamil Nadu from July 1, 1980. By end-June 1981, the Scheme covered co-operative banks in thirteen States, *viz.*, Andhra Pradesh, Gujarat, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal, and three Union territories of Delhi, Goa, Daman and

Diu and Pondicherry. Five other States, *viz.*, Bihar, Himachal Pradesh, Manipur, Nagaland and Punjab which account for a total of 66 co-operative banks are taking steps to amend their respective Co-operative Societies Act to facilitate extension of deposit insurance to their States. The co-operative banks in the remaining States number only 27.

From July 1, 1980, the limit of insurance cover per depositor per bank was raised from Rs. 20,000 (in force since 1976) to Rs. 30,000, with a view to improving the protection afforded to the depositors. The rate of premium remained unchanged at 4 paise per Rs. 100 per annum.

Insured deposits of commercial and co-operative banks on July 1, 1980 amounted to Rs. 24,234 crores and constituted 74.4 per cent of the total assessable deposits of Rs. 32,570 crores. Fully protected accounts numbered 1274 lakhs and constituted 99.1 per cent of the total number of accounts (1285 lakhs).

The deposit insurance claims paid or provided for till the end of June 1981 in respect of 14 commercial banks aggregated Rs. 113.02 lakhs and total repayments received by the Corporation from these banks amounted to Rs. 77.58 lakhs leaving a balance of Rs. 35.44 lakhs. In respect of co-operative banks numbering 9, the amount of claims paid or provided for totalled Rs. 97.05 lakhs, while repayment received was Rs. 9.53 lakhs.

Credit Guarantee Function

At the end of June 1981, all the 75 functioning commercial banks and 68 RRBs were participating in the Small Loans Guarantee Scheme; this Scheme accounted for 99.6 per cent of the total advances guaranteed by the Corporation. The number of institutions participating in the Financial Corporations Guarantee Scheme remained unchanged at 18, while 61 commercial banks, 33 RRBs and 37 co-operative banks had joined the Small Loans (Service Co-operative Societies) Guarantee Scheme. Effective April 1981, the Corporation is providing guarantee support to all commercial banks including RRBs, State Financial Corporations, eligible co-operative banks and certain Industrial Development Corporations in respect of their advances to small-scale industries. The credit institutions were given time till July 1981 to intimate their willingness to join the scheme introduced for the purpose.

The total advances covered by the three guarantee schemes, *viz.*, the Small Loans Guarantee Scheme, the Small Loans Financial Corporations Guarantee Scheme, and the Small Loans Service Co-operative Societies Guarantee Scheme increased from Rs. 2,800 crores as at the end of June 1980 to Rs. 3,152 crores by end-June 1981—a rise of 12.6 per cent over the period (Table VI. 30). Advances to farmers and agriculturists continued to constitute a major portion (64.6 per cent) of the guaranteed advances, followed by credit to transport operators (13.1 per cent), retail traders (11.4 per cent) and professional and self-employed persons (4.5 per cent).

During 1980, guarantee claims numbering 83,557 for Rs. 14.90 crores were received; the number and amount of claims were very much higher than the claims received in any of the earlier years. During the six-month period ending June 1981, a record number of 36,838 claims for Rs. 6.38 crores were received. Claims received since the inception of the Scheme upto June 1981 numbered 2.08 lakhs and were for Rs 48.04 crores.

During 1980, 47,481 guarantee claims for Rs. 7.20 crores were disposed of as against 25,739 claims for Rs. 6.95 crores in 1979. During January—June 1981, 35,373 claims for an aggregate amount of Rs. 3.78 crores were disposed of. The total claims disposed of since the inception of the Corporation's guarantee schemes upto June 1981 numbered 1.36 lakhs and were for Rs. 24.58 crores.

With a view to ensuring that the benefits under the guarantee schemes accrued to small borrowers, a graduated scale of guarantee fee weighted in favour of small borrowers, was introduced with effect from July 1, 1980. For this purpose, a borrower who is provided eligible credit facilities not exceeding Rs. 25,000 in the aggregate is considered a 'small borrower' and in his case, the existing rate of

Table VI.30: Credit Facilities Guaranteed by Deposit Insurance and Credit Guarantee Corporation

(Rupees crores)

Scheme/Category of Borrowers	As on the last Friday of June					
	1972	1977	1978	1979	1980	1981
	1	2	3	4	5	6
A. Small Loans Guarantee Scheme, 1971 ..	**205.71**	**1,322.80**	**1,706.29**	**2,154.45**	**2,789.13**	**3,141.00**
1. Farmers and agriculturists	134.67	845.64	1,057.04	1,345.80	1,796.10	2,028.30
2. Transport operators	28.29	202.25	282.66	310.54	368.50	410.70
3. Retail traders	28.34	138.00	178.92	257.39	316.65	357.03
4. Professional and self-employed persons.	9.14	69.72	87.96	108.11	127.09	142.73
5. Business enterprises	5.27	46.83	68.07	92.18	116.64	128.40
6. Residual category of borrowers under the Differential Interest Rate Scheme ..	—	20.36	31.64	40.43	64.15	73.64
B. Financial Corporations Guarantee Scheme, 1971	**2.56**	**7.57**	**8.66**	**9.38**	**10.23**	**9.76**
1. Transport operators	2.35	6.95	7.97	8.69	9.58	9.15
2. Business enterprises	0.21	0.62	0.69	0.69	0.65	0.61
C. Service Co-operative Societies Guarantee Scheme, 1971	**0.12**	**0.34**	**0.22**	**0.89**	**0.36**	**1.51**
Service co-operative societies	0.12	0.34	0.22	0.89	0.36	1.51
Total (A+B+C)	**208.39**	**1,330.71**	**1,715.17**	**2,164.72**	**2,799.72**	**3,152.27**

Source: Deposit Insurance and Credit Guarantee Corporation.

guarantee fee *i.e.* ½ per cent per annum continued to remain in force. In all other cases of eligible borrowers, the rate of guarantee fee would be ¾ per cent per annum.

The Working Group constituted by the Corporation to consider the question of extension of guarantee cover for credit granted to co-operative credit institutions *inter alia*, recommended extension of credit guarantee support to the agricultural credit societies and land development banks at the primary level but in a phased manner. The recommendations of the Group are under examination.

Integration of Credit Guarantee Scheme : A credit guarantee scheme for small-scale industries sponsored and formulated by the Central Government and administered by the Credit Guarantee Organisation (Reserve Bank of India) has been in operation since July 1960. It was decided to integrate all the credit guarantee schemes under one organisation, namely the Corporation. With a view to facilitating effective co-ordination and operational flexibility, the Government cancelled its credit guarantee scheme for small-scale industries with effect from April 1, 1981 and at Government's request the Corporation will, acting as their agent, discharge the obligations of the Government arising out of or accruing under the cancelled scheme upto the date of cancellation. The Corporation simultaneously introduced with effect from April 1, 1981 a credit guarantee scheme of its own, for covering advances to small-scale industries which would also provide guarantee support for all credit facilities under the old Scheme consequent upon its cancellation. The terms and conditions of the new scheme were designed to ensure that the guarantee support under the scheme was weighted in favour of the weakest of the weaker sections of the society and to make it worthwhile for credit institutions to lend to this class of borrowers.

Thus, in case of borrowers to whom credit facilities not exceeding Rs. 25,000 in aggregate were granted, guarantee cover was to the extent of 90 per cent as against 75 per cent for those having credit facilities over Rs. 25,000 but not exceeding Rs. 2.00 lakhs and 50 per cent for those having credit facilities over Rs. 2.00 lakhs.

The Corporation has opened branches, one each at Bombay, Calcutta, Madras and New Delhi, since April 1, 1981.

WORKING GROUPS RELATING TO BANKING

Working Group on Modalities of Implementation of Priority Sector Lending and 20-Point Economic Programme by Banks

A reference was made in the last year's Report regarding the setting up of the Working Group on Priority Sector Lending and 20-Point Economic Programme and the advice rendered to banks for implementing the broad targets as recommended by the Group. The Group identified the beneficiaries requiring assistance from the banking system in pursuance of the 20-Point Programme, and spelt out the ways and means whereby such assistance could be rendered. As most of the beneficiaries under the Programme fall in the relatively under-privileged group within the priority sectors, the Group suggested certain changes in the approach to the priority sector lending, including refinement in the definition of 'Priority Sector'. In particular, it introduced the concept of 'weaker sections' within the priority sectors and recommended separate sub-targets for lending to such weaker sections in the two main categories of priority sectors, namely, agriculture and small-scale industries, within the overall enhanced target of 40 per cent for lending to the priority sectors. Consumption loans and housing loans for the poor were brought within the ambit of priority sector lending. The need for a schematic and integrated approach to the assistance to the beneficiaries, in consultation with State development agencies, was emphasised. At the field level, the District Credit Plans prepared by banks would have to explicitly provide for allocation of credit to the beneficiaries under the 20-Point Programme. To cope with the large number of borrowers involved, routing of credit to the weaker sections through State sponsored corporations/agencies (besides functional co-operatives)specifically set up for the benefit of such persons was recommended by the Group. The Reserve Bank issued detailed instructions to commercial banks on October 29,1980 for implementing the recommendations made by the Group (Covered under the para 'Priority Sector Lending and the 20-Point Economic Programme in Credit Policy Section).

The State Governments were separately advised by the Reserve Bank indicating the vital role they have to play in facilitating bank assistance under the 20-Point Programme. The main areas where supportive action from the State Governments is required relate to identification of beneficiaries, provision of infrastructural and technical facilities, input supply and marketing, training support and assistance for recovery of loans. A new information system for monitoring the implementation of the District Credit Plan and financing of 20-Point Programme at the district and state level was introduced by the RBI in January 1981.

In pursuance of the guidelines issued by the RBI, commercial banks have taken various measures for implementation of the recommendations for assisting the beneficiaries of the Programme.

The public sector banks' aggregate assistance to the beneficiaries under the 20-Point Programme as at the end of December 1980 was as under:

	No. of Accounts*	Amount outstanding*
		(Rs. crores)
S B I Group	25,45,931	956.6
Nationalised banks(17)	29,56,973	1706.3

Working Group to Review the System of Cash Credit

The inability of the banks to keep incremental non-food credit-deposit ratio within

* Provisional

40 per cent between end-November 1978 and March 1979, as stipulated by the Reserve Bank, brought to focus the need for re-examining the cash credit system of lending. The Reserve Bank constituted a Working Group to review the system of cash credit by banks in all its aspects. The Report which was submitted by the Working Group in September 1979 was accepted by the Reserve Bank with certain modifications.

The major decisions taken by the Reserve Bank on the recommendations made by the Working Group were communicated to banks for implementation on December 8, 1980. In terms of these decisions:

(i) Lending System—Cash Credit/Loans/Bills

The existing system of lending by way of cash credit, loans and bills was to continue, but the cash credit system was to be streamlined. Periodical review of limits—at least once a year—fixed under the system was made compulsory in respect of all borrowal accounts enjoying working capital credit limits of Rs.10 lakhs and over.

(ii) Enhancement of Borrowers' Contribution

The contribution from borrowers towards working capital out of their long-term sources was to be as in the Second Method under the Tandon Study Group's Scheme, *i.e.*, not less than 25 per cent of the current assets required for the estimated level of production, which would give a minimum current ratio of 1.33:1 (as against 25 per cent of working capital gap, *i.e.*, total current assets minus current liabilities other than bank borrowing). In case a borrower was not in a position to comply with this requirement immediately, the existing need-based credit limits already enjoyed by the borrower was not to be curtailed; the excess over the credit limits permissible to the borrower, was to be segregated and treated as working capital term loan (WCTL), which could be made repayable in half yearly instalments within a definite period not exceeding 5 years. The WCTL was to carry interest rate not less than the rate charged for the relative cash credit, and banks could at their discretion, charge a higher rate of interest not exceeding the ceiling. In addition, suitable provisions were to be made for charging penal rate of interest in the event of any defaults in the timely repayment of WCTL.

If additional limits became necessary on account of increased production, banks were asked to ensure that the WCTL component was not enhanced and additional limits were allowed on the basis of an incremental current ratio of 1.33:1.

(iii) Separate Limits for Peak Level and Non-peak Level Periods

Separate limits were to be fixed, wherever feasible, for normal and peak level credit requirements indicating the periods during which the relative limits would be utilised by borrowers.

(iv) Ad-hoc or Temporary Limits

Banks were to consider very carefully requests from borrowers for ad-hoc or temporary limits in excess of the sanctioned limits; these were to be allowed only for predetermined short durations and banks were to charge additional interest of 1 per cent per annum over the normal rate. However, under exceptional circumstances, *e.g.*, natural calamities, etc., the additional interest need not be charged.

(v) Drawal of Funds to be Regulated Through Quarterly Statements

The borrowers were to be required to indicate before the commencement of each quarter the requirements of funds during the quarter, *i.e.*, the operative limit, which was to be within the limits sanctioned for peak level/non-peak level periods. Excess or under utilisation of the operative limit beyond the tolerance level of 10 per cent either way was to be considered an irregularity in the account and banks were to initiate necessary corrective steps, including dialogues with the borrowers to prevent the recurrence of such irregularities. Banks were to charge penal interest of 1 per cent per annum on the total outstandings for the period of default in the submission of quarterly returns. In case of the default persisting, banks were to review the position and where they were satisfied that deterrent action was necessary, the accounts of such borrowers were to be frozen.

The measures suggested at (*ii*) to (*v*) were to be applicable to all borrowers having aggregate working capital limits of Rs. 50 lakhs and above from the banking system without exception. Sick units under nursing programme or where rehabilitation measures were under active consideration of banks, were not to be covered by the measures indicated at items (*ii*) and (*iv*) above.

(*vi*) *Encouragement of Bill Finance*

Banks were to discourage sanction of cash credit against book debts and take steps to review all such accounts and convert such cash credit limits into bill limits, wherever possible.

(*vii*) *Drawee Bill System*

Banks were to extend at least 50 per cent of the cash credit limit against raw material inventory to manufacturing units, whether in public or private sector, by way of drawee bills, only in respect of borrowers having aggregate working capital limits of Rs. 50 lakhs and over from the banking system.

(*viii*) *Dues of Public Sector Undertakings to Small-Scale Units*

Banks were to insist on public sector undertakings/large borrowers to maintain control accounts in their books, to give precise data regarding their dues to small units, and furnish such data in their quarterly information system. This would enable banks to take suitable measures ensuring payment to small units without delay.

Committee on Financing of Tea Industry

The Reserve Bank of India constituted, on October 3, 1980, a Committee to examine the problems relating to the financing of the tea industry. The terms of reference *inter alia* were: (*i*) to review the existing norms for providing working capital to the tea industry recommended by the Reserve Bank to scheduled commercial banks in March 1972 on the basis of the Report of the Study Group under the Chairmanship of Shri B. K. Dutt and suggest suitable modifications in the present changed circumstances; (*ii*) to examine the credit requirements of the tea industry—both working capital and term loans—in the wider context of the need to expand output to meet increasing domestic consumption without impinging on exportable surplus; (*iii*) to enquire into the problems faced by the industry in obtaining finance from commercial banks, other financial institutions and the Tea Board and (*iv*) to consider problems faced by banks in providing credit to the tea industry.

The Committee has submitted its report which is under consideration.

Working Group to Review the Accounting System at Bank Branches

The Reserve Bank of India appointed, on July 11, 1981, a Working Group under the Chairmanship of Shri M. N. Goiporia, Chairman and Managing Director, Dena Bank, and comprising senior officers of banks, Government, National Institute of Bank Management and Reserve Bank to review the accounting system at bank branches. The terms of reference broadly are :

(*a*) to look into the existing systems of maintenance of main books of accounts at branch level, more particularly at the rural and semi-urban branches and suggest changes which would facilitate (*i*) generation of summary data regarding deployment of funds and lendings to various categories of priority sectors and (*ii*) generation of data for compilation of various returns required by Reserve Bank, Head Office/ Controlling Offices of banks, information required by Government etc.,

(*b*) to review the Information System introduced by the Reserve Bank and examine the feasibility of the integration of the system with the control/ statistical returns required by banks, and

(*c*) to suggest any other measures to ensure availability of data without delay.

The Working Group is expected to submit its report within nine months.

Working Group on Customer Service in Banks

During the year, the Small Group* set up by the Government of India to examine the recommendations of the Working Group on Customer Service in Banks assessed the appraisal notes prepared by the Reserve Bank on the performance of the banks in implementing the recommendations as also a note on the recommendations which required further consideration by the Reserve Bank, Government of India, Indian Banks' Association, etc. The important aspects of customer service which were examined and decisions on which were taken by the Group during the year were:

(*a*) All banks should ensure that the customer should not be asked to go from counter to counter and as far as possible waiting time should be curtailed;

(*b*) All public sector banks should take steps to introduce suitable arrangements to encash travellers' cheques issued by any public sector bank;

(*c*) Banker's cheques issued by public sector banks should be freely used for making local inter-bank payments and these should be given the same status as cash for purposes of accounting.

The Reserve Bank advised banks to take necessary action on these issues.

OTHER BANKING DEVELOPMENTS

Banking Laws (Amendment) Bill, 1981

It was mentioned in the last Report that the Banking Laws (Amendment) Bill, 1978 could not be considered by the Lok Sabha because of other pressing legislative business and since lapsed. The Bill was considered further by the Reserve Bank, and some more amendments to the Banking Regulation Act, 1949 and Reserve Bank of India Act, 1934 were suggested by the Bank to the Government and were accepted by them. The Bill, as finalised by the Government, now awaits reintroduction in the Parliament.

* *i.e.* the Task Force comprising of representatives of the Ministry of Finance, Reserve Bank, some public sector banks and the Indian Banks' Association.

Indo-Pak Banking Agreement, 1949

During the year, the procedure for settlement of the claims of the Court deposit holders who migrated to India during the partition disturbance was finalised and all banks designated for the purpose were asked to take necessary action. Besides this, in pursuance of the Punjab Government's decision to settle the claims of the foodgrain dealers who kept security deposits with banks in Pakistan for the purchase of foodgrains under the Monopoly Procurement Scheme in operation in the erstwhile Punjab province, the Reserve Bank prepared, for the final approval of the Punjab Government, the draft scheme to settle the claims.

CONTROL OVER NON-BANKING COMPANIES

Amendments to the Companies (Acceptance of Deposits) Rules 1975 and the Reserve Bank's Directions

It was mentioned in the last year's Report that the Companies (Acceptance of Deposits) Rules, 1975 were further amended, whereby the restriction in respect of inter-company borrowings was to be made applicable from April 1, 1981, and the ceiling on deposits was to stand reduced from 35 per cent to 25 per cent from the same date, instead of April 1, 1980 as contemplated earlier. However, considering the restriction imposed on institutional finance and also the incidence of inter-company borrowings on the finance of the companies, it was decided in the Inter-Ministerial meeting held in March 1981 to implement the proposal made by the Finance Minister during his Budget speech on February 28, 1981 to the effect that (*a*) the present overall ceiling of 35 per cent on deposits (10 per cent for deposits from shareholders of public limited companies, deposits guaranteed by directors etc. and 25 per cent for other deposits) would continue, (*b*) the inter-company deposits would continue to remain outside the purview of the definition of "deposit," and (*c*) the maximum rate of interest payable by non-financial companies on deposits accepted by them would be fixed at 15 per cent per annum. It was also decided that the payment of brokerage/commission to the brokers for deposits received

through them should be restricted to 1 per cent of such deposits, irrespective of the periods for which such deposits were accepted. These decisions were made effective from April 1, 1981 by amending the Companies (Acceptance of Deposits) Rules, 1975.

Consistently with the amendments made to the above Rules, the two sets of directions issued by the Reserve Bank to financial and miscellaneous non-banking companies were also amended suitably with effect from April 1, 1981, providing that prior approval of the Bank as hitherto required, need not be obtained for resorting to inter-company borrowings which would henceforward be treated as exempted borrowings; further, ceiling for acceptance of deposits by investment companies was raised from 25 per cent to 40 per cent of the net owned funds as was available to loan companies and a ceiling on rates of interest and brokerage payable on deposits was also fixed at 15 per cent per annum and 1 per cent, respectively.

Follow-up action on the recommendations of the Raj Study Group on Non-Banking Companies

(*a*) *Progress in the implementation of the Prize Chits & Money Circulation Schemes (Banning) Act, 1978.*

As a result of the continuous and vigorous efforts made by the Reserve Bank, out of 30 States/Union Territories (excluding Jammu & Kashmir to which the Banning Act is not applicable) 25 States/Union Territories have by now framed the Rules. The remaining 5 States/Union Territories have not made Rules, as no prize chits or money circulation schemes are stated to be in operation in their respective jurisdiction. In view of the expiry of the two-year period on December 11, 1980 prescribed in the Act, for the winding up of such of the schemes as were in existence at the commencement of the Act, the State Governments were advised to keep a strict watch on the operation of such schemes; floatation of new schemes stands altogether banned with the coming into force of the Act. The Supreme Court has since upheld the constitutional validity of the Act. However, 29 companies in West Bengal have filed writ petitions in the Calcutta High Court challenging the applicability of the provisions thereof to the schemes conducted by them. The cases are pending.

(*b*) *Chit Funds Bill, 1980.*

The Chit Funds Bill, which lapsed on account of dissolution of the Lok Sabha in August 1979 was further examined by the Central Government and reintroduced in Parliament in November 1980. It was referred to a Select Committee for further examination and report, after considering the suggestions made by various chit fund associations and concerned parties. The Bank is actively associated with the deliberations of the Select Committee.

Acceptance of Deposits by Unincorporated Bodies

It was mentioned in the last year's report, that the Banking Laws (Amendment) Bill, 1978 seeking to amend, *inter alia*, the Reserve Bank of India Act, 1934 for the purpose of prohibiting individuals and other unincorporated bodies from accepting deposits from more than a specified number of depositors, lapsed on account of dissolution of the Lok Sabha in August 1979. On further consideration of the matter, the Government of India in consultation with the Reserve Bank have decided that there need be no ceiling on the number of persons from whom deposits could be accepted by unincorporated bodies. Instead, such bodies should be debarred from using the term 'deposit' or 'cash certificate' in the advertisements issued by them soliciting deposits from the public; they should also indicate that the unsecured loans raised by them are not in any manner regulated by the Bank/Government. Suitable provisions to give effect to the above decisions have been incorporated in the Banking Laws (Amendment) Bill, 1981, which is expected to be introduced in Parliament shortly.

Research and Studies on Non-Banking Financial Intermediaries

In pursuance of one of the recommendations of the Raj Study Group on Non-Banking Companies, the Department of Non-Banking Companies of the Reserve Bank undertook an indepth study of the style of functioning of mutual benefit financial companies popularly known as 'nidhis'. The findings of the

study are under consideration for initiating measures to improve their working. It is proposed to take up a similar study of hire-purchase finance companies.

Growth of Deposits with Non-banking Companies

The compilation of data in respect of the survey of deposits with non-banking companies as on March 31, 1978 has been completed. The survey revealed that while during the year the number of reporting companies declined marginally by 32 to 5,796, deposits and exempted deposits held by them rose from Rs. 720.1 crores and Rs. 1,014.8 crores to Rs. 870.6 crores and Rs. 1,191.9 crores, respectively. Of the aggregate deposits including exempted deposits of Rs. 2,062.5 crores on March 31, 1978, the share of 3,554 non-financial companies was Rs. 1,313.0 crores, of 1,564 financial companies Rs. 658.3 crores, and of 678 miscellaneous non-banking companies Rs. 91.2 crores.

During the year, a quick survey (with limited coverage) of growth of deposits with non-banking companies as on March 31, 1980 was also carried out. According to the study which is provisional, deposits (including exempted loans) held by 5,246 reporting companies aggregated Rs. 4,704.4 crores. The bulk of this amount, *viz.*, Rs. 3,396.3 crores was held by 2,943 non-financial companies, while 1,823 financial companies and 480 miscellaneous non-banking companies held deposits amounting to Rs. 1,119.0 crores and Rs. 189.1 crores, respectively.

RURAL CREDIT

I. Institutional Finance for Agriculture

(*a*) *Direct Finance*

Data on direct finance to the agricultural sector actually disbursed during 1980-81 by co-operatives, scheduled commercial banks, Regional Rural Banks (RRBs) and State Governments are not available as yet. However, estimates based on partial data on such loans to agriculture issued by these institutions are placed at Rs. 3,511 crores, recording a rise of Rs. 569 crores or 19.3 per cent in 1980-81 over the disbursements of Rs. 2,942 crores (revised) during 1979-80 (Table VI. 31).

Institution-wise, the lead was maintained by co-operatives and at Rs. 1,912 crores, their share was 54.4 per cent in the total disbursals, followed by commercial banks (Rs. 1,435 crores or 40.8 per cent). In the case of co-operatives, short-term loans continued to form above 70 per cent of their total disbursements. The share of medium-term loans disbursed by commercial banks in their total disbursements which had declined marginally from 50.0 per cent in 1976-77 to 49.3 per cent in 1977-78, registered a steady rise since then and was estimated at 57.4 per cent for 1980-81. The aggregate level of outstandings of all institutional agencies as on June 30, 1981 is estimated at Rs. 7,560 crores, showing a rise of Rs. 1,220 crores (19.3 per cent) over the level a year ago. Of the total outstandings of Rs. 7,531 crores, the shares of co-operatives and commercial banks are estimated at Rs. 4,214 crores or 55.7 per cent and Rs. 3,060 crores or 40.5 per cent, respectively, as against Rs. 3,830 crores or 60.4 per cent and Rs. 2,341 crores or 36.9 per cent, respectively, at end-June 1980.

(*b*) *Indirect Finance*

In addition to direct finance, Central Co-operative Banks (CCBs)/State Co-operative Banks (SCBs)/Commercial Banks, Rural Electrification Corporation (REC) and RRBs provide indirect finance to the benefit of agriculture through loans to institutions for purposes such as marketing of agricultural commodities, fertiliser distribution, deposits to State Electricity Boards, etc. Estimates of indirect finance are presented in Table VI. 32.

During 1980-81, the aggregate indirect finance disbursed by co-operatives (SCBs/CCBs), commercial banks, RRBs and the REC has been placed at Rs. 889 crores, registering a rise of Rs. 63 crores or 7.6 per cent over 1979-80 (Provisional). At Rs. 706 crores, short-term loans by SCBs/CCBs continued to account for major share in disbursals during 1980-81, as during 1979-80, though their share was marginally lower at 79.4 per cent as compared to 79.9 per cent. Provisional data for 1980-81 available from the REC placed the disbursal of term loans at Rs. 183 crores or Rs. 17 crores more than during 1979-80. Total estimated indirect advances outstanding as at the end of June

Table VI. 31 : Direct Institutional Finance for Agriculture

(Rupees Crores)

	Loans issued during					Loans outstanding as on June 30,				
	1976-77	1977-78	1978-79	1979-80P	1980-81E	1977	1978	1979	1980P	1981E
I. Co-operatives*	**1,430.5** *(30.9)*	**1,444.4** *(33.2)*	**1,621.0R** *(40.2)*	**1,731.0** *(59.0)*	**1,912.0** *(75.0)*	**2,795.7** *(45.6)*	**3,074.1** *(57.4)*	**3,383.1R** *(69.9)*	**3,830.3** *(101.0)*	**4,214.0** *(133.0)*
Of which										
(a) Short-term loans by PACS	1,016.3	1,057.9	1,206.5R	1,226.7	1,355.0	1,215.8	1,347.6	1,540.0R	1,697.3	1,856.0
(b) Medium and Long-term loans by PACS/LDBs**	414.2 *(278.1)*	386.5 *(237.9)*	414.5R *(240.6)*	504.3 *(290.6)*	557.0 *(322.0)*	1,579.9 *(1,193.4)*	1,726.5 *(1,276.0)*	1,843.1R *(1,333.7)*	2,133.0 *(1,535.7)*	2,358.0 *(1,671.0)*
II. State Governments@	**82.3**	**97.8**	**119.1**	**132.5**	**163.5**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
III. Scheduled Commercial Banks†	**507.8**	**569.4**	**800.1**	**1,078.4E**	**1,435.0**	**1,031.0**	**1,339.7**	**1,824.6**	**2,340.9**	**3,060.0**
Of which										
(a) Short-term loans	253.8	288.1	365.1	479.5E	610.0	451.0	546.6	759.3	946.9	1,210.0
(b) Medium-term loans	254.0	281.3	435.0	598.9E	825.0	580.0	793.1	1,065.3	1,394.0	1,850.0
IV. Regional Rural Banks††	**16.2**	**43.7**	**100.8**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**168.4**	**286.4**
V. TOTAL DIRECT FINANCE (I TO IV)	**2,036.8**	**2,155.3**	**2,641.0**	**2,941.9**	**3,510.5**	**3,826.7**	**4,413.8**	**5,207.7**	**6,339.6**	**7,560.4**
Of which										
(a) Short-term loans	1,368.6	1,487.5	1,791.5	1,838.7	2,128.5	1,666.8	1,894.2	2,299.3	2,812.6	3,352.4
(b) Medium and Long-term loans	668.2	667.8	849.5	1,103.2	1,382.0	2,159.9	2,519.6	2,908.4	3,527.0	4,208.0

R—Revised P—Provisional E—Estimates N.A.—Not Available.
*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.
@Taken as short-term loans, and relate to financial year April-March.
†Loans issued relate to financial year April-March, while outstandings are as on June 30.
††Taken as short-term loans.

Table VI. 32 : Institutional Finance for Agriculture — Indirect Finance

(Rupees Crores)

Source of Finance	Loans issued during the year (July-June)					Loans outstanding as on June 30				
	1976-77	1977-78	1978-79	1979-80P	1980-81E	1977	1978	1979	1980P	1981E
I. Co-operatives@	**615.3**	**569.3**	**613.0**	**660.0**	**706.0**	**256.6**	**380.4**	**505.4**	**557.0**	**610.0**
Of which										
(a) State Co-operative Banks*	307.4	251.7	271.9	294.0	318.0	166.9	200.2	231.2	267.0	290.0
(b) Central Co-operative Banks*	307.9	317.6	341.1	366.0	388.0	89.7	180.2	274.2	290.0	320.0
II. Scheduled Commercial Banks	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**349.7**	**511.0**	**633.7**	**733.4**	**996.0**
Of which										
(a) Short-term loans	N.A.	N.A.	N.A.	N.A.	N.A.	105.5	140.7	190.3	150.2	202.0
(b) Medium-term loans	N.A.	N.A.	N.A.	N.A.	N.A.	244.2 (*47.4*)	370.3 (*63.1*)	443.4 (*84.1*)	583.2 (*105.9*)	794.0 (N.A.)
III. Regional Rural Banks@	**1.9**	**2.7**	**6.3**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**12.7**	**16.1**
IV. Rural Electrification Corporation@@	**88.2**	**112.2**	**154.9†**	**166.4†**	**183.2†**	**400.0**	**503.4**	**637.5†**	**781.0†**	**931.5†**
TOTAL INDIRECT FINANCE (I TO IV)	**705.4**	**684.2**	**774.2**	**826.4**	**889.2**	**1,006.3**	**1,394.8**	**1,776.6**	**2,084.1**	**2,553.6**
Of which										
(a) Short-term loans.	617.2	572.0	619.3	660.0	706.0	362.1	521.1	695.7	719.9	828.1
(b) Term loans	88.2	112.2	154.9	166.4	183.2	644.2	873.7	1,080.9	1,364.2	1,725.5

E—Estimates P—Provisional N.A.—Not Available @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.
@@Taken as long-term loans.
†Financial year data.
Note : Figures in brackets indicate loans routed through PACS by Scheduled Commercial Banks.

1981 at Rs. 2, 554 crores registered a rise of Rs. 470 crores (22.6 per cent) over the year. Of this, the share of commercial banks was Rs. 996 crores (39.0 per cent), that of the REC Rs. 932 crores (36.5 per cent), co-operatives Rs. 610 crores (23.9 per cent) and RRBs Rs. 16 crores (0.6 per cent).

(c) *Credit Targets During the Sixth Plan*

On the basis of resources expected to be available with the institutions for lending to agriculture and allied activities during the Sixth Plan period (1980-81 to 1984-85), it is estimated that total credit may reach the level of Rs. 5,415 crores to be disbursed in the year 1984-85 as compared with Rs. 2,550 crores in 1979-80. (Table VI. 33).

Table VI-33: Targets of Agricultural Credit to be Disbursed by Institutions

(Rupees crores)

Agency	Anticipated advances in 1979-80	Level to be reached in the year 1984-85
1	2	3
Co-operatives		
Short-term	1,300	2,500
Medium-term	125	240
Long-term	275	555
Commercial Banks (Including RRBs)		
Short-term	450	1,500
Term loans	400	620
Total	**2,550**	**5,415**

II. The RBI and Co-operative Agricultural Credit

A. (a) During the period under review, the RBI continued to pursue the objective of strengthening the institutional arrangement for rural credit with a view to facilitating larger flow of credit to the rural sector, more particularly to the small/marginal farmers and weaker sections of the rural community.

Various measures adopted and progress made are discussed in the following paragraphs.

(b) *Deposit Rates*

In the context of the need to step up the mobilisation of savings, interest rates payable by co-operative banks on term deposits and cumulative deposits were revised and brought in line with those payable by commercial banks with effect from March 2, 1981, as indicated in Table VI. 34.

Table VI. 34 : Changes in Interest Rates on Deposits in Co-operative Banks

(Per cent per annum)

	Effective from	
	13-9-1979	2-3-1981
(a) For deposits of one year and above but less than two years	7.00	7.5
(b) For deposits of two years and above but less than three years		8.5
(c) For deposits of three years and above but less than five years	8.5	
(d) For deposits above five years	10.0	10.0

Note: However, the discretion to pay an additional rate of interest upto 0.25 per cent, 0.50 per cent and 1 per cent, continued to be available to SCBs, CCBs and Primary Co-operative Banks (PCBs), respectively.

(c) *Lending Rates*

Following the revival of the levy of tax on interest earnings of scheduled commercial banks in the Union Budget for 1980-81, rates of interest charged by commercial banks on loans and advances, including agricultural advances, were stepped up. Although SCBs/ States Land Development Banks (SLDBs) have been exempted from the levy of interest tax, they were also advised to revise upwards the interest rates charged on agricultural advances with effect from July 1, 1980, with a view to maintaining parity with the rates of interest charged by commercial banks. Further, these banks were advised to ensure that the benefit of a substantial part of the additional margin resulting from the revision is to be shared with Primary Agricultural Credit Societies (PACS)/Primary Land Development Banks (PLDBs) so as to improve their

viability by strengthening their technical and field staff and to ensure proper supervision over the end-use of credit. These rates were further revised effective from March 2, 1981 as per the RBI's revision of general interest rates structure. (Table VI. 35).

Table VI. 35 Maximum Lending Rates Charged by PACS and Land Development Banks (LDBs) to Ultimate Borrowers.

(Per cent per annum)

	Effective from	
	1-7-1980	2-3-1981
Short-term agricultural loans		
(*a*) Small Farmers	Not exceeding 11.85 for loans upto Rs. 2,500/-	Not exceeding 12.50 for loans upto Rs. 5,000/-
(*b*) Others	14.00*	15.00**
Medium-term agricultural loans		
(*a*) Minor irrigation and land development	10.50	10.50
(*b*) Diversified purposes ..	11.50	11.50
(*c*) Other than diversified purposes		
(*i*) to small farmers ..	11.00	11.50
(*ii*) to others	12.50	12.50
Long-term agricultural loans		
(*a*) Minor irrigation and land development	10.25	10.25
(*b*) Diversified purposes:		
(*i*) Small farmers	10.25	10.25
(*ii*) Others	11.35	12.50

*Not exceeding 11.85 in those States where the present rate for those other than small farmers is 11.00.

**Not exceeding 12.50 in those States where the present rate for those other than small farmers is 11.85.

B. Short-term Credit

(*a*) *Interest Rates/Seasonality Discipline*

The Bank continued its policy of sanctioning short-term credit limits for financing seasonal agricultural operations during the year 1980-81 at 3 per cent below the Bank Rate. As in the previous years, full concession in interest rate was available to the SCBs only to the extent of their borrowings within the aggregate levels fixed separately for each CCB.

The seasonality discipline in lending operations of the co-operative banks continued to be applicable during the year 1980-81. Accordingly, the SCBs were not permitted to make drawals on the credit limits sanctioned by the RBI on behalf of the CCBs from April 1, 1981 unless the concerned CCB had recovered and remitted to the apex bank by March 31, 1981 an amount equivalent to at least 40 per cent of the current *kharif* demand under short-term agricultural loans or 30 per cent of the total demand under short-term agricultural loans as on March 31. From July 1, 1981, the drawals would be permitted only on behalf of such CCBs which had recovered and remitted to the apex bank an amount equivalent to at least 40 per cent of the total demand in respect of short-term agricultural advances for the co-operative year ending June 30, 1981. However, if a CCB achieves the prescribed minimum recovery performance after March 31/June 30, drawals on behalf of such banks would be permitted by RBI, on specific applications made in this behalf, from the date on which the minimum recovery performance was achieved.

In the case of Tamil Nadu, however, the seasonality discipline was relaxed, as a special case, at the request of the State Government and CCBs were permitted drawals on the short-term credit limits sanctioned for 1980-81 if the concerned CCB had achieved recovery performance of 20 per cent of the total demand even after June 30, 1980 as against the stipulated recovery of 40 per cent as on June 30, 1980. This relaxation was granted in view of the adverse effect on the recovery performance of CCBs as a sequel to the prolonged agitation by farmers in the State and on specific assurance of the State Government that a proper climate would be created for recovery of dues.

(*b*) *Restrictions on Advances against Sensitive Commodities*

In view of the steep rise in prices of *gur* and *khandsari*, the minimum margin requirements for advances granted by SCBs and

CCBs against the security of these commodities were increased from 50 per cent to 65 per cent in the case of societies engaged in the manufacture of these commodities and from 60 per cent to 75 per cent in respect of others with effect from November 10, 1980. The minimum margins on advances against receipts issued by the Central Warehousing Corporation or State Warehousing Corporations or rural godowns were increased from 45 per cent to 55 per cent. These revised margins were also applicable to Primary Urban Co-operative Banks (PUCBs) in Gujarat, Karnataka and Maharashtra.

The minimum lending rates of SCBs and CCBs in the country and of PUCBs in Gujarat, Karnataka and Maharashtra against commodities subject to selective credit control (with the exception of advances for which refinance is obtained from the RBI under Section 17 (2) (bb) of RBI Act, 1934 in the case of PUCBs) have been enhanced with effect from July 1, 1980 so as to maintain parity with lending rates for such advances by commercial banks. However, an option was given (*i*) to SCBs and CCBs to raise these rates from September 4, 1980 and (*ii*) to PUCBs from October 7, 1980. In respect of certain special categories of advances/borrowers, the rates were further revised from March 2, 1981.

(*c*) *Credit for Fertiliser Distribution*

The Bank continued its policy of sanctioning credit limits for fertiliser distribution to SCBs on behalf of marketing societies and federations during 1980 and 1981 at one per cent above the Bank Rate only in cases where commercial banks were not in a position to provide such accommodation. The credit limits sanctioned for this purpose during 1980 aggregated Rs. four crores as against Rs. seven crores sanctioned during 1979.

C. Medium-term Credit

(*a*) *National Agricultural Credit Stabilisation Fund*

The facility in regard to availing of extension by SCBs for repayment of their short-term borrowings for seasonal agricultural operations upto three months, pending conversion into medium-term loans, which was to expire on June 30, 1980, was extended upto a further period of two years (upto June 30, 1982). This has been done as many SCBs have yet to adapt themselves to the revised procedural requirements and the State Governments have to streamline their administrative arrangements in this regard.

During the year ended June 1981, Rs. 75 crores were transferred to this fund raising the total amount transferred upto June 30, 1981 to Rs. 365 crores.

(*b*) *Credit for the Purchase of Milch Cattle*

With a view to avoiding the difficulties caused to borrowers in obtaining certificates from veterinary surgeons while availing loans for purchasing milch cattle, the RBI has decided not to insist on such certificates. Instead, the selection of the animal can be made by a committee consisting of a village level worker and the supervisor of the concerned CCB. However, in case of purchasing animals in large numbers in a compact area, the committee should associate the veterinary surgeon of the animal husbandry department of the State Government or a well-established dairy organisation (like Amul, etc.) with the selection process.

(*c*) *National Agricultural Credit (Long Term Operations) [NAC (LTO)] Fund.*

Allocation from NAC (LTO) Fund during the calendar year 1981 for medium-term loans was fixed at the previous year's level of Rs. 45 crores.

D. Long-term Credit

(*a*) *Loans to State Governments from NAC (LTO) Fund for Additional Share Capital Contribution*

On a review of the policy of providing loans through NAC (LTO) Fund to State Governments towards additional share capital contribution to PACS, it was observed that the number of societies recommended for additional share capital contribution as

also those eligible for the same was small. A large number of societies were, however, experiencing difficulties in investing a higher amount in the shares of CCBs than what they collected by way of shareca pital from the small/ marginal and economically weak farmers. It was, therefore, decided to reduce the ratios of share linking to borrowings as between societies and CCBs for short-term production credit as given in Table VI-36.

Table VI. 36: Proportion of Share Holdings to Borrowings in Co-operatives

(Per Cent)

Type of Borrower	As between		
	Members & PACS	PACS & CCBs	CCBs & SCBs
1. Small/marginal farmers & economically weaker sections	5	5*	5
2. Other farmers ..	10**	10	5

* As against 10 per cent earlier.

** With discretion to PACS/CCBs to collect additional share capital up to 20 per cent.

It was further decided to discontinue the policy of providing additional share capital contribution to PACS on the basis of the volume of their loans to small farmers.

(*b*) *Issue of Loans under Integrated Rural Development Programme (IRDP)*

As a sequel to the Government of India's extension of the IRDP to all the blocks in the country and the merger of Small Farmers Development Agency (SFDA) with this programme, the RBI has permitted PLDBs/branches of SLDBs to draw funds to the full extent from SLDB for the purpose of financing small/marginal farmers identified under the programme. This relaxation covers lendings done both under ordinary and special development debenture programmes. The RBI has also permitted the PLDBs and branches of SLDBs having overdues above 55 per cent of demand to lend to such identified families under the IRDP, provided a rehabilitation programme is drawn up as per guidelines issued by the RBI. These steps are taken to ensure adequate credit support for the programme.

(*c*) *Extension of Period of Repayment for Pumpset Loans*

The RBI has extended the period for repayment of pumpset loans issued by LDBs under normal lending and Agricultural Refinance and Development Corporation (ARDC) schemes. Accordingly, loans issued after October 1, 1980, for single purpose of purchase of pumpsets will have a maximum repayment period of nine years instead of seven years. The period is the same for composite loans provided for construction of wells and purchase of pumpsets. However, the period may be extended upto 15 years in the case of small farmer borrowers subject to the condition that the repayment of loan for pumpset component would be within nine years. Similarly, in respect of borrowers affected by natural calamities, the recovery period for pumpset loans could be extended to 11 years.

(*d*) *Disbursement of Composite Loans by LDBs*

The RBI has decided that in respect of composite loans sanctioned by LDBs for wells and electric pumpsets where the borrower has not availed of loan instalment for purchase of electric pumpset on account of non-availability of electric connection (though he has completed the well prior to last financial year), PLDBs/branches of SLDBs may be permitted to draw the reimbursement in full from SLDBs for disbursing second or subsequent instalments under committed loans/expenditure. This relaxation has been extended with a view to helping such loanees to derive optimum benefit from the investment undertaken. However, each case should be duly certified by the inspector/ field staff indicating that the electric pumpset was not purchased/the well was not energised due to non-availability of electric connection from the State Electricity Board.

(*e*) *Provision of Supplementary Loans to LDBs' Borrowers*

In the case of PLDBs/branches of SLDB which do not have any loan eligibility under the norms for regulation of advances on account of high level of overdues, the RBI has relaxed the condition of fresh

lendings by way of supplementary loans to existing borrowers for purchase of pumpset/ electric motors under the ordinary lending programme. However, this facility is available only for the purposes indicated above and only to those borrowers who had already mortgaged their entire land-holdings to the LDBs and as such did not have any further security to offer to obtain finance from any other agencies. All categories of farmers who have repaid at least 50 per cent of the earlier loan are eligible.

(f) Lending Programme of LDBs in 1980-81 and 1981-82

The total lending programme of SLDBs for the financial year 1980-81 was Rs. 439 crores as against Rs. 434 crores in 1979-80. This lending programme consisted of Rs. 314 crores under ARDC refinanced schemes and Rs. 125 crores under ordinary programme. Out of the total Rs. 125 crores under ordinary programme, Rs. 115 crores were to be raised by floating ordinary debentures and remaining Rs. 10 crores through internal resources (Table VI-37). The actual subscriptions received through floatation of ordinary debenture programme during 1980-81 formed 83 per cent of the approved programme as against 74 per cent in the previous year. The lending programme for 1981-82 is fixed at Rs. 408 crores of which Rs. 301 crores are to be financed through schemes refinanced by ARDC and the balance Rs. 107 crores for lending under the ordinary programme and internal resources.

Table VI. 37 : Ordinary Debenture Programme of State Land Development Banks

(Rupees Crores)

Agencies	1979-80		1980-81		1981-82
	Approved Programme	Subscriptions received	Approved Programme	Subscriptions received	Approved Programme
1	2	3	4	5	6
(*i*) Central and State Governments	16.0	15.7	12.0	12.6	8.0
(*ii*) Life Insurance Corporation	38.0	38.0	45.0	45.0	45.0
(*iii*) Commercial Banks (through Indian Banks' Association)	10.0	9.6	10.0	10.0	10.0
(*iv*) State Bank of India Group	7.0	7.0	10.0	10.0	10.0
(*v*) Mutual Support and Self-help	54.0	21.7	38.0	18.2	27.0
Total	**125.0**	**92.0**	**115.0**	**95.8**	**100.0**

E. Strengthening of Co-operative Structure

(a) Reorganisation of PACS

As at the end of June 1980, the number of primary societies including Farmers Service Societies and Large-sized Multipurpose Societies declined to 95,187 from 1,17,549 societies as on June 30, 1978. This decline was primarily due to the implementation of the programme of reorganisation of PACS on a viable basis. The implementation of the programme of reorganisation is more or less complete in Andhra Pradesh, Assam, Bihar, Haryana, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Manipur, Tripura and Meghalaya. However, hardly any progress has been registered towards implementation of the programme in Gujarat, where it was drawn up as far back as 1976. Efforts in this direction are being made in remaining States other than Jammu & Kashmir and Maharashtra.

With a view to assessing the impact of reorganisation on the performance of the

PACS, a pilot study was conducted by the Bank in six States, viz. Uttar Pradesh, Andhra Pradesh, Madhya Pradesh, Punjab, Haryana and Karnataka. The study revealed considerable expansion of credit by reorganised societies. About 71 per cent of the societies had already reached a loan business of Rs. two lakhs required for viability. By and large the societies had also succeeded in improving the position of recovery of dues after reorganisation. Perceptible progress was made in the distribution of agricultural inputs and consumer goods. However, provision of credit for ancillary activities was meagre. In the sphere of non-credit activities, marketing of agricultural produce did not receive the attention it deserved. The study, however, revealed that the reorganised societies were progressing in the desired direction of taking up the full responsibility of providing credit and services to their members.

(*b*) *Rehabilitation of CCBs / SCBs*

In view of their improvement in financial and operational efficiency, 24 CCBs were deleted from the list of weak banks, while 16 CCBs were brought under the programme of rehabilitation as on June 30, 1979. Thus the number of weak CCBs under rehabilitation came down to 96* as on June 30, 1979, from 106 as on June 30, 1978. Another five CCBs were deleted from the list and 20 CCBs added, bringing the number of CCBs requiring rehabilitation to 111 as on June 30, 1980.

The number of SCBs under rehabilitation in areas served by two-tier credit structure went up from seven as on June 30, 1978 to nine as on June 30, 1979, the position remaining unchanged as on June 30, 1980.

(*c*) *Rehabilitation of SLDBs*

The overdues of five SLDBs** had been persistently rising over the last few years. On the other hand, International Development Association (IDA) had indicated unwillingness to permit participation of banks having overdues exceeding 55 per cent of the demand, in the World Bank assisted ARDC-III project, unless such banks implemented a time bound rehabilitation programme to improve their overall working. With a view to facilitating the preparation of rehabilitation programmes, broad guidelines evolved by the RBI/ARDC were communicated to SLDBs. A joint study team of the RBI/ARDC visited these States to expedite the formulation and implementation of the rehabilitation programmes. On the basis of the recommendations made by the RBI/ARDC joint study team and the proposals submitted by the SLDBs for the extension of total demand aggregating Rs. 70 crores, these SLDBs, have been allowed relief through deferment in the repayment of amounts due on account of debentures held by the Government of India, the State Government and ARDC to the tune of Rs. 55 crores (Rs. 25 crores under the ARDC refinanced schemes and Rs. 30 crores under the normal programme).

In addition to the five SLDBs which have been identified as weak, the Bank received proposals from six SLDBs@ for postponement of total demand aggregating Rs. 30 crores in the drought affected areas during the year 1979-80. The RBI agreed to postponement of demand in all the cases.

III. The RBI and Co-operative Non-Agricultural Credit

(*a*) *Finance for Dairy Co-operatives*

The RBI has decided to provide a separate line of credit by way of refinance facility to SCBs on behalf of the CCBs for financing the marketing and processing activities of dairy co-operatives. The decision is a sequel to the recommendation made by the Agricultural Credit Board in its meeting held in August 1980. The RBI accommodation for this purpose will be provided at the Bank Rate and will be available for the purchase of milk, chilling and pasteurisation of milk, conversion of whole milk into standardised, toned and skimmed milk, processing of milk into various forms of milk powder and white

* Two CCBs were amalgamated with other CCBs.

** In Bihar, Gujarat, Karnataka, Maharashtra and Tamil Nadu.

@ In Haryana, Rajasthan, Orissa, Uttar Pradesh, West Bengal and Madhya Pradesh.

butter as also for transportation and incidental charges incurred by the dairy co-operatives. The refinance limits will be sanctioned with reference to a co-operative year (July-June), and each drawal will be confined to 180 days. The margin to be maintained by dairies in respect of loans from co-operative banks is 40 per cent of eligible book debts. In case of stocks (valued at cost price) the margin will be 25 per cent for pledge and 40 per cent for hypothecation of stocks. If the valuation is done at ex-factory price, an additional margin of 10 per cent is to be insisted upon.

(*b*) *Credit for Artisans — Village and Cottage Industries*

In its endeavour to assist artisans and village/cottage industries, the RBI has indicated that the banks should collect the interest on composite loans granted to artisans and village/cottage units, accrued during the moratorium period, in easy instalments after the units start generating surplus. The Bank has suggested that the interest during the moratorium period should be calculated on a simple interest basis only on the principal amount, and collected on a suitable equated basis after the moratorium period, ensuring that the total amount paid is within the repayment capacity of the artisans. It may be collected in instalments after the repayment of both principal and current interest. The performance of individual artisan/unit has to be reviewed at the end of each year to verify the income generating capacity and the feasibility of original repayment schedule and, if need be, the schedule may be rephased.

(*c*) *Handloom Finance*

The facility of financial accommodation granted by RBI on an experimental basis in 1980-81 at 2½ per cent below the Bank Rate to SCBs for financing production and marketing of polyester cloth by primary handloom weavers' co-operative societies has been extended to the financial year 1981-82. No prior approval of RBI is now needed for sanctioning credit limits (pledge/hypothecation) for financing the production and marketing activities of handloom/powerloom weavers' co-operative societies. Loans and advances made by SCBs and CCBs to apex/regional handloom and powerloom weavers' co-operative societies on secured basis have been exempted from the purview of the RBI's Credit Authorisation Scheme as applicable to co-operative banks. In October 1980, the Bank directed that advances granted by CCBs to weavers' co-operative societies employing powerlooms not approved by the Textile Commissioner would not be eligible for accommodation from the RBI under Section 17(2) (*bb*) of RBI Act, 1934.

As against the limit of Rs. 58 crores sanctioned by RBI during the financial year 1979-80 for production and marketing of handloom products, a higher limit of Rs. 75 crores was sanctioned during 1980-81.

(*d*) *Credit Guarantee Scheme for Small-Scale Industries*

As on March 31, 1981, 10 SCBs, 82 CCBs and 100 PUCBs were covered under the Credit Guarantee Scheme for Small-Scale Industries. This scheme being administered by the Credit Guarantee Organisation in the Bank was discontinued. However, with effect from April 1, 1981, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has introduced a new Credit Guarantee Scheme for grant of a degree of protection to credit institutions against possible losses in respect of advances given by them to small-scale industries. The Scheme has been so designed as to ensure that the guarantee support is weighted in favour of the weaker sections. To ensure continuity of guarantee cover in respect of credit facilities to small-scale industries, the DICGC will provide guarantee cover for advances already covered by the old scheme.

(*e*) *Credit Authorisation Scheme*

During 1980-81, eight SCBs and 11 CCBs approached the Bank for authorisation in respect of 67 proposals for block capital finance on behalf of 52 manufacturing/processing units. Authorisation was, however, granted to five SCBs and six CCBs for an aggregate amount of Rs. 20 crores in respect of 25 units. For granting working capital finance, during the same period, 13 SCBs and 38 CCBs submitted 440 proposals

on behalf of 200 manufacturing/processing units. Authorisation was granted to 12 SCBs and 36 CCBs for an aggregate amount of Rs. 698 crores on behalf of 177 units.

(f) Financing of Other Cottage and Small-Scale Industries

During the financial year 1980-81, short-term credit limits aggregating Rs. 39 crores were sanctioned to 42 CCBs and 64 PCBs for financing industrial co-operative societies other than weavers societies (including coir industries), industrial units as also rural artisans covered by 22 broad approved groups of cottage and small-scale industries.

With effect from July 1, 1980, the PCBs were allowed to retain a spread of 2½ per cent instead of 2 per cent on their advances to approved industrial units in respect of financial accommodation provided to them under section 17(2) (*bb*) read with section 17(4) (*c*) of the RBI Act, 1934. As a result of this increase, the spreads to be maintained at various levels and the rates of interest to be charged to the ultimate borrowers were fixed as given in Table VI-38.

Table VI.38 : Spreads and Rates of Interest for Loans to Industrial Units

(Per cent per annum)

Category of bank	Spread to be retained	Rate of interest to be charged
(*i*) State Co-operative Banks' lending to		
(*a*) Central Co-operative Banks	½	7
(*b*) Primary Urban Co-operative Banks.. ..	1	7½
(*ii*) Central Co-operative Banks' lending to Primary Urban Co-operative Banks	1	8
(*iii*) Primary Urban Co-operative Banks' lending to individuals/Units engaged in Cottage and Small-scale industrial activities ..	2½	10—10½

IV. RBI Credit to Co-operative Sector

(a) Short-term Credit

Short-term credit limits sanctioned by the RBI to SCBs during 1980-81 were marginally higher at Rs. 940 crores@ than in 1979-80 (Rs. 935 crores@). Drawals and repayments against these short-term credit limits during 1980-81 were much higher at Rs. 1,278 crores and Rs. 1,126 crores, respectively, as compared to the corresponding figures of Rs. 999 crores and Rs. 1,054 crores during 1979-80. The short-term credit outstanding on June 30, 1981 was Rs. 374 crores and marked a rise of Rs. 152 crores over the end-June 1980 position (Table VI-39).

The credit limits sanctioned for seasonal agricultural operations at Rs. 798 crores accounted for 84 per cent of the total limits (Rs. 950 crores) in 1980-81. These limits, sanctioned on behalf of 262 CCBs, recorded an increase of Rs. 15 crores during the year in spite of the rising trend of overdues at the levels of CCBs in States like Tamil Nadu, Maharashtra, Karnataka and Bihar. As against the aggregate credit limit of Rs. 798 crores sanctioned to SCBs for seasonal agricultural operations during 1980-81, the maximum outstanding reached was Rs. 476 crores on March 20, 1981 which formed 60 per cent of the total credit limits sanctioned. The highest utilisation was by Haryana (91.5 per cent) followed by Kerala (91.3 per cent), while in the case of Jammu and Kashmir and Tripura SCBs the utilisation was 100 per cent. The utilisation was poor in the case of banks in Tamil Nadu, Bihar, Maharashtra and Karnataka. While the banks in Tamil Nadu could not utilise the limits to an appreciable extent due to heavy overdues and their consequent inability to provide adequate non-overdue cover for their borrowing from the RBI, the poor utilisation in Maharashtra and Karnataka, to some extent, was a sequel to adequacy of the banks' own resources and their reduced reliance on RBI credit.

Credit limits sanctioned by the RBI for purposes other than seasonal agricultural operations aggregated Rs. 152 crores. Limit sanctioned for production and marketing of handloom products at Rs. 75 crores was higher than in the previous year (Rs. 58 crores). A higher limit of Rs. 39 crores was also sanctioned for financing of other cottage and small-scale industries as against Rs. 25 crores sanctioned last year.

@ Excluding Rs. 10 crores sanctioned to ARDC.

Table VI. 39 : Reserve Bank Credit to Co-operatives, State Governments and ARDC during 1979-80 and 1980-81

(Rupees Crores)

Section of the RBI Act, 1934	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1979-80				1980-81			
			Limits sanctioned	Drawals	Repayments	Outstandings	Limits sanctioned	Drawals	Repayments	Outstandings
			1	2	3	4	5	6	7	8
	I. Short-term		**945**	**999**	**1,054**	**222**	**950**	**1,278**	**1,126**	**374**
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	783	935	1,003	184	798	968	861	291
-do-	(ii) Marketing of crops other than cotton and kapas (at Bank Rate from June 1978)	July-June								
17(4) (c)	(iii) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	July-June	57	—	—	—	18	—	—	—
-do-	(iv) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December†	7	3	2	2	4	4	4	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	58	42	31	27	75	235	200	62
-do-	(vi) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978)@	April-March	25	18	18	8	39	70	60	18
17(4) (c)	(vii) Purchase and sale of yarn (at Bank Rate)	April-March	5	1	—	1	6	1	1	1
-do-	(viii) Against pledge of sugar (at 3% above Bank Rate)	July-June	—	—	—	—	—	—	—	—
17(4E)	(ix) Loans to ARDC (at Bank Rate)	July-June	10	—	—	—	10	—	—	—
	II. Medium-term		**149**	**109**	**70**	**158**	**90**	**55**	**81**	**132**
17(4AA) read with 46A(2) (b)	(i) Agricultural purposes (at 3% below Bank Rate from January 1,1979)	January-December†	32	21	13	36	30	17	16	37
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	171	88	57	122	60	38	65	95
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†	—	—	—	—	—	—	—	—
	III. Long-term		**105**	**100**	**45**	**439**	**108**	**112**	**56**	**494**
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	20	15	11	124	13	17	13	128
17(4AA) read with Section 46A(2) (c)	(ii) Loans to ARDC (at 6% per annum)	July-June	85	85	34	315	95	95	43	366
	TOTAL CREDIT (I+II+III)		**1,199**	**1,208**	**1,169**	**819**	**1,148**	**1,445**	**1,263**	**1,000**

* Subject to recovery of an additional interest of 1½ per cent as per linking scheme.
— Nil or Negligible. † Data for 1979 and 1980.
@ Including small amounts relating to advances to artisans and weavers at 3% below Bank Rate.
(Source: Agricultural Credit Department, RBI)

(*b*) *Medium-term Credit*

The RBI sanctioned during the year 1980 medium-term credit limits of Rs. 30 crores for approved agricultural purposes. The limit was marginally lower by Rs. two crores than that sanctioned for the year 1979. The decline was possibly due to schematic lending by banks and their reliance on ARDC refinance. Drawals and repayment during 1980 were of the order of Rs. 17 crores and Rs. 16 crores as against Rs. 21 crores and Rs. 13 crores, respectively, during 1979. The credit limits sanctioned for 1981 (upto end-June 1981) totalled Rs. 18 crores against which no drawals were made during the period. Outstandings of Rs. 37 crores at end-June 1981 were marginally higher by Rs. one crore than at end-June 1980.

Limits sanctioned by the RBI during 1980-81 for conversion of short-term loans into medium-term loans were lower at Rs. 60 crores in comparison with Rs. 117 crores sanctioned during the year 1979-80 which was marked by unfavourable seasonal conditions in some States. Drawals during 1980-81 too were lower at Rs. 38 crores against Rs. 88 crores during 1979-80. With higher repayments of Rs. 65 crores during the year as compared to Rs. 57 crores during the previous year, outstandings declined from Rs. 122 crores as at end-June 1980 to Rs. 95 crores as at end-June 1981.

No limits were sanctioned by the RBI during 1979 and 1980 for the purchase of shares in co-operative sugar factories/processing societies.

(*c*) *Long-term Credit*

During the year 1980-81, State Governments applied for an aggregate amount of Rs. 42.5 crores from NAC (LTO) Fund for contribution to the share capital of co-operative credit institutions. As against this, the amount sanctioned was Rs. 13.3 crores to 17 States for contributing to the share capital of 5,284 co-operative credit societies as compared to Rs. 20 crores to 16 States for 8,104 institutions in 1979-80. The repayments during the year amounted to Rs. 13 crores as against Rs. 11 crores in the previous year. The outstandings as at end-March 1981 were Rs. 128 crores which were Rs. four crores higher than those as at end-March 1980.

The RBI has sanctioned a composite long-term loan of Rs. 95 crores to ARDC during 1980-81 (July-June) comprising a ten-year loan of Rs. 85 crores and a fifteen-year loan of Rs. 10 crores. It was decided to charge interest at 6½ per cent for 15-year period and 6 per cent for 10-year period. The Corporation has drawn the full amount by the end of June 1981. The repayments made during the year amountd to Rs. 43 crores while the outstandings as at the end-June 1981 amounted to Rs. 366 crores.

(*d*) *Overdues position*

The recovery performance of co-operatives at the apex and central levels deteriorated further. The percentage of overdues to outstanding credit in the case of SCBs rose from 7.2 per cent at the end of 1977-78 to 8.9 per cent a year later and further to 11.9 per cent at the end of 1979-80. In the case of CCBs, the corresponding rise was from 35.7 per cent to 35.9 per cent and then to 36.7 per cent. The overdues of PACS, however, registered a marginal fall to 44.3 per cent at the end of 1979-80 from the preceding two years' level of 45.0 per cent.

V. Other Developments

(*a*) *Investment of Surplus Resources of SCBs/ CCBs Outside the Co-operative Fold*

Some of the SCBs/CCBs having surplus resources but insufficient avenues for investment within the co-operative sector were allowed by the RBI, as a transitional measure, to invest such surplus resources outside the co-operative fold in public sector organisations such as MSRTC, Gujarat Narmada Valley Fertilizer Company, Kerala Soaps and Oil Company, etc.

Meanwhile, the RBI constituted a study group to go into the problem of surplus funds of SCBs/CCBs and find profitable outlets for them (*vide* Study Teams/Committees).

(*b*) *Crop Insurance*

The Pilot Crop Insurance Scheme initiated by the General Insurance Corporation (GIC) in 1979 was in operation in Gujarat, Tamil Nadu and West Bengal. To limit the financial liability under the scheme, a ceiling of Rs. 2,000 per farmer was fixed for crop insurance. During 1980-81, the limit of business for Tamil Nadu and West Bengal was raised by the GIC at the instance of the Government of India from Rs. one crore to Rs. two crores each. Also during the year, an area of about 16,660 hectares was insured for over Rs. one crore in the three States. The number of farmers covered under the scheme was 20,443. The Government of Maharashtra issued orders for taking up the scheme on a mandatory basis in selected areas for small and marginal farmers.

VI. Commercial Banks and Rural Credit

(*a*) During the year, the RBI and Government of India accepted in general the recommendations made by the Working Group on the Modalities of the Implementation of Priority Sector Lending and the 20 Point Programme by Banks. Accordingly, commercial banks have been asked to ensure a flow of at least 40 per cent of the advances to the priority sector as against 33⅓ per cent earlier, so that by the year 1985 at least 16 per cent of total advances are lent to agricultural sector. Further, within the agricultural sector, at least 50 per cent of the direct lending should be disbursed to 'weaker section'* by 1983.

(*b*) *Disbursal of Credit to Agriculture and Allied Activities*

As per data available for the half year (April-September) 1979-80, the total disbursal amounted to Rs. 477 crores of which Rs. 226 crores (47.4 per cent) were disbursed by 14 nationalised banks, Rs. 183 crores (38.4 per cent) by the State Bank of India group and Rs. 68 crores (14.2 per cent) by foreign and other scheduled commercial banks.

Table VI-40 presents purpose-wise and region-wise distribution of agricultural credit by commercial banks during the half-year (April-September) 1979-80**. Purpose-wise, short-term crop loans formed 49.1 per cent of the total, the balance being shared between term loans and loans for allied activities at 35.7 per cent and 15.2 per cent, respectively. A major portion (Rs. 89 crores) of term loans was disbursed for purchasing tractors and agricultural implements and machinery. Loans for dairy activities under the head 'loans for allied activities' accounted for Rs. 32 crores.

Region-wise, Southern region received 46.1 per cent of total credit disbursed, followed by Northern region (20.3 per cent), Western region (14.4 per cent), Central region (13.0 per cent) and Eastern and North-Eastern regions (6.2 per cent).

As against a total credit of Rs. 800 crores disbursed towards agriculture and allied activities during 1978-79 (financial year) commercial banks are estimated to have disbursed Rs. 1,079 crores in 1979-80, representing a rise of 34.8 per cent over the previous year. The estimated disbursal of short-term crop-loan from the total would be Rs. 480 crores, the rest of the amount being term loans and loans for allied activities.

(*c*) *Financing of PACS by Commercial Banks*

The scheme of financing PACS by commercial banks introduced in 1970, was in operation in 13 States as at the end-June 1980. The scheme was spread over 135 districts covering 2,888 societies by 679 branches of 25 commercial banks. However, the average number of societies per branch continued to be four as against the norm of ten societies per branch envisaged for the operational viability of the scheme and optimum utilisation of field staff at branch level.

* Weaker section comprises, small and marginal farmers with land holdings of 5 acres and less and landless labourers and persons engaged in allied activities whose borrowal limits for such activities do not exceed Rs. 10,000/-.

** Data are not available for full year.

Table VI. 40 : Purpose-wise/Region-wise Distribution of Credit 1979-80*

(Rupees lakhs)

	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total
	1	2	3	4	5	6	7
I. Short-term Loans (Crop Loans)	**23,36** **(10.0)** **(24.1)**	**49** **(0.2)** **(42.2)**	**10,28** **(4.4)** **(35.8)**	**12,05** **(5.2)** **(19.5)**	**30,82** **(13.2)** **(45.0)**	**1,56,72** **(67.0)** **(71.3)**	**2,33,72** **(100.0)** **(49.1)**
II. Term Loans	**61.44@** **(36.1)** **(63.5)**	**39** **(0.2)** **(33.6)**	**14,72** **(8.6)** **(51.2)**	**41,95** **(24.7)** **(68.0)**	**20,62@** **(12.1)** **(30.1)**	**31,21** **(18.3)** **(14.2)**	**170,33** **(100.0)** **(35.7)**
1. Sinking and Deepening of Wells and Tuble Wells ..	99	2	1,33	3,50	2,49	1,36	9,69
2. Pumpsets/Oil Engines ..	2,77	2	3,11	6,04	2,56	1,84	16,34
3. Composite Minor Irrigation Schemes	3,20	1	97	1,98	1,65	65	8,46
4. Tractor and Agricultural Implements and Machinery	48,28	12	4,23	24,81	8,71	2,92	89,07
5. Plough Animals	1,56	11	1,12	1,73	1,25	2,32	8,09
6. Reclamation and Land Development Schemes	42	2	13	22	38	1,16	2,33
7. Construction of Godowns and Cold Storages	57	2	16	5	29	57	1,66
8. Plantations	2	2	39	1	26	9,38	10,08
9. Others	3,62	5	3,28	3,61	3,04	11,01	24,61
III. Loans for Allied Activities ..	**11,95** **(16.5)** **(12.4)**	**28** **(0.4)** **(24.2)**	**3,72** **(5.1)** **(13.0)**	**7,74** **(10.7)** **(12.5)**	**17,05** **(23.5)** **(24.9)**	**31,79** **(43.8)** **(14.5)**	**72,53** **(100.0)** **(15.2)**
1. Dairying	7,34	11	1,57	4,73	7,62	10,61	31,98
2. Poultry Farming, Piggery and Bee Keeping	2,31	6	73	53	1,75	4,26	9,64
3. Fisheries	4	9	58	8	4,17	5,81	10,77
4. Others	2,26	2	84	2,40	3,51	11,11	20,14
Grand Total (I+II+III) ..	**96,75** **(20.3)** **(100.0)**	**1,16** **(0.2)** **(100.0)**	**28,72** **(6.0)** **(100.0)**	**61,74** **(13.0)** **(100.0)**	**68,49** **(14.4)** **(100.0)**	**2,19,72** **(46.1)** **(100.0)**	**4,76,58** **(100.0)** **(100.0)**

* Data relate to April-September 1979.

@ The group totals do not exactly add up due to rounding up of figures.

Note:(1) Figure in first bracket indicates the share of each region to the total loans disbursed under three main categories.
(2) Figure in second bracket indicates the share of each category of loan disbursed to the grand total.

(*Source* : DBOD, RBI.)

During 1979-80, 1,865 societies were financed by commercial banks accounting for 65 per cent of the total number of societies adopted by them. The new members admitted to the societies taken over by banks since introduction of the scheme numbered six lakhs forming an average increase of 224 members per society. The total membership of all the societies taken over stood at 18 lakhs as on June 30, 1980 and the borrowing members at seven lakhs constituted 38 per cent of the total membership. An amount of Rs. 24 crores was disbursed as short-term loans for agricultural operations during 1979-80 which worked out to Rs. 1.3 lakhs per society as against Rs. 27 crores or Rs. 1.2 lakhs per society disbursed during the previous year. Medium-term loans disbursed for investment purposes during 1979-80 stood at Rs. six crores and were higher by Rs. one crore than in 1978-79. The overdues of these societies at Rs. 37.3 crores which were higher by Rs. 6.3 crores than those during the last year.

VII. Study Teams/Committees

(*a*) *Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)*

A reference was made in the last year's Report to the constitution by the RBI of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in March 1979. The Committee submitted an interim report in November 1979 and the final report in March 1981.

The Committee has suggested the setting up of a new apex bank viz. the National Bank for Agriculture and Rural Development (NABARD) as an organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated approach to rural development. According to the recommendations of the Committee, the new bank will take over from the RBI the overseeing of the entire rural credit system, including credit for rural artisans and village industries and the statutory inspection of co-operative banks and RRBs on an agency basis; the RBI will continue to retain its essential controls. The NABARD will be linked organically with the RBI by the latter contributing half of its share capital (the other half being contributed by the Government of India) and nominating three of its Central Board Directors on the board of NABARD, besides a Deputy Governor of RBI being appointed as Chairman of NABARD.

The authorised share capital of NABARD will be Rs. 500 crores and paid-up capital Rs. 100 crores. The NABARD will enjoy the term lending facilities extended by the RBI to the ARDC. As regards short-term credit/working capital loans, the NABARD will depend on the RBI which will fix aggregate credit limits in favour of the new bank for various purposes.

The Committee has probed deeply into the problem of agricultural credit and has come out with views and recommendations on different aspects of the problem. Important among these are summarised below.

Co-operative Credit System

The Committee has expressed the view that an efficient credit delivery system at ground level is essential for the effective implementation of the concept of integrated approach to rural development. It has suggested that while the three tier short-term co-operative structure could remain as the general pattern for bigger States, the two tier structure may be continued in smaller States and Union Territories. There, however, is a need for quick analysis of weak CCBs, and if their rehabilitation is not possible, the SCBs may sponsor RRBs instead.

The Committee was not in favour of any dogmatic approach to force the integration of the two wings of co-operative credit movement. A beginning, however, may be made at the primary level through PACS acting as agents of LDBs in the matter of dispensing long-term credit. State Governments should amend the Co-operative Societies Act to facilitate the short-term credit structure to lend term loans for period upto seven years, and the long-term structure may be allowed to provide loans for period of three years and above.

The LDBs should be allowed to handle short-term credit as part of project lending.

The Committee has suggested a speedy reorganisation of PACS and their conversion into truly multi-purpose service institutions. The societies should provide all types of credit including long-term credit for agriculture and encompass all types of rural population within three years.

The PACS should have two categories of membership—one exclusively reserved for the weaker sections, distinguished by the lower rate of share capital prescribed for them, and the other earmarked for those contributing at the usual rate.

The existing long-term co-opreative credit structure (federal in some States, unitary in others) may be continued. However, State Governments should identify wilful default, misuse of loans, etc., and take measures for the rehabilitation of LDBs within a time span of one or two years. The State Governments can help the LDBs to get over their difficulty of realising overdues, by purchasing the mortgaged land brought for sale in settlement of claims of LDBs and arrange to dispose of the land either by sale or by long-term lease to identified target group members. The Committee stressed that LDBs have to diversify their lending for agricultural purposes and extend their involvement in lending for non-land based purposes.

The Committee has recommended that State Governments should introduce a system of regular checks to detect refusal of loans to the weaker sections. The financing banks should also consider denial of credit facilities to the offending societies. Wilful default in repayment of co-operative loans should be treated as a criminal offence, attracting deterrent punishment under the criminal law of the country.

Commercial Banks and RRBs

The Committee has underlined the need for better spread of commercial banks branches in rural and semi-urban areas. The scheme of ceding PACS to commercial banks need not be extended, but may be continued wherever it has worked well. The functional co-operative should be permitted to seek credit facilities from commercial banks. The Committee has recognised RRBs as the suitable institutions to take banking to the rural households and ensure more effective supervision over the end-use of loans. Preference should be shown to RRBs in regard to licensing of branches in rural areas, and the sponsor commercial banks should be encouraged to transfer the eligible business of their rural branches to RRBs, wherever possible.

The sponsor banks themselves may draw up a programme for transfer of business on a mutually agreed basis to enable the RBI to take necessary steps to facilitate the transfer. The RRBs should continue to concentrate to cater to the credit needs of the target groups.

These recommendations are under consideration at the highest level in the Government and the Bank.

(*b*) *Study Teams on Agricultural Credit Institutions in Jammu & Kashmir/Himachal Pradesh/Orissa/Karnataka/Manipur*

The reports of the Study Teams on Agricultural Credit Institutions in Jammu & Kashmir and Himachal Pradesh, contain recommendations covering, inter-alia, reorganisation of the PACS in the States on viable basis, rehabilitation of non-wilful defaulters, etc. These recommendations have, by and large, been accepted by the RBI and have already been forwarded to the concerned State Governments for implementation. The Study Team on Agricultural Credit Institutions in Orissa finalised its report in July 1981.

A Study Team has been constituted by the RBI to examine the factors inhibiting the growth of co-operative credit institutions in Karnataka and to suggest measures to bring about the desired improvement in their working so as to enable them to lend adequate support to agricultural programmes in the State. The Team has been asked to assess the financial position and operational efficiency of State and Central Co-operative Banks, to suggest measures for resource mobilisation and effective programme for reorganisation and rehabilitation of the above banks. A study Team on Agricultural Credit Institutions in Manipur

has also been set up by the RBI in June 1981 to undertake an indepth study of the working of the agricultural credit sector in Manipur with a view to suggesting remedial measures.

(*c*) *Working Group on Institutional Credit Arrangements for Jute Growers*

In December 1980, the RBI constituted a Working Group to assess the credit requirements of jute growers and to prepare a comprehensive time-bound programme for provision of institutional credit to such growers. The Working Group would assess total credit requirements of jute growers for the next five years and suggest a programme for introduction of institutional credit, measures for effectively linking co-operative credit and co-operative marketing structure and steps for providing crop insurance cover to jute growers. It would also examine the feasibility of providing such credit to poor jute growers under the Differential Rate of Interest (DRI) Scheme.

(*d*) *Study Group on Deployment of Resources by State and Central Co-operative Banks*

A Study Group was constituted by the RBI in March 1981 to identify the problem of surplus resources of SCBs and CCBs and to find avenues for profitable investment thereof. The Group was asked to quantify the extent of the problem, to determine its nature, pattern and duration and make an estimate of such resources during the Sixth Plan period and to identify the causes and examine the effects of this growing problem in relation to interest rates structure and the concessional refinance facilities available from the RBI. The Group submitted its Report in August 1981, and the same is under examination by the Bank.

VIII. Agricultural Refinance and Development Corporation

As an apex development bank for agriculture, the ARDC continued to play an active role in promoting viable investments in agriculture and allied activities in different States for a variety of purposes. It stepped up its level of operations with the main policy aims of *i*) extending major benefit of its activities to small farmers *ii*) reduction in regional imbalances in agricultural investment and *iii*) diversification of investment activity.

(1) *Volume of Operations*

During 1980-81, the number of schemes sanctioned was 4,494 involving commitment of funds for Rs. 819 crores as compared with 3,657 schemes and Rs. 757 crores in the previous year. The Corporation's disbursements of refinance during the year aggregated Rs. 499 crores as against Rs. 412 crores in 1979-80.

As on June 30, 1981 the ARDC sanctioned in all 16,574 schemes with aggregate commitments of Rs. 3,860 crores and total disbursement of Rs. 2,223 crores.

(2) *Agency-wise Sanctions/Disbursements*

Agency-wise, the share of disbursement through the SLDBs which had gradually declined from 91 per cent in 1972-73 to 40 per cent in 1979-80, rose to 42 per cent in 1980-81 and thus marked the reversal of the declining trend. The shares of SCBs and RRBs remained unchanged at the previous year negligible levels of 2 per cent each, and the share of disbursements through commercial banks which had been growing over the years declined from 56 per cent in 1979-80 to 54 per cent in 1980-81. (Table VI-41).

(3) *Diversification of Schemes*

Minor irrigation continued to be the largest single purpose accounting for 53 per cent (Rs. 434 crores) of the Corporation's total commitments of Rs. 819 crores as on end-June 1981 (Table VI-42). The number of schemes sanctioned for purposes other than minor irrigation@ during 1980-81 stood at 2,483 with commitments of Rs. 385 crores as against 2,298 schemes and Rs. 376 crores, during 1979-80. Their share accounted for 55 per cent of the schemes sanctioned and 47 per cent of the aggregate commitments during the year as compared to 63 per cent and 50 per cent, respectively, in 1979-80.

@ Such as plantation/horticulture, storage/market yards, farm mechanisation, poultry, sheep-breeding, etc.

Table VI.41: Agency-wise Sanctions by the ARDC during 1979-80 and 1980-81
(July-June)

(Rupees Crores)

Agency	Number of Schemes*		Financial Assistance		ARDC Commitments		Disbursements by ARDC	
	1979-80	1980-81	1979-80	1980-81	1979-80	1980-81	1979-80	1980-81
1. State Land Development Banks	919	1,346	385	366	308	316	164	212
2. Scheduled Commercial Banks †	2,637	3,076	509	629	428	485	239	278
3. State Co-operative Banks	101	72	24	20	21	18	9	9
Total	**3,657**	**4,494**	**918**	**1,015**	**757**	**819**	**412**	**499**

*Excludes IRDP Banking Plans.
† Includes Regional Rural Banks.

Table VI. 42 : Purpose-wise Sanctions and Disbursements by the ARDC during 1979-80 and 1980-81
(July-June)

(Rupees Crores)

Purpose	During 1979-80			During 1980-81			Cumulative position as on 30-6-81		
	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	1,359	381	227	2,011	434	265	7,031	2,324	1,394
Land Development/CAD ..	143	29	10	93	26	13	698	191	79
Farm Mechanisation ..	520	119	92	536	107	110	2,332	479	389
Plantation/Horticulture ..	376	65	21	370	48	24	1,505	256	86
Poultry/Sheep breeding/Piggery	355	17	11	486	28	14	1,118	64	33
Fisheries	139	13	10	171	16	10	741	73	42
Dairy Development ..	373	24	10	378	28	11	1,382	107	42
Storage/Market yards ..	215	29	15	126	24	16	1,149	162	122
Others	177	80	16	323	108	36	618	204	36
Total	**3,657**	**757**	**412**	**4,494**	**819**	**499**	**16,574**	**3,860**	**2,223@**

£ Excludes IRDP Banking Plans.
* Excluding schemes sanctioned and withdrawn during the same year.
@ Excludes short-term disbursements under ICDP and interim finance.
CAD = Command Area Development.

(4) *Reduction in Regional Imbalances*

As mentioned in the last year's Report, the ARDC has reckoned the States of Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, West Bengal, Assam and other North-Eastern States together with Rajasthan, Jammu and Kashmir and Himachal Pradesh in the North as less developed and/or under banked States in the country. The Corporation concentrated its efforts on developing and promoting agricultural investment in these areas, with the result that the volume of disbursements to less developed States increased by Rs. 28 crores during 1980-81. Out of Rs. 499 crores disbursed during the year, Rs. 192 crores were absorbed by the less developed States, as against Rs. 164 crores out of the total disbursement of Rs. 412 crores in 1979-80 (July-June). Measured in terms of percentage share in total disbursements, however, the less-developed States received 39 per cent of disbursal during the year as against 40 per cent in 1979-80.

The cumulative position of schemes sanctioned to less developed States stood at 7,448 with commitments of Rs. 1,781 crores or 46 per cent of the total, and disbursements of Rs. 875 crores. Of the total disbursal (Rs. 499 crores) by the ARDC during the year, Uttar Pradesh, among States, availed of the largest share of refinance (Rs. 72 crores), closely followed by Andhra Pradesh (Rs. 71 crores), Punjab (Rs. 68 crores), Maharashtra (Rs. 52 crores) and Haryana (Rs. 49 crores).

Region-wise, the share of the Northern region in the total disbursements during the year at 28 per cent was marginally higher than that of 27 per cent during the previous year. As regards Southern, Western, Central and North-Eastern regions their shares at 23 per cent, 15 per cent, 22 per cent and one per cent, respectively, remained the same as in the previous year. The share of Eastern region at 11 per cent had registered a marginal decline of one per cent from that during the previous year. (Table VI-43).

(5) *Small Farmers*

The Corporation's efforts to benefit the maximum number of small farmers@ under its schemes continued during the year. Thus even under upward revision of interest rates, under the ARDC schemes from March 1981 the ARDC continued the facility of concessional rate of interest of 10.25 per cent to small farmers, as against 12.50 per cent to others. With the intensive efforts made by the ARDC, the share of small farmers in ARDC's disbursements increased from 35 per cent in 1975-76 to 58 per cent in 1979-80 and further to 60 per cent in 1980-81. A project for development of rubber plantation by small farmers in the State of Tripura was sanctioned in September 1980. Besides, a project for development of coffee plantation by small coffee growers in Kerala and Karnataka has also been approved in January 1981.

The IRDP launched in 1978-79 with a view to assisting small and marginal farmers, share croppers, agricultural labourers, scheduled castes and scheduled tribes was extended by the Government of India to all the 5,004 blocks in the country in October 1980. The ARDC is actively involved in formulation of banking plans under this programme. During the year, 116 banking plans covering 867 blocks involving commitments of Rs. 86 crores were

Table VI. 43 : Region-wise Disbursements

(Rupees Crores)

Region@	During 1979-80	During 1980-81
Northern	110 (26.7)	139 (27.8)
North-Eastern	3 (0.7)	6 (1.2)
Eastern	48 (11.6)	54 (10.9)
Central	93 (22.6)	111 (22.1)
Western	63 (15.3)	73 (14.7)
Southern	95 (23.1)	116 (23.3)
Total	**412 (100.0)**	**499 (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.

@ According to the ARDC, a farmer cultivating land providing pre-developmental net return not exceeding Rs. 2,000/- per annum at 1972 prices, is classified as a small farmer. The equivalent of the above amount based on 1979-80 prices is now worked out at Rs. 3,500/- per annum. Similarly the income ceiling for the medium farmer is revised from Rs. 3,500/-to Rs. 6,100/-.

sanctioned by the Corporation, thus bringing the cumulative position of blocks with approved banking plans to 1,538 with commitments and disbursements to Rs. 146 crores and Rs. 17 crores, respectively. The poor drawals were due to the delay on the part of banks in claiming reimbursement, procedural delays in release of subsidy by the State Governments and disbursements of loans under the DRI scheme being not eligible for refinance from the ARDC.

(6) *Policy Decisions*

The principal policy decisions of ARDC during the year related to stipulation of interest rates, extension of maturity period of loans for pumpsets and recognition for refinance to new type of bio-gas plants.

(*i*) With the revision of general interest rate structure by the RBI, the rates of interest charged to the ultimate borrowers under ARDC schemes were further revised effective from March 2, 1981 (Table VI-44).

Table-VI. 44 : Changes in Interest Rates to be Charged to Ultimate Borrowers under ARDC Schemes

(Per cent per annum)

Purpose	Rates with effect from		
	15-3-1979	1-7-1980	2-3-1981
1. Minor Irrigation and Land Development	9.50	10.25	10.25
2. **Diversified Purposes**			
(a) Small Farmers	9.50	10.25	10.25
(b) Others ..	10.50	11.35	12.50

However, the interest rate on ARDC refinance to the financing institutions remained unchanged.

(*ii*) The ARDC decided to extend the maturity period of loans for pumpsets from seven years to nine years for all types of farmers.

(*iii*) The ARDC agreed in principle to refinance, subject to certain terms and conditions, the banks in respect of loans issued by them for replacement of major parts/components or additions of equipment to mechanised fishing vessels, lift irrigation units, milk processing plants, etc. so as to save on capital costs and ensure better utilisation of the existing assets.

(*iv*) The ARDC decided to extend its refinance facilities for implementation of Janata type biogas (gobar gas) plants, subject to certain terms and conditions, in addition to the existing Khadi and Village Industries Commission type gobar gas plants.

(7) *IDA/IBRD Credit*

The Multi-State Cashew Project covering Andhra Pradesh, Karnataka, Kerala and Orissa and the Sericulture Project in Karnataka approved by the IDA last year involving total credit of $22 million and $54 million became effective from September 1980 and December 1980, respectively. The progress of the Third ARDC Credit Project launched in January 1980 (to be completed in December 1981) has been satisfactory and upto the end of June 1981 ARDC's disbursements under this project amounted to Rs. 377 crores and qualified for a drawal of about $ 219 million.

Also, during the year, development of the Sunderban Development Project involving assistance equivalent to SDR 13.35 million was sanctioned by IFAD out of which assistance equivalent to SDR 0.99 million is to be routed through ARDC. In all, 40 projects have been sanctioned by the World Bank Group involving total credit of $1,200 million to be routed through ARDC. Of these, 16 projects have been fully implemented so far. With the successful implementation of number of World Bank/ IDA Projects by the Corporation, various countries/aid agencies have extended/ have agreed to extend financial support to the ARDC for its lending programmes. During the year, agreements were signed with the USAID, U.K., KFW, CIDA and Netherlands to avail credit equivalent of $158 million. Under the on-going credits, amounts equivalent to $ 166.5 million have been utilised during the year.

IFAD: International Fund for Agricultural Development.
USAID : United States Agency for International Development.
KFW : Kreditanstalt Fur Wiederaufbau.
CIDA : Canadian International Development Agency.

IX. Central/State Governments and Co-operative Credit

CENTRAL SECTOR AND CENTRALLY SPONSORED SCHEMES

(a) Agricultural Credit Stabilisation Fund

The 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. During 1981-82, Rs. 9 crores are provided in the budget as against Rs. 8.4 crores for 1980-81.

(b) Risk Fund for Consumption Credit

The institutional agencies provide consumption credit particularly to those with less than 0.5 hectare of land. The Government of India had initiated the scheme for providing Risk Fund for Consumption Credit given to this category of borrowers and 10 per cent of the actual advance on 50:50 basis with State Governments. During 1979-80, Government of India released Rs. 22 lakhs as grants towards risk fund in 9 States@ against the budget provision of Rs. 30 lakhs. For 1980-81, a provision of Rs. 35 lakhs was made.

(c) Assistance to the Cadre Fund of the Reorganised Base Level Credit Institution

The Government of India had initiated a scheme to reimburse 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. This was done with a view to expediting the process of re-organisation at base level credit institutions, particularly through appointment of full-time paid trained secretaries at reasonable scales of pay. As against the budget provision of Rs. 1.5 crores during 1980-81, Rs. 2.0 crores were provided for 1981-82.

@ Gujarat, Haryana, Uttar Pradesh, Tamil Nadu, Maharashtra, Karnataka, Madhya Pradesh, Andhra Pradesh and Kerala.

(d) Writing off of Agricultural Loans by State Governments

A disturbing development during the period relates to the measures contemplated by some of the State Governments (*viz.*, Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, Rajasthan and Pondicherry) to write off dues of small farmer defaulters of co-operative societies with a view to providing fresh finance to them.

Wholesale write off of dues was granted to small farmers in Maharashtra, while in Tamil Nadu the write off was confined to overdues under conversion/rephased loans. The Governments of Maharashtra and Tamil Nadu had initially sanctioned subsidies amounting toRs. 52 crores and Rs. 42 crores, respectively, for this purpose. Governments of Rajasthan, Karnataka, Pondicherry and Andhra Pradesh have contemplated relief to small farmer defaulters by way of rescheduling their dues. Governments of Kerala and West Bengal have taken steps to waive interest dues from small farmers.

X. Other Institutions in the Field of Rural Credit

National Co-operative Development Corporation

During the year ended March 1981, the activities of the National Co-operative Development Corporation (NCDC) in planning and promotion of programme for production, processing, marketing, storage, export and import of agricultural produce, on co-operative principles, recorded further progress. The financial assistance disbursed by the NCDC during the year aggregated Rs. 65 crores, representing an increase of 19.2 per cent over the disbursements during the preceding year. Out of Rs. 65 crores of assistance, Rs. 26 crores were disbursed under Central Schemes and Rs. 39 crores under Corporation Sponsored Schemes, as against Rs. 23 crores and Rs. 32 crores, respectively, during 1979-80. The purpose-wise break-up of the financial assistance disbursed by the NCDC during 1980-81 is given in Table VI-45.

The total financial assistance given by the NCDC since its establishment in 1962 till

Table VI.45 : NCDC's Financial Assistance Disbursed during 1980-81 — Purpose-wise

A. Central Schemes		B. Corporation Sponsored Schemes	
Purpose	Amount disbursed (Rs. crores)	Purpose	Amount disbursed (Rs. crores)
(a) Co-operative Storage with international aid	7	(a) Storage	11
		(b) Agro-processing	8
		(c) Weaker sections	7
(b) Co-operative Marketing, Processing and Storage programmes in under-developed States	6	(d) Agricultural marketing	6
		(e) Rural consumers activity	6
(c) Margin money assistance to village societies for distribution of consumer articles in rural areas	5	(f) Agro-services and promotional and development programmes	1
(d) Finance for co-operative sugar factories, co-operative spinning mills, NAFED, etc.	8		
Total	**26**	**Total**	**39**

1980-81 totalled Rs. 400 crores, of which Rs. 232 crores were outstanding on March 31, 1981.

Rural Electrification Corporation

The Rural Electrification Corporation (REC) made appreciable progress during the financial year 1980-81. The REC sanctioned 1,035 new projects during 1980-81 as compared to 776 projects during the previous year. Financial assistance sanctioned and disbursed during the year were higher at Rs. 263 crores and Rs. 184 crores than Rs. 211 crores and Rs. 167 crores, respectively, during 1979-80. Total financial assistance sanctioned and disbursed upto the end of March 1981 aggregated Rs. 1,491 crores and Rs. 1,025 crores, respectively. During the year under review, over 19,000 villages were electrified and 1.91 lakh agricultural pumpsets energised and these exceeded the targets fixed for both types of activities. During 1979-80, 13,000 villages were electrified and 1.48 lakh pumpsets energised. By end-March 1981, the number of new villages electrified by the REC aggregated 91,037 and the number of pumpsets energised under various projects of the corporation added up to 7.50 lakhs. During the Sixth Plan period (1980-81 to 1984-85), the REC is expected to achieve the targets of electrifying 98,270 villages and energising 7.09 lakh pumpsets.

The REC has decided to change the viability criteria from the existing norms to the economic rate of return criteria for different categories of schemes to be sanctioned by it. This change aims at improving the quality of project formulation and facilitating the effective implementation of the programme. During the year, REC issued guidelines to the State Electricity Boards (SEBs) regarding the discontinuance of the on-going schemes where progress could not be achieved as per the original targets envisaged in the project report, irrespective of the number of instalments drawn, including those where extension of scheme period was allowed. The SEBs were further advised to submit proposals for discontinuance of schemes where no load growth was possible.

The Corporation continued to give special attention to electrification of harijan bastis. Upto July 31, 1981, 307 harijan bastis schemes were sanctioned by the Corporation with a

total outlay of Rs. 13.8 crores covering 20,366 harijan bastis.

As regards the promotion and financing of rural electric co-operatives, the Corporation approved 6 schemes for a loan assistance of Rs. 10 crores covering 1,331 villages for rural electrification during 1980-81 (July-June).

Agricultural Finance Corporation

The major thrust of the Corporation's activities during the year 1980-81 was directed towards improving the conditions of the economically weaker sections of the rural community through adoption of schemes like command area development programme, integrated rural development programme, etc. During 1980-81, the Agricultural Finance Corporation (AFC) undertook 13 assignments for project preparation/appraisal involving a total outlay of Rs. 7,353 crores, the estimated loan amount being Rs. 432 crores. The number of schemes formulated/appraised by the AFC since inception till June 1981 was 1,063 involving loan requirements of Rs. 1,010 crores.

Of the 13 projects formulated/appraised during 1980-81, five were on-going projects in Karnataka, Kerala, Maharashtra and Rajasthan. The highest outlay was estimated for Tawa Command Area Development Project (Rs. 6,520 crores), followed by Chambal Command Area Development Project (Rs. 764 crores).

As regards the international assignments, the AFC secured a project preparation assignment in the field of livestock development from Sri Lanka during the year. The project, which will be funded by the Asian Development Bank, is expected to provide an organisational framework and training facilities for the improvement in cattle production and livestock development supporting facilities.

The AFC organised a Small-scale Agricultural Project Identification, Formulation and Evaluation Training Seminar at Manila, Philippines, under the aegis of the Asian and Pacific Regional Agricultural Credit Association of FAO.

Warehousing Corporations

During the year 1980-81 (April-March), the total number of warehouses managed by the Central Warehousing Corporation (CWC) increased by 27 to 319 with a capacity of 36.6 lakh metric tonnes from 292 with a capacity of 34.4 lakh metric tonnes as at the end of March 1980. Of the total capacity of 36.6 lakh metric tonnes at the end of March 1981, the Corporation's owned capacity was 21.7 lakh metric tonnes, the hired godowns and plinths accounting for 13.7 lakh metric tonnes and 1.2 lakh metric tonnes, respectively.

The Corporation proposes to construct an additional capacity of 20 lakh metric tonnes during the Sixth Five-Year Plan period. Out of this additional capacity, 3.75 lakh metric tonnes will be for the exclusive use of the Food Corporation of India under the All-India Grain Storage Project and the balance under the General Warehousing Programme. During 1980-81, a capacity of 1 lakh metric tonnes was achieved under the All-India Grain Storage Project as against the target of 1.50 lakh metric tonnes. On the other hand, the target of construction of 2 lakh metric tonnes of capacity under the General Warehousing Programme was more than fully achieved with the completion of 2.03 lakh metric tonnes of capacity during 1980-81.

The CWC offers a rebate of 10 per cent in storage charges to the co-operative societies and individual farmers to encourage them to utilise the storage facilities provided by it. During 1980-81, rebate at a lower rate was also allowed to bulk depositors of fertilisers. Besides, certain promotional rebates were allowed on business considerations for selected commodities/selected warehouses.

The Farmers Extension Service Scheme, introduced as a pilot project last year, is proposed to be extended in due course to practically all the warehouses, except in metropolitan cities and port towns.

State Warehousing Corporations

The total number of warehouses managed by the 16 State Warehousing Corporations (SWCs) during the year 1980-81 (April-March)

registered a fall of 270 to 1,474 from 1,744 at the end of March 1980. Capacity-wise, however, there was a marginal increase of 4 thousand metric tonnes to 49.22 lakh metric tonnes as compared with 49.18 lakh metric tonnes during the previous year. While the owned capacity of SWCs rose by 2.71 lakh metric tonnes, there was a decline of 2.67 lakh metric tonnes in their hired capacity.

The aggregate capacity (including godwons hired) of the CWC and the SWCs totalled 85.8 lakh metric tonnes at the end of March 1981 as against 83.6 lakh metric tonnes as at the end of March 1980.

The Sixth Five-Year Plan envisages construction by the SWCs of an additional capacity of 25 lakh metric tonnes.

ANNEXURE
SELECTIVE CREDIT CONTROL

SUMMARY OF THE PROVISIONS OF THE DIRECTIVES TO SCHEDULED COMMERCIAL BANKS ON ADVANCES AGAINST SELECTED COMMODITIES POSITION AS ON SEPTEMBER 19, 1981.

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. 85/C. 218-74 dated 11th September 1974. (ii) DBOD No. Dir. BC. 102/C. 218-75 dated 11th November 1975. (iii) DBOD No. Dir. BC. 106/C. 218-77 dated 20th August 1977. (iv) DBOD No. Dir. BC. 98/C. 218-79 dated 29th June 1979. (v) D.O. No. CPC. 250/C. 279-79 dated 7th August 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. (viii) DBOD. No. Dir. BC. 32/C. 96-81 dated 28th February 1981. (ix) DBOD No. Dir. BC. 50/C. 96-81 dated 2nd May 1981.	**Paddy/Rice** (1) 45% on advances against stocks of paddy to processing units/mills. (2) 50% on advances against warehouse receipts covering stocks $ (3) 60% 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/mills. (3) 40% on advances to processing units against warehouse receipts covering stocks of pulses. (4) 50% on advances to parties other than processing units/mills against warehouse receipts covering stocks of pulses. **Other Foodgrains** (1) 45% on advances against stocks of foodgrains (used as raw materials) other than paddy and rice to foodgrain processing units/mills (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) 50% on advances against warehouse receipts covering stocks. (4) 60% on all other advances. **Small Advances up to Rs. 5000/- against rural warehouse receipts.** Fixed margin of 30% covering stocks of pulses, paddy and other foodgrains. **Exemptions** (i) Advances to manufacturing units and other borrowers, wholly or partly against the security of	19.50% 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 charge interest at 13.50% per annum	(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) Additional limit for new branches: Combined limit for advances against any one or both the groups of foodgrains stated above for each new branch opened on or after 1-1-1970 at a centre with a population of 1 lakh or below for granting advances upto Rs. 1 lakh per branch to **new parties.** **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.	**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' Cooperative 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.

(x)	DBOD No. Dir. BC. 59/C. 96-81 dated 19th May 1981.	foodgrains which are covered by a guarantee scheme of the Deposit Insurance and Credit Guarantee Corporation (DICGC) subject to a maximum of Rs. 50,000/- for each such manufacturing unit/ borrower provided it/he undertakes tc borrow against foodgrains from only one bank.
(xi)	DBOD No. Dir. BC. 60/C. 96-81 dated 19th May 1981.	
(xii)	DBOD No. Dir. BC. 88/C. 218(a)-81 dated 13th July 1981.	(ii) Advances to traders wholly or partly against the security of foodgrains which are covered by a guarantee scheme of the DICGC, subject to maximum of Rs. 50,000 for each such trader, provided he undertakes to borrow against foodgrains from only one bank.
(xiii)	DBOD No. Dir. BC. 98/C. 218(a)-81 dated 10th August 1981.	
(xiv)	DBOD No. Dir. BC. 100/C. 218-81 dated 10th August 1981.	

(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 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, up to Rs. 50,000/- per unit.

(ix) Advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of foodgrains.

(x) Advances against high-yielding/ hybrid seeds produced under contract with the National Seeds Corporation Ltd., Delhi or a State Government or which bear the certification of the said Corporation or, as the case may be, the concerned State Government, or of any certification agencies authorised under the Seeds Act, 1966 and seeds notified under Section 5 of the said Act.

(xi) Advances directly granted to farmers and to primary co-operative societies for extending credit to their cultivator-members against foodgrains which represent an extension of advances granted earlier against the standing crop for a period of three months from the date of harvesting the said crop, provided that the amount of each of such credit limit does not exceed Rs. 2,500/-per farmer or the amount of the crop loan outstanding, 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 there against in respect of export of rice and other foodgrains.

Note: 1. No new/additional credit limits should be given to traders/manufacturers against sensitive commodities, particularly foodgrains, sugar, oilseeds, vegetable oils and other similar commodities where speculative tendencies are clearly in evidence.

2. 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.

3. No bank shall issue, either to a court or to Government or any other person, a guarantee on behalf of, or on account of, any importers, guaranteeing payment of customs duty and/or import duty or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin equivalent to at least *one half of the amount payable* under the guarantee.

4. The term essential commodities shall mean and include edible oils, sugar and such other commodities as may be specified by the Reserve Bank from time to time.

5. Banks are advised not to allow to customers dealing in commodities covered by Selective Credit Control any credit facilities which would directly or indirectly defeat the purpose of the directives.

* No bank shall advance against the security of any of the foodgrains where a ban on trading nas 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.

£ Complete exemption refers to exemption from all the stipulations of Selective Credit Control.

$ Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns set up under a Government Scheme. The concessional treatment accorded to the advances against rural warehouse receipts is subject to the rural godowns being staffed with trained personnel and maintained to the standards of the godowns of the Central/State Warehousing Corporations.

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.85/C. 218-74 dated 11th September 1974. (ii) DBOD. No. Dir. BC.63/C.218 (H)-76/77 dated 31st May 1977. (iii) DO. No. CPC 250/C. 279-79 dated 7th August 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. (vi) DBOD. No. Dir. BC.32/C. 96-81 dated 28th February 1981. (vii) DBOD. No. Dir. BC.50/C. 96-81 dated 2nd May 1981. (viii) DBOD. No. Dir. BC. 59/C. 96-81 dated 19th May 1981. (ix) DBOD. No. Dir. BC. 60/C.218-81 dated 19th May 1981. (x) DBOD. No. Dir. BC. 100/C. 218-81 dated 10th August 1981.	**Indigenous and Imported Oilseeds,** i.e., **groundnut, cottonseed, rapeseed/mustardseed, castorseed and linseed and all other imported oilseeds,** i.e. 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. 45% on advances against stocks of cottonseed equivalent to two months' consumption of each oil mill. 6. 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.	19.50% 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 charge interest at 13.50% per annum.	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. **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 security of oilseeds, which are covered by the guarantee scheme of DICGC subject to a maximum of Rs. 25,000/- 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.	**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 that such advances to the extent of

(xi) DBOD. No. Dir. BC.113/C.218 (H)-81 dated 9th September 1981.	**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 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.** (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.
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.

* 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 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. 85/C. 218-74 dated 11th September 1974. (ii) DBOD No. Dir. BC. 63/C. 218 (H)-77 dated 31st May 1977. (iii) DO. No. CPC. 250/C. 279-79 dated 7th August 1979. (iv) DBOD No. Dir. BC. 32/C. 96-81 dated 28th February 1981. (v) DBOD No. Dir. BC. 59/C. 96-81 dated 19th May 1981. (vi) DBOD No. Dir. BC. 60/C. 218-81 dated 19th May 1981. (vii) DBOD No. Dir. BC. 100/C. 218-81 dated 10th August 1981. (viii) DBOD No. Dir. BC. 117/C. 218-81 dated 17th September 1981.	**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 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' consumption of each factory located in Eastern Zone.	19.50% per annum to all parties on loans/ advances/cash credits/ overdrafts against groundnut oil, cottonseed oil, rapeseed/mustard oil, castor oil, linseed oil and vanaspati.	In respect of each party, 100% of the peak level of the credit maintained by the party in any of the three years (November-October), viz., 1975-76, 1974-75 and 1973-74. **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 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 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.	**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 into or to be entered into with the said Organisation by the said manufacturers.

(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 material equivalent to 4 weeks' consumption of each factory in Southern and Western Zones.

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

For New Vanaspati Factories
The basis is the average actual weekly consumption from the date of establishment, and

For Vanaspati Units likely to Start Production in Future
The margin is to be related to 4 to 6 weeks' requirement (as 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

(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 deoiled and/or defatted 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 materials 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 advances 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 the Rural Industries Projects up to Rs. 25,000/- per unit.

C. VEGETABLE OILS (INDIGENOUS AND IMPORTED GROUNDNUT OIL, COTTONSEED OIL, RAPESEED/MUSTARD OIL, CASTOR OIL, LINSEED OIL, VANASPATI AND OTHER IMPORTED OILS) (*Concld*).

No. of 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.			(x) Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.
	(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.			
	(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 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.	Advances granted to vanaspati manufacturers against the security of imported oils used as raw materials by them in the manufacture of vanaspati.			

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.

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. 85/C. 218-74 dated 11th September 1974. (ii) DBOD No. Dir. BC. 47/C. 218 (F) 79 dated 29th March 1979. (iii) DBOD No. Dir. BC. 48/C. 218 (F) 79 dated 29th March 1979. (iv) D.O. No. CPC 250/C. 279-79 dated 7th August 1979. (v) DBOD No. Dir. BC. 58/C. 218 (a)-80 dated 11th June 1980. (vi) DBOD No. Dir. BC.92/C. 218 (a)-80 dated 6th August 1980. (vii) DBOD No. Dir. BC. 32/C. 96-81 dated 28th February 1981. (viii) DBOD No. Dir. BC. 50/C. 96-81 dated 2nd May 1981. (ix) DBOD No. Dir. BC. 59/C. 96-81 dated 19th May 1981. (x) DBOD No. Dir. BC. 60/C. 218-81 dated 19th May 1981.	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. **For Mills in Bombay and Ahmedabad.** (a) 25% for stocks of 3 months' consumption. (b) 45% for stocks in excess of 3 months' consumption. 3. **For Mills in Bihar and West Bengal** (a) 20% for stocks of 4½ months' consumption. (b) 40% for stocks in excess of 4½ months' consumption. 4. **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 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,	On loans/advances/ cash credits/overdrafts 19.50% per annum for all parties On advances against rural warehouse receipts up to Rs. 5000/- banks are advised to charge interest at 13.50% per annum.	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. **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 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.	**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.

(xi) DBOD No. Dir. BC. 96/C. 218 (F)-81 dated 29th July 1981.

(xii) DBOD No. Dir. BC. 100/C. 218-81 dated 10th August 1981.

Hampi, Varalaxmi, Maljhari, Narmada A-51/9, Khandwa-1 and 2, Suvin, Vishnu and Badnavar-1, 320 F, Bengal Deshi, J-34, 205 and H-14, Bikaneri-Narma, R.S. 89, Jawahar Kapas, Sujay, SRT-1, Jyoti, 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. 5,000 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 its authorised agencies, against stocks equivalent to 4½ months' consumption of each mill.

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

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. 85/C. 218-74 dated 11th September 1974. (ii) DBOD No. Dir. BC.105/C.218 (J)-75 dated 11th November 1975. (iii) DBOD. No. Dir. BC.33/C.218 (J)- 78 dated 3rd March 1978. (iv) DBOD. No. Dir. BC.142/C.218 (J)- 78 dated 14th October 1978. (v) DBOD No. Dir. BC. 99/C.218 (J)-79 dated 29th June 1979. (vi) D.O. No. CPC.250/C.279-79 dated 7th August 1979. (vii) DBOD. No. Dir. BC.33/C.218 (J)-80 dated 1st March 1980. (viii) DBOD. No. Dir. BC. 116/C.218 (J)-80 dated 13th October 1980. (ix) DBOD. No. Dir. BC.32/C. 96-81 dated 28th February 1981. (x) DBOD. No. Dir. BC. 59/C. 96-81 dated 19th May 1981. (xi) DBOD. No. Dir. BC. 60/C. 218-81 dated 19th May 1981. (xii) DBOD. No. Dir. BC. 100/C. 218-81 dated 10th August 1981.	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, 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	On loans/advances/cash credits/overdrafts. **Sugar** (i) **For Sugar Factories in respect of All Stocks:** 17.50% to 19.50% per annum. (ii) **For Parties Other than Sugar Factories:** 19.50% per annum. **Gur and Khandsari** 19.50% 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. (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.

(xiii) DBOD. No. Dir. BC. 117/C. 218-81 dated 17th September 1981.

(xiv) ICD No. CAD. Dir. 3/C. 446 (H)-81 dated 19th September 1981.

of sugar produced during 1980-81 season 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 up to 4 lakh tonnes of levy-free sugar as levy sugar out of the current season's production, for public distribution during the months of October and November 1981 and

(ii) consequential irregularity in the borrowal accounts of sugar mills due to difference in valuation of sugar stocks at tariff/market 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 January 1982.

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).

E. 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. 85/C. 218-74 dated 11th September 1974. (ii) DBOD. No. Dir. BC. 106/C. 218 (T)- 75 dated 11th November 1975. (iii) DBOD. No. Dir. BC. 32/C. 218 (T)-76 dated 15th March 1976. (iv) DBOD. No. Dir. BC. 33/C. 218 (T)-76 dated 15th March 1976. (v) D.O. No. CPC. 250/C. 279-79 dated 7th August 1979. (vi) DBOD. No. Dir. BC. 32/C. 96-81 dated 28th February 1981. (vii) DBOD. No. Dir. BC. 59/C. 96-81 dated 19th May 1981. (viii) DBOD. No. Dir. BC. 60/C. 218-81 dated 19th May 1981. (ix) DBOD. No. Dir. BC. 100/C. 218-81 dated 10th August 1981.	**For Traders, Dealers and Agents 30%**	19.50% 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.

Banks may discount bills of exchange arising out of sale of cotton textiles having a usance not in excess of sixty days. These usance bills may be drawn by textile mills, powerloom units and other manufacturers like master weavers as well as by dealers and traders.

Chapter VII

Fiscal Developments*

In the first two Sections of this Chapter, the budgetary position of the Central and State Governments is reviewed. Finances of Railways and the Posts and Telegraphs Departments are analysed in Sections III and IV, respectively. The last Section deals with Public Debt.

I. Combined Position of Central and State Governments

The overall fiscal policy pursued by the Central Government during 1980-81 was formulated against the background of a difficult economic situation in 1979-80. The fiscal policy of the Central Government for 1980-81, therefore, sought to devise ways and means to arrest the deterioration in the economic situation and set the economy on the path of stability and growth. It was considered necessary to restrain the price rise through increase in aggregate supply and moderation of aggregate demand, to remove infrastructural constraints and to enlarge available facilities through investment, wherever necessary. Although immediate problems of economic management influenced the formulation of the budgetary policy, the need to build up the growth potential of the economy over the medium term also received due emphasis.

The total Annual Plan outlay of the Centre, States, Union territories, and the schemes of the North Eastern Council was stepped up by Rs. 2,508 crores or 19.9 per cent to Rs. 15,109 crores in 1980-81, as compared with the outlay of Rs. 12,601 crores in 1979-80. Annual Plan total outlay in 1980-81 formed about 15.5 per cent of the total projected public sector plan outlay during the Sixth Five Year Plan, The fiscal measures sought to reduce inessential expenditure, to divert resources towards increasing the production potential of the economy and to maximise the revenue potential of the tax system. It was recognised that the scope for additional resource mobilisation through taxation was somewhat limited in view of the slackening of the pace of growth of the economy and the heavy burden imposed by large oil price increases. Hence, greater reliance was placed on borrowings, both internal and external, for mobilising additional resources and containing liquidity pressures.

The combined budgetary deficit[1] of the Central and State Governments, according to the revised estimates for 1980-81, at Rs. 2,520 crores [2] was lower by Rs. 100 crores than the deficit of Rs. 2,620 crores recorded in 1979-80.

Net Reserve Bank credit to the Centre and States increased by Rs. 4,038 crores in 1980-81 as compared with an increase of Rs. 2,989 crores in 1979-80. Net RBI credit to the Central Government rose by Rs. 3,551 crores as compared with an increase of Rs. 2,650 crores in 1979-80. The amount of such credit to States rose by Rs. 487 crores in 1980-81 as compared with an increase of Rs. 339 crores in 1979-80 (Table VII-1).

The combined aggregate receipts of the Central and State Governments, according to the revised estimates for 1980-81,increased by Rs. 6,632 crores (or 22.8 per cent) over the preceding year to Rs. 35,682 crores (Table VII-2). Such receipts formed 27.2 per cent of the

*Figures in this Chapter relate to fiscal years (April-March).

1. Budgetary deficit or surplus is measured (A) in the case of the Central Government by (*i*) net increase/decrease in outstanding treasury bills and (*ii*) withdrawal from/addition to cash balances and (B) in the case of States by the State Budget figures of (*i*) net increase/decrease in R.B.I. credit in the form of ways and means advances and overdrafts (repayable within 7 working days with effect from May 1, 1972), (*ii*) decline in/addition to cash balances, (*iii*) net sales/purchases of securities held by States in their cash balance investment accounts and (*iv*) encashment of/investment in securities held in revenue reserve fund.

2. According to the books of the Reserve Bank of India, the combined deficit for 1980-81 amounts to Rs. 3,326 crores—Rs. 2,444 crores on Centre's account and Rs. 882 crores on account of the States. 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

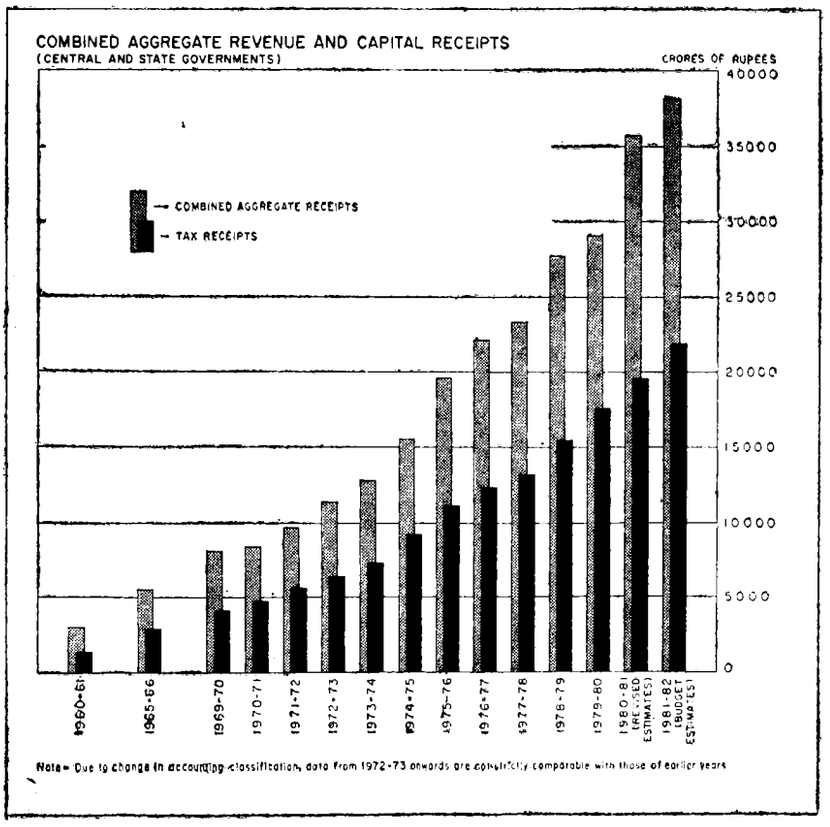
(Rs. crores)

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	—2433	—187	—2620	2650	339	2989
1980-81 (Revised Estimates) ..	—1975	—545	—2520	3551	487	4038

(*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.

Gross Domestic Product at current market prices in 1980-81, as compared with 26.7 per cent in the preceding year. Revenue receipts showed a rise of 12.7 per cent in 1980-81 (revised estimates). On the other hand, capital receipts recorded an increase of 55.6 per cent.



Aggregate tax receipts increased by 10.8 per cent in 1980-81 and their proportion to Gross Domestic Product at current market prices at 14.9 per cent was lower than the tax GDP ratio of 16.3 per cent in 1979-80. Receipts from taxes on commodities and services recorded a growth rate of 11.0 per cent, *i.e.*, slightly higher than that (10.2 per cent) in the receipts from taxes on income and property. Among capital receipts, receipts from market borrowings (net of repayments) were higher by Rs. 661 crores (30.9 per cent). Receipts from small savings (net) recorded a small decline of 0.5 per cent, while those from State provident funds (net) rose by Rs. 78 crores (15.6 per cent).

The combined aggregate receipts in 1981-82 are budgeted to increase by Rs. 2,338 crores (or 6.6 per cent) over the revised estimates for 1980-81. Revenue receipts are anticipated to rise by 10.8 per cent, while capital receipts are expected to decline by 3.4 per cent in contrast to a substantial rise of 55.6 per cent in the preceding year. Tax receipts are budgeted to rise by 12.5 per cent as compared with the increase of 10.8 per cent in the preceding year.

Aggregate combined disbursements of the Centre and States, at Rs. 38,202 crores in 1980-81, were higher by Rs. 6,532 crores (or 20.6 per cent) than in the preceding year. Such disbursements formed 29.1 per cent of Gross Domestic Product at current market prices in 1980-81 as compared with 29.2 per cent in the preceding year. According to the budget estimates for 1981-82, combined disbursements are anticipated to rise by Rs. 1,681 crores (or 4.3 per cent) to Rs. 39,883 crores over the revised estimates for 1980-81. During 1981-82, non-developmental expenditure is budgeted to increase at a higher rate (7.5 per cent) than developmental expenditure (4.3 per cent).

Budgetary Operations of the Central Government

Central Finances : 1980-81

The budgetary deficit of the Central Government, according to the revised estimates for 1980-81, is placed at Rs. 1,975 crores which is lower by Rs. 458 crores than the deficit of Rs. 2,433 crores in 1979-80.

Aggregate disbursements during 1980-81 at Rs. 24,980 crores were higher by Rs. 5,082 crores (or 25.5 per cent) than in the preceding year. Expenditure on revenue account showed a rise of Rs. 2,586 crores while that on capital account increased by Rs. 2,496 crores.

The increase in expenditure on revenue account is attributed mainly to a substantial rise in non-developmental expenditure amounting to Rs. 1,985 crores. Developmental expenditure, on the other hand, showed a smaller rise of Rs. 602 crores. Under non-developmental expenditure, interest payments recorded a rise of Rs. 471 crores and defence expenditure (net) increased by Rs. 407 crores, while expenditure on currency, coinage, mint and other general services spurted by Rs. 976 crores. A substantial part of the increase under the latter head, however, was attributed to the accounting adjustment of Rs. 938 crores, for the write-off of loans advanced to State Governments prior to 1979-80 in pursuance of the recommendations of the Seventh Finance Commission. Under developmental expenditure, expenditure towards grants-in-aid to State and Union Territory Governments for developmental purposes was stepped up by Rs. 497 crores while that on social and community services by Rs. 130 crores.

Under capital account, while expenditure towards developmental capital outlay was marked up by Rs. 810 crores, the rise in non-developmental capital outlay was relatively small at Rs. 559 crores. Expenditure on 'economic services' accounted for the bulk of the rise in expenditure under developmental capital outlay (Rs. 729 crores). Under non-developmental capital outlay, a major part of the increase was due to the notional expenditure of Rs. 561 crores on account of subscription payable to the International Monetary Fund in the form of rupee securities and Special Drawing Rights.

Aggregate receipts at Rs. 23,005 crores were higher by Rs. 5,540 crores (or 31.7 per cent) in the revised estimates for 1980-81 as compared with Rs. 17,465 crores in 1979-80 (accounts). Revenue receipts showed a rise of Rs. 1,554 crores. On the other hand, capital receipts increased by Rs. 3,986 crores.

Table VII—2: Combined Receipts and Disbursements of Central and State Governments

(Rs. crores)

Items	1979-80 (Accounts)	1980-81 (Revised Estimates)		1981-82 (Budget Estimates)@	
	Amount	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
I. Total Disbursements	**31670**	**38202**	**+ 20.6**	**39883**	**+ 4.3**
Of which :					
1. Developmental (a+b+c)	20454$	24608	+ 20.3	25657	+ 4.3
(*a*) Revenue	11840	13946	+ 17.8	14882	+ 6.7
(*b*) Capital	4764	6049	+ 27.0	6863	+ 13.5
(*c*) Loans	3850	4613	+ 19.8	3912	— 15.2
2. Non-Developmental (a+b+c)	**9945**	**12147**	**+ 22.1**	**13058**	**+ 7.5**
(*a*) Revenue	9318	10919‡	+ 17.2	12230	+ 12.0
(*b*) Capital	350	939*	+168.3	508	— 45.9
(*c*) Loans	277	289	+ 4.3	320	+ 10.7
II. Total Receipts (A+B)	**29050**	**35682**	**+ 22.8**	**38020**	**+ 6.6**
A. Revenue Receipts	**22188**	**25006**	**+ 12.7**	**27709**	**+ 10.8**
Of which :					
Tax-Receipts (a+b)	17645	19552	+ 10.8	21997	+ 12.5
(*a*) Taxes on commodities and services	14187	15741	+ 11.0	17851	+ 13.4
(*b*) Taxes on income and property	3458	3811	+ 10.2	4146	+ 8.8
B. Capital Receipts	**6862**	**10676***	**+ 55.6**	**10311**	**— 3.4**
Of which :					
(*i*) Market Borrowings (Gross)	2543	3197	+ 25.7	3583	+ 12.1
Market Borrowings (Net)	2136	2797	+ 30.9	3122	+ 11.6
(*ii*) Small Savings	1105	1100	— 0.5	1250	+ 13.6
(*iii*) State Provident Funds (Net)	501	579	+ 15.6	593	+ 2.4
III. Overall Surplus(+)or Deficit(—) (II—I)	**—2620**	**—2520**		**—1863**	
Financing of Surplus (+) or Deficit (—)					
(*i*) Increase (+) or Decrease (—) in Cash balances of Centre and States	—62	—900		—319	
(*ii*) Increase(—) or Decrease(+) in Treasury Bills of Centre	—2638	—1472		—1539	
(*iii*) Withdrawals from (—) or additions to (+) Cash balance investment accounts and revenue reserve funds of States	+131	—141		—5	
(*iv*) Increase (—) or Decrease (+) in ways and means advances and overdrafts from the Reserve Bank of India to States	—51	—7		—	

@Including effects of budget proposals.

$ Since actuals are not available in respect of necessary items for working out developmental loans given by the Central Government, revised estimates are used.

* Includes contra-entries relating to receipt/expenditure of Rs. 561 crores on account of subscription payable to International Monetary Fund in the form of securities and special drawing rights.

‡ Excludes accounting adjustments relating to the write-off of Rs.938 crores of loans advanced to State Governments prior to 1979-80. These loans were written off by way of debt relief to the States in pursuance of the recommendations of the Seventh Finance Commission.

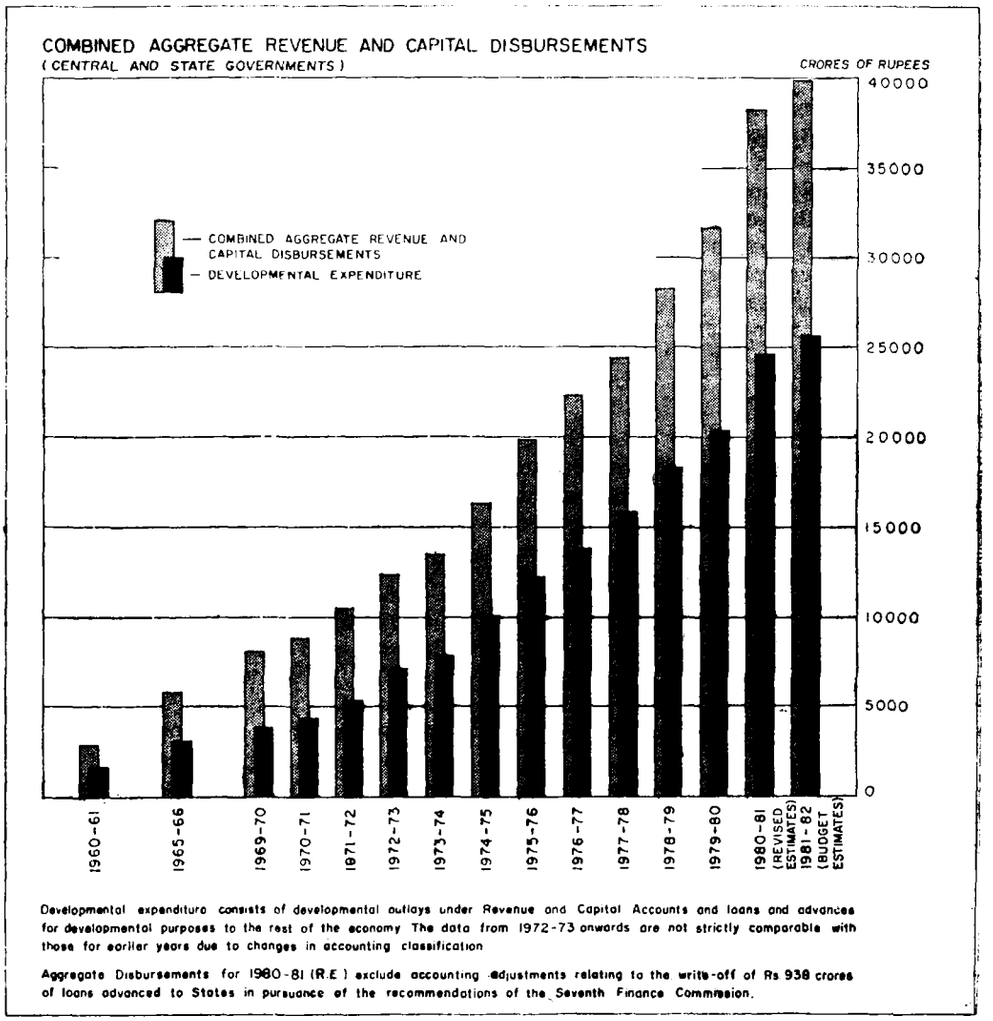
Notes: 1. Data do not cover Union Territories with legislatures.

2. Figures are adjusted for inter-governmental transfers on the basis of the data available in Central Government Budget.

3. 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—1980-81 due to revision in data.

Source : Budgets of Central and State Governments.



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 (R.E.) exclude accounting adjustments relating to the write-off of Rs 938 crores of loans advanced to States in pursuance of the recommendations of the Seventh Finance Commission.

Under revenue receipts, receipts from tax revenue showed a rise of Rs. 773 crores while those from non-tax revenue went up by a marginally higher amount of Rs. 781 crores. Under tax revenue, receipts from taxes on commodities and services accounted for a major part of the increase (Rs. 568 crores). Again, more than two thirds of this increase (Rs. 426 crores) originated from customs duties (net), while Union excise duties contributed Rs. 105 crores to the rise. Under non-tax revenue, interest receipts accounted for the major portion of the increase (Rs. 498 crores). Receipts from 'economic services' moved up by Rs. 83 crores, while cash grants from foreign countries and international organisations were marked up by Rs. 80 crores.

As regards the increase in capital receipts, a substantial part of the rise (Rs. 1,165 crores) was accounted for by recoveries of loans and advances. However, this figure includes accounting adjustments relating to the write-off of Rs. 938 crores of loans advanced to State Governments prior to 1979-80, in pursuance of the recommendations of the Seventh Finance Commission. Net receipts from internal market loans were higher by Rs. 652 crores. Capital receipts in 1980-81 also include borrowings from the I.M.F. Trust Fund amounting to Rs. 534 crores. Apart from this, net receipts from external loans rose by Rs. 235 crores. Besides, these receipts also include a notional receipt of Rs. 561 crores on account of subscription payable to the I.M.F. in the

form of rupee securities and Special Drawing Rights.

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 1980-81 (revised estimates) was placed at Rs. 22,575 crores showing an increase of Rs. 4,071 crores (or 22.0 per cent) over the preceding year (Table VII-3).

Economic Classification

A substantial portion of the increase in the total expenditure (78.8 per cent) was accounted for by financial resources provided to the rest of the economy. The share of such expenditure in the total expenditure moved up from 67.4 per cent in 1979-80 to 69.5 per cent in 1980-81. On the other hand, the share of final outlays in total expenditure declined from 32.6 per cent in 1979-80 to 30.5 per cent in 1980-81.

In absolute terms, the financial resources provided to the rest of the economy rose by Rs. 3,208 crores (or 25.7 per cent) to Rs. 15,682 crores in 1980-81. Component-wise, the resources provided for capital formation increased by Rs. 1,624 crores (or 28.5 per cent) over the year, while those allocated for purposes other than capital formation were higher by Rs. 1,584 crores (or 23.4 per cent). The share of the former in total expenditure rose from 30.8 per cent in 1979-80 to 32.5 per cent in 1980-81. Likewise, the share of the latter in the total expenditure moved up from 36.6 per cent in 1979-80 to 37.0 per cent in 1980-81.

The expenditure on final outlays increased by Rs. 863 crores in 1980-81. As a component of final outlays, the consumption expenditure arising from the Government's direct demands for goods and services for consumption accounted for Rs. 574 crores (or 66.5 per cent) of this increase. On the other hand, the expenditure on gross capital formation rose by a smaller magnitude of Rs. 289 crores over the year.

The combined expenditure on capital formation on account of the direct outlays and the transfer of financial resources to the rest of the economy was thus stepped up by Rs. 1,913 crores to Rs. 9,142 crores in 1980-81 (or 26.5 per cent) and in the result, its proportion to total expenditure rose from 39.1 per cent to 40.5 per cent.

Functional Classification

A functional classification of the total expenditure of the Central Government in 1980-81 indicates that developmental expenditure (comprising expenditure on social and economic services including block grants and loans for the purpose) was marked up over the preceding year by Rs. 2,289 crores (or 20.6 per cent) to Rs. 13,401 crores. The share of developmental expenditure in total expenditure was slightly lower at 59.4 per cent in 1980-81 as compared with 60.1 per cent in the preceding year. Of the total increase in developmental expenditure, Rs. 1,999 crores 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. 1,782 crores to Rs. 9,174 crores in 1980-81. Expenditure on general services was enhanced by Rs. 1,046 crores, while that on unallocable items comprising consumption subsidies, interest payments, pensions, statutory grants-in-aid and special loans to State Governments was higher by Rs. 736 crores. Non-developmental expenditure recorded a higher growth rate of 24.1 per cent as compared with the growth rate of 20.6 per cent in developmental expenditure. As a result, the former's share in total

@The figure of total expenditure as given in the Economic and Functional Classification is lower than the budgetary expenditure figure given in the earlier paragraphs mainly because the former does not include (*a*) discharge of debt and (*b*) current expenditure of the departmental commercial undertakings, their interest payments and net transfer to funds. The budgetary expenditure figures given in the 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	1979-80 (Accounts)	Per cent variation over the previous year	1980-81 (Budget Estimates)	Per cent variation over the previous year	1980-81 (Revised Estimates)	Per cent variation over the previous year	1981-82 (Budget Estimates)	Per cent variation over the previous year
I. Total Expenditure	**18504** (100.0)	+ 4.4	**21353** (100.0)	+15.4	**22575** (100.0)	+22.0	**24410** (100.0)	+ 8.1
A. Final Outlays	**6030** (32.6)	+14.3	**6926** (32.4)	+14.9	**6893** (30.5)	+14.3	**8199** (33.6)	+18.9
(*a*) Consumption Expenditure	4502 (24.3)	+13.3	5032 (23.5)	+11.8	5076 (22.5)	+12.7	5837 (23.9)	+15.0
(*b*) Gross Capital Formation	1528 (8.3)	+17.4	1894 (8.9)	+24.0	1817 (8.0)	+18.9	2362 (9.7)	+30.0
B. Financial Resources Provided to the Rest of the Economy	**12474** (67.4)	+ 0.3	**14427** (67.6)	+15.7	**15682** (69.5)	+25.7	**16211** (66.4)	+ 3.4
(*a*) For Capital Formation	5701 (30.8)	+ 1.6	6551 (30.7)	+14.9	7325 (32.5)	+28.5	7748 (31.7)	+ 5.8
(*i*) To States and Union Territories	3244 (17.5)	— 1.8	3555 (16.7)	+ 9.6	3839 (17.0)	+18.3	3851 (15.8)	+ 0.3
(*ii*) To others*	2457 (13.3)	+ 6.4	2996 (14.0)	+21.9	3486 (15.5)	+41.9	3897 (15.9)	+11.8
(*b*) For Purposes other than Capital Formation	6773 (36.6)	— 0.8	7876 (36.9)	+16.3	8357 (37.0)	+23.4	8463 (34.7)	+ 1.3
(*i*) To States and Union Territories	1705 (9.2)	—12.7	1936 (9.1)	+13.5	2098 (9.3)	+23.0	1951 (8.0)	— 7.0
(*ii*) To others*	5068 (27.4)	+ 3.9	5940 (27.8)	+17.2	6259 (27.7)	+23.5	6512 (26.7)	+ 4.0
II. Total Capital Formation Expenditure	**7229** (39.1)	+ 4.6	**8446** (39.6)	+16.8	**9142** (40.5)	+26.5	**10110** (41.4)	+10.6
III. Total Expenditure for purposes other than Capital Formation	**11275** (60.9)	+ 4.4	**12907** (60.4)	+14.5	**13433** (59.5)	+19.1	**14300** (58.6)	+ 6.5

Note: Figures in brackets represent percentages to total expenditure.

* Comprises non-departmental commercial undertakings, local authorities, foreign investments, etc.

Source: Economic and Functional Classification of the Central Government Budget.

Table VII—4 : Functional Classification of Central Government's Total Expenditure

(Rs. crores)

Items	1979-80 (Accounts)		1980-81 (Budget Estimates)		1980-81 (Revised Estimates)		1981-82 (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
Total Expenditure (A+B) ..	**18504** (100.0)	+4 .4	**21353** (100.0)	+15.4	**22575** (100.0)	+22.0	**24410** (100.0)	+ 8.1
A. Developmental Expenditure (i+ii)	**11112** (60.1)	+ 7.1	**12415** (58.1)	+11.7	**13401** (59.4)	+20.6	**14744** (60.4)	+10.0
(*i*) Social Services	1244 (6.7)	+ 3.8	1464 (6.8)	+17.7	1534 (6.8)	+23.3	1726 (7.1)	+12.5
(*ii*) Economic Services* ..	9868 (53.4)	+ 7.5	10951 (51.3)	+11.0	11867 (52.6)	+20.3	13018 (53.3)	+ 9.7
B. Non-Developmental Expenditure (i+ii)	**7392** (39.9)	+ 0.7	**8938** (41.9)	+20.9	**9174** (40.6)	+24.1	**9666** (39.6)	+ 5.4
(*i*) General Services ..	4058 (21.9)	+ 8.4	5050 (23.7)	+24.4	5104 (22.6)	+25.8	5170 (21.2)	+1. 3
(*ii*) Unallocable	3334 (18.0)	— 7.3	3888 (18.2)	+16.6	4070 (18.0)	+22.1	4496 (18.4)	+10.5

Note : Figures in brackets are percentages to total expenditure.
* Includes block grants and loans.
Source : Economic and Functional Classification of the Central Government Budget.

expenditure rose slightly from 39.9 per cent in 1979-80 to 40.6 per cent in 1980-81. The share of resources provided for capital formation for developmental purposes in total developmental expenditure increased from 64.6 per cent in 1979-80 to 67.6 per cent in 1980-81 (Table VII-5).

Pattern of Expenditure for 1981-82 —Budget Estimates

Background

The Budget of the Government of India for 1981-82 was presented to the Lok Sabha

Table VII—5 : Provision for Capital Formation

(Rs. crores)

Items	1979-80 (Accounts)	1980-81 (Budget Estimates)	1980-81 (Revised Estimates)	1981-82 (Budget Estimates)	Per cent variation of	
					Col. 4 over 2	Col. 5 over 4
1	2	3	4	5	6	7
I. Total Provision for Capital Formation (A+B)	**7229**	**8446**	**9142**	**10110**	**+26.5**	**+10.6**
A. Developmental (1 to 3)	7181	8362	9062	9994	+26.2	+10.3
1. Social Services	261	337	336	408	+28.7	+21.4
2. Economic Services (*a* to *d*) ..	4790	5795	6246	7074	+30.4	+13.3
(*a*) Agriculture	581	611	728	563	+25.3	—22.7
(*b*) Industry	2118	2663	2972	3417	+40.3	+15.0
(*c*) Transport and Communication	1414	1723	1744	2134	+23.3	+22.4
(*d*) Other Economic Services ..	677	798	802	960	+18.5	+19.7
3. Block Grants and Loans ..	2130	2230	2480	2512	+16.4	+ 1.3
B. Non-Developmental (1 + 2)	48	84	80	116	+66.7	+45.0
1. General Services	48	84	80	116	+66.7	+45.0
2. Unallocable	—	—	—	—	—	—
II. Total Developmental Expenditure	**11112**	**12415**	**13401**	**14744**	**+20.6**	**+10.0**
III. IA as per cent of II	**64.6**	**67.4**	**67.6**	**67.8**		

Source : Economic and Functional Classification of the Central Government Budget.

on February 28, 1981 against the background of an economic situation which continued to be difficult, although great improvement was shown over the more difficult conditions prevailing in 1979-80. Agricultural production recorded an increase of 19 per cent in 1980-81 as against a decline of 15.5 per cent in the preceding year. By the middle of 1980-81, there was distinct improvement in the power, coal and the railways sectors. Industrial production was likely to show a growth of about 4.1 per cent in 1980-81 in contrast to a decline of 1.4 per cent in the preceding year. The improved performance of agriculture, combined with the beginning of a recovery in industry, was expected to produce an overall growth of 7.0 per cent in the gross domestic product (at 1970-71 prices) in 1980-81 in contrast to a decline of 4.5 per cent recorded in 1979-80.

The economy, however, continued to be subjected to inflationary pressures during 1980-81, although there was a marked improvement over 1979-80. On a point to point basis, the index of wholesale prices (1970-71 = 100) rose by 16.4 per cent in 1980-81 as compared with the rise of 21.4 per cent in the preceding year. The rising prices of imported oil added enormously to the external payments burden on the economy.

The main objective of the 1980-81 Budget was to arrest the deterioration and set the economy once again on the path of stability and growth. However, with the improvement in agriculture, partial recovery in the industrial output and further improvement in infrastructural performance, the emphasis in the Budget for 1981-82 has been shifted from crisis management to providing an impetus to growth. The total outlay on the Annual Plans of the Centre, States and Union Territories in 1981-82 was placed at Rs. 17,479 crores, representing an increase of nearly 20 per cent over the budget estimates for 1980-81. Larger allocations have been made for Plan outlays on agriculture and rural development, on power sector, and on oil exploration and coal. The Annual Plan outlay during 1981-82 is budgeted to form 17.9 per cent of the total public sector outlay during the Sixth Plan. Thus, the public sector Plan outlay during the first two years *viz.* 1980-81 and 1981-82 of the Sixth Plan would work out to 33.4 per cent of the total Sixth Plan outlay. The Budget offers a package of policy measures which provide many incentives for higher production and increased utilisation of the capacity.

The budgetary support of the Centre to the 1981-82 Annual Plan is placed at Rs. 9,771 crores as compared with Rs. 9,072 crores in 1980-81 indicating a rise of Rs. 699 crores (or 7.7 per cent). The provision in the Budget for Central Plan during 1981-82 is higher at Rs. 6,309 crores compared with Rs. 5,719 crores in the revised estimates for 1980-81. Together with the internal resources generated by the public sector undertakings and their other extra budgetary resources, the outlay on the Central Plan is estimated at Rs 8,619 crores during 1981-82 as compared with Rs. 7,255 crores in 1980-81. The provision for Central assistance for the plans of the States and the Union Territories has been raised by Rs. 109 crores to Rs. 3,462 crores in the Annual Plan for 1981-82.

Of the total budgetary provision for the Central Plan outlay for 1981-82, 10.2 per cent has been allocated for agriculture and allied services, 43.0 per cent for industry and minerals, 8.4 per cent for water and power development, 23.5 per cent for transport and communications and 14.9 per cent for others. A sum of Rs. 180 crores has been provided in the Central Plan for the National Rural Employment Programme and this will be matched by an equal amount from the States. The Central Plan for 1981-82 has earmarked Rs. 198 crores for the Integrated Rural Development Programme, designed to help the weaker sections as well as special programmes such as Desert Development and Drought Prone Area Programmes.

Aggregate disbursements of the Centre in 1981-82 are budgeted to increase by Rs. 599 crores (or 2.4 per cent) to Rs. 25,579 crores@ as compared with Rs. 24,980 crores in the revised

@ The Central Government has presented to the Lok Sabha on September 3, 1981 First Supplementary Demands for Grants for a gross additional expenditure of Rs. 420.81 crores. Receipts and recoveries in respect of these supplementary demands will be Rs. 275.03 crores. Thus, these proposals will involve a net additional expenditure of Rs. 145.78 crores.

estimates for 1980-81. Aggregate receipts in 1981-82 estimated at Rs. 24,040 crores would show a rise of Rs. 1,035 crores (or 4.5 per cent) over the revised estimates for 1980-81 as compared with an increase of Rs. 5,540 crores (or 31.7 per cent) during 1980-81 over 1979-80 (Accounts). The magnitude of the budgetary deficit is, therefore, estimated at Rs. 1,539 crores in 1981-82 as compared with Rs. 1,975 crores in the preceding year.

The revenue expenditure of the Central Government is placed at Rs. 15,300 crores in 1981-82, showing a rise of Rs. 679 crores (or 4.7 per cent) over the revised estimates for 1980-81. The revenue expenditure on social and community services is expected to increase by Rs. 170 crores (or 18.8 per cent) in 1981-82. This increase is due mainly to larger allocation (Rs.110 crores) for education, scientific services and research. The expenditure on 'economic services' is estimated to increase by Rs. 566 crores (or 23.6 per cent) to Rs. 2,962 crores in 1981-82. Out of this, the expenditure on agriculture and allied services estimated at Rs. 1,058 crores is higher by Rs. 201 crores over the previous year. The expenditure on industries and minerals is budgeted to increase by Rs. 274 crores. Total interest payments including interest payable on compulsory deposit schemes amounting to Rs. 3,188 crores are estimated to be Rs. 424 crores higher than in the preceding year. Defence expenditure on revenue account is likely to rise by Rs. 294 crores in 1981-82. On the other hand, grants-in-aid to the State and Union Territory Governments for both developmental and non-developmental purposes are estimated to decline by Rs. 138 crores to Rs. 2,768 crores in 1981-82. The expenditure under currency, coinage and mint, etc., is expected to show a fall of Rs. 907 crores in 1981-82. This fall, however, is due to the inclusion of a notional expenditure of Rs. 938 crores for write-off of loans advanced to the State Governments prior to 1979-80 in pursuance of the recommendations of the Seventh Finance Commission in the revised estimates for 1980-81.

Capital disbursements in 1981-82 are likely to show a decline of Rs. 81 crores (or 0.8 per cent) to Rs. 10,279 crores compared with Rs. 10,360 crores in the preceding year. While the capital outlay (including loans) on agriculture and allied services is anticipated to increase by Rs. 79 crores, mainly due to the estimated increase in net outlay on fertilisers imported on Government accounts, the capital expenditure on industry and minerals is expected to decline by Rs. 18 crores. Revised estimates for 1980-81 show that a sum of Rs.76 crores has been given as loans to certain States to cover the gap in resources. No provision has been made in the Budget for 1981-82 for such loans.

Revenue receipts are budgeted to account for 59.6 per cent and capital receipts for 40.4 per cent of the budgeted aggregate receipts. Revenue receipts are estimated to increase in 1981-82 by Rs. 1,433 crores (or 11.1 per cent) to Rs. 14,327 crores. Of the total estimated increase in revenue receipts, as much as 83.5 per cent would be on account of tax receipts. Receipts from direct taxes are estimated at Rs. 2,396 crores in 1981-82 showing a rise of 11.1 per cent over the amount of Rs. 2,156 crores in 1980-81. Receipts from indirect taxes are anticipated to rise by Rs. 956 crores (or 13.3 per cent) to Rs. 8,141 crores as compared with a rise of Rs. 567 crores (or 8.6 per cent) in 1980-81. Additional resource mobilisation envisaged by the Centre during 1981-82 is shown in table VII-6. Non-tax revenue receipts are budgeted to increase by Rs. 237 crores (or 6.7 per cent) during 1981-82 as compared with Rs. 781 crores (or 28.2 per cent) during 1980-81.

Capital receipts in 1981-82 estimated at Rs. 9,713 crores are expected to show a decline of Rs. 398 crores (or 3.9 per cent) in contrast to a rise of Rs. 3,986 crores (or 65.1 per cent) in the revised estimates for 1980-81. It may, however, be stated that capital receipts as per the revised estimates for 1980-81 included notional receipt of Rs. 561 crores on account of subscription payable to IMF and also notional receipt due to accounting adjustments relating to the write-off of Rs. 938 crores of loans advanced to the State Governments prior to 1979-80 in pursuance of the recommendations of the Seventh Finance Commission. Net receipts from market borrowings are budgeted to increase by Rs. 197 crores in 1981-82 as against Rs. 652 crores in 1980-81. The receipts from sale of Special Bearer Bonds are budgeted at Rs. 800 crores.

Table VII-6 : Additional Resource Mobilisation by the Centre during 1981-82

(Rs. crores)

	Centre's share	States' share	Total
I. Taxes (a+b)	271.11	—74.89	196.22
(*a*) Direct Taxes (Income-Tax)*	—29.39	—85.61	—115.00
(*b*) Indirect Taxes (*i*+*ii*)	300.50	10.72	311.22
(*i*) Customs Duties	282.70		282.70
(*ii*) Union Excise Duties	17.80	10.72	28.52
II. Revision in Railways Fares and Freights	352.86@		352.86@
III. Revision in Telecommunication Tariffs and Telephone Deposits	25.00		25.00
IV. TOTAL (I + II + III)	**648.97**	**—74.89**	**574.08**

* Details are available with respect to income-tax only.
@ After taking into account the concessions announced by the Railway Minister in the Lok Sabha on March 5, 1981.

in 1981-82 compared with Rs. 200 crores assumed in the revised estimates for 1980-81.* Receipts from small savings are budgeted to rise by Rs. 150 crores to Rs. 1,250 crores in 1981-82. Net receipts from external loans are budgeted to rise by Rs. 182 crores to Rs. 1,000 crores in 1981-82 compared with Rs. 818 crores in the preceding year.

Economic Classification

1981-82 (Budget Estimates)

The total expenditure of the Central Government during 1981-82 in terms of the economic classification is placed at Rs. 24,410 crores indicating a rise of Rs. 1,835 crores (or 8.1 per cent) over the preceding year. In 1980-81 such expenditure had recorded a higher growth of 22.0 per cent. Of the total expenditure, the expenditure on account of financial resources provided to the rest of the economy for capital formation is anticipated to increase by Rs. 423 crores (or 5.8 per cent) to Rs. 7,748 crores in 1981-82 as compared with a rise of Rs. 1,624 crores (or 28.5 per cent) in the preceding year. Financial resources made available to the States, Union Territories and others for capital formation are likely to rise by Rs. 423 crores (or 5.8 per cent) to Rs. 7,748 crores. On the other hand, the resources provided to them for purposes other than capital formation are budgeted to increase by Rs. 106 crores (or 1.3 per cent) to Rs. 8,463 crores.

Provision for 'final outlays', the other component of total expenditure is estimated to rise by Rs. 1,306 crores (or 18.9 per cent) to Rs. 8,199 crores compared with an increase of Rs. 863 crores (or 14.3 per cent) in the preceding year. The amount of this provision would form about 33.6 per cent of total expenditure in 1981-82 as compared with 30.5 per cent in 1980-81. Consumption expenditure, which forms the major component of final outlays, is likely to increase by Rs. 761 crores (or 15.0 per cent) to Rs. 5,837 crores in 1981-82 as compared with an increase of Rs. 574 crores (or 12.7 per cent) in 1980-81. The proportion of such expenditure to total expenditure is expected to show an increase from 22.5 per cent in 1980-81 to 23.9 per cent in 1981-82.

The provision for direct gross capital formation expenditure at Rs. 2,362 crores is likely to show a rise of Rs. 545 crores (or 30.0 per cent) as compared with a rise of Rs. 289 crores (or 18.9 per cent) in the preceding year.

*The sale of Bearer Bonds was suspended after April 30, 1981. Total receipts from the sale of the Bonds during February-April 1981 amounted to Rs. 385.60 crores. The Government of India has announced on October 20, 1981 that Bearer Bonds will be placed on sale again from December 1 to 31, 1981.

The share of such provision in total expenditure is likely to show an increase from 8.0 per cent to 9.7 cent.

The provision for capital formation (including assistance for capital formation) out of the budgetary resources of the Central Government in 1981-82 is budgeted to show a rise of Rs. 968 crores (or 10.6 per cent) to Rs. 10,110 crores as compared with an increase of Rs. 1,913 crores (or 26.5 per cent) in 1980-81. The share of this provision in the total expenditure at 41.4 per cent in 1981-82 is higher than 40.5 cent in the preceding year. Expenditure on capital formation for developmental purposes is slated to increase by Rs. 932 crores (or 10.3 per cent) to Rs. 9,994 crores in 1981-82 as compared with an increase of Rs. 1,881 crores (or 26.2 per cent) in the preceding year.

Functional Classification

Developmental expenditure is anticipated to rise by Rs. 1,343 crores (or 10.0 per cent) to Rs. 14,744 crores as compared with a larger increase of Rs. 2,289 crores (or 20.6 per cent) in 1980-81. Of the total developmental expenditure, the expenditure on 'social services' in 1981-82 is expected to increase by Rs. 192 crores (or 12.5 per cent) as against a rise of Rs. 290 crores (or 23.3 per cent) in the preceding year. On the other hand, the expenditure on 'economic services' which accounts for about one-half of the total expenditure is likely to increase by Rs. 1,151 crores (or 9.7 per cent) in 1981-82 as compared with a higher increase of Rs. 1,999 crores (or 20.3 per cent) in 1980-81. Non-developmental expenditure is estimated to rise by Rs. 492 crores (or 5.4 per cent) to Rs. 9,666 crores in 1981-82 as compared with a substantial increase of Rs. 1,782 crores (or 24.1 per cent) in the preceding year (Table VII-4). The share of resources provided for capital formation for developmental purposes in total developmental expenditure (at 67.8 per cent) is likely to remain practically at the same level as in 1980-81 (67.6 per cent).

Major Tax Proposals

The Budget proposals for 1981-82 aim at strengthening the forces which can meet the expanding needs of the economy in a non-inflationary manner and thus take the economy forward on the path of growth with stability and social justice. The Budget proposals offer a package of policy measures which contains many incentives for higher production and increased utilisation of the installed capacity. In the field of direct taxes, the Budget seeks to achieve the objectives of raising resources and reducing disparities by means of plugging legal loopholes and ensuring an effective tax administration rather than by enhancement of rates which often leads to tax evasion and generation of black money. The proposals are also designed to further the policy of affording relief to middle classes.

Concessions given in the field of direct taxes are likely to result in a revenue loss of Rs. 115 crores in 1981-82. After making adjustments for the States' share of taxes which is likely to go down as a result of these concessions by Rs. 85.61 crores, the loss to the revenues of the Centre is estimated at Rs. 29.39 crores. The additional revenue anticipated from tax proposals in the field of Central excise is estimated at Rs. 28.52 crores. Of this, the additional revenue accruing to the Centre is estimated at Rs. 17.80 crores while the States' share is budgeted at Rs. 10.72 crores. The net accrual of revenue as a result of Budget proposals on customs duties is expected to be Rs. 282.70 crores. The total additional revenue from indirect taxes accruing to the Centre is, therefore, estimated to be Rs. 300.50 crores in 1981-82. Thus, the total additional revenue accruing to the Centre in 1981-82 from changes in direct as well as indirect taxes is likely to be Rs. 271.11 crores.

Direct Taxes

With a view to providing significant relief to the middle income groups, the exemption limit for income-tax in the case of individuals, Hindu undivided families (other than those with one or more members having separate income exceeding the exemption limit), unregistered firms, association of persons, etc., has been raised from Rs. 12,000 to Rs. 15,000. The nil rate slab has also been raised from Rs. 8,000 to Rs. 15,000. The rate schedule applicable in the case of individuals, Hindu undivided families (other than those with one or more members having separate income exceeding the exemption limit), unregistered firms, associations of persons, etc., has been modified. The previous slabs of income, name-

ly, Rs. 15,001—Rs. 20,000 and Rs. 20,001—Rs. 25,000 have been merged and the rate of tax applicable thereto has been fixed at 30 per cent as against 18 per cent and 25 per cent, respectively, earlier. The rate of tax applicable to the slab of income of Rs. 25,001—Rs. 30,000 has been stepped up from 30 per cent to 34 per cent. The rates of tax applicable to the subsequent slabs of income will, however, remain unchanged.

As per the limits fixed in 1974, the salaried tax payers were entitled to a standard deduction in an amount equal to 20 per cent of the salary upto Rs. 10,000 and 10 per cent of the balance subject to an overall ceiling limit of Rs. 3,500. In view of the subsequent rise in prices and as a means of relief to the salaried tax payers, the rate of standard deduction has been uniformly fixed at 20 per cent subject to a higher ceiling of Rs. 5,000. This benefit will be applicable to pensioners also. Earlier, employees in receipt of conveyance allowance were entitled to a standard deduction of Rs. 1000 only. Such employees will be given the benefit of full standard deduction.

With a view to augmenting the internal funds within the Corporate Sector and improving the scope for financing investment from its own resources, the surcharge on income-tax payable by all classes of companies has been reduced from 7.5 per cent to 2.5 per cent.

The Eleventh Schedule to the Income-tax Act contains a list of industries which do not qualify for specified investment related tax concessions under the Income-tax Act. Industries included in this Schedule were originally considered to be of low priority. However, on a review of the list, it was considered that there was no justification for treating many of the industries as of low priority. Accordingly, it was decided to remove 14 groups of industries from this Schedule in order to make them eligible for the specified tax concessions. These industries include electric fans, pressure cookers, glass and glassware, pigments, colours, paints, enamels, varnishes, blacks and cellulose lacquers, chinaware and porcelainware, mosaic tiles and glazed tiles, synthetic detergents, amplifiers or any other apparatus used for addressing the public, vacuum flasks and other vacuum vessels, etc.

Development allowance equal to 50 per cent of the expenditure incurred on the plantation of tea bushes in any new area or any land which has been previously abandoned was allowed in computing the income from tea business. For this purpose, the expenditure qualifying for development allowance was restricted to Rs. 12,500 per hectare of land situated in hilly areas and Rs. 10,000 per hectare in other areas. Since tea is one of the important export-oriented industries and having regard to the increase in the cost of planting in recent years, the ceiling limits have been raised to Rs. 40,000 per hectare of land situated in Darjeeling district, Rs. 35,000 per hectare in respect of land situated in other hilly areas and Rs. 30,000 per hectare in plains.

Under the Income-tax Act, full deduction is granted in respect of income by way of dividends received by a domestic company from an Indian company formed and registered under the Companies Act, 1956 after 28th February 1975 and engaged exclusively or almost exclusively in the manufacture or production of any one or more of the articles or things specified in the Ninth Schedule. Since electronics is both a labour-intensive and export-oriented industry, certain segments of the electronics industry, namely, electronic components and raw material, computers and peripherals, communication equipment, process control, instrumentation and industrial and professional grade electronic equipment have been included in the Ninth Schedule to the Income-tax Act. It has also been provided that dividends derived by a domestic company from an Indian company engaged exclusively in the manufacture of electronic components will be completely exempt from income-tax.

The small-scale industrial undertakings enjoy certain tax concessions under the Income-tax Act. For this purpose, an industrial undertaking was regarded as a small-scale industrial undertaking if the aggregate value of the machinery and plant installed by it as on the last day of previous year did not exceed Rs. 10 lakhs. This limit has been raised to Rs. 20 lakhs in line with the new definition of a small-scale industry.

The exemption limit of Rs. 50,000 for estate duty was fixed in 1958. The Budget proposed to raise it to Rs. 1.5 lakhs, the same as under the Wealth Tax Act. It is also proposed to provide that one residential house or part thereof will be valued for estate duty purposes on the same basis as for the purposes of wealth-tax.

The Companies (Profits) Surtax Act, 1964, provides for the levy of surtax on the chargeable profits of the companies in excess of the statutory deduction. Although both income-tax and surtax are payable by companies, unlike income-tax, surtax was not earlier payable in advance during the financial year immediately preceding the relevant assessment year. Under the new provision, surtax will be payable in advance during every financial year in respect of the company's current chargeable amount (*i.e.*, the amount of chargeable profits in excess of the statutory deduction) liable to tax for the next assessment year following the financial year. The advance surtax will be payable in three equal instalments on specified dates which are the same as under the Income-tax Act.

Under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974, individuals who are citizens of India, Hindu undivided families and trustees of discretionary trusts are required to make compulsory deposits for the assessment year 1975-76 to 1981-82 (both inclusive) if their 'current income' exceeded Rs. 15,100. In view of the continuing need to raise the level of savings in the economy, the Scheme has been continued for another two years, i. e., for the assessment years 1982-83 and 1983-84. The rates of deposit will remain unchanged.@

@Subsequently, on July 11, 1981, the Government of India promulgated the Compulsory Deposit Scheme (Income-tax Payers) Amendment Ordinance, 1981, which raised the rates of compulsory deposits in the case of persons in higher income groups as a measure of restraining conspicuous consumption. The new rate of compulsory deposits for persons with current incomes in the range of Rs. 50,001 to Rs. 70,000 will be 15 per cent as against 12.5 per cent hitherto. The rate of compulsory deposits in respect of income exceeding Rs. 70,000 will be 18 per cent as against 15 per cent hitherto. The new rates will apply in relation to the assessment years 1982-83 and 1983-84. The rates of compulsory deposits in respect of current income upto Rs. 50,000 have not been changed.

Indirect Taxation

In the sphere of indirect taxes, the basic approach of the Budget has been that additional revenue should flow largely from increased production. No increase has been effected in excise duties for raising general revenues.

Central Excise Duties

The Scheme of the levy of additional excise duty in lieu of sales-tax is at present applicable to sugar, tobacco and some textile items. The National Development Council had recommended that the revenue yield from Central excise duties and additional excise duties be in the ratio of 2:1 as far as possible. The Budget has sought to implement this recommendation by making a change in the ratio for sharing of revenues from cigarettes as between the Centre and the States. As against the earlier ratio of 76:24 between basic excise duty and additional excise duty in the composite rate applicable to cigarettes, the ratio has been changed to 72.5:27.5. This will be combined with a uniform increase in the specific duty element in the composite rate from Rs. 21.00 to Rs. 21.25 per thousand. The overall revenue from cigarettes will remain practically unchanged. With these changes, the overall ratio between the yields from basic and special excise duties, on the one hand, and additional excise duties, on the other, is expected to improve to 2:1 taking the three items, sugar, tobacco and textiles together. This will result in a transfer of about Rs. 21.72 crores from revenue under Central excise to the revenue under additional excise duty. The special excise duty being 1/10th of basic duty the yield from this levy will go down by Rs. 1.97 crores.

With a view to promoting small-scale industry in the interest both of employment and broader development of entrepreneurship, the duty exemption limit under the general scheme of excise duty concessions applicable to 72 excisable commodities has been increased from Rs. 5 lakhs in terms of value of clearances to Rs. 7.5 lakhs. Clearances in excess of Rs. 7.5 lakhs will continue to benefit from the concessional duty limited to three-fourths of the applicable rates of excise duty upto a clearance of Rs. 15 lakhs in a financial year.

For the purpose of excise duty concessions available at present to small manufacturers of some products, notably Item 68 goods and specified electronic goods, one of the criteria for eligibility is the value of investment in plant and machinery. As a part of the Budget proposals, the eligibility of such investment has been raised from Rs. 10 lakhs to Rs. 20 lakhs in line with the revised definition of small scale units under the New Industrial Policy.

The rate of additional duty on textiles and textile articles has been raised from 10 per cent to 15 per cent of basic excise duty on all the items which are now covered by the levy. Additional revenue likely to accrue as a result of this measure is estimated at Rs. 33 crores in a full year. This amount is intended to meet the additional expenditure likely to be incurred by way of subsidy on controlled cloth during the current year.

In the light of the Report of the Dandekar Committee@ and of a special study made by the Government, it was considered necessary to discourage the tendency on the part of middle sector units in the match industry towards mechanisation of certain labour-intensive processes. Accordingly, it has been provided that the concessional rates of duty i. e., Rs. 4.50 per gross boxes for middle sector units and Rs. 1.60 per gross boxes for cottage units will not be available if power is used in the specified labour intensive processes in the match industry. If such units use power for any of the specified processes they will be liable to a duty rate of Rs. 5.50 per gross boxes, which would be intermediate between the rate of Rs. 7.20 applicable to the fully mechanised sector and Rs. 4.50 now applicable to the non-mechanised middle sector. The purpose of this measure is to protect through the excise mechanism, the employment potential of the non-mechanised sector. The measure is not intended as a revenue measure. Further, with a view to preventing the possible infiltration of the middle sector into the cottage sector and in order to ensure that the benefit of the lowest rate of duty accrues to genuine cottage sector units, a new ceiling at 120 million matches has been fixed on the clearances by cottage sector units at concessional rates. The new ceiling is much more liberal than the ceiling of 75 million that existed prior to the 1980 Budget. The pattern of production and clearance will be kept under watch and this ceiling will be reviewed if circumstances so warrant.

Another rationalisation measure relates to the concession available to manufacturers of goods falling under Tariff Item 68, who undertake work on 'job' basis. Under the earlier scheme, duty was being effectively collected only on the 'job charges' paid by the principal manufacturer to the job worker. In the operation of the Scheme, however, several difficulties were experienced, particularly on the question of what is 'job work'. There were cases where some manufacturers had taken undue advantage of the concession. The earlier scheme, therefore, has been replaced by one in which, instead of levying duty separately on the job charges paid to the job worker, the duty will be paid by the principal manufacturer on the value of the finished goods.

Customs Duties

The auxiliary duties of customs have been levied on an annual basis since 1973 Budget. While continuing this levy, the rates of auxiliary duties have been raised as a measure of additional resource mobilisation by 5 percentage points *ad valorem* on all categories of imports with a few well-merited exceptions. Thus, crude petroleum and edible oil will be exempted from the proposed increase. Bulk petroleum products such as kerosene and high speed diesel oil and steel imported for buffer stock operations will not attract the increased levy. Items on which import duty rates have been changed in the recent past with a view to maintaining parity with prices of domestic products have also been kept out of the purview of the increased levy.

Considering the fact that there is a large foreign exchange outgo on imports of newsprints, an effective customs duty of 15 per cent *ad valorem* has been levied on imported

@Government of India, Ministry of Finance, Department of Revenue—*Report of The Expert Committee on Tax Measures to Promote Employment*, January, 1980 (Chairman : Prof. V. M. Dandekar).

newsprint.@ This measure is likely to yield an additional revenue of Rs. 21.25 crores in a full year. The effective customs duty on stainless steel bars and wire rods has been raised from 75 per cent to 175 per cent *ad valorem.*

A few important policy measures of a non-fiscal nature were also announced by the Finance Minister in his Budget speech. The key ones related to the proposal to increase the number of Regional Rural Banks to 170 by the end of Sixth Plan, enhancement in the interest rate on deposits from one year and upto five years, the raising of the interest rate ceiling on debentures from 12 per cent to 13.5 per cent and imposition of a ceiling of 15 per cent on the interest rate which can be paid on the deposits from the public accepted by public limited companies.

Telecommunication Tariffs

On account of the sanction of additional dearness allowance to employees and due to other increases in the cost of operations, it was found necessary to revise certain telecommunication tariffs. The rate of telephone call charge in measured rate telephone system for calls exceeding 250 but not more than 1,750 in a quarter has been raised from 30 paise per call unit to 40 paise per call unit. The manual trunk call charges for calls of ordinary category for a unit period of 3 minutes in the distance slabs of 100 to 200 kms., have been increased from Rs. 6 to Rs. 8 and in the distance slabs of 200 to 500 kms., from Rs. 10 to Rs. 12. The rates of deposits for telephone connections under 'Own Your Telephone' scheme have also been raised.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS

Revised Estimates for 1980-81

The revised estimates of the combined budgetary position of the States show a deficit of Rs. 545 crores for 1980-81 as against the actual deficit of Rs. 187 crores recorded in 1979-80 (Table VII-7). The deterioration in the budgetary position in 1980-81 was attributable to larger increase in disbursements than in receipts. Aggregate disbursements at Rs. 21,912 crores in 1980-81 recorded a rise of Rs. 3,823 crores (or 21.1 per cent) over the level of 1979-80, while aggregate receipts showed an increase of Rs. 3,465 crores (or 19.4 per cent) to Rs. 21,367 crores.

Receipts

The improvement in the aggregate receipts in the revised estimates for 1980-81, is reflected in both revenue and capital accounts. Revenue receipts amounted to Rs. 15,640 crores showing a rise of Rs. 2,011 crores (or 14.8 per cent) over the level of the preceding year and capital receipts increased by Rs. 1,454 crores (or 34.1 per cent) to Rs. 5,727 crores. In the revenue account, tax receipts rose by Rs. 1,134 crores and non-tax receipts by Rs. 877 crores. The revenue from States' taxes registered an increase of Rs. 836 crores (or 14.7 per cent) compared with the rise of Rs. 699 crores (or 14.0 per cent) in the preceding year. The States' share in the Central taxes, which had spurted from Rs. 1,953 crores in 1978-79 to Rs. 3,408 crores in 1979-80 consequent on the Seventh Finance Commission's recommendations, rose further to Rs. 3,706 crores in 1980-81. The States' share in Union excise duties increased by Rs. 205 crores to Rs. 2,739 crores in 1980-81 as against an increase of Rs. 1,292 crores in 1979-80. Similarly, the States' share in income tax increased by Rs. 94 crores to Rs. 957 crores in 1980-81 as against an increase of Rs. 163 crores in the previous year.

Although revenue from the States' taxes increased to Rs. 6,505 crores in 1980-81, from Rs. 5,669 crores in 1979-80, its proportion to aggregate receipts declined to 30.4 per cent from 31.7 per cent in 1979-80. More than two-thirds (Rs. 583 crores or 69.6 per cent) of rise in revenue from the States' taxes was on account of sales tax in 1980-81.

Incremental revenue from other taxes were : State excise (Rs. 83 crores), stamps and registration fees (Rs. 51 crores), taxes on vehicles

@Subsequently, on April 22, 1981 the Union Finance Minister announced certain tax concessions to benefit small and medium newspapers. Accordingly, the State Trading Corporation will sell imported newsprint to small newspapers at a price which will not include the import duty. The Customs duty on imported newsprint for medium papers will be 5 per cent *ad valorem.* Big newspapers will bear the full duty of 15 per cent *ad valorem.*

Table VII.7 : Overall Budgetary Position of State Governments

(Rs. crores)

Items	1979-80 (Accounts)	1980-81 (Budget Estimates)		1980-81 (Revised Estimates)		1981-82 (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)	**17902**	**19025**	**+ 6.3**	**21367**	**+19.4**	**21867** (21677)	**+ 2.3** (+ 1.5)
A. Revenue Receipts (1+2)	**13629**	**14605**	**+ 7.2**	**15640**	**+14.8**	**16878** (16688)	**+ 7.9** (+ 6.7)
1. Tax Receipts (a+b)	9077	9720	+ 7.1	10211	12.5	11459 (11296)	+ 12.2 (+ 10.6)
(*a*) States' Taxes	5669	6082	+ 7.3	6505	+14.7	7483 (7245)	+15.0 (+11.4)
(*b*) Share in Central Taxes	3408	3638	+ 6.7	3706	+ 8.7	3976 (4051)	+ 7.3 (+9.3)
2. Non-Tax Receipts (*c*+*d*)	4552	4885	+ 7.3	5429	+19.3	5419 (5392)	— 0.2 (—0.7)
(*c*) Grants from the Centre	2083	2312	+11.0	2691	+29.2	2470	— 8.2
(*d*) Other Non-Tax Receipts	2469	2573	+ 4.2	2738	+10.9	2949 (2922)	+ 7.7 (+6.7)
B. Capital Receipts (1+2)	**4273**	**4420**	**+ 3.4**	**5727**	**+34.0**	**4989**	**—12.9**
1. States' Capital Receipts ..	1604	1801	+12.3	2590	+61.5	2110	—18.5
of which :							
(*a*) Market Borrowings (Gross) ..	297	327	+10.1	328	+10.4	496	+51.2
(*b*) Recovery of Loans and Advances ..	395	513	+29.9	653	+65.3	587	—10.1
2. Loans from the Centre (Gross)	2669	2619	— 1.9	3137	+17.5	2879	— 8.2
II. Aggregate Disbursements (A to E)	**18089**	**19502**	**+ 7.8**	**21912**	**+21.1**	**22191**	**+ 1.3**
A. Developmental Expenditure* (1+2)	**13250**	**14222**	**+ 7.3**	**15921**	**+20.2**	**16064**	**+ 0.9**
1. Social and Community Services ..	5406	5934	+ 9.8	6548	+21.1	6766	+ 3.3
of which :							
Expenditure on Natural Calamities	247	211	—14.6	305	+23.5	109	—64.3
2. Economic Services	7844	8288	+ 5.7	9373	+19.5	9298	— 0.8
B. Non-Developmental Expenditure*	**3471**	**4125**	**+18.8**	**4331**	**+24.8**	**4749**	**+ 9.7**
C. Repayment of Loans to the Centre	**802**	**729**	**— 9.1**	**886**	**+10.5**	**918**	**+ 3.6**
D. Discharge of Internal Debt	**163**	**187**	**+14.7**	**198**	**+21.5**	**233**	**+17.7**
of which :							
Market Loans	111	131	+18.0	134	+20.7	175	+30.6
E. Others@	**403**	**239**	**—40.7**	**576**	**+42.9**	**227**	**—60.6**
III. Overall Surplus (+) or Deficit (—) (I—II) ..	**—187**	**—477**		**—545**		**— 324** (—514)	

Notes : 1. Budget Estimates for 1981-82 include estimated yield of Rs. 264.9 crores from additional resource mobilisation measures introduced through the State Budgets and are adjusted for the estimated decline of Rs. 74.9 crores in the States' share in the Central Taxes due to tax concessions announced in the Central Budget for 1981-82.

2. Figures given here differ from those given in the Bank's Annual Report for 1980-81 due to updating of data.

3. Budget Estimates for 1980-81 include estimated net additional yield from Budget proposals by States (Rs. 46.3 crores) and the States' share (Rs. 59.0 crores) in the Centre's additional taxation.

* Comprise States' Expenditure on revenue and capital accounts and loans and advances extended by States.

@ Comprise compensation and assignments to local bodies, appropriation for contingency fund and remittances (net).

(Rs. 49 crores), electricity duties (Rs. 39 crores), entertainment tax (Rs. 23 crores), profession tax (Rs. 17 crores), taxes on passengers and goods (Rs. 3 crores) and other taxes and duties (Rs. 2 crores). Collections from agricultural income tax as well as land revenue declined by Rs. 8 crores and by Rs. 9 crores, respectively and from urban immovable property tax by Rs. 1 crore in 1980-81 from their levels in 1979-80. The non-tax revenue of the States including grants-in-aid and other contributions from the Centre, increased by Rs. 877 crores to Rs. 5,429 crores in 1980-81. Total grants from the Centre at Rs. 2,691 crores were higher by Rs. 608 crores in 1980-81 than in 1979-80. The States' own non-tax revenue also increased by Rs. 269 crores to Rs. 2,738 crores in 1980-81. Interest receipts rose by Rs. 152 crores to Rs. 848 crores in 1980-81. Dividend receipts moved up to Rs. 28.4 crores from Rs. 22.0 crores in 1979-80; mainly statutory corporations such as State Road Transport Corporations, State Warehousing Corporations and State Financial Corporations contributed larger dividends which rose almost three-fold to Rs. 12.7 crores in 1980-81 from Rs. 4.5 crores in 1979-80. In contrast, dividends from other investments declined by Rs. 1.7 crores to Rs. 15.7 crores. Revenue from State lotteries, forests, industries, co-operation, royalty on minerals and mineral concession fees multi-purpose river projects, agriculture, road and water transport services and dairy development also showed a rise during the year under review.

Capital Receipts

Capital receipts increased to Rs. 5,727 crores in 1980-81 from Rs. 4,273 crores in 1979-80. A major part of this increase was in respect of loans from the Centre which at Rs. 3,137 crores moved up by Rs. 468 crores in 1980-81 as against a decline of Rs. 561 crores in the previous year. The rise in the Central loans to the States in 1980-81 was on account of both Plan and non-plan loans. Market borrowings (gross) amounted to Rs. 328 crores in 1980-81 as against Rs. 297 crores in 1979-80. Recovery of loans and advances improved by Rs. 258 crores to Rs. 653 crores in 1980-81. While receipts from small savings, provident funds, etc., were higher by Rs. 85 crores at Rs. 406 crores, those from deposits and advances remained steady at Rs. 286 crores.

Transfer of Resources from the Centre

Devolution of resources from the Central Government to the States through grants, their share in the Central taxes and loans after deducting their loan repayments (Rs. 886 crores) and interest payments (Rs. 773 crores) to the Centre, amounted to Rs. 7,875 crores in 1980-81 which showed a rise of Rs. 1,097 crores over the level in 1979-80. On the other hand, increase in the States' own tax and non-tax revenues and States' capital receipts was comparatively larger at Rs. 2,091 crores. Consequently, the proportion of the resources devolved from the Centre to net aggregate receipts of the States declined to 38.5 per cent in 1980-81 from 39.6 per cent in 1979-80. Transfer of resources from the Centre, excluding the States' share in Central taxes, increased by Rs. 799 crores to Rs. 4,169 crores in 1980-81, and their proportion to net aggregate receipts was higher at 20.4 per cent in 1980-81 as against 19.7 per cent in the previous year. There were increases in Central grants and loans which included advance plan assistance to the States to finance relief expenditure necessitated by natural calamities in 1980-81 Grants from the Centre to the States at Rs. 2,691 crores in 1980-81, recorded an increase of Rs. 608 crores over the level in the previous year; while there was an increase of Rs. 248 crores in respect of grants for State Plan schemes and of Rs. 130 crores for Centrally sponsored schemes, grants for Central Plan schemes increased by only Rs. 8 crores. Non-Plan statutory grants increased to Rs. 277 crores in 1980-81 from Rs. 256 crores in 1979-80 and non-plan non-statutory grants including those for natural calamities, increased by Rs. 200 crores to Rs. 404 crores during the same period. While Plan loans recorded a rise of Rs. 642 crores, non-Plan loans declined by Rs. 174 crores in 1980-81.

Disbursements

Aggregate disbursements rose by Rs. 3,823 crores (or 21.1 per cent) to Rs. 21,912 crores in 1980-81, from Rs. 18,089 crores in 1979-80 when the increase amounted to Rs. 2,311 crores (or 14.6 per cent). Of the increase in dis-

bursements in 1980-81, Rs. 2,670 crores or 69.9 per cent was accounted for by developmental expenditure. The total developmental expenditure amounted to Rs. 15,921 crores in 1980-81 and was higher by Rs. 2,670 crores (or by 20.1 per cent) over its level in the preceding year. As the rate of growth of developmental expenditure was lower than that of the aggregate disbursements, the proportion of developmental expenditure to the aggregate disbursements declined marginally to 72.7 per cent in 1980-81 from 73.2 per cent in 1979-80. The distribution of developmental expenditure between the two sectors, viz., economic services and social and community services showed that the former accounted for Rs. 9,373 crores (58.9 per cent) and the latter for Rs. 6,548 crores (41.1 per cent) in 1980-81. The share of the economic services in the incremental developmental expenditure moved up to 57.3 per cent (Rs. 1,529 crores) in 1980-81 from 54.3 per cent (Rs. 1,007 crores) in 1979-80. The expenditure on natural calamities rose to Rs. 305 crores in 1980-81 compared with Rs. 247 crores in the preceding year. The non-developmental expenditure rose by Rs. 860 crores to Rs. 4,331 crores in 1980-81; at this level its proportion to aggregate disbursements was 19.8 per cent, almost the same as in the previous year. Repayments of Central loans and discharge of market loans were higher in 1980-81 by Rs. 84 crores and Rs. 23 crores, respectively, than in 1979-80.

Budget Estimates for 1981-82

The States' budget estimates for 1981-82 anticipate a combined budgetary deficit of Rs. 324 crores after including receipts of Rs. 265 crores on account of net additional resource mobilisations by them and after adjusting for the expected fall of Rs. 75 crores in the States' share of the Central taxes due to concessions announced in the Central budget for 1981-82. The level of estimated budgetary deficit for 1981-82 is lower than that of Rs. 545 crores observed during 1980-81 (Revised estimates) due to expectation of larger increase in receipts (Rs. 500 crores or 2.3 per cent) than in disbursements (Rs. 279 crores or 1.3 per cent) in 1981-82.

Receipts

The aggregate receipts are expected to rise by a meagre 2 per cent to Rs. 21,867 crores in 1981-82 as compared with a rise of Rs. 3,465 crores or 19.4 per cent in 1980-81. This sharp deceleration in aggregate receipts in 1981-82, is on account of lower growth rate of revenue receipts and decline in capital receipts. Revenue receipts are budgeted at Rs. 16,878 crores, anticipating a rise of Rs. 1,238 crores (or 7.9 per cent) in 1981-82 as compared with the increase of Rs. 2,011 crores (or 14.8 per cent) observed during 1980-81. Capital receipts are expected to decline by Rs. 738 crores (or by 12.9 per cent) to Rs. 4,989 crores in 1981-82. On the revenue account, tax receipts are budgeted to rise by Rs. 1,248 crores (or by 12.2 per cent) to Rs. 11,459 crores, while the increase in the preceding year was Rs. 1,134 crores or 12.5 per cent. The States' tax receipts are estimated at Rs. 7,483 crores which would show a rise of Rs. 978 crores or 15 per cent, as compared with the increase of Rs. 836 crores or 14.7 per cent in 1980-81. The share in Central taxes, on the other hand is expected to register a smaller increase of Rs. 270 crores or by 7.3 per cent to Rs. 3,976 crores in 1981-82, than that in the preceding year i.e. Rs. 298 crores (or 8.7 per cent).

Non-tax receipts are anticipated to decline by Rs. 10 crores or 0.2 per cent to Rs. 5,419 crores, in contrast to the rise of Rs. 877 crores (or 19.3 per cent) in 1980-81. This decline in 1981-82 is on account of the grants from the Centre which are placed lower by Rs. 221 crores (or by 8.2 per cent) to Rs. 2,470 crores. The States' other non-tax receipts would rise by Rs. 211 crores or 7.7 per cent to Rs. 2,949 crores, especially due to higher revenue from economic services like forestry, dairy development, road and water transport services, power projects, etc.

Capital receipts are budgeted to decline by Rs. 738 crores in 1981-82, of which loans from the Centre account for Rs. 258 crores, mainly in respect of ways and means advances and the Plan loans. Recovery of loans and advances is estimated lower by Rs. 66 crores at Rs. 587 crores as against a sizeable increase of Rs. 258 crores witnessed during 1980-81. Receipts from deposits and advances (net) are also placed lower by Rs. 96 crores in 1981-82.

Additional Resource Mobilisation

There has been considerable step up in the additional resource mobilisation effort through budgetary measures in 1981-82 relative to 1980-81. The measures for net additional resource mobilisation to the extent of Rs. 265 crores are announced by 13 States including Bihar, Gujarat, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Nagaland, Punjab, Rajasthan, Tamil Nadu and West Bengal. During 1980-81 only Rs. 46 crores were raised by way of additional resource mobilisation. Of the net revenue of Rs. 265 crores from additional resource mobilisation in 1981-82, Rs. 238 crores are accounted by tax levies and Rs. 27 crores by non-tax levies.

Among the States, Tamil Nadu leads in raising additional resources amounting to Rs. 105 crores of which Rs. 92 crores are accounted for by the relaxation of prohibition and the remaining amount by higher rates of sales tax and stamps and registration fees. West Bengal follows with Rs. 42 crores of new levies covering revision in sales tax (Rs. 5 crores) and cess on the State's coal and tea auctioned outside West Bengal (Rs. 37 crores). Maharashtra has revised the rates of sales tax and state excise duty to raise Rs. 32 crores. Bihar too has raised equal amount through higher sales tax (Rs. 11 crores), stamps and registration fees (Rs. 3 crores) and royalty on minerals (Rs. 18 crores). Karnataka, Madhya Pradesh, Gujarat and Rajasthan have taken steps to raise resources amounting to Rs. 17 crores, Rs. 16 crores, Rs. 8 crores and Rs. 3 crores, respectively.

Disbursements

Aggregate disbursements are budgeted to increase by Rs. 279 crores (or 1.3 per cent) to Rs. 22,191 crores as against the rise of Rs. 3,823 crores (or 21.1 per cent) in 1980-81. The deceleration in estimated disbursements in 1981-82 is more in respect of developmental expenditure than in non-developmental expenditure. While the developmental expenditure is anticipated to increase by Rs. 143 crores (or 0.9 per cent) to Rs. 16,064 crores compared with the rise of Rs. 2,671 crores (or 20.2 per cent) in 1980-81, the non-developmental expenditure would rise by Rs. 418 crores (or 9.7 per cent) to Rs. 4,749 crores. The increase in the preceding year was Rs. 860 crores (or 24.8 per cent). Consequently, the share of developmental expenditure in the total disbursements would decline marginally from 72.7 per cent to 72.4 per cent.

Table VII. 8 : Estimated Yield from Budget Proposals

(Rs. crores)

	States	Net additional Yield 1981-82
1.	Bihar	31.50
2.	Gujarat	7.52
3.	Jammu and Kashmir	4.00
4.	Karnataka	17.05
5.	Kerala	0.43
6.	Madhya Pradesh	15.93
7.	Maharashtra	31.65
8.	Meghalaya	0.36
9.	Nagaland	0.19
10.	Punjab	7.00
11.	Rajasthan	2.50
12.	Tamil Nadu	104.81
13.	West Bengal	42.00
	Total	**264.94**
	By Major Heads	
1.	Stamps and Registration Fees	14.50
2.	Urban Immovable Property Tax	1.50
3.	Sales Tax	55.24
4.	State Excise	112.09
5.	Tax on Vehicles	1.60
6.	Tax on Passengers and Goods	1.44
7.	Electricity Duties	8.00
8.	Entertainment Tax	1.32
9.	Others	42.18+
10.	Non-Tax Receipts	27.07
	Total	**264.94**

+ Includes the total yield from the budget proposals by Jammu and Kashmir and Kerala.

Table VII-9: 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	1975-76 Actual Expenditure	1976-77 Actual Expenditure	1977-78 Actual Expenditure	1978-79 Actual Expenditure	1979-80 Actual Expenditure	1980-81 Approved Outlay	1981-82 Approved Ooutlay
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	421	426	203	293	361	444	450	501	531
Assam	245*(28)	198	56	74	106@	151	160	198	210
Bihar	480	479	205	248	266	313	321	477	560
Gujarat	485	545	236	249	327	374	456	525	632
Haryana	277	358	106	136	147	194	203	250	290
Himachal Pradesh	79	113	35	39	54	74	79	90	100
Jammu and Kashmir	164	162	59	77	94	98	124	147	160
Karnataka	340	374	167	234	246	271	318	385	419
Kerala	274	333	104	127	159	190	224	273	275
Madhya Pradesh	461	476	220	283	347@	379	515	541	641
Maharashtra	906	1005	381	505	648	781	813	883	1080
Manipur	17	31	14	17	21	30	32	42	43
Meghalaya	—	36	17	19	23	28	31	43	47
Nagaland	42	39	16	19	21	26	28	36	38
Orissa	245	249	93	136	149	187	195	250	275
Punjab	360	428	166	222	204	221	269	300	340
Rajasthan	300	309	141	173	191	257	290	334	340
Sikkim	—	—	—	12	13	16	18	21	23
Tamil Nadu	467	552+	173	242	265	322	370	411**	514
Tripura	20	35	12	14	14	26	30	40	45
Uttar Pradesh	1023	1163	481	585	653	816	825	934**	1023
West Bengal	321	364	182	225	304	369	383	575	638
A. Total—All States	6927	7675	3067	3929	4613	5567	6134	7256	8224
B. Hill Areas	—	—	19	35	43	52	54	25@@	92
C. Tribal Areas	—	—	10	36	51	70	70	70	85
D. Total Union Territories	365	278	96	133	165	189	190	254	328
E. North Eastern Council	—	—	7	16	30	33	32	64	70
F. Scheduled Caste Component Plan	—	—	—	—	—	—	5++	100	110
Total (A to F)	**7292**	**7953**	**3199**	**4149**	**4902**	**5911**	**6485**	**7769**	**8909**

* includes plan outlay for Meghalaya also.
@ Anticipated Expenditure.
\+ Excludes Rs. 19 crores on Power as outside the plan.
** Includes Central assistance for Hill Areas.
@@This excludes Hill Area Provision for Tamil Nadu.
++ Allocations only.

Source : Annual Plan document.

The deceleration in developmental expenditure is reflected more in economic services than in social and community services. The expenditure on economic services would decline by Rs. 75 crores or 0.8 per cent, as against a sizeable increase of Rs. 1,529 crores or 19.5 per cent observed during 1980-81. The growth of expenditure on social and community services is estimated at Rs. 218 crores or 3.3 per cent as compared with the rise of Rs. 1,142 crores or 21.1 per cent in 1980-81.

Non-developmental expenditure is estimated to increase by Rs. 418 crores (or 9.7 per cent) to Rs. 4,749 crores in 1981-82 as compared with a rise of Rs. 860 crores (or 24.8 per cent) in the preceding year; interest payment and administrative services would account for Rs. 374 crores or 89.5 per cent of the increase in 1981-82.

States' Annual Plan Outlay

The approved Annual Plan outlay of the States at Rs. 8,224 crores is larger by Rs. 810 crores (or 10.9 per cent) than the approved plan outlay for 1980-81 which is estimated to have increased over the level of the preceding year by Rs. 1,280 crores or 20.9 per cent to Rs. 7,414 crores. According to the Plan priorities, larger outlays have been provided for power, agriculture and allied programmes including co-operation.

The Plan outlay for power at Rs. 2,467 crores forms 30 per cent of the total outlay and would be higher by Rs. 279 crores (or 12.8 per cent) than in the preceding year. The outlays on agriculture and allied programmes have been raised by Rs. 422 crores (or 41.2 per cent) to Rs. 1,447 crores accounting for 17.6 per cent of total outlay. On the other hand the deceleration in total plan outlay has adversely affected the plan expenditure on irrigation and flood control which would decline by Rs. 197 crores (or 11.5 per cent) to Rs. 1,520 crores and its share in total outlay would decline to 18.5 per cent from 23.2 per cent in the previous year. The Plan expenditure on transport and communications has also been stepped up by Rs. 20 crores to Rs. 678 crores in 1981-82 from Rs. 658 crores in 1980-81; but its share in total outlay has declined marginally to 8.2 per cent from 8.9 per cent. The outlay on industry and minerals is placed higher by Rs. 72 crores at Rs. 289 crores, forming 3.5 per cent of total outlay as compared to 2.9 per cent in 1980-81.

Table VII. 10 : States' Plan Outlay by Heads of Development

(Rs. crores)

	1980-81 (Approved outlay)	1981-82 (Approved outlay)	Variation over the previous year
1	2	3	4
1. Agriculture and Allied Programmes including Co-operation	1025 (13.8)	1447 (17.6)	+422 (+41.2)
2. Irrigation and Flood Control	1717 (23.2)	1520 (18.5)	—197 (—11.5)
3. Power	2188 (29.5)	2467 (30.0)	+279 (+12.8)
4. Village and Small Industries	129 (1.7)	144 (1.8)	+15 (+11.6)
5. Industry and Mining ..	217 (2.9)	289 (3.5)	+72 (+33.2)
6. Transport and Communications	658 (8.9)	678 (8.2)	+20 (+3.0)
7. Others	1480 (20.0)	1679 (20.4)	+199 (+13.4)
Total (1 to 7)	**7414** (100.0)	**8224** (100.0)	**+810** (+10.9)

Notes : 1. Figures in brackets under Col. Nos. 2 and 3 are percentages to total.
2. Figures in brackets under Col. No. 4 indicate percentage variation over the previous year.

Source: Annual Plan document.

III. RAILWAY FINANCES

The Railway Budget for the year 1981-82, presented to the Lok Sabha on February 19, 1981, shows a net surplus of Rs. 49.9 crores in contrast to a deficit of Rs. 52.3 crores for 1980-81 (revised estimates). The total receipts of the Railways in 1981-82 are estimated to rise by Rs. 575.3 crores or 20.7 per cent to Rs. 3,359.4 crores and the total expenditure is expected to be higher by Rs. 447.6 crores or 17.8 per cent at Rs. 2,959.6 crores. The budget has proposed an increase of 10 to 15 per cent in passenger fares, a supplementary

surcharge of 15 per cent on all freight traffic, and an additional supplementary charge of 10 per cent on luggage and parcels. The revised fare and freight rate structure effective from 1st April 1981 is expected to yield an additional revenue of Rs. 356.3 crores. [1].

Revised Estimates 1980-81

According to the revised estimates for 1980-81, the total receipts show an increase of Rs. 379.7 crores or 15.8 per cent at Rs. 2,784.1 crores as against Rs. 2,404.4 crores in 1979-80 (Table VII—11). Originating revenue earning freight traffic fell short of budgeted traffic by 19.5 million tonnes or 9.1 per cent at 195.0 million tonnes. The major factors which affected the performance of freight traffic during the year were power cuts in the Eastern sector, and decline in production of steel and cement resulting in diminished loadings. Disturbed conditions in Assam also resulted in traffic hold-ups and detention of a large number of loaded wagons. However, due to various administrative and innovative steps taken, the Railway operations started improving and brought about increased monthly loadings. Against a monthly average loading of 15 million tonnes during the first seven months of 1980-81, i.e., April to October 1980, the loading progressively went up to about 19 million tonnes in January 1981. During November and December 1980 and January 1981, the daily average loading was more than the average for the first seven months by 1,383 wagons, 3,879 wagons and 4,742 wagons, respectively. The average lead of revenue earning goods traffic [2] increased from 721 kilometres in 1978-79 to 749 kilometres in 1979-80, while revenue per tonne-kilometre increased from 8.8 paise to 9.6 paise during this period. In 1980-81, earnings from goods traffic showed a rise of Rs. 247.7 crores or 17.2 per cent to Rs. 1,688.1 crores as compared with Rs. 1,440.4 crores in 1979-80. Earnings from passenger traffic went up from Rs. 738.8 crores in 1979-80 to Rs. 834.1 crores in 1980-81, an increase of Rs. 95.3 crores or 12.9 per cent. Passenger traffic (both suburban and non-suburban) rose from 3,505 millions in 1979-80 to 3,662 millions in 1980-81, an increase of 157 millions or 4.5 per cent. The average lead of passenger traffic [3] has increased from 51.9 kilometres in 1978-79 to 56.7 kilometres in 1979-80, while the average earnings per passenger kilometre rose from 3.5 paise to 3.7 paise during this period.

Total expenditure rose over the year from Rs. 2,177.1 crores to Rs. 2,512.0 crores in 1980-81, an increase of Rs. 334.9 crores or 15.4 per cent. The rise is mainly due to larger expenditure on fuel, repairs and maintenance, operating expenses (traffic) and general superintendence and services. Expenditure on 'fuel' increased by Rs. 105.9 crores or 28.3 per cent to Rs. 480.0 crores in 1980-81 as compared with Rs. 374.1 crores in the preceding year. Expenditure on 'repairs and maintenance' is anticipated to rise by Rs. 88.4 crores or 12.3 per cent to Rs. 805.3 crores as compared with Rs. 716.9 crores in 1979-80. Appropriation to Depreciation Reserve Fund is estimated higher at Rs. 220.0 crores in 1980-81 as compared with Rs. 200.0 crores in the preceding year. Appropriation to Pension Fund is stepped up from Rs. 64.0 crores in 1979-80 to Rs. 84.0 crores in the revised estimates for 1980-81.

With total receipts at Rs. 2,784.1 crores and expenditure at Rs. 2,512.0 crores, net revenue of the Railways in 1980-81 was higher by Rs. 44.8 crores or 19.7 per cent at Rs. 272.1 crores as compared with Rs. 227.3 crores in the preceding year. Net revenue as percentage of Capital-at-Charge [4] is expected to increase from 4.1 per cent in 1979-80 to 4.6 per cent in 1980-81. After paying Rs. 324.4 crores as dividend liability to the General Revenues against Rs. 293.5 crores in 1979-80, the revised estimates for the year 1980-81 show a deficit of Rs. 52.3 crores as compared with a deficit of Rs. 66.2 crores in the preceding year. The ratio of total expenditure to total receipts is estimated at 90.2 per cent in 1980-81 as compared with 90.5 per cent in the preceding year. The indebtedness of the Railways

1. The concessions announced by the Railway Minister in the Lok Sabha on March 5, 1981 would result in a revenue loss of Rs. 3.40 crores in 1981-82—Rs. 2.64 crores in passenger earnings, Rs. 0.60 crore on parcels and Rs. 0.16 crore in goods earnings.
2. Average distance in kilometres for which a tonne of goods is transported.
3. Represents the average distance each passenger is transported.
4. Represents book value of the Capital Assets of Railways.

Table VII—11 : Financial Results of Railways

(Rs. crores)

	Items	1977-78 (Actuals)	1978-79 (Actuals)	1979-80 (Actuals)	1980-81 (Revised Estimates)	1981-82 (Budget Estimates)
	1	2	3	4	5	6
I.	**Total Receipts**	**2,133.8**	**2,161.3**	**2,404.4**	**2,784.1**	**3,359.4**
II.	**Total Expenditure**	**1,781.0**	**1,900.4**	**2,177.1**	**2,512.0**	**2,959.6**
III.	Ratio of Total Expenditure to Total Receipts	83.5	87.9	90.5	90.2	88.1
IV.	Net Revenue (I—II)	352.8	260.9	227.3	272.1	399.8
V.	Capital-at-Charge*	4,797.1	5,023.9	5,484.6	5,934.9	6,366.9
VI.	Net Revenue as percentage of Capital-at-Charge	7.4	5.2	4.1	4.6	6.3
VII.	Payment to General Revenues	226.6	224.2	293.5	324.4	349.9
VIII.	Net Surplus (+)/Deficit(—) (IV—VII)	+126.2	+ 36.7	— 66.2	— 52.3	+ 49.9
IX.	Appropriation to (+) or Withdrawals from (—) Funds:					
	(*a*) Development Fund	+34.6	+ 34.7	—	—	+ 38.5
	(*b*) Revenue Reserve Fund	+91.6	—	—	—	—
	(*c*) Deferred Dividend Liability Account	—	+ 2.0	— 66.2	— 52.3	+ 11.4

Note : The concessions announced by the Railway Minister in the Lok Sabha on March 5, 1981 would result in a revenue loss of Rs. 3.40 crores in 1981-82.

* Excludes Capital-at-Charge on Metropolitan Transport Projects.

Source · Explanatory Memoranda on Railway Budgets.

to the General Revenues is estimated to go up from Rs. 370.9 crores in 1979-80 to Rs. 458.0 crores in 1980-81.

Developmental Expenditure 1980-81

The outlay on developmental programme of the Railways for 1980-81 according to the revised estimates was higher by Rs. 47.7 crores or 6.7 per cent at Rs. 762.0 crores as compared with Rs. 714.3 crores in 1979-80 (Table VII-12). Of the total outlay, Rs. 339.3 crores or 44.5 per cent was on account of 'rolling stock'. Expenditure on 'traffic facilities' and 'track renewals' amounted to Rs. 125.6 crores and Rs. 100.0 crores respectively. The other important expenditure heads were: 'new lines': Rs. 41.8 crores; 'electrification': Rs. 35.5 crores: and 'signalling and telecommunication'; Rs. 20.2 crores. Expenditure on Metropolitan Transport Projects was Rs. 33.7 crores.

Cost of Social Obligation 1980-81

The financial cost of social obligations[5] borne by the Railways is estimated to have increased by Rs. 81.1 crores or 32.3 per cent to Rs. 331.8 crores in 1980-81 as compared with Rs. 250.7 crores in 1979-80. Such increase in the cost of social obligations is mainly due to loss on coaching services, which is estimated to have increased by Rs. 43.7 crores or 23.8 per cent to Rs. 227.5 crores in 1980-81 as compared with Rs. 183.8 crores in the preceding year. The loss on account of low rated freight like foodgrains, fodder, firewood, salt for edible use, fruits and vegetables, oil seeds, etc., is estimated to have increased

5. The social obligations include the expenditure on coaching services (*i.e.*, suburban and non—suburban passenger traffic, parcels, luggage, etc.) transport of low rated commodities (i.e., foodgrains, salt, fodder, charcoal, firewood, vegetables, fruits, etc.), and freight concessions on relief measures.

Table VII—12 : Developmental Expenditure of Railways

(Rs. crores)

Items	1977-78 (Actuals)	1978-79 (Actuals)	1979-80 (Actuals)	1980-81 (Revised Estimates)	1981-82 (Budget Estimates)
1	2	3	4	5	6
1. Rolling Stock	217.1	234.4	273.5	339.3	424.2
2. Traffic Facilities	59.2	68.3	104.5	125.6	130.7
3. Track Renewals	62.6	73.6	88.5	100.0	142.4
4. Electrification	24.4	25.9	28.5	35.5	46.1
5. New Lines	22.2	34.2	41.2	41.8	38.7
6. Signalling and Telecommunication Works	15.6	17.8	18.1	20.2	19.9
7. Staff Quarters	7.6	10.7	8.8	8.8	8.8
8. Plant and Machinery	7.3	9.2	8.8	16.8	25.0
9. Investment in Government Commercial Undertakings—Road Services	10.2	27.3	9.8	22.0	8.0
10. Others	2.9	36.1	132.6	52.0	136.2
Of which : Metropolitan Transport Projects	10.1	15.5	21.4	33.7	50.0
Total	**429.1**	**537.5***	**714.3**	**762.0**	**980.0**

*Inclusive of Rs. 1.08 crores for financing export orders.

Source : Explanatory Memoranda on Railway Budgets.

by Rs. 37.4 crores or 56.0 per cent to Rs. 104.2 crores in 1980-81 as compared with Rs. 66.8 crores in 1979-80. The ratio of financial cost of social obligations to total Railway receipts is estimated to have increased from 10.4 per cent in 1979-80 to 11.9 per cent in 1980-81.

Budget Estimates 1981-82

The originating revenue earning freight traffic is estimated to increase by 20 million tonnes or 10.3 per cent to 215 million tonnes in 1981-82 as compared with 195 million tonnes in the revised estimates for the preceding year. About 60 per cent of the budgeted increase in freight traffic is accounted for by three commodities, *viz.*, coal (33.0 per cent), cement (14.0 per cent) and raw materials for steel plants (12.5 per cent). In the budget estimates for 1981-82, suburban passenger traffic is projected to grow at a higher rate of 6 per cent than the growth of non-suburban traffic at 3 per cent. Total receipts of the Railways during 1981-82 are budgeted to increase by Rs. 575.3 crores or 20.7 per cent to Rs. 3,359.4 crores as compared with the increase of Rs. 379.7 crores or 15.8 per cent in 1980-81. The major portion of this increase is anticipated from revenue earning goods traffic (Rs. 458.5 crores), followed by receipts from passenger traffic (Rs. 97.7 crores).

Total expenditure is estimated to increase by Rs. 447.6 crores or 17.8 per cent to Rs. 2,959.6 crores in 1981-82 as compared with the increase of Rs. 334.9 crores or 15.4 per cent in 1980-81. Expenditure on 'repairs and maintenance' is anticipated to rise by Rs. 93.4 crores or 11.6 per cent to Rs. 898.7 crores in 1981-82 as compared with Rs. 805.3 crores in the preceding year. Expenditure on 'fuel' is budgeted higher at Rs. 604.9 crores as compared with Rs. 480.0 crores in the preceding year, an increase of Rs. 124.9 crores or 26.0 per cent. Considering the need for larger expenditure on replacements and renewals of assets which have been in heavy arrears the appropriation to Depreciation Reserve Fund is

stepped up from Rs. 220.0 crores in 1980-81 to Rs. 350.0 crores in the budget estimates for 1981-82, a rise of Rs. 130.0 crores or 59.1 per cent.

With total receipts estimated at Rs. 3,359.4 crores and total expenditure at Rs. 2,959.6 crores, the net revenue of the Railways for 1981-82 is estimated at Rs. 399.8 crores as compared with Rs. 272.1 crores in 1980-81. After providing Rs. 349.9 crores as dividend liability to the General Revenues, as against Rs. 324.4 crores in 1980-81, the year is expected to close with a surplus of Rs. 49.9 crores in contrast to a deficit of Rs 52.3 crores in the revised estimates for 1980-81. The ratio[6] of total expenditure (expenditure excludes provision for dividend liability to General Revenues) to total receipts is expected to decline from 90.2 per cent in 1980-81 to 88.1 per cent in 1981-82. On the other hand, net revenue as percentage of Capital-at-Charge is expected to increase from 4.6 per cent in 1980-81 to 6.3 per cent in 1981-82. Total indebtedness of the Railways to the General Revenues is budgeted to decline from Rs. 458.0 crores at the end of March 1981 (revised estimates) to Rs. 446.5 crores at the end of March 1982 comprising anticipated outstandings of Development Fund (Rs. 224.2 crores) and Deferred Dividend Liability (Rs. 222.3 crores).

Developmental Expenditure 1981-82

The Development Plan of the Railways for 1981-82 provides for an enhanced outlay of Rs. 980.0 crores, which is Rs. 218.0 crores or 28.6 per cent more than the revised outlay of Rs. 762.0 crores in 1980-81. Priority in the Development Plan has been accorded to replacement and renewal of assets. Some of the other features of 1981-82 Plan Outlay are accelerated procurement of 18,000 wagons for replacement of overdue stock and retiring of a large number of steam locomotives to bring down the consumption of coal.

Accordingly, substantial increase in outlay has been provided for 'rolling stock'. Such outlay is budgeted to increase by Rs. 84.9 crores or 25.0 per cent to Rs. 424.2 crores in 1981-82 as against Rs. 339.3 crores in the preceding year. Provision for 'track renewals' has been stepped up by Rs. 42.4 crores or 42.4 per cent to Rs. 142.4 crores from Rs. 100.0 crores in the revised estimates for 1980-81. The outlay on 'electrification' is placed at Rs. 46.1 crores in 1981-82 *i.e.*, higher by Rs. 10.6 crores or 29.9 per cent over Rs. 35.5 crores in 1980-81. Expenditure on 'plant and machinery' is anticipated to increase by Rs.8.2 crores or 48.8 per cent to Rs. 25.0 crores against Rs. 16.8 crores in 1980-81. The outlay on Metropolitan Transport Projects is budgeted to increase by Rs. 16.3 crores or 48.4 per cent to Rs. 50.0 crores as compared with Rs. 33.7 crores in 1980-81.

Revision in Fare and Freight Rate Structure

To meet the budgetary gap and to raise the revenue for planned projects supplementary charges on passenger fares and freight rates have been levied in the Budget as an *ad-hoc* measure. These supplementary charges will get adjusted subsequently in the revised fare and freight rate structure to be implemented on the basis of Rail Tariff Enquiry Committees' recommendations. The adjustments in the fares and freight rates which are effective from April 1,1981 along with the concessions announced on March 5, 1981 are as under:

Passenger Traffic

A surcharge of 15 per cent on fares for air conditioned first class, 12.5 per cent for first class and 10 per cent for air conditioned chair car will be levied over the existing fares. Similarly, surcharge of 10 per cent will also be levied on fares for second class, both Mail/Express and ordinary. However, journeys upto 150 kilometres in second class ordinary will be exempted from this surcharge. For airconditioned 2-tier sleeper class, the basic fare will be the same as for first class/Mail/Express, but considering the quality of service and comfort available in this class, there will be a supplementary charge per ticket at the rate of Rs. 15 for journeys upto 1,000 kilometres and Rs. 25 for longer journeys.

6. Operating ratio which is defined as the ratio of Total Working Expenses to Total Earnings (excluding suspense) is budgeted to decline to 88.8 per cent in 1981-82 from 91.1 per cent in the preceding year.

The following revisions in the reservation fees, supplementary charge for super-fast trains and sleeper surcharge for second class travel are also included in the Budget.

(*i*) *Reservation Fees*

Class	*Existing*	*Revised*
	Rs.	Rs.
A. C. C.	.. 5.00	10.00
First Class	.. 2.00	4.00
A. C. Chair Car ..	.. 1.00	2.00
Second Sleeper ..	.. 0.25	2.00
Second Sitting ..	.. 0.25	1.00

(*ii*) *Supplementary charge for super-fast trains*

Class	*Existing*	*Revised*
	Rs.	Rs.
A. C. C.	.. 10.00	20.00
First Class	.. 5.00	10.00
A. C. Chair Car ..	.. 3.00	6.00
Second Sleeper ..	.. 1.00	3.00
Second Sitting ..	.. 1.00	2.00

(*iii*) *Sleeper Surcharge for Second Class*

A charge of Rs. 8.00 for the first night and Rs. 5.00 for each subsequent night will be levied as against the present sleeper surcharge of Rs. 5.00 irrespective of the number of nights involved.

As per the concessions announced subsequently in the Lok Sabha on March 5, 1981 :

(*a*) The surcharge on second class (ordinary) is reduced from 10 per cent to 5 per cent and will be levied on journeys beyond 200 kilometres instead of 150 kilometres as proposed earlier; (*b*) The supplementary charge on super-fast trains for second sleeper is reduced to Rs. 2.00 per ticket instead of Rs. 3.00 proposed earlier: (*c*) The surcharge for second class sleeper berth will be Rs. 5.00 each for the first two nights. No sleeper surcharge will be levied for subsequent nights.

Freight Traffic

A flat 15 per cent surcharge will be levied on all freight traffic over the existing rates except on:

(*a*) salt for domestic use;

(*b*) firewood and

(*c*) charcoal

To help in the proper development of the area and keeping in view the common welfare of the people in the North-Eastern region who have to bear high transportation charges even for essential commodities of daily use, it has been decided to give a 6 per cent concession on freight on all goods traffic booked *via* Howrah area to and from stations falling in the States of Assam and other North-Eastern States. As per the concessions announced on March 5, 1981, two more commodities, namely, medicines and milk, have been exempted from the proposed 15 per cent surcharge on freight rates. Also, the quantum of supplementary charge leviable on vegetables (not otherwise classified), potatoes and onions booked as goods traffic is reduced to 10 per cent instead of 15 per cent proposed earlier.

Luggage and Parcel Traffic

There will also be a flat 10 per cent surcharge over the existing rates for all luggage and parcel traffic. As per the concessions announced on March 5, 1981, surcharge on milk, vegetables, including potatoes and onions and on parcels containing betel leaves and medicines, is reduced to 5 per cent instead of 10 per cent proposed earlier.

IV. FINANCES OF THE INDIAN POSTS AND TELEGRAPHS DEPARTMENT

Revised Estimates 1980-81

Finances of the Indian Posts and Telegraphs Department showed an improvement over the previous year. The surplus on revenue account, at Rs. 284.8 crores in 1980-81 (revised estimates), before making contributions towards capital expenditure and paying dividend to General Revenues was higher by Rs. 56.6 crores over the surplus of Rs. 228.2 crores in 1979-80 (accounts). This improvement was the result of a relatively large rise in revenue receipts than in net working expenses. While the revenue receipts went up by Rs. 164.9 crores (or 19.7 per cent)

to reach the Rs. 1000-crore mark, the net working expenses at Rs. 715.2 crores (Table VII-13) were higher by Rs. 108.3 crores (or 17.8 per cent). The revisions in tariffs of various postal and telecommunications services effected from September 1, 1980 helped the Posts and Telegraphs Department to augment its revenue receipts. Postal services at 29.1 per cent accounted for a relatively lower share in total revenue receipts in 1980-81 (revised estimates) compared with 31.0 per cent in 1979-80 (accounts). Correspondingly, the share of telecommunications services in total revenue receipts rose slightly to 70.9 per cent in 1980-81 from 69.0 per cent in 1979-80. As regards net working expenses, those on 'operation' at Rs. 378.6 crores were higher by Rs. 51.8 crores (or 15.9 per cent), while 'engineering' expenses rose by Rs. 27.2 crores (or 17.6 per cent) in 1980-81. Provision for depreciation on historical costs was stepped up by Rs. 7.8 crores (or 12.6 per cent) to Rs. 69.8 crores. The contributions towards capital expenditure were also higher by Rs. 9.7 crores (or 15.7 per cent). The dividend payment to General Revenues at Rs. 35.2 crores was higher by Rs. 2.7 crores over that in the preceding year. The surplus, after making contributions towards capital expenditure and paying dividend to General Revenues, amounted to Rs. 178.1 crores compared with Rs. 133.8 crores in 1979-80. The postal services, which showed a surplus of Rs. 2.3 crores in 1978-79, showed a deficit of Rs. 11.5 crores in 1979-80. During 1980-81, the deficit on account of postal services was still larger at Rs. 29.3 crores. Out of the total surplus of the Posts and Telegraphs Department, Rs. 177.0 crores were appropriated towards Capital Reserve Fund and Rs. 1.1 crores towards Revenue Reserve Fund.

The capital outlay of Posts and Telegraphs Department was raised by Rs. 129.2 crores

Table VII—13 : Financial Working of Posts and Telegraphs Department

(Rs. crores)

	Items	1978-79 (Accounts)	1979-80 (Accounts)	1980-81 (Budget Estimates)	1980-81 (Revised Estimates)	1981-82 (Budget Estimates)
1		2	3	4	5	6
1.	Revenue Receipts	762.8	835.1	963.3	1000.0	1130.0
2.	Working Expenses (net)	532.7	606.9	670.1	715.2	788.7
3.	Dividend to General Revenues	31.3	32.5	35.6	35.2	39.6
4.	**Surplus (+)/Deficit (—) before making contributions towards capital expenditure [1—(2+3)]**	**+198.8**	**+195.7**	**+257.6**	**+249.6**	**+301.7**
	Of which : On account of					
	(*i*) Postal Services	+5.0	— 8.3	+ 0.1	— 25.6	— 31.3
	(*ii*) Telecommunications Services	+193.8	+204.0	+257.5	+275.2	+333.0
5.	Contributions towards Capital Expenditure	52.9	61.8	73.0	71.5	84.4
6.	**Surplus (+)/Deficit (—) after making contributions towards Capital Expenditure (4—5)**	**+145.9**	**+133.9**	**+184.6**	**+178.1**	**+217.3**
7.	**Appropriations to (+) or Withdrawals from (—)**					
	(*a*) Revenue Reserve Fund	+ 1.7	+ 1.6	+ 1.6	+ 1.1	+ 1.3
	(*b*) Capital Reserve Fund	+144.2	+132.2	+183.0	+177.0	+216.0

Sources : 1. Explanatory Memoranda on the Budgets of the Central Government.
2. Annual Reports of Indian Posts and Telegraphs Department.

(or 45.8 per cent) to Rs. 411.0 crores in 1980-81 (Table VII-14). 'Telecommunications' and 'stores and manufacture suspense' accounted for the major share of the increase (Rs. 126.6 crores), while the postal services showed a small rise of Rs. 2.6 crores. Of the total capital outlay of Rs. 411.0 crores, the Plan outlay was Rs. 368.5 crores (or 89.7 per cent), the remainder being non-Plan outlay. In the non-Plan outlay, the outlay on stores and manufacture suspense amounted to Rs. 42.3 crores, and the outlay on telecommunications services was Rs. 0.2 crore only. Capital Reserve Fund and receipts and recoveries on capital account provided Rs. 180.4 crores (or 43.9per cent) of the funds for total capital outlay. The amount of capital advanced out of General Revenues at Rs. 69.3 crores was higher by Rs. 60.7 crores mainly tc meet the larger Plan capital outlay.

Budget Estimates 1981-82

The Central Budget for 1981-82 anticipates a larger surplus (before making contributions towards capital expenditure and paying dividend to General Revenues) of Rs. 341.3 crores on revenue account of the Posts and Telegraphs Department. This is an improvement of Rs. 56.5 crores (or 19.8 per cent) over the revised estimates for 1980-81. Revenue receipts are budgeted to rise over the year by Rs. 130.0 crores (or 11.3 per cent) to Rs. 1130.0 crores. The additional dearness allowance sanctioned to employees and other increases in the cost of operations have, however, affected adversely the surplus of the 'Telecommunications' Department. Moreover, in order to finance a substantial programme of development of telecommunications facilities envisaged in the Sixth Five Year Plan, adequate internal resources are necessary. Therefore, certain telecommunication tariffs were revised effective from July 1, 1981. These revisions are estimated to yield an additional revenue of Rs. 20.0 crores in 1981-82 and Rs. 35.8 crores in a full year. Rates of deposits for telephone connections under 'Own Your Telephone' system were revised from July 1, 1981 to yield additional deposits of Rs. 5.0 crores in 1981-82 and Rs. 7.0 crores in a full year. Following the decisions taken by the members of the Universal Postal Union, foreign postal rates, both surface and airmail were raised along with the mail parcel rates to foreign countries except Nepal, Bhutan and Bangla Desh, effective from July 1, 1981. Net working expenses are budgeted to go up by Rs. 73.5 crores (or 10.3 per cent) to Rs. 788.7 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. 217.3 crores as compared to Rs. 178.1 crores in the preceding year.

During 1981-82 the capital outlay on the Postal and Telecommunications services and stores and manufacture suspense, would rise by Rs. 101.1 crores (or 24.6 per cent) to Rs. 512.1 crores mainly due to larger outlay on telecommunications services. The capital outlay on telecommunications and stores and manufacture suspense has been stepped up from Rs. 353.1 crores to Rs. 443.2 crores and Rs. 42.3 crores to Rs. 48.7 crores, respectively. The capital outlay on postal services also has been raised to Rs. 20.2 crores from Rs. 15.6 crores. Of the total capital outlay of Rs. 512.1 crores, the Plan outlay will account for Rs. 463.2 crores (or 90.5 per cent) and the non-Plan outlay, the balance. In the non-Plan outlay, while outlay on stores and manufacture suspense would amount to Rs. 48.7 crores, that on telecommunications services would be Rs. 0.2 crore. The capital outlay would be financed from the internal resources of Posts and Telegraphs Department to the extent of Rs. 446.9 crores (or 87.3 per cent) and the remaining Rs. 65.2 crores by advances from the General Revenues.

V. PUBLIC DEBT AND OTHER LIABILITIES

The aggregate liabilities of the Government of India including the outstanding public debt and other liablities@ stood at Rs. 58,723 crores at the end of March 1981 (revised estimates). The aggregate liabilities recorded a rise of Rs. 8,508 crores (or 16.9 per cent) during 1980-81 as compared to an increase of Rs. 6,733 crores (or 15.5 per cent) during 1979-80 (Table VII-15.) The rise in 1980-81 was mainly

@Including amount due from Pakistan on account of pre-partition debt.

Table VII—14: Capital Outlay of Posts and Telegraphs Department

(Rs. crores)

Item	1978-79 (Accounts)			1979-80 (Accounts)			1980-81 (Budget Estimates)			1980-81 (Revised Estimates)			1981-82 (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
1. Expenditure :															
(*a*) Postal	13.9	—	13.9	13.0	—	13.0	6.2	—	6.2	15.6	—	15.6	20.2	—	20.2
(*b*) Telecommunications ..	241.5	—	241.5	261.7	—	261.7	394.3	0.2	394.5	352.9	0.2	353.1	443.0	0.2	443.2
(*c*) Stores and Manufacture Suspense	—	13.6	13.6	—	7.1	7.1	—	50.9	50.9	—	42.3	42.3	—	48.7	48.7
Total Expenditure (a to c) ..	**255.4**	**13.6**	**269.0**	**274.7**	**7.1**	**281.8**	**400.5**	**51.1**	**451.6**	**368.5**	**42.5**	**411.0**	**463.2**	**48.9**	**512.1**
2. Financed from:															
(*i*) Receipts and Recoveries on Capital Account	1.9	—	1.9	0.6	—	0.6	2.8	36.8	39.6	2.2	37.1	39.3	1.9	41.9	43.8
(*ii*) Advance Rentals received under O.Y.T. and other Schemes	20.7	—	20.7	11.8	—	11.8	20.0	—	20.0	20.0	—	20.0	35.0	—	35.0
(*iii*) Capital Reserve Fund ..	99.8	13.6	113.4	137.0	—	137.0	164.2	14.3	178.5	135.7	5.4	141.1	196.0	7.0	203.0
(*iv*) Depreciation on Historical Costs Transferred from Revenue	54.1	—	54.1	62.0	—	62.0	71.3	—	71.3	69.8	—	69.8	80.7	—	80.7
(*v*) Contribution towards Capital Expenditure from Revenue ..	52.9	—	52.9	61.8	—	61.8	72.9	—	72.9	71.5	—	71.5	84.4	—	84.4
(*vi*) Capital Advanced from the General Revenue	26.0	—	26.0	1.5	7.1	8.6	69.3	—	69.3	69.3	—	69.3	65.2	—	65.2
Total (i to vi)	**255.4**	**13.6**	**269.0**	**274.7**	**7.1**	**281.8**	**400.5**	**51.1**	**451.6**	**368.5**	**42.5**	**411.0**	**463.2**	**48.9**	**512.1**

Sources : (1) Explanatory Memoranda on the budgets of Central Government.
(2) Annual Reports of Indian Posts and Telegraphs Department.
(3) Director General, Indian Posts and Telegraphs Department.
(4) The Ministry of Communications, Government of India.

on account of market loans, which recorded a larger accrual of Rs. 2,527 crores as compared with the preceding year at Rs. 2,082 crores. In the result, the share of public debt in the total liabilities increased nominally to 68.7 per cent at the end of March 1981 from 68.3 per cent at the end of March 1980.

Public Debt

The outstanding public debt of the Government of India stood at Rs. 40,325 crores at the end of March 1981. It registered a larger increase of Rs. 6,042 crores or 17.6 per cent than in the previous year, i.e., Rs. 5,056 crores or 17.3 per cent. The proportion of Central public debt to Gross Domestic Product at current market prices is estimated lower at 30.7 per cent in 1980-81 against 31.6 per cent in 1979-80. Of the increase in public debt in 1980-81, the share of internal debt was 77.6 per cent compared with 88.3 per cent in 1979-80.

External Debt

The external debt of the Government of India amounted to Rs. 11,316 crores at the end of March 1981 and recorded a substantial rise of Rs. 1,352 crores (or 13.6 per cent) compared with an increase of Rs. 591 crores (or 6.3 per cent) in the preceding year. Gross receipts under external loans are estimated to be of the order of Rs. 1,421 crores during 1981-82; in 1980-81, these amounted to Rs. 1,211 crores.

Internal Debt

The internal debt of the Government of India recorded a rise of Rs. 4,690 crores (or 19.3 per cent) during 1980-81, compared with an increase of Rs. 4,464 crores (or 22.5 per cent), and stood at Rs. 29,009 crores at the end of March 1981. All the components of the internal debt, viz., market loans, treasury bills and special floating and other loans, etc., recorded increases during the year.

The estimates for 1981-82 place internal debt at Rs. 34,460 crores, showing a rise of Rs. 5,451 crores (or 18.8 per cent) mainly on account of market loans and treasury bills.

Market Borrowings£ in 1980-81

The net receipts from the market borrowings of the Central Government at Rs. 2,603 crores, recorded a substantial rise of Rs. 642 crores during 1980-81 as compared with the rise of Rs. 308 crores in the previous year and exceeded the budgeted amount of Rs. 2,500 crores. 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 total gross amount raised during the year at Rs. 2,870 crores was higher by Rs. 611 crores (or 27.0 per cent) than the amount raised in the previous year (Table VII-16). The Centre issued on December 26, 1980, further tranches of two outstanding loans, viz., 6.00 per cent Loan 1986 for Rs. 125 crores and 6.50 per cent Loan 1990 for Rs. 75 crores. This was followed in March 1981, by the issue of further tranches of two outstanding loans, viz., 6.25 per cent Loan 1989 for Rs. 50 crores and 6.75 per cent Loan 1994 for Rs. 50 crores. All these loans which were initially taken up by the Reserve Bank to be placed on sale to investors subsequently amounted to Rs. 300 crores in 1980-81 as against Rs. 250 crores in 1979-80.

The Centre first approached the market on May 12, 1980 by floating three loans, viz., 6.00 per cent Loan 1986, 7.00 per cent Loan 1998, and 7.50 per cent Loan 2010, on cash-cum-conversion basis. The amount raised by this floatation was Rs. 662 crores of which Rs. 597 crores were in cash and the balance by the way of conversion. The second approach to the market was made on July 18, 1980 when three loans were floated, viz., 6.50 per cent Loan 1990, 7.00 per cent Loan 1998 (second issue) and 7.50 per cent Loan (second issue) 2010 on a cash-cum-conversion basis, thereby raising an aggregate amount of Rs. 718 crores, of which Rs. 647 crores were in cash and the rest by way of conversion. The third floatation of loans was made by the Centre on October 29, 1980 when it issued two loans, *viz.*, 6.50 per cent Loan 1990 (second issue) and 7.50 per cent Loan 2010 (third issue) entirely on cash basis. A total amount of Rs. 660 crores was raised

£ Subscription figures are drawn from the Reserve Bank of India records.

Table VII—15 : Public Debt and Other Liabilities of Government of India

(Rs. crores)

Items	As at the end of March						
	1976	1977	1978	1979	1980	1981 (Revised Estimates)	1982 (Budget Estimates)
1	2	3	4	5	6	7	8
A. Public Debt (1+2)	**21,387** (*28.8*)	**23,068** (*28.6*)	**27,980** (*31.0*)	**29,227** (*29.9*)	**34,283** (*31.6*)	**40,325** (*30.7*)	**46,777**
1. Internal Debt (*i to iv*) ..	13,898	14,457	18,995	19,854	24,319	29,009	34,460
(*i*) Current Market Loans	6,972	7,917	9,202	10,864	12,946	15,473	18,273
(*ii*) Others @	155	155	155	147	117	461	1,316
(*iii*) Treasury Bills	5,810	5,368	8,619	7,608	10,196	11,668	13,478
(*iv*) Special Floating and other Loans†	961	1,017	1,019	1,235	1,060	1,407	1,393
2. External Debt (1+2) ..	7,489	8,611	8,985	9,373	9,964	11,316	12,317
B. Other Liabilities (1+2) ..	**8,763** (*11.8*)	**10,540** (*13.1*)	**12,193** (*13.5*)	**14,255** (*14.6*)	**15,932** (*14.7*)	**18,398††** (*14.0*)	**21,012††**
1. Unfunded Debt (*a to c*) ..	6,006	7,710	9,131	10,757	12,487	14,819	17,334
(*a*) Small Savings	3,946	4,359	4,904	5,751	6,856	7,955	9,205
(*b*) State Provident Funds	1,504	1,677	1,844	2,079	2,268	2,534	2,781
(*c*) Other Unfunded Debt£	556	1,674	2,383	2,927	3,363	4,330	5,348
2. Reserve Funds & Deposits*	2,757	2,830	3,062	3,498	3,445	3,579	3,678
C. Aggregate Liabilities (A+B) ..	**30,150** (*40.7*)	**33,608** (*41.7*)	**40,173** (*44.5*)	**43,482** (*44.5*)	**50,215** (*46.3*)	**58,723** (*44.7*)	**67,789**
D. Amount due from Pakistan on account of pre-partition debt ..	**300**	**300**	**300**	**300**	**300**	**300**	**300**
E. Net aggregate Liabilities (C—D) (Net of Pre-partition debt) ..	**29,850**	**33,308**	**39,873**	**43,182**	**49,915**	**58,423**	**67,489**

@ Comprises mainly balances of expired loans, Prize Bonds, Premium Prize Bonds, Compensation Bonds etc. Includes Special Bearer Bonds—Rs. 200 crores (1981) and Rs. 1,000 crores (1982).

Annuity Certificates are excluded from here and shown under Small Savings.

† These represent mainly non-negotiable, non-interest bearing securities issued to International Financial Institutions like IMF, IBRD, IDA and ADB.

†† Includes loans from I.M.F. Trust Fund to the extent of Rs. 534 crores each for the years 1981 and 1982.

£ Includes mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against Compulsory 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 the bracket represent percentages to the CSO estimates of Gross Domestic Product at current market prices. For 1980-81 such percentages have been worked out on the basis of the Reserve Bank of India estimates of Gross Domestic Product at current market prices.

Source : Finance Accounts of the Union Government for end-March 1976 to 1979, Ministry of Finance, Government of India for end-March 1980 and Explanatory Memorandum on the Budget of the Central Government for 1981-82 for end-March 1981 and 1982.

through this floatation. The last floatation was made on February 16, 1981 by offering two loans, viz., 6.75 per cent loan 1994 and 7.50 per cent loan 2010 (fourth issue) on cash basis which realised subscriptions to the extent of Rs. 530 crores.

The initial cash contribution of the Reserve Bank of India to the net market borrowings of the Central Government was higher at Rs. 1,377 crores in 1980-81 as against Rs. 1,042 crores in the preceding year. As in the previous year, 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 securities was slightly higher at 6.36 per cent during 1980-81 as compared to 5.87 per cent in the previous year.

1981-82

The Central Budget, 1981-82, projects the gross market borrowings at Rs. 3,087 crores or Rs. 2,800 crores (net). The Centre has raised Rs. 2,302 crores (gross) or Rs. 2,105 crores net of repayments by the end of October 1981. The Centre approached the market on April 27, 1981, with three loans, viz., 6.25 per cent Loan 1987, 7.25 per cent Loan 1997 and 8.00 per cent Loan 2011, entirely on a cash basis and raised an aggregate amount of Rs.661 crores. The coupon rate on the 2011 loan is higher by 0.50 per cent than the loan of similar maturity issued in the previous year. The Government of India issued on June 1, 1981, a further tranche of the outstanding 8.00 per cent Loan 2011 for Rs. 100 crores in favour of the Reserve Bank of India for placement on the market subsequently. The Government of India approached the market again on July 21, 1981 with the floatation of four loans, viz., 6.00 per cent Loan 1985, 6.75 per cent Loan 1991, 7.50 per cent Loan 2001 and 8·00 per cent Loan 2011 (second issue) on a cash-cum-conversion basis, raising thereby an aggregate amount of Rs. 826 crores, of which Rs. 683 crores were by way of cash and the balance by way of conversion. The Government of India made third approach to the market on October 12, 1981 with the issue of three loans, viz., 7.00 per cent Loan 1994, 7.50 per cent Loan 2001 (second issue) and 8.00 per cent Loan 2011 (third issue) entirely on a cash basis. The total subscriptions to this issue amounted to Rs. 715 crores.

National Rural Development Bonds

The 7-Year National Rural Development Bonds, which were issued from July 9, 1979, for providing investment facility to persons desirous of availing of the exemption from capital gains tax on transfer or sale of a capital asset continued to be on tap during the year. The total subscriptions to these bonds amounted to Rs. 88.11 crores upto June 30, 1981.

Special Bearer Bonds

The Government of India announced on January 15, 1981 the scheme of Special Bearer Bonds, 1991 for canalising the unaccounted money for productive purposes. The Special Bearer Bonds, 1991, of the Face Value of Rs. 10,000 each, were issued at par with a maturity period of 10 years. The holders of the bonds will be entitled to receive Rs. 12,000 for every bond on maturity. The bonds confer certain benefits to the original subscriber or the possessor while the rate of interest has been kept low. There will be immunity for the original subscriber or the possessor of the bonds, from being questioned about the possession of the bonds or about the source of money from which the same have been acquired. In the result, the mere fact of being in possession of these bonds will not make the person liable to tax, penalty or prosecution under the direct tax laws. The scheme will be completely independent of the tax system. No holder of the bonds will accordingly be entitled to claim any set-off or relief in any proceeding under the direct tax laws on the ground that he has subscribed to or otherwise acquired the bonds. The holder will not be liable to any penalty or prosecution for any offence under the Indian Penal Code or any other Central Act for the time in force, for the reason merely that such a person has subscribed to or otherwise acquired the bond or is in possession thereof. However, this immunity will not extend to offences by public servants and those relating to property, theft, extortion, robbery and dacoity, criminal misappropriation of property, criminal breach of trust, etc. The commercial banks

Table VII—16 : Market Borrowings of Government of India during 1980-81

(Rs. crores)

Date	Loans Floated	Issue price (Rupees Per cent)	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
12-5-80@	6.00 Per Cent Loan, 1986	100.00		104	25	129		
	7.00 Per Cent Loan, 1998	100.00	600	127	15	142		
	7.50 Per Cent Loan, 2010	100.00		366	25	391		
				597	65	662	52	545
18-7-80@	6.50 Per Cent Loan, 1990	100.00		166	29	195		
	7.00 Per cent Loan, 1998 (Second Issue)	100.00	650	94	20	114		
	7.50 Per Cent Loan, 2010 (Second Issue)	100.00		387	22	409		
				647	71	718	79	568
29-10-80*	6.50 Per Cent Loan, 1990 (Second Issue)	100.00	600	312	—	312		
	7.50 Per Cent Loan, 2010 (Third Issue)	100.00		348	—	348		
				660	—	660	—	660
26-12-80*	6.00 Per Cent Loan, 1986	100.10	200	125	—	125		
	6.50 Per Cent Loan, 1990	100.10		75	—	75		
				200	—	200	—	200
16-2-81*	6.75 Per Cent Loan, 1994	100.00	480	222	—	222		
	7.50 Per Cent Loan, 2010 (Fourth Issue)	100.00		308	—	308		
				530	—	530	—	530
16-3-81*	6.25 Per Cent Loan, 1989	99.95	100	50	—	50		
	6.75 Per Cent Loan, 1994 (Second Issue)	100.10		50	—	50		
				100	—	100	—	100
Total during 1980-81			**2630**	**2734**	**136**	**2870**	**131**	**2603**

* Offered for cash subscription only.

@Offered on cash-cum-conversion basis.

Source : Reserve Bank of India Records.

have been authorised to grant advances, within the frame work of credit control, against the collateral security of the bonds. However, the banks have not been permitted to purchase these bonds and thus such bonds will not form part of the Government securities statutorily required to be held by them.

The Special Bearer Bonds were placed on sale from February 2, 1981 and remained on top till April 30, 1981.@ Subscriptions to these bonds from February 2, 1981 upto April 30, 1981 amounted to Rs. 385.60 crores (provisional).

Market borrowings by local authorities and the institutions sponsored by Central and State Governments

The net market borrowings by local authorities and the institutions sponsored by Central and State Governments increased by Rs. 95 crores (or 10.5 per cent) to Rs. 1,000 crores during 1980-81 (Table VII-17). The net market borrowings by the institutions sponsored by the Central Government at Rs. 581 crores were higher by Rs. 55 crores (or 10.5 per cent) in 1980-81, while those of the institutions sponsored by State Governments showed a smaller rise of Rs. 36 crores (or 10.2 per cent) and stood at Rs. 390 crores. The net market borrowings of Municipal Corporations and metropolitan development authorities also showed a rise of Rs. 3 crores during 1980-81 and amounted to Rs. 28 crores.

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) and short-dated securities (maturing within 5 years) declined by 0.4 per cent to 71.6 per cent and by 1.7 per cent to 11.9 per cent respectively, as at the end of March 1981 (*vide* Statement No. 95 in Volume II of the Report). As against this, there was a corresponding increase in the proportion of medium-dated securities (maturing between 5 and 10 years) by 2.2 per cent to 16.5 per cent over the preceding year.

@The Government of India has announced its decision in October 1981, to place on sale again these bonds from December 1 to 31, 1981.

Table VII. 17: Net Market Borrowings of Local Authorities and Institutions sponsored by Central and State Governments

(Rs. crores)

Institutions	Year	
	1979-80	1980-81
Local Authorities	**25.11**	**28.29**
Municipal Corporations	25.11	28.29
Institutions Sponsored by the Central Government	**525.63**	**581.00**
Industrial Finance Corporation of India	66.75	70.00
Agricultural Refinance and Development Corporation of India	39.60	35.00
Industrial Credit and Investment Corporation of India	80.30	90.00
Industrial Development Bank of India	275.00	310.00
Rural Electrification Corporation	20.08	25.00
Housing Urban Development Corporation	20.00	25.00
National Co-operative Development Corporation	23.90	25.00
Chandigarh Housing Board	—	1.00
Institutions Sponsored by State Governments	**354.07**	**390.45**
State Electricity Boards	265.78	298.12
Housing Boards	9.91	9.90
Industrial Investment Corporation and Industrial Development Corporations	11.81	12.28
State Finance Corporations	39.27	40.00
Land Development Banks	4.74	4.00
Other Institutions	22.56	26.15
GRAND TOTAL	**904.81**	**999.74**

Source : Reserve Bank of India Records.

Treasury Bills

The Government of India's outstanding treasury bills at Rs. 12,851 crores, showed a rise of Rs. 2,655 crores (or 26.0 per cent) during 1980-81 as compared to Rs. 2,588 crores (or 34.0 per cent) in the preceding year (*vide* Statement No. 85 in Volume II of the Report). The rise in the outstanding treasury bills was mainly on account of the Reserve Bank (Rs. 2,641 crores), while holdings of commercial banks increased by Rs. 456 crores as against a decline of Rs. 70 crores in 1979-80. Outstandings of State Governments were lower by Rs. 399 crores. Of the total outstandings, the Reserve Bank accounted for a preponderant share of Rs. 11,844 crores (or 92.2 per cent), commercial banks for Rs. 521 crores (or 4.1 per cent), and State Governments for Rs. 435 crores (or 3.4 per cent).

Special Floating and Other Loans

Special floating and other loans representing mainly India's contributions towards share capital of international financial institutions at Rs. 1,407 crores at the end of March 1981 showed a rise of Rs. 347 crores (or 32.7 per cent) during the year as against a decline of Rs. 175 crores (or 14.2 per cent) during the preceding year.

Other Liabilities*

The non-marketable debt liabilities of the Government of India, which stood at Rs. 18,398 crores, showed a larger rise than in the previous year. These liabilities increased by Rs. 2,466 crores (or 15.5 per cent) compared with the rise of Rs. 1,677 crores (or 11.8 per cent) in the preceding year.

Small Savings

Small savings collections (net) were lower in 1980-81 at Rs. 1,069 crores as against Rs. 1,156 crores in the preceding year (*vide* Statement No. 97 in Volume II of the Report). During 1980-81 the net collections of the small savings through the media of Post Office Savings Bank Deposits and Cumulative Time Deposits were higher as compared with the previous year. However, the net collections in the case of Post Office Recurring Deposits, Post Office Time Deposit, 7-Year National Savings Certificates, and 5-Year National Development Bonds were lower than those in the preceding year.

Promotional Measures

In order to provide the necessary incentive for encouraging longer term savings, six-year National Savings Certificates VI-issue and VII-issue bearing interest rate of 12 per cent were issued from May 1, 1981. The interest is compounded half-yearly and is payable at maturity on VI-issue while on VII-issue the interest is payable half-yearly. Seven-year National Savings Certificates III-issue and National Savings Annuity Certificates were discontinued with effect from the close of business on December 31, 1980. The IV. issue and V-issue of seven year National Savings Certificates and also the five-year National Development Bonds were discontinued with effect from the close of business on April 30, 1981.

In 1980-81, one more Post Office Savings Bank was enrolled as a sub-member of the local clearing house, raising the total number of Post Office Savings Banks admitted, to 221.

State Governments' Debt Position

The outstanding debt liabilities of the State Governments stood at Rs. 24,694 crores as at the end of March 1981, registering a rise of Rs. 3,068 crores (or 14.2 per cent) as compared with that in the preceding year i. e., Rs. 2,487 crores (or 13.0 per cent). The proportion of these debt liabilities to Gross Domestic Product at current market prices was lower at 18.8 per cent during 1980-81 than in 1979-80 at 19.9 per cent. States' debt liabilities are expected to show a rise of Rs. 2,755 crores (or 11.2 per cent) to reach Rs. 27,449 crores as at the end of March 1982.

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 form the major part of the States' debt. These loans and advances increased by Rs. 2,251 crores (or 14.3 per cent) to Rs. 18,007 crores during 1980-81 compared with an increase of Rs. 1,866 crores (or 13.4 per cent) in the preceding year. The share of these in States' debt was constant at 72.9 per cent as at the end of March 1980 and 1981. The States' indebtedness to the Centre is expected to increase by Rs. 1,960 crores (or 10.9 per cent) during 1981-82 to Rs. 19,967 crores at the end of March 1982.

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. 192 crores (or 6.8 per cent) during 1980-81. In the previous year these increased by Rs. 183 crores (or 6.9 per cent). Loans and bonds stood at Rs. 3,031 crores as at the

*These liabilities include unfunded debt, Reserve Funds and Deposits of departmental undertakings.

end of March 1981. During 1981-82 these are expected to increase further by Rs. 325 crores (or 10.7 per cent) to Rs. 3,356 crores as at the end of March 1982.

Market Borrowings£ in 1980-81

State governments entered the market only once during 1980-81 as in the preceding year. On September 3, 1980, 21 State Governments issued 6.75 per cent Loans 1992 on a cash-cum-conversion basis. All these loans which were issued at par and had a maturity period of 12 years were oversubscribed. As against the notified amount of Rs. 299.75 crores, the total subscriptions amounted to Rs. 333.20 crores of which Rs. 283.71 crores (or 85.1 per cent) represented cash subscriptions and the balance conversion of maturing securities. After repayment of maturing loans amounting to Rs. 132.12 crores, the net amount raised aggregated Rs. 201.07 crores.

The yield on the loans at the issue price in 1980-81 was higher at 6.75 per cent as against 6.50 per cent in 1979-80. The monthly average of gross redemption yields was higher at 5.87 per cent during 1980-81, as compared with 5.72 per cent in the preceding year.

1981-82

Twenty State Governments entered the market on September 1, 1981 for raising loans aggregating Rs. 502.98 crores (gross). The total subscriptions received for State loans amounted to Rs. 697.24 crores, of which cash subscriptions were Rs. 613.97 crores (or 88.0 per cent) approximately. All these loan floatations were on a cash-cum-conversion basis, with a maturity period of 12 years and bearing 7.00 per cent interest and were issued at par as in 1980-81. The rate of interest has been raised by a quarter per cent to 7.00 per cent during the year as in the preceding year. The net amount raised by the States aggregated Rs. 334.95 crores approximately after meeting repayment liabilities of Rs. 170.57 crores on account of maturing loans and taking into account the partial allotments made in respect of 10 States.

The market borrowings programme of the State Governments during 1981-82 at Rs. 502.98 crores (gross) is larger than the total subscriptions of Rs. 332.99 crores (gross) in the preceding year. Six states, viz., Andhra Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, whose *per capita* income is below the national average, taken together are allowed to double their market borrowings programme to an aggregate of Rs. 240.50 crores (notified) in 1981-82 from Rs. 119.00 crores (notified). The increase in the market borrowings of the remaining 14 States is only 20.8 per cent during the same period.

£ Subscription figures are drawn from the Reserve Bank of India records.

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 rise of Rs. 7 crores (or 4.1 per cent) during 1980-81 in contrast to a substantial increase of Rs. 51 crores (or 42.9 per cent) during 1979-80. These advances stood at Rs. 177 crores as at the end of March 1981; during 1981-82 these are budgeted to rise to the level of Rs. 178 crores.

Loans from Banks and other Institutions

Loans from banks and other institutions include *inter alia* loans and cash credit from the National Agricultural Credit (Long term Operations) Fund of the Reserve Bank of India and from the National Cooperative Development Corporation and the Life Insurance Corporation of India. These loans to State Governments recorded a rise of Rs. 212 crores (or 29.7 per cent) during 1980-81, which is much larger than the rise of Rs. 66 crores (or 10.2 per cent) in the preceding year. These loans stood at Rs. 925 crores as at the end of March 1981. A further rise of Rs. 60 crores (or 6.5 per cent) is envisaged during 1981-82.

Provident Funds and Other Funds

'Provident Funds and Other Funds' mainly represent balances in State Provident Funds and in trusts and endowments. These funds increased by Rs. 406 crores (or 18.9 per cent) to Rs. 2,554 crores during 1980-81, while the rise in the preceding year was Rs. 321 crores (or 17.6 per cent). A further rise of Rs. 409 crores (or 16.0 per cent) in these funds is anticipated during 1981-82.

Chapter VIII

Industrial Finance

During the calendar year 1980, activity on the capital market showed a general improvement. This trend was further strengthened during the first half of 1981.

During 1980, the value of consents/ acknowledgements of proposals granted by the Controller of Capital Issues to non-Government public limited companies aggregated Rs. 773.7 crores, which was 62.5 per cent higher than that in the preceding year. The total value of consents granted during January-June 1981 at Rs. 235.8 crores was higher by Rs. 2.2 crores than that during the corresponding period of 1980. Capital issued by public limited companies (other than term-lending institutions) at Rs. 156.7 crores in 1980, declined by 12.9 per cent compared to Rs. 179.8 crores in 1979, but improved significantly during the first half of 1981, amounting to Rs. 256.7 crores as compared to only Rs. 63.3 crores during January-June 1980. Aggregate capital raised by non-Government companies under consents/acknowledgements of proposals during 1980 at Rs. 227.0 crores was almost the same as during the preceding year.

The total financial assistance sanctioned and disbursed by the financial institutions during 1980-81 (April-March) increased to Rs. 2,369.4 crores and Rs. 1,601.5 crores from Rs. 1,862.0 crores and Rs. 1,180.1 crores in 1979-80, recording a rise of 27.2 per cent and 35.7 per cent, respectively.

During the period July 1980-June 1981, industrial security prices were generally buoyant. The RBI all-India index for equity prices was 199.6 for the week ended June 27, 1981 which was higher by 33.6 per cent over the level of the index on June 28,1980; during the year 1979-80 the index had risen by only 2.7 per cent.

I. Capital Market

(i) Industrial Securities Market

During the period July 1980-June 1981, industrial security prices* on the major stock markets in India exhibited a marked buoyancy, barring a setback during September-October 1980 and a short-lived easiness in the month of May 1981.

The RBI all-India weekly index number of ordinary shares (1970-71 = 100) recorded a sharp rise of 33.6 per cent, increasing from 149.4 on June 28, 1980 to 199.6 on June 27, 1981. During the period July 1979-June 1980 the index had moved up only by 2.7 per cent. During 1980-81, the annual average index for ordinary shares also increased to 170.3 from 143.0 during the previous year, showing an increase of 19.1 per cent as against an increase of 4.5 per cent in 1979-80 (Table VIII-1).

The market sentiment was inspired by the general optimism about the growth of the economy following a good monsoon and the reduction in power-cuts in several States. The sentiment was further boosted by the announcement of the new industrial policy on July 23, 1980 which contained, *inter alia*, liberal provisions for regularisation of the capacity created in excess of the licensed capacity and the facility of automatic expansion upto 25 per cent to 19 more broad groups of industries. The rise in equity prices was also helped by the continuous flow of encourgaging corporate news and paucity of floating stocks of blue chips. Announce ment of a hike in the retention price of cement and approval by the National Development Council of the Sixth Five Year Plan envisaging

*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.

Table VIII-1 : Index Number of and Yield on Ordinary Shares

Year (July—June)	Index Number of Ordinary Shares (1970-71=100)					Average Gross Yield (per cent per annum)
	Beginning of the year (First Week ended Saturday)	End of the year (Last Week ended Saturday)	Highest	Lowest	Annual Average	
1977-78	110.1	125.5	127.0	100.5	110.6 (+ 3.5)	6.4
1978-79	124.8	145.5	151.4	123.5	137.0 (+23.8)	5.5
1979-80	144.7	149.4	150.6	135.3	143.0 (+4.5)	6.0
1980-81	148.7	199.6	199.6	148.7	170.3 (+19.1)	5.7

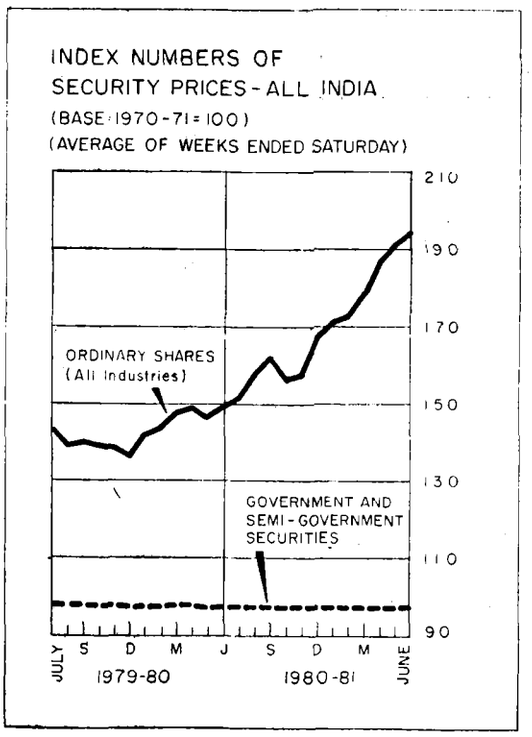
Note : Figures in brackets are percentage variations over the previous year.

an annual industrial growth rate of 8-9 per cent also aided the market sentiment. The upward trend in equity prices lasted till the middle of September 1980, with the index improving steadily from 149.4 for the week ended June 28,1980 to 164.0 for the week ended September 13, 1980.

A downward trend set in thereafter with the market sentiment adversely affected by the outbreak of war between Iraq and Iran and the fear of disruption in supplies of crude oil and petroleum products. This fall in equity prices, which was partly also in the nature of a corrective reaction following the sharp rise during the earlier months, continued till end of October. The index declined to 153.3 for the week ended November 1, 1980.

From the beginning of November 1980, equities started to move up again on fresh buying support. The market welcomed the the policy measures announced by the Government in October 1980. Various new policy measures acted to boost market sentiment. These included an increase in the ceiling on interest rate on secured public debentures, the relaxation in the debt-equity norms for the issue of such debentures and permitting investment of a portfolio nature from oil-exporting-developing-countries (OEDC) in new companies of specified industries, in hotels and hospitals upto 40 per cent of paid-up capital. The sentiment was also enlivened by the announcement of a reduction in excise duty on viscose staple fibre and of a hike in the ex-mill prices of white printing paper. These measures, coupled with the flow of encouraging corporate news, enthused the operators and equity prices continued to forge ahead till the end of December 1980.

On precautionary pre-budget disinvestment, equity prices remained subdued during the months of January and February 1981. The widening trade-gap and the hike in prices of petroleum products effected from January 13, 1981 also caused some anxiety in the market. However, from the beginning of March 1981, equity prices resumed their upward trend following the presentation of the Union Budget for 1981-82, which contained some favourable proposals for the corporate sector. The market particularly welcomed the proposals for the reduction of the rate of surcharge on corporate tax from 7.5 per cent to 2.5 per cent; the enhancement of the ceiling of interest rate on secured public debentures from 12 per cent to 13.5 per cent and of the depreciation allowance on machinery and plant installed for renewable energy devices and systems from 10 per cent to 30 per cent; and the permission to promoters of new projects to retain higher equity upto 70 per cent against 40 per cent hitherto in the initial stages of the projects. Market sentiment was further aided by an increase of 20 per cent in the Annual Plan outlay for 1981-82 and the announcement of the Import Policy for the year on April 3, 1981 which was considered liberal in respect of imports which would help boost exports.



The pronouncedly sharp rise in equity prices after the presentation of the Union Budget, especially in respect of a few selected scrips, consequent on excessive speculation with a large element of bull manipulation, caused concern to the stock exchange authorities. In a bid to check the runaway rise in equity prices, which was quite out of proportion to the level of pick-up in the economy or the improved performance of the corporate sector, the stock exchange authorities, particularly at Bombay and Calcutta, imposed certain restrictions on trading. In Bombay, the number of scrips in Group 'A' (Cleared List) was reduced from 118 to 83 in February and further to 64 in June, heavy margins were imposed on trading, working days were reduced and stern action was taken against the defaulting member-brokers. Further, in May, restrictions were placed on the sale and purchase of scrips in Group 'A' above the official closing rates of April 29, 1981; transactions in these scrips were allowed only to square up outstanding business as on April 29 and fresh sales and purchases were allowed only on spot delivery basis. As a result, equity prices were subdued during May 1981. The sentiment was also adversely affected by the reports of tension on the Bangladesh and Pakistan borders and on uncertainty about the content of an anti-inflationary package of measures by the Government. But the set-back suffered by the equity prices proved short-lived as the suppressed speculation re-emerged from the beginning of June 1981, following the relaxations on trading in Bombay and Calcutta stock exchanges. The reports of sizeable consortium aid for India, the talks with Pakistan and China for normalisation of relations and the continuous flow of excellent corporate news gave a further boost to the already bullish sentiment. The RBI index for ordinary shares reached a new peak at 199.6 for the week ended June 27, 1981.

Yield on Industrial Securities

The average gross yield on ordinary shares which rose from 5.5 per cent in 1978-79 to 6.0 per cent in 1979-80, came down to 5.7 per cent in 1980-81.

The ceiling rate of dividend on preference shares continued to be 11 per cent. However, the ceiling rate of interest on secured public debentures issued with a view to raising long-term funds either for financing of any expansion or diversification of projects or for augmenting resources for working capital requirements was hiked twice during the year. First, in October 1980, the rate was increased from 11 per cent to 12 per cent on debentures redeemable after seven years. The permissible maximum debt-equity ratio governing the issue of debentures was raised from 1:1 to 2:1. Subsequently, to encourage large industrial units to raise their requirements of investment finance through their own efforts, the Government revised the guidelines for issue of public debentures raising the ceiling of interest rate from 12 per cent to 13.5 per cent with effect from March 2, 1981. Companies were also allowed to offer one per cent more than the ceiling rate of 13.5 per cent as an incentive to investors by linking it with the rates of dividend on equity share capital in the preceding years, with prior approval of the Controller of Capital Issues.

(ii) Open Market Operations

The quantum of both sales and purchases of Central Government securities under the RBI's Open Market Operations were substantially lower during 1980-81 (July-June) as compared to those in the previous year, but the net absorption of securities by the market through these operations was almost of the same order as in the previous year. The reduced scale of operations was due to restrictions imposed by the Reserve Bank on triangular switch operations effected by banks in Central Government securities.

The sales of securities amounted to Rs. 795.6 crores during 1980-81 or Rs. 323.8 crores lower than those in the previous year while the purchases amounted to Rs. 453.8 crores or Rs. 322.3 crores lower. Thus the Reserve Bank's open market operations during the year resulted in net sales to the tune of Rs. 341.8 crores which, though only Rs. 1.5 crores lower than in 1979-80, has been nevertheless the lowest for the past six years, since 1975-76. The reduced size of operations in securities during 1980-81 could be attributed to the following important factors; larger initial subscription by banks following higher deposit growth, which reduced the need to purchase securities later at a higher price; more investment by banks in State loans and guaranteed bonds which offered relatively more attractive terms; and a change in the investment pattern of the Employees' Provident Fund with effect from January 1, 1981 reducing the requirements of investment in Government securities.*

Table VIII.2 presents the data on the Reserve Bank's purchases and sales of securities for the years from 1970-71 to 1980-81; first, the figures of open market operations proper and the figures of aggregate purchase and sale operations inclusive of those effected from time to time from out of the surplus funds of the I.D.B.I. and the A.R.D.C. under a special arrangement, are given separately.

*According to the new provision, the EPF investments required to be made in Government securities and Government guaranteed bonds were reduced from a minimum of 40 per cent to 30 per cent; correspondingly, the share of National Savings Certificates, Post Office Time Deposits and Special Deposit Scheme of the Government of India was raised from 60 per cent to 70 per cent.

Table VIII-2 : RBI's Open Market Operations

(Rupees in crores)

Year (July-June)	Purchases	Sales	Net Sales
1970-71	207.2 (276.5)	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 (514.7)	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)	673.8 (650.9)
1979-80	776.1 (1630.8)	1119.4 (2014.1)	343.3 (383.3)
1980-81	453.8 (1454.8)	795.6 (1852.6)	341.8 (397.8)

Notes : 1. Figures shown in brackets are inclusive of purchases and sales effected from time to time out of the surplus funds of IDBI and ARDC under a special arrangement.
2. Figures are inclusive of purchases and sales on behalf of the State Governments.

Gilt-Edged Market

As in the previous year, the gilt-edged market experienced a subdued trend during 1980-81 (July-June). The levering up of the interest rate structure in general and the improvement in the coupon rates of some of the fresh Government securities in particular contributed to this subdued trend. Among different groups of securities, the prices of the Central Government securities suffered an erosion, while those of the State Government as well as semi-Government securities appreciated fractionally over the year. Within the

Central Government Securities, the erosion occurred largely in medium-dated and long-dated scrips, with a majority of the short-dated ones gaining in price. The supply of Central Government securities in the market in recent years has been relatively larger than that of State Government and semi-Government securities because of a sizeably higher market borrowings by the Central Government. Further, there has been of late a shift in favour of the medium and long-dated securities in the new floatations of the Central Government loans, with a view to improving the overall yield rate.

The Reserve Bank's All-India (combined) Price Index (Base 1970-71 = 100) for Government and semi-Government securities recorded a decline of 0.7 point from 97.2 on June 28, 1980 to 96.5 on June 27, 1981. While the index of Central Government securities fell by 1.0 point, the indices of State Government and semi-Government securities rose by 0.2 point each.

The All-India index for all securities at 97.2 at end-June 1980 slided down to 97.1 by the week ended July 19 in the wake of the floatation of the second instalment of the Central Government loans in mid-July 1980. It dipped further to 96.8 by the third week of September. After edging up to 96.9 during the week ended October 11, the index declined to 96.7 by the first week of November following a third floatation of Central Government loans. Moving between 96.6 and 96.8 till December 13, it came down to 96.5 in the following week. Thereafter the index varied in the range of 96.7 to 96.8 till April 4, 1981 but slipped back to 96.6 in the following week and remained at that level till May 23, 1981 mainly on account of the floatation of new Central Government loans with a hike in coupon rates. After edging up to 96.7 during the week ended May 30, 1981, the index fell once again to 96.6 and further to 96.5 towards the close of the year under review.

The index of Central Government securities gradually receded from 96.1 on June 28, 1980 to 95.6 on September 20, 1980, following the floatation of the second instalment of the Central Government loans. Thereafter moving in the range of 95.7 to 95.4 between October 18, 1980 and December 13, 1980, it fell to a low of 95.2 on December 20, 1980 in the wake of an announcement of IDBI's bond floatation. The index spurted to 95.6 on December 27, 1980 but slid down to 95.5 on January 3, 1981 and remained at that level till February 14, 1981. The Index remained in the range of 95.4 to 95.5 from February 21, 1981 to April 4, 1981 but slipped to 95.2 on April 11, 1981 and after remaining in the range of 95.3—95.2 till June 20, 1981 moved down further to 95.1 during the week ended June 27, 1981. Towards the last quarter of the year, the market was generally subdued due to the stepping up of interest rates on deposits and lendings of banks.

The price-index of State Government securities came down by 0.1 point from 100.0 on June 28, 1980 to 99.9 on July 19, 1980. It edged up to 100.0 in the following week end and remained steady at that level till December 13, 1980. After moving in the range of 100.0-100.1 from December 20, 1980 to February 7, 1981, the index moved up during the following week to 100.2 and remained at this level upto June 27, 1981 except for the week ended April 18, 1981. The price index of semi-Government securities at 101.8 at end-June 1980 edged up by 0.1 point to 101.9 during the week ended July 19, 1980 and after remaining steady at that level till November 1, 1980 slided down thereafter and stood at 101.6—101.7 till December 20, 1980. It edged up to 102.0 in the following week and remained at the level of 101.9—102.0 except the week ending March 21, 1981 at 101.6.

Among the Central Government Securities, most of the short-dated securities recorded appreciation in price ranging from Re. 0.15 to Rs. 1.10 with the corresponding declines in yields varying from 0.04 to 1.24 percentage points. This is partly due to higher demand for these securities from Provident funds and partly due to the increases in their prices effected by the RBI in its open market operations with the objective of acquiring the short-dated securities and thus creating easy conditions in the market for the successful floatations of new loans. 5½% loan 1982 recorded the largest increase in price (Rs. 1.10) with the widest erosion in yield of 1.24 percentage points. The only short-dated security

that recorded the highest decline in price was 5% loan 1984 by Rs. 2.55 to Rs. 97.80 (Table VIII-3). Most of the medium and long-dated securities recorded depreciation in prices ranging from Re. 0.05 to Rs. 10.65. Among medium-dated scrips, significant declines in prices and increases in yield were in respect of 4¾% loan 1989 (Rs. 2.25 and 0.55 percentage point), 5¼ % loan 1987 (Rs. 1.65 and 0.44 percentage point), 5¼ % loan 1988 (Rs. 1.50 and 0.35 percentage point) and 5½% loan 1990 (Rs. 1.20 and 0.26 percentage point). The long-dated securities with sizeable declines in prices and improvements in yield were 6¾% loan 2007 (Rs. 10.65 and 0.96 percentage point), 5½% loan 2000 (Rs. 8.20 and 0.93 percentage point) and 6¼% loan 1995 (Rs. 7.85 and 0.90 percentage point).

Most of the State Government securities registered increases in price over the year. The States showing noticeable increases in the short-dated 5¾% loan 1981 were Uttar Pradesh (Rs. 2.05), West Bengal (Rs. 1.60), Tamil Nadu (Rs. 1.50) and Karnataka (Rs. 1.45). The appreciation in yield was discernible in case of 5¾% loan 1982 Bihar (0.70 percentage point). Among the loans recording relatively higher increase in prices were: (*a*) 5¾% loan 1982, Bihar and West Bengal (Rs. 1.55), (*b*) 5¾% loan 1983 Gujarat (Re 1.00), and Madhya Pradesh (Re.0.55), (*c*) 5¾% loan 1985 Uttar Pradesh (Rs. 1.05), and (d) 6% loan 1985 Gujarat (Re. 1.00). The securities with relatively larger decline in prices were 6% loan 1987 Uttar Pradesh (Re. 0.70), Tripura (Re. 0.75) and Punjab (Re. 0.60), 6¼% loan 1988 Uttar Pradesh (Re. 1.00) and West Bengal (Re. 0.80). The loss in yield was notable in the case of 6% loan 1984 Haryana (1.43 percentage points) and 6% loan 1985 Haryana (1.46 percentage points).

(iii) New Issue Activity

The new issue activity suffered a slight setback during 1980, but improved during the first half of 1981. Capital issued by public limited companies (other than term-lending institutions) through 201 prospectus and rights issues declined by 12.9 per cent to Rs. 156.7 crores in 1980 from Rs. 179.9 crores (189 issues) in 1979. However, as compared with the capital issues during 1978 and 1977, the amount of issues in 1980 aggregated substantially higher (Table VIII-4). In addition, there were six issues for Rs. 0.4 crore in the form of offer of sale by the existing share holders during the year. Such issues had numbered 19 for Rs. 6.7 crores during 1979. The issues in the form of offer of sale during 1980 were made to meet the listing requirements of the stock exchanges, while those during 1979 were mainly for dilution of foreign equity holdings. All the capital issues during the year were by non-Government companies and as per information available, none of the Government companies (as defined under Section 617 of the Companies Act, 1956) made public issues of capital during 1980. While capital issued through prospectus at Rs. 98.5 crores remained more or less at the last year's level, the amount issued through rights declined by 28.8 per cent to Rs. 58.2 crores in 1980 from Rs. 81.7 crores in 1979.

Security-wise, the amount of equity issues in 1980, both through prospectus and rights, at Rs. 80.7 crores was lower by Rs. 32.0 crores, while that of debenture issues increased by Rs. 7.2 crores to Rs. 74.0 crores. In tune with the decline in the amount of issues through rights, the amount of issues by the existing companies declined from Rs. 126.9 crores in 1979 to Rs. 102.8 crores in 1980, whereas that of new companies at Rs. 53.9 crores remained almost the same as during the preceding year. The amount offered for public subscription during 1980 was higher at Rs. 65.5 crores as compared to Rs. 59.8 crores in 1979 and formed 66.5 per cent of the total amount of issues through prospectus as against 60.9 per cent in 1979. There was an improvement in public response as judged by the number of oversubscribed issues. Of the 89 issues in 1979 and 90 issues in 1980 regarding which data on public response are available, the number of over-subscribed, fully subscribed and under-subscribed issues were, respectively, 67, 6 and 16 in 1979 and 71, 4 and 15 in 1980.

The new issue activity improved both in terms of number and amount of capital issues in the first half of 1981. During this period, there were 157 issues for raising an aggregate

Table VIII.3 : Prices and Yields of Selected Central Government Securities

Loans	As on				Variations	
	June 28, 1980		July 2, 1981			
	Price (Rs.)	Yield (per cent)	Price (Rs.)	Yield (per cent)	Price (Rs.)	Yield (per cent)
Terminable less than 5 years						
4¼% 1981	101.40	3.39	—	—	—	—
4 % 1981	100.00	4.00	—	—	—	—
5 % 1981 (N.D.L.)	101.30	4.08	—	—	—	—
5 % 1982	100.20	4.90	100.75	4.25	+0.55	—0.65
5½% 1982	100.40	5.29	101.50	4.05	+1.10	—1.24
5 % 1983	98.90	5.39	99.75	5.13	+0.85	—0.26
5½% 1984	99.00	5.78	99.40	5.72	+0.40	—0.06
5 % 1984	100·35	4.90	97.80	5.83	—2.55	+0.93
5¼% 1984	100.00	5.75	100.15	5.70	+0.15	—0.05
4½% 1985	94.10	5.87	93.60	6.32	—0.50	+0.45
5½% 1985	98.60	5.82	99.00	5.78	+0.40	—0.04
5 to 10 years						
4½% 1986	93.10	5.91	93.05	6.18	—0.05	+0.27
6 % 1986	100.00	6.00	99.90	6.02	—0.10	+0.02
5¼% 1986	96.85	5.88	96.10	6.17	—0.75	+0.29
5¼% 1986 (N.D.L.)	97.00	5.81	97.50	5.79	+0.50	—0.02
6 % 1987	99.35	6.12	100.10	5.98	+0.75	—0.14
5¼% 1987	96.15	5.92	94.50	6.36	—1.65	+0.44
5¼% 1988	96.00	5.89	94.50	6.24	—1.50	+0.35
6 % 1988	98.95	6.16	99.00	6.17	+0.05	+0.01
4¾% 1989	90.85	6.10	88.60	6.65	—2.25	+0.55
6½% 1989	100.05	6.24	100.05	6.24	—	—
6 % 1989	99.50	6.07	99.50	6.08	—	+0.01
5½% 1990	93.70	6.36	92.50	6.62	—1.20	+0.26
6½% 1990	—	—	99.80	6.53	—	—
6½% 1990 (II)	—	—	100.00	6.50	—	—
10 to 15 years						
5½% 1991	92.90	6.40	92.10	6.58	—0.80	+0.18
6¼% 1991	98.45	6.44	98.50	6.45	+0.05	+0.01
5½% 1992	94.50	6.15	94.50	6.20	—	+0.05
6¼% 1993	96.80	6.62	94.40	6.94	—2.40	+0.32
6 % 1993	95.65	6.50	94.15	6.71	—1.50	+0.21
6 % 1994	93.55	6.72	93.55	6.75	—	+0.03
6¾% 1994	—	—	100.00	6.75	—	—
5½% 1995	91.75	6.37	89.00	6.73	—2.75	+0.36
6¼% 1995	100.45	6.20	92.60	7.10	—7.85	+0.90
6½% 1995	100.10	6.49	100.10	6.49	—	—
15 years and above						
6½% 1996	98.65	6.38	94.00	6.89	+4.65	+0.51
6½% 1997	100.00	6.50	96.95	6.82	—3.05	+0.32
6¼% 1997	98.80	6.36	92.00	7.08	—6.80	+0.72
7 % 1998 (A.C.B.)	100.00	7.00	100.15	6.98	+0.15	—0.02
6 % 1998	92.00	6.77	92.00	6.80	—	+0.03
6½% 1998	97.95	6.44	97.95	6.45	—	+0.01
5½% 1999	84.35	7.01	86.00	6.87	+1.65	—0.14
5½% 1999 (A.C.B.)	89.50	6.46	83.20	7.17	—6.30	—0.71
5½% 2000	88.20	6.57	80.00	7.50	—8.20	+0.93
6½% 2000	94.30	7.04	94.95	6.98	+0.65	—0.06
5¾% 2001	90.40	6.60	84.50	7.23	—5.90	+0.63
6½% 2001	93.25	7.12	89.85	7.49	—3.40	+0.37

Table VIII.3—(Contd.)

Loans	As on				Variations	
	June 28, 1980		July 2, 1981		Price (Rs.)	Yield (per cent)
	Price (Rs.)	Yield (per cent)	Price (Rs.)	Yield (per cent)		
15 years and above						
5½% 2001 (N.D.L.	90.25	6.63	90.25	6.63	—	—
5½% 2002	84.70	7.14	85.90	7.05	+1.20	—0.09
6½% 2002	94.00	7.04	94.50	7.00	+0.50	—0.04
5¾% 2003	85.00	7.09	83.90	7.23	—1.10	+0.14
6½% 2003	93.75	7.05	92.90	7.15	—0.85	+0.10
6½% 2004	94.00	7.02	87.70	7.64	—6.30	+0.62
6½% 2005	91.10	7.27	89.00	7.49	—2.10	+0.22
6¾% 2006	93.55	7.31	89.20	7.74	—4.35	+0.43
6¾% 2007	98.95	6.84	88.30	7.80	—10.65	+0.96
7 % 2009	100.25	6.98	95.15	7.41	—5.10	+0.43
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	95.10	7.93	—5.10	+0.45
7½% 2010 (II)	—	—	100.20	7.48	—	—
7½% 2010 (III)	—	—	100.20	7.48	—	—
7½% 2010 (IV)	—	—	100.20	7.48	—	—
National Defence Gold Bond 1980 ..	1155.00	—				
Non-Terminable						
3 % 1986 (or later)	62.00	4.84F	67.00	4.48F	+5.00	—0.36
3 % (Government Rupee Paper)	61.00	4.92F	67.00	4.48F	+6.00	—0.44
6¼ 1987	—	—	100.00	6.25	—	—
7¼% 1997	—	—	100.00	7.25	—	—
8 % 2011	—	—	100.20	7.98	—	—

capital of Rs. 256.7 crores as against 113 issues for Rs. 63.3 crores during the corresponding period of 1980. This increase was on account of a substantial rise in the equity issues through prospectus which spurted from Rs. 23.4 crores in January-June 1980 to Rs. 176.2 crores in January-June 1981. Besides, there were debenture issues through prospectus for Rs. 43.8 crores during the period as against none during January-June 1980. The increase was mainly due to bigger capital issues by companies like the Gujarat Narmada Valley Fertilisers Co. Ltd., (Rs. 89.0 crores), the Reliance Textile Industries Ltd., (Rs. 24.0 crores), the Indian Rayon Corporation Ltd., (Rs. 10.0 crores) and the electric power supply companies of the Tata group (Rs. 17.5 crores). Security-wise, equity issues and debenture issues amounted to Rs. 194.7 crores and Rs. 60.0 crores, respectively, as against Rs. 34.2 crores and Rs. 28.7 crores. The rise in issue of debentures through prospectus during 1980 and in the first half of 1981, could be attributed to the increase in the ceiling rate of interest on secured public debentures.

(iv) Consents for Capital Issues

During the year 1980, the total value of consents for capital issues [inclusive of acknowledgements of proposals under the Capital Issues (Exemption) Order, 1969] granted by the Controller of Capital Issues to non-Government public limited companies amounted to Rs. 773.7 crores, that is, 62.5 per cent higher than the value of Rs. 476.0 crores for similar consents during 1979 (Table VIII-5).

There was a sharp increase in the amount of consents for equity shares, mainly on account of consents for large amounts given to

Table VIII-4: Fresh Capital Issues through Prospectus and Rights by Public Limited Companies*

(Rupees Crores)

Year	Issues through Prospectus					Issues through Rights					Grand Total		Distribution between			
	No. of Issues	Equity Shares	Preference Shares	Debentures	Total (3+4+5)	No. of Issues	Equity Shares	Preference Shares	Debentures	Total (8+9+10)	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)																
1977	106	73.3	2.2	—	75.5	41	18.2	0.6	—	18.8	147	94.3	63	50.4	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	86.9	0.4	7.0	94.3	71	21.9	—	59.8	81.7	187	176.0	68	49.1	119	126.9
1980**	141	62.6	1.8	34.1	98.5	60	18.1	0.2	39.9	58.2	201	156.7	115	53.9	86	102.8
(January-June)																
1980**	78	23.4	0.2	—	23.6	35	10.8	0.2	28.7	39.7	113	63.3	61	17.1	52	46.2
1981**	118	176.2	2.0	43.8	222.0	39	18.5	—	16.2	34.7	157	256.7	104	146.9	53	109.8
Government Companies																
(January-December)																
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	—	—
1980**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(January-June)																
1980**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1981**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Grand Total																
(January-December)																
1977	111	76.9	2.2	5.5	84.6	41	18.2	0.6	—	18.8	152	103.4	67	54.0	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	90.8	0.4	7.0	98.2	71	21.9	—	59.8	81.7	189	179.9	70	53.0	119	126.9
1980**	141	62.6	1.8	34.1	98.5	60	18.1	0.2	39.9	58.2	201	156.7	115	53.9	86	102.8
(January-June)																
1980**	78	23.4	0.2	—	23.6	35	10.8	0.2	28.7	39.7	113	63.3	61	17.1	52	46.2
1981**	118	176.2	2.0	43.8	222.0	39	18.5	—	16.2	34.7	157	256.7	104	146.9	53	109.8

* Other than term-lending institutions.

** Provisional.

@ Companies which had not gone in for commercial production/business at the time of the public issue.

Source : Prospectuses/Circulars and replies to our questionnaires received from the companies.

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
	Equity Shares	Preference 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									
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
1980	261.3 (77.4)	8.4 (2.5)	67.7 (20.1)	337.4 (100.0)	121.1 (35.9)	216.3 (64.1)	125.4	310.9	773.7
January-June									
1980	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
1981	69.5 (35.4)	1.6 (0.8)	125.3 (63.8)	196.4 (100.0)	32.8 (16.7)	163.6 (83.3)	30.1	9.3	235.8

*These are loans other than the 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.

a few companies in the chemical and fertiliser industry group. In the total consents for equity shares which increased from Rs. 110.8 crores in 1979 to Rs. 261.3 crores in 1980, over Rs. 100 crores were accounted for by only two companies, namely, the Gujarat Narmada Valley Fertilisers Co. Ltd. (Rs. 61.46 crores) and the Nagarjun Fertiliser & Chemicals Ltd. (Rs. 40.00 crores). Besides, there were four other chemical and fertiliser companies which were granted consents to issue equity capital of around Rs. 10 crores each. Similarly, the amount of consents granted for loans, etc., was inflated mainly due to the consent for a loan of Rs. 180 crores to the Tata Iron and Steel Company Ltd. Amount approved for bonus shares also went up from Rs. 78.8 crores in 1979 to Rs. 125.4 crores in 1980.

Consents for issues of debentures and preference shares were lower than in 1979. Consents granted for issue of debentures declined considerably from Rs. 138.8 crores in 1979 to Rs. 67.7 crores in 1980. Consents for issue of preference shares also marginally declined to Rs. 8.4 crores. The fall in consents for debentures and preference shares was, however, more than offset by the rise in consents for equity shares. The total value of consents granted for the raising of fresh capital through shares (other than bonus) and debentures taken together at Rs. 337.4 crores in 1980 was higher by 30.4 per cent than that in 1979. Out of the total consents for raising fresh capital, 64.1 per cent or Rs. 216.3 crores was for further issues and the rest, Rs. 121.1 crores, for initial issues.

The total value of consents granted during January-June 1981 at Rs. 235.8 crores was Rs. 2.2 crores more than that granted during the corresponding period of 1980. A noteworthy feature was the prominence of consents for debentures following the policy changes in respect of the interest ceiling and debt-equity norms governing the issues of debentures. Consents granted for equity shares (other than bonus) and loans at Rs. 69.5 crores and Rs. 9.3 crores, respectively, were substantially

lower than those granted during the corresponding period of 1980. On the other hand, the consents for debenture issues granted during January-June 1981 at Rs. 125.3 crores was almost five times the amount of Rs. 26.6 crores granted during the corresponding period of 1980. While the hike in interest rate increased the attractiveness of debentures to prospective investors, the relaxation in the debt-equity norm enabled companies to issue debentures for higher values.

(v) Capital Raised

Total capital raised by Government and non-Government companies under consents/ acknowledgements of proposals granted by the Controller of Capital Issues during 1980 at Rs. 233.5 crores was lower by Rs. 46.0 crores than the amount of Rs. 279.5 crores raised during 1979.

Non-Government Companies

Total capital raised during the year 1980 by non-Government companies amounted to Rs. 227.0 crores, almost the same as during the preceding year (Table VIII-6). While capital raised by issue of shares (equity and preference) declined by 32.1 per cent to Rs. 70.4 crores, capital raised through debentures showed a sizeable increase of 91.3 per cent to Rs. 63.7 crores. Thus, capital raised (other than through bonus shares and loans) aggregated Rs. 134.1 crores in 1980 as against Rs. 137.1 crores in 1979. Capital raised in the form of bonus shares amounted to Rs.82.7 crores which was marginally lower than that in the preceding year.

During the period January-March 1981, total capital raised showed a sharp decline to Rs. 21.2 crores from Rs. 65.6 crores in the corresponding period of last year. This was mainly on account of a steep decline in capital raised through debentures which amounted to less than Rs. 1 crore, compared with Rs. 33.7 crores in the quarter January-March, 1980.

Government Companies

The total amount of capital raised by Government companies during 1980 was substantially lower at Rs. 6.5 crores than Rs. 52.0 crores raised during 1979. As against Rs. 17.8 crores and Rs. 26.0 crores raised in 1979 by issue of debentures and bonus shares, respectively, no capital was raised in 1980 by such issues.

Table VIII-6 : Capital Raised (Paid-up) under Consents/Acknowledgements of Proposals

(Rupees Crores)

	1979	1980@	January-March 1980@	January-March 1981@
A.—Non-Government Companies (i to v)	**227.5**	**227.0**	**65.6**	**21.2**
(*i*) Equity	96.8	69.8	17.0	13.9
(*ii*) Preference	7.0	0.6	—	—
(*iii*) Debentures	33.3	63.7	33.7	0.8
Total (i to iii)	**137.1**	**134.1**	**50.7**	**14.7**
(*iv*) Bonus	88.5	82.7	7.1	5.1
(*v*) Loans*, etc.	1.9	10.2	7.8	1.4
B. Government Companies (i to v)	**52.0**	**6.5**	—	**0.8**
(*i*) Equity	3.0	6.4	—	0.8
(*ii*) Preference	—	0.1	—	—
(*iii*) Debentures	17.8	—	—	—
Total (i to iii)	**20.8**	**6.5**	—	**0.8**
(*iv*) Bonus	26.0	—	—	—
(*v*) Loans,* etc.	5.2	—	—	—

* These are loans other than loans granted by public financial institutions, banks, etc., which are exempted from control of capital issues.

@ Provisional.

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.

(vi) Developments in Policy

During the year under review, the Government took a series of meaures having a bearing on the capital market. The measures were particularly aimed at encouraging large industrial units to raise their requirements of investment finance through their own efforts and to reduce the burden on the term-lending institutions. Within the overall framework of its foreign investment policy, the Government announced in October 1980 a new facility for investment from oil-exporting-developing-countries (OEDC). In terms of this facility, investment of a portfolio nature from OEDC sources has been permitted in new companies in specified industries such as fertilisers, cement, paper, petro-chemicals, etc., or in export-oriented projects upto 40 per cent of the equity capital. Such investment has also been permitted in new hotels and hospitals.

In October 1980, Government revised the guidelines for issue of debentures to permit more effective use of this instrument for mobilisation of funds from the public. The interest rate ceiling on secured public debentures redeemable after seven years was raised from 11 per cent to 12 per cent. The debt-equity norm for the purpose of issuing such debentures was also relaxed from 1:1 to 2:1. In his budget speech for 1981-82, the Union Finance Minister announced a further hike to 13.5 per cent in the ceiling on interest rate on such debentures. Besides this, the following decisions of the Government were also announced by the Minister in his budget speech:

1. As per the earlier guidelines issued by the Government for listing of securities in any Stock Exchange, promoters could hold a maximum of 40 per cent equity of the new company. This provision conflicted in some cases with the requirements of the financial institutions and/or M.R.T.P. Act that promoters should put up a minimum percentage of the total cost of the project. These two different requirements had given rise to considerable difficulties in the implementation of new projects. In order to overcome these problems, the Government amended the guidelines to allow the promoters to hold higher equity than the 40 per cent limit, subject to a ceiling of 70 per cent during the initial stages of a project to match their promoters' contribution required to be put up by financial institutions/M.R.T.P. Act. However, equity holdings above 40 per cent have to be divested within three years from the date of commercial production by an offer of sale to the general public.

2. The surcharge on income-tax payable by all classes of companies was reduced by 5 percentage points, i.e., from 7·5 per cent to 2·5 per cent.

3. At present, public limited companies are permitted to accept deposits from the public upto 25 per cent of the aggregate of their paid-up share capital and free reserves and a further 10 per cent either from their shareholders or from others when guaranteed by a director of the company. As per the amendment to the Companies (Acceptance of Deposits) Rules, 1975 carried out in July 1978, this aggregate limit of 35 per cent was to be brought down to 25 per cent by April 1, 1980 which period was further extended in March 1980 upto April 1, 1981. Now, this limit of 35 per cent has been allowed to continue. However, a ceiling of 15 per cent has been imposed on the interest rate which can be paid on these deposits. A ceiling of 1 per cent has also been imposed on the brokerage payable by companies on deposits received through brokers.

4. Fourteen more groups of industries, some of which have export potential, have been made eligible for specified investment related tax concessions like investment allowance and tax-holiday under the Income-tax Act by removing them from the Eleventh Schedule to the Act.

5. In order to promote the use of non-conventional forms of energy (viz., solar, biomass and wind energy), the depreciation allowance on machinery or plant installed for manufacturing or using renewable energy devices and systems has been enhanced from 10 per cent to 30 per cent.

6. To encourage establishment of export-oriented industries in the Free Trade Zones, complete tax holiday is allowed to the units set up in these zones for an initial period of five years in *lieu* of other concessions.

7. In line with the new definition of small scale industry, the limit of investment in plant and machinery of a small scale industrial undertaking has been raised from Rs. 10 lakhs to Rs. 20 lakhs for the purposes of the tax concessions under the Income-tax Act.

8. With a view to encouraging the development of electronics industry, the electronic component industry has been included in the Ninth Schedule to the Income-tax Act. The dividends derived by a domestic company from an Indian company engaged exclusively in the manufacture of electronic components has been completely exempted from income-tax. Further, the scope of import duty concessions has been extended so as to cover 59 new items of capital equipment and 23 new items of raw materials and components used by it.

II. Term-Lending Institutions

The term-lending institutions (*i.e.*, the IDBI, the IFCI, the ICICI, the IRCI, the UTI, the LIC, the GIC and its subsidiaries, SFCs and SIDCs/SIICs) reported further improvement in their operations during 1980-81 (April-March), with an increase of 27·2 per cent in their total sanction and of 35·7 per cent in disbursements. The total assistance sanctioned and disbursed by the financial institutions, increased from Rs. 1,862·0 crores and Rs. 1,180·1 crores in 1979-80 (April-March) to Rs. 2,369·4 crores and Rs. 1,601·5 crores, respectively, in 1980-81 (April-March) (Table VIII-7). Sanctions and disbursements of direct loans (*i.e.*, rupee loans and foreign currency loans) at Rs. 2,253·6 crores and Rs. 1,531·5 crores were higher during 1980-81 by Rs. 590·0 crores and Rs. 444·9 crores, respectively, than those during 1979-80. However, assistance sanctioned and disbursed by way of underwriting of and direct subscriptions to shares and debentures at Rs. 115·8 crores and Rs. 70·0 crores was lower by Rs. 82·6 crores and Rs. 23·5 crores, respectively, than that in 1979-80.

During the financial year 1980-81, the IDBI's total sanctions and disbursements (excluding refinance facilities to SFCs, SIDCs/SIICs and subscriptions to shares and bonds of financial institutions) at Rs. 1,141·2 crores and Rs. 758·5 crores, were higher by Rs. 184·0 crores and Rs. 200·0 crores, respectively, than in the previous year and constituted 48·2 per cent and 47·4 per cent of total sanctions and disbursements by all the financial institutions. Sanctions and disbursements by the IFCI during 1980-81 increased by Rs. 73·8 crores and Rs. 17·7 crores to Rs. 211·7 crores and Rs. 108·7 crores, respectively. Financial assistance sanctioned and disbursed by the ICICI at Rs. 314·4 crores and Rs. 175·0 crores, was higher by Rs. 110·1 crores and Rs. 39·2 crores, respectively. Sanctions of financial assistance by the IRCI at Rs. 17·9 crores and disbursements at Rs. 16·8 crores were higher by 17·8 per cent and 34·4 per cent, respectively, than in the previous year.

Total assistance (including short-term loans) sanctioned and disbursed by the LIC during 1980-81 amounted to Rs. 171·0 crores and Rs. 169·3 crores as against Rs. 80·0 crores and Rs. 65·5 crores, respectively, during 1979-80. Sanctions and disbursements by the UTI during 1980-81 aggregated Rs. 41·4 crores and Rs. 51·0 crores as compared with Rs. 74·8 crores and Rs. 63·9 crores, respectively, during 1979-80. Aggregate assistance sanctioned and disbursed by the General Insurance Corporation of India (GIC) and its four subsidiaries during April 1980-March 1981 amounted to Rs. 30·8 crores and Rs. 44·0 crores and was lower by 53·3 per cent and 15·4 per cent, respectively, than in the preceding year.

Investments of the LIC in stock exchange securities, loans, etc., increased by Rs. 732.8 crores to Rs. 6,020.5 crores as at the end of March 1981. The investments of GIC and its subsidiaries in stock exchange securities, loans, etc., increased over the year by Rs. 115.3 crores to Rs. 863.9 crores as on December 31, 1980. The investible funds of the Unit Trust of India amounted to Rs. 523.2 crores as at the end of June 1981 as against Rs. 467.0 crores as at the end of June 1980.

Direct financial assistance sanctioned by the IDBI, the IFCI and the ICICI during 1980·81 increased to Rs. 961.7 crores from Rs. 711.1 crores during 1979-80. Similarly, the direct assistance disbursed by them also increased to Rs. 600.7 crores from Rs. 417.0 crores in 1979-80 (TableVIII—8). The share of the

Table VIII—7 : 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
1978-79	1214.8	851.6	71.2	43.2	73.1	44.0	61.0	28.5	1420.1	967.3
	(+12.0)	(+39.5)	(+90.4)	(—18.3)	(—13.3)	(+13.7)	(+78.6)	(+55.5)	(+14.6)	(+34.1)
1979-80*	1579.2	1042.8	84.4	43.8	99.2	34.8	99.2	58.7	1862.0	1180.1
	(+37.0)	(+22.4)	(+18.5)	(+1.4)	(+35.7)	(—20.9)	(+62.6)	(+53.3)	(+31.1)	(+22.0)
1980-81*	2098.8	1456.2	154.8	75.3	79.8	24.4	36.0	45.6	2369.4	1601.5
(Provisional)	(+32.9)	(+39.6)	(+83.4)	(+71.9)	(—19.6)	(—29.9)	(—63.8)	(—22.3)	(+27.2)	(+35.7)

@ Covers IDBI, IFCI, ICICI, IRCI, LIC, GIC and its four subsidiaries, SFCs and SIDCs/SIICs.

* Data on only 14 SFCs and 14 SIDCs/SIICs were covered.

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. In the case of LIC and GIC, assistance includes sanctions (gross) and disbursements of short-term loans also.

2. Assistance by GIC and its subsidiaries includes loans to State Governments for housing programmes and to HUDCO/DDA.

3. Figures in brackets are percentage variations over the previous year. For working out variations for 1978-79 over 1977-78, data on assistance by GIC and its subsidiaries are excluded.

newly established companies in sanctions as well as disbursements declined over the year from 40.7 per cent and 36.3 per cent to 33.1 per cent and 31.3 per cent, respectively. The major share in both sanctions and disbursements was claimed by the existing companies for the purposes of expansion of existing capacities and modernisation, etc.

Table VIII.8 : 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
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 ..	289.1 (40.7)	76.8 (10.8)	345.2 (48.5)	711.1 (100.0)	151.3 (36.3)	70.9 (17.0)	194.8 (46.7)	417.0 (100.0)
1980-81 ..	318.0 (33.1)	127.3 (13.2)	516.4 (53.7)	961.7 (100.0)	187.8 (31.3)	31.7 (5.3)	381.2 (63.4)	600.7 (100.0)

£ Comprising project loan, soft loan and assistance under Technical Development Fund Scheme.
@ Includes foreign currency loans also.
Note : Figures in brackets are percentages to totals.

Soft Loan Scheme

Under the Soft Loan Scheme, operated by the IDBI in collaboration with the ICICI and the IFCI to provide financial assistance for modernisation of units in the five selected industries, viz., cotton textiles, jute, cement, sugar and certain specified engineering industries, assistance sanctioned during July 1980-June 1981 amounted to Rs. 144.3 crores and disbursements to Rs. 133.6 crores. The cumulative sanctions and disbursements as on June 30, 1981 amounted to Rs. 695.4 crores and Rs. 323.5 crores, respectively (Table VIII—9). During the year, disbursements under the Scheme further improved to 46.5 per cent of the amount sanctioned as against 34.5 per cent as on June 30, 1980.

Assistance to Small-Scale Industries/Backward Areas

The IDBI's indirect assistance to small-scale industries through State-level institutions and commercial banks by way of refinance of industrial loans and assistance under the bills rediscounting scheme showed a sharp increase in 1980-81 over 1979-80. The total assistance by the IDBI sanctioned and disbursed to small-scale sector under these schemes increased to Rs. 307.7 crores and to Rs. 189.2 crores during 1980-81 from Rs. 265.4 crores and Rs. 160.9 crores during 1979-80. Financial assistance by fourteen SFCs, sanctioned and disbursed to units in small-scale sector amounted to Rs. 226.0 crores and Rs. 114.9 crores, respectively, during 1980-81. The corresponding sanctions and disbursements made by 18 SFCs during 1979-80 had amounted to Rs. 189.1 crores and Rs. 130.6 crores, respectively (Table VIII—10). Under the Credit Guarantee Scheme for small-scale industries, the amount of guarantees outstanding increased to Rs. 3,704.9 crores as at the end of March 1981 from Rs. 3,289.1 crores a year ago.

The assistance sanctioned and disbursed by the financial institutions to projects in the speci-

Table VIII-9 : Progress of Soft Loan Scheme upto the end of June 1981

Industry	Applications* received		Sanctions		Disbursements		Column (7) as per cent of Column (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	266 (226)	565.7 (483.4)	251 (209)	364.5 (296.9)	189 (116)	179.6 (89.9)	49.3 (30.3)
Cement	18 (14)	93.6 (78.5)	17 (12)	75.9 (65.0)	13 (10)	49.8 (39.1)	65.6 (60.0)
Sugar	29 (23)	62.5 (50.4)	29 (23)	47.4 (38.0)	16 (13)	23.9 (20.9)	50.4 (55.0)
Jute	23 (20)	73.7 (60.8)	22 (20)	44.1 (39.0)	5 (4)	6.7 (3.9)	15.2 (10.0)
Engineering	108 (86)	236.5 (153.2)	103 (77)	163.5 (112.2)	76 (51)	63.5 (36.1)	38.8 (32.2)
Total ..	**444 (369)**	**1032.0 (826.3)**	**422 (341)**	**695.4 (551.1)**	**299 (194)**	**323.5 (189.9)**	**46.5 (34.5)**

* After adjusting proposals rejected/withdrawn/closed.
Note : Figures in brackets indicate the progress upto the end of June 1980.

Table VIII-10 : Financial Assistance Sanctioned and Disbursed by Term-Lending Institutions to Projects in the Small-Scale Industries Sector

(Year : April-March)

(Rupees Crores)

Institutions	1979-80		1980-81 (Provisional)	
	Sanctioned	Disbursed	Sanctioned	Disbursed
IDBI@ ..	265.4	160.9	307.7	189.2
IRCI ..	0.4	0.3	0.2	0.3
SFCs ..	189.1	130.6	226.0**	114.9**
SIDCs/SIICs ..	3.4*	1.8*	3.6**	2.0**

@Comprising assistance under refinance and bills rediscounting schemes.
*Relates to 13 SIDCs/SIICs.
**Relates to 14 SFCs and 14 SIDCs/SIICs.

fied backward areas and to new and small entrepreneurs was substantially higher during 1980-81 than in the previous year. In the case of projects located in the backward areas, sanctions and disbursements increased to Rs. 846.5 crores and Rs. 507.6 crores, respectively, from Rs. 608.0 crores and Rs. 454.6 crores during 1979-80. The amounts sanctioned and disbursed to new/small entrepreneurs aggregated Rs. 192.4 crores and Rs. 108.7 crores as compared with Rs. 145.9 crores and Rs. 79.4 crores, respectively, during 1979-80 (Table VIII—11). The assistance by the financial institutions to units in the co-operative sector and in the public sector are given in Table VIII—12. The increase in the sanctions and disbursements to units in the public sector during 1980-81, may be partly attributed to LIC's higher involvement in lending to this sector.

(i) The Industrial Development Bank of India

During July 1980-June 1981, the operations of the Industrial Development Bank of India (IDBI) recorded sizeable growth. Total sanctions under all the schemes of assistance (excluding guarantees) at Rs. 1,754.4 crores in respect of 62,696 applications were higher by 32.9 per cent than Rs. 1,319.8 crores on 55,519 applications during 1979-80. Total disbursements during the year 1980-81 amounted to Rs. 1,117.8 crores, 33.9 per cent higher than Rs. 835.0 crores disbursed during 1979-80 (Table VIII—13). Cumulative assistance (excluding guarantees) sanctioned and disbursed by the IDBI till June 30, 1981 aggregated Rs. 7,088.4 crores in respect of 196,804 applications and Rs. 4,729.5 crores, respectively. Total assistance outstanding on the same date was Rs. 3,214.0 crores.

Table VIII-11: 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					
	1978-79		1979-80		1980-81 (Provisional)		1978-79		1979-80		1980-81 (Provisional)	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
IDBI*	200.3	165.0	204.7	183.2	379.6	234.7	18.6	1.9	34.5	2.5	18.6	2.3
IFCI@	69.6	47.3	61.3	47.2	103.8	53.7	9.2	7.8	9.0	4.7	9.6	7.2
ICICI	71.4	46.9	76.8	47.0	116.1	61.1	10.2	14.2	5.4	7.6	16.4	7.7
IRCI	0.3	1.2	0.5	0.5	2.8	1.1	—	—	—	—	—	—
SFCs	113.6	68.2	139.1	95.0	154.8**	89.8**	25.9	13.2	35.0	20.7	80.7**	42.8**
SIDCs	68·0	39.2	99.1	53.8	74.5**	47.9**	27.7	12.2	47.6	18.2	35.5**	24.9**
Total	**523.2**	**367.8**	**581.5**	**426.7**	**831.6**	**488.3**	**91.6**	**49.3**	**131.5**	**53.7**	**160.8**	**84.9**
LIC	15.9	10.2	13.9	20.4	13.1	16.4	14.6	17.9	14.4	25.7	31.6	23.8
GIC and its Subsidiaries..	6.7	1.9	12.6	7.5	1.8	2.9	—	—	—	—	—	—
Grand Total	**545.8**	**379.9**	**608.0**	**454.6**	**846.5**	**507.6**	**106.2**	**67.2**	**145.9**	**79.4**	**192.4**	**108.7**

* Data on assistance to backward areas relate to concessional finance and those to new and small entrepreneurs cover assistance to technician entrepreneurs only.

@ Including guarantees.

— Nil or Negligible.

** Data relate to 14 SFCs and 14 SIDCs/SIICs and are provisional.

Table VIII—12: Assistance Sanctioned and Disbursed by Financial Institutions to Industrial Companies in the Co-operative and Public Sectors

(Year: April-March) (Rupees Crores)

Institutions	Co-operative Sector						Public Sector					
	1978-79		1979-80		1980-81 (Provisional)		1978-79		1979-80		1980-81 (Provisional)	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
IDBI @	19.8	30.6	8.6	13.4	28.1	12.2	74.2	87.8	108.9	45.1	165.3	107.9
IFCI	5.3	9.0	3.7	5.1	13.7	2.9	12.4	7.5	19.6	18.3	44.2	9.1
ICICI	6.8	9.4	2.4	3.0	5.4	3.6	3.0	4.6	2.4	6.5	8.5	3.5
IRCI	—	—	—	—	—	—	0.5*	—	—	0.3	0.5*	0.6
SFCs	2.3	1.4	2.2	2.3	1.0@@	0.3@@	2.9	2.9	3.6	2.3	4.8@@	3.2@@
SIDCs/SIICs	—	—	0.6	0.3	0.5@@	0.4@@	10.7	12.3	14.8	13.2	11.2@@	7.4@@
Total	**34.2**	**50.4**	**17.5**	**24.1**	**48.7**	**19.4**	**103.7**	**115.1**	**149.3**	**85.7**	**234.5**	**131.7**
LIC	0.4	2.2	—	5.5	—	0.4	10.6	5.7	6.5	15.4	70.9**	71.0**
GIC and its Subsidiaries..	—	—	—	—	—	—	23.8	27.0	32.9	26.3	9.2	18.0
Grand Total	**34.6**	**52.6**	**17.5**	**29.6**	**48.7**	**19.8**	**138.1**	**147.8**	**188.7**	**127.4**	**314.6**	**220.7**

@ Total assistance under all schemes of IDBI (excluding guarantees and assistance to financial institutions).

* Consist of only one State public undertaking.

— Nil or Negligible.

** Includes short-term loans amounting to Rs. 60.5 crores to public sector companies.

@@ Data relate to 14 SFCs and 14 SIDCs/SIICs and are provisional.

Table VIII-13: Summary of Operations of Industrial Development Bank of India

(Year: July-June) (Rupees Crores)

Type of Assistance	Sanctions				Cumulative sanctions since inception upto end of June 1981		Disbursements		Cumulative disbursements since inception upto end of June 1981	Amount outstanding as on June 30, 1981
	1979-80		1980-81				1979-80	1980-81		
	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)	242	377.9	300	582.9	1505	2197.9	209.6	349.4	1328.8	1204.4
2. Underwriting of and direct subscriptions to shares and debentures of industrial concerns..	49	38.0	65	70.6	537	235.8	7.7	4.2	77.6	67.7
3. Refinance of industrial loans	54060	614.1	60915	691.1	189595	2561.9	410.3	482.7	1785.2	1071.4
4. Rediscounting of bills	1074	174.6	1311	235.1	4667	1330.2	131.5	176.2	1029.5	495.2
5. Seed capital through SIDCs	35	1.4	44	2.0	137	5.5	0.9	1.2	2.8	2.6
6. Total Export Finance	39	73.6	37	116.0	328	505.8	33.1	50.9	259.1	151.2
7. Subscriptions to shares and bonds of financial institutions	20	40.2	24	56.7	35	251.3	41.9	53.2	246.5	221.5
Total (1 to 7)	**55519**	**1319.8**	**62696**	**1754.4**	**196804**	**7088.4**	**835.0**	**1117.8**	**4729.5**	**3214.0**
8. Guarantees for loans and deferred payments..	—	—	2	3.1	17	29.8	—	—	19.5*	—
9. Export Guarantees	103	100.1	104	144.4	381	406.0	94.6*	138.1*	374.5*	—

* 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 number of financial institutions.

2. In case of Bills Rediscounting Scheme amount sanctioned represents face value of bills rediscounted, while amount disbursed indicates the net disbursements after deduction of discount charges from the face value of the bill.

Direct Project Assistance

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) sanctioned at Rs. 653.5 crores during 1980-81 (to 365 applicants) was 57.1 per cent higher than that of Rs. 415.9 crores (to 291 applicants) in the preceding year. Direct assistance disbursed at Rs. 353.6 crores showed a rise of 62.7 per cent over the year. There was deceleration in the flow of applications under the Soft Loan Scheme during 1980-81. Assistance sanctioned under the Scheme declined by 21.5 per cent from Rs. 93 crores in 1979-80 to Rs. 73 crores in 1980-81; disbursements, however, went up by 34.9 per cent to Rs. 85 crores from Rs. 63 crores. Textile industry was the major beneficiary claiming Rs. 38 crores or 52.1 per cent of the sanctions under the Soft Loan Scheme.

Refinance and Bills Rediscounting

The IDBI's indirect assistance to small and medium scale industrial units and transport operators is routed through SFCs, SIDCs and commercial banks mainly under its schemes of refinance of industrial loans and bills rediscounting. Sanctions and disbursements during 1980-81 under the Refinance of Industrial Loans Scheme went up by 12.5 per cent and 17.6 per cent to Rs. 691.1 crores and Rs. 482.7 crores, respectively. About 68 per cent (Rs. 469 crores) of the total refinance assistance was sanctioned to small-scale sector (including small road transport operators). During the year 1980-81, the IDBI also sanctioned assistance of Rs. 4.9 crores to 5,647 units under the composite loan scheme to meet both fixed and working capital requirements of the village and cottage industries in the tiny sector.

The IDBI's assistance under the Bills Rediscounting Scheme also showed a considerable increase. The amount sanctioned increased from Rs. 174.6 crores in 1979-80 to Rs. 235.1 crores in 1980-81 and disbursements from Rs. 131.5 crores to Rs. 176.2 crores. Purchaser-users in small-scale sector and in public sector utilities like State Electricity Boards and State Road Transport Corporations were sanctioned assistance to the tune of Rs. 44 crores and Rs. 33 crores, respectively, during 1980-81.

Export Finance

The IDBI's export financing operations showed an impressive growth during 1980-81. Under its various schemes of export finance, the IDBI sanctioned and disbursed Rs. 116.0 crores and Rs. 50.9 crores during 1980-81, recording increases of 57.6 per cent and 53.8 per cent over 1979-80. The maximum sanction of assistance at Rs. 54.1 crores was under the overseas buyers' credit scheme under which a new credit line of Rs. 52 crores to Indonesia and an enhancement of the existing line of credit to Tanzania by Rs. 2 crores were sanctioned. Under the foreign lines of credit scheme, three new lines of credit were sanctioned during the year—Rs.12 crores to Sudan, Rs. 10 crores to Thailand and Rs. 5 crores to Seychelles. In addition, an earlier credit line sanctioned to Mozambique was enhanced by Rs. 7 crores. Assistance of post-shipment credit (direct loans) of Rs. 14 crores was sanctioned for facilitating export of buses, tractors, two-wheelers, scooters, transmission line tower, bicycles, textile machinery, etc., to Arab Republic of Egypt, Uganda, Tanzania, Indonesia and Libya. In order to facilitate the setting up of joint ventures abroad by Indian promoters, the IDBI sanctioned an assistance of Rs. 3 crores under the overseas investment finance scheme.

Assistance to Backward Areas

The IDBI's assistance to units in the specified backward areas also recorded substantial increase during the year 1980-81. The IDBI sanctioned assistance of Rs. 744.8 crores (47.1 per cent of the total sanctions) and disbursed Rs. 416.1 crores (41.1 per cent of the total disbursements) to units in the specified backward districts as against Rs. 577.3 crores sanctioned and Rs. 308.4 crores disbursed during the preceding year. Of this, the assistance sanctioned and disbursed on concessional terms during the year aggregated Rs. 560.5 crores and Rs. 248.9 crores as against Rs. 301.9 crores and Rs. 195.9 crores, respectively, in 1979-80.

Assistance to Small-Scale Industries

The IDBI's indirect assistance to small-scale industries and small road transport operators, provided under the refinance and the bills rediscounting schemes, showed a further increase during 1980-81. Refinance assistance which constitutes the major portion of total assistance to this sector, increased by 8.1 per cent, from Rs. 433.8 crores in 1979-80 to Rs. 469.1 crores in 1980-81. Under the Bills Rediscounting Scheme, bills worth Rs. 43.9 crores were discounted during the year as against bills worth Rs. 26.5 crores in 1979-80.

Subscriptions to Shares and Bonds of Financial Institutions

Besides providing direct and indirect assistance to industrial units, the IDBI also provides financial support to other term-lending institutions by subscribing to their shares and bonds issues. During the year under review, the IDBI subscribed Rs. 37 crores to the bonds issues of IFCI (Rs. 20 crores) and ICICI (Rs. 17 crores) to provide resource support to these two institutions for their participation in the soft loan scheme. A sum of Rs. 125 lakhs was subscribed to the share capital of IFCI representing IDBI's share in the total share capital of Rs. 250 lakhs raised by the IFCI. The IDBI also subscribed a sum of Rs. 15 crores towards the share capital of 17 SFCs and Rs. 5 lakhs to the share capital of four Technical Consultancy Organisations. Thus, during 1980-81, the IDBI subscribed Rs. 53.2 crores to the shares and bonds of financial institutions raising the total of such subscriptions to Rs. 246.5 crores as at the end of June 1981.

Interest Rates

The interest rates charged by the IDBI on assistance extended under various schemes changed twice during the period under review. First, following the levy of interest tax on IDBI and other all-India term-lending institutions the rates were revised upward with effect from July 1, 1980. Lending rates were again revised with effect from March 2, 1981, having regard to the increasing cost of funds to be mobilised by the IDBI during the Sixth Five Year Plan period and the need for a better alignment in the interest rates structure. The structure of interest rates of the IDBI effective from March 2, 1981 is presented in Table VIII—14.

(ii) The Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) sanctioned a total financial assistance of Rs. 211.7 crores during 1980-81 (April-March), 53.5 per cent higher than Rs. 137.9 crores sanctioned in 1979-80. The assistance disbursed during the year at Rs. 108.7 crores showed a rise of 19.5 per cent over the preceding year (Table VIII—15).

A major portion, 68 per cent of the total assistance sanctioned was in respect of industries of high national priority, such as fertilisers, cement, power generation, paper, industrial machinery, etc. The IFCI's sanctions to projects in the specified backward districts increased substantially from Rs. 61.3 crores in 1979-80 to Rs. 103.8 crores and formed 49 per cent of the total assistance sanctioned during 1980-81. It included assistance of Rs. 24.7 crores approved on concessional terms. However, disbursements to such projects at Rs. 53.7 crores showed a smaller rise of 13.8 per cent over Rs. 47.2 crores in 1979-80. In the term-loans sanctioned by the IFCI, Rs. 81.8 crores was the share of the newly established companies and the rest Rs. 115.7 crores of the existing companies comprising Rs. 16.7 crores for new projects and Rs. 99.0 crores for expansion and modernisation. In the disbursements of term-loans which at Rs. 107.6 crores were higher by Rs. 18.6 crores than in the last year, newly established companies accounted for Rs. 38.2 crores and the existing companies for the balance Rs. 69.4 crores.

Out of Rs. 211.7 crores assistance sanctioned to 275 projects during the year, rupee loans of Rs. 42.0 crores were sanctioned to 79 projects under the Soft Loan Scheme. As on March 31, 1981, IFCI's total sanctions under the Scheme amounted to Rs. 140.5 crores to 261 projects of 202 concerns.

As on March 31, 1981 cumulative financial assistance sanctioned and disbursed (including guarantees) by the IFCI aggregated Rs. 1,195.7 crores (1,358 projects) and Rs. 852.2 crores, respectively.

Table VIII—14 : Structure of IDBI's Interest Rates

(Revised Rates from March 2, 1981)

(Per cent per annum)

	Direct Lending	Indirect Lending		Ceiling on Primary Lenders' Rate
		Banks	SFCs/ SIDCs	
	1	2	3	4
A. Direct Loans				
1. Basic lending rate	14.00	—	—	—
2. Concessional rates				
(*a*) to new units in specified backward areas (upto Rs. 2 crores to a unit in the aggregate*)	12.50	—	—	—
(*b*) on soft component under the soft loan scheme	12.50	—	—	—
3. Bridging loans				
(*a*) normal loans	15.00	—	—	—
(*b*) to new units in specified backward areas (upto Rs. 2 crores to a unit in the aggregate*)	13.50	—	—	—
(*c*) on soft component under the soft loan scheme	13.50	—	—	—
4. Foreign currency loans				
(*a*) normal	14.00	—	—	—
(*b*) to new units in specified backward areas (upto Rs. 2 crores to a unit in the aggregate*)	12.50	—	—	—
B. Rates under IDBI's Refinance Scheme				
1. Basic lending rate	—	10.00	10.50	14.00
2. Concessional rates for units located in specified backward areas				
(*a*) composite loans upto Rs. 25,000 per unit	—	6.00	6.75	10.25
(*b*) small-scale units	—	8.50	9.00	12.50
(*c*) other units (excluding road transport operators)	—	8.50	9.00	12.50
3. Concessional rates in non-backward areas				
(*a*) composite loans upto Rs. 25,000 per unit	—	8.25	9.00	12.50
(*b*) small-scale units	—	9.50	10.00	13.50
4. Rates for road transport operators				
(*a*) single vehicle owners	—	8.50	9.00	12.50
(*b*) others	—	11.00	11.50	15.00
5. Concessional rate for units promoted by persons belonging to SC / ST (upto Rs. 25,000 per unit)	—	6.00	6.75	10.25
6. Foreign currency loans (IBRD / IDA credit)				
(*a*) loans to small-scale units				
(*i*) in specified backward areas	—	—	9.00	12.50
(*ii*) in other areas	—	—	10.00	13.50
(*b*) Others				
(*i*) in specified backward areas	—	—	9.00	12.50
(*ii*) in other areas	—	—	10.50	14.00
7. Mini steel units	—	8.50	9.00	12.50

Table VIII-14 : (Concld.)

(Per cent per annum)

	Direct Lending	Indirect Lending		Ceiling on Primary Lenders' Rate
		Banks	SFCs / SIDCs	
	1	2	3	4
C. IDBI's Machinery Bills Rediscounting Scheme Unexpired usance of bills / promissory notes				
(*a*) normal				
(*i*) 6 months to 36 months	—	10.75	—	12.50
(*ii*) over 36 months and upto 84 months	—	10.25	—	12.00
(*b*) small-scale sector (seller and/or purchaser)				
(*i*) 6 months to 36 months	—	9.50	—	11.50
(*ii*) over 36 months and upto 84 months	—	9.00	—	11.00
(*c*) SEBs and SRTCs in North Eastern & Himalayan Hill Regions @ and SEB in the State of West Bengal for use in hill district of Darjeeling				
(*i*) 6 months to 36 months	—	7.75	—	9.50
(*ii*) over 36 months and upto 84 months	—	7.25	—	9.00
D. Rates on IDBI's Export Finance Schemes				
(*a*) refinance against medium-term export credits	—	6.50	—	8.65
(*b*) overseas investment finance	—	—	—	12.50
(*c*) pre-shipment credit	—	—	—	12.50
(*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, average rate payable by the exporter on the entire credit is generally 7.75 per cent)			

* Inclusive of new units set up by existing companies but excludes expansion/diversification projects in their existing units.

@Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu & 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.

Table VIII-15: Financial Assistance Sanctioned and Disbursed by the IFCI

(Year: April-March) (Rupees Crores)

Type of Assistance	1979-80		1980-81		Cumulative Assistance as at the end of March 1981	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1. Rupee Loans	117.6	81.7	174.0	92.9	970.3*	702.2*
2. Foreign Currency Loans ..	10.2	7.2	23.5	14.7	134.7**	106.4**
3. Underwriting and Direct subscriptions (*i*+*ii*)	**10.1**	**2.1**	**14.2**	**1.1**	**90.7**	**43.6**
(*i*) Ordinary and Preference Shares	9.1	2.0	13.9	1.1	76.0	32.6
(*ii*) Debentures	1.0	0.1	0.3	—	14.7	11.0
Total ..	**137.9**	**91.0**	**211.7**	**108.7**	**1195.7**	**852.2**

* Includes deferred payment guarantees.

** Includes foreign loan guarantees.

The Risk Capital Foundation (RCF) sponsored by IFCI, which provides seed capital assistance to new and technocrat entrepreneurs for meeting a part of the promoter's contribution to the equity capital, sanctioned assistance amounting to Rs. 63.9 lakhs to 14 promoters of 8 projects during the year. The assistance sanctioned by the RCF since its establishment in 1975 totalled Rs. 2.1 crores (to 53 promoters of 31 projects) and disbursements to Rs. 1.7 crores (to 43 promoters of 26 projects).

The IFCI raised funds by issue of bonds in two tranches of Rs. 38.5 crores in June 1980 and Rs. 39.6 crores in December 1980. The total outstanding bonds as on March 31, 1981 amounted to Rs. 409.5 crores. The Central Government made available to the IFCI Rs.0.7 crore, representing 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 15 million from KfW being the 19th line of credit bringing the total credit from KfW to the IFCI to DM 227.5 million. As on March 31,1981 cumulative disbursements amounted to DM 174.4 million. Under the Indo-Swedish Development Corporation Agreement 1979, the IFCI was granted a further allocation of SW-Kr 50 million bringing the total allocations made so far to SW-Kr 125 million. The cumulative disbursements upto March 31, 1981 stood at SW-Kr 40.2 million. The IFCI has not received any further allocation during the year under the U. K./India Capital Investment Loans/ Grants.

The basic lending rate charged by the IFCI was raised from 11.0 per cent to 11.85 per cent with effect from July 1, 1980 and further to 14.0 per cent with effect from March 2, 1981.

(iii) The Industrial Credit and Investment Corporation of India Ltd.

The financial assistance sanctioned and disbursed by the Industrial Credit and Investment Corporation of India Ltd. (ICICI) during April 1980-March 1981 aggregated Rs. 314.4 crores and Rs. 175.0 crores, higher by 53.9 per cent and 28.9 per cent, respectively, than in the last year (Table VIII—16). There was an alround increase in the assistance sanctioned during the year. The rupee loans (including guarantees) increased by Rs. 58.9 crores to Rs. 181.4 crores, foreign currency loans by Rs. 48.0 crores to Rs. 116.0 crores and assistance in the form of underwriting and direct subscriptions to shares and debentures by Rs. 3.2 crores to Rs. 17.0 crores. Disbursements of rupee loans and foreign currency loans also increased over the year by Rs. 21.4 crores and Rs. 23.1 crores to Rs. 114.9 crores and Rs. 56.3 crores, respectively. Disbursements on account of underwriting of and direct subscriptions to shares and debentures at Rs. 3.8 crores were lower by Rs. 5.3 crores.

Table VIII-16: Financial Assistance Sanctioned and Disbursed by the ICICI

(Year: April-March) (Rupees Crores)

Type of Assistance	1979-80		1980-81		Cumulative Assistance as at the end of March 1981	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1. Rupee Loans	122.5	93.5	181.4*	114.9	696.6	439.3
2. Foreign Currency Loans ..	68.0	33.2	116.0	56.3	716.3	561.7
3. **Underwriting and Direct Subscriptions (a+b) .. .. ..**	**13.8**	**9.1**	**17.0**	**3.8**	**160.0**	**88.3**
(a) Ordinary and Preference Shares	11.0	2.6	13.5	2.4	109.6	51.9
(b) Debentures	2.8	6.5	3.5	1.4	50.4	36.4
Total	**204.3**	**135.8**	**314.4**	**175.0**	**1572.9**	**1089.3**

* Including guarantees.

Over three-fourths of the assistance provided by the ICICI during the year was claimed by the existing companies; loans sanctioned 81.7 per cent and loans disbursed 79.1 per cent of the respective totals. A major portion of this assistance was meant for expansion and modernisation of the existing units.

Cumulative assistance sanctioned and disbursed by the ICICI as at the end of March 1981 aggregated Rs. 1,572.9 crores and Rs. 1,089.3 crores, respectively.

The ICICI's assistance to the projects located in the backward areas, during the year 1980-81, showed a remarkable increase. The amounts sanctioned and disbursed to units in these areas aggregated Rs. 116.1 crores and Rs. 61.1 crores as against Rs. 76.8 crores and Rs. 47.0 crores, respectively, in 1979-80.

In order to augment its rupee resources, the ICICI issued bonds of an aggregate value of Rs. 89.9 crores in three tranches, Rs. 59.9 crores in June 1980, Rs. 20.1 crores in January 1981 and Rs. 9.9 crores in March 1981. The ICICI received Rs. 25 crores from the IDBI for disbursements under the soft loan scheme during the year. Further, in May 1980, the ICICI signed an agreement with IBRD for the 13th line of credit for US $100 million. The ICICI signed two agreements with KfW during the year, for the 19th line of credit for DM 5 million in June 1980 and for the 20th line of credit for DM 25 million in February 1981. In April 1980, the ICICI entered into an agreement for the syndicated Euro-currency loan for DM 20 million and US $20 million.

Total resources available to the Corporation at the end of March 1981 amounted to Rs. 822.6 crores.

In the light of increasing cost of borrowed funds and also other factors reducing the margin on funds employed, the basic lending rate charged by the ICICI was raised from 11.00 per cent to 11.85 per cent with effect from July 1, 1980 and further to 14.00 per cent with effect from March 2, 1981.

(iv) The Life Insurance Corporation of India.

Assistance to Industrial Concerns

The financial assistance@ sanctioned and disbursed by the Life Insurance Corporation of India (LIC) increased substantially to Rs. 171.0 crores and Rs. 169.3 crores in 1980-81 (April-March) from Rs. 80.0 crores and Rs. 65.5 crores, respectively, in 1979-80 (Table VIII—17). Loans (including short-term loans) sanctioned and disbursed increased from Rs. 55.9 crores and Rs. 49.2 crores in 1979-80 to Rs. 154.1 crores and Rs. 158.0 crores, respectively, in 1980-81. On the other hand, assistance sanctioned and disbursed by way of underwriting of and direct subscriptions to shares and debentures at Rs. 16.9 crores and Rs. 11.3 crores in 1980-81 was lower than that of Rs. 24.1 crores and Rs. 16.3 crores, respectively, in 1979-80.

LIC's Investments

The LIC's aggregate investments during 1980-81 increased by Rs. 732.8 crores to Rs. 6,020.5 crores as at the end of March 1981 (Table VIII—18). There was a substantial increase in investments in the stock exchange securities which went up from Rs. 3,113.4 crores to Rs. 3,591.4 crores during the year, while the outstanding loans increased from Rs. 2,173.6 crores to Rs. 2,322.4 crores. Sector-wise, investments in the public sector rose by Rs. 792.3 crores during 1980-81 as against an increase of Rs. 503.6 crores in 1979-80. The LIC's investments in the co-operative sector during the year also increased, albeit by a smaller amount of Rs. 63.4 crores than of Rs. 74.3 crores in the previous year.

Investments in the private sector on the other hand, showed a decline of Rs. 122.9 crores over the year as against an increase of Rs. 122.1 crores in 1979-80.

@ Sanctions and disbursements relate to investments made by way of grant of term-loans (including short-term loans) to companies, industrial co-operatives, sugar co-operative societies, and underwriting of and direct subscriptions to shares and debentures of companies (including subscriptions to rights shares and debentures).

Table VIII-17: Assistance Sanctioned and Disbursed by the LIC

(Rupees Crores)

Type of Assistance	1979-80		1980-81		Cumulative Assistance as on March 1981		Amount Outstanding as on March 1981
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	
1. **Loans** (*i*+*ii*)	**55.9**	**49.2**	**154.1**	**158.0**	**466.9**	**373.4**	**291.9**
(*i*) Term-Loans	27.0	37.5	53.0	53.2	337.0	256.9	177.9
Public Sector	6.5	15.4	10.3	10.5	N.A.	N.A.	N.A.
Private Sector	20.5	22.1	42.7	42.7	N.A.	N.A.	N.A.
(*ii*) Short-Term Loans.. ..	28.9	11.7	101.1	104.8	129.9	116.5	114.0
Public Sector	—	—	60.5	60.5	60.5	60.5	60.5
Private Sector	28.9	11.7	40.6	44.3	69.4	56.0	53.5
2. **Underwriting and Direct Subscriptions** (*i*+*ii*)	**24.1**	**16.3**	**16.9**	**11.3**	**273.6**	**199.3**	—
(*i*) Ordinary and Preference Shares	6.2	4.9	4.3	3.9	117.2	90.9	—
(*ii*) Debentures	17.9	11.4	12.6	7.4	156.4	108.4	—
Total	**80.0**	**65.5**	**171.0**	**169.3**	**740.5**	**572.7**	**291.9**

Table VIII-18: Investments by Life Insurance Corporation of India

(Rupees Crores)

Sector	As at the end of March 31		Net during April-March	
	1980	1981	1979-80	1980-81
Public Sector	3915.5	4707.8	503.6	792.3
Co-operative Sector	602.1	665.5	74.3	63.4
Private Sector	770.1	647.2	122.1	—122.9
Total	**5287.7**	**6020.5**	**700.0**	**732.8**
*Of which**				
(*i*) Stock Exchange Securities	3113.4	3591.4	379.5	478.0
(*ii*) Loans	2173.6	2322.4	320.5	148.8
(*iii*) Special Deposits with the Central Govt. ..	—	106.0	—	106.0

* LIC's investment of Rs. 75 lakhs in the capital of the UTI is not included.

Rate of Interest

The rate of interest charged by the LIC on term-loans sanctioned in consortium with other public financial institutions was raised from 11.00 per cent per annum at the beginning of the year to 11.85 per cent (effective) per annum with effect from January 29, 1981 and further to 14.00 per cent (effective) per annum with effect from March 2, 1981. For loans sanctioned by the LIC alone, the rate of interest was stepped up from 13.00 per cent (effective) per annum at the beginning of the year to 13.85 per cent (effective) per annum with effect from January 29, 1981 and further to 16.00 per cent (effective) per annum with effect from March

2, 1981. For short-term loans, the LIC raised the rate from 16.00 per cent (net) per annum at the beginning of the year to 17.00 per cent (net) per annum with effect from January 1, 1981.

(v) The General Insurance Corporation of India and its Subsidiaries

Aggregate assistance sanctioned and disbursed by the General Insurance Corporation of India (GIC) and its four subsidiaries* during the year April 1980-March 1981 amounted to Rs. 30.8 crores and Rs. 44.0 crores and showed a decline of 53.3 per cent and 15.4 per cent, respectively, over the preceding year (Table VIII—19). The respective amounts at Rs. 66.0 crores and Rs. 52.0 crores during the preceding year had included the sizeable short-term loans of Rs. 20 crores and Rs. 10 crores and disbursements of Rs. 16 crores and Rs. 10 crores to the Hindustan Petroleum Company Ltd. and the National Fertilisers Ltd., respectively. Nevertheless, the sanctions and disbursements to the private sector during 1980-81 were lower than in the previous year.

There was a sharp decline in sanctions and disbursements in assistance by way of underwriting and direct subscriptions to shares and debentures. While sanctions under this head at Rs. 7.9 crores were about one-fourth of the last year's level, disbursements at Rs. 12.6 crores were one-half of those in the last year. This was probably due to the policy of discouraging underwriting by the financial institutions of debentures of companies. Sanctions of loans at Rs. 22.8 crores were lower by 35 per cent while disbursements of loans were higher by about 10 per cent than in the preceding year.

*The four subsidiaries are: the United India Insurance Co. Ltd., the Oriental Fire and General Insurance Co. Ltd., the National Insurance Co. Ltd., and the New India Assurance Co. Ltd.

Table VIII—19 : Assistance sanctioned and disbursed by GIC and its Subsidiaries

(Rupees Crores)

	1979-80		1980-81	
	Sanctioned	Disbursed	Sanctioned	Disbursed
A. Sector-wise Assistance				
1. Public Sector	32.93	26.27	9.15	18.00
2. Private Sector	32.76	25.65	20.61	24.09
3. Joint Sector	0.31	0.08	1.00	1.95
Total	**66.00**	**52.00**	**30.76**	**44.04**
Of which : for projects in backward areas	12.58	7.47	1.75	2.87
B. Type of Assistance				
1. Loans	35.27	28.47	22.82	31.42
2. Underwriting and direct subscriptions to :				
(*i*) Shares	12.50	10.99	4.90	5.60
(*ii*) Debentures	18.23	12.54	3.04	7.02
Total	**66.00**	**52.00**	**30.76**	**44.04**

The rate of interest on the term-loans charged by the GIC and its subsidiaries was raised from 12 per cent to 15 per cent per annum with effect from March 2, 1981. The rebate for prompt repayment remained unchanged at 1 per cent. The interest rates are uniform for all projects including those in the backward areas.

Investments

The outstanding investments in shares and loans to industrial concerns by the GIC and its subsidiaries aggregated Rs. 863.9 crores as at the end of December 1980, as against Rs. 748.6 crores a year ago, or Rs. 115.3 crores higher during the year (Table VIII—20). Investments in stock exchange securities stood at Rs. 534.5 crores and loans at Rs. 239.1 crores at end-December 1980. Thus, during 1980, the investments in stock exchange securities increased by Rs. 54.9 crores as against Rs. 45.3 crores in 1979, while the increase in loans at Rs. 52.2 crores during the year had more than doubled from Rs. 23.1 crores last year.

Table VIII-20: Investment by General Insurance Corporation of India and its Subsidiaries@

(Rupees Crores

Sectors	As at the end of December 30		Net during January-December	
	1979	1980	1979	1980
1. Public Sector	403.1	497.9	9.3	94.8
2. Private Sector	337.7	356.6	61.6	18.9
3. Co-operative Sector	3.0	3.0	—	—
4. Joint Sector	4.8	6.4	0.7	1.6
Total	**748.6**	**863.9**	**71.6**	**115.3**
Of which:				
(*i*) Stock Exchange Securities	479.6	534.5	45.3	54.9
(*ii*) Loans	186.9	239.1	23.1	52.2
(*iii*) Others*	82.1	90.3	3.2	8.2

* Includes deposits with companies, bank deposits, holdings in subsidaries, etc.
@ Viz., 1. National Insurance Co. Ltd. 2. New India Assurance Company Ltd. 3. The Oriental Fire and General Insurance Company Ltd. and 4. United India Insurance Company Ltd.

Sector-wise, outstanding investments in the public sector as at the end of December 1980 aggregated Rs. 497.9 crores and in private sector Rs. 356.6 crores. Investments during the year January-December 1980 in the public sector at Rs. 94.8 crores were more than ten-times the investments in the last year. Investments in the private sector during the same period, however, steeply declined to Rs. 18.9 crores from Rs. 61.6 crores.

(vi) The Unit Trust of India

The sales of units by the Unit Trust of India (UTI) suffered a set-back for the second year in succession in 1980-81 (July-June). The aggregate sale of units under the Unit Scheme 1964 and the Unit Scheme 1971 (Unit Linked Insurance Plan—ULIP) declined to Rs. 52.1 crores in the year under review from Rs. 57.9 crores in the previous year. The repurchases also increased to Rs. 17.6 crores from Rs. 14.4 crores, resulting in lower resources mobilisation by the UTI during 1980-81 than in the previous year (Table VIII—21).

Downtrend in the sales of units under the Unit Scheme 1964 continued during 1980-81 with sales declining by 18.8 per cent, from Rs. 48.9 crores to Rs. 39.7 crores. Simultaneously, the repurchases under the Scheme rose from Rs. 13.8 crores to Rs. 15.3 crores.

Table VIII-21: Trends in Operations of the U.T.I.@

(Rupees Crores)

Year (July-June)	Units Sold (Face Value)	Units Repurchased (Face Value)	As at the end of June			Dividend Rate (per cent) under		Rate of Yield* (1964 Scheme)
			Units Outstanding (Face Value)	Investible Funds	Investment in Shares and Debentures	1964 Scheme	1971 Scheme	
1977-78	73.3	11.2	255.4	288.2	193.0	9.00	8.00	7.96
1978-79	101.5	9.6	347.5	402.4	219.8	9.00	8.00	7.67
1979-80	57.9	14.4	390.9	467.0	254.9	10.00	8.50	8.56
1980-81 (Provisional)	52.1	17.6	425.4	523.2	283.6	11.50	8.75	9.62

@ Covers Unit Schemes 1964, 1971 and 1976.
* Dividend as percentage of weighted average sale price during the year worked out with weights proportional to the number of Units sold at different prices.

Source: Unit Trust of India.

The increase in repurchases may be attributed partly to the liquidation of investment in units on completion of minimum holding period of three years for claiming the capital gains tax exemption by some of those who had invested in units during 1977-78 for the purpose of tax benefit. Net sales of units under all the Schemes amounted to Rs. 34.5 crores during 1980-81 as against Rs. 43.5 crores during 1979-80.

Sales of units under the Unit Scheme 1971 (ULIP), comprising sales against contribution from new members, renewal subscription from existing members and dividend payable to existing members, were higher at Rs. 12.4 crores during 1980-81 than Rs. 8.9 crores in the previous year. However, new business under this Scheme both in terms of number of persons joining it as well as their target amount were lower at 33,780 and Rs. 35.3 crores as compared with 38,313 and Rs. 39.0 crores, respectively, in the previous year.

As regards the Unit Scheme 1976 (Capital Unit Scheme), the sales under which were open only during the period January 1 to April 21, 1976, the UTI announced in March 1981 that the Scheme would be terminated on June 30, 1981. At the time of launching the Scheme the Trust had hoped to double the unit holders investment in five years. This was accomplished in a shorter time, as the re-purchase price of the capital units of Rs. 100 reached Rs. 200.10 by November 15, 1980. During 1980-81, repurchases of capital units aggregated Rs. 1.9 crores as many of the investors preferred to sell back the units in view of the decision to terminate the Scheme.

Factors which have considerably cut into the attractiveness of units include the upward revision of interest rates on bank deposits, the raising of ceiling of interest rate of secured public debentures to 13.5 per cent, the introduction of National Savings Certificates carrying 12 per cent interest and the entry of public sector companies in the field of deposit mobilisation.

With a view to reversing the declining trend in sales of units, the Trust, apart from intensifying sales promotion and publicity efforts, decided to branch out to State level centres to provide prompt and personalised services to the unit holders in the semi-urban and rural areas. Accordingly, sub-offices have been opened at Trichur in Kerala and Ludhiana in Punjab.

The Trust stepped up the rate of dividend for the year 1980-81 from 10.0 per cent to 11.5 per cent for the unit holders under the Unit Scheme 1964 and from 8.5 per cent to 8.75 per cent for the unit holders under the Unit Scheme 1971.

At the end of June 1981, units sold and outstanding with the public under all the schemes of the Trust aggregated Rs. 425.4 crores, comprising Rs. 389.8 crores under Unit Scheme 1964, Rs. 31.2 crores under Unit Scheme 1971 and Rs. 4.4 crores under Capital Units Scheme 1976. The number of unit holding accounts rose to 10.5 lakhs from 9.9 lakhs.

The investible funds of the Trust rose to Rs. 523.2 crores at the end of June 1981 from Rs. 467.0 crores at the end of June 1980. Out of the investible funds, equity shares constituted Rs. 129.7 crores (24.8 per cent), preference shares Rs. 15.7 crores (3.0 per cent) and debentures Rs. 138.1 crores (26.4 per cent). The rest of Rs. 239.7 crores (45.8 per cent) were mainly invested in call deposits with banks (Rs. 110.6 crores), advance deposits with companies against investment commitments (Rs. 57.7 crores), fixed deposits with public limited companies (Rs. 66.5 crores) and other investments in corporate sector, viz., bridge finance, application money, etc., (Rs.4.9 crores).

(vii) The Industrial Reconstruction Corporation of India Ltd.

The financial assistance (term-loans and hire-purchase assistance) sanctioned and disbursed by the Industrial Reconstruction Corporation of India Ltd. (IRCI) during April 1980—March 1981 amounted to Rs. 17.9 crores and Rs. 16.8 crores and was higher by 17.8 per cent and 34.4 per cent, respectively, than in the preceding year. Cumulative assistance sanctioned and disbursed by the IRCI upto end-March 1981 aggregated Rs. 96.3 crores and Rs. 82.7 crores, respectively (Table VIII—22).

Table VIII-22: 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
1979-80	34(3*)	15.2	12.5
1980-81	34(5*)	17.9	16.8
Cumulative position as at the end of March 1981	99	96.3	82.7

* Number of fresh units for which assistance was sanctioned during the year.

Note: Assistance sanctioned and disbursed are net of guarantees.

During 1980-81, the IRCI assisted one State public sector undertaking to the tune of Rs. 0.6 crore and sanctioned Rs. 17.3 crores to 33 private sector units. Assistance sanctioned and disbursed by the IRCI to projects located in the specified backward areas aggregated Rs. 2.8 crores and Rs. 1.1 crores in 1980-81 and were substantially higher than Rs. 47 lakhs and Rs. 52 lakhs, respectively, during 1979-80. While sanctions to projects in the small-scale sector during 1980-81 at Rs. 15 lakhs were lower by Rs. 28 lakhs, disbursements at Rs. 34 lakhs were marginally higher by Rs. 8 lakhs.

In its efforts to rehabilitate sick units in small-scale sector, the IRCI decided to associate the State level institutions through grant of lines of credit to these institutions. During 1980-81, the IRCI sanctioned Rs. 2.0 crores and disbursed Rs. 9 lakhs under this Scheme for the first time.

The normal rate of interest, effective in respect of agreements entered into after June 18, 1980, charged by the IRCI on term-loans was raised from 8.5 per cent per annum to 9.15 per cent per annum, with half-yearly rests. For working capital loans, the Corporation

charges 13.45 per cent interest with half-yearly rests.

(viii) The National Small Industries Corporation

The National Small Industries Corporation (NSIC) continued, during 1980-81 (April-March), to (*i*) supply machinery and equipment to existing and prospective entrepreneurs on hire-purchase, (*ii*) provide marketing support to units in small-scale sector through its Government Purchase Programmes, (*iii*) develope prototype of machines for commercial exploitation by small-scale units and (*iv*) provide training in various trades through its Prototype Development and Training Centres (PDTCs). The NSIC made efforts during the year to explore new areas where its resources could be employed more gainfully. The Corporation also made efforts to integrate its activities with that of other agencies seeking to promote decentralised development and to act as a pivotal organisation for increased production and supply of goods from small-scale units to Government and public sector bodies. The NSIC achieved an overall improvement in its operations during 1980-81 (Table VIII—23).

Table VIII—23 : Business Turnover of NSIC

(Rupees Crores)

Type of Activities	1979-80 (April-March)	1980-81 (April-(March)
1. Value of machines supplied under hire-purchase scheme to small-scale units	3.07	8.31
2. Value of machinery & equipment sold and of job orders executed..	0.69	0.82
3. Exports	1.08	3.54
4. Small-scale units registered for executing Government contracts	N.A.	1401
5. Distribution of raw materials ..	2.20	0.70
6. Contracts secured under Central Government Store Purchase Programme (Nos.) ..	1978	2179
(Value) ..	70.30	71.87
7. Number of trainees at various PDT Centres	522	563

The NSIC supplied machines worth Rs. 8.3 crores on hire-purchase basis to small-units during 1980-81 as compared to Rs. 3.1 crores in the previous year. The total value of machines supplied since the inception of the Corporation upto end-March 1981 aggregated to Rs. 110.4 crores, of which amount outstanding from hirers amounted to Rs. 14.9 crores. The export orders secured by the NSIC rose from Rs. 1.1 crores in 1979-80 to Rs. 3.5 crores in 1980-81. But the value of raw material distributed to small-scale units declined from Rs. 2.2 crores to Rs. 0.7 crore during the same period. Domestic marketing of hosiery, hand-made paper and starch was of the order of Rs. 1.4 crores during the year under review. The NSIC distributed knitting machines worth Rs. 0.3 crore to the weaker sections of society.

Under the Governments store purchase programme, 2,179 tenders for goods worth Rs. 71.9 crores were accepted during 1980-81 as against 1,978 tenders for Rs. 70.3 crores in the previous year. Under this head, the cumulative value of orders placed by the Government till end-March 1981 was Rs. 742.3 crores.

Important projects undertaken by the NSIC which are under various stages of completion and trial include briquetting of agricultural waste as source of fuel, rice husk ash cement plant, utilisation of leather waste, pedal charkha (a spinning device) and mechanical power driven agricultural pumps. In addition, the NSIC is engaged in assisting some developing countries in setting up of small industrial units.

The NSIC participated in two exhibitions—one at Birmingham and other at Rotterdam—to bring together foreign buyers and small Indian manufacturers. These participations enabled the NSIC to procure orders for goods worth over Rs. 1.3 crores.

In its Prototype Development and Training Centres (PDTCs) at four places, the NSIC had designed different training programmes, suitable for rural areas, for 563 persons. At these PDTCs, special courses with emphasis on development of skills, suitable for generating self employment, were introduced.

(ix) The National Industrial Development Corporation Ltd.

The National Industrial Development Corporation Ltd. (NIDC) was set up in 1954 for

the promotion and development of industries in the country. The Corporation has been rendering consultancy services to the Central and State Governments and public and private sector enterprises. The Corporation's services are also being availed of by the United Nations, foreign Governments and entrepreneurs abroad.

During the year 1980-81 (April-March), the NIDC took up seven new projects in India for providing detailed designs, engineering services, preparation of feasibility reports, conducting market surveys, etc., in addition to the 15 projects which were already on hand. Some of the important new projects taken up included the provision of designs, engineering and other services for setting up of a telephone switching equipment (cross-bar) manufacturing unit at Rae Bareli for Indian Telephone Industries, water supply schemes for the Ramagundam township for National Thermal Power Corporation and for various buildings for Instrumentation Ltd., Kota, as also conducting market surveys for (*i*) cotton sewing thread manufacturing plant and (*ii*) process control instruments manufacturing plant for the Pradeshiya Industrial and Investment Corporation of U.P. Ltd. and clutch facings and brake lining project in Punjab for the Punjab SIDC.

Besides, the NIDC continued the work on seven projects abroad, which included modernisation and management services for four textile complexes in Algeria; consultancy services for setting up of an industrial estate in Zanzibar, for building of new capital city at Dodoma, Tanzania; detailed engineering and construction management services for setting up of machinery pool and maintenance organisation at Dodoma, Tanzania; capacity utilisation and product upgrading studies of 6 units of National Development Corporation, Tanzania; assistance in development of consultancy capability of the Tanzania Industrial Studies and Consulting Organisation, Tanzania and regional industrial development planning studies of Misurata Sirte and Fezzan-Al Jufra of Libya.

The value of the consultancy services rendered by the NIDC during the year 1980-81 amounted to Rs. 1.50 crores, marginally higher than that of Rs. 1.19 crores in the preceding year. The net foreign exchange earned by the NIDC significantly increased from Rs. 58.4 lakhs in 1979-80 to Rs. 99.0 lakhs in 1980-81.

III. (*i*) Financing of Small-Scale Industries by Scheduled Commercial Banks

The total credit limits in force (including term-loans and advances to craftsmen and other qualified entrepreneurs), extended by scheduled commercial banks to small-scale industries* as at the end of June 1980, amounted to Rs. 3,518.6 crores. The outstanding amount as on that date was Rs. 2,793.2 crores. The credit limit in force and amount outstanding showed increases of Rs. 215.1 crores and Rs. 160.4 crores, respectively, during the first two quarters of 1980. In the corresponding period of 1979 the limits in force and outstanding amounts showed increases of Rs. 228.6 crores and Rs. 170.1 crores, respectively. The number of assisted units increased from 6.81 lakhs as at the end of December 1979 to 7.37 lakhs as at the end of June 1980 (Table VIII-24). The share of small-scale industries in the total outstanding bank credit (excluding food procurement advances) marginally declined to 14.4 per cent as at the end of June 1980 from 14.6 per cent a year ago.

During the first half year of 1980, the outstanding credit extended by the State Bank of India (SBI) Group and the nationalised banks to small-scale industries showed increases of Rs. 36.4 crores and Rs. 263.9 crores as against Rs. 30.3 crores and Rs. 118.3 crores, respectively, during the corresponding period of 1979. Out of the total outstanding credit as at the end of June 1980, Rs. 55.4 crores or 2.0 per cent were outstanding against 3.22 lakhs artisans and village/cottage industries and another Rs. 165.0 crores or 5.9 per cent against 1.16 lakhs small-scale units in the tiny sector@.

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* Industrial units with investments in plant and machinery upto Rs. 10 lakhs and in case of ancillary units upto Rs. 15 lakhs. These limits have been revised upwards to Rs. 20 lakhs and Rs. 25 lakhs, respectively, from August 1980.

@ Industrial units located in villages and towns with population not exceeding 50,000 (1971 census) and with original investment in equipment and machinery upto rupees one lakh.

Table VIII-24 : 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)			
	December 1979	June 1980	Increase/ Decrease	Increase between December 1978 and June 1979	December 1979	June 1980	Increase/ Decrease	Increase between December 1978 and June 1979	December 1979	June 1980	Increase/ Decrease	Increase between December 1978 and June 1979
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Small-Scale Industries	680,731 (114,775)	736,943 (115,574)	+56,212 (+799)	57,452 (—4,668)	3303.5 (517.2)	3518.6 (547.1)	+215.1 (+29.8)	+228.6 (+ 6.3)	2632.8 (426.2)	2793.2 (475.2)	+160.4 (+48.9)	170.1 (+ 8.1)
Of which to . (*i*) Artisans and village & cottage industries	295,999	321,771	+25,772	—	65.3	80.6	+ 15.3	—	51.4	55.3	+ 3.9	—
(*ii*) Tiny sector units ..	112,400	115,947	+ 3,547	—	189.6	191.9	+ 2.3	—	165.4	165.0	— 0.4	—
II. Small Road and Water Transport Operators ..	N.A.	267,680	N.A.	N.A.	632.4	709.9	+ 77.5	+ 53.2	513.8	568.8	+ 55.1	+ 42.0
III. For setting up of Industrial Estates ..	N.A.	252	N.A.	N.A.	32.0	33.2	+ 1.2	N.A.	29.1	28.7	— 0.4	N.A.

Note : 1. Data are provisional.

2. Data in brackets relate to term-loans including instalment credit.

Credit limits sanctioned to craftsmen and other qualified entrepreneurs for industrial projects in the small-scale sector aggregated Rs. 139.4 crores as at the end of June 1980 as compared to Rs. 141.2 crores as at the end of June 1979. The outstanding credit under this head stood at Rs. 113.5 crores as at the end of June 1980.

Term-Loans

During the period December 1979-June 1980, term-loans (including instalment credit) sanctioned by scheduled commercial banks to small-scale industries recorded a rise of Rs. 29.8 crores to Rs. 547.1 crores. The amount outstanding increased by Rs. 48.9 crores from Rs. 426.2 crores to Rs. 475.1 crores as at the end of June 1980.

Advances to Small Road and Water Transport Operators

Loans and advanced sanctioned by scheduled commercial banks to small road and water transport operators as at the end of June 1980 amounted to Rs. 709.9 crores and the amount outstanding to Rs. 568.8 crores. During the first two quarters of 1980, the increase in limits sanctioned and the amount outstanding were of the order of Rs. 77.5 crores and Rs. 55.1 crores as against Rs. 53.2 crores and Rs. 42.0 crores, respectively, during the corresponding period of the preceding year.

Advances for setting up of Industrial Estates

The credit limits sanctioned by scheduled commercial banks for setting up of 252 industrial estates aggregated Rs. 33.2 crores as at the end of June 1980 and the amount outstanding was Rs. 28.7 crores. Thus, during the six months period ended June 1980, the credit limits sanctioned increased by Rs. 1.2 crores while the amount outstanding was less by Rs. 0.4 crore.

(*ii*) The Credit Guarantee Scheme for Small Scale Industries

The Credit Guarantee Scheme for small-scale industries was sponsored and formulated by the Government of India in July 1960. The Scheme was administered by the Reserve Bank of India as 'Agent' of the Central Government under Section 17(11A) of the RBI Act, 1934. Following the Government's decision to integrate all credit guarantee schemes under one organisation, with a view to facilitating effective co-ordination and operational flexibility, this Scheme ceased to operate after March 31, 1981. In its place, the Deposit Insurance and Credit Guarantee Corporation (DICGC) introduced with effect from April 1, 1981, a Credit Guarantee Scheme of their own for covering advances to small-scale industries. With a view to ensuring continuity in the credit guarantee cover, the new Scheme provides guarantee support for all credit facilities which ceased to be covered by the former Scheme. The DICGC will act as 'Agent' of the Government of India for discharging the obligations arising out of or accruing under the earlier Scheme administered by the RBI. The terms and conditions of the new Scheme ensure that the guarantee support is weighted in favour of the weakest of the weaker sections. The progress of the cancelled Scheme upto March 31, 1981 is as under.

The total number of credit institutions eligible for facilities under the Scheme at the end of March 1981 stood at 845. The number of institutions participating in the Scheme increased by 15 to 328 during April 1980—March 1981. The amount of outstanding guarantees increased from Rs. 2,874.0 crores at the end of March 1979 to Rs. 3,289.1 crores at the end of March 1980 and further to Rs. 3,704.9 crores at the end of March 1981, reflecting a steady increase in the flow of institutional credit to small-scale industrial sector.

The number of defaulting units at the end of March 1981 increased by 3,681 to 28,655, involving an aggregate amount of Rs. 203.0 crores from 24,974 units for Rs. 171.9 crores, a year ago.

Claims paid during April 1980 to March 1981 amounted to Rs. 6.5 crores in respect of 2,735 units. Out of the aggregate amount of Rs. 14.6 crores, paid as claims to 8,864 units since the inception of the Scheme, a sum of Rs. 1.9 crores was recovered under subrogation rights. Thus, the net amount of

claims paid till the end of March 1981 stood at Rs. 12.8 crores.

Claims numbering 17,822 for a total amount of Rs. 98 crores, pending with the Guarantee Organisation as on March 31, 1981, were transferred to the DICGC. During the quarter ended June 1981, 1,725 more claims for Rs. 6 crores were received by the DICGC and 858 claims for Rs. 2 crores were disposed of by it.

During the period April 1980 to March 1981, a sum of Rs. 17 crores was received as guarantee fee as against Rs. 15 crores received during the preceding year. Government of India increased, with effect from April 1, 1981, the guarantee fee from 1/4 to 1/2 of one per cent per annum in respect of advances upto Rs. 25,000 and from 1/2 to 3/4 of one per cent per annum for advances exceeding Rs. 25,000.

IV. Investment in Private Corporate Sector

The trends in capital consents, capital issues and assistance extended by term-lending institutions as discussed in the preceding paragraphs indicate an improvement in investment activity of private corporate sector. Other broad indicators of the investment of private corporate sector, such as 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 suggest a sustenance of the trend.

The number of letters of intent and industrial licences issued to prospective entrepreneurs increased from 550 and 365 in 1979 to 946 and 475, respectively, in 1980. The trend continued during January-June 1981 and the number of letters of intent issued increased to 402 from 284 and that of industrial licences to 212 from 191 during the corresponding period of 1980. The number of foreign collaboration approvals during 1980 at 526 had nearly doubled from 267 during 1979. However, there was a slight decline of 13 in the number of foreign collaboration approvals at 169 in the first half of 1981 as compared with 182 during January-June 1980 (Table VIII—25).

Table VIII-25: Trends in Issue of Letters of Intent, Industrial Licences and Foreign Collaboration Approvals

(Numbers)

Year	Letters of Intent	Industrial Licences	Foreign Collaboration Approvals
1978	440	348	307
1979	550	365	267
1980	946	475	526
January-June			
1980	284	191	182
1981	402	212	169

Source: Ministry of Industry, Government of India.

The value of import licences for capital goods and heavy electrical plants issued to the private sector during April 1980—March 1981 at Rs. 405 crores was higher by 42.1 per cent than that of Rs. 285 crores during 1979-80 (Table VIII—26).

Table VIII-26: Trends in Import Licences for Capital Goods/Heavy Electrical Plants

(Rupees Crores)

Year (April-March)	Value of Import Licences		
	Government	Private	Total
1978-79	334 (—5.1)	227 (+33.5)	561 (+7.5)
1979-80	452 (+35.3)	285 (+25.6)	737 (+31.4)
1980-81	722 (+59.7)	405 (+42.1)	1127 (+52.9)

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—1980-81

Overall Trends

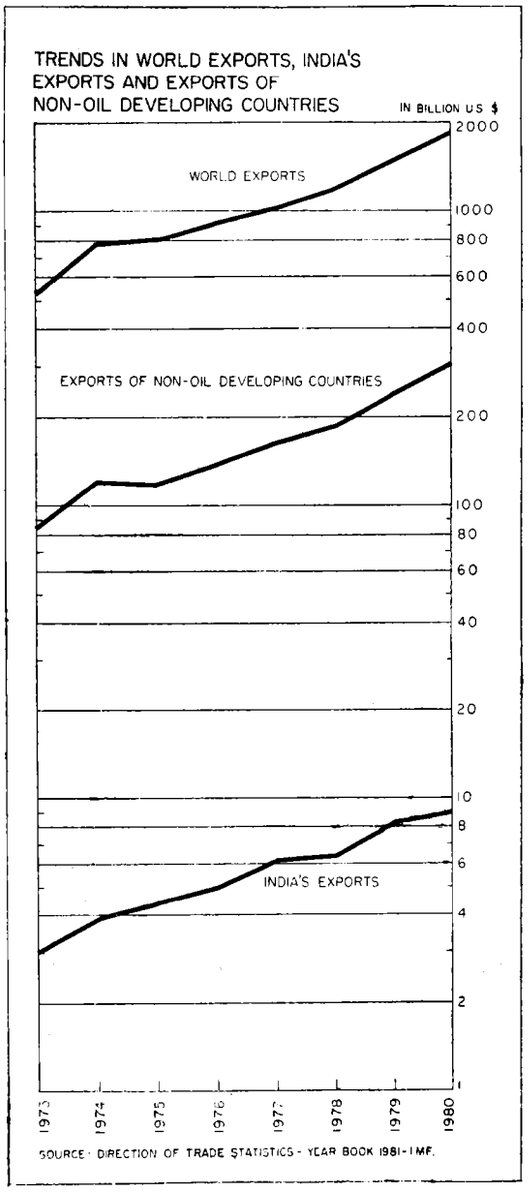
According to the provisional figures issued by the DGCI&S, India's foreign merchandise trade account recorded in 1980-81 an adverse balance of an unprecedented magnitude of Rs. 5,626 crores, which came on top of the steadily rising trade deficits of the preceding three years, Rs. 621 crores in 1977-78, Rs. 1,088 crores in 1978-79 and Rs. 2,449 crores in 1979-80. As in the past, the deterioration in the external trade transactions during the year was brought about by a rapid growth in imports accompanied by a fall in the pace of export growth.

Exports

Aggregate exports (including re-exports) during 1980-81, according to the provisional figures of the DGCI&S revised upto June 1981, are placed at Rs. 6,704 crores, which show only a modest growth of 5.6 per cent over the correspondingly provisional figures for 1979-80 as revised upto June 1980. The DGCI&S final data place the exports during 1979-80 at Rs. 6,459 crores, 12.8 per cent higher than the final figure of Rs. 5,726 crores for 1978-79. The presently available figures for exports in 1980-81 are likely to undergo further upward revision after the delayed returns from various customs centres are taken into account. Assuming that the mark-up in respect of exports in 1980-81 from the data available at end-June 1981 to the final data turns out to be roughly of the same order as in 1979-80, the export growth during the year would be lower than that of 12.8 per cent in the preceding year, and a lower order of export growth in value terms suggests, in the context of the high levels of inflation both abroad and at home, that the volume of exports might have declined somewhat over the year.

The set-back in the growth of exports during 1980-81 was brought about by several constraints. Internationally, the trading environment worsened further with the major industrial countries increasingly resorting to protectionist and restrictive trade practices in the face of their deepening recession, high rates of inflation and unemployment and the sluggishness of their domestic economies. Reflecting the adverse impact of these factors, world exports in volume terms rose barely by 1.5 per cent in 1980, as against an annual average rate of growth of 5.5 per cent in the preceding three years. The dampening effect of the unfavourable world trading conditions was accentuated during the year by the fall in international prices of certain commodities, namely, tea, coffee and spices which are significant in India's export basket. On the domestic front, the infrastructural constraints like shortages of power, coal and certain basic raw materials, transport bottlenecks and congestion and difficulties at ports continued to impede production, including production for exports, though progressive easing of the conditions has been taking place over the period. Additionally, shortages in domestic availabilities of certain commodities like sugar, rapeseed oil, rose wood, woollen yarn, alloy steel, blooms and slags, bars and wire rods which necessitated the imposition of a ban on export of these products also affected the export volume.

A comparative picture of the trends in India's exports in recent years vis-a-vis those in global exports and the exports of non-oil developing countries taken together is depicted in the chart on page 277. According to the Direction of Trade Year Book 1981, a publication of the IMF, India's exports,measured in U.S. dollars, rose during 1979 at a noticeably faster rate of 29.7 per cent than that in world exports which improved by 26.3 per cent. During 1980, however, the rate of growth in India's exports was significantly lower at 8.4 per cent than that of 22.3 per cent in world exports. In the result India's share in world exports which had shrunk steadily over the years to barely 0.53 per cent in 1978 improved fractionally to 0.54 per cent



in 1979, but fell down to 0.48 per cent in 1980. The export performance of the non-oil developing countries, as a group, in recent years was distinctly better than that of India; their exports rose by 30.6 per cent in 1979 and by 27.1 per cent in 1980. Consequently, India's share in the exports of non-oil developing countries which fluctuated within a range of 3.25 per cent and 3.79 per cent during the period 1973 to 1978, moved down to 3.44 per cent in 1979 and further down to 2.94 per cent in 1980. India's terms of trade deteriorated significantly during the last three years. The net terms of trade, which had improved from a low of 70 in 1975-76 to 95 in 1977-78, worsened thereafter to 90 in 1978-79 and further to 66 in 1979-80 due to the sharp mark-up in the unit value index of imports from 249 to 360 (base 1968-69=100), while the unit value index of exports remained stationary at 236 over the period. Data on precise terms of trade for 1980-81 are not yet available; but the available indicators, namely, the much faster growth in import value relatively to export value, point to a further deterioration in the terms of trade during the year.

Official data on commodity-wise details of exports are available from the DGCI&S upto 1979-80; such data for the years 1975-76 to 1979-80 are set out in Statement 101 (Volume II). Export Promotion Councils, Commodity Boards, canalising agencies, etc., have released data on the export performance of certain major commodities and commodity groups during 1980-81, though they are not comparable with the data released by the DGCI&S due to differences in coverage and classification; it will be seen from Table IX-1 that they indicate a distinct improvement during 1980-81 in the export performance of a number of growth items like engineering goods, gems and jewellery, basic chemicals, pharmaceuticals and cosmetics, readymade garments and food articles.

After a phase of rapid growth in the 1970s, exports of engineering goods had remained virtually stagnant during 1979-80 because of a variety of domestic infrastructural and other constraints. During 1980-81, according to the data released by the Engineering Export Promotion Council, these exports once again resumed the phase of rapid growth, and advanced over the year by Rs. 163 crores or 22 per cent to Rs. 900 crores. The renewed spurt in engineering exports was mainly accounted for by consumer durables, iron and steel based items and industrial plant and machinery. Export earnings from gems and jewellery, another growth item, had declined sharply by Rs. 128 crores to Rs. 599 crores during 1979-80 following a sudden all-round weakening of the overseas demand. During 1980-81, according

Table IX-1 : India's Principal Exports

(Rs. Crores)

Commodities	1978-79	1979-80	1980-81	Increase (+)/Decrease (—) of Col. 4 over Col. 3	
				Actual	Percent
1	2	3	4	5	6
Engineering goods	717	737	900	+ 163	+22.1
Gems & jewellery (pearls, precious stones and gold & imitation jewellery)	727	599	639	+ 40	+ 6.7
Basic chemicals, pharmaceuticals & cosmetics	175	150	235	+ 85	+56.6
Chemicals & allied products	152	165	173	+ 8	+ 4.8
Readymade garments	324	331	379	+ 48	+14.5
Cashew kernels	80	118	141	+ 23	+19.5
Food articles (processed foods, basmati & other rice, fresh fruits, vegetables & meat)..	170	298	374	+ 76	+25.5
Tea	350	385	424	+ 39	+10.1
Coffee	154	163	215	+ 52	+31.9
Tobacco (unmanufactured)	108	100	124	+ 24	+24.1
Cotton textiles	219	280	280	—	—
Leather & leather manufactures	330	425	304	— 121	—28.5
Sugar	132	129	45	— 84	—65.1
Marine products	235	249	235	— 14	— 5.7
Jute manufactures	161	335	326	— 9	— 2.7
Spices	160	155	106	— 49	—31.6
A. Total of above items	**4,194**	**4,619**	**4,900**	**+ 281**	**+ 6.1**
B. Grand total	**5,726**	**6,405**	**6,704**	**+ 299**	**+ 4.7**

Note : 1. Aggregate exports for 1979-80 have been further revised to Rs. 6,459 crores for which commodity-wise details are not available.
2. Due to difference in classification and coverage, the figures in this Table may not agree with DGCI&S data shown in Statement No. 101 of Vol. II of the Report.

Source : Export promotion councils, Commodity Boards and State Trading Corporation of India.

to the estimate of the Gems and Jewellery Export Promotion Council, these exports staged a partial recovery, rising over the year by Rs. 40 crores to Rs. 639 crores, thanks to some broadening of the demand from Hong Kong and Japan for cut and polished diamonds. Basic chemicals, pharmaceuticals and cosmetics is another commodity group whose exports registered a substantial increase during 1980-81. According to the data supplied by the Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council, exports of this commodity group rose over the year by 57 per cent to Rs. 235 crores, in contrast to the decline of Rs. 25 crores in the preceding year. The main constituents that contributed to the increase were glycerine, soaps, detergents, cosmetics and toiletries. Chemicals and allied products also performed better, though only marginally; earnings from these products went up to Rs. 173 crores from Rs. 165 crores in 1979-80 and the pick-up in export earnings

came mainly from rubber manufactured products, rubber footwear, automobile tyres and tubes, ossein, glue and gelatine. Exports of readymade garments to quota countries advanced over the year by 14.5 per cent from Rs. 331 crores to Rs. 379 crores and was mainly aided by a larger offtake by West Germany and Sweden. Export earnings from 'food articles' comprising processed foods, basmati and other rice, fresh fruits, vegetables and meat amounted to Rs. 374 crores in 1980-81, showing an increase of Rs. 76 crores or 25 per cent over the preceding year's level of Rs. 298 crores; rice, whose exports rose over the year by Rs. 72 crores to Rs. 201 crores, almost wholly accounted for this increase.

Among the traditional items, there was a noteworthy improvement in the export out-turn of tea, coffee, and unmanufactured tobacco over the year, while that of cotton textiles remained virtually on a plateau. In tea, the quantity exported is reported to have gone up over the year from 208 million kgs. to 234 million kgs., but this volume growth was accompanied by a fall in unit value realisations which are estimated to have declined from Rs. 18.50 in 1979-80 to Rs. 18.12 in 1980-81, broadly in line with the downtrend in tea prices in international markets. In the London market the average price of tea eased for the second year in succession from 102 pence per kg. in 1979 to 96 pence per kg. in 1980 consequent upon a further improvement in the world tea production from 1,030 million kgs., to 1,037 million kgs. In the result, export sales realisations from tea advanced over the year by Rs. 39 crores from Rs. 385 crores to Rs. 424 crores or by about the same magnitude as in the preceding year. In the case of coffee, the world production and export availabilities rose during the year and exerted a downward pressure on coffee prices. In the London market, the annual average price of coffee dipped from £ 1,713 per tonne in 1979-80 to £ 1,210 per tonne in 1980-81. Despite larger availabilities in world markets, the quantum of Indian coffee exports is estimated to have gone up over the year from 64 thousand tonnes to 89 thousand tonnes but the unit value realisations are placed lower at around Rs. 24,157 per tonne as compared with Rs. 25,469 per tonne in the previous year. In the net result, export earnings from coffee during 1980-81 are placed higher by Rs. 52 crores or by 32 per cent at Rs. 215 crores. Exports of unmanufactured tobacco are estimated at Rs. 124 crores during 1980-81, an increase of Rs. 24 crores over the level of Rs. 100 crores a year ago. This increase was the combined result of a rise in the quantum exported from 65 thousand tonnes in 1979-80 to 77 thousand tonnes in 1980-81 and the improvement in the unit value realisation over the year from Rs. 15,384 per tonne to Rs. 16,103 per tonne. Destination-wise, tobacco shipments to the USSR and China were larger over the year while those to the U. K. declined marginally. Exports of cotton textiles, which had risen by some Rs. 60 crores in the preceding year, are placed virtually stagnant at the 1979-80 level of Rs. 280 crores. Constituent-wise, export sales of cotton piecegoods, the major item in the group, declined over the year from Rs. 207 crores to Rs. 190 crores. This decline was, however, offset by improved earnings from cotton yarn and made-ups which rose by Rs. 6 crores to Rs. 21 crores and by Rs. 10 crores to Rs. 65 crores, respectively. Exports of cashew kernels are estimated to have gone down over the year from 38 thousand tonnes to 33 thousand tonnes mainly because of the reported lower offtake by the USA, Canada, Japan and West Germany. Sales to the USSR, on the other hand, are estimated to have gone up sizeably during the year. The buoyancy in the prices of kernels gathered further strength and the average price of kernels in the London market rose steeply from £ 2,132 per tonne in 1979-80 to £ 2,835 per tonne in 1980-81. Consequently, the export proceeds from cashew kernels are estimated to have improved over the year by 19 per cent from Rs. 118 crores to Rs. 141 crores.

In contrast, the export performance of certain other commodities such as leather and leather manufactures, sugar and marine products, which have been important foreign exchange earners in recent years, suffered a distinct set-back during the year. Export of leather and leather goods, according to the Leather Export Promotion Council, declined steeply by 28.5 per cent over the year from Rs. 425 crores to Rs. 304 crores and thus more or less wiped out the increase noticed in the preceding year. Most of this decline was

accounted for by a slump in overseas demand for finished leather and East India tanned hides and skins, export earnings from which slided down over the year by Rs. 80 crores to Rs. 186 crores and by Rs. 32 crores to Rs. 28 crores, respectively.

In view of the situation in respect of domestic supplies, only 87,000 tonnes of sugar were released during 1980-81 for export through the State Trading Corporation, which fetched Rs. 45 crores. In fact, effective February 21, 1981, no export of sugar was allowed and the country imported 1.8 lakh tonnes of sugar to make good the domestic shortage. During 1979-80, 5.7 lakh tonnes of sugar were exported, earning Rs. 129 crores. Sugar prices in the international market ruled high throughout 1980-81 and the unit value realisations are placed at Rs. 4,856 as against Rs. 2,268 per tonne last year. Export earnings from marine products also declined over the year by nearly 6 per cent from Rs. 249 crores to Rs. 235 crores because of the lower offtake by both Japan and the U. S. which are our principal customers.

Exports of jute manufactures appear to have suffered, during the year, a small decline of Rs. 9 crores to Rs. 326 crores, in contrast to the impressive growth of Rs. 174 crores in the preceding year. In particular, exports of carpet backing are reported to have slumped by nearly 60 per cent in terms of quantity because of the sharply reduced offtake by the USA and as a result, the export proceeds are marked down by Rs. 61 crores to Rs. 42 crores. On the other hand, export realisations from hessian, sacking and other constructions are estimated to have gone up by about Rs. 50 crores to Rs. 284 crores, making good most of the loss sustained under carpet backing. Under the group 'spices', pepper exports are marked-up over the year by 10 per cent to Rs. 36.8 crores, with the quantity exported moving up from 21 thousand to 25 thousand tonnes, side by side with the unit value realisations sliding down from Rs. 16.0 per kg. to Rs. 14.5 per kg. Export realisations from cardamom are estimated at Rs. 36 crores, down by some 25 per cent over the year, due to a significant drop in unit value realisations which are estimated at Rs. 148 per kg. during 1980-81 as against Rs. 182 per kg. in 1979-80. Exports of turmeric are reported to have slumped from Rs. 19.8 crores to Rs. 6.0 crores, mainly because of a fall in the quantity exported and partly because of a drop in unit value realisations. For the 'spices' group as a whole, export earnings are estimated to have declined over the year by Rs. 49 crores to Rs. 106 crores primarily because of increased competition from Indonesia and Malaysia in the case of pepper and from Guatemala in the case of cardamom, which led to a softening of international prices of these commodities, while the set-back in turmeric is attributed to the sluggish demand from some of the important consuming countries like Iran and Iraq.

Imports

The renewed upsurge in imports noticed in the preceding three years, after a temporary break during 1976-77, gained added momentum during 1980-81. Aggregate imports, which had risen by 18.7 per cent to Rs. 6,025 crores in 1977-78, by 13.1 per cent to Rs. 6,814 crores in 1978-79 and by 30.7 per cent to Rs. 8,908 crores in 1979-80 shot up by 38.4 per cent to Rs. 12,330 crores in 1980-81, according to the provisional figures revised upto June 1981 issued by the DGCI&S. Official data on commodity-wise details of imports are available only upto 1979-80; a break-up of these imports by major commodities is presented in Statement 102 (Volume II). For 1980-81, some data on commodity composition of imports, covering mainly bulk commodities imported through the public sector canalising agencies are available and are set out in Table IX-2 along with comparable figures for 1978-79 and 1979-80. It will be noticed from the Table that during 1980-81 these bulk imports accounted for about two-thirds of the total import bill. As in last year, a major portion of the increase in total imports occurred under petroleum crude and products and related products like fertilizers, and was primarily induced by the mark-up in crude oil prices. Additionally, there were larger quantities of imports of edible oils, non-ferrous metals, cement, newsprint and rough diamonds, as also fresh imports of sugar, which together accounted for a good part of the additions to the import bill and the balance, by and large, reflected the inflation induced mark-up in other imports.

Table IX—2 : India's Principal Imports

(Rs. Crores)

Commodities	1978-79	1979-80	1980-81	Increase (+)/decrease (—) of Col. 4 over Col. 3	
				Amount	Percentage
1	2	3	4	5	6
1. Petroleum, oil and lubricants	1,677	3,267	5,118	+ 1,851	+56.7
2. Edible oils	327	603	795	+ 192	+31.8
3. Sugar	—	—	92	+ 92	—
4. Non-ferrous metals	338	407	546	+ 139	+34.2
5. Fertilizers	491	630	938	+ 308	+48.9
6. Cement	52	63	80	+ 17	+27.0
7. Newsprint	83	109	133	+ 24	+22.0
8. White printing paper	7	31	41	+ 10	+32.3
9. Rough diamonds	470	366	387	+ 21	+ 5.7
Total of 1 to 9	**3,445**	**5,476**	**8,130**	**+2,654**	**+48.5**
Others	3,366	3,546	4,200	+ 654	+18.4
Total imports	**6,811**	**9,022**	**12,330**	**+3,308**	**+36.7**

Note : 1. Aggregate imports have been further revised to Rs. 6,814 crores for 1978-79 and Rs. 8,908 crores for 1979-80 for which commodity-wise details are not available.

2. The data for this Table has been compiled on the basis of statistics provided by :
   (*i*) DGCI & S in respect of aggregate imports and import of POL items.
   (*ii*) The State Trading Corporation in their performance Review for 1980-81 and 1979-80 in respect of items 2, 3, 6, 7 and 8.
   (*iii*) The Minerals and Metals Trading Corporation in their performance Budget for 1980-81 and 1979-80 in respect of items 4 and 5 and
   (*iv*) The Gems and Jewellery Export Promotion Council in respect of item 9.

3. Due to difference in valuation and time of recording, the figures in this Table may not agree with DGCI & S data shown in Statement No. 102 of Volume II of the Report.

According to the provisional figures issued by the DGCI&S, the outlay on petroleum, oil and lubricants (POL items) amounted to Rs. 5,118 crores during 1980-81, an increase of Rs. 1,851 crores (56.7 per cent) over the preceding year's level of Rs. 3,267 crores (revised). In the result, the share of POL items in the total import bill went up to 41.5 per cent from 36.7 per cent in 1979-80. The periodic mark-up in the price of crude oil by the OPEC which pushed up the average price of the imported crude oil from $ 21 per barrel in August 1979 to $ 32 per barrel in June 1980 and further to $ 36 per barrel in December 1980, was mainly responsible for the rapid increase in POL imports. Additionally, the prolonged dislocation of production in oil refineries situated in North-East region and the Iran-Iraq hostilities necessitated a larger order of spot purchases of petroleum products during the year.

Imports of fertilizers (manufactured fertilizers and fertilizer raw materials taken together) during 1980-81 are estimated by the MMTC—the canalising agency for these imports—at Rs. 938 crores, an increase of Rs. 308 crores over the level of Rs. 630 crores in 1979-80; this was brought about both by a rise in the quantum imported and higher prices prevailing abroad. The quantity of fertilizers imported during the year are placed at 5.25 million tonnes, as against 4 million tonnes in the previous year; larger imports of this commodity were necessitated by a small rise in indigenous output of nitrogenous fertilizers relatively to the growth in demand and the consequent

urgency to bridge the gap between domestic demand and supply. The unit value of fertilizer imports rose over the year from Rs. 1,572 per tonne to Rs. 1,786 per tonne. The expenditure on edible oil imports went up over the year by Rs. 192 crores to Rs. 795 crores consequent upon a larger quantity imported, namely, 11 lakh tonnes as against 8 lakh tonnes in the previous year. Fortunately the prices of edible oils in overseas markets softened noticeably during the year. For instance, in the London market the annual average price of palm oil worked out to $ 582 per tonne during 1980 as against $ 672 per tonne in 1979. The price of soyabean oil also moved down from Florin 133 per tonne to Florin 118 per tonne. As a result, the unit value of imported edible oils came down from Rs. 7,509 per tonne in 1979-80 to Rs. 7,162 per tonne in 1980-81. After a lapse of six years, sugar reappeared in the import list; imports of this commodity by the STC during 1980-81 are placed at 1.8 lakh tonnes valued at Rs. 92 crores. Imports of non-ferrous metals, mainly comprising aluminium, copper, zinc, lead, tin and nickel which were canalised through the STC, are provisionally placed at Rs. 546 crores during 1980-81, as against Rs. 407 crores in 1979-80. Aluminium imports are estimated around Rs. 184 crores as compared with Rs. 49 crores in the previous year, with the quantity imported rising from 35 thousand tonnes to 118 thousand tonnes and the unit value from Rs. 14,047 to Rs. 15,527 per tonne. Similarly, in the case of nickel and tin, both the quantity imported and the unit value stood higher over the year; the quantum of nickel imported moved up from 3,994 tonnes to 4,751 tonnes and that of tin from 2,352 tonnes to 2,377 tonnes; the unit value of nickel imports went up over the year from Rs. 61,843 per tonne to Rs. 82,298 per tonne and that of tin from Rs. 1,87,075 per tonne to Rs. 2,04,459 per tonne. In the result, imports of these two commodities in value terms rose from Rs. 25 crores and Rs. 44 crores to Rs. 39 crores and Rs. 49 crores, respectively. Imports of copper, zinc and lead, on the other hand, declined over the year by Rs. 7 crores to Rs. 155 crores, by Rs. 2 crores to Rs. 70 crores and by Rs.3 crores to Rs. 44 crores, respectively.

The outgo on imports of newsprint and cement was also larger during the year by Rs. 24 crores to Rs. 133 crores and by Rs. 17 crores to Rs. 80 crores, respectively. The quantum of newsprint and cement imported through the STC is provisionally placed at 3.01 lakh tonnes and 20 lakh tonnes in 1980-81, as against 2.50 lakh tonnes and 15.50 lakh tonnes, respectively, in the previous year. The import bill on account of rough and uncut diamonds which are re-exported in the form of polished diamonds and studded jewellery, was modestly higher over the year, consequent upon the recovery in exports of gems and jewellery, referred to earlier. According to the Gems and Jewellery Export Promotion Council, imports of rough diamonds during 1980-81 amounted to Rs. 387 crores and were higher over the year by some 6 per cent. The residual imports (i. e. other than those enumerated above) which covered imports of plant, machinery and other equipment, spares and components, iron and steel, chemicals and compounds and other industrial raw materials, cereals and cereal preparations, etc., were roughly of the order of Rs. 4,200 crores during 1980-81, higher over the year by Rs. 654 crores or 18.4 per cent; this mark-up in residual imports would, by and large, seem to reflect the high rates of inflation that prevailed in overseas countries during the year.

Direction of Trade

Firm data on the direction of India's foreign trade are available upto 1979-80. Similar data are also available for the first half (April-September) 1980-81, but on a provisional basis. Data on the regional pattern of trade during 1979-80 and the first half of 1980-81 are shown in Table IX-3. India's trade transactions with East European countries which were nearly in balance during 1978-79, resulted in a substantial deficit of Rs. 226 crores in 1979-80 following the much larger increase in imports from Rs. 664 crores to Rs. 1,118 crores than that in exports from Rs. 658 crores to Rs. 892 crores. Trade with the USSR accounted for most of the increase in both imports and exports as also for the resultant widening of the trade gap with this region. India's exports to the USSR went up over the year from Rs. 411 crores to Rs. 638 crores and imports from Rs. 471 crores to Rs. 824 crores and consequently, the trade gap worsened from Rs. 60 crores to Rs. 186 crores. The share of this region in India's total exports

Table IX-3 ; Regional Pattern of India's Trade

(Rs. Crores)

Regions	Exports		April-September		Imports		April-September		Trade Balance		April-September	
	1978-79	1979-80	1979	1980*	1978-79	1979-80	1979	1980*	1978-79	1979-80	1979	1980*
1. E.C.M.	1,560 (27.2)	1,737 (27.1)	797 (26.9)	596 (20.9)	2,084 (30.6)	2,177 (24.1)	926 (24.9)	1,380 (23.9)	—524	—440	—129	—784
2. E.F.T.A.	142 (2.5)	166 (2.6)	71 (2.4)	69 (2.4)	210 (3.1)	253 (2.8)	117 (3.1)	158 (2.7)	— 68	— 87	— 46	— 89
3. North America	820 (14.3)	869 (13.6)	431 (14.5)	349 (12.2)	1,002 (14.7)	1,153 (12.8)	502 (13.5)	753 (13.0)	—182	—284	— 71	—404
4. East European Countries @	658 (11.5)	892 (13.9)	383 (12.9)	620 (21.7)	664 (9.7)	1,118 (12.3)	368 (9.9)	476 (8.2)	— 6	—226	+ 15	+144
5. E.S.C.A.P.	1,487 (26.0)	1,626 (25.4)	765 (25.8)	662 (23.2)	1,485 (21.8)	2,008 (22.3)	787 (21.1)	1,418 (24.5)	+ 2	—382	— 22	—756
6. Rest of Asia and Oceania	667 (11.7)	699 (10.9)	335 (11.3)	336 (11.8)	1,102 (16.2)	1,949 (21.6)	846 (22.7)	1,235 (21.4)	—435	—1250	—511	—899
7. Africa	338 (5.9)	348 (5.4)	152 (5.1)	194 (6.8)	156 (2.3)	207 (2.3)	102 (2.7)	86 (1.5)	+182	+141	+ 50	+108
8. Latin America	13 (0.2)	17 (0.3)	5 (0.2)	8 (0.3)	82 (1.2)	107 (1.2)	57 (1.5)	144 (2.5)	— 69	— 90	— 52	—136
9. Others	41 (0.7)	51 (0.8)	27 (0.9)	20 (0.7)	26 (0.4)	50 (0.6)	22 (0.6)	132 (2.3)	+ 15	+ 1	+ 5	—112
10. **Total**	**5,726 (100.0)**	**6,405 (100.0)**	**2,966 (100.0)**	**2,854 (100.0)**	**6,811 (100.0)**	**9,022 (100.0)**	**3,727 (100.0)**	**5,782 (100.0)**	**—1085**	**—2617**	**—761**	**—2928**

Figures in brackets represent percentage to totals.

Notes : 1. Aggregate exports have been further revised to Rs. 6,459 crores for 1979-80 and aggregate imports to Rs. 6,814 crores for 1978-79 and Rs. 8,908 crores for 1979-80 for which regional break-up is not available. Similarly, aggregate exports and imports for April-September 1979 have been revised to Rs. 3,111 crores and Rs. 4,078 crores and for April-September 1980 to Rs. 3,305 crores and Rs. 6,332 crores respectively for which region-wise details are not available.

2. ESCAP countries include Afghanistan, Australia, Bangladesh, Brunei, 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.

3. Rest of Asia and Oceania include Bahrain, Republic of China, Israel, Iraq, Jordan, Democratic People's Republic of Korea, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, Democratic People's Republic of Yemen and Democratic Republic of Vietnam.

4. Data for the years 1978-79 and 1979-80 are based on the D.G.C.I. & S. classifications and those for subsequent period are taken from the Annual Report of the Ministry of Commerce—1980-81.

* Provisional.

@ Include Yugoslavia which in the D.G.C.I. & S. classification, is shown under "Other European Countries".

improved over the year from 11.5 per cent to 13.9 per cent and in aggregate imports from 9.7 per cent to 12.3 per cent. Like-wise, India's trade with the ESCAP region which was in balance during 1978-79, showed a large adverse balance of Rs. 382 crores. Exports to this region improved over the year by Rs. 139 crores to Rs. 1,626 crores, while imports advanced by Rs. 523 crores to Rs. 2,008 crores. Larger outlays on imports of POL items, particularly from Iran, primarily accounted for the sharp increase in imports from this region.

Trade exchanges with 'Rest of Asia and Oceania' resulted in a further substantial worsening of the deficit from Rs. 435 crores in 1978-79 to Rs. 1,250 crores. Exports to this region showed only a nominal rise of Rs.32 crores, but imports therefrom spurted from Rs. 1,102 crores to Rs. 1,949 crores; once again a larger order of expenditure on POL items was mainly responsible for the mark-up in imports. Consequently, this region's share in imports went up sharply from 16.2 per cent to 21.6 per cent, whereas that in exports came down from 11.7 per cent to 10.9 per cent. India's exports to ECM countries rose during 1979-80 by Rs. 177 crores to Rs. 1,737 crores, while our imports from that region went up by Rs. 93 crores to Rs. 2,177 crores; in the result, the trade gap shrunk over the year from Rs. 524 crores to Rs. 440 crores. This region's share in India's exports remained virtually stationary around 27 per cent, while that in imports declined from 30.6 per cent to 24.1 per cent. The merchandise trade account with North America deteriorated further during the year, with the trade deficit rising from Rs. 182 crores to Rs. 284 crores. While exports rose by only Rs. 49 crores to Rs. 869 crores, imports advanced by Rs. 151 crores to Rs. 1,153 crores. This region's share in both exports and imports remained more or less identical around 13 per cent. India's trade with Africa, Latin America and EFTA regions continued to remain small, but the trade surplus with Africa narrowed somewhat while the deficit with EFTA and Latin America widened modestly.

During the first half of 1980-81 (April-September), trade transactions with East European countries, yielded a surplus of Rs.144 crores as compared with a more or less balanced position during the first half of 1979-80, and this improvement resulted from a larger increase in exports of Rs. 237 crores than in imports of Rs. 108 crores. The favourable balance in Indo-Soviet trade accounted for almost the entire surplus with the region. Reflecting these changes, this region's share in our total exports advanced to 21.7 per cent from 12.9 per cent in the same period last year, while that in imports, declined to 8.2 per cent from 9.9 per cent. Indo-African trade also showed a sizeable surplus during the half year and the countries that contributed to the favourable trade balance were Tanzania, Zambia, Kenya and Nigeria, which are India's major trading partners in the region. The share of Africa in our exports went up from 5.1 per cent in the first half of 1979-80 to 6.8 per cent in the first half of 1980-81, while its share in imports dropped from 2.7 per cent to 1.5 per cent. India's trade exchanges with the ESCAP region showed a massive deficit of Rs. 756 crores during the half year, as against only a nominal deficit of Rs. 22 crores in the same period last year; this deterioration in the trade account was the combined result of a steep increase in imports from Japan, Iran and Singapore and a decline in exports to these countries. Imports from these three countries nearly doubled to Rs. 1,022 crores while exports to them declined from Rs. 400 crores to Rs. 371 crores. As a result, the share of this region in India's exports declined from 25.8 per cent to 23.2 per cent, whereas that in imports went up from 21.1 per cent to 24.5 per cent. The adverse trade balance with 'Rest of Asia and Oceania' worsened over the same period from Rs. 511 crores to Rs. 899 crores due in the main to deterioration in the trade account with Iraq. The trade transactions with North America resulted in a larger deficit of Rs. 404 crores as against a small deficit of Rs. 71 crores in the first half of 1979-80 mainly due to a steep increase in imports from the USA from Rs. 414 crores to Rs. 633 crores, accompanied by a fall is exports to that country from Rs. 401 crores to Rs. 322 crores. The deficit on trade transactions with the ECM group of countries also widened substantially from Rs. 129 crores to Rs. 784 crores because of a sharp increase in imports from the UK, West Germany, France and

Belgium, accompanied by a decline in exports to these four countries.

Import Licences

Reflecting the higher tempo of industrial activity, import licences issued during 1980-81, both in terms of number and value, recorded significant increases over the year (Table IX-4). The number of import licences issued during the year aggregated 69,766, showing a rise of 9,672 or 16.1 per cent over the level of 60,094 licences issued in 1979-80. The total value of import licences issued during the year amounted to Rs. 5,340 crores, as against Rs. 4,206 crores in the previous year—an increase of Rs. 1,134 crores or 27.0 per cent over the year. Sector-wise, the number of licences issued to the private sector rose over the year by 10,357 to 65,156, whereas those issued to the public sector agencies declined by 685 to 4,610. In value terms, however, licences issued to the Government sector rose by Rs. 715 crores to Rs. 2,786 crores and accounted for nearly two-thirds of the incremental aggregate value of licences issued during the year, while those issued to the private sector went up over the year by Rs. 419 crores to Rs. 2,554 crores.

Table IX-4 : Classification of Import Licences issued by Major Categories and Sectors—1978-79 to 1980-81

(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
Actual Users (Industrial)	1978-79	645	602	15.0	43	1.0
	1979-80	686	621	14.8	65	1.6
	1980-81	1,191	1,134	21.2	57	1.1
Actual Users (Non-Industrial) ..	1978-79	134	131	3.3	3	0.1
	1979-80	205	201	4.8	4	0.1
	1980-81	235	227	4.3	8	0.1
Raw Materials for Scheduled Industries (DGTD Units)	1978-79	702	381	9.5	321	8.0
	1979-80	755	291	6.9	464	11.0
	1980-81	743	304	5.7	439	8.2
Small Scale Industries	1978-79	185	—	—	185	4.6
	1979-80	212	—	—	212	5.0
	1980-81	216	—	—	216	4.0
Registered Exporters/Export Promotion Schemes	1978-79	1,097	50	1.3	1,047	26.2
	1979-80	1,090	71	1.7	1,019	24.2
	1980-81	1,422	58	1.1	1,364	25.5
Capital goods/Heavy electrical plants	1978-79	561	354	8.3	227	5.7
	1979-80	737	452	10.8	285	6.8
	1980-81	1,127	722	13.5	405	7.6
State Trading Agencies	1978-79	470	470	11.7	—	—
	1979-80	208	208	5.0	—	—
	1980-81	206	206	3.9	—	—
Others*	1978-79	209	97	2.4	112	2.8
	1979-80	313	226	5.4	87	2.1
	1980-81	200	135	2.5	65	1.2
Total	**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**
	1980-81	**5,340** (69,766)	**2,786** (4,610)	**52.2**	**2,554** (65,156)	**47.8**

Figures within brackets relate to number of licences issued.

* Includes the categories 'Established Importers', 'Ad-hoc Licences', 'Customs Clearance Permits', 'Director General of Supplies & Disposals Contracts', 'Railway Contracts', 'Government or against Government Contracts', 'Replacement Licences', and 'Co-operative Societies'.

Source : Chief Controller of Imports and Exports.

In the result, the share of the Government sector in the total value of import licences issued which had declined steadily from 63.1 per cent in 1977-78 to 49.2 per cent in 1979-80, improved to 52.2 per cent in 1980-81. Concomitantly, the share of the private sector in the total licences, after rising steadily from 36.9 per cent in 1977-78 to 50.8 per cent in 1979-80, dropped to 47.8 per cent in 1980-81.

Category-wise, 'actual users (industrial)', 'registered exporters' and 'capital goods and heavy electrical plants' categories accounted for the entire increase in the total value of licences issued during the year. As in the preceding two years, 'registered exporters and export promotion schemes' accounted for the largest share of the total value of licences issued during the year; licences issued to this category rose over the year by Rs. 332 crores to Rs. 1,422 crores and, as a result, its share in the total moved up from 25.9 per cent to 26.6 per cent. The 'actual users (industrial)' came next in importance followed by the 'CG/HEP' category. The value of licences issued to the 'actual users (industrial)' increased over the year by Rs. 505 crores to Rs. 1,191 crores. In the consequence, the share of this category in the total rose by 6 percentage points to 22.3 per cent over the year. A good part of the increase in these licences represents the mark-up in the prices of POL items imported by public sector refineries. The value of licences issued to the 'CG/HEP' category increased by Rs. 390 crores to Rs. 1,127 crores, raising its share in the total from 17.5 per cent in 1979-80 to 21.1 per cent in 1980-81. Thus, the combined share of these three categories which had risen sharply from 27.9 per cent in 1977-78 to 59.7 per cent in 1979-80, improved further to 70.1 per cent in 1980-81, in keeping with the increased thrust of the import policy on meeting the growing and complex needs of the export sector as well as on strengthening the production base of the economy.

Licences issued to scheduled industries (DGTD units) for raw materials came down over the year by Rs. 12 crores to Rs. 743 crores, and this downturn is probably indicative of the improvement in the indigenous availability of some of the items required by these industries. Among the other categories, the value of licences issued to 'actual users (non-industrial)' rose further by Rs. 30 crores to Rs. 235 crores, while those issued to State trading agencies and small scale industries remained broadly unchanged; in the case of the latter two categories the quantity of goods represented by these licences would be lower if account is taken of the rates of inflation prevailing abroad.

Developments in Foreign Trade Policy

The main features of India's foreign trade policy for 1980-81, announced in two instalments during April 1980, were presented in a summary form in the last Report. The more important developments in the field of export-import policy and procedures during 1980-81 are briefly indicated below:

Export Policy : 1980-81

A robust and sustained growth in exports is an important instrument for securing balance of payments viability, particularly against the backdrop of the massive increase in the import bill, referred to earlier. Accordingly, during 1980-81 the emphasis of the export strategy was placed on promoting a sound, diversified and steadily expanding export base. Export control was exercised only in respect of a few essential commodities of mass consumption and/or of strategic importance, so as to ensure that the domestic economy was not adversely affected by inadequate supplies. Commodities subject to export control in the form of a ban, canalisation, quota and price restrictions were kept under constant review. During 1980-81, a ban was imposed on the export of the following commodities: rape seed oil and alloy steel in April 1980, sillimanite (other than granular) in June 1980, yarn both carpet as well as non-carpet varieties made from indigenous wool, carpet yarn made from imported wool and shoddy yarn in July 1980 and sugar in February 1981. Again, export of rosewood (log and sawn sizes) hitherto allowed within a quantitative ceiling was banned in May 1980. At the same time, the existing restrictions on the export of a number of commodities were removed or eased on merits of individual cases. For instance, the ban on export of mutton, compound cattle and poultry feeds and sesame seed oil was lifted, and exports of mutton and compound cattle and poultry feeds were allowed within limited ceilings and those

of sesame seed oil on merits, so as to enable Indian exporters to take advantage of the buoyancy in certain overseas markets. Minimum export prices were fixed for certain commodities like mutton, rice and certain varieties of tobacco; in the case of certain commodities which were already subject to minimum export prices, such as, footwear and dried fish, the minimum prices were raised taking note of the rise in prices in overseas markets. The OGL 3 list, whereunder export can be made by any party to any permissible destination, was further expanded during the year and the commodities newly brought within the list included fresh and frozen prawns and guar gum. Several new state level public sector agencies/co-operative societies were permitted to export coarse, fine and superfine varieties of non-basmati rice.

Adjustments in export duties were made in a flexible manner in keeping with the changing overseas market conditions and were mainly designed to increase the competitive position of Indian commodities and/or to raise the unit value realisations. For instance, the export duty on groundnuts in kernels was doubled from Rs. 1,500 to Rs. 3,000 per tonne and that on groundnuts in shell from Rs. 1,125 to Rs. 2,250 per tonne in January 1981 in the context of good overseas demand and price boom in international markets. As in the past year, the international price of coffee showed two-way fluctuations necessitating corresponding adjustments in the export duty on this commodity. The export duty on coffee was stepped up from Rs. 5.70 per kg. on February 1,1980 to Rs. 7.00 per kg. on May 28,1980 consequent upon the hardening of the price of coffee in the London market from £ 1,450 per tonne on January 23, 1980 to £ 1,674 per tonne on May 14, 1980. Thereafter, the coffee price gradually eased to £1,137 per tonne by end-July 1980 and further to £ 977 per tonne by end-May 1981; in line with this downtrend in the price, the export duty on coffee was reduced in stages and finally abolished on June 19,1981, so as to protect the competitive position of Indian coffee in world markets. The export duty of Rs. 2,000 per tonne on whole turmeric and of Rs. 1,500 per tonne on turmeric powder was abolished with effect from November 11, 1980 following a steady decline in international price of Indian turmeric from $510 per tonne for the week ended August 11, 1979 to $400 per tonne for the week ended September 6, 1980. Similarly, the export duty of Rs. 1,000 per tonne on hessian (cloth and bags) was withdrawn with effect from September 8, 1980 following a steep decline in the prices of these constructions. Between April and August 1980 the price of hessian moved down from Rs. 223 to Rs. 183 per 100 metres. Further, in the context of the deepening of recessionary tendencies in industrial countries and subdued overseas demand, the duty on semi-finished leather was cut down from 25 per cent ad-valorem to 15 per cent ad-valorem with effect from January 1, 1981.

During the year the Government took a series of measures to generate large exportable surpluses as also to ease the infrastructural bottlenecks inhibiting production and movement of goods, and thus stimulate export activity. The more important among these were: (*i*) setting up of a Cabinet Committee on Exports under the Chairmanship of the Prime Minister to expedite decisions on important policy matters relating to exports; (*ii*) exclusion of production for export from the norms of "Licensed Capacity" and "Dominance" under the MRTP Act; (*iii*) permission to allow production of new articles for export; (*iv*) favourable treatment to import of technology for export production which involves lumpsum payment of royalty; (*v*) extension of facilities and benefits to all 100 per cent export-oriented units similar to those available to units in free trade zones; (*vi*) extension of the facility of automatic expansion to an expanded list of industries that seek to increase production for exports; (*vii*) granting selective relaxation of the restrictions imposed on new industrial undertakings in metropolitan cities to units which produce for exports; (*viii*) extension of pre-shipment credit facility upto 180 days to a wide range of commodities such as hand-knotted carpets, leather manufactures, coir products, agricultural products like cashew and tobacco and sports goods; (*ix*) simplification and streamlining of procedure for payment of duty drawback claims; (*x*) abolition/reduction of export duty on exports of certain commodities referred to earlier; (*xi*) encouragement to public sector undertakings to involve themselves increasingly in export

activity and (*xii*) timely delivery of raw materials to export units through a system of link-up of supply of raw material with export production.

The Government of India introduced on October 14, 1980, a new scheme permitting the export of gold jewellery against gold supplied by foreign buyers. This scheme (which is in substitution of the earlier scheme — Gold Jewellery Export Replenishment Scheme, introduced on August 17, 1978 but suspended on January 17, 1980 when the price of gold in international markets ruled above that in domestic market), provides for export of gold ornaments and articles (other than coins) including studded ones against gold supplied, free of charge, in advance by foreign buyers, to the extent of the quantity of gold used in the manufacture of the items to be exported. The gold purity of the aritcle meant for export should not be less than 0.5833 fineness which corresponds to 14 carats and the value added in the process of manufacture of the article should at least be 15 per cent over the value of the gold content. This scheme will apply to export orders received by the Handicrafts and Handloom Export Corporation directly or through their associates, *viz.*, registered exporters with The Gem and Jewellery Export Promotion Council, co-operative societies of certified goldsmiths and corporations owned or controlled by the Government.

Import Policy : 1980-81

During the year, the system of import licensing and regulation and the procedures governing such regulation were further streamlined and adjusted taking note of the availability of domestic supplies, the requirements of industrial and other actual users particularly the export sector and the urgency to conserve foreign exchange. The number of commodities whose import was permitted under the Open General Licence (OGL) was raised during the year by 74 to 776. Majority of the additions to the OGL list represented capital goods and were mainly designed to enable the electronics and T.V. industries to import their machinery requirements more freely. In addition, the import of all consumables used in industrial production, other than those included in the banned, restricted or canalised lists, was put on the OGL. At the same time, a number of items, mainly, chemicals and allied products, drug intermediates, components of process control instruments and precision measuring instruments, whose domestic production had improved, were transferred from the OGL to the restricted list. The import of certain items namely lanolin anhydrous of non-pharmaceutical grade, A.B.S. moulding powder, caffeine and its salts, cork products, watch dials, industrial jewels, vitamin B-12, vitamin C, polypropylene fibre, glass fibre, yarn, fabrics and articles made therefrom and betanaphthol which were hitherto canalised or restricted, was banned.

The system of issuing automatic licences to manufacturers for the import of raw materials, components and spares, on the basis of actual consumption in either of the preceding two years was continued. Likewise, the facility of importing an additional 10 per cent of the certified actual consumption under the automatic licence which was available only to manufacturers of certain export items, was also continued; but the level of export performance in such cases was enhanced to 10 per cent of the production, from 5 per cent earlier. The facility of supplementary licences was also extended to new units in exceptional cases. Pharmaceutical units, approved as "Loan licencees" were allowed to obtain actual user licences in their own names for import of raw materials required by them. The limit for import of spares by actual users for providing warranty coverage/after-sales service was raised from the earlier 0.5 per cent to 1 per cent of sale value of production in the previous three years. Workshops engaged in repairing machinery, instruments and vehicles were included in the actual users (non-industrial) category and were allowed to import spares under the OGL for carrying on their repair work.

Departmentally run undertakings and railways were allowed to import raw materials, consumables and spares under the OGL, subject to the clearance from the concerned technical authority and release of foreign exchange by the Ministry of Finance. State Electricity Boards and projects/undertakings in the public sector were also allowed to import spares under the OGL.

Manufacturer-exporters were allowed to import, in addition to the items appearing in the shopping list, other items of raw materials, components, consumables and packing materials required for their own use. Exporters of the following three products, namely (*i*) stainless steel utensils, sinks and hospitalware (made from non-magnetic stainless steel sheets), (*ii*) brass artware and (*iii*) steel pipes, tubes, wire, sheets, whether or not corrugated including galvanised items, were allowed to import raw materials free of customs duty.

The scheme of advance licences with duty exemption benefits was made more comprehensive and a number of procedural simplifications were also introduced in this scheme so as to make it more responsive to the needs of export production. The more important of the changes made in this scheme were: (1) the number of items that could be imported under the scheme was 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 duty exemption entitlement certificate, were to 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 had been fulfilled in part before the import took place against the advance licence, the export obligation bond would be marked down to a correspondingly lower value; (4) a combined export obligation bond would be adequate to meet the requirements of both the customs duty exemption and the import control purposes instead of the erstwhile requirement of separate bonds for these two purposes; (5) applications for further advance licences would be entertained from the same exporters, even when export obligations against previous licences were outstanding as long as the exporter had 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 was 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 received an advance licence without having on hand an export order, and there was subsequently a change in the f.o.b. value of the export product, the licensing authority was authorised to modify the value of the export obligation already imposed on the licence so long as the quantity and other specifications of the product exported did not change and also the minimum value added of 25 per cent was not eroded and (8) the issue of duty exemption entitlement certificates was decentralised and the certificates were issued by the regional authorities.

The minimum export performance to be taken for the purpose of issue and renewal of export house certificates was specified as the annual average of the three years of the base period (i. e., 1977-78, 1978-79 and 1979-80) or exports of the immediately preceding year, provided the applicant did not have 'nil' exports in any year of the base period. In the case of renewal of such certificates to the small-scale units, the prescribed growth rate of 20 per cent was reduced to 10 per cent, provided the level of their exports was at least Rs. 1 crore. The REP licence obtained by an export house on its own exports was made valid for import of raw materials, components and spares as are open to actual users under OGL, without debit to the value of the REP licence, provided the value of such imports did not exceed the value of the REP licence and also the raw materials and components thus imported were disposed of by them only to eligible actual users. Export houses were also made eligible for imprest licences to the extent of 100 per cent of the value of REP licences earned against their own exports made in the previous year. Additional licences to export houses against export of select products manufactured in the large-scale industrial sector were allowed at 7½ per cent of the f.o.b. value of such exports in the preceding year, instead of at 5 per cent earlier. In regard to the import of restricted items by export houses against additional licences, the item-wise limit of Rs. 2 lakhs was raised to Rs. 5 lakhs.

Export houses with an annual turnover of not less than Rs. 5 crores were allowed to provide IRMAC (Industrial Raw Materials Assistance Centre) facilities to actual users by supplying them raw materials and components of non-canalised items off-the-shelf against

valid import licences. Hitherto, these facilities were provided by the STC and similar agencies. Export houses were also allowed to sell to any person, not necessarily to actual users, spares imported by them under REP licences or additional licences, but not raw materials and components imported against such licences which were to be sold only to actual users. The upper limit of foreign exchange to be released to export houses for promotional activities in relation to their exports was raised from Rs. 5 lakhs to Rs. 7.5 lakhs.

With regard to project exports, used equipment, after completion of the project, was allowed to be imported on a customs clearance permit. Selected public sector canalising agencies were also permitted to obtain licences for import of items placed in the OGL list and supply them to actual users off-the-shelf. These licences were available to them against the bulk allocation of foreign exchange made in their favour for import of canalised items.

Foreign Trade Policy : 1981-82

India's foreign trade policy for the year 1981-82 was announced in two instalments —the export policy on April 1 and the import policy on April 3, 1981. Notwithstanding the continued worsening of the merchandise trade deficit arising from the rapid rise in imports and the sluggishness in export growth, the basic framework of the trade policy has been retained for the fourth successive year, as stability of the policy is essential for sustained economic expansion and orderly growth of trade. At the same time, a few changes and improvements have been introduced to increasingly gear up the policy towards strengthening and diversifying the industrial production base and to assist the export sector in meeting the varying demands of the highly competitive world markets.

Export Policy

Recognising the urgency to maximize export earnings in the prevailing situation of the rising trade deficit and the continuing unfavourable world trading environment, the emphasis of the export strategy is on limiting the control to the barest minimum. Accordingly, export control is exercised over a few selected commodities of mass consumption and/or of strategic importance whose indigenous supply position demands that their exports should be regulated in the larger national interest.

The new policy has imposed a ban on export of cattle used for breeding purposes, khandsari, sugar, jaggery, wheat products, vintage motor cars and parts and components thereof, uncrushed bones other than fish bones, bone meal and mutton tallow; the export of these commodities was hitherto allowed either on merits or was subjected to a quantitative ceiling. Further, quantitative restrictions have been imposed on export of commodities like live sheep and goat and man-made fibres of certain varieties; export of chemical/marine gypsum which was earlier allowed under the OGL. 3, would now be allowed on merits. At the same time, export control over certain other commodities was liberalised. For example, export of fish meal with protein content of 50 per cent and above, but less than 60 per cent, which was hitherto allowed within a ceiling is put under the OGL. 3, for free export to all permissible destinations. Similarly, export of fresh and frozen silver pomfrets of sizes between 300 grams and less than 500 grams which was permitted within a quantitative ceiling, is also put under the OGL. 3. Export of streptomycin formulations which was banned during 1980-81, is allowed, subject to the condition that the bulk drug used in the export product is replenished by import. In respect of certain items such as football and live sheep and goat, minimum export prices have been increased. Further, the 'export baggage rules' have been liberalised in the case of foreign tourists visiting India. In order to give a further boost to turn-key and construction project exports, the new policy permits export of any items required for execution of any project abroad, irrespective of the policy on the relevant item, provided such export is cleared by the Projects Committee in the Ministry of Commerce.

Import Policy

The major objectives of the import policy for 1981-82, as indicated by the Government of India are: (1) to provide essential imports for strengthening the production base and enable fuller utilisation of available capacities by domestic industries, (2) to further reduce

dependence on imports, having regard to indigenous production and capabilities, (3) to provide greater impetus to exports, and (4) to further simplify and streamline procedures. To this end, the more important innovations and modifications incorporated in the policy are: (*a*) introduction of a new scheme of 'Trading Houses' with stipulations of higher export performance standards and carrying corresponding additional facilities; (*b*) expansion and liberalisation of the scheme of duty-free imports under REP licences to better serve the needs of small-scale and cottage sector exporters; (*c*) extension of the Advance Licensing (Duty Exemption) Scheme to new items and simplification of the procedure for obtaining such licences; (*d*) extension of the facility of importing products not included in the shopping list against REP licences, hitherto available only to manufacturer-exporters, to all manufacturers who export their products indirectly through other agencies; (*e*) liberalisation of the policy relating to import of capital goods by non-resident Indians returning home for settlement; (*f*) reduction of the quantum of additional licences issued to export houses in order to reduce imports of items having indigenous production capability; and (*g*) tightening of the policy for issuance of supplementary licences to actual users.

Actual Users : As in the past, actual users (industrial) will obtain their import requirements of raw materials, spares, components and consumables through the open general, automatic and supplementary licences as also through the public sector canalising agencies in respect of canalised products. However, keeping in view the domestic production capabilities vis-a-vis the requirements of indigenous industries on the one hand and the need to prune down imports in the context of the emerging difficult foreign exchange position on the other, changes have been made in the lists of raw materials, intermediate products and machinery and equipment shown under the OGL, restricted and banned categories. Thus, one hundred and sixty-five items of raw materials, components and machinery have been removed from the OGL list and brought within the system of specific licensing for actual users; these include certain dyes intermediates and chemicals, aluminium foils, bicycle dynamo sets, high speed steel wires of certain sizes, high speed steel rounds in cobalt-bearing grades of certain sizes and components of cement and sugar machinery, hand-knitting machines, compressors, internal combustion engines, electric fans and household electrical appliances. Similarly, 42 items have been transferred from the restricted/canalised lists to the banned list; these include synthetic tanning agents, synthetic fibre tips and filters for sketch pens, brewery hops, selenium metal, bare rubber thread upto 80 guages, ferro molybdenum, ferro titanium and certain items of dyes intermediates and chemicals. At the same time, certain commodities such as camphor, shuttle cork bottoms, wool grease, rubber blankets, sodium sulphate and refractory bricks have been removed from the banned list as their domestic production is inadequate to meet the growing demand. Further, 63 items of raw materials, machinery and equipment, domestic supplies of which are inadequate, have been included in the OGL list to enable the indigenous industries to obtain these items without any difficulty; these include wattle extracts, acrylic fibre and partially oriented polyester filament yarn.

In an effort to compel the actual users (industrial) to tap the domestic supplies to the maximum extent possible and thus conserve foreign exchange, the procedure for the issue of supplementary licences has been amended. They are now required to obtain automatic licences prior to seeking the supplementary licences and furnish the list of items imported/proposed to be imported against automatic licences along with their applications for supplementary licences. Similarly, to ensure proper utilisation of imported raw materials and components by new/proposed small-scale units, their initial requirements, even under OGL, will now be required to be imported through the State Industrial Development Corporations/State Finance Corporations; alternatively,these units will have to furnish a bond and a bank guarantee for 25 per cent of the value of the actual imports at the time of their clearance. The maximum value of repeat licences which the small-scale industrial units can obtain, without production of a consumption certificate, has been raised from Rs. 50,000 to Rs. 1 lakh.

Undertakings in the Public Sector : The railways and the departmentally run public

sector undertakings are now permitted to import capital goods, in addition to raw materials, components, consumables and spares under the OGL. This facility has also been extended to Coal India Ltd., and Neyveli Lignite Corporation. The Director General, "Doordarshan", has also been allowed to import spares for Doordarshan centres under the OGL subject to indigenous clearance.

Registered Exporters : Last year, only the manufacturer-exporters were permitted to import against their REP licences items not included in the shopping list. This year this facility has been extended to all manufacturers. Under a scheme introduced last year, manufacturer-exporters of the following products, namely, (*i*) stainless steel utensils, sinks and hospitalware made out of non-magnetic stainless steel sheets or strips, (*ii*) brass artware, (*iii*) galvanised steel pipes, tubes, wires and sheets, were allowed to import raw materials free of customs duty, against their REP licences, subject to the actual user condition. The above products are by and large produced in the decentralised sector but exported by others. Consequently, the non-manufacturer exporters could not avail of the benefits of the scheme because of the actual user condition. In response to their representations the "actual user" condition has been removed. One more product, i. e., hand-knotted carpets has been brought within the scheme in addition to the above mentioned three products. The Advance Liensing (Duty Exemption) Scheme has been simplified, permitting exporters to apply for licences on the basis of pre-determined input-output norms without having to produce a certificate of a chartered engineer or recommendation of the DGTD. Further, the scheme has been thrown open to a larger number of goods. Established manufacturer-exporters, who have been exporting for at least three years, are permitted, under the revised procedure, to obtain bulk advance licences with a single duty exemption entitlement certificate.

Trading and Export Houses: The new policy recognises that the large export houses with good organisational and financial strength and technical capabilities can play a much larger role in promoting and developing the country's foreign trade, and has therefore introduced a new scheme whereunder export houses satisfying certain conditions will be given recognition as trading houses; they will be required to achieve higher export performance standards and will in return be entitled to larger import facilities. The criteria laid down for recognition as a trading house are : An export house should have been in the export field for at least 3 years, with average annual exports of select products of at least Rs. 10 crores during these 3 years. These exports should comprise a minimum of three product groups and cover products manufactured by small-scale units to the extent of 10 per cent by way of direct exports or 20 per cent by way of indirect exports of products manufactured by ancillary units. It should have adequate financial and technical resources and arrangements for quality control. To be eligible for continuance as a trading house after the first three years, the concern should undertake to achieve an annual average growth in exports of at least 15 per cent. A trading house will be eligible, besides the normal REP benefits, to the undernoted facilities : It will be eligible to an additional licence at 20 per cent (as against 15 per cent for other export houses) of the f. o. b. value of its export of select products in 1980-81. The additional licence can be utilised to import restricted items (enumerated in Appendices 5, 7 and 26 of the policy book), besides items in the OGL list and spares, provided the value of any restricted item does not exceed Rs. 20 lakhs (as against Rs. 5 lakhs for other export houses) and (2) banned or canalised items upto 5 per cent of the value of the licence, provided the value of a single item does not exceed Rs. 5 lakhs, and that these banned/canalised products are relatable to export products of the trading house. A trading house is also authorised to act as Industrial Raw Materials Assistance Centre (IRMAC) providing facilities both to actual users against actual user licences and registered exporters and export houses against REP and additional licences. For promotional activities abroad including the establishment of warehouses and offices in overseas countries, it is eligible for foreign exchange allocation at 2.5 per cent of its total exports in the previous year, subject to a ceiling of Rs. 40 lakhs.

In order to encourage export houses to increasingly take to the export of products

manufactured in the decentralised sector certain procedural changes have been introduced in the issue of additional licences to these houses covering the export of 11 specified products of the decentralised sector. If an exporter of these products is unable to give the name of the manufacturer, a declaration that the goods were manufactured in the small-scale or cottage industry is adequate for determining the entitlement for additional licence. Further, export houses have also been allowed to settle small value claims of their foreign buyers out of the bulk foreign exchange allocated to them for export promotion activities. Certain items of metal scrap including brass and copper scrap can now be imported under the OGL by export houses and Small Industries corporations of State Governments/Union Territories for use by the small actual users. The intention here is to ensure regular and timely supplies of raw materials to small scale units.

The quantum of additional licences available to export houses has been cut down from 33⅓ per cent to 15 per cent of the f. o. b. value of exports of select products. This reduction will, however, not apply to small-scale units recognised as export houses and consortia export houses of small-scale units. The import of the OGL items against additional and REP licences permitted to export houses will henceforth be subject to the terminal date of the OGL itself or the expiry date of the import licence, whichever is earlier.

Non-Resident Indians : The non-resident Indians returning home for settlement are permitted to import machinery both for setting up new industries and when they participate in the expansion or diversification of existing units. The ceiling of Rs. 25 lakhs in respect of value limit for import of new machinery and of Rs. 15 lakhs in respect of old machinery has been withdrawn. An applicant is permitted to import any item of machinery included in the banned list, computer systems or a computer which is a built-in part of the equipment for import, provided he has been using the same for at least one year before returning to India. Import of prototypes, cement required for his factory building, and machinery required for agricultural production and development (other than banned) purchased out of the applicants' own foreign exchange earnings abroad is also allowed. Project import by such non-resident Indians will be subject to the concessional rate of customs duty.

Capital Goods : In the field of capital goods changes have been made in the restricted, banned and OGL lists keeping in view the indigenous availability. Capital goods required by electronic and film industries are the main additions to the OGL list. Also, certain capital goods, mainly textile machinery, have been taken out of the banned list as their domestic production is not adequate and their import is allowed on merits subject to indigenous clearance. Similarly a number of capital goods (such as plastic extruders, spraying machines, hand operated flat-bed knitting machines, automatic trimming, threading, rolling machines, jig grinders, radical drilling machines, slotting machines, shaping machines, valve-face regrinding machines, watch making machines, hydraulic presses and mechanical presses) have been taken out of the OGL list and their import is made subject to indigenous clearance.

Importers of prototypes are not required to go through the advertisement procedures. In the case of the import of other capital goods the value limit for waiver of the advertisement requirement has been raised from Rs. 10 lakhs to Rs. 20 lakhs. The value limit for import of machinery against REP licences has also been raised from Rs. 15 lakhs to Rs. 20 lakhs. The import of motors, generators, gear boxes, etc., though not permitted as independent equipment, is allowed as spares and components for a complete machinery item, under the procedure laid down for non-permissible spares and under the supplementary licensing procedure for components. Secondhand machinery, which is not more than 10 years old and whose expected residual life is not less than 5 years, is also allowed to be imported under the OGL.

Specialised Foreign Trade Agencies

The State Trading Corporation of India

The State Trading Corporation of India (STC) is an important public sector canalising agency that handles a variety of import and export commodities. During the year, the Corporation's imports recorded a substantial increase of Rs. 318 crores (35 per cent) to

Rs. 1,202 crores consequent upon larger quantum of imports of edible oils, newsprint, cement and fresh imports of sugar. During 1980-81, the STC imported 11 lakh tonnes of edible oils valued at Rs. 795 crores and 20 lakh tonnes of cement valued at Rs. 80 crores, as compared with 8 lakh tonnes and 15.5 lakh tonnes worth Rs. 603 crores and Rs. 63 crores, respectively, in the previous year. Imports of newsprint by the Corporation went up over the year from Rs. 109 crores to Rs. 132 crores. As mentioned earlier, the Corporation imported 1.8 lakh tonnes of sugar valued at Rs. 92 crores during the year.

Exports handled by the STC declined during the year in value terms by Rs. 175 crores to Rs. 461 crores; the fall in export earnings was noticed under certain canalised items such as sugar, semi-processed leather, molasses and castor oil. A reference has already been made to the cutback in exports of sugar from 5.7 lakh tonnes valued at Rs. 129 crores in 1979-80 to barely 87,000 tonnes worth Rs. 45 crores in 1980-81. Again, because of the supply constraint no fresh export allocations of molasses were made during the year. Exports of molasses made out of the "brought forward" contracts of the preceding year fetched only Rs. 4 crores. In the preceding year earnings from such exports yielded Rs. 27 crores. In the case of castor oil, lack of parity between international and domestic prices adversely affected its exports; the quantity exported declined from 71,000 tonnes to 45,000 tonnes and export proceeds from Rs. 53 crores to Rs. 35 crores.

The STC's exports of non-canalised items rose further during the year, though modestly, by Rs. 23 crores to Rs. 239 crores, and this improvement in export earning was spread over a number of commodities, namely, rice, tobacco, jute goods, footwear and components, instant coffee, readymade garments and other consumer products.

During the year, the Corporation made further good progress in identifying new overseas markets for products already known abroad as also in marketing new products abroad. Among the new products exported by the Corporation to new markets, mention may be made of bicycle chains to Vietnam, sports shoes and sportswear to Iraq, guava juice and papaya slices to the USSR and orthopaedic shoes to the USA. The Corporation also identified several new markets for the existing products, and these included the marketing of glazed tiles and sports goods in Seychelles, EPNS ware in Iraq and New Zealand, spectacle frames in the USSR, gas mantles in West Germany, razor blades, hurricane lanterns and gas mantles in Iran, mango slices in Switzerland, fresh apples and vegetables in Singapore and finished leather in Algeria. The Corporation conducted market studies in Malawi, Zimbabwe, and Mauritius for identifying trade opportunities in these countries. Additionally, it took up detailed supply and demand studies for commodities like white printing paper, soda ash and caustic soda and castor oil with a view to assessing the scope for expansion on a long-term basis of the Corporation's export activity in these commodities. The Corporation proposes to set up a design centre which will develop new designs for products like fashion garments and ornaments for marketing them in Europe, the USA and Japan.

The Corporation continued to offer a wide package of services to small scale units, thus assisting them in raising the quality of their products to international standards. The package of services made available by the Corporation to the small units cover product development and design, technical and quality control assistance, financial assistance in the form of long-term soft loans, import of raw materials and machinery, marketing assistance, etc. During the year, the Corporation supplied 29 leather finishing machines to its associates on hire purchase and rental basis.

As part of its long-range plan for strengthening and diversification of the export base, the STC has decided to promote capacity creation projects exclusively for the export market, and has already identified commodities promising large export potential and which need development of adequate quality production base. The Corporation is negotiating with prospective foreign collaborators for production/marketing tie-ups with 100 per cent buy-back of production originating from these units. To begin with, Indian consultancy organisations have been commissioned to

prepare techno-economic feasibility studies for processed fruits, leather products, sports goods and meat products.

State Chemicals and Pharmaceuticals Corporation of India

The State Chemicals and Pharmaceuticals Corporation of India is engaged in the export-import trade in chemicals, drugs and pharmaceuticals. The Corporation continued to handle the import and distribution of 60 essential raw materials required by a wide range of industries covering drugs and pharmaceuticals, detergents, paints, textiles, agro-industries, metal processing, etc. During the year the Corporation received over 6,400 applications from actual users for issue of canalised and non-canalised raw materials and met these demands in phased quarterly releases. Imports of bulk drugs by the Corporation went up over the year by Rs. 10 crores to Rs. 49 crores, while those of chemicals, such as, DDB, DMT, etc. declined by Rs. 22 crores; the cut-back in the latter was rendered possible by an improvement in domestic availability. The Corporation continued to handle, at the instance of the Government of India, imports of certain non-canalised essential raw materials such as P.V.C. Polyestyrene, soda ash, caustic soda, carbaryl Technical DDT, with a view to bridging the gap in domestic demand and supply and thus stabilise their local prices. Such imports were, however, lower during the year at Rs. 20 crores, as against Rs. 33 crores in the previous year because this year the Corporation did not import thermoplastics such as PVC resins, polyestyrene, as their carry-over stocks were sufficient to meet the domestic need. In the result, the Corporation's aggregate import turnover declined over the year by Rs. 24 crores to Rs. 102 crores.

During the year, the Corporation made good progress in its export activity both in terms of diversification of its export structure and market penetration. Its exports improved over the year from Rs. 6 crores to Rs. 9 crores, and covered a variety of products, viz., bulk drugs and formulations, detergents, crushed bones, pesticides, mineral chemicals, etc. which were exported to countries in West/East Europe, America, Africa and Asia. New export markets successfully captured during the year included Australia for aluminium phosphide, West Germany for human albumen serum and France for xanthotoxin.

Cashew Corporation of India

The Cashew Corporation of India is mainly concerned with the import of raw cashew nuts and their distribution at fair prices to the export-oriented units in the country. It also exports cashew kernels mainly by way of assisting the small units in marketing their products overseas. The Corporation's imports of raw nuts and exports of kernels during the year amounted to Rs. 17.8 crores and Rs. 6 crores respectively, as against Rs. 12.3 crores and Rs. 8.4 crores in 1979-80. During the year, although the world supply position of raw nuts remained critical because of the failure of the crop in Tanzania, Mozambique and Kenya and a further increase in processing capacities in African countries, the Corporation was successful in concluding import contracts at competitive prices. The Corporation imported during the year 11,000 tonnes of raw nuts from Kenya and 9,000 tonnes from Tanzania, 600 tonnes from Madagascar, 425 tonnes from Malawi and 190 tonnes from Nigeria. As part of its long-term programme to expand domestic production of raw nuts, the Corporation has decided to grant long-term finance out of its own resources to the state-sponsored cashew plantation projects. The Corporation is also exploring the possibilities of setting up of cashew plantation joint ventures in third countries with buy-back arrangements.

Handicrafts and Handloom Exports Corporation

The Handicrafts and Handloom Exports Corporation (HHEC) made some further progress during the year in the export of handicrafts and handloom products, ready-to-wear garments, carpets and gold jewellery, with its export turnover rising from Rs. 27.6 crores to Rs. 28.3 crores. Commodity-wise, exports of handicrafts handled by the Corporation nearly doubled over the year to Rs. 8 crores mainly because of larger offtake by the USSR, while exports of carpets, woollen knitwear and ready-to-wear garments suffered a set-back because of sluggish overseas demand.

Projects and Equipment Corporation of India

During 1980-81 the Projects and Equipment Corporation of India which specialises in the export of light, medium and heavy engineering equipment, rolling stocks and turnkey projects improved its export turnover by Rs. 3.8 crores to Rs. 39.4 crores. Its exports during the year included railway rolling stock worth Rs. 23 crores and textile machinery, printing machinery, garage equipment, industrial boilers, electrical equipment, heavy machinery, lorries, compressors, road rollers, diesel generating sets together valued at Rs. 11.5 crores. During the year, the Corporation completed the construction and commissioning of a mini-sugar plant in Kenya, made satisfactory progress in the execution of civil construction project in Libya which was taken up last year and took up several new contracts including a project for supply, erection and commissioning of boilers for a newsprint paper unit in Bangladesh and a survey of electric transmission line route in Nepal.

The Minerals and Metals Trading Corporation of India

The Minerals and Metals Trading Corporation of India (MMTC) is the canalising agency for export of ores and minerals and for import of non-ferrous metals, stainless steel, fertilizers and other industrial raw materials. The Corporation's import turnover during 1980-81 aggregated Rs. 1,615 crores, an increase of Rs. 427 crores over the level of Rs. 1,188 crores in 1979-80. Product-wise, the rise in imports during the year occurred mainly under fertilizers and non-ferrous metals, details of which have already been given earlier in this chapter. The Corporation's export turnover recorded a further significant improvement over the year of Rs. 41 crores to Rs. 257 crores, with iron ore exports rising from 13.9 million tonnes valued at Rs. 170 crores to 16.0 million tonnes valued at Rs. 219 crores and manganese ore from 652 thousand tonnes worth Rs. 13.9 crores to 672 thousand tonnes valued at Rs. 14 crores. Exports of chrome ore and concentrates which were subject to a quantitative restriction, declined during the year from 232 thousand tonnes to 181 thousand tonnes, and the exports earnings from Rs. 15.6 crores to Rs. 11.6 crores. The continuing recession in the world steel industry and increased competition from Zimbabwe in the European market and Philippines in the Japanese market was mainly responsible for the setback in the export of this commodity. During the year, besides the MMTC, the mine-owners were also permitted to export barytes. In consequence, exports of barytes handled by the Corporation declined from 341 thousand tonnes to 208 thousand tonnes. With respect to coal where there was a domestic shortage, limited quantities of shipments were permitted to a few neighbouring countries like Bangladesh, Burma and Sri Lanka. Exports of coal by the Corporation during the year amounted to 83 thousand tonnes valued at Rs. 2.5 crores.

The Mica Trading Corporation of India

The Mica Trading Corporation of India, a wholly owned subsidiary of the MMTC, handles exports of mica on the basis of an agreed sharing arrangement with private producer agents. During 1980-81 total exports of mica stood lower at 16,617 tonnes as against 18,860 tonnes in the previous year, but the unit value realisations improved to Rs. 13.08 per kg. from Rs. 12.31 per kg. in the previous year; consequently, export earnings recorded only a small decline of Rs. 1.5 crores to Rs. 21.7 crores. The ex-works exports of the Corporation, however, rose over the year from Rs. 7.1 crores to Rs. 8.4 crores. The Corporation has on hand plans to set up seven new projects for manufacturing mica paper based and splitting based products, mica paper, micronised mica powder, mica capacitor, glass bonded mica and wet ground mica powder.

Trade Development Authority

The Trade Development Authority (TDA) whose prime role is to act as a catalyst between Indian exporters and foreign buyers in target markets, continued to provide intensive export services to its exporting members right from the stage of intention to the actual export. During the year the TDA sponsored 148 applications of its members for allocation of 8,383 tonnes of indigenous iron and steel on priority basis against export orders worth Rs. 7 crores and also helped 10 of its members to get advance/imprest licences of Rs. 1 crore.

The TDA also assisted the Ministry of Commerce in identifying several export products for trade exchanges with the U.K., France, Japan, Italy, Switzerland, Australia, Netherlands and Portugal and also participated in the Joint Commission meetings on trade exchanges with these countries. Further, it played an active part in identifying areas of production and marketing collaboration with foreign firms. For instance, it succeeded in securing proposals from Japanese and Dutch firms for setting up predominantly export-oriented joint ventures in India for producing items like forged hand-tools, hydraulic presses and punching units, bakery ovens and 'LASER' equipment for surgical and industrial applications. The TDA formulated a project called the Metal Handicrafts Service Centre, to be set up at Moradabad with the assistance of United Nations Development Programme, designed to provide common facilities and testing services to the metal artware industry at Moradabad. Another project prepared by the TDA relates to the setting up of an Advance Industrial Training School for leather garments to be set up at Madras with Swedish assistance.

In association with the Engineering Export Promotion Council and the Association of Indian Engineering Industry, the TDA organised an exclusive India Industrial Fair at Rotterdam in May 1980 where representatives of more than 155 leading industrial units were brought in contact with about 1,623 buyers representing industrial houses of France, West Germany, Sweden, Switzerland, Denmark, Netherlands and Belgium. In the Fair, orders worth Rs. 3 crores were booked and enquiries valued at Rs. 12 crores were received. In September 1981, the TDA arranged the India Government Fair at the Osaka International Trade Fair, Japan. Twenty-seven Indian firms participated in the Fair which was attended by buyers from important trading houses and major departmental stores. On-the-spot orders of about Rs. 2 crores were booked. The TDA also arranged participation of its members in five specialised overseas fairs held in Frankfurt, Munich, Berlin, New York and San Francisco. The TDA sponsored a six-member trade mission to Australia to assess the export potential of bicycles and components, carpets and home furnishing. The TDA also arranged for 56 overseas business delegations from Canada, USA, West Germany, Norway, Sweden, Switzerland, France, Belgium, Japan, Australia, Philippines and Austria to visit India. The main areas of interest of these foreign delegations were auto ancillaries, electronic equipment and components, industrial fasteners, builders' hardware, diesel engines, readymade garments, footwear, machine tools, etc.

The Santacruz Electronic Export Processing Zone

In more recent years, the Santacruz Electronic Export Processing Zone has been making sustained good progress in maximising production and exports of electronic goods. Exports from this Zone which had risen from Rs. 6 crores in 1978-79 to Rs. 11 crores in 1979-80, increased further to Rs. 19 crores in 1980-81. At this level, this Zone accounted for 40 per cent of the country's export earning from electronic products. Further, about 80 per cent of the Zone's exports during the year were marketed in the industrially developed markets of the USA, the U.K., West Europe, Hong Kong and Singapore. During the year 5 more units commenced production thus raising the number of units operating within the Zone to 37.

The Kandla Free Trade Zone

The Kandla Free Trade Zone, the only multi-product export processing Zone in the country, made commendable progress during the year with its export outturn rising to Rs. 25.5 crores from Rs. 9.5 crores during 1979-80. The number of industrial units working in the Zone went up over the year from 47 to 54. Another 20 to 25 units are expected to go on stream during 1981-82. Sixty-four fresh applications were received during the year for setting up new units within the Zone, of which 30 applications were given the necessary approval. The Gujarat Industrial Development Corporation (GIDC) has on hand a plan for the construction of 30 bigger-sized sheds; of these, the construction work on 10 sheds was almost completed by the year-end. Several entrepreneurs have taken up construction of their own design factory buildings in plots allotted to them by the Zone Administration. Additionally, the GIDC has drawn

up a plan for the expansion of the Zone as well as for development of additional 300 acres of land near the present site of the Zone for which a sum of Rs. 2.6 crores is likely to be spent during 1981-82 and 1982-83.

Trade Agreements and Economic and Technical Co-operation with Other Countries

Bilateral agreements on trade, economic and technical co-operation have over the years contributed significantly to the expansion and diversification of India's trade, as also to the development of economic relations with other countries.

Trade Agreements and Trade and Payments Arrangements

During 1980-81, India concluded new trade agreements with Bangladesh, Yugoslavia and Kenya and entered into fresh trade and payments arrangements with the German Democratic Republic, Poland, Romania and the USSR. Additionally, protocols of annual trade plans for 1981 were signed with the German Democratic Republic, Czechoslovakia, Poland, Romania and the USSR as part of the existing long-term trade and payments arrangements with each of these countries.

A new trade agreement with Bangladesh was signed on October 4, 1980 which will remain in force for three years and may be extended thereafter for another three years by mutual consent, subject to such modifications as may be agreed upon. The agreement calls for maximum efforts towards expansion and diversification of trade exchanges between the two countries. Towards this goal, the two governments agreed to accord the most favoured nation treatment to trade transactions with each other as also to extend adequate facilities for holding trade fairs and exhibitions and to sponsor visits of business and trade delegations. Further, both governments are required to take appropriate steps consistent with their present and future development, financial and trade needs and in keeping with the evolving international commercial policy, for the benefit of the developing countries. Taking note of the geographical contiguity, it is further agreed that the two countries will (*i*) utilise to the maximum extent possible, each other's shipping tonnage for exporting/importing goods, and (*ii*) make mutually beneficial arrangements for transport of goods by waterways, railways and roadways through each other's territories. All payments and charges arising out of trade between the two countries will continue to be settled in freely convertible currencies. The working of the agreement is to be reviewed at intervals of six months.

A trade agreement between India and Kenya was signed on February 24, 1981 and came into force provisionally from that date. It will, however, become formally effective as of the date of exchange of instruments of ratification by the two governments. It will remain valid initially for a period of two years and will automatically get extended thereafter for periods of two years each time, unless either of the contracting parties gives notice of termination in writing six months before the expiry date. Under the agreement, each party shall accord the most favoured nation treatment to the other in all matters relating to trade exchanges. All payments emanating from contracts and transactions in terms of the agreement shall be effected in any convertible currency. As part of the programme for trade development the two countries agreed to encourage maximisation of direct trade and to participate in trade fairs and exhibitions organised in each other's territories. A joint committee of representatives of both sides will review the working of the agreement and consider proposals for augmenting trade and trade relations. This committee will meet once a year or as often as may be mutually agreed upon, alternately in Nairobi and New Delhi.

A fresh long-term trade and payments agreement was concluded with the German Democratic Republic on December 17, 1980 and came into force from January 1, 1981, after the expiry of the earlier trade and payments agreement on December 31, 1980. The new agreement is valid for five years and can be extended, renewed, supplemented or amended by mutual consent. The two governments agreed to grant the most favoured nation treatment to each other in respect of all trade matters. As in the earlier agreement, trade between the two countries will be carried

on a balanced basis, taking into account the volume of all payments of a commercial and non-commercial nature. All payments (commercial as well as non-commercial) between the two countries will continue to be effected in non-convertible Indian rupees. Goods imported by each country from the other should generally be for use domestically. Commodities to be exchanged between the two countries have been listed in Schedules 'A' and 'B' appended to the agreement; these schedules can be amended/supplemented by mutual agreement. The two Governments will draw up annual trade plans on the basis of the commodities and goods identified for exports to and imports from each other. The more important products identified for exports by the German Democratic Republic cover capital goods, such as, ships together with their equipments and spares, plant, machinery and equipment for the metallurgical, chemical, cement, plastics, textiles, printing, agriculture, energy supply, electrical engineering, electronics, steel and fertilizer industries, plants and equipment for lignite mining and other products like fertilizer, building materials, chemicals, paper, etc. Exports from India will include agricultural and marine products, minerals and ores, raw materials for and products of the chemical and pharmaceutical industries, glass, leather products, shoes, wood-work, cotton, silk and woollen fabrics, knitwear, jute products, machinery and equipment, machine and hand tools, engineering components, scientific instruments, etc. The two governments agreed to co-operate with each other for promoting and diversifying their mutual trade, in identifying new fields of industrial co-operation and in joint marketing in third countries, and for this purpose encourage direct business contacts between exporters and importers, as also arrange for holding of trade fairs and specialised trade exhibitions in each other's territory.

A fresh trade and payments agreement was signed between India and Poland on January 16, 1981 with a validity period of five years from January 1, 1981, following the expiry of the earlier agreement on December 31, 1980. The agreement provides that trade exchanges between the two countries will be conducted on a balanced basis and in accordance with the commodity lists agreed upon annually and that all payments of a commercial and non-commercial nature between them will continue to be effected in non-covertible Indian rupees as was the practice hitherto. The two governments agreed to encourage (1) organisation of commercial and technical exhibitions in each other's territory, (2) conclusion of long-term contracts for exchange of goods between trade, manufacturing and user organisations of the two countries, and (3) the participation of manufacturing and trading parties of each country in trade fairs and exhibitions to be held in the other's territory. The Indo-Polish Joint Commission for Economic, Trade, Technical and Scientific Co-operation will oversee the working of the agreement and make proposals for maximisation of trade exchanges. The Commission will meet at the request of either partner at a place and date to be mutually agreed upon within forty-five days of the request.

Within the framework of this trade and payments agreement, the two governments also signed the protocol on the annual trade plan for 1981. The more important products identified for exports from Poland are zinc, copper, urea, chemicals, pharmaceuticals, pharmaceutical intermediates, synthetic rubber, dye intermediates, rape seed oil, synthetic fibres, photographic materials, steel products, mining and power station machinery and textile, agricultural, paper making and electric bulb making machinery, computer peripherals, electronic equipments, ships, fishing vessels, scientific precision instruments and apparatus, railway equipments, etc. In return, India is to export to Poland, tea, coffee, pepper, cashew kernels, iron and chrome ores, mica, shellac, raw opium, hides and skins, coir manufactures, jute goods, carpets, textiles, knitwear, cosmetics, vacuum flasks, gramophone records and cassettes, spectacle frames, handicrafts, jewellery, electrical equipment, machine and hand tools, textile and knitting machinery, builder's hardware cables, etc.

A new five-year trade and payments agreement with the Socialist Republic of Romania was signed on December 2, 1980 and came into force from January 1, 1981 on the expiry of the previous agreement. The new agreement can be extended or renewed through mutual negotiations. All payments of a commercial

and non-commercial nature between the two countries will be effected, as in the past, in non-convertible Indian rupees. The two governments agreed to accord the most favoured nation treatment to each other, to double trade volume during 1981-85 and to conduct trade exchanges on the basis of a schedule of commodities identified from time to time for this purpose and to endeavour to balance the trade account during the duration of the agreement. The governments undertook to ensure that goods traded between them, unless specifically provided in the contract, will not be re-exported, as also to arrange, to the maximum extent possible, for shipment of cargo meant for each other, in Indian and Romanian ships. Further, the governments agreed to promote and encourage increasing contacts between the Indian and Romanian trading as well as manufacturing and actual user organisations through exchange of visits and information, participation in trade fairs and exhibitions, and to promote joint study of each other's requirements and consumer preferences. The Indo-Romanian Joint Economic Commission will review periodically the implementation of the agreement, identify new avenues of industrial co-operation, secure fuller utilisation of existing production capacities and create additional production facilities, thus assisting in the process a faster growth and diversification of bilateral trade exchanges between the two countries.

The trade protocol for 1981 concluded with Romania immediately following the long-term agreement, envisages a trade turnover of Rs. 240 crores for the year, which is about 10 per cent higher than the trade plan for 1980. The more important goods identified for exports from India are iron ore, mica, finished leather and leather products, machine tools, engineering goods, jute manufactures, pepper and electronic components; exports by Romania cover fertilizers, rolled steel products, newsprint, pharmaceuticals and chemical goods.

India and the Soviet Union concluded a fresh five year trade agreement on December 10, 1980, which was brought into force on January 1, 1981 following the termination of the previous agreement. The new agreement provides, like its predecessor, for the extension of the most favoured nation treatment to each other and for the continuation of rupee payments arrangements whereunder payments for both commercial and non-commercial transactions will be effected in Indian rupees. Commodities and goods identified for trade exchanges between the two countries are enumerated in the appendix to the agreement, which may be amended or supplemented through mutual consultations. As part of the long-term programme of economic, trade, scientific and technological co-operation between the two countries concluded in March 1979, the new agreement provides for diversification and maximisation of mutual bilateral trade and for development of other forms of economic co-operation. To this end, the agreement calls for (1) efforts to facilitate each other's participation in trade fairs and exhibitions proposed to be held in either country, (2) collaboration between industrial and trading enterprises in the two countries with a view to pooling together their resources and know-how for joint marketing in third countries; and (3) consultation with each other, if necessary, for the purpose of exploring new avenues in the field of industrial co-operation, for utilising existing industrial capacities more fully and for creating additional capacities.

The Indo-USSR trade protocol for the year 1981 which was also signed on the same day as part of the new agreement, envisages a trade turnover of Rs. 2,200 crores, as against the expected level of Rs. 1,900 crores in 1980. India on its part, agreed to supply larger quantities of several commodities, such as cardamom, fruit juices, tobacco, mica, medicines and pharmaceuticals, cosmetics, dyestuffs, shoe uppers, woollen knitwear, ready-made garments, hand-tools, dry batteries, wood veneers, spectacle frames, handicrafts, steam boilers, and sports goods. The new items added to the list of exports from India to the Soviet Union cover cut flowers, marine products, textile machinery, steel castings and forgings. In return, the Soviet Union agreed to supply machinery items, crude oil, petroleum products, fertilizers, non-ferrous metals, newsprint, etc.

On September 26, 1980 India and Yugoslavia signed a long-term agreement for expansion and diversification of their mutual trade

exchanges and for collaboration in science and technology during the period 1981 to 1985. Further, the agreement envisages co-operation between the two countries in setting up joint ventures abroad; such co-operation will cover joint tendering, financing and marketing.

During June 1980 India and Bulgaria signed a protocol on bilateral trade exchanges and economic co-operation between them. On the trade front the two sides agreed to endeavour to raise their bilateral trade turn-over to a level of $150—200 million by 1985. The products identified for exports from India include iron ore, leather products, earth-moving machinery, engineering products, etc. and those from Bulgaria cover nitrogenous fertilizers, soda ash, cargo vessels, chemicals and pharmaceuticals, etc. Co-operation is also sought to be enhanced in industry, agriculture, science, technology and electronics.

The annual trade protocol between India and Czechoslovakia for 1981 was signed on November 14, 1980, in accordance with the provisions of the trade and payments agreement between the two countries concluded in December 1979. The protocol provides for a trade turnover of Rs. 235 crores which is higher by 17.5 per cent than the level specified in the trade plan for 1980. Commodities identified for imports from Czechoslovakia are: hops, fertilizers, chemicals, plastic materials, caprolactum, pharmaceutical raw materials, intermediates and final products, newsprint and paper, photographic materials, X-ray films, synthetic fibres, ferro alloys, rolled steel products, refractories, electronic instruments and components, data processing equipment, pipes, tubes, scientific and precision instruments, machinery items, vehicles and their spare parts, glass fibre, etc. In exchange, exports from India will cover tea, coffee, pepper, cashew kernels, walnuts, groundnuts, deoiled cakes, fresh fruits, and vegetables, tinned fruits, juices, jams, marmalades and vegetables, marine products, poppy heads, shellac and shellac products, gums, teak and laurel veneers, bamboos, animal hair, crushed bones, tobacco, cigars and cigarettes, mica, iron ore and concentrates, manganese ore, chrome ore, calcined bauxites, hides and skins, leather, raw cotton, cotton waste yarn, textiles, knitwear and hosiery, chemicals and pharmaceuticals, jute manufactures, linoleum, toileteries and cosmetics, rubber manufactures, tyres and tubes, consumer electronic products, sports goods, handicrafts, exposed cinematographic films, rolled steel products, sanitary fittings, handtools, auto ancillaries, batteries, electronic equipment, components and sub-assemblies, abrasives, diamond cutting tools, textile machinery components and spares for zetor tractors, engineering goods, bicycles and their components and accessories, molasses for industrial use, etc.

The sixth meeting of the Indo-Iraqi Joint Commission was held in New Delhi on April 21, 1980 when the representatives of the two governments signed a protocol on the annual trade plan and economic and technical co-operation for the year 1980. The annual trade plan provides for the export from India to Iraq of certain identified products worth $ 160 million. In return, Iraq will supply India crude oil on a preferential basis. The other commodities identified for import into India from Iraq include urea and sulphur. The protocol also indicates the specific areas where India may assist Iraq and these include petro-chemicals, agriculture, irrigation, alternative sources of energy and training of hotel management personnel.

On September 13, 1980 India and Zambia signed protocols on trade and joint ventures and on increasing mutual co-operation in agricultural and industrial fields. Both countries agreed to take steps to increase significantly the volume of their bilateral trade. The Zambian side noted the request from the Government of India to increase the present level of direct supplies of copper to a minimum level of 24,000 tonnes per year and agreed to endeavour to meet this request. The Government of Zambia will consider possibilities of importing from India railway coaches, wagons and other rail equipment urgently required by them. Both sides agreed to facilitate the exchange of commercial and industrial delegations; the Indian side also agreed to organise in Zambia an exhibition of Indian engineering and capital goods including those for small scale industries. Furthermore, both sides agreed to encourage the establishment of joint ventures between the Indian organisations — including private enterprises — and Zambian organisations.

In the area of industrial co-operation India agreed (*i*) to set up in Zambia a steel rolling mill and pulp and paper factory with provisions for buying back the manufactures of the factories, (*ii*) assist the Zambian side in preparing feasibility studies for the construction of hydro-power generation projects and execution of turnkey projects as also in establishing a comprehensive structure for the development of small industries. An Indian team will go over to Zambia for preparing a blue print for setting up a small scale industries training institute. On the agricultural front the two countries agreed to establish joint ventures in Zambia for the production and processing of tea and coffee, to collaborate in the production of agricultural machinery and to encourage exchange of scientific and technical material and germ plasma and breeding material. The Indian side undertook to train 50 to 100 Zambians in various disciplines of agriculture specially in farm extension at the field level.

Economic and Technical Co-operation

Besides the traditional exchange of commodities, India has been actively exploring new avenues of economic, technical and scientific co-operation with other countries, particularly in areas such as production, joint marketing and transfer of technical know-how through joint ventures abroad. During the year the Government of India entered into fresh agreements on economic and technical co-operation with the USSR, France, Italy, North Korea, Viet Nam and the UNDP the salient features of which are given below.

USSR

During the year, India and the USSR entered into three protocol arrangements for co-operation in the field of science and technology. The first protocol signed in April 1980 identifies a working programme for co-operation in exploration of oil and gas in India, to be implemented during 1980-85. To begin with, the programme is for joint undertaking of geographical surveys and drilling operations in specified areas of Tripura and West Bengal and introduction of artificial lift methods of oil production for on-land fields in the Western and Eastern regions. Further stages of the programme will be decided on the basis of results obtained from the surveys and drilling operations. Further, the Soviet Union agreed to provide assistance in adopting new strategies to set on stream unproductive wells in fields of the Western region and Gujarat, as also to help Indian geo-scientists in stepping up production of existing wells. The second long-term working programme of co-operation between the two countries drawn up in May 1980 is in the field of drugs and pharmaceuticals whereunder the two countries agreed to collaborate in establishing in India facilities for production of phyto-chemicals, insulin, aspirin, chloramphenicol, codein phosphate from poppy hush and Rifampicin, to exchange information on the production of vitamin B6, acetylacetone, semi-synthetic antibiotics, synthetic drugs and vitamins, and to explore possibilities of setting up plants in South-East Asia, West Asia and Latin America. Additionally the Soviet Union agreed to share with India technological know-how for production of a number of modern drugs. Under the third protocol signed in October 1980, the USSR agreed to (*i*) extend assistance to Bharat Heavy Electricals to improve its 200 MW turbine sets built on Soviet designs, (*ii*) provide specialists to improve operations of the Ranchi and Durgapur plants, and (*iii*) provide technical assistance to the Hardwar heavy electrials plant. The protocol also provides for supply to the USSR of heavy equipment produced by Soviet aided Indian plants against orders from that country. The two countries also agreed to explore possibilities of joint marketing of heavy electrical equipment in third countries.

France

During April 1980 India signed an agreement with France which provides for co-operation between the French Oil Company CFP and the Oil and Natural Gas Commission and the Indian Oil Corporation for the development and optimisation of oil and gas production from Bombay High.

Italy

India and Italy concluded an agreement on April 29, 1980 which provides for collaboration between the two countries over the next three years in the development of

technology and exchange of information in the following areas: seismology, seismic engineering, automotive engines, biological sciences, bio-chemistry, medical sciences, hydrology, water resources, solar cells and telecommunications.

North Korea

India and the Democratic People's Republic of Korea signed a protocol on February 4, 1981 which identifies the following areas for long-term co-operation between them: agricultural research, education and training, improvement of agricultural production techniques, irrigation and development of water resources. The protocol is to be implemented through annual working programmes and covers exchange of scientific personnel, germ-plasma and breeding material, including seed and plant materials, scientific literature and information and methodology in the fields of agriculture and irrigation.

Viet Nam

During April 1980 India and Viet Nam concluded an agreement which envisages co-operation between the two countries in various areas such as post-harvesting technology, research in forestry, surveys of flora and fauna and of tropical diseases. In addition Viet Nam will avail of Indian facilities for training personnel in hydrology, survey and exploration techniques, railways and drugs research.

UNDP

In pursuance of the plan of action drawn up at the U. N. Conference on Technical Cooperation among Developing Countries (TCDC) held in Buenos Aires in 1978, India and the United Nations Development Programme (UNDP) signed an agreement on May 24, 1980 to provide a framework of mutual co-operative activities to be undertaken by India and other developing countries to promote technical co-operation among them. Under this agreement India will provide the needed inputs for specific activities to be selected by mutual consultation with other developing countries. The areas covered include joint research and development schemes for collective acquisition, adaptation and transfer of technology, meetings, seminars and observation tours for mutual exchange of experiences, training in India and provision of Indian expertise for solving specific problems and conducting mutually agreed feasibility studies and technical and economic surveys. The programme also envisages strengthening of selected Indian institutions which undertake TCDC activities to the extent necessary for performing these functions. The exchange of mutually relevant experiences and practical exposure to the technical capacities of the developing countries will be helpful in removing attitudinal barriers and promoting collective self-reliance. They are also expected to contribute significantly to the establishment of long-term co-operative arrangements between India and other developing countries for their mutual and collective benefits. The UNDP will contribute towards this programme $5.8 million from its Indicative Planning Figure allocated to India for technical co-operation to be provided to other developing countries by Indian institutions and agencies and to India by institutions and agencies of other developing countries.

INTERNATIONAL TRADE NEGOTIATIONS

Tokyo Round of Multilateral Trade Negotiations

During the year, further progress was made within GATT framework in the implementation of the agreements resulting from the Tokyo Round of multilateral trade negotiations. The industrialised countries that participated in the Tokyo Round negotiations had agreed to reduce their import duties on several products over an 8-year period. The first round of annual tariff reductions were effected on January 1, 1980 and the second annual tariff reductions were brought into force on January 1, 1981. In general, the largest reductions have been made in the highest duties, and cuts have also been made in duties on agricultural products. Some of the countries are reportedly following faster schedules for tariff reductions on products imported from developing countries. Several developing countries are also extending tariff concessions. Further, several major industrialised participants in the Tokyo Round reached an agreement under which the signa-

tory governments eliminated by January 1, 1980 all customs duties and similar charges on civil aircraft, aircraft parts and repairs on civil aircraft.

In regard to non-tariff measures, agreements reached in the Tokyo Round on subsidies and countervailing duties, technical barriers to trade, import licensing procedures and the revised anti-dumping code came into effect on January 1, 1980 and those on customs valuation and government procurement on January 1, 1981. With the coming into force of these agreements, standing committees/ councils were set up to monitor and oversee the operation of each of these agreements. In addition, the GATT set up the Consultative Group of Eighteen — a permanent body, composed of a representative group of high level government officials with responsibilities in the formulation of their countries' trade policies — which assists members in carrying out responsibilities relating to monitoring the international trade and trade policy developments, forestalling or dealing with disturbances that could threaten the multilateral trading system and the international adjustment process.

Mention was made in the last Report of the failure of the negotiations in the Tokyo Round on a code for multilateral safeguards system against imports. Consequently, the GATT Council decided to continue the negotiations within the Committee of the GATT. This Committee held negotiations during the year but did not reach an agrement on the code.

Generalised System of Preferences

Under the Generalised System of Preferences (GSP) which was established following the adoption of a resolution at UNCTAD II in 1968, developed countries extend tariff preferences in favour of the developing countries. The agreement on the GSP was valid for an initial period of ten years which ends in 1981 for most of the preference giving countries. The UNCTAD's Special Committee on Preferences adopted on June 4, 1980 a new resolution which embodied agreements on the main questions relating to the review, improvements and future of the GSP. It was agreed that the duration of the system should be extended beyond the initial period of 10 years and a comprehensive review of the system should be held in 1990. Further, the preference giving countries (the nineteen members of the OECD as well as five socialist countries) reaffirmed their commitment to a continuous improvement of their schemes through such measures as an enlargement of the list of beneficiaries, an increase in the number of products covered and improvement of preferential rates aiming at duty-free treatment. It was also agreed that in making improvements in the system, higher priority should be given to products of the Least Developed among the developing countries. The preference giving countries will continue to provide technical assistance to the beneficiary countries to enable them to draw maximum benefit from their schemes and in this connection it was recommended that the UNCTAD/ UNDP technical assistance project should be extended beyond 1980. The erosion of preference margins available under the GSP as a result of the most-favoured-nation tariff reductions negotiated during the GATT multilateral trade negotiations, as well as the increasing tendency of developed countries to differentiate among developing countries in the application of their national preference schemes continued to engage the attention of the Special Committee on Preferences.

Common Fund for Commodities

A reference was made in the last Report to the Integrated Programme for Commodities and the agreement reached on the creation of a Common Fund for stabilisation of commodity prices. The articles of agreement of the Common Fund were kept open for ratification from October 1980. The agreement is expected to come into force by March 1982 subject to its ratification by at least 90 States, representing two-thirds of the directly contributed capital. In the meantime, a Preparatory Commission composed of representatives of 28 States was set up to lay the groundwork for the first meeting of the Governing Council as well as to draw up working papers on policies, criteria and regulations to govern financing operations of the Fund including an outline of a Model Association Agreement. The Preparatory Commission held two sessions and constituted two working parties: one to deal with administrative, legal and proce-

dural matters, and the other with operational and financial questions. A number of important administrative, legal and procedural matters relating to the establishment and the functioning of the Common Fund for Commodities have now been largely settled. The Commission has requested the U. N. General Assembly to grant an advance of US $ 1.8 million for financing the preparatory work required for bringing the Common Fund into operation.

Multi-Fibre Arrangement

The Multi-Fibre Arrangement (MFA) which governs world trade in textiles with the basic objective of achieving a progressive liberalisation of world trade in textile products and without causing any disruptive effects in individual markets, was negotiated in 1973 under the GATT auspices and came into effect on January 1, 1974 for a period of four years. The Arrangement was renewed for a further period of four years upto end-December 1981 through protocol of extension which permitted "jointly agreed reasonable departures" from the provision of the MFA. As of end-1980, forty-two countries (counting the European Community as a single signatory) which accounted for four-fifths of the $ 84 billion worth world trade in textiles and clothing in 1979 participated in the arrangement. Under the aegis of the MFA, India has entered into bilateral agreements with important textile importing countries such as the USA, the EEC, Canada, Sweden, Norway, Finland and Austria with a view to guaranteeing continued access to our textile products to these countries. Negotiations on the future of the Arrangement due to expire on 31st December 1981 have already commenced within the Textile Committee of the GATT. At these meetings, India and other developing countries expressed their concern at the proliferation of protectionist restrictions imposed by developed countries and the attempts to entrench the departures from the provisions of the MFA, and advocated establishment of a time-bound programme of 'adjustment measures' and the progressive elimination of import restrictions. India's main aim is to secure an arrangement which ensures increased access for Indian textiles exports particularly handloom and cottage industry products.

U. N. Conference on Jute and Jute Products

Jute is one of the ten core commodities under the Integrated Programme for Commodities (IPC) and is the second IPC commodity after rubber which has reached the stage of negotiations for an international commodity agreement. The U. N. Conference on Jute and Jute Products was held in January 1981 and again in May 1981 under the auspices of the UNCTAD with the objective of concluding an International Agreement on Jute. The Conference made considerable progress in arriving at a common position on the various articles of an international agreement, but believed that further time for negotiations would be needed to arrive at an agreement.

Chapter X

Balance of Payments and International Monetary Developments

I. Balance of Payments Trends

In 1980-81, almost all non-oil developing countries experienced worsening in their balance of payments situation, and India was no exception. The major contributory factors for these developments in non-oil developing countries as also in India have been the following: There was a substantial increase in trade deficits of non-oil developing countries following increases in their import bills as a result of oil price increases as also of sustained inflation in industrial countries, subdued rates of growth in exports due to recessionary conditions and rise in protectionism in the industrial world, and deterioration in terms of trade of non-oil developing countries. The current invisible receipts of non-oil developing countries at best expanded moderately as whatever improvement was recorded in receipts under various heads of invisibles was substantially offset by the increase in interest payments which climbed up due to a steady rise in their indebtedness flowing from continuing deficits in balance of payments, and the upward movement in international interest rates. The larger external assistance was far too inadequate to avoid a significant increase in balance of payments deficits of this group of countries.

In respect of India, developments in the three components of foreign exchange reserves —foreign currency assets of the Reserve Bank, SDR holdings and gold—taken together, and borrowings from the IMF and the IMF Trust Fund indicate that there was a turnaround in the country's overall balance of payments of the order of Rs. 1,550 crores in 1980-81 from a surplus of roughly Rs. 370 crores in 1979-80 to a deficit of around Rs. 1,200 crores in 1980-81. The widening of the trade deficit, which more than doubled from Rs. 2,450 crores in 1979-80 to over Rs. 5,600 crores in 1980-81 on the basis of DGCI&S data, as described in the preceding Chapter No. IX, was the main factor for this turnaround. The available information indicates that net invisible receipts in 1980-81 might show a modest improvement over the level in 1979-80. The increase in interest and discount earnings from foreign currency assets of the Reserve Bank from Rs. 594 crores in 1979-80 to Rs. 727 crores in 1980-81 would be an important factor contributing to this improvement. A rise of about 5 per cent in arrivals of foreign tourists in 1980-81, would suggest somewhat higher travel receipts in the year. The uncertainty surrounding the estimates of private transfer receipts (workers' remittances) continues but in 1980-81 these receipts might be at least as high as in 1979-80. Thus, the deterioration in the trade account mentioned earlier, has been solely responsible for the worsening of the current account position.

On the capital side, net external assistance receipts (net of amortisation payments) amounted to Rs. 1,218 crores in 1980-81 on the basis of the budgetary data. Excluding the receipts of Rs. 545 crores from the IMF Trust Fund loan, the net external assistance was larger by over Rs. 400 crores than that in 1979-80. As described later, India relied on the borrowings from the IMF and the IMF Trust Fund and the use of reserves to finance the widened current account deficit in 1980-81.

Developments in foreign exchange reserves during the first quarter of 1981-82 and other indications suggest that the overall deficit in balance of payments in 1981-82 as a whole would exceed that in 1980-81. Following the resumption of crude oil supplies from the eastern India and recent increase in domestic prices of petroleum and the petroleum products, the imports of crude and petroleum products needed in 1981-82 will be lower. On the other hand, the full impact of international oil price increases, which were spread over 1980-81, will be felt for the first time in the import bill of this year. Wheat imports already arranged, and imports required in connection with Plan investments as also to support the increase in

domestic industrial and other production, and to attain the price objectives will further raise the import bill. The international economic situation, on the other hand, is far from encouraging to achieve any marked improvement in exports. The steady fall in exchange reserves and some softening in international interest rates together with the interest costs of the balance of payments finance, to arrange which efforts are being made, will lead to a decline in net receipts from investment income. Other net invisible receipts and aid receipts may not improve to the extent that would narrow down the overall deficit to a magnitude below that in 1980-81. During 1980-81, the foreign currency assets declined by Rs. 342 crores. But for the drawals of Rs. 274 crores from the Fund's compensatory financing facility and receipts of Rs. 545 crores under the IMF Trust Fund loan, the decline would have amounted to Rs. 1,161 crores.

The SDR holdings declined by SDR 38.6 million during 1980-81 while these had increased by SDR 164.2 million in the previous year. At SDR 116.8 million, the allocation of SDRs received in 1980-81 was only marginally lower than that of SDR 119.1 million in 1979-80. But following the weakening in India's balance of payments, India was required to receive in 1980-81 only SDR 8 million under the designation arrangements of the IMF, while it had received SDR 110.1 million in the previous year. Though the use of SDRs in repayments of obligations was much smaller during 1980-81 at SDR 7.3 million as against SDR 59.9 million in 1979-80, the charges on the use of IMF resources and SDRs added up to SDR 12.8 million in 1980-81 as compared to SDR 5.1 million in 1979-80. It was the use of SDR 143.1 million towards quota payment for the increase in India's quota under the Seventh Review of Fund quotas that caused the decline in SDR holdings mentioned above.

Gold holdings, however, rose marginally during the year by Rs. 87 lakhs on account of the receipts of gold by the Reserve Bank under the procedure for repayment of National Defence Gold Bonds, 1980. In 1979-80, there was an increase of Rs. 5 crores in gold holdings under the IMF programme of restitution of gold to member countries which was completed in that year.

During the first quarter of 1981-82, *i.e.* April-June 1981, the foreign currency assets of the Reserve Bank declined further by Rs. 495 crores to Rs. 4,327 crores. This order of fall was greater than that of Rs. 389 crores in the first quarter of 1980-81. SDR holdings at SDR 481 million by end-June 1981, also recorded a higher decline of SDR 9 million in the first quarter of 1981-82 as compared to that of SDR 6 million during April-June 1980. Gold holdings, however, remained unchanged during the first quarters of both the fiscal years.

II Foreign Investment Policy and Developments

Some policy initiatives taken in October 1980 to promote foreign investment from Oil Exporting Developing Countries (OEDC) into India were covered in the 1979-80 Report. Data, however, are not available regarding the impact of these efforts on inflow of foreign resources. Consents for capital issues during 1980-81 by the private corporate sector to non-residents partially recovered from the low level reached in 1979-80. Important developments in raising resources from the international capital market were the two large loans permitted to be raised in this year by Government enterprises *viz.*, the National Aluminium Company Ltd. (NALCO) and the Oil and Natural Gas Commission (ONGC) for an amount of U.S. $ 880 million. Some procedural changes were also made during the year to expedite the sanctioning of foreign collaboration proposals.

There was a substantial increase in consents granted by the Controller of Capital Issues to companies in the private sector to secure participation from non-residents during the fiscal year 1980-81. Such consents which had dropped from Rs. 157.3 crores in 1978-79 to Rs. 37.3 crores in 1979-80, more than doubled to Rs. 88.4 crores in 1980-81. The step-up in consents for non-resident participation was in line with the greater activity in consents for overall capital issues. The share of consents for 'non-resident participation' in total consents improved somewhat from 9.9 per cent in 1979-80 to 11.3 per cent in 1980-81 (Table X - 1).

The consents for participation of non-residents in various types of capital, other than

Table X-1 : Consents for Capital Issues* : Aggregate and by Non-Residents (N.R.) 1978-79 to 1980-81 (Provisional)

(Rupees crores)

Year	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
(April to March)	1	2	3	4	5	6	7	8	9
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
1980-81 ..	129.5	4.7	3.6	155.0	17.3	11.2	130.2	31.6	24.3

(Rupees crores)

Year	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
(April to March)	10	11	12	13	14	15	16	17	18
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
1980-81 ..	83.0	—	—	282.9	34.8	12.3	780.6	88.4	11.3

* Non-Government public limited companies.

'bonus issues', rose from Rs. 21.4 crores in 1979-80 to Rs. 56.8 crores in 1980-81. Though the consents for non-resident loans nearly trebled to Rs. 34.8 crores in 1980-81, their share in consents for total loans fell from 18.6 per cent in 1979-80 to 12.3 per cent in this year. Similarly, consents for non-residents' participation in 'initial issues' increased from Rs. 1.9 crores in 1979-80 to Rs. 4.7 crores in 1980-81 but their proportion to total consents for initial capital issues declined from 4.2 per cent to 3.6 per cent, respectively. It was under 'further issues' that the consents for non-resident participation rose markedly in absolute terms from Rs. 1.1 crores in 1979-80 to Rs. 17.3 crores in 1980-81 as also in relation to total consents for such issues.

There was simultaneously a substantial increase in approvals granted for financial and technical collaboration arrangements from 289 in 1979-80 to 519 in 1980-81 (April-March).

In order to expedite disposal of foreign collaboration proposals, powers were delegated during the year to Administrative Ministries to sanction the proposals. Economic Ministries could approve foreign collaboration proposals involving an outflow upto Rs. 50 lakhs per proposal subject *inter alia* to the conditions that (*i*) there was no foreign equity participation in the proposal, (*ii*) the applicant was not a company with the existing foreign equity holding, (*iii*) the proposal did not involve extension of the period of collaboration approved earlier, and (*iv*) the total outgo did not exceed 8 per cent of the ex-factory value of production, etc. However, a ban was imposed by the Government in December 1980 on financial and technical collaboration in 22 categories of industries such as cement, paper, consumer goods and several other industries where indigenous technology is sufficiently developed within the country.

The administrative actions in respect of dilution of foreign equity in foreign companies operating in terms of the guidelines issued under Section 29 of the Foreign Exchange Regulation Act (FERA), 1973 gathered further momentum during the year under review. Of the 895 applications received by the Bank

under the FERA, all cases except 30 were finally disposed of by June 30, 1981.

Indian Joint Ventures and Other promotions abroad

During the year under review, 41 new proposals for setting up joint ventures abroad were approved by the Government. Of the total Indian investment of Rs. 93.49 crores in joint ventures abroad since their inception, Rs. 16.64 crores was approved during 1980-81. Total remittances received in India from them during the last three years are given below:

(Rs. lakhs)

Year (July-June)	Dividends	Other repatriations†
1978-79	74	235
1979-80*	112	453
1980-81*	39	60

† Other repatriations include fees receivable for services such as for technical knowhow, engineering services, management services, consultancy services and selling agency services, etc.
* Figures for 1979-80 & 1980-81 are incomplete.
Source: Ministry of Commerce, New Delhi.

Exporters, construction/consultancy organisations, travel agents, diamond exporters, etc. were allowed to open offices abroad on a selective basis and adequate exchange was released to them for non-recurring and recurring expenses of such offices. Between July 1980 and June 1981, 42 non-trading offices and 14 trading offices were allowed to be opened at various centres abroad.

III External Assistance*

Though the international aid climate was poor, India was able to secure, in 1980-81, a substantially increased assistance. This was largely due to the recovery in aid authorisations from the multilateral institutions and particularly the I.D.A., and the resumption of the project assistance from the U.S.S.R. and loans from France. The drop in grant assistance reflected the weakness in aid situation in the world.

The net aid inflow (net of amortisation and interest payments) registered an appreciable rise of Rs. 169 crores or 37 per cent to Rs. 630 crores during the current year as against an increase of Rs. 64 crores or 16 per cent in 1979-80. The aid receipts during 1980-81 were thus substantially higher than in any of the years of seventies, with the exception of the peak level of Rs. 927 crores in 1975-76 and Rs. 678 crores in 1976-77. The increase in net aid was due to higher gross utilisation by Rs. 178 crores which went up from Rs. 1,139 crores in 1979-80 to Rs. 1,317 crores during the year, showing a rise of 16 per cent as against only 4 per cent in 1979-80. On the other hand, debt service payments which had fallen by Rs. 19 crores to Rs. 678 crores in 1979-80 rose to Rs. 687 crores during the year.

Authorisations

The total aid authorised during the year more than doubled in 1980-81 to an all time high of Rs. 3,052 crores in contrast to a fall of Rs. 802 crores to Rs. 1,235 crores in the previous year. The striking feature of the current year's authorisations was a sharp increase in loans which accounted for over 97 per cent of total authorisations and a drop in grants to 3 per cent of the total. Loan authorisations increased more than three times to Rs. 2,964 crores in 1980-81 from Rs. 791 crores in 1979-80. Authorisations of grants declined further very steeply to touch a low of Rs. 88 crores during the year, forming less than one-fifth of those in 1979-80 (Table X-2).

The step-up in loan authorisations by Rs. 2,173 crores was mainly due to larger contributions by the IDA (Rs. 1,063 crores), the IBRD (Rs. 415 crores), and fresh authorisations after a gap of two years from the USSR (Rs. 486 crores) and France (Rs. 135 crores). Other countries which increased significantly the aid authorisations during the year were the OPEC and Canada. West Germany maintained the same level of assistance as of the previous year while the IFAD, reduced its loan authorisations from Rs. 79 crores in 1979-80 to Rs. 13 crores, and the EEC made no fresh commitments during the year under review (Table X-3).

* 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-2 to X-4 and X-6, however, the figures are also given for the years 1974-75 through 1980-81, at the rupee's relevant annual average rates of exchange.

Table X-2 : 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 ..	**1,603**	**25**	**123**	**1,751**
3. Authorisations during 1969-74	**3,799**	**197**	**32**	**4,028**
4. Authorisations during 1974-78	**5,023 (6,018)**	**1,162 (1,220)**	—	**6,185 (7,238)**
5. Authorisations during				
(*a*) 1978-79	1,585 (1,864)	452 (488)	—	2,037 (2,352)
(*b*) 1979-80	791 (987)	444 (490)	—	1,235 (1,477)
(*c*) 1980-81	2,964 (3,258)	88 (121)	—	3,052 (3,379)
6. Utilisation during 1969-74	**3,510**	**158**	**155**	**3,823**
7. Utilisation during 1974-78	**3,880 (4,681)**	**848 (923)**	—	**4,728 (5,604)**
8. Utilisation during				
(*a*) 1978-79	727 (934)	367 (398)	—	1,094 (1,332)
(*b*) 1979-80	850 (1,058)	289 (307)	—	1,139 (1,365)
(*c*) 1980-81	1,020 (1,226)	297 (352)	—	1,317 (1,578)
9. Amount undisbursed as at the end of March 1981 ..	**5,778 (6,430)**	**409 (452)**	—	**6,187 (6,882)**

Notes : 1. 'Loans' include P.L. 480 Title I convertible currency credits and refinance credits, but exclude rupee loans out of P.L. 480/P.L. 665 rupee counterpart funds. 'Grants' include grants under debt relief but exclude grants out of P.L. 480/P.L. 665 rupee counterpart funds. 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 amounts undisbursed at the end of March 1969, the amounts authorised and utilised during each of the subsequent years and the amounts undisbursed at the end of March 1981 nave been arrived at on the basis of pre-December 1971 IMF par values. Figures in brackets shown against items 4, 5, 7 and 8 indicate the rupee values calculated at the rupee's annual average rate of exchange for the respective years, while figures in bracket shown against 'Amount undisbursed as at the end of March 1981' (item 9) represent rupee values, calculated at the rates prevalent at end-March 1981.

Table X-3: Loans Authorised and Utilised during 1979-80 and 1980-81
(Fiscal Years)

(Rupees Crores)

Country/Institution	Authorisations								Utilisation							
	1979-80				1980-81				1979-80				1980-81			
	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. ..	387 (418)	—	—	387 (418)	1,866 (1,969)	—	—	1,866 (1,969)	522 (564)	—	—	522 (564)	618 (652)	—	—	618 (652)
2. E.E.C. (Special Action Credit)	39 (42)	—	—	39 (42)	—	—	—	—	22 (24)	—	—	22 (24)	18 (19)	—	—	18 (19)
3. I.F.A.D. ..	79 (85)	—	—	79 (85)	13 (14)	—	—	13 (14)	—	—	—	—	7 (7)	—	—	7 (7)
4. Canada ..	17 (17)	—	—	17 (17)	67 (65)	—	—	67 (65)	18 (18)	—	—	18 (18)	21 (20)	—	—	21 (20)
5. France ..	—	—	—	—	81 (108)	54 (72)	—	135 (180)	17 (24)	7 (10)	—	24 (34)	49 (65)	6 (8)	—	55 (73)
6. West Germany ..	52 (113)	22 (48)	—	74 (161)	53 (108)	21 (43)	—	74 (151)	32 (70)	21 (46)	—	53 (116)	54 (110)	17 (35)	—	71 (145)
7. Italy ..	—	—	—	—	—	—	—	—	—	5 (4)	—	5 (4)	—	1 (1)	—	1 (1)
8. Japan ..	19 (36)	—	—	19 (36)	26 (50)	—	—	26 (50)	23 (44)	7 (14)	—	30 (58)	33 (63)	1 (2)	—	34 (65)
9. Netherlands ..	—	34 (67)	—	34 (67)	—	36 (67)	—	36 (67)	—	40 (79)	—	40 (79)	—	40 (74)	—	40 (74)
10. Switzerland ..	—	—	—	—	—	—	—	—	1 (3)	—	—	1 (3)	—	—	—	—
11. U.K. ..	—	—	—	—	—	—	—	—	8 (8)	—	—	8 (8)	1 (1)	—	—	1 (1)
12. U.S.A. ..	105 (113)	—	—	105 (113)	127 (134)	—	—	127 (134)	39 (42)	—	—	39 (42)	77 (81)	—	—	77 (81)
13. O.P.E.C.* ..	26 (28)	1 (1)	—	27 (29)	54 (57)	79 (83)	—	133 (140)	46 (61)	1 (1)	—	47 (62)	37 (44)	1 (1)	—	38 (45)
14. U.S.S.R. ..	—	—	—	—	486 (486)	—	—	486 (486)	34 (34)	—	—	34 (34)	33 (33)	—	—	33 (33)
15. Others ..	1 (2)	8 (15)	1 (2)	10 (19)	—	1 (2)	—	1 (2)	1 (2)	5 (8)	1 (2)	7 (12)	—	6 (10)	—	6 (10)
Total ..	**725 (854)**	**65 (131)**	**1 (2)**	**791 (987)**	**2,773 (2,991)**	**191 (267)**	**—**	**2,964 (3.258)**	**763 (894)**	**86 (162)**	**1 (2)**	**850 (1,058)**	**948 (1.095)**	**72 (131)**	**—**	**1,020 (1.226)**

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.

With the increase in loan authorisations, there was a corresponding increase in project loans, the share of which rose from 92 per cent in 1979-80 to 94 per cent in 1980-81. The total project loan authorisations rose by Rs. 2,048 crores or by 282 per cent in 1980-81 to Rs. 2,773 crores, again mainly due to loans from the IDA, the IBRD, the U.S.S.R. and France.

The non-project loan authorisations rose by Rs. 126 crores to Rs. 191 crores in 1980-81 but its share in total loan authorisations declined by two points to 6 per cent. Nearly two-thirds of the increase in non-project loan commitments was accounted for by the OPEC group, the assistance from which spurted from Rs. 1 crore in 1979-80 to Rs. 79 crores in 1980-81, and another two-fifths by France.

The grant authorisations in 1980-81 plunged from Rs. 444 crores in 1979-80 to Rs. 88 crores in 1980-81. The major grant givers were Sweden, the U.S.A. and the Netherlands. The United Kingdom, the major contributor in the preceding year, alongwith the EEC, Switzerland and Australia authorised no fresh grants during the year, as against an aggregate of Rs. 376 crores sanctioned by these countries and the EEC in 1979-80 (Table X-4).

There were no significant changes in the terms of assistance granted by the donor countries.

Debt Relief

Despite sustained pressures in international fora for a larger debt relief to low income

Table X-4 : Grants @ Authorised and Utilised during 1979-80 and 1980-81
(Fiscal Years)

(Rupees Crores)

Country/Institution	Authorisations		Utilisation	
	1979-80	1980-81	1979-80	1980-81
1	2	3	4	5
1. Australia	1 (1)	—	1 (1)	—
2. Canada	14 (14)	5 (5)	14 (14)	—
3. West Germany	—	—	1 (2)	1 (2)
4. Japan	11 (21)	8 (15)	9 (17)	15 (29)
5. Netherlands	13 (26)	20 (37)	1 (2)	19 (35)
6. Sweden	30 (40)	30 (38)	22 (29)	41 (52)
7. Switzerland	7 (19)	—	1 (3)	5 (12)
8. U.K.	288 (283)	—	199 (195)	189 (194)
9. U.S.A. (Other than P.L.480/P.L.665)	—	25 (26)	—	—
10. E.E.C.	80 (86)	—	41 (44)	27 (28)
Total	**444 (490)**	**88 (121)**	**289 (307)**	**297 (352)**

Note: Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.
@ Including Debt Relief.

countries, the debt relief assistance sanctioned to India dropped from Rs. 122 crores in 1979-80 to a meagre Rs. 13 crores in this year. Only two countries provided such assistance to India in 1980-81; Japan converted loan obligations of Rs. 5 crores into grants and the Netherlands reduced interest payments by Rs. 8 crores. The United Kingdom, the main contributor in the last few years, provided no debt relief assistance during the year as against that of Rs. 116 crores in the previous year (Table X-5).

Trends in Utilisation

At the beginning of 1980-81, aid available in the pipeline was Rs. 4,452 crores (revised). This, together with authorisations of Rs. 3,052 crores during the year constituted the total aid available for utilisation of Rs. 7,504 crores during the year 1980-81. Of this amount, Rs. 6,427 crores represented project assistance accounting for 86 per cent of the total aid available, Rs. 371 crores non-project loans and the balance of Rs. 706 crores, grants.

Total aid utilised rose by 16 per cent to Rs. 1,317 crores in 1980-81 and accounted for 17 per cent of the available aid. There was a substantial rise in the utilisation of project loans to Rs. 948 crores in 1980-81 as against Rs. 763 crores in 1979-80, mainly because of higher utilisation of the IBRD/IDA loans and those from the U. S. A., France and West Germany. Utilisation of project aid as a proportion of total project aid available during the year worked out to around 15 per cent, slightly lower than that in the preceding year, despite substantial increase in utilisation in this year largely because of marked rise in total aid available. Utilisation of non-project aid, on the other hand, declined to Rs. 72 crores in 1980-81 from Rs. 86 crores in 1979-80 although the availability of non-project loans rose by fifty per cent. In spite of the sharp drop in authorisations of grants, utilisation of grants rose by Rs. 8 crores to Rs. 297 crores in 1980-81, forming 42 per cent of the total grants available during the year.

Debt Servicing

The debt service payments, which had declined to Rs. 678 crores in 1979-80, rose to Rs. 687 crores in 1980-81 but were still lower than the 1978-79 peak of Rs. 697 crores (Table X-6). The debt service liabilities as a proportion of gross aid receipts, which had declined from 64 per cent in 1978-79 to 60 per cent in 1979-80, dropped to 52 per cent during 1980-81. Similarly, as a proportion of exports (D. G. C. I. & S. data), these payments, at current prices, continued to decline from 15 per cent in 1978-79 to 14 per cent in 1979-80 and further to 13 per cent in the current year, mainly due to relatively higher rate of growth in exports in value terms during these years.

Table X-5: Debt Relief Assistance
(Fiscal Years)

(Rupees Lakhs)

Country	Authorisations		Utilisation	
	1979-80	1980-81	1979-80	1980-81
1	2	3	4	5
A. By way of refinancing cash credits				
Belgium	60	—	60	—
B. By way of grants				
1. U.K.	115,71	—	26,33	21,00
2. Japan	5,60	5,13	1,89	9,55
Total B	**121,31**	**5,13**	**28,22**	**30,55**
C. By way of reduction of interest payments				
Netherlands	19	7,87	19	7,87
Grand Total	**122,10**	**13,00**	**29,01**	**38,42**

Table X-6 : 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
1970-71	780	254	158	412	368
1971-72	821	271	175	446	375
1972-73	605	302	177	479	126
1973-74	803	300	184	484	319
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	1,139 (1,365)	440 (570)	238 (301)	678 (871)	461 (494)
1980-81	1,317 (1,578)	448 (569)	239 (281)	687 (850)	630 (728)

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	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
I.B.R.D.	11	—	—	—	—	—	—	—	—	—	—
Canada	1	1	1	1	—	—	—	—	—	—	—
Japan	19	15	25	31	25	26	25	—	—	—	—
U.S.A.	7	7	—	—	—	—	—	—	—	—	—
Total	**38**	**23**	**26**	**32** **(44)**	**25** **(32)**	**26** **(36)**	**25** **(36)**	—	—	—	—

Cumulative Assistance

Total external assistance authorised to India from August 15, 1947 to end-March 1981 amounted to Rs. 27,637 crores, of which 81 per cent was in the form of loans (Table X-7). In view of the sharp decline in grants authorised during the year 1980-81, the share of grants in total assistance upto end-March 1981 declined by one point to 11 per cent as compared to that at the end of March 1980. Assistance utilised upto the end of March 1981 aggregated to Rs. 21,563 crores forming 78 per cent of the total aid authorised. Obviously the percentage utilisation of grants at 87 per cent was much higher than that for loans of 74 per cent.

The combined authorisations by the IBRD and the IDA amounted to Rs. 8,849 crores by end-March 1981 as compared with Rs. 6,983 crores at the end of March 1980 and their share in the total authorisations increased from 29 per cent at end-March 1980 to 32 per cent by end-March 1981 (Table X-8). Similarly, the utilisation of assistance provided by these institutions increased from Rs. 4,542 crores to Rs. 5,160 crores over the year and formed 24 per cent of total aid utilised by end-March 1981 as against 22 per cent at end-March 1980.

Table X-7 : 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 1974	11,983	981	2,165	15,129
3. Upto March 1978	17,005	2,143	2,165	21,313
4. **Authorisations during**				
(*a*) 1978-79	1,585	452	—	2,037
(*b*) 1979-80	791	444	—	1,235
(*c*) 1980-81	2,964	88	—	3,052
Total (Upto March 1981)	**22,345**	**3,127**	**2,165@**	**27,637**
Utilisation from August 15, 1947				
1. Upto March 1966	4,346	531	1,403	6,280
2. Upto March 1974	10,091	917	2,277	13,285
3. Upto March 1978	13,971	1,765	2,277	18,013
4. **Utilisation during**				
(*a*) 1978-79	727	367	—	1,094
(*b*) 1979-80	850	289	—	1,139
(*c*) 1980-81	1,020	297	—	1,317
Total (Upto March 1981)	**16,568**	**2,718**	**2,277@**	**21,563**

Note: Refer to Notes to Table X-2.
@ P.L. 480 authorisations were fully utilised by the end of 1971-72. The difference between rupee values of the total authorisations and total utilisation is attributable to the devaluation of rupee on June 6, 1966.

Table X-8 : Aggregate External Assistance—Source-wise

(Upto end-March 1981)

(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.	8,849	—	—	8,849 (32.0)	5,160	—	—	5,160 (23.9)
United Nations	—	44	—	44 (0.2)	—	44	—	44 (0.2)
E.E.C.	40@	223	—	263 (0.9)	40@	198	—	238 (1.1)
I.F.A.D.	92	—	—	92 (0.3)	7	—	—	7 (neg.)
U.S.A.	3,935	312	2,165	6,412 (23.2)	3,773	277	2,277	6,327 (29.4)
U.S.S.R.	1,917	12	—	1,929 (7.0)	1,089	11	—	1,100 (5.1)
U.K.	1,419	1,303	—	2,722 (9.9)	1,408	1,024	—	2,432 (11.3)
West Germany	1,620	43	—	1,663 (6.0)	1,468	42	—	1,510 (7.0)
Japan	748	30	—	778 (2.8)	725	25	—	750 (3.5)
O.P.E.C.*	1,431	—	—	1,431 (5.2)	991	—	—	991 (4.6)
Others	2,294	1,160	—	3,454 (12.5)	1,907	1,097	—	3,004 (13.9)
Total	**22,345**	**3,127**	**2,165**	**27,637 (100.0)**	**16,568**	**2,718**	**2,277**	**21,563 (100.0)**

Notes: 1. Please refer to Notes to Table X-2.
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.

The U. S. A., continues to occupy the top position in the list of donor countries in terms of both cumulative aid authorisations and utilisation, followed by the U.K., the U.S.S.R. and West Germany at a distance. The relative importance of the U. S. A., however, is on the decline during the past few years. 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-end level.

At the end of March 1981, total assistance comprising loans and grants available in the pipeline was of the order of Rs. 6,187 crores which was Rs. 1,735 crores higher than that at the commencement of the year. Of this, Rs. 5,479 crores or 89 per cent represented project assistance, Rs. 300 crores, non-project loans and Rs. 408 crores, grants. Roughly three-fifths of the pipeline represented loans from the IBRD and the IDA and another one-eighth from the U. S. S. R. The narro-

west pipeline among major countries was in respect of Japan, with only Rs. 28 crores of assistance remaining to be utilised at the end of March 1981.

Aid Prospects for 1981-82

The Central Government budget for 1981-82 estimates gross external assistance of Rs. 1,866 crores which is higher by Rs. 130 crores than the revised estimates of Rs. 1,736 crores for 1980-81, excluding the IMF Trust Fund loan of Rs. 545 crores. The net aid (net of loan repayments and interest) is also expected to be larger at Rs. 1,109 crores in 1981-82 as compared to the revised estimates of around Rs. 1,000 crores in 1980-81, without taking into account the IMF Trust Fund loan.

The donor-countries at the meeting of the Aid-India Consortium held in Paris on June 9 and 10, 1981 recognised that the balance of payments difficulties faced by India might persist for some time, and endorsed India's requirements of larger flow of aid to support India's efforts to improve its balance of payments position, in the medium term. The enhancement in the quantum of aid pledged for 1981-82 was, however, marginal in nominal terms but showed a slight decline in real terms in relation to the aid pledged for 1980-81, after taking into account the average inflation rate of about 8-10 per cent in developed countries in this year. The aid amount, for the first time pledged in terms of SDRs, worked out to SDR 2,820 million for 1981-82 as against SDR 2,730 million pledged last year. In terms of the U. S. dollar the assistance pledged amounts to U. S. $3.45 billion in 1981-82 barely exceeding that for the last year. As the replenishment of the IDA resources is facing some problems, there are serious uncertainties whether the rise in the pledged amount in nominal terms during 1981-82 would in fact materialise.

IV. Exchange Rate Developments

The exchange rate of the rupee continues to be determined in terms of a weighted basket of major international currencies with the pound sterling as the intervention currency. In January 1979 the margins in the relationship between the rupee and the basket which were maintained within 2.25 per cent since the inception of the basket valuation in September 1975, were widened to 5 per cent. The increased volatility in exchange rates of major international currencies necessitated frequent changes in the rupee-pound sterling rate during the year under review; it would be seen from the Annexure that the changes in the middle rate for the rupee-pound sterling averaged one per week in this period (July 1980-June 1981), as against less than one per fortnight during 1979-80.

The Table X-9 below presents the annual average (July-June) rate of the rupee in relation to the SDR and four major international currencies, during the last five years.

Table X-9 : The External Value of the Indian Rupee

(Rs. per unit of SDR/foreign currency)

July-June (annual average of monthly averages)	SDR	US $	£	DM	Yen
1976-77	10.3066	8.91	15.26	3.68	0.0312
1977-78	10.1972	8.50	15.52	3.92	0.0352
1978-79	10.4399	8.21	15.76	4.10	0.0429
1979-80	10.4551	8.03	17.92	4.49	0.0346
1980-81	10.1002	8.04	18.42	4.02	0.0376

SDR rate is as given in the IMF Survey.
For the pound sterling it is the middle rate of the RBI quotations.
For other currencies, the rates are the middle rates on the London market as crossed with the RBI middle rates for the pound sterling.

The annual average rate shows that in 1980-81, the rupee appreciated against the SDR by 3.5 per cent and by 11.7 per cent in relation to the DM. The annual average rupee-U. S. dollar rate remained almost unchanged at the preceding year's level while the rupee depreciated by 2.7 per cent in relation to the pound sterling and by 8.0 per cent against the Japanese yen.

The appreciation of the rupee in 1980-81 against the SDR followed a period of depreciation in the two previous years. The appreciating trend that began in November 1979 (in terms of monthly average) continued till November 1980, with the exception of few months. For the next three months, the rupee depreciated by about one percentage point followed by a period of appreciation to reach the level in June 1981 that was almost the same as in November 1980. Thus, over the year ending June 1981, the rupee appreciated against the SDR by 3.9 per cent to an average rate of Rs. 9.9864 per SDR in June 1981.

The appreciation of the rupee in relation to the U. S. dollar observed since 1977-78 (on an annual average basis) ended in 1980-81 with the rupee-dollar rate remaining at the same level as that in 1979-80. On a monthly average basis, the rupee appreciated for six months from May 1980 to October 1980. Then onwards the rupee almost steadily depreciated to reach the rupee-dollar rate of Rs. 8.65 per dollar in June 1981, and to result in depreciation of 9.2 per cent between June 1980 and June 1981.

On an annual average basis, the rupee depreciated against the pound sterling from 1977-78 onwards. The depreciation in 1980-81 of 2.7 per cent, however, was much smaller than that in 1979-80. With intermittent exceptions, on a monthly average basis, the rupee depreciated against the pound sterling from December 1979 through January 1981 to reach a level of Rs. 19.15 per pound in that month. Then onwards the rupee appreciated, and in June 1981 the rupee-pound sterling rate at Rs. 17.07 per pound (on monthly average basis) was the lowest for over two years. Over the year ending June 1981, in terms of monthly average the rupee appreciated by 7.5 per cent against the pound sterling.

Against the DM, the annual average rate of the rupee appreciated by 11.7 per cent in 1980-81, after steadily depreciating over the preceding three years. The appreciation of the rupee, in terms of monthly averages, set in from January 1980, and continued right through June 1981, with the exception of a few months. Over the year ending June 1981, again in terms of monthly averages, the rupee appreciated by 22.3 per cent against the DM, reaching the level of Rs. 3.64 per DM in June 1981.

After a steady depreciation against the Japanese yen, the rupee, in terms of annual averages, had appreciated in 1979-80. As mentioned earlier, the rupee depreciated by 8.0 per cent in 1980-81. The depreciation in the rupee, in terms of monthly average rates, set in in May 1980 and generally continued through February 1981. During the following four months there was a marginal appreciation in the rupee. Over the year as a whole, however, the rupee depreciated by 6.5 per cent in relation to the Yen to reach a level of Rs. 0.0386 per Yen in June 1981.

V. India's External Assistance to Other Countries

The financial assistance extended by India during the year 1980-81 to developing countries, mostly neighbouring ones, was lower than that in the previous year. Assistance authorised by India during the year amounted to Rs. 76 crores as compared to Rs. 103 crores sanctioned last year (Table X-10). The decline in authorisations of about 26 per cent was mainly under loans which fell by Rs. 25 crores to Rs. 30 crores, and raised the share of grants in total assistance from 47 per cent in 1979-80 to 61 per cent in 1980-81. The fall in loan authorisations in 1980-81 was the combined outcome of the absence of loan authorisations to Bangladesh and Zambia as against those of Rs. 29 crores and Rs. 10 crores, respectively, in1979-80,and an authorisation of Rs.14 crores to Vietnam after a lapse of one year. Loans authorised to Bhutan and Sri Lanka and grants to Bhutan and Nepal remained more or less at the same level of last year. Bhutan ranked the topmost in the list of beneficiaries accounting for Rs. 38 crores or almost one-half of the total aid authorisations, followed by Nepal and Vietnam with Rs. 14 crores each.

Table X-10: Assistance Extended by India to Other Countries

(Fiscal Years)

(Rupees Crores)

Country/Programme	Authorisations						Utilisation					
	1979-80			1980-81			1979-80			1980-81		
	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 ..	—	—	—	—	—	—	1.4	—	1.4	—	—	—
2. Bangladesh ..	29.3	0.1	29.4	—	0.2	0.2	29.3	0.1	29.4	0.5	0.1	0.6
3. Bhutan ..	5.2	29.7	34.9	6.8	31.1	37.9	5.2	29.7	34.9	6.8	31.1	37.9
4. Mauritius ..	—	—	—	—	—	—	2.1	—	2.1	2.8	—	2.8
5. Nepal ..	—	14.1	14.1	—	14.2	14.2	—	13.6	13.6	—	5.9	5.9
6. Sri Lanka ..	10.0	—	10.0	10.0	—	10.0	3.6	—	3.6	6.3	—	6.3
7. Tanzania ..	0.4	—	0.4	—	—	—	0.4	—	0.4	—	—	—
8. Vietnam ..	—	—	—	13.5	—	13.5	24.1	—	24.1	18.9	—	18.9
9. Zambia ..	10.0	—	10.0	—	—	—	—	—	—	—	—	—
10. Assistance under ITEC Programme@	—	4.0	4.0	—	0.5	0.5	—	4.0	4.0	—	0.5	0.5
Total ..	**54.9**	**47.9**	**102.8**	**30.3**	**46.0**	**76.3**	**66.1**	**47.4**	**113.5**	**35.3**	**37.6**	**72.9**

Notes: 1. Aid to Nepal excludes the grant expenditures on Kosi and Gandak schemes executed by the Bihar Government and the grant expenditure on training of Nepalese Scholars in India.

2. Authorisations are net of de-obligations/cancellations.

@ Country-wise details are not available.

Table X-11: Aggregate Assistance Extended by India to Other Countries
(Upto end-March 1981)

(Rupees Crores)

Country/Programme	Authorisations			Utilisation			Amount undisbursed as at the end of March 1981		
	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	145.7	262.0	92.4	130.8	223.2	23.9	14.9	38.8
3. Bhutan ..	27.2	232.7	259.9	27.2	232.4	259.6	—	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	6.8	—	6.8	8.2	—	8.2
7. Nepal ..	21.5	185.5	207.0	21.5	165.3	186.8	—	20.2	20.2
8. Sri Lanka ..	74.5	—	74.5	52.7	—	52.7	21.8	—	21.8
9. Tanzania ..	7.4	—	7.4	5.4	—	5.4	2.0	—	2.0
10. Vietnam ..	78.7	—	78.7	72.1	—	72.1	6.6	—	6.6
11. Zambia ..	10.0	—	10.0	—	—	—	10.0	—	10.0
12. Assistance under ITEC Programme@	—	25.9	25.9	—	25.9	25.9	—	—	—
Total ..	**387.0**	**589.8**	**976.8**	**314.5**	**554.4**	**868.9**	**72.5**	**35.4**	**107.9**

Notes: 1. Refer to notes to Table X-10.

2. Aid to Bangladesh does not cover the relief goods of the value of Rs. 17 crores supplied to that country in 1971-72.

@ Country-wise details are not available.

Utilisation

The decline in utilisation of aid during 1980-81 at Rs. 41 crores to Rs. 73 crores was more than that in authorisation. As in the previous year, Bhutan utilised the entire aid authorised to that country (Rs. 38 crores), accounting for more than one-half of the total utilisation in 1980-81. Assistance utilised by Vietnam at Rs. 19 crores was lower by Rs. 5 crores, accounting for nearly 26 per cent of the total aid disbursed during the year. Aid authorisations to Sri Lanka and Nepal were only partially utilised in 1980-81.

Cumulative Assistance provided by India

Upto end-March 1981, total aid authorisations by India amounted to Rs. 977 crores, of which three-fifths were grants (Table X-11). Bangladesh remained the top beneficiary with authorisations of Rs. 262 crores or 27 per cent of the total assistance authorised, closely followed by Bhutan (Rs. 260 crores) and Nepal (Rs. 207 crores). These three countries together thus accounted for three-fourths of total aid authorisations by India thus far. In terms of utilisation, however, Bhutan heads the list of beneficiaries, utilising almost the entire amount of Rs. 260 crores authorised to her and accounting for nearly 30 per cent of the total aid disbursed by India. Bangladesh ranks second, accounting for 26 per cent, followed by Nepal with a share of about 22 per cent of the total aid disbursed so far.

VI. International Monetary Developments

Since the last Report, the international economic situation has worsened in many respects. The rates of income growth of major groups of countries for 1981 are generally expected to be lower than those in 1980 when they were clearly unsatisfactory. Despite tight monetary policies and high interest rates, the inflation rates in most parts of the world remain high and the signs of abatement therein are far from encouraging. The current account deficits of non-oil developing countries are expected to increase more than visualised last year; in 1980 the deficit of this group amounted to $ 84 billion * and in 1981 it is placed at $ 97 billion as against the expectations, this time last year, of a deficit of $ 72 billion in 1980 and $ 80 billion in 1981. The terms of trade of non-oil developing countries continue to deteriorate with no relief in sight. The combined result of shifts in current account balances, marked divergences in inflation rates and inward looking stance of policies pursued by large industrial countries with greater reliance on monetary and interest rates policies has been the increased volatility in exchange rates of major international currencies. The summits have neither improved the aid prospects of poor developing countries nor their export outlook. The recent decision of the OPEC to unify the oil prices and to keep them unchanged till the end of 1982 will be helpful for non-oil developing countries. But the unified price is expressed in the U.S. dollar which has strengthened sharply in relation to the European currencies and the SDR. Consequently, it is feared that the terms of trade of non-oil developing countries would weaken substantially. The persistence of huge current account deficits at a time when international interest rates are high and the aid climate is poor, and the availability of a growing proportion of resources from the multilateral institutions only at market related rates indicate that the prospects for significant improvement in non-oil developing countries' income growth and alleviation of their external financing problems seem to be difficult.

Output and Prices

After barely two years of reasonably satisfactory growth in real GNP of 3·5 to 4·0 per cent a year, the rate of growth in industrial countries dropped to 1·3 per cent in 1980; in 1981 also the expansion in their output may not be much higher than one per cent. Output in all the major industrial countries decelerated in 1980 and only Japan and Italy were able to achieve a rise in incomes of 4 per cent or more. In the U.K., the GDP declined by 1·7 per cent and the GNP fell marginally in the U.S.A. in relation to the increase therein of 1·7 per cent and 3·2 per cent, respectively, during 1979. In 1981, the income growth in Japan might decelerate marginally to 4·0 per cent while that in the U.K. and Germany the output might decline by 2·6 per cent and 1·0 per cent, respectively. In the U.S.A., the income might expand by 1·5 per cent due to the strong increase in the

* $ refers to the U. S. $ in this Chapter, unless specifically stated otherwise.

first quarter though in the subsequent quarters it has declined. The indications are that in 1982 the income growth in industrial countries as a group might accelerate marginally to around 2.0 per cent, but this order of growth would be still too unsatisfactory from the developing countries' point of view.

In the oil exporting countries (the International Financial Statistics Classification) due to sharp declines in the oil sector output following recessionary conditions in industrial countries and reflecting measures taken by the world community to conserve use of oil, the overall output fell by over 3 per cent in 1980 and a further decline of similar order is expected in 1981. Their output growth in other sectors has, however, accelerated. In 1982, the projections are for a strong increase of over 6 per cent in overall output with a recovery in the oil sector.

In the non-oil developing countries as a group the output expanded by 4·8 per cent in 1980 and is expected to rise by 4·0 per cent in 1981. Though these rates of growth are distinctly higher than those for the other two groups of countries, they are lower than those during the preceding two years when the output expanded by close to 6.0 per cent on average. In relation to their needs after taking into account their low levels of living and high population growth, and the output target of 7·0 per cent per annum for the U.N. third development decade of eighties, these rates have been much lower. In 1982, only a marginal acceleration to 4·5 per cent is visualised in their output growth.

The inflation continues to be a serious and almost worldwide problem. In 1980, the price situation worsened in industrial countries with the GNP deflator accelerating to 9 per cent from under 8 per cent in the preceding year. Some deceleration to 8·6 per cent is expected therein in this year and some further improvement is projected for 1982, but still the rate of inflation would be almost 8 per cent. As among the major industrial countries the inflation rate, during 1980, was around 3 per cent in Japan, 5 per cent in Germany, 9 per cent in the U.S.A. and 19 per cent in the U.K. During 1981, while the inflation rate might accelerate somewhat in Japan, a distinct deceleration to 11·5 per cent is estimated for the U.K. In the U.S.A. and Germany the rate of inflation would be almost the same as in 1980.

The rate of growth in consumer prices in oil exporting countries which was little over 10 per cent in 1978 as also in 1979, rose to 12·6 per cent in 1980 and is estimated to be 12·5 per cent in 1981. Only a marginal deceleration therein might take place in 1982.

The increase in consumer prices in non-oil developing countries as a group accelerated from nearly 25 per cent in 1979 to over 32 per cent in 1980. The rate of rise therein is estimated to slow down marginally to about 30 per cent in 1981 and further to 27 per cent in 1982. The price performance of Asian countries in this group has been relatively much better. In 1980, the rate of growth in consumer prices of this group almost doubled to 12 per cent, but was still far below the group average of 32 per cent; it is, however, expected to decelerate to 7·5 per cent in 1981 and further to nearly 7.0 per cent in 1982.

The unemployment rate for the seven large industrial countries as a group which had remained sticky since 1975 at five per cent or above and had shown a falling trend till 1979 rose in 1980 to 5·7 per cent and is estimated to rise further to 6·6 per cent in 1981. Japan remains almost unaffected while all other countries share the rise in unemployment. The worst hit has been the U.K. where the unemployment rate is expected to almost double from 5·4 per cent in 1979 to 10·5 per cent in 1981. Over the same period, the unemployment rate in the U.S.A. and France is expected to rise by about two points to around 7·8 per cent.

Money Supply and Interest Rates

Many industrial countries in order to control high rates of inflation experienced since the first oil shock of 1973, pursued tight money policies and jacked up their interest rate structure. In some countries rates were raised in step with their competitors to attract or arrest external capital flows though purely from domestic price situation such high rates might be considered unjustifiable.

More recently, in view of the continued high levels of unemployment, unsatisfactory levels of investment and low levels of income growth, there are signs that interest rates might be lowered and in some countries they have already eased.

The rate of growth in money supply of industrial countries as a group decelerated markedly, though somewhat less sharply if adjusted for real income growth, from 10·8 per cent in 1978 to 5·9 per cent in 1980 and further to 3·4 per cent during the first quarter of 1981 (the latest quarter for which these data are available) over the corresponding quarter of 1980. In Switzerland, the rate of growth in money supply dropped from 12·7 per cent in 1978 to minus 5·4 per cent in 1980; over the same period the rate of expansion contracted from 10·8 per cent to 0·8 per cent in Japan, and from 20·3 per cent to 4·5 per cent in the U.K. In non-oil developing countries as a group, however, the rate of growth of money supply accelerated from 29·5 per cent in 1978 to 34·0 per cent in 1980, though it has decelerated to 28·6 per cent in the first quarter of 1981. For the sub-group of Asian countries the money supply growth was lower and had decelerated over this period.

Between 1978 and 1980 the annual average money market rates in major industrial countries shot up by about 50 per cent or more. In Germany and Japan where the rates were relatively low in 1978, they climbed up by over 150 per cent. In 1980, the money market rates ranged from 9 per cent in Germany to 17 per cent in Italy. Over the year ending July 1981, with the exception of a few countries, the rates have moved up further and particularly sharply in the U.S.A., Canada and France while they have declined in Japan and the U.K. The latest data, however, indicate some softening of these rates.

WORLD TRADE AND BALANCE OF PAYMENTS

During the last two years, there have taken place marked changes in the pace at which world trade expanded in volume terms, the terms of trade of major groups of countries, and their current account balances. Naturally, these changes had their impact on shifts in capital movements which were significant and caused wide fluctuations in exchange rates.

Because of recessionary tendencies in industrial countries, the growth in world trade in volume terms slumped to 2·0 per cent in 1980 from 6·5 per cent in 1979 and in 1981, the rate of expansion therein might be even lower. Only in two previous years, i.e. in 1958 and 1975, since the second world war the growth rate was lower than in 1980. Commoditywise, in 1980, the movement of crude oil and petroleum products declined substantially and the growth in volume of trade in manufactures slowed down from 5·5 per cent in 1979 to 3 per cent in 1980. In dollar terms, however, the growth in world trade in 1980 was marginally lower, as the dollar unit values rose at a rate higher than in 1979. It is in 1981, that the expansion in the world trade in dollar terms would plunge from over 22 per cent in 1980 to a bare 2 per cent, in view of the strong appreciation of the dollar.

As among the major groups of countries, imports of industrial countries which accounted in 1979 for roughly three-fourths of the world imports (according to the Fund's International Financial Statistics—IFS), rose by 20 per cent in dollar terms in 1980 as against that of 28 per cent in 1979. Similarly, their exports which formed around seven-tenths of world exports in 1979, increased by 18 per cent in 1980 in relation to 23 per cent in 1979. However, in volume terms their imports declined marginally in 1980 and are projected to decline modestly in 1981 as well, while these rose by 8 per cent in 1979. Growth in industrial countries' exports in volume terms slowed down from about 7 per cent in 1979 to over 4 per cent in 1980 and the deceleration is expected to continue in 1981 to around 3 per cent.

Imports in dollar terms of oil exporting countries formed less than seven per cent of world imports in 1979. These shot up by 35 per cent in 1980 after a small increase of 4 per cent in 1979. In volume terms, their imports had declined by over 11 per cent in 1979 but rebounded in 1980 to an increase of over 14 per cent following the huge increase in export receipts in dollar terms as a result of step up in oil prices. The expectations are

that the rate of growth in imports would accelerate to around 17 per cent in 1981. The value of exports of oil exporting countries which in 1979 accounted for around one-seventh of world exports in dollar terms, strongly increased by more than 40 per cent in 1980 in addition to a hefty rise of 47 per cent in 1979. In volume terms, however, their exports declined by nearly 13 per cent in 1980 after a small rise of over 3 per cent in 1979 and a fall of the 1980 order is expected in 1981 as well.

Imports of non-oil developing countries which formed less than one-fifth of world imports in dollar terms in 1979, rose by 26 per cent in 1979 and by 30 per cent in 1980. In volume, imports of this group expanded by close to 11 per cent in 1979 which far exceeded the average rate of growth from 1963 onwards. In 1980, the rate of growth in volume of imports dropped to 6 per cent and a deceleration therein to around 5 per cent is expected in 1981. Their exports accounted for about 15 per cent of world exports in 1979, in dollar terms. These rose by 26 per cent in 1980 as against an increase of 30 per cent in 1979. In volume terms, export growth which had decelerated to over 9 per cent in 1979 slowed down further to 8 per cent in 1980 and is expected to be around 7 per cent in 1981.

Though the prices of manufactures and non-oil primary commodities increased in 1979 and 1980, the rise in oil prices was many times more than that in prices of these other two groups. Taking into account the commodity pattern of trade and the price behaviour of major commodities/products described above, the terms of trade of oil exporting countries shot up by nearly 42 per cent in 1980 in addition to a marked increase of 28 per cent in the previous year. The improvement in their terms of trade is expected to continue in this year, though at a relatively much slower rate. Industrial countries' terms of trade which had recovered in 1978 deteriorated in 1979 by 3·1 per cent and worsened further by 6·7 per cent in 1980; these are expected to decline by another 2·0 per cent in 1981.

On an average, the terms of trade of non-oil developing countries declined at a compound rate of about 0·3 per cent a year during 1963 to 1977. There was a sharp fall therein of 5·5 per cent during 1978 followed by a decline of 0·4 per cent in 1979. In 1980, the terms of trade fell by another 3·0 per cent and are estimated to deteriorate further by 2·0 per cent in 1981. Thus, during the four-year period of 1978 to 1981, this group would suffer a loss of 10·5 per cent on account of deterioration in their terms of trade; the loss suffered by low-income developing countries is even greater.

Developments in trade and terms of trade described above and in invisibles resulted in marked changes in current account balances of different country groups. The surpluses of oil exporting countries which shot up from $ 3 billion in 1978 to $ 69 billion in 1979 climbed up further to $ 114 billion in 1980. The expectations are that these might decline to $ 90 billion in 1981. The current account balances of industrial countries had shifted from a surplus of $ 30 billion in 1978 to a deficit of $ 9 billion in 1979; their deficit rose manifold to $ 46 billion, even when they were suffering from considerably low levels of economic activity. A substantial improvement, particularly in respect of seven large industrial Fund members, is expected in 1981, but still their combined balances would remain in deficit to the extent of $ 23 billion. While the surpluses of the U.S.A. and the U.K. are expected to increase further in 1981, a notable turnaround is estimated for Japan from a deficit of $ 9·5 billion in 1980 to a surplus of $ 4·5 billion in 1981.

The current account deficit of non-oil developing countries which had declined to $ 28 billion or 3·0 per cent of GDP in 1977 trebled during the next three years to $ 84 billion or 4·8 per cent of GDP of this group in 1980. Their deficit is estimated to increase further to $ 97 billion in 1981.

Even such large deficits were financed in recent years without much strain. Since the surpluses have to be matched by deficits, it is sometimes argued that the question is merely of efficient recycling of surpluses. But increasingly the surplus and deficit countries as also the intermediary institutions are getting concerned about the prospects of growing

indebtedness and the accompanying defaults. No one disputes the need for adjustment, so as to reduce deficits and surpluses within manageable limits but the problem is how fast the adjustment could be brought about equitably without impinging the development needs of poor developing countries.

DEVELOPMENTS IN EXCHANGE RATES OF MAJOR CURRENCIES

Since the last Report, exchange markets exhibited marked volatility in exchange rates of major international currencies in contrast to their behaviour during July 1979-June 1980, when there was relative stability. After the second oil shock, the current account positions of different industrial countries shifted dramatically. Superimposed on these imbalances were the divergences in rates of inflation and the differences in their economic activities. The special factor this time was the active use of interest rate policy by different countries for resolving the current account problems. Competitive interest rate adjustments made by some countries seem to have destabilised the exchange markets even more. Some monetary authorities, especially the German, the Swiss and the Japanese pursued active intervention policies to moderate the fluctuations and many would have welcomed more active intervention by the U.S. authorities also. The frequent instability in exchange markets has made many converts to a group advocating a system which would provide a relatively greater stability in exchange rates though they are not still prepared to go as far as fixed exchange rate system.

Since June 1980, in relation to the SDR, the position of the U.S. dollar and the Japanese yen improved significantly while that of the DM and the French franc weakened almost steadily upto July 1981 whereafter both these currencies showed some strength. The uptrend in the pound sterling as against the SDR was maintained right upto the early 1981 from which point onwards it has depreciated rather sharply.

During the year under Report, the dollar strengthened substantially against most of the major currencies after a year during which it had depreciated against them. The dollar appreciated against the SDR and the DM almost throughout the year ending June 1981. During the same period upto mid-January 1981, the dollar remained generally weak against the Japanese yen, and firmed up thereafter. In relation to the pound sterling the dollar generally depreciated between June and October 1980, but appreciated strongly thereafter. Between June 1980 and June 1981, the U.S. dollar recorded an appreciation of 35·9 per cent against the DM, 22.2 per cent against the pound sterling, 3·3 per cent against the Japanese yen and 15·1 per cent against the SDR. During the preceding year, i.e. from June 1979 and June 1980, it had depreciated by 4·0 per cent against the DM, by 7·4 per cent against the pound sterling, by 1·0 per cent in relation to the Japanese yen and by 2·5 per cent against the SDR. Between June 1981 and September 1981 the dollar continued to firm up against the pound sterling. In relation to the DM, the Yen and the SDR, it appreciated till early August and then weakened.

Apart from special factors connected with developments in individual countries and influencing the particular exchange rate, the relative strength of the dollar emanated from a rise in U.S. interest rates, improvement in its balance of payments and some success in controlling domestic inflation.

The pound sterling, which was the strong currency of the preceding year (June 1979 to June 1980) weakened particularly during the second half of the year under Report. It continued to appreciate against the U.S. dollar till October 1980 but thereafter lost the ground steadily. In relation to the DM, it appreciated till January 1981, followed by a period of movements in both the directions. As against the Japanese yen, the underlying trend was that of depreciation from August 1980 onwards. In relation to the SDR, it continued to firm up till January 1981 but depreciated rather sharply thereafter. Over the year ending June 1981, the pound sterling depreciated by 18·2 per cent against the U.S. dollar, 15·5 per cent against the Japanese yen and 5·3 per cent against the SDR, but appreciated by 11·2 per cent against the DM. During the preceding year, it had appreciated by 8·0 per cent against the U.S. dollar, 9·1 per cent

against the Japanese yen, 6·2 per cent against the SDR and by 3·2 per cent against the DM. During the July-September 1981 quarter, the pound sterling weakened further against these currencies as also in relation to the SDR.

The steady decline in the domestic interest rates resulting in interest rate differentials turning, in many cases, against the U.K., the high level of unemployment, decline in output and loss of competitiveness of British exports following earlier strong appreciation of the pound sterling have been the main factors for the weakness of the pound sterling which perhaps suited the objectives of the authorities. Under these circumstances, the slowdown in domestic inflation and a record current payments surplus failed to prevent the fall of the pound sterling on the exchange markets.

The DM with a reputation as a strong currency for years exhibited considerable weakness against the major currencies almost throughout the year under Report. Except for a short period of March and April 1981, the DM generally depreciated against the U.S. dollar during the year ending June 1981. In relation to the pound sterling and Japanese yen the depreciating trend continued upto January 1981 but during the next three months the DM generally appreciated. In May and June, the DM moved both ways against the pound sterling but depreciated in relation to the Japanese yen. The underlying trend in the DM-SDR rate was one of depreciation of the DM almost throughout the year. Over the 12 months ending June 1981, the DM depreciated by 26·4 per cent against the U.S. dollar, 10·1 per cent against the pound sterling, 24·0 per cent against the Japanese yen, and by 15·4 per cent against the SDR. Over the preceding year (June 1979 and June 1980) the DM had appreciated by 4·2 per cent in relation to the U.S. dollar, 5·3 per cent against the Japanese yen and 2·5 per cent against the SDR while it had depreciated against the pound sterling by 3·6 per cent. Over the quarter ending September 1981, the DM appreciated against all these currencies as well as in relation to the SDR.

The weakness in the DM reflected mainly the deterioration in West Germany's current payment balances and continued interest differentials against investments denominated in DM.

For the major part of the period under Report, the Japanese yen generally showed firmness against the major international currencies and the SDR. The Yen appreciated against the U.S. dollar in the latter half of 1980 but depreciated in the first half of 1981. Though there were short periods during which the Yen depreciated against the pound sterling, the underlying trend exhibited strength in relation to the pound sterling. The Yen generally appreciated against the DM throughout the period under Report. As compared with the SDR, the Yen steadily rose till about February 1981 but weakened thereafter. Over the period June 1980 and June 1981, the Yen depreciated against the U.S. dollar by 4·4 per cent while it appreciated by 21·1 per cent against the pound sterling, 32·5 per cent against the DM and 8·6 per cent against the SDR. Over the previous 12 months, the Yen had remained almost stable against the U.S. dollar and had depreciated against the pound sterling by 9·5 per cent, in relation to the DM by 5·9 per cent, and as compared to the SDR by 2·8 per cent. Over the quarter July-September 1981, the Yen appreciated against the pound sterling but moved down in relation to the U.S. dollar, the DM and the SDR.

The excellent performance of the Japanese economy was the primary factor contributing to the strength of the Yen. The widening of nominal differential in interest rates against yen investments moderated the appreciation of the Yen and at times led to depreciation thereof depending on the developments in relevant countries.

FINANCING OF DEFICITS OF NON-OIL DEVELOPING COUNTRIES

The current account deficit of non-oil developing countries as stated earlier rose from $ 58 billion in 1979 to $ 84 billion in 1980. The major change that took place in financing the enlarged deficit according to the Fund estimates, was the step up in net borrowing (after adjusting for rise in reserves) from $ 37 billion in 1979 to $ 61 billion in 1980.

Non-debt creating financing increased in 1980 by less than 10 per cent to $ 23 billion. The official transfers and direct private investments rose somewhat more to $ 11·6 billion and $ 9·3 billion, respectively.

In view of the difficulties experienced by some non-oil developing countries in raising resources from international markets and the rise in cost of borrowings, after several years, the accumulation in their reserves in a year was as low as $ 1·2 billion in 1980, showing a steep fall from rise in reserves of $ 10·1 billion in the preceding year. Many of the countries actually suffered a loss in reserves. As the reserve accumulation for the group as a whole was markedly lower in 1980, rise in net external borrowing without taking into account reserve accumulation was less dramatic from $ 47 billion in 1979 to $ 62 billion in 1980. Of this, the rise in long-term borrowing was even less marked from $ 40 billion to $ 46 billion. Such borrowings from official sources, rose by nearly 50 per cent over 1979 borrowings to $ 21 billion in 1980, while those from private financial institutions declined from $ 32 billion in 1979 to $ 24 billion in 1980.

Another important development has been the significant rise, though the absolute amounts are small, in the Fund credit and intra-monetary authority short term borrowings. This item of financing which accounted for hardly $ 0·2 billion in 1979, after a net outflow of $ 0·5 billion in 1978 from the developing countries under this head, rose to $ 3 billion in 1980. The indications are that in 1981 financing from this source would more than double.

Other short-term borrowings rose by one-half from $ 6·1 billion in 1978 to $ 9·5 billion in 1979. A substantial rise therein seems to have taken place in 1980 as well. This order of short-term financing by this group of countries is rather unusual and may pose problems in rolling over of such credits.

Development Assistance

Though the climate for external assistance continued to be weak, the preliminary data in this regard compiled by the Organisation for Economic Co-operation and Development (OECD) for 1980 showed a smart rise in commitments of 19 per cent to $ 26·7 billion in the net official development assistance by the 17 members of the Development Assistance Committee (DAC). As a result, their ODA-GNP ratio rose from 0·35 per cent in 1979 to 0·37 per cent in 1980, but was still far below the U.N. target of 0·7 per cent set for mid-'seventies. It needs to be noted that the above favourable outcome was partially influenced by irregular timing of commitments by some members to the main multilateral institutions.

Another important development has been the agreement reached at the U.N. Conference held in Paris in September, 1981, that industrialised countries would either try to double their aid or ensure that 0·15 per cent of their GNP is devoted in helping the poorest countries in the years to come. While the outcome was far short of expectations voiced by the LDCs, the agreement was a step forward. It is hoped that the increase in aid to the least developed countries would not come at the cost of other low income countries as many of them are having per capita incomes below those of some of the least developed countries.

In real terms, the ODA increased by 9 per cent during 1980 or at a rate much higher than the annual average rate of increase of 3-4 per cent during the 'seventies. It is, however, discouraging to note the OECD projection that the ODA assistance in real terms would continue to rise, over the medium term, at a pace only similar to that of the 1970s.

The net financial flows including the ODA, the official and private non-concessional flows and private sector grants to developing countries from DAC members declined from $ 75·0 billion in 1979 to $ 73·2 billion in 1980. In relation to the GNP of these countries, however, the aggregate financial flows declined more from 1·16 per cent in 1979 to 1·02 per cent in 1980. In view of the substantial increase in the ODA during 1980, while total flows to developing countries declined, the ratio of the ODA to identified flows rose to 43 per cent in 1980 from 37 per cent in the previous year.

According to the OECD, out of the 17 DAC members, 9 members increased their net ODA as a percentage of GNP during 1980. Among them, the Netherlands recorded the highest ODA/GNP ratio at 0·99 per cent (0·93 per cent in 1979) as a result of an expansion in bilateral aid. The U.S. ratio also

rose from 0·20 per cent in 1979 to 0·27 per cent in 1980, but the OECD estimates that the U.S. aid contribution will decline somewhat in the near future. The other countries which increased their ODA/GNP ratio during 1980 are Austria (from 0·19 per cent to 0·23 per cent), Finland (from 0·21 per cent to 0·22 per cent), France (from 0·59 per cent to 0·62 per cent), Italy (from 0·08 per cent to 0·17 per cent), Japan (from 0·26 per cent to 0·32 per cent), New Zealand (from 0·30 per cent to 0.32 per cent), and Switzerland (from 0·21 per cent to 0·24 per cent).

Among eight countries showing a fall in the ODA/GNP ratio in 1980, the largest declines were recorded by Sweden and the U.K. Sweden's ratio fell from 0·94 per cent in 1979 to 0·76 per cent in 1980 mainly because of the timing difficulties associated with the IDA's Sixth Replenishment becoming effective. The U.K.'s ratio fell from 0·52 per cent in 1979 to 0·34 per cent in 1980, primarily due to slower than anticipated drawings by some of the country's major aid recipients and again because of the non-contribution of additional funds to the IDA in 1980.

The OECD points out that about 76·2 per cent of the total ODA assistance in 1980 by the DAC members was in the form of grants and the remaining was in the form of loans with an average grant element of 58 per cent, as against 61 per cent in 1979.

The assistance from the members of the Organisation of Petroleum Exporting Countries (OPEC) and the members of the Council for Mutual Economic Assistance (CMEA) amounted to about $ 8·8 billion in 1980 ($ 8·0 billion in 1979) bringing total flows to developing countries around $ 82 billion in 1980 compared with $ 83 billion in 1979. This total, however, does not include non-concessional funds from the OPEC or the CMEA members. The concessional aid by the OPEC members rose to a record level of $ 7 billion in 1980 as against $ 6·2 billion in 1979. However, their ODA/GNP ratio declined from 1·51 per cent in 1979 to 1·45 per cent in 1980. Bilateral aid continued to account for the greater part of the total concessional assistance by the OPEC members in 1980. With 81 per cent of the ODA commitments taking the form of outright grants and the grant element in the remaining disbursements amounting to 43 per cent, the combined overall grant element of the OPEC aid rose smartly to 89 per cent in 1980 as against 79 per cent in 1979.

The total external debt of all developing countries from all sources increased from $ 87 billion in 1971 to $ 456 billion in 1980 and that of the non-OPEC LDCs rose from $ 73 billion to $ 373 billion over the same period. In nominal terms, debt service payments increased more sharply over the 1970s from $ 11 billion to $ 91 billion. However, the average debt service ratio (debt service as a percentage of total export earnings from goods and services) rose from 9 per cent to only around 12 per cent though differences between individual countries were extremely wide.

WORLD BANK

During the year 1980-81 (July-June) the World Bank group—the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) together increased their financial assistance to member countries by 7·7 per cent in terms of commitments and by 18·4 per cent in disbursements. In relation to 1979-80, the rate of growth in commitments slowed down distinctly in 1980-81 and the rate of disbursement was also lower. [Table X-12.]

In 1980-81, the aggregate loan commitments of the IBRD amounted to $ 8,809 million, showing a rise of 15·2 per cent over the preceding year, in support of 140 projects in 50 countries. Its disbursements rose faster by 16 per cent to $ 5,063 million. Commitments included loans of $ 430 million for two Indian projects, viz. the Bombay High ($ 400 million) and an agricultural project ($ 30 million), accounting together for 4·9 per cent of the total loan commitments by the IBRD in 1980-81. The interest rate per annum on the first loan is 9·25 per cent, and the second, 8·25 per cent.

The IDA credits approved during the year were 9·3 per cent lower than those in 1979-80, but disbursements rose strongly by over 33

Table X-12: Loans by the World Bank Group—1979-80 and 1980-81

Million $

	Year (July-June)	Loan commitments	Disburse-ments	Assistance provided to	
				Number of projects	Countries
IBRD	1979-80	7,644 (9.4)	4,363 (21.1)	144	48
	1980-81	8,809 (15.2)	5,063 (16.0)	140	50
IDA	1979-80	3,838 (27.0)	1,411 (15.5)	103	40
	1980-81	3,482 (—9.3)	1,878 (33.1)	106	40
IFC	1979-80	681@ (60.2)	292* (126.4)	55	30
	1980-81	811@ (19.1)	243* (—16.8)	56	34
Total	**1979-80**	**12,163 (16.5)**	**6,066 (22.5)**	**302**	
	1980-81	**13,102 (7.7)**	**7,184 (18.4)**	**302**	

@ Approved investments.
* Rise in investments (loans and equity) held.
Note: Figures within brackets show percentage change over the previous year.

per cent to $ 1,878 million. The credits approved in support of 106 projects in 40 countries included eleven from India with credit assistance of $ 1,281 million; during the previous year $ 1,535 million of assistance was approved for 14 projects from India. This fall in commitments reduced India's share in the total IDA commitments from 40 per cent in 1979-80 to 36·8 per cent in 1980-81. The Indian projects included 7 for agriculture and rural development with loan assistance of $ 490 million and one each for fertilizer and other chemical industry, telecommunications, transportation and urbanization with loan assistance of $ 400 million, $ 314 million, $ 35 million and $ 42 million, respectively. The IDA credits for the 11 Indian projects were on usual IDA terms and would form nearly 33 per cent of the aggregate cost of these projects.

The rate of growth in 1980-81 of approved investments of the IFC dropped to 19 per cent from a high of 60 per cent in the previous year. The growth in investments held by the IFC at $ 243 million during 1980-81 was in fact lower than that of $ 292 million in the previous year. During the year, the IFC approved investments in four Indian companies for an amount of $ 76·1 million which would form 9·4 per cent of the IFC's total approved investments in the year. Of this amount, loans from the IFC aggregated $ 55·6 million, syndications $ 20·0 million and equity participation by the IFC $ 0·5 million. In comparison with 10 projects with original commitments of nearly $ 65 million obtaining the IFC funds upto the year 1979-80, the developments in 1980-81 show that India might tap the IFC resources more in the coming years.

With the receipt from the U.S.A. of notification of participation in the Sixth Replenishment of the IDA, the Replenishment Agreement became effective in August 1981. As the U.S.A. has decided to backload its contributions to $ 12 billion of replenishment by creditors over three years (July 1980 to June 1983), the IDA would continue to be restrained by resources for some time. Till the Agreement became effective the IDA was able to make credit commitments on the strength of advance

contributions of about SDR 1,850 million provided by 22 countries.

Use of Fund Resources

Under the head financing of deficits of non-oil developing countries, it was observed that the recourse to the Fund and intra-monetary authority borrowings rose markedly in 1980, although the absolute amounts were small. Though the steep rise in deficits of non-oil developing countries during 1974 and 1975 and again in 1979 and 1980 were the direct result of oil price shocks, the kind of assistance provided by the Fund in these two periods differed. In 1974 and 1975 about two-thirds of Fund assistance was in the form of oil facility drawings and the compensatory financing facility both of which had relatively low conditionality attached. During 1979 and 1980, on the other hand, nearly three-fourths, and the proportion has increased further in 1981, of assistance was under upper credit tranches or EFF with high conditionality. Of the 109 non-oil developing country members as many as 43 were having stand-by or EFF arrangements in effect at the end of June 1981 and the undrawn balances there under amounted to SDR 10·972 billion.

Data on borrowings from the Fund in 1979 and subsequent period are presented in Table X-13. Total purchases from the Fund more than doubled to SDR 3,753 million in 1980 from SDR 1,843 million in 1979. During the first half of 1981, the amount of purchases rose more than twice those in the same period of 1980 to SDR 3,771 million. Repurchases, on the other hand, have steadily declined, resulting in net purchases from the Fund of SDR 408 million in 1980 as against net repayments to the Fund of SDR 2,373 million in 1979. In the first six months of 1981, the increase in net purchases from the Fund became even more pronounced; as against net purchases of SDR 408 million in the full year of 1980, these shot up to SDR 2,583 million in the first half of 1981.

As stated above, it was the high conditionality drawings under credit tranches and the extended Fund facility (EFF) which rose steeply during this period, the rise being more pronounced under the EFF. Apart from the availability of relatively larger amount of ordinary resources—a member can obtain resources equivalent of 165 per cent of its quota if it goes in for the EFF programme (alongwith drawings under the first credit tranche) as against 100 per cent of its quota if it prefers to draw all the four credit tranches—the rate of interest on which is relatively lower than the market rate of interest, the EFF borrowings

Table X-13: Borrowings from the IMF: 1979 to June 1981

(Millions of SDRs)

	1979	1980	1st half of 1980	1st half of 1981
1. Total purchases	**1,842.8**	**3,752.7**	**1,643.1**	**3,770.8**
Of which: Reserve Tranche	147.1	359.2	99.7	207.4
Credit Tranches	853.1	1,798.6	980.9	2,100.2
Extended Fund Facility (EFF)	233.0	614.5	91.0	996.4
Supplementary Financing Facility (SFF)	(306.9)@	(1,218.3)@	(531.9)@	(1,034.6)@
Enlarged Access Policy (EAP)	—	—	—	(335.3)@
Compensatory Financing Facility (CFF)	572.0	980.4	471.5	466.8
Buffer Stock Facility	37.7	—	—	—
2. Total Repurchases	**4,215.3**	**3,344.8**	**2,147.8**	**1,188.3**
3. Net purchases (1-2)	**—2,372.5**	**407.9**	**—504.7**	**2,582.5**

@ SFF and EAP purchases are covered under credit tranches or EFF.

from ordinary resources are required to be repaid over a longer period of 4 to 10 years than similar borrowings under credit tranches which need to be repaid over 3 to 5 years. Besides, as the balance of payments difficulties of many developing countries are of a structural nature which could be resolved only over a medium to long period, many of them preferred to negotiate an EFF programme though it meant close monitoring by the Fund over the programme period which is three years while the programme under credit tranches could be of a shorter duration.

It may be recalled that the Supplementary Financing Facility (SFF) was established in August 1979 to enable the Fund to provide supplementary financing in association with credit tranches or the EFF, at market related rates. For obtaining the resources for the purpose, the Fund had entered into borrowing agreements for a total amount of SDR 7·8 billion. The borrowed resources available under the facility became fully committed on March 30, 1981.

As the borrowed resources available under the SFF were fully committed, an Enlarged Access Policy(EAP) was adopted in March 1981 whereby the Fund would continue to provide assistance on a scale similar to that under the SFF until the Eighth General Review of Quotas becomes effective. The EAP became operative on May 7, 1981 when the borrowing agreement with the Saudi Arabian Monetary Agency (SAMA) was concluded.

It has been agreed that the Fund would approve arrangements under the EAP to the extent of available financing. The amount of assistance under this policy is to be determined according to the guidelines adopted by the Fund from time to time. The present guidelines specify limits of 150 per cent of quota annually or 450 per cent over a three year period; at the same time, a limit of 600 per cent of quota, net of scheduled repurchases, applies on the cumulative use of Fund resources excluding outstanding drawings under the compensatory financing facility (CFF) and the buffer stock facility (BSF) or outstanding drawings under the oil facility.

The EAP resources, like the SFF resources, are available in conjunction with ordinary resources of the Fund. The rate of interest on borrowed resources as against on the ordinary resources of the Fund used under the EAP is market related, as in the case of SFF resources. The 'borrowed resources' under the EAP are to be repaid in instalments beginning from 3 ½ years from the purchase and the repayment is to be completed within seven years after the purchase. Regarding the repayment of ordinary resources under the EAP the usual conditions of repayment over 3 to 5 years if the borrowing is under the stand-by arrangement and 4 to 10 years if it is under the EFF arrangement are applicable. During the first half of 1981 members utilised borrowed resources under the EAP to the extent of SDR 335 million in addition to those under the SFF amounting to SDR 1,035 million.

Borrowings under the CFF increased substantially in 1980 to SDR 980 million as compared to SDR 572 million in 1979. The amount for 1980 includes SDR 266 million borrowed by India. In the first half of 1981, however, borrowings under the CFF almost equalled those during the first half of 1980, indicating no further acceleration in CFF purchases in this year.

For sometime, developing countries were pressing for a special facility to assist members affected by excessive rise in cost of their food imports. After protracted discussions, the Fund agreed to integrate such assistance in respect of Cereal imports with that available under the CFF and raised the overall purchase limit under the CFF from 100 to 125 per cent of the quota. Within this overall limit, purchases relating to export shortfalls or excess in cereal imports can not exceed 100 per cent of the quota.

With effect from May 1, 1981, the rate of charge on use of all ordinary resources of the Fund was changed to 6·25 per cent per annum, irrespective of the period for which the amount is being used by a member. The previous structure of charges for borrowings during April 1, 1977 to April 30, 1981 ranged from 4·375 to 6·875 per cent per annum, depending on the period of borrowing. For the six month period ending June 30, 1981 the rate of interest per annum on the SFF borrowings by members was 13·95 per cent and that on the EAP 12·98 per cent.

For a long time the question of providing a subsidy to low-income countries using the SFF resources was under consideration of the Fund. Finally, on December 17, 1980, the supplementary financing facility subsidy account came into existence; the aim is to pay subsidy in respect of SFF borrowings by eligible members at the rate of 3 per cent and 1·5 per cent per annum depending on their per capita incomes. In no case the subsidy is going to reduce charges on borrowed resources below the prevailing rate of charges on ordinary resources of the Fund used in conjunction with the borrowed resources under the relevant programme. The total cost of the subsidy is estimated at SDR 1 billion of which SDR 750 million of resources would become available from repayments of the Trust Fund loans. The remaining amount is expected to be raised through donations.

IMF Quota Review

The Seventh General Review of Quotas of the Fund whereunder a general quota increase of 50 per cent was agreed for all members except the People's Republic of China and the Democratic Kampuchea, and selective quota increases were provided for 11 developing member countries became effective on November 29, 1980. As Iran did not consent to the quota increase and Oman consented to the quota increase which was lower than provided for, the total Fund quotas under the Seventh General Review increased to SDR 58·2 billion. India's quota also rose to SDR 1717·5 million.

The aggregate quotas of Fund members rose further due to special increases granted to China, Saudi Arabia and new members joining the Fund. The China's quota was raised from SDR 550 million to SDR 1,800 million and that of Saudi Arabia from SDR 1,040.1 million to SDR 2,100 million. As a result of all these changes, by September 15, 1981, the total Fund quotas aggregated SDR 60·7 billion.

The work on the Eighth Quota Review has already begun. In view of the conflicting demands of various groups to accord high importance to special increases to raise quotas of those members the economic strength of which have improved strongly during the recent period, the demands of the developing countries to increase their share in total quotas from less than 35 per cent as of now to 45 percent without reducing the quota shares of any developing member and of some countries not to disturb the present geographical balance in representation in the Board, the negotiations on the Eighth Quota Review are bound to be difficult and protracted. Even then, it is hoped that the agreement would be reached according to schedule by December 1983 as implied in the agreement on the Seventh General Review of Quotas.

Special Drawing Rights (SDRs)

The third and final allocation of SDRs (SDR 4,053 million) in the Third basic period (January 1, 1978-December 31, 1981) was made on January 1, 1981 to all 141 Fund members which were also participants in the SDR department bringing the total cumulative allocations on that date to SDR 21·4 billion. Accordingly, India received SDR 116·79 million on January 1, 1981 raising her cumulative allocations to SDR 681·17 million. Despite the allocations of SDRs under the Third basic period, the proportion of SDRs in non-gold reserves of Fund members continues to be low and amounted to less than 5 per cent at the end of July 1981.

As the Third basic period is to come to an end on December 31, 1981, discussions on allocation of SDRs in the Fourth basic period are being held in the Fund for some time. Some industrial countries contested the need for fresh allocation, as required by the Articles of Agreement had not been established, and argued that allocations at this time would give wrong signals regarding the earnestness of the world community to arrest inflationary sentiment. On the other hand, developing countries emphasized that fresh allocations are justified in terms of the letter and spirit of the Articles of Agreement and that the break in allocations would signify that the Fund membership does not take seriously the avowed objective of making the SDR the principal reserve asset of the international monetary system. It was also stressed by them that at a time when international markets are generating the liquidity without hindrance, opposition to SDR allocations of the order advocated on grounds of their inflationary

impact is not justifiable. As no broad support for fresh allocation was available, the Managing Director reported to Governors, as required by the Articles of Agreement, that it was not possible for him by June 30, 1981 to submit a proposal (for allocation of SDRs) which would command a broad support among the members of the Fund. Thereafter the Interim Committee in September 1981 discussed this issue but failed to reach a consensus on allocation and the whole matter has been referred back to the Executive Board. The Executive Board is urged "to continue its deliberations on the question of whether there should be a further allocation of SDRs at the present time" and that such "deliberations should include the proposal to extend the third basic period and continue the rate of allocation established in 1978".

Some further steps were taken to improve the characteristics of the SDR as an international reserve asset. With effect from January 1, 1981, the valuation basket of the SDR was reduced from 16 currencies to 5 currencies and was unified with the interest rate basket. The agreed initial weights of the currencies in the new basket are—42 per cent for the U.S. dollar, 19 per cent for the DM and 13 per cent each for the French franc, the Japanese yen and the Pound Sterling. These weights broadly reflect the relative importance of each currency in international transactions. The composition of the basket and weights of each of the five currencies are to be revised every five years beginning January 1, 1986.

Another step in the same direction was to raise, effective May 1, 1981, the interest rate on the SDR to the full combined market interest rate. Thus, the rate of interest on SDR has been raised over a period from 1·5 per cent per annum to full market interest rates. The SDR interest rates during the more recent period have been as follows:

Calendar Quarter beginning	SDR interest rate per cent per annum
July 1, 1980	8·25
October 1, 1980	8·50
January 1, 1981	10·875
April 1, 1981 to April 30, 1981 ..	10·125
May 1, 1981 to June 30, 1981 ..	12·58
July 1, 1981	14·03
October 1, 1981	13·99

A further step was the abrogation of the reconstitution requirement, whereby participants had been obliged to maintain, over time, a minimum average level of SDR holdings in relation to their net cumulative allocations. Earlier, the required average holding was reduced on January 1, 1979 from 30 per cent to 15 per cent of net cumulative allocation, on the same date as the rate of interest was raised from 60 per cent to 80 per cent of the combined market interest rate. With the raising of the interest rate to 100 per cent of the combined market interest rate, the Fund decided to eliminate altogether the remaining reconstitution requirement with effect from April 30, 1981.

By prescribing 'other holders' which can hold SDRs and enter into SDR transactions other than specified ones, the use of the SDR as a reserve asset is being encouraged. By the end of June 1981, 10 official financial institutions were prescribed as 'other holders' of the SDR and some of them had received SDRs in transactions.

The Trust Fund of the IMF

Previous Reports described the establishment of the Trust Fund to provide additional balance of payments assistance to developing countries on concessionary terms, and the provisions relating to the availability of assistance therefrom. As mentioned in the last year's Report, India qualified for the Trust Fund loan during the second period and received an amount of SDR 529 million during 1980-81. Of the aggregate loans of SDR 2,991 million from the Trust Fund disbursed to 55 developing member countries, India's share was thus 17·7 per cent. It would have been higher but for our inability to approach the Fund for a Trust Fund loan during the first two year period which ended on June 30, 1978, in view of our satisfactory balance of payments position.

Following the completion of the distribution of profits and the fixed loan disbursements,

the Fund decided to wind up the Trust Fund, and the process began on April 30, 1981. As provided in the Trust Instrument, surplus assets accruing to the Trust Fund from interest and loan repayments will be transferred to the Special Disbursement Account of the Fund and the Executive Board decided to commit the first SDR 750 million of these assets to the supplementary financing facility subsidy account. It was also decided that SDR 1,500 million of these repayments would be used to provide balance of payments assistance on concessional terms to low-income developing members in need of such assistance. The assistance will be given on terms similar to those set out in the Trust Fund Instrument, on a uniform basis. The remaining assets shall be used in accordance with the decision to be taken by the Fund, not later than June 30, 1986, to provide balance of payments assistance on special terms to developing members in difficult circumstances, and for this purpose the level of per capita income shall be taken into account. If no such decision is reached, these assets will be added to the SDR 1,500 million mentioned above and used for balance of payments assistance.

International Reserves

The rate of growth in international liquidity during 1980 was considerably greater than in 1979 but was still lower than the rate of expansion in value of trade. The indications for 1981, however, are that perhaps the rate of growth in international reserves might exceed that in value of trade.

The total international reserves comprising the foreign exchange, the SDR holdings and the reserve positions in the Fund, but excluding gold, as compiled by the Fund for its members and Switzerland increased by SDR 51 billion in 1980 showing a rise of 18·9 per cent over the year as against that of 10·9 per cent in 1979. The rate of growth in value of trade (in terms of SDRs) was, however, 21·4 per cent in 1980, somewhat lower than that in 1979. During the first half of 1981 growth in international reserves slowed down to 6·8 per cent as against 7·2 per cent in the same period of 1980. The rate of growth in value of trade during 1981 is projected around 12 per cent.

The quantity of gold held officially by these countries increased marginally by less than one per cent in 1980 while it showed a decline of about 9 per cent in 1979. Their gold holdings continued to rise in the first half of 1981, but the pace of growth was even slower than in 1980. In view of the decline in gold prices in international markets, the value of official gold holdings in SDR terms declined by about one-fifth during the first half of 1981 as against a similar rise during 1980 largely because of increase in gold prices.

As in the past, the bulk of the increase in international liquidity in 1980 was in foreign exchange, the Fund related assets contributing about 8 per cent of the rise. During 1980, the foreign exchange reserves rose by SDR 47 billion or by 19 per cent and ECUs accounted for almost one-third of this increase. Members' reserve positions in the Fund increased by SDR 5 billion during 1980 as a result of the payment in SDRs for 25 per cent of the increase in quotas under the Seventh Review, and use of Fund's resources. In 1979, the members' reserve positions in the Fund had contracted by SDR 3 billion, reflecting return flow of resources to the Fund. Despite the allocation of SDRs, holdings of SDR of members declined by SDR 0·7 billion in 1980 mainly because of the payment in SDRs for the quota increase referred to above. In 1979, SDR holdings of members had increased by SDR 4·4 billion primarily because of the SDR allocation.

During the first half of 1981, three-tenth of the increase in reserves was in the form of reserve positions in the Fund and SDR holdings. Apart from the third instalment of the SDR allocations under the Third basic period, the increase in use of Fund resources accounted for this larger share of Fund related assets. The growth in foreign exchange reserves of SDR 15·4 billion during January-June 1981 was the same as in the corresponding period of 1980.

The major country groups continued to increase their holdings of international reserves. In 1980, industrial countries improved their share of total increase in international liquidity to nearly three-fifth from less than two-fifth in the preceding year. There was only a

marginal decline in the share of the OPEC group while the proportion of the non-oil developing countries dropped from one-fourth in 1979 to about one-twentieth in 1980. During the first half of 1981, the OPEC group accounted for nearly two-third of the rise in reserves while the non-oil developing countries were able to improve their share marginally. In view of the relatively faster rate of growth in imports, the ratio of reserves to import for the non-oil developing countries as a group declined in 1980 and probably would decline further in 1981. The international reserves (excluding gold) at the end of 1980 of this group of countries was equivalent of 2-2½ months' projected imports in 1981, but this group's ratio masks the critical reserve position of a number of countries. The unsatisfactory reserve position of non-oil developing countries reflects the weakness in their external payments position resulting from slow growth in exports, higher import bills and added difficulties experienced by most of them in raising funds in international markets at a time when interest rate structure has moved up appreciably.

Gold in International Market

The price of gold in international markets was highly volatile during the last couple of years. From April 1979 to January 1980, the London gold price rose by 260 per cent to $ 850 an ounce and since then has dropped by 50 per cent to $ 422 an ounce by end June 1981. Between June end 1980 and June end 1981, the gold price reached the peak of $ 720·50 per ounce on September 26, 1980 and the trough of $ 421·50 per ounce on June 30, 1981. The amplitude of prices during this period was narrower than observed during the preceding twelve months during which the gold price reached the all time high of $ 850 per ounce and was as low as $ 281·35 per ounce. The London market final fixing for gold at end June 1981 at $ 421·50 per ounce was lower by as much as $ 227·50 an ounce or by 34·8 per cent compared with the final fixing at end June 1980. During the preceding 12 months, however, the gold price had shot up by $ 376·00 an ounce or by 135·5 per cent. The gold prices fell below $ 400 per ounce during July and August 1981 but have generally remained between $ 400-450 from mid-August to end-September 1981.

During the Report period, the underlying trend in gold prices was a downward one. Except in August and September 1980 and again in March 1981 there was no perceptible and sustained upward movement in prices. The August-September 1980 developments in the gold market were associated with the Middle East situation and the eruption of war between Iran and Iraq. In March 1981, it was the apprehension regarding developments in Poland and the decline in the U.S. interest rates which generated increased buying interest in gold. The important factors contributing to the downward pressure on gold prices during the year as a whole were the strength of the U.S. dollar and high interest rates in international markets.

The fall in the price of gold during 1980-81 occurred despite lower supplies and need to be attributed to even greater fall in demand for gold. The use of gold for jewellery and for hoarding and investment seems to have dropped sharply. The available information indicates that the supply of gold plunged by over 50 per cent during 1980, while it had increased at a rate of 17 per cent per annum during the preceding three years. Apart from a fall in sales from the communist countries, the monetary authorities of the non-communist world, not only did not augment the supplies as in the recent period, but were net buyers of gold.

The gold price seems to have stabilised around $ 400-450 per ounce for the time being. The tight monetary policies in many industrial countries, the high interest rates in international markets, some slowing down in inflation rates, and the continued strength of the U.S. dollar appear to have weakened sharply the speculative forces in the market, reducing the pressure of demand on gold prices.

ANNEXURE

Developments in Exchange Control

This Annexure covers changes in the RBI's buying and selling rates for the pound sterling during the period July 1, 1980 to end-September 1981 and the transaction rate for the rouble. Besides, important exchange control policy measures taken during the year 1980-81

pertaining to export of gold and jewellery, amendments to the existing foreign travel schemes, the blanket permit scheme, the import replenishment scheme, etc., are briefly described in the following paragraphs.

The Reserve Bank's buying and selling rates for the pound sterling were changed from time to time from July 1, 1980, as detailed below in view of the fluctuations in exchange rates for major international currencies.

R.B.I.'s Spot Rates for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rs. per £1	£ per Rs. 100/-	Rs. per £1	Rs. per £1
30- 6-1980	5.4645	18.30	5.4348	18.40	18.35
8- 7-1980	5.4348	18.40	5.4054	18.50	18.45
28- 7-1980	5.4054	18.50	5.3763	18.60	18.55
30- 7-1980	5.4348	18.40	5.4054	18.50	18.45
31- 7-1980	5.4496	18.35	5.4201	18.45	18.40
1- 8-1980	5.4645	18.30	5.4348	18.40	18.35
7- 8-1980	5.4348	18.40	5.4054	18.50	18.45
28- 8-1980	5.4054	18.50	5.3763	18.60	18.55
2- 9-1980	5.3908	18.55	5.3619	18.65	18.60
5- 9-1980	5.3763	18.60	5.3476	18.70	18.65
16- 9-1980	5.4054	18.50	5.3763	18.60	18.55
23- 9-1980	5.3763	18.60	5.3476	18.70	18.65
29- 9-1980	5.4054	18.50	5.3763	18.60	18.55
14-10-1980	5.3763	18.60	5.3476	18.70	18.65
21-10-1980	5.3476	18.70	5.3191	18.80	18.75
24-10-1980	5.3191	18.80	5.2910	18.90	18.85
10-11-1980	5.3476	18.70	5.3191	18.80	18.75
11-11-1980	5.3763	18.60	5.3476	18.70	18.65
24-11-1980	5.4201	18.45	5.3908	18.55	18.50
22-12-1980	5.3619	18.65	5.3333	18.75	18.70
29-12-1980	5.3191	18.80	5.2910	18.90	18.85
6- 1-1981	5.2493	19.05	5.2219	19.15	19.10
21- 1-1981	5.1948	19.25	5.1680	19.35	19.30
27- 1-1981	5.1680	19.35	5.1414	19.45	19.40
2- 2-1981	5.1948	19.25	5.1680	19.35	19.30
3- 2-1981	5.2493	19.05	5.2219	19.15	19.10
13- 2-1981	5.3050	18.85	5.2770	18.95	18.90
16- 2-1981	5.3476	18.70	5.3191	18.80	18.75

R.B.I.'s Spot Rates for Purchases and Sales of Pound Sterling—(*Contd.*)

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rs. per £1	£ per Rs. 100/-	Rs. per £1	Rs. per £1
17- 2-1981	5.3908	18.55	5·3619	18.65	18.60
20- 2-1981	5.2910	18.90	5.2632	19.00	18.95
24- 2-1981	5.4054	18.50	5.3763	18.60	18.55
26- 2-1981	5.4348	18.40	5.4054	18.50	18.45
2- 3-1981	5.5710	17.95	5.5402	18.05	18.00
4- 3-1981	5.5402	18.05	5.5096	18.15	18.10
13- 3-1981	5 4945	18.20	5.4645	18.30	18.25
17- 3-1981	5.4496	18.35	5.4201	18.45	18.40
18- 3-1981	5.3908	18.55	5.3619	18.65	18.60
19- 3-1981	5.3333	18.75	5.3050	18.85	18.80
23- 3-1981	5.4054	18.50	5.3763	18.60	18.55
25- 3-1981	5.3763	18.60	5.3476	18.70	18.65
27- 3-1981	5.4201	18.45	5.3908	18.55	18.50
3- 4-1981	5.4645	18.30	5.4348	18.40	18.35
6- 4-1981	5.5096	18.15	5.4795	18.25	18.20
7- 4-1981	5.5556	18.00	5.5249	18.10	18.05
16- 4-1981	5.6022	17.85	5.5710	17.95	17.90
4- 5-1981	5.6497	17.70	5.6180	17.80	17.75
6- 5-1981	5.6980	17.55	5.6657	17.65	17.60
3- 6-1981	5.7307	17.45	5.6980	17.55	17.50
4- 6-1981	5.8309	17.15	5.7971	17.25	17.20
5- 6-1981	5.9347	16.85	5.8997	16.95	16.90
16- 6-1981	5.8997	16.95	5.8651	17.05	17.00
23- 6-1981	5.8651	17.05	5.8309	17.15	17.10
26- 6-1981	5.8997	16.95	5.8651	17.05	17.00
1- 7-1981	5.9347	16.85	5.8997	16.95	16.90
2- 7-1981	5.9880	16.70	5.9524	16.80	16.75
21- 7-1981	6.0241	16.60	5.9880	16.70	16.65
3- 8-1981	6.0790	16.45	6.0423	16.55	16.50
4- 8-1981	6.1162	16.35	6.0790	16.45	16.40
10- 8-1981	6.1538	16.25	6.1162	16.35	16.30
18- 8-1981	6.0976	16.40	6.0606	16.50	16.45
20- 8-1981	6.0423	16.55	6.0060	16.65	16.60

R.B.I.'s Spot Rates for Purchases and Sales of Pound Sterling—(*Concld.*)

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rs. per £1	£ per Rs. 100/-	Rs. per £1	Rs. per £1
24- 8-1981	6.0060	16.65	5.9701	16.75	16.70
26- 8-1981	6.0423	16.55	6.0060	16.65	16.60
9- 9-1981	6.1162	16.35	6.0790	16.45	16.40
16- 9-1981	6.0241	16.60	5.9880	16.70	16.65
17- 9-1981	5.9880	16.70	5.9524	16.80	16.75
24- 9-1981	6.0423	16.55	6.0060	16.65	16.60
28- 9-1981	6.1162	16.35	6.0790	16.45	16.40

The Rouble-Rupee Exchange Rate

In terms of the protocol between India and the U. S. S. R. of November 25, 1978, providing for periodical adjustments in the Rouble-Rupee exchange rate, in respect of credit agreements and commercial transactions, the rate which was Rouble 1 = Rs. 9.6378 as on June 30, 1980 was revised during the year under review as follows: Rouble 1 = Rs. 9.3407 effective November 10, 1980, Rouble 1 = Rs. 9.7396 effective February 26, 1981, Rouble 1 = Rs. 9.4189 effective March 14, 1981, Rouble 1 = Rs. 9.7074 effective March 22, 1981, Rouble 1 = Rs. 9.4137 effective April 19, 1981, Rouble 1 = Rs. 9.7247 effective September 10, 1981 and Rouble 1 = Rs. 10.0259 effective September 24, 1981.

Exchange Rates for Merchant Business

In terms of the Exchange Control Manual, authorised dealers are required to abide by guidelines issued by the Foreign Exchange Dealers' Association of India (FEDAI) in regard to rates and other terms of business quoted to merchants and the public in currencies other than the pound sterling. However, in the context of the FEDAI not having been able to formulate viable guidelines for regulating customer rates, the Reserve Bank decided to regulate foreign exchange rates quoted by banks for customer TT business in certain specified currencies with a view to bringing about an overall reduction in the cost of foreign exchange business to exporters and importers. Accordingly, with effect from October 15, 1980, authorised dealers in foreign exchange are required to quote TT selling and TT buying rates within the spread limits indicated below:

Currency	Maximum spread between customer rates for ready clean TT business from the mean TT rate (taking both sides together)
U. S. Dollars	1.00 per cent
Deutsche marks, Japanese yen, French francs, Swiss francs, Dutch guilders and Australian dollars	2.50 per cent

Though no limit has been prescribed for other currencies, authorised dealers are required to keep the rate spreads to the minimum. They are advised that the rates for business other than TT should as usual, be subject to considerations of interest rate and transit period. It is hoped that the regulation will not only help exporters and importers but also further strengthen the inter-bank foreign exchange market in India.

In order to enable the trading community and members of the public to put through their foreign exchange business at fine rates, authorised dealers have been advised to quote, at all times, on enquiry from the public, rates for both the purchase and the sale of exchange without insisting on the nature of transaction being revealed.

Taking out Gold Jewellery and Precious Stones

The special facility available to foreign nationals (other than Pakistani nationals), returning to their own countries, to take their bonafide personal jewellery with them was reviewed. Accordingly, from July 22, 1980 the value of such jewellery to be taken out of India is restricted to Rs. 25,000 as in the case of Indian nationals emigrating from India or proceeding to a country other than Pakistan on a long term basis. Prior to this amendment, foreign nationals were permitted to take out jewellery without limit.

Scheme for Export of Gold Jewellery against Gold supplied by Foreign Buyers

A new scheme for export of gold jewellery was introduced with effect from October 14, 1980. Under the Scheme, the export of gold jewellery is permitted only if the gold required for the manufacture of articles/jewellery is supplied free of charge by foreign buyers and there is no net export of gold from India. The export of jewellery (including studded articles) is allowed provided the value added to the gold content in the export (at the price notified by the Handicrafts and Handlooms Export Corporation of India Ltd., Delhi for this purpose) including the value of other items namely stones, gems, pearls and other precious metals, if any, used in the manufacture of jewellery (articles) is 15 per cent or more. Exports under the Scheme are subject to compliance with the normal GR/EP procedure and permissible only by air freight through the Custom Houses at Bombay, Calcutta, Madras and Delhi. Exports to countries in the Bilateral Group, however, are not permitted under this Scheme. The Scheme covers export orders received by the Handicrafts and Handlooms Export Corporation of India Ltd., either directly or through their eligible associates.

Blanket Permit (Reserve Bank) Scheme

Under the Blanket Permit (Reserve Bank) Scheme, the Reserve Bank used to issue blanket permits to Export Houses and other exporters whose annual turnover of products, included in the 'Select List' of export products, amounted to not less than Rs. 10 lakhs or that of all other products amounted to not less than Rs. 50 lakhs. With a view to extending this facility to smaller exporters and to encourage exporters to intensify their export promotion efforts, the Reserve Bank lowered the minimum export turnover requirement effective January 1, 1981, to Rs. 5 lakhs of 'Select List' export products and Rs. 25 lakhs of 'Non-Select List' export products. The minimum exchange allotment in this regard was raised to Rs. 1,00,000/- as against Rs. 75,000/- hitherto. The modified Blanket Permit Facility is applicable also to exporters functioning in Export Processing/Free Trade Zones.

Exporters who enjoy the Blanket Permit (Reserve Bank) Scheme facility and who also undertake export of machinery etc., under project exports are permitted subject to post-facto scrutiny, remittances through the blanket exchange permits, towards miscellaneous unforeseen expenses such as consultation charges, demurrage claims and inland transportation expenses while undertaking exports from India.

Import Replenishment Scheme

Effective December 1, 1980, the Import Replenishment Scheme for registered exporters was further liberalised by extending the benefit of the Scheme to sales of certain consumer electronic items, disc records, books/stationery, stainless steel utensils/cutlery to foreign tourists in India.

Financing of Merchanting Trade by Indian Intermediaries

Authorised dealers were hitherto required to obtain specific approval of the Reserve Bank for opening letters of credit or for making remittances on account of intermediaries in India, for financing the purchase of goods abroad for onsale abroad. To enable merchants to strike the deals quickly, authorised dealers are permitted effective March 3, 1981, to approve merchanting trade transactions without prior approval of the Reserve Bank subject to their satisfying certain terms/conditions and submitting post-facto reports to the Reserve Bank. Authorised dealers are now also permitted to extend forward cover facilities to these merchants in respect of the relevant transactions.

Ordinary Non-Resident Accounts of Indian Nationals and Persons of Indian Origin

As a measure of further simplification of operational procedures regarding ordinary rupee accounts of non-resident Indian nationals and persons of Indian origin, effective March 16, 1981, authorised dealers have been permitted to effect debits in such accounts as follows :

(*a*) All payments, irrespective of the amount, towards local disbursement, other than payments towards investments in India and booking of International passages, may be freely permitted subject to each payment amounting to Rs. 10,000/- and over being reported to the Reserve Bank.

(*b*) All payments towards investments in units of the Unit Trust of India, National Plan/Savings Certificates and securities of the Central and any State Government may be made freely.

Visit to Pakistan under Foreign Travel Scheme

With effect from October 8, 1980, persons eligible to travel under the Foreign Travel Scheme and proceeding to Pakistan are entitled to obtain the exchange quota of US$ 500 or its equivalent.

Special Travel Scheme-Neighbourhood Travel Scheme

The Reserve Bank introduced a new travel scheme to be known as the Neighbourhood Travel Scheme, with effect from January 1, 1981. Under this Scheme, persons resident in India visiting Sri Lanka, Pakistan, Bangladesh, Burma, Malaysia, Maldive Islands, Mali, Mauritius and Seychelles Islands, can get exchange release upto U. S. $ 250 or its equivalent per person once in a biennium consisting of two calendar years. With the introduction of the new Scheme, the existing Mauritius Travel Scheme and special exchange facilities available for private visits to Sri Lanka and Bangladesh have been abolished.

The Foreign Travel Scheme under which persons visiting any country (including the neighbouring countries covered by the new Scheme) in the world, other than Nepal, Bhutan and South/South West Africa, receive an exchange release of U. S. $ 500, once in two calendar years, continues to be in force.

Sale of exchange towards incidentals to students going abroad on full scholarship/assistantship

The Reserve Bank enhanced, with effect from March 12, 1981, the limit of exchange release from U. S. $ 500 to U. S. $ 750 towards pre-session (settling-in period) and initial equipment allowance, in the case of students who have secured admission in foreign universities with full scholarship/assistantship.

Purchases by Tourists

Consequent upon amendment to Export Baggage Rules, bonafide foreign tourists visiting India are from April 1981 allowed to take out of India, without complying with GR/EP/PP form formalities, articles purchased with foreign exchange or rupees acquired by sale of foreign exchange for value not exceeding Rs. 20,000/- instead of Rs. 10,000/- as hitherto. The baggage rules also permit taking out of silverware upto a limit of Rs. 200/- per head subject to the limit of Rs. 400/- per family within the overall aforesaid limit of Rs. 20,000/- The Reserve Bank will not entertain any applications from tourists for issue of GR/EP/PP form waiver for taking out of silver articles.

Rupee Accounts of banks in Pakistan and China

In view of the gradual normalisation of trade and economic relations between India and Pakistan/China and the permission granted for making remittances to these countries to the extent generally or specially authorised by the Reserve Bank from time to time, it was clarified vide Exchange Control Department's circular dated February 2, 1981 that authorised dealers could open rupee accounts in their books in the names of their branches/correspondents in Pakistan/China without prior reference to the Reserve Bank provided such accounts are used for financing transactions which are permissible in terms of the provisions contained in the Exchange Control Manual and the instructions issued by the Reserve Bank from time to time. It is, however, necessary for authorised dealers to seek

the directions of the Reserve Bank before opening accounts in the names of branches of Pakistani and Chinese banks operating outside Pakistan and China, respectively.

Opening of full-fledged Offices of the Exchange Control Department

With effect from May 1, 1981, the Exchange Control Cell at Gauhati has been upgraded as a full-fledged office to deal with all matters relating to the exchange control. Full-fledged offices of the Department have also been opened at Bhopal from July 1, 1981 and at Srinagar from August 1, 1981.

Authorised Dealers in Foreign Exchange

The Reserve Bank of India granted licences to deal in foreign exchange in India to : (*i*) the Jammu and Kashmir Bank Ltd., Srinagar, (*ii*) the European Asian Bank, Hamburg, (*iii*) the Emirates Commercial Bank, Ltd., UAE and, (*iv*) the Bank of Oman Ltd., U. A. E. These banks have been permitted to undertake all types of foreign exchange transactions in all permissible currencies. With the addition of these four banks to the list of ADs, the total number of dealers authorised to deal in foreign exchange in India has increased to 67.

APPENDIX—I

IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS

APRIL 1980-MARCH 1981

A. CHANGES IN EXPORT CONTROL

Sr. No.	Item	Month of Announcement	Details
	1	2	3
1.	Barytes	May 1980	Export of barytes (lumps and powder) OCMA grade (with 4.20 specific gravity) was allowed to be made by (i) the MMTC and (ii) mineowners to the extent not exceeding their own production. Such exports were permitted to all destinations, subject to floor price restrictions, as follows: (a) Barytes powder OCMA grade (with 4.20 specific gravity) —US $ 65 per tonne (f.o.b.) (b) Barytes lumps OCMA grade (with 4.20 specific gravity) —US $ 44 per tonne (f.o.b.) Barytes below OCMA grade was not allowed for export.
		August 1980	Chemical grade barytes powder/white/snow-white/super snow-white barytes which were hitherto canalised through the MMTC, were allowed 'on merits'.
		January 1981	The floor prices were revised as follows: (a) Barytes powder OCMA/API grade (with 4.20 specific gravity) —US $ 67.00 per tonne (f.o.b.) (b) Barytes lumps OCMA/API grade (with 4.20 specific gravity) —US $ 42.00 per tonne (f.o.b.)
2.	Gold jewellery—scheme for export of gold jewellery against gold supplied by foreign buyer.	October 1980	A new scheme for export of gold jewellery against gold supplied by foreign buyer was announced to replace the earlier gold jewellery export replenishment scheme which was suspended in January 1980. The most significant feature of the new scheme is that it will not involve any import of gold for distribution among the manufacturers of gold jewellery for export as was provided under the earlier scheme. Instead, the new scheme provides that the entire gold content required for the manufacture of the permissible items of gold jewellery will have to be supplied in advance to the manufacturer by the foreign buyers. Briefly, the salient features of the new scheme are as under:— The scheme provides for export of gold, ornaments and articles (other than coins), including studded ones, of a gold purity not less than 0.5833 fineness which corresponds to 14 carats. Export of gold ornaments and articles would be allowed against gold supplied, free of charge, in advance by the foreign buyer concerned, to the extent of the quantity of the gold used in the manufacture of the items to be exported. Export orders should, therefore, provide for the supply of gold, free of charge, by the foreign buyer to the extent required. Such gold should be received in any case, before the export of ornaments or articles is allowed. Export orders should provide for payment of manufacturing and other costs involved, either by means of an irrevocable letter of credit or payment on cash-on-delivery basis, or advance payments in foreign exchange received through the authorised dealers (banks). A minimum value added of 15 per cent over the value of gold content in the export item would be insisted upon in respect of exports under the scheme. Exports under the scheme would not be eligible for any other incentive.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
			The Handicrafts and Handloom Export Corporation of India Ltd. (HHEC) is the agency authorised to operate the scheme. The articles to be exported under the scheme will be manufactured out of the gold procured from the domestic market. After the exports have been made and the gold content used in the exported items verified, the HHEC will obtain the requisite quantity of gold from the mint for the purpose of replenishment. The entire transactions under the scheme will be subject to all the provision of the gold control law.
3.	Guar gum and guar meal	May 1980	Export of guar gum having protein content of 9% or less, was further liberalised. Such export which was hitherto allowed freely subject to obtaining a licence was put under OGL-3 which does not require a licence.
4.	Hides and skins, semi-processed	April 1980	Export of all categories of semi-processed hides and skins including EI tanned and wet blue hides and skins and crust leather were continued to be canalised through the STC, but the quotas in respect of the individual categories of hides and skins were further reduced as indicated below: (a) In respect of cow hides, a 20 per cent cut on quotas on the first 20,000 pieces and a 35 per cent cut on the balance. (b) In respect of buffalo hides, a uniform cut of 20 per cent on all quotas. (c) In respect of cow/buffalo calf skins, quotas upto 20,000 pieces were cut down by 20 per cent and those above 20,000 pieces were subjected to a cut of 20 per cent on the first 20,000 pieces and a 35 per cent cut on the remainder. (d) In case of sheep and goat skins, quotas upto 1,00,000 pieces were reduced by 35 per cent, and quotas above 1,00,000 pieces were reduced by 35 per cent on the first 1,00,00 pieces and by 55 per cent on the balance portion.
5.	Human skeletons	August 1980	Export of human skeletons and parts thereof was allowed by Port Licensing Authorities on the production of certificates from (1) Police Authorities indicating source of procurement and quantity, by weight or by number, for export and (2) the foreign buyer stating that the human skeletons were required only for biological and medical purposes; export of other skeletons was allowed 'on merits'.
6.	Iron and steel	April 1980	Export of iron and steel, other than cast iron pipes and fittings, continued to be canalised through SAIL (International) Ltd. Export of alloy steels, hitherto allowed 'on merits', was banned.
		May 1980	Export of blooms and slags and rolled/cast billets, bars and wire-rods, hitherto canalised through SAIL (International) Ltd., was banned.
7.	Marine products	June 1980	Export of fresh and frozen silver pomfrets of weights of 500 grams and above which was hitherto subject to a quantitative ceiling, was allowed freely without any ceiling; export of such pomfrets weighing less than 500 grams was banned.
		January 1981	Export of fresh and frozen silver pomfrets of weights of 300 grams and above but less than 500 grams was allowed subject to a ceiling; but export of pomfrets weighing less than 300 grams was banned.
			Export of fresh/frozen prawns was allowed under OGL-3.
8.	Mustard seeds/rape-seeds	April 1980	Export of mustard/rape seeds, which was hitherto allowed in small quantities subject to ceilings to parties for personal consumption and not for commercial sale, was allowed 'on merits'.
9.	Mustard oil/rapeseed oil	April 1980	Export of mustard oil was permitted 'on merits' to parties for personal consumption and not for commercial sale while export of rapeseed oil was banned.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
10.	Mica	September 1980	Export of mica flake and powder was continued to be allowed subject to minimum f.o.b. and f.a.s. prices which were fixed on the basis of mesh specification. The minimum f.o.b. and f.a.s. prices ranged from Rs. 1,000/- per tonne (for 2 to less than 20 mesh specification) to Rs. 1,600/- per tonne (for 300 and above mesh specification.)
11.	Mutton (sheep meat)	October 1980	The ban on export of mutton which was imposed on February 7, 1980 was lifted with effect from October 25, 1980 and export of meat of Indian sheep, including the organs thereof, was allowed subject to a minimum export price of Rs. 16/- per kg. f.o.b. and a month to month quantitative ceiling.
12.	Compound cattle and poultry feeds	December 1980	The ban on the export of compound cattle feed and poultry feed which was imposed in April 1980, was lifted with effect from December 29, 1980 and their export was permitted within a ceiling.
13.	Rice	June 1980	Export of Basmati rice was allowed as before under OGL-3 subject to a minimum export price (MEP) of Rs. 5,500/- per tonne. Export of fine and superfine varieties of rice (non-Basmati) was allowed within a ceiling subject to a MEP of Rs. 2,750/- per tonne by the undernoted agencies: (i) Food Corporation of India (FCI) (ii) National Agricultural Co-operative Marketing Federation of India Ltd. (iii) State Trading Corporation (STC) (iv) Andhra Pradesh State Trading Corporation (v) Haryana Co-operative Marketing Federation (vi) Punjab Civil Supplies Corporation (vii) Tamil Nadu Civil Supplies Corporation. STC had to obtain rice for exports from FCI or any of the other specified public agencies and could not resort to open market purchases. In respect of State-based agencies it was stipulated that the rice to be exported was procured from within the State to which the agency belonged. Export of coarse rice was allowed only through FCI without any MEP restriction.
		July 1980	In partial modification of the earlier policy, the other public sector agencies (i.e. other than FCI) were also permitted to export coarse rice provided the stocks for export were procured from within their own States.
		August 1980	Two more agencies viz. M.P. Export Corporation and Mysore Sales International were permitted to export coarse rice and fine and superfine varieties of non-Basmati rice in addition to the seven agencies mentioned above.
		September 1980	U.P. Export Corporation and National Consumers' Co-operative Federation Ltd. were also authorised to export rice. It was clarified that export of rice by the National Agricultural Co-operative Marketing Federation of India Ltd. and the National Consumers' Co-operative Federation Ltd. would be subject to the condition that rice for export by these agencies was procured from the FCI/State Governments/one of the other authorised agencies/co-operative agencies.
14.	Rosewood	May 1980	Export of rosewood in log and sawn sizes, both of veneer and non-veneer qualities, which was hitherto allowed within a limited ceiling, was banned.
15.	Sesame seed oil	April 1980	The export of sesame seed oil, which was banned in 1979-80, was permitted 'on merits'.
16.	Silver	June 1980	Export of certain handicraft items (such as zari embroidered articles, zari bangles and inlay work on wood, silver-plated or inlaid handicraft products of copper, brass, bronze, bidri and bell metal, etc.) having silver content not exceeding 10 per cent of the f.o.b. value and/or 10 per cent by weight of the manufactured products, was allowed under OGL-3.
17.	Sugar	February 1981	Export of sugar was banned.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
18.	Sillimanite	June 1980	Export of granular sillimanite produced by India Rare Earths Ltd. and Kerala Minerals and Metals Ltd. was continued to be allowed within a limited ceiling on the recommendation of the Department of Atomic Energy.
			Export of all other types of sillimanite was banned.
19.	Tobacco (Unmanufactured)	April 1980	Export of different grades of flue-cured virginia, sun-cured virginia, sun-cured 'natu' (country) tobacco and sun-cured jutty tobacco was allowed under OGL-3, subject to minimum f.o.b. prices; export of other grades of tobacco was free from minimum price stipulations.
		May 1980	Tobacco exporters were required to produce certificates from the Tobacco Board in respect of tobacco subject to minimum export prices that the prices at which export was being made were not lower than the minimum stipulated and that in respect of other grades these did not attract the minimum price stipulation.
20.	Woollen yarn	July 1980	Export of yarn, both carpet as well as non-carpet varieties made from indigenous wool, and carpet yarn made from imported wool and shoddy yarn, was banned.

B. COMMODITIES SUBJECT TO EXPORT DUTY DURING 1980-81

Sr. No.	Item	Rate of duty as on March 31, 1981	Changes during the year		Effective Date
			From	To	
	(1)	(2)	(3)	(4)	(5)
1.	Coffee$	Rs. 1.50 per kg.	Rs. 5.70 per kg. Rs. 7.00 per kg. Rs. 5.00 per kg. Rs. 2.60 per kg.	Rs. 7.00 per kg. Rs. 5.00 per kg. Rs. 2.60 per kg. Rs. 1.50 per kg.	May 28, 1980 July 17, 1980 August 14, 1980 December 1, 1980
2.	Cardamom*	Rs. 5.00 per kg.	Rs. 15.00 per kg.	Rs. 5.00 per kg.	June 20, 1980
3.	Turmeric				
	(*i*) Whole turmeric	NIL	Rs. 2,000 per tonne	NIL	November 11, 1980
	(*ii*) Turmeric Powder	NIL	Rs. 1,500 per tonne	NIL	November 11, 1980
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. 550.00 per tonne	No change		October 14, 1966
	(*ii*) Bengal Deshi	Rs. 2,500 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. 1,000 per tonne	No change		January 12, 1979
6.	Cotton waste				
	(i) Soft cotton waste	25 per cent *ad valorem*	No change		August 17, 1966
	(ii) Cotton Waste (others).	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 5½ and 6 and mica mixed torn loose grade numbers 5 and 5½	15 per cent *ad valorem*	No change		January 1, 1973
	(*ii*) Mica splittings of all grades other than those specified against Sr. No. 8(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. 8(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.	(*i*) Hides and skins and leather, tanned and untanned, all varieties excluding leather manufactures, finished leather of goat, sheep and bovine animals and their young ones and tanned hides of bovine animals not including calf skins	25 per cent *ad valorem*	No change		May 1, 1976
	(*ii*) Semi-finished leather.	15 per cent *ad valorem*	25 per cent *ad valorem*	15 per cent *ad valorem*	January 1,1981

Sr. No.	Item	Rate of duty as on March 31, 1981	Changes during the year		Effective Date
			From	To	
	(1)	(2)	(3)	(4)	(5)
10.	Groundnuts				
	(*i*) Groundnuts in kernel	Rs. 3,000 per tonne	Rs. 1,500 per tonne	Rs. 3,000 per tonne	January 9, 1981
	(*ii*) Groundnuts in shell ..	Rs. 2,250 per tonne	Rs. 1,125 per tonne	Rs. 2,250 per tonne	January 9, 1981
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 1 per cent oil)	Rs. 125 per tonne	No change		June 6, 1966
12.	Jute manufactures (Hessian cloth and bags)	NIL	Rs. 1,000 per tonne	NIL	September 8, 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.	(*a*) 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 valorem*	No change		August 2, 1966

Sr. No.	Item	Rate of duty as on March 31, 1981	Changes during the year		Effective Date
			From	To	
	(1)	2)	(3)	(4)	(5)
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 content 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			
	(iii) Lumpy ore with Cr_2O_3 content 35 per cent and above but below 42 per cent	Rs. 75 per tonne			
	(iv) Low grade lumpy ore 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

$ Subsequently, the duty was totally abolished on June 19; but was reimposed at the rate of 75 paise per kg. on August 21 and was once again abolished on September 10, 1981.

* Duty on cardamom was removed with effect from May 20, 1981.

@ Duty on lumpy iron ore with iron content 63 per cent or above was reduced from Rs. 10.50 per tonne to Rs. 6.00 per tonne with effect from May 20, 1981.

\+ Chromite concentrates produced by beneficiation of low grade chromite ore has been exempted from export duty to encourage export of low grade chromite in the form of concentrates produced by this process.

APPENDIX—II

A—IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY

APRIL 1980—MARCH 1981

Sr. No.	Item	Month of Announcement	Details
	(1)	(2)	(3)
1.	Open General Licence No. 1*@	April 1980	Permission was granted for the import of raw materials, components and consumables, other than those in the banned or restricted lists, by actual users (industrial) for their own use, subject to the conditions that (*i*) for the import of man-made fibres, tow and yarns, contracts should have been registered with the Textile Commissioner in advance, (*ii*) man-made fibres, tow and yarns can be imported by the State Chemicals and Pharmaceutical Corporation of India for distribution to actual users (industrial), (*iii*) for import of caprolactum the import contract is registered with the Department of Petroleum of the Ministry of Petroleum, Chemicals and Fertilisers, (*iv*) in the case of import of woollen rags/shoddy wool, the goods are completely mutilated and (*v*) in respect of imports of pesticides, weedicides and insecticides, the importer should intimate the Department of Agriculture (plant protection division), within seven days of clearance of goods, the details of quantity and c.i.f. value of each consignment.
2.	Open General Licence No. 2@	April 1980	Permission was granted for the import of Capital Goods, as specified in Appendix 2 of the Import Policy 1980-81, by industrial and non-industrial actual users for their own use, provided that (*i*) the value of the items to be imported is Rs. 10 lakhs or less, (*ii*) such imports are new manufactures, and not second-hand or reconditioned goods, (*iii*) imports do not involve deferred payment terms and (*iv*) the actual user has given adequate notice of his requirements to domestic suppliers if any, in line with the procedure laid down for advertisement of the goods proposed to be imported.
3.	Open General Licence No. 3*@	April 1980	Industrial and non-industrial actual users were permitted to import for their own use permissible spares (*i.e.* spares not included in the banned lists) required 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, 1980. However, import of permissible spares for computer systems will be limited to 3% of the c.i.f. value of imported computers or ½ % of the purchase price of indigenously manufactured computer systems, the c.i.f. value or the purchase price to be certified by a Chartered/ Cost Accountant or the concerned sponsoring authority.
4.	Open General Licence No. 4	April 1980	Permission was granted for the import of the following items: (*i*) free gifts of trade catalogues and circulars upto a value of Rs. 2,000, (*ii*) blue-prints and 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 and not exceeding a c.i.f. value of Rs. 10,000 in one consignment. However, vegetable seeds, bees, tea and new drugs will not be covered by this provision, (*iv*) bonafide advertising material supplied free of charge of c.i.f. value Rs. 2,000/- or less, (*v*) goods supplied free of charge by foreign suppliers or imported against an insurance (marine) claim or in replacement of goods found defective, damaged or otherwise unfit for use, (*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 whose c.i.f. value does not exceed Rs. 10,000 on the recommendation of the Drugs Controller, (*viii*) human vaccines and sera, animal including poultry vaccines supplied free of charge or on payment, on clearance obtained from the Drugs Controller, or the State Director/Commissioner of Animal Husbandry and (*ix*) technical and trade samples of insecticides supplied free of charge on approval of the Central Insecticides Board.

Sr. No.	Item	Month of Announcement	Details
	(1)	2	(3)
5.	Open General Licence No. 5	April 1980	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 raw materials, components, consumables, machinery, equipments, instruments, accessories and spares (except consumer goods), required by them, provided they satisfy the "actual user" condition and furnish to the concerned authorities, within 30 days of clearance of the goods from Customs, particulars of goods having a value of Rs. 1 lakh or more.
6.	Open General Licence No. 6	April 1980	Designated Public Sector (canalising) Agencies were permitted to import specified goods as listed in Appendices 8 and 9 of the Import Policy, 1980-81, subject to the condition that (*i*) the goods are imported against the foreign exchange released for the purpose, and (*ii*) the imported items are distributed as per the procedure stipulated in the Import Policy document.
7.	Open General Licence No. 7@	April 1980	Actual users (industrial) were granted permission to import for their own use jigs, fixtures, moulds (including moulds for die casting) and press tools (other than banned)provided these were new manufactures and not re-conditioned or second hand goods and did not involve deferred payment.
8.	Open General Licence No. 8	April 1980	Permission was granted to Oil & Natural Gas Commission and Oil India Ltd. for the import of all items of raw materials, components, consumables, machinery, equipment, instruments, accessories and spares (except consumer goods) for their own use against foreign exchange released for the purpose by Government, subject to clearance from the DGTD/Electronics Commission.
9.	Open General Licence No. 9	April 1980	Air India, Indian Airlines and other members of the IATA were granted permission for importing spares, consumables (excluding greases and lubricants covered by Appendix 9 to the Import Policy for 1980-81) aircraft tyres and tubes, manuals, technical drawings, illustrations and other technical literature, etc. for their own use and pertaining to the fleet of aircrafts operated and maintained by them and the associated test and training equipments.
10.	Open General Licence No. 10	April 1980	Import of drugs and medicines, medical (including surgical, optical and dental) instruments, apparatus, appliances, replacement parts, accessories thereof and dental material, sutures and needles for surgical purposes, X-ray intensifying screens, scientific and measuring instruments and chemicals, spare parts of motor vehicles, agricultural tractors and testing instruments required by licensed radio amateurs was allowed provided that the imports were made by specified eligible importers and within specified value limits, laid down for each category of eligible importers. Details of eligible importers, the purpose of import and the value ceiling limit were indicated in the schedule attached to the notification.
11.	Open General Licence No. 11	April 1980	Integrated steel plants, mini-steel plants and electric arc furnaces were granted permission to import (*i*) stopper heads and nozzles and (*ii*) copper moulds (for continuous billet casting), subject to their complying with the "actual user" condition.
12.	Open General Licence No. 12	April 1980	Permission was granted for the import of any goods by Government Departments (State or Central) or projects under their ownership or control, provided these were imported free of cost under agreements concluded between the Government of India and foreign Governments; these imports are to be in accordance with the provisions laid down in the relevant agreement. In terms of this OGL, 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 that the imports, except consumables, were re-exported at the time of departure of the foreign expert from India.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
13.	Open General Licence No. 13	April 1980	Import of machinery, equipment, testing apparatus, tools and implements required by Registered Exporters of gem and jewellery and co-operative societies of goldsmiths and artisans were allowed subject to their satisfying the "actual user" condition.
14.	Open General Licence No. 14	April 1980	(1) Permission was granted to Departmentally-run Government industrial undertakings and Railways for the import of raw materials, components, consumables and spares against foreign exchange released for the purpose, subject to the clearance from the DGTD in respect of the banned items and of the Department of Electronics in the case of electronic goods of the c.i.f. value of Rs. 5 lakhs and above. (2) State Electricity Boards/Projects/Undertakings in the Public Sector were permitted to import against foreign exchange released for the purpose, spares under this licence. In the case of non-permissible spares a clearance from the DGTD and in the case of electronic items with a c.i.f. value of Rs. 5 lakhs and above a clearance from the Department of Electronics would be required. (3) Public Sector industrial undertakings under the Defence Ministry were allowed to import raw materials, components, consumables and spares. R & D units under the Ministry of Defence were permitted to import raw materials, components, consumables, machinery, equipments, instruments, accessories and spares. Imports by any unit under this provision will be subject to the value limits of the foreign exchange allocated to it by the Defence Ministry for the purpose during the year 1980-81.
15.	Open General Licence No. 15+	April 1980	General permission was granted for import of certain items listed in the schedule attached to this notification, subject to the conditions laid down for each item. The items specified include teaching aids, books—educational and scientific, medicines, instruments and equipments required for the blind, wattle bark for tanning leather, pickled, raw or salted hides and skins, finished drugs, life saving and anti-cancer drugs, homeopathic medicines, other crude drugs required for making ayurvedic and unani medicines, family planning instruments, appliances and equipments, pulses, dry fruits excluding cashewnuts, spices, rock salt, X-ray and other films, brass scrap/ash/dross, copper scrap, lead scrap, zinc/zinc alloy and scrap, gum arabic, viscose filament yarn, cupramonium filament yarn, educational/instructional films, photographic films and colour papers, spares for printing machines, machine tools, cinematographic equipment and certain earth moving machinery.
16.	Open General Licence No. 16*@	April 1980	Permission was granted for the import of (*i*) poultry vaccines (all types) by poultry farms/hatcheries approved by the Department of Agriculture, (*ii*) high-grade molybdenum ore and molybdenum metal (including scrap)/molybdic oxide/molybdenum oxide, (*iii*) used scrap rubber tyres, (*iv*) nylon waste and (*v*) paper waste required by industrial units provided that: (*a*) the importer of poultry vaccines complies with the "actual user" condition and furnishes a certificate regarding the essentiality of the material (description/quantity/value) from the Director of Agriculture or the State Director of Animal Husbandry /Veterinary Services at the time of clearance of the goods from customs, (*b*) used/scrap rubber tyres and nylon waste will be allowed to be imported only by actual users (industrial) engaged in reclaiming rubber or caprolactum as the case may be and the imported rubber tyre has at least one cut and (*c*) paper waste will be allowed to be imported only by actual users (industrial) engaged in the manufacture of pulp, paper and paper boards.
17.	Poultry Stock	May 1980	The provision for considering applications for import of grand parent poultry stocks by import based hatcheries as incorporated in the import policy for 1980-81 was discontinued.

Sr. No.	Item	Month of Announcement	Details
	(1)	(2)	(3)
18.	Chemical Items, Alternators/ Generators	May 1980	(1) "Diosgenin" and "Alternators/Generators" were included in the list of restricted items. (2) The State Chemicals and Pharmaceuticals Corporation of India was designated as the canalising agency for import of (*a*) Meta-dinitro-benzene, (*b*) orthonitrochloro benzene and (*c*) Paranitro-chloro benzene. These items were previously included in the list of restricted items.
19.	Import of canalised items against REP licences	June 1980	Registered exporters were allowed to import 25 per cent of their requirement of canalised items (petroleum, chemicals, fertilisers) against REP licences without the prior sanction of the C.C.I. & E. provided they gave a declaration that the goods were needed in the manufacture of the export products. For the balance 75 per cent they were required, as in the past, to obtain the C.C.I. & E.'s prior permission.
20.	Free import of goods for re-export	June 1980	Requests for import of goods free of cost on a customs clearance permit were considered on merits provided such goods were for re-export after jobbing, repair, servicing, re-conditioning or processing in India.
21.	Changes in the restricted and banned lists	June 1980	(1) Office machines were removed from the banned list. (2) Betahydroxy Napthoic acid (BON acid) and Bimetal bearings were transferred from the OGL to the restricted list. (3) Copper Beryllium strips were shifted from the banned to the restricted list.
22.	Facilities to Manufacturer Exporters	July 1980	Manufacturer exporters were allowed to import for their own use against REP licences, over and above the regular shopping list, certain other items featuring in the banned, canalised and restricted lists. This list of additional items was amended to exclude: (*i*) components/modules of electronic watches appearing in the list of canalised items (Appendix 8), (*ii*) all canalised items mentioned in Appendix 9 and (*iii*) all items appearing in the list of absolutely banned imports, i.e. Appendix 4 of the Import Policy document.
23.	Electronic Watches	July 1980	Modules of electronic watches of all types and their components were removed from the list of banned items (Appendix 3) and were included in the list of canalised imports (Appendix 8). Semiconductor Complex Ltd. (S.C.L.) was designated as the canalising agency for the import of the above-mentioned items. In addition, the SCL was also permitted to import the following components for electronic watches : (*i*) all types of large-scale integrated circuits/devices/ chips for use in watches and clocks, (*ii*) liquid crystal display, (*iii*) quartz crystal and (*iv*) stepper motor.
24.	Cocoa, beans and powder	July 1980	Import of cocoa—both beans and powder—was canalised through the State Trading Corporation of India.
25.	Change in the lists of banned and restricted items	July 1980	(1) Import of cresylic acid and mixed cresols (both medical and technical grades) and cresol ortho/meta/para with purity less than 97% which was earlier restricted was banned. (2) Benzaldehyde was removed from the OGL list and included in the list of restricted items (Appendix 5).
26.	Open top sanitary cans	August 1980	"Open top sanitary cans" was included in the list of items eligible for import under the Duty Exemption Scheme (Appendix 19).
27.	Export houses allowed to import consumables	August 1980	Export Houses were allowed to import consumables against REP and additional licences under O.G.L. in addition to raw materials, components and spares (other than those in the restricted list). The consumables so imported would have to be disposed of only to eligible actual users.
28.	Modification of the definition of small-scale industries	August 1980	The eligibility criterion for small-scale and ancillary units which is determined on the basis of capital investment was liberalised, raising the required capital investment limit from Rs. 10 lakhs and Rs. 20 lakhs to Rs. 20 lakhs and Rs. 25 lakhs, respectively.

Sr. No.	Item	Month of Announcement	Details
	(1)	(2)	3)
29.	Import of Capital Goods as spares	August 1980	Import of 11 items of capital goods *viz*.. compressors, electric motors, pumps, complete gear boxes, complete engines, transformers, alternators/generators, outboard motors, complete instruments (other than those specified in the list of banned imports), high pressure cylinders and circuit breakers, when required to be imported as spares, would be treated as non-permissible spares and allowed to be imported against import licences for non-permissible spares. The value limit of Rs. 50,000 fixed for a single item of non-permissible spare would however, not apply to import of these eleven items, provided, not more than one piece each is imported and the import is within the overall value of the licence meant for the import of non-permissible spares.
30.	Diphenylamine, musk ambrette and rubber chemicals	August 1980	Diphenylamine, musk ambrette and some rubber chemicals were transferred from the list of restricted items to the list of banned items.
31.	Vitamin C	August 1980	Vitamin C was shifted from the banned goods list to the list of canalised goods.
32.	Modification of open General Licence No. 10	August 1980	Licenced radio amateurs were allowed to import for their own use, radio communication equipment including kits, accessories (including antenna, retarary motors, feed-lines, standing wave ratio bridge), instruments, spares and components within specified frequency ranges and power limits provided the value of such goods imported during a financial year does not exceed Rs. 10,000 and they are not transferred to any other individual without the prior permission of the Government. The import of these items was allowed under OGL 10 in substitution of the import of testing instruments.
33.	Finished drugs, life saving and anti cancer drugs	August 1980	Import of anti Haemophilic factor concentrate (VIII and IX), procarbazine hydrochloride capsules and quinidine gluconate intravenous injections were allowed under OGL.
34.	Spares	September 1980	It was decided that requests for supplementary licences for the import of spares would be considered if the licensing authority is convinced that the imports allowed under import licence issued earlier is not adequate to meet the importer's requirements.
35.	Changes in the lists of banned and restricted items	September 1980	(1) Paranitrophenol, ethyl parathion, bright bars of stainless steel/heat resisting steel in all grades were removed from the list of restricted items and included in the list of banned items. (2) Certain glass fibre articles were transferred from the list of banned items to the list of restricted items.
36.	Gas Cylinders	October 1980	The ban on the import of gas cylinders, excluding LPG gas cylinders but including medical gas cylinders was withdrawn and imports were to be permitted according to the guidelines formulated by the CCI & E and subject to indigenous availability. Further, import of high pressure gas cylinders as spares or components were also allowed under supplementary licences.
37.	Glass fibre fabrics and rovings	October 1980	The ban on import of high strength glass fibre fabrics and rovings which was temporarily removed in September 1980 was reimposed.
38.	Sponge iron	October 1980	Import of "sponge iron" was included in the list of items canalised through the National Mineral Development Corporation.
39.	Sale in India of Free Trade Zone products	November 1980	The provision allowing sale in India of products manufactured in the Free Trade Zones against valid General Area Currency import licences was rescinded.
40.	Expansion of the list of goods whose sale to foreign tourists qualify for import replenishments	December 1980	Under the import policy for registered exporters, the list of goods whose sale to foreign tourists visiting India will qualify for import replenishment was expanded to cover consumer electronic items, disc recorders, books/stationery and stainless steel utensils/cutlery.

Sr. No.	Item	Month of Announcement	Details
	1	2	3
41.	8 mm cinematograph cameras	December 1980	8 mm cinematograph cameras with attachments including lenses and zoom lenses were added to the list of items allowed for import under OGL
42.	N. Butyl malonic acid	December 1980	Import of N. Butyl malonic acid was banned.
43.	Palm stearine	December 1980,	Import of palm stearine and palm kernel oil was banned.
44.	Import of capital goods on deferred terms	December 1980	Import of capital goods was allowed under OGL on deferred credit terms also.
45.	Human thrombin	December 1980	Human thrombin was allowed to be imported under OGL.
46.	Indo-Nepal Trade	December 1980	Manufactured articles containing not less than 80% of Nepalese material or Nepalese and Indian material were made eligible for import into India without import control restrictions.
47.	Additions to Duty Exemption Scheme	January 1981	Mineral waxes, raw petroleum coke, calcined petroleum coke and umbrella ribs were included in the list of items eligible for import under the Duty Exemption Scheme (Appendix 19).
48.	Brass and Copper Scrap	January 1981	Brass scrap/ash/dross and copper scrap were removed from the list of items allowed under OGL and were canalised through the MMTC.
49.	Photographic instruments and equipments	February 1981	The ban on import of photographic instruments/equipments was lifted. Imports of these items would be allowed on merits keeping in view the indigenous angle.

* The importer is required to maintain and submit, when specified, proper account of the consumption, stock and utilisation of items imported under these licences to the licensing authority or any other Government authority.

@ 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, DGTD/other sponsoring authorities/Department of Electronics as appropriate twice in the year as on 31-8-1980 and 28-2-1981 within 15 days of the expiry of the specified dates.

\+ Quarterly reports giving the name and address of the importer, description, quantity, c.i.f. value and unit price in respect of the imports of spices, dry fruits (excluding cashewnuts) and dates, together with the date of clearance of the consignments through Customs are to be submitted to the Chief Controller of Imports and Exports within 15 days of the expiry of the concerned quarter.

B.—CHANGES IN IMPORT DUTIES

The Central Government Budget for 1981-82 presented to the Lok Sabha on February 28, 1981 has proposed the following changes in import duties:

(*a*) The import duty (basic plus auxiliary) on newsprint for printing of newspapers, books and periodicals has been raised from Nil duty to 15 per cent *ad valorem*.

(*b*) The import duty (basic plus auxiliary) on stainless steel bars (including bright bars) and wire rods of diameter 10 mm and above has been stepped up from 75 per cent *ad valorem* to 175 per cent *ad valorem*.

(*c*) The import duty (basic) on plain shaft bearings has been increased from 60 per cent *ad valorem* to 100 per cent *ad valorem*.

(*d*) The import duty (basic) on computers and computer peripheral units has been raised from 40 per cent *ad valorem* to 50 per cent *ad valorem*.

(*e*) The rates of auxiliary duty of customs on all imported goods (including machinery and project imports) have been increased—with certain exceptions by 5 percentage points.

(*f*) The import duty (basic plus auxiliary) on certain specified intermediates for the manufacture of drugs has been reduced from 75 per cent *ad valorem* to 20 per cent *ad valorem* (standard).

(*g*) The import duty (basic, auxiliary and additional) on certain machines and testing instruments for the electronics industry has been reduced from the existing rates to 30 per cent *ad valorem*.

(*h*) The import duty (basic plus auxillary) on certain raw materials and components for the electronics industry has been reduced from the existing rates to 50 per cen *ad valorem*; additional (countervailing) duty would be leviable only on items classifiable under central excise Tariff Item No. 68.

(*i*) The import duty (basic) on colour scanners for use in the printing industry has been reduced from 100 per cent *ad valorem* to 60 per cent *ad valorem*.

(*j*) The import duty (basic plus auxiliary) on hearing aid appliances, braille watches and braille one-day alarm clocks, imported by post or air for personal use has been reduced from 120 per cent *ad valorem* to 10 per cent *ad valorem*.

(*k*) 3 GATT bound items have been fully exempted from auxiliary duty of customs.

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